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A Must-See Municipal ETF for Investors Seeking Income.

The equity arena is certainly booming with cheers following the Fed's second rate cut. But the reaction from the fixed income crowd might be more mixed. Those particularly focused on maximizing their income might be wondering where they can achieve the yields they've been accustomed to the last few years amid this rate-cutting cycle. One area that should be up for consideration is high-yield municipal bonds.

The first half of the year saw muni issuance reach record levels. But as 2025 wore on, demand was starting to play catch-up. With a combination of credit quality and yield, munis have been garnering more interest from investors. Of course, the tax-free income certainly helps in attracting investor capital.

Vanguard recently released its Active Fixed Income Perspectives Q4 2025 report, noting that "investor flows have returned" to municipal bonds. Furthermore, the yields munis offer can be achieved across the full spectrum of the yield curve.

"Meanwhile, investors with the requisite risk tolerances can enjoy the yield pickup offered by intermediate, all-curve, and long-term municipal strategies," the report said. It added that many investment-grade bonds with maturities under five years "are not offering enough yield to compete with U.S. Treasuries on a tax-equivalent basis." It also said those seeking short-term exposure "can supplement portfolios with lower-rated (and thus higher-yielding) municipal bonds to justify the allocation."

One place to look is the newest addition to Vanguard's active fixed income ETF roster: the Vanguard High-Yield Active ETF (VGHY). The fund's goal is simple — outperform the broad high-yield market — in the convenience of one active fund.

An Active, Must-See Muni Option

Because VGHY is actively managed, its portfolio managers can adjust the fund's holdings as necessary to suit current market conditions. The high yield bond market carries its own nuances and complexities. So having an active strategy is almost paramount for exposure. Furthermore, VGHY has a competitively priced 0.22% expense ratio. Like the rest of its active fixed income ETFs, VGHY taps into the expertise and experience of the Vanguard Fixed Income Group.

"The addition of VGHY to Vanguard's lineup exemplifies our decades-long commitment to disciplined credit investing," said Michael Chang, head of high yield portfolio management at Vanguard, regarding VGHY's launch in mid-September.

"This ETF is powered by a deeply integrated team of credit analysts, traders, and risk specialists who collaborate daily to uncover value and manage risk across the high-yield landscape," he added. "Our goal is to deliver an actively managed solution that adapts dynamically to market conditions with precision and purpose to outperform its benchmark and peers."

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