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What's Going on With Muni Bonds?

Nearing the mid-point of the year, it's been a relatively good period for most investment grade bonds. Not so much for municipal bonds.

The iShares Core US Aggregate Bond ETF (AGG) gained 2.85% while the iShares National Muni Bond ETF (MUB) lost 1.29% through June 17. That's a differential of 4.14 percentage points. Both numbers include dividends paid. But the biggest difference between the two funds is that the municipal bond fund is federally tax-exempt as the bonds are issued by states and municipalities, while the US Core Aggregate bond fund is taxable (though part is state tax-exempt for most states). Yet they are quite similar in other ways. Both are high quality, moderate duration, and low-cost bond funds with Morningstar showing the following as of June 11, 2025:

- AGG has an average credit rating of AA-, while MUB is rated at AA.
- AGG's effective duration is 5.81, while MUB's is 6.76.
- AGG's annual expense ratio is 0.03%, while MUB's is 0.05%.

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by Allan Roth

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