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[Don't Shy Away From Munis to Avoid Election Volatility.](#)

Forthcoming market volatility from an election year may have fixed income investors shying away from bonds. However, it's an ideal time to get municipal debt exposure, especially in the current market environment.

"In the current environment, which includes a too-close-to-call U.S. election and trillions of investable assets parked in cash, there's opportunity in municipal bonds," noted James M. D'Arcy, an active municipal fixed income portfolio manager at Vanguard.

At the start of 2024, private and public entities have issued bonds with the expectation of coming rate cuts. Now, municipalities are issuing bonds at increased pace. That's providing a plethora of opportunities for fixed income investors to scoop up these debt issues.

"Usually, we see an annual increase in new municipal bond issues around October and November. However, this year, we're seeing that increase now, particularly as issuers rush to complete new deals before Election Day," added D'Arcy. "At the same time, municipalities are issuing more bonds than they have for years."

Underpinned by Strong Fundamentals

Situated between safe haven Treasury notes and investment-grade corporate bonds are munis. Currently, strong fundamentals currently underpin these local government debt issues. And that makes funds like the Vanguard Tax-Exempt Bond ETF (VTEB) an ideal option.

"In many ways, the fundamentals that support local governments are stronger today than we've seen for a long time," D'Arcy said. State reserves and rainy-day funds are the highest we've seen in decades.

VTEB tracks the Standard & Poor's National AMT-Free Municipal Bond Index. That index measures the performance of the investment-grade segment of the U.S. municipal bond market. With volatility ahead in the election year, this getting quality is ideal to weather any market fluctuation storms.

"Munis are a high-quality asset class—more than 85% of the market is rated A or higher—with a strong fundamental risk profile," D'Arcy added. "That's particularly true when compared to corporate bonds. Even the amount investors are compensated for going down in credit quality—credit spreads—remains attractive in the muni space, even in the current yield environment."

VTEB is an ideal solution for investors wanting muni exposure but not wanting to sift through the mass of options available to them. The fund tracks an index including municipal bonds from issuers. Those issuers are primarily state or local governments or agencies whose interests are exempt from U.S. federal income taxes and the federal alternative minimum tax.

by Ben Hernandez

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