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[Muni Bonds: Active Management Stepping Into Spotlight]

There have been recent increases by 10-year Treasury yields. And there's been talk that the Federal Reserve will tread cautiously this year regarding interest rate cuts. So the pairing of active management and fixed income could be as important as any time in recent memory.

That could prove muni bonds, too. And that could spotlight opportunities with ETFs like the ALPS Intermediate Municipal Bond ETF (MNBD). Following the tragic wildfires in Los Angeles this month, some municipal bond experts believe it's possible California munis will experience downside.

That's pertinent because the Golden State is one of the largest issuers of municipal debt. That trait is reflected by many passively managed muni ETFs. However, actively managed funds such as MNBD have flexibility. They don't necessarily need to be heavily allocated to bonds issued by California and New York, among other big issuers.

MNBD Diversification Matters, Too
The exact financial toll of the wildfires isn't yet determined, and estimates are changing by the day. Likewise, it's unknown if California or Los Angeles County will flood the market with new municipal bonds to deal with reconstruction efforts.

"We believe that the wildfires may have an impact to some municipal bond issuers in the [area. But] the broader impact to other bonds in the state or to the national muni market is likely limited," noted Cooper Howard of Charles Schwab. "However, for [investors concerned]about the impact of the wildfires, or weather and climate disasters more generally, there are actions they may want to consider taking."

It's likely correct that fire-related implications in the municipal bond market, if any, will be confined to California. And that could highlight the benefits of active funds such as MNBD. That's because managers can fine-tune exposures due to current events, if needed.

Potential Minimal Risk to L.A. County's Bonds
Against the backdrop of potential municipal bond market risk related to California, active management could be all the more important. That's because there are thousands of bonds with some exposure to fire-affected areas. And that implies it would be nearly impossible for passive muni funds to avoid all of those issues.

"There currently are more than 4,527 individual bonds outstanding (measured by CUSIP [number). That accounts] for $70 billion, in the fire-affected area, according to research provider Bloomberg Intelligence," added Howard. "The risk to each individual issuer is not the [same. It] will depend on the issuer's financial position, how the issuer derives revenues, the bond's legal protections, and other factors. We want to [emphasize that although]an issuer may be located in Los Angeles County, there may be minimal risk to its bonds."

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