Bond Case Briefs

Municipal Finance Law Since 1971

An Insight Into Municipal Bonds.

“After two tumultuous years, we expect a municipal-market recovery and we believe that municipal bond mutual funds will outperform other investment vehicles,” says Mackay Municipal Managers (Mackay), part of the New York Life Investments group of businesses, in its recent report on municipal markets in 2024.

The firm also says: “We believe that successful municipal bond managers will prioritise the fundamental facts over the headlines, recognise the strength of municipal credit and look to capture the opportunities in the high-yield municipal market.

“We also hold the view that by diversifying their retirement portfolios to include taxable municipal bonds, investors may stand to benefit. The municipal market of the last two years provided active managers with the opportunity to enhance returns in their funds; investors might now consider exploring these funds as potential investment options.”

In addition, Mackay takes the view that investing through a mutual fund captures the municipal-market opportunity:

“In response to a probable pivot by the Federal Reserve in 2024, we anticipate that short-term rates will decline, while longer-term bonds outperform. Therefore, investors may consider securing longer duration and income durability in the near term.

“However, higher yields only matter if they are in your portfolio. We believe investors have the opportunity to acquire high accrual rates, active portfolio positioning and the flexibility essential to capture the market’s recovery through mutual funds.

“Other professionally managed solutions are available, such as passive, index-bound ETFs or buy-and-hold, laddered separately managed accounts, but in our opinion, the rigidity of their constrained investing approaches limits their efficacy. We believe that municipal market prices will rise and that mutual funds will provide a compelling vehicle to capture that performance potential.”

The firm also anticipates that individual investors could embrace taxable municipal bonds in retirement plans: “We expect US-based, individual investor demand for taxable municipals will continue to increase. In our opinion, individuals will view taxable municipal bonds as an attractive complement to their investment-grade, corporate-bond exposure in their qualified accounts. Taxable municipal bonds can offer attractive absolute yields, credit spreads and additional return potential with the same strong fundamentals as traditional tax-exempt financings.

“Additionally, in our view, demand from both domestic and overseas institutional investors should be robust, as credit spreads remain attractive and hedging costs will most likely recede with the normalisation of yield curves around the world. This ‘one-two punch’ should increase demand and help propel returns in this often-overlooked segment of the municipal marketplace.”

David Dowden, a managing director at the firm and portfolio manager of the MainStay municipal bond funds, joined the firm 15 years ago, following roles at Financial Guaranty Insurance Company, Alliance Capital Management and Merrill Lynch & Co. He says: “We’ve done a lot of work over the last two years to position funds appropriately.

“Our expectation is that we will experience reasonable growth, both from new flows into our products, as well as from existing clients and shareholders adding more money into their positions, as they recognise the value we see in the market.”

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by Fiona Nicolson

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