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How to Target the Sweet Spot of the Muni Yield Curve.

The muni bond market's yield curve is inverted in the short end but positively sloped and steep in the intermediate part, providing attractive roll yield for those who target these maturities.

What is Roll Yield?

Roll yield is a term used to describe the increase in price that an investor can receive as a bond's maturity ages. When a bond gets closer to its final maturity, its yield typically decreases, causing an increase in its price. This price appreciation is known as roll yield and is a desirable feature for investors, especially when targeting intermediate-term bonds with wider yield differentials between maturities. This strategy can potentially generate alpha and enhance an investor's total return.

How Can I Use Roll Yield to Boost Return?

The muni yield curve is an important indicator of the health of the municipal bond market and the broader economy. The muni yield curve has recently become inverted in the short end, meaning that yields of some longer-dated municipal bonds are lower than those of shorter-term bonds. However, the intermediate part of the curve remains positively sloped and steep, providing attractive roll yield for investors who target these maturities. Steepness refers to the degree of absolute difference between yields of different maturities.

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