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[Signs Point to Strength for Muni Bonds in 2025.]

Advisors and investors evaluating areas of 2025 opportunity in the fixed income market might do well to consider muni bonds and the related ETFs.

That thesis could be bolstered with the benefits of active management, accessible via the ALPS Intermediate Municipal Bond ETF (MNBD). MNBD is showing there are perks at the intersection of municipal debt and active management. The ALPs fund is outperforming some of the largest passive ETFs in the category on a year-to-date basis.

Past performance isn't a promise of what comes next. Still, heading into 2025, the fundamental outlook for municipal bonds is appealing. That could be constructive for ETFs such as MNBD. Additionally, munis are underpinned by multiple fundamental catalysts, not just one.

Stars Aligning for MNBD Rally

Broadly speaking, the U.S. economy is sturdy enough that most states are seeing strong revenue collection. This indicates credit downgrades aren't likely over the near-term – two factors that could be supportive of muni bonds.

"Robust reserves, significant liability reductions and prudent budget management position U.S. state and local governments well for 2025 as pre-pandemic fiscal conditions take hold again," noted Fitch Ratings.

Cities, towns and municipal entities are also major muni bond issuers. Many have the resources to support strong credit ratings, which could be a positive for income investors in 2025.

"Working in favor of local governments are budget contingencies, which remain an important safeguard against unanticipated spending, such as migrant shelter costs which have affected many large cities over the last several years, given limited capacity to adjust revenue mid-year," added Fitch.

As an actively managed ETF, MNBD has the flexibility to allocate to bonds issued by the states and cities with the most attractive credit and revenue profiles, which could mitigate risk.

Regarding risk, experienced market participants know that there can be regional risks with municipal bonds. That's something to consider should President-elect Trump actively use tariffs against U.S. trading partners. Those levies could harm more states than others, further underscoring utility vis a vis MNBD being actively managed.

"The incoming presidential administration will be an area to watch for states. Of note is the imposition of a broad tariff regime as proposed by the president-elect which could in turn trigger retaliatory tariffs and increase the likelihood of a sharp downturn beyond Fitch's expectations," added the ratings agency.

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December 12, 2024