Municipal Bonds

Emerging Investment Opportunities in Munis

This report is excerpted from the Second Quarter 2025 Fixed-Income Sector Views.

Crossover opportunities in municipal bonds amid valuation shifts.

Taxable municipals have performed well alongside other fixed-income sectors, while tax exempts have lagged due to technical and regulatory challenges, which should be clarified in the forthcoming spending bill negotiation, with healthcare and education most exposed. We anticipate further weakening of tax-exempt valuations into June. These valuations are becoming attractive for crossover investors.

Sector Commentary

- Tax exempts returned -0.2 percent in the first quarter, influenced by tight starting valuations, weak technicals, and policy uncertainty, which caused tax exempt/Treasury yield ratios to widen. Current 5/10/30-year ratios are 81/81/95 percent as of April 16, near their 12-month range highs.
- The new issue calendar is robust as issuers expedite deals ahead of possible changes to municipal bonds' tax exempt status. With principal and interest payments—typically semi-annual—expected to remain low until June, the market should have positive net supply for most of the second quarter.
- Taxable muni spreads began widening in February alongside investment-grade corporates, increasing by 10 basis points in the first quarter, resulting in a 3 percent total return through March 31. Tepid year-to-date issuance of just $6 billion has kept spreads tighter than investment-grade securities with comparable credit quality and tenor.

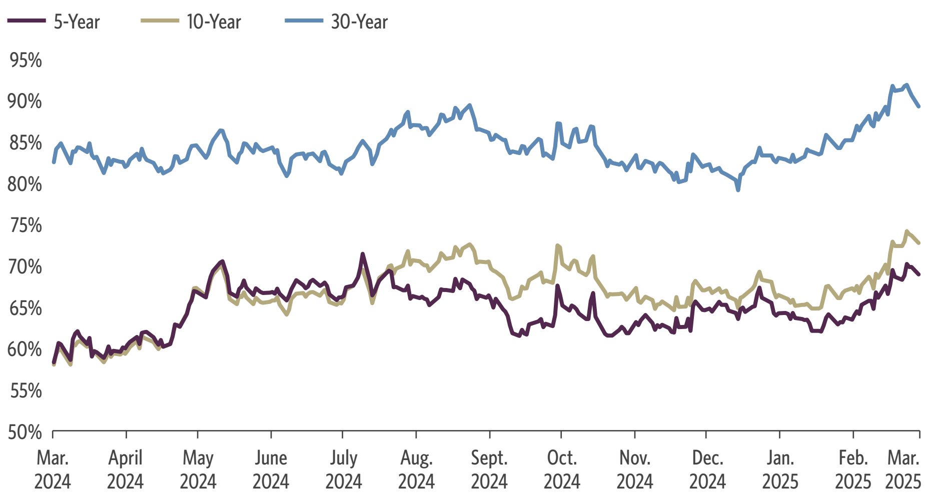
Investment Themes

- At current ratios and spreads, tax exempts are becoming appealing for institutional investors. Those in the 21 percent tax bracket can achieve higher after-tax income on tax exempts than on taxable products of similar credit quality and maturity. Retail investors can access liquid structures—5 percent coupon with long call protection—to mitigate market volatility.
- Higher education and healthcare sectors face pressure from regulatory changes, which will have sector-wide impacts, leading to broad repricings. Yet, given the fragmented nature of municipal bonds and diverse security pledges, we anticipate these sectors will offer opportunities to allocate to mispriced munis. Indeed, credit trajectories are dynamic, and we believe some issuers will have more levers to pull than others.

By Allen Li and Michael Park

Tight starting valuations, weak technicals, and policy uncertainty, caused tax exempt/Treasury yield ratios to widen. Current 5/10/30-year ratios are 76/80/95 percent, near their 12-month range highs.

Starting Prices, Technicals, and Uncertainty Caused Muni/Treasury Ratios to Widen



Source: Guggenheim Investments, Municipal Market Monitor. Data as of 3.31.2025.

One **basis point** is equal to 0.01%.