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More Wealth Managers Recommending Muni Bonds.

In a changing bond market landscape, more wealth managers are recommending municipal bonds. The Federal Reserve is set to ease monetary policy and a new president will take office in 2025. So munis are an ideal option in the event of market volatility.

Regarding duration, advisors are looking to short-term and intermediate options as ideal in a rate-cutting environment. Furthermore, advisors are tipping the bond portfolio scales in favor of munis.

"Advisors are expected to accelerate their extension into short-term and intermediate-term bond portfolios as the Fed continues to cut rates, allocating a greater percentage of their fixed income exposure towards municipal bonds," said Eric Golden, founder and CEO of fixed-income-focused fintech Canopy Capital Group, in Investment News.

Anticipating a 'Notable Uptick'

"While exact figures on allocation increases can vary by advisor and client needs, we anticipate a notable uptick in interest and investment as the 2025 deadline approaches," added Golden.

"We prefer to maintain our fixed income exposure on the short end of the curve," said Stash Graham, managing director & chief investment officer of Graham Capital Wealth Management, also via Investment News. ["And we] do this to limit our interest rate or duration risk. We still believe present and future risks with the long end of the yield curve could rise."

Those looking for broad exposure to munis can consider the Vanguard Tax-Exempt Bond ETF (VTEB). The fund tracks the Standard & Poor's National AMT-Free Municipal Bond Index. This index measures the performance of the investment-grade segment of the U.S. municipal bond market. Overall, this index includes 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. It also features a low 0.05% expense ratio.

In terms of credit quality, munis are situated right between Treasury yields and corporate bonds. The fundamentals of munis have improved over the past few years. That makes them an ideal option for fixed income investors looking to balance credit risk and yield.

"Municipal-related credit risks have been mitigated over the last few years, as they were significant beneficiaries of the federal government's COVID-era fiscal policies," said Graham. He added that he tends to focus more on general obligation bonds than revenue bonds back by hospitals.

Shortening Duration on Munis

Given advisors' skew towards short-term bonds, investors may want to opt for the Vanguard Short-Term Tax-Exempt Bond ETF (VTES) if they're looking to shorten duration on their muni exposure. Like VTEB, exposure comes by way of via a low 0.07% expense ratio.

The fund tracks the S&P 0-7 Year National AMT-Free Municipal Bond Index. That index is designed to balance the need for tax efficiency with the need for tax-exempt yield. This balance can translate

to potentially higher yields than those afforded by competing strategies, for an appropriate level of duration risk.

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November 6, 2024

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