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Vanguard: Opportunities in Today's Municipal Market

In this Q&A, Mathew M. Kiselak, Vanguard's head of active municipal portfolio management, shares his insights on the municipal bond market, opportunities for investors in the current environment, and why munis may be particularly suitable for rigorous active managers.

Munis were volatile earlier this year. What was driving that?

It's been a bifurcated market between short and long munis. At the short end of the curve, yields have been falling because of expectations that the economy will slow by year-end and that the slowdown will lead to easing by the Federal Reserve. At the long end of the curve, yields have been rising because of uncertainty surrounding tariffs, inflation, and deficit spending, while supply has been increasing. The yield curve has sharply steepened, creating opportunities with longer munis.

Can you elaborate on why long munis are attractive now?

Munis have strong credit fundamentals—defaults are rare among munis with credit ratings of A and higher. And long munis are providing compelling after-tax returns. A yield of 4.80%, for example, is equivalent to 7.62% for someone in the 37% tax bracket—that's on par with historical average equity returns of 7% to 9%, but with less risk.

Given the current combination of attractive risk characteristics and high after-tax yields—and the richer valuations of other asset classes like U.S. equities—high-quality, intermediate- to long-term munis may be something to consider. The breakeven tax bracket is lower than it generally has been in the past, even with current tax brackets that will be extended past 2025 under recent legislation.

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