Bond Case Briefs

Municipal Finance Law Since 1971

Muni Bond Enthusiasm Rises Ahead of Fed Rate Cuts.

The Federal Reserve nearing its first interest rate cut since 2020. So enthusiasm for fixed income assets is increasing, and muni bonds are part of that trend. That could be good news for exchange traded funds such as the ALPS Intermediate Municipal Bond ETF (MNBD).

The actively managed ETF has been a steady performer over the course of this year. And it hit a new 52-week high on Monday. That confirms it has ample leverage to the concept of lower interest rates. That's to be expected. But it's still encouraging to see MNBD and other municipal bonds behave accordingly in advance of monetary easing.

MNBD's recently encouraging price action is noteworthy for another reason. It's also reflective of buyers proving receptive to a spate of new issuance in the municipal bond market. City and state governments have recently sold a significant amount of bonds. Those new issues have easily absorbed, indicating there's increasing appetite for munis ahead of monetary easing.

MNBD Tailwinds Emerging

Municipal bonds, including MNBD holdings, are being boosted by the notion of lower borrowing costs. But the asset class is also catching a bid. That's because some experts believe volatility for risk assets will increase as Election Day nears.

"States and local governments sold more than $14 billion of debt in the week ended Friday, one of the largest weekly amounts of the year and 79% more than the five-year weekly average, according to data compiled by Bloomberg. Borrowers are rushing to market ahead of potential volatility before the US presidential election in November. Long-term municipal bond issuance is up more than one-third over 2023's pace," reported Bloomberg.

Owing to its status as an actively managed ETF with a trailing 12-month yield of 3.38%, MNBD could be an ideal avenue for investors looking to skirt equity market turbulence while accruing benefits delivered by Fed rate cuts.

MNBD is relevant for other reasons. Its 3.38% trailing 12-month yield is well in excess of the average 2.61% found on the highest-rated munis with 10-year maturities. Additionally, municipal bonds are seen as attractively valued relative to Treasurys. As for the supply issue, it could fall in the coming days before rebounding.

"Sales are expected to drop off this week as governments generally avoid coming to market when the Federal Open Market Committee meets. However, issuance is likely to inch back up with about six weeks until the election. Borrowers have already lined up about $15.5 billion of sales over the next 30 days," according to Bloomberg.

etftrends.com

by Todd Shriber

September 17, 2024