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The Investor's Guide to Muni Bond Opportunities in 2025.

Municipal bond funds may be a compelling opportunity in 2025, as muni bonds are currently offering the highest yields in the past decade.

Fortunately, for investors, there are currently opportunities to be found in various segments of munis. This means that investors can target the level of interest rate risk they're comfortable taking on based on their personal investment outlook.

"Some opportunities are more present further out the curve. Some are more present on the shorter end," Elizah McLaughlin, portfolio manager at Fidelity Investments, said during VettaFi's Q1 2025 Fixed Income Symposium.

For investors looking to take on less interest rate volatility, Fidelity offers the Fidelity Limited Term Municipal Income Fund (FSTFX). FSTFX is one of the firm's shorter duration funds, McLaughlin said.

Next, the Fidelity Intermediate Municipal Income Fund (FLMTX) and the Fidelity Sustainable Intermediate Municipal Income Fund (FSIKX) each target the two to 20-year range of duration risk.

Finally, McLaughlin said the Fidelity Tax-Free Bond Fund (FTABX) focuses on three-plus-year durations.

Muni Bond Sectors Well Positioned in 2025

"There are a number of opportunities that we have been investing in lately," McLaughlin said.

The hospital sector is one area that currently looks attractive. Fidelity has a strong research team with extensive experience in that sector, McLaughlin said. "They have been able to steer us into those names they think are going to perform well," she added.

The airports segment is another area that continues to be priced relatively cheap.

"Those are typically solid credits, but they're subject to AMT tax treatment," McLaughlin said. "Many of you are aware that the 2017 Tax Cuts and Jobs Act has provisions that are scheduled to expire at the end of this year. Many of the provisions that are relating to the individual AMT will need to be renegotiated this year."

This means that investors need to evaluate their current AMT risk and what makes sense for their individual risk profile.

Looking At Housing Bonds

Finally, housing bonds, including bonds issued to fund both multi-family and single-family projects, are an interesting opportunity in the current environment.

The sector underperformed quite a bit when the Fed was raising rates because people stopped prepaying their mortgages, McLaughlin said. “They liked those low rates on their mortgages. We saw the maturities of a lot of those bonds back up.”

However, that has started to reverse now, creating opportunity for experienced managers.

“This is an area where you have to be able to do prepayment modeling,” McLaughlin said. “It’s one that really kind of lends itself to professional management. But there is a lot of opportunity in that sector as well.”

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by Elle Caruso

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