Economic Outlook Supportive of Municipal Bonds.

The October jobs report, released last Friday, coupled with more downward revisions to monthly employment numbers, spooked some market participants. It also reignited talk about a looming recession. However, some experts believe economic contraction won't come to pass. That could bode well for risk assets as well as lower-risk fare, such as municipal bonds. That indicates ETFs like the ALPS Intermediate Municipal Bond ETF (MNBD) could appeal for income investors.

"Recession fears were triggered when last Friday's (early August) U.S. jobs report for July showed a rise in the unemployment rate to 4.3% from 4.1% and much weaker-than-expected monthly job creation. Those fears have exacerbated a global risk-asset selloff that began last [month. That was driven] by concerns over tech valuations and heightened geopolitical risks," according to BlackRock.

Why It Matters to MNBD

The U.S. economy avoiding a recession is important to municipal bonds and ETFs such as MNBD. That's because periods of economic contraction can weigh on states' and cities' abilities to collect tax revenue. That revenue is the primary source repaying municipal debt obligations.

Fortunately for municipal bond investors, the October jobs report appears to be more of a bump in the road than a harbinger of a recession. Jobs are still being created and other economic indicators are sturdy. That potentially signals opportunity remains with ETFs such as MNBD.

"The unemployment rate is rising, but unlike ahead of past recessions, the main driver is not [layoffs. It] is an immigration-driven increase in labor supply. Job creation is slowing, but averaged a robust 170,000 over the past three months (ending July). Consumer spending, while cooling, remains relatively healthy and Q2 corporate earnings have so far topped expectations," added BlackRock.

However, some investors may not be able to shake the feeling that the U.S. economy could be heading for a pullback. That remains to be seen. But if that scenario arrives, MNBD could hold up well relative to other muni bond ETFs. That's because the ALPS fund is actively managed. That implies MNBD managers can more swiftly react to changing economic conditions and adjust the portfolio to feature allocations to bonds from the sturdiest issuers.

MNBD could also come into focus following Election Day. Depending upon the outcome of the presidential race, the U.S. tax code could be in for significant changes next year. Assuming previous tax cuts expire, investors could flock to tax-advantaged asset classes, including municipal bonds.

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