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Long-Term Municipal Bonds May Yield Up to 5% After Taxes. How to Invest.

Municipal bonds, along with the entire fixed-income world, faltered last year as the Federal Reserve raised interest rates aggressively to fight inflation. But munis, up around 2% on average this year, are recovering. Some analysts think there's still value in the space, especially in longer-dated bonds.

"The real opportunity is beyond 10 years," says Duane McAllister, co-head of the muni team at Baird Advisors, referring to bonds maturing in 10 to 30 years.

Munis hold appeal for investors in high tax brackets, since their interest is exempt from federal taxation and may be exempt from state or local taxes, if you live in a state that issues the bonds. For example, a AAA-rated muni yielding 3.5% would have a tax-equivalent yield of 5.22% at a 33% federal rate for a head-of-household filer, according to Bankrate. At a 28% tax rate, the yield falls to 4.86%.

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Barron's

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