

Bond Case Briefs

Municipal Finance Law Since 1971

High Yield Muni Bonds in Focus.

During this week's VettaFi Market Outlook Symposium, we learned that the advisor community is moderately positive on the outlook for fixed income heading into 2025. In a response to a kick-off poll, 56% described themselves as bullish on the asset class. We believe one often overlooked investment style is high yield muni bonds.

Muni Bonds: Appealing Reward With Manageable Risk

High yield municipal bonds sport relatively appealing tax-equivalent yields. As of early December, the taxable equivalent yield for high yield municipal bonds was 8.3%. This was more than 100 basis points higher than the yield for corporate high yield bonds and was currently wider than the five year average per Bloomberg data. The spread relative to corporates was even wider for health care high yield municipal bonds.

Meanwhile, the risk of default is lower than many likely appreciate. Moody's Investor Services published a review in 2023 comparing the risks for global corporate bonds and municipal bonds. In the ten-year period ended 2022, 30% of speculative grade- corporate bonds defaulted. This is significantly higher than 7% for speculative-grade municipal bonds in the same period. Bonds rated Ba by Moody's (the highest rating for speculative bonds) were five times more likely to have defaulted.

Should You Turn to Active Management?

While the backdrop for high-yield municipal bonds appears to be favorable, investors likely are uncertain about how to navigate the bond market. Heading into 2025, the macroeconomic and fiscal policies are likely shifting.

On December 12, VettaFi is hosting a one-hour virtual event in partnership with abrDN. The firm has a broad lineup of actively managed strategies. This includes mutual funds, closed-end funds and separately managed accounts. Advisors that join us will not only receive continuing education credits but get to leverage the expertise of Jonathan Mondillo. Mondillo is abrDN's global head of fixed income.

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