Bond Case Briefs

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Advantages of Separately Managed Accounts for Municipal Bonds.

Separately managed accounts (SMAs) have been utilized for decades to effectively manage client assets. Benefits include transparency, flexibility, control over costs, and choice. They can be optimized for various purposes including taxes, income, cash flow, etc. They also allow for more customization than ETFs or mutual funds.

They are particularly popular for fixed income purposes and have seen impressive growth in recent years. For instance, municipal fixed-income assets went from $100 billion in 2008 to $718 billion in July 2023. In part, this is due to SMAs becoming more accessible to a wider universe of investors as improved technology has led to lower costs and lower minimum amounts to invest.

ETF’s presence in the municipal bond market is also growing fast. There are now 81 funds and $108 billion in assets, a 50% increase from 2021 but less than 3% of the total muni market. Many active mutual funds are being converted into active ETFs. One advantage is greater liquidity which allows investors to quickly gain exposure as a placeholder while they accumulate individual securities.

Mutual fund flows can be affected by market sentiment, leading to selling during periods of redemption, which is not an issue with SMAs. Due to the growth of SMAs and ETFs, muni mutual funds have seen net outflows over the last couple of years. Another factor is high rates making short-term securities or bank deposits more attractive relative to longer-duration assets.

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