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ETF Industry Perspectives: Eyes on Munis and SMID-Caps

Vanguard research assesses the investment opportunity in high-grade municipal bonds and the need to avoid overlapping with large-cap holdings when allocating to small- and mid-cap (SMID-cap) ETFs in portfolios.

Vanguard ETF Industry Perspectives Q3 2025 [4-page PDF] is our in-depth quarterly commentary featuring the latest ETF trends and insights. In each report, our investment experts help investors address issues that may affect their portfolios.

Key takeaways

Fixed income spotlight

Higher yields on municipal bonds have increased their appeal when optimizing overall fixed income allocations. Municipal bonds also offer potential tax benefits, along with a domestic focus that largely shields them from tariff-related risks. As the number of low-cost municipal bond funds has expanded, advisors and investors can now pick their spots with relative ease, targeting specific U.S. states, credit-quality levels, and parts of the yield curve.

Equity spotlight

S&P 500 ETFs continue to dominate fund flows, but allocations to SMID-cap ETFs also deserve careful attention. Our research shows that advisors seeking large-cap exposure tend to stick to market-cap ETFs like those linked to the S&P 500, Russell, or CRSP benchmarks. But when allocating to SMID-caps, advisors tend to vary their approaches between different market-cap indexes, niche small-cap products, and even active ETFs. This creates a risk of overlapping sector and company exposures because index products from different families are not all structured the same way. To limit this risk, we suggest that advisors choose products with compatible construction styles.

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