Bond Case Briefs

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Munis on the Rise: Better State Finances and High Yields Offer a Bond Market Win

Municipal bonds have long been seen as a safe haven in the bond market. After all, their credit quality and repayment are driven by the state’s and the local government’s ability to raise taxes and/or support from the underwritten projects. This cash flow pays investors and provides the steady returns of muni bonds.

And it looks like municipal bond investors have something to cheer about heading into next year.

State tax revenues are set to increase, while rainy day funds remain plump. At the same time, budget and spending cuts even in the worst-off states have less cash flow risks for many municipalities. For investors, it’s just another sign that munis are a top bond variety for their portfolios.

Taxes, Taxes, Taxes

Municipal bonds are issued by state and local governments to fund their operations, launch special projects, and provide their citizens with various programs. To pay for those bonds, it’s often taxes–payroll, sales, and property–that help pay the interest and pay off debt. This is where some problems have emerged over the last year.

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