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Active Muni Funds Can Stake Their Claim in 2023.

Municipal bonds, the subject of a recent debate here at VettaFi, are nonetheless an area that some market watchers are tapping for a "renaissance" of sorts this year. After a difficult 2022, municipal bond yields may benefit from higher interest rates that should be settled in the early stages of 2023. That presents an appealing opportunity for active muni funds, with one candidate to watch being the Franklin Dynamic Municipal Bond ETF (FLMI).

One crucial part of the municipal bond story in the last few months, though, may be the swap investors made from muni bond mutual funds into muni bond ETFs. According to Franklin Templeton's SVP and Head of ETF Product and Capital Markets, David Mann, mutual funds investing municipal bonds did see $140 billion in outflows last year, but muni bond ETFs actually added $30 billion in net inflows.

"Active fixed-income ETFs allow portfolio managers to stay nimble and avoid sectors and parts of the credit spectrum that might encounter increased stress, all while leveraging the same creation/redemption operational efficiencies used by index funds," Mann said in a recent note in his newsletter, "One Mann's ETF Opinion."

As part of a trend in ETFs in which the vehicle is increasingly adding value to the fixed income market, Mann pointed to the increasing use of ETFs for municipal bond investing as a "huge tailwind" for the government bond segment.

Looking ahead to 2023, municipal bonds may also benefit from a lack of supply and growing demand. Governments across the country are relatively flush right now, with a lot of redeemed money coming out in the next few years outpacing supply.

That makes active muni funds a particularly interesting area, with FLMI an active muni bond ETF to watch. The ETF charges 30 basis points for its approach, investing in tax-free muni securities with a maturity mostly in a range of three to ten years. FLMI has outperformed its ETF Database Category and FactSet Segment Averages over the last three months, returning 8.2% compared to 6.3% and 5.3% respectively on top of $5.9 million in net inflows.

Fixed income may be back in style this year, but with so many options, investors may want to consider how active muni funds can ably navigate a complicated and ever-shifting landscape. For those investors interested in muni bonds, FLMI is a strategy to consider in the weeks to come.

ETF TRENDS

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