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Active Management Could Be Beneficial in Muni Bond Rebound.

As measured by the widely followed ICE AMT-Free US National Municipal Index, muni bonds are sporting modest losses over the past month and on a year-to-date basis.

However, it's not all bad news when it comes to municipal debt. Yields remain elevated on asset classes typically not known for big yields though prized by risk-averse income investors. Economic conditions are supportive of this corner of the bond market and defaults are low.

Add to that, there signs active management could serve investors well in this fixed income segment. For example, the ALPS Intermediate Municipal Bond ETF (MNBD) traded slightly higher over the past month and has noticeably outpaced the ICE AMT-Free US National Municipal Index since the start of 2024. Those aren't guarantees MNBD will outperform from here. But those encouraging traits could provide the foundation for leadership when munis rebound.

Mind MNBD for Muni Bonds Exposure
One potential advantage offered by active management when it comes to municipal debt is that active managers can more readily identify value in this bond segment. For advisors and investors considering MNBD, that's a pertinent trait because some experts believe that following recent retrenchment in the broader muni bond arena, there is value to be had.

"The sell-off has started to restore value to the asset class, but there are several reasons why patience is still warranted. First, while much improved, valuations are still below their longer-term averages," according to BlackRock research.

MNBD, which turned two years old in May, could benefit from other tailwinds. Those include expectations that muni supply will increase as Election Day approaches and the point that in preparation of volatility that could hit risk assets on the back of election results, some asset allocators may lean into more conservative asset classes.

"We think issuance will remain elevated ahead of the election and negate some of the tailwind typically provided by seasonal net negative supply during the summer," added BlackRock. "Finally, we expect demand to remain subdued until the path of monetary policy becomes clearer and interest rates stabilize. Given this backdrop, we have started to selectively add duration, taking advantage of concessions in the new issue market."

The asset manager also noted a preference for, among other traits, munis issued in states that are more reliant on consumption taxes. That's applicable to MNBD because many of the bonds held by the ETF hail from states or cities in states with low or no income taxes.

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