Bond Case Briefs

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Tax-Free Energy Bonds Draw Billions From Yield-Hungry Investors.

These twists on munis offer rewards for those who understand the risk.

Takeaways by Bloomberg AI

- Investors bought $31.4 billion worth of prepaid energy bonds last year, with these bonds making up from 5% to 25% of a municipal debt index fund.
- Energy bonds differ from regular munis in that investors indirectly lend money to pay in advance for a 30-year supply of energy at a discount to prevailing energy prices.
- Bond buyers get a higher interest rate than on a regular muni bond, with a California prepaid energy offering priced in January having a 4.08% yield.

A complicated kind of debt deal is electrifying the muni market these days: prepaid energy bonds.

Last year investors bought $31.4 billion worth, three times as much as in 2022. If you buy a municipal debt index fund, energy bonds currently make up from 5% to 25% of your investment.

Here's how they differ from regular munis. In a plain-vanilla general obligation bond, investors lend money to a government and rely on its taxing authority to pay it back. Or, in revenue bonds, investors get repaid through the money generated by an important project, such as a toll road, a hospital or a subway. Munis are attractive to wealthy individuals because the interest is generally exempt from federal income tax and, if the government is in their own state, local taxes as well.

Continue reading.

Bloomberg Markets

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February 3, 2026