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Why Municipal Bond Investors Should Proceed With Caution.

Fixed-income investing has garnered more attention lately as yields have risen dramatically over the last 12 months, reaching levels not seen since the Great Recession of 2007-2008. Current yields on U.S. Treasuries are now trading between 4% and 5% and have pushed other high-quality fixed-income assets, such as municipal bonds and corporate bonds, to yield levels not seen in many years. Collectively, this is attracting increased demand for fixed-income securities.

A recent Morningstar report showed that the only investment category to post positive fund inflows for 2023 was fixed income, which added $395 billion to bond funds. More recently and specific to municipal bonds, the Investment Company Institute reported that $8.35 billion flowed into municipal bond mutual funds and ETFs during the first 10 weeks of this year. That was the largest 10-week cumulative flow into municipal bonds since January of 2022.

This increase in demand has clearly benefited the municipal bond market year-to-date. The total return on the Bloomberg Municipal Bond Index is -0.22% as of March 22, while the Bloomberg Treasury Index is down much more, -1.18%, and the Bloomberg Corporate Bond Index is off -0.65%. Given such strong relative performance, sectors within the municipal bond market could be considered overbought for some investors, so proceed with caution.

Continue reading.

Forbes

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