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High-Yield Munis May Be the Better “Junk Bond”

Income investing has become considerably more attractive over the past several years. Rising interest rates have lifted yields across virtually every corner of the fixed-income market, allowing investors to generate income levels that were nearly impossible during the decade following the Global Financial Crisis. However, higher yields have come with higher uncertainty, as inflationary trends, ambiguity about the Fed’s path, and mixed economic data have muddied the waters. For many investors, the challenge has become finding an asset class that offers attractive yields without taking on excessive default risk.

One area that increasingly stands out is the high-yield municipal bond market.

Although many investors associate municipal bonds with conservative, investment-grade income, the high-yield municipal sector tells a different story. These bonds often provide yields comparable to or even exceeding traditional corporate junk bonds while historically experiencing dramatically lower default rates. Add in the potential for federal tax-exempt income, and the sector begins to look increasingly attractive for investors seeking both income and risk-adjusted returns.

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Jul 06, 2026

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