

# **Bond Case Briefs**

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## **Green Could Add Value in Municipal Bond Rebound.**

While municipal bonds tracked aggregate bond benchmarks lower in 2022, munis were less bad than Treasuries and some other corners of the bond market, prompting some market observers to bet on municipal debt as the 2023 rebound story.

Indeed, there are compelling reasons to consider exchange traded funds such as the SPDR Nuveen Municipal Bond ESG ETF (MBNE). Notably, despite last year's weakness, fundamentals for municipal bonds remain sturdy, indicating the asset class's 2022 slump was more a symptom of the Federal Reserve raising interest rates, not a direct commentary on municipal debt.

Specific to MBNE, which debuted last April and is actively managed, is pertinent to advisors and income investors at a time when a municipal bond rebound could be in the offing, but also as market participants look to add environmental, social, and governance (ESG) overlays to this corner of the bond market.

"Coupled with the potential opportunity in municipal bonds, a focus on environmental, social, and governance (ESG) investing has permeated fixed income markets. More and more, investors are seeking to allocate to issuers aligned with a wide range of sustainability goals and practices. Expectations for ESG municipal issuance in 2023 range from \$50B to \$60B, compared to \$45B in total issuance last year, indicating longer-term commitments to sustainable finance," wrote Brianna Roberts, research strategist at State Street Global Advisors (SSGA).

While MBNE is still less than a year old, investors shouldn't view age as a negative in this case. In fact, the fund's status as an actively managed product is already proving to be a positive trait.

"MBNE uses an active management style to help identify inefficiencies while allocating assets toward the most ESG-oriented areas of the market," added Roberts. "Despite a challenging environment, MBNE ranked in the 12th percentile among its active peers, both ESG and non-ESG, in December 2022.<sup>6</sup> MBNE also ranks near the lowest quintile based on gross expense ratio relative to its peers in the US Fund Municipal National Intermediate category."

MBNE can leverage active management to unearth muni debt that not only meets strict ESG criteria but bonds that offer investors above-average levels of income and attractive value traits. Under one umbrella, those three objectives are difficult for many index-based products to deliver on.

With an option-adjusted duration of 4.92 years, MBNE holds 100 bonds and sports a 30-day SEC yield of 2.76%, according to issuer data.

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