

**Paul Winter**

---

**From:** Mercado, Darla (NBCUniversal) <darla.mercado@nbcuni.com>  
**Sent:** Thursday, June 22, 2023 11:14 AM  
**To:** Paul Winter  
**Subject:** Thank you for your help!

Hi, Paul:

It was great speaking with you earlier this week. My story posted yesterday on CNBC Pro, our premium site. The link is here: <https://www.cnbc.com/2023/06/21/muni-bonds-can-offer-portfolios-tax-free-income-as-recession-looms.html>, but I've attached the text below in case you don't have an account. I'm looking forward to chatting about floating rate note ETFs tomorrow!

Darla Mercado

# Municipal bonds can offer your portfolio tax-free income and stability as recession fears loom

PUBLISHED WED, JUN 21 2023 12:46 PM EDT UPDATED WED, JUN 21 2023 3:16 PM EDT

Darla Mercado, CFP®@[DARLA\\_MERCADO](#)

**SHARE** Share Article via Facebook Share Article via Twitter Share Article via LinkedIn Share Article via Email



Senior woman working at home using lap top

Filadendron | E+ | Getty Images

Look no further than your home state if you're seeking some recession protection and tax-free income for your portfolio.

"People see [municipal bonds] as a defensive position for two reasons," said Shannon Saccocia, chief investment officer at NB Private Wealth.

"One, they're fixed income and they're intended to insulate [portfolios] from economic slowdowns and the impact on equities," she said. "Two, they have an extra layer of defensive protection and are used by retail investors who assign a premium to the tax efficiency of those bonds."

Recession fears linger as Federal Reserve Chair Jerome Powell has said the central bank isn't done hiking, but state and local governments' "rainy day" funds are at record highs of \$120 billion, according to Bank of America.

"Historically, municipal bonds have had low default rates," wrote Jared Woodard, investment and exchange-traded fund strategist at Bank of America, in a June 12 report.

“Today, low expected defaults are reinforced by the quality of state and local balance sheets.”

Investors are also hopping into munis. The [Vanguard Tax-Exempt Bond ETF \(VTEB\)](#) has seen \$2.7 billion in flows in 2023, according to FactSet. Meanwhile, the [iShares National Muni Bond ETF \(MUB\)](#) has picked up \$171 million in flows this year.

## IN SEARCH OF TAX-FREE YIELD

TICKER	NAME	30-DAY SEC YIELD	EXPENSE RATIO
MUB	iShares National Muni Bond ETF	3.36%	0.07%
VTEB	Vanguard Tax-Exempt Bond ETF	3.48%	0.05%
FMHI	First Trust Municipal High Income ETF	4.00%	0.70%
JMST	JPMorgan Ultra-Short Municipal Income ETF	3.19%	0.18%
MUNI	Pimco Intermediate Municipal Bond Active ETF	3.13%	0.35%

Source: Fund websites

## Choosing the right play

High-income investors — particularly those in the 32% marginal federal income tax bracket — appreciate that muni bonds generate tax-free income on a federal basis. That income may also be exempt from state taxes if you reside in the same locale as the issuer.

As a result, it makes most sense to keep these bonds in a taxable account.

For investors who live in high tax states, fund families offer ETFs and mutual funds that are particular to those locations. For instance, there’s the [Vanguard California Intermediate-Term Tax-Exempt Fund Investor Shares \(VCAIX\)](#) and the [Nuveen New York Quality Municipal Income Fund \(NAN\)](#).

**PIMCO INTERMEDIATE MUNI (MUNI)**  
 51.83 +0.11 [+0.21%]  
 YTD [0.88%]

**MUNI MONEY**

**THE TAX-FREE BOND TRADE**  
 FINDING LONG-TERM OPPORTUNITIES

**WATCH NOW**  
 VIDEO 05:39

**Tax-free bond trade: Finding long-term opportunities**

Quality matters in this space, particularly as large cities grapple with office vacancies. “In general, we are much more favoring higher quality types of bonds,” Nisha Patel, managing director and portfolio manager at Parametric, said Tuesday on “The Exchange.”

“Even if you stick to high quality bonds, the great ones, the local school districts, the essential water sewer systems, we’re seeing an opportunity to lock in ... over 3% tax-free yields, which on a taxable equivalent basis is 5.5% to 6%,” she said.

Patel also recommended going for longer-term issues to “lock in those yields” and avoid reinvestment risk. “We like adding duration in today’s portfolio,” she said. Bond duration measures the sensitivity of an issue’s price in response to a change in interest rates, and bonds with greater duration are more sensitive to changes in rates.

## An array of choices

Mutual funds and ETFs are a way to get exposure, but investors should be fee-conscious. They should also be aware of the quality of the underlying holdings and potential default risk from municipalities with uncertain finances.

“Not every town, not every state is created the same,” said Saccocia. “The muni market is so bifurcated and so disparate that you can add value through issuer selection.”

In select situations, some advisors are recommending closed-end municipal bond funds. These offerings issue a set number of shares and can trade at a premium or discount to their net asset value. The catch is that these funds may also use leverage, which can magnify gains or losses.

“That discount to NAV will translate to higher yield and a lower price,” said Paul Winter, a certified financial planner and portfolio manager at Five Seasons Financial Planning. He noted he tends to use funds that have little to no leverage.

Closed-end muni bond funds trading at a deep discount include the [BNY Mellon Municipal Income \(DMF\)](#) and the [MFS High Income Municipal \(CXE\)](#). Both are trading at a nearly 16% discount to NAV, according to data from Nuveen’s CEF Connect.

“Like any other bond exposure, there’s almost always a trade-off between yield and risk,” said Winter. “The muni bond space is no exception to that.”



Darla Mercado, CFP® | Markets Editor, CNBC Digital | Cell: (347) 698-0742 | [@darla\\_mercado](#) | CFP®