

# **Bond Case Briefs**

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## **Incoming Administration Puts Municipal Bonds in Play.**

With an incoming presidential administration in 2025, municipal bonds are in play as infrastructure plans and other project initiatives could shape the muni debt space in the new year. On that note, Vanguard has a pair of muni bond-focused exchange-traded funds (ETFs) to consider.

Furthermore, a new administration typically brings its own policy agendas that could impact the current muni market. As Alliance Bernstein noted, tax policy could be a hot topic for the incoming administration, which could affect the tax-exempt status of municipal bonds.

Alliance Bernstein in particular cited the Tax Cuts and Jobs Act (TCJA) that will expire at the end of 2025. An extension of this act could increase the federal budget, unless other revenue streams are generated to keep muni bonds tax-exempt. It's a topic that's been discussed in the past in order to prevent the federal budget deficit from getting out of hand. Thankfully, it hasn't come to fruition just yet. The tax-exempt feature is an obvious draw to munis, which simultaneously allows governments to fund their infrastructure projects.

"Tax-exempt municipal bonds are critical to America's infrastructure and to a functioning US economy," explained Alliance Bernstein. "Muni bonds' tax exemption dates back to the earliest federal income tax in 1913 and has been a pillar of state and local project funding ever since."

In the meantime, interest in muni bonds expand as the market itself experiences expansive growth. Whether for tax-exempt income, solid credit quality, or yield, munis offer a variety of benefits to fixed income investors.

"According to the National League of Cities, municipal bonds are a \$4 trillion market and have financed approximately 75% of US infrastructure—with hospitals, schools, airports, water and sewer systems, public power facilities and toll roads among the many beneficiaries," Alliance Bernstein added.

### **2 Muni Options to Ponder**

Fixed income investors considering muni exposure can ponder a pair of options from Vanguard. One offers broad-based exposure via the Vanguard Tax-Exempt Bond ETF (VTEB) and another tailormade exposure to short-term munis via the Vanguard Short-Term Tax-Exempt Bond ETF (VTES).

Per its baseline fund description, VTEB tracks the Standard & Poor's National AMT-Free Municipal Bond Index, which measures the performance of the investment-grade segment of the U.S. municipal bond market. Overall, this index includes municipal bonds from issuers, primarily state or local governments or agencies whose interests are exempt from U.S. federal income taxes, and the federal alternative minimum tax.

VTES is a viable option for fixed income investors concerned about rate risk. VTES tracks the S&P 0-7 Year National AMT-Free Municipal Bond Index. That index seeks 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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