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Why Are Muni Bond Funds Losing Money in 2025?

Vanguard's Malloy says that muni underperformance has these funds as 'cheap as it gets.'

Key Takeaways

- Most municipal bond funds are posting losses, even as taxable bond categories are posting gains.
- Higher issuance and volatility have pushed down municipal bond prices, which started the year high.
- Valuations on muni bonds now look attractive.

In a year when most bond fund categories are in positive territory, there's been one noticeable laggard posting losses nearly across the board: municipal bond funds. Driving this poor performance is a combination of stepped-up bond issuance, lofty starting valuations, and fund outflows amid the market's recent volatility. But Paul Malloy, head of US municipals at Vanguard, which manages $260 billion in tax-exempt assets, believes this underperformance has the category looking especially attractive. Munis are "as cheap as it gets," he says.

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by Gabe Alpert

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