



Five Reasons Municipal Bonds Aren't Just for the Rich

Regardless of their tax bracket, many fixed-income investors may want to consider municipal bonds.

Municipal, or “muni,” bonds are issued by states or local governments to finance public works and infrastructure projects. What makes munis a unique fixed-income instrument is that they’re generally exempt from federal taxes and often exempt from state and local taxes, although investors may be subject to the federal Alternative Minimum Tax.

This potential advantage is more pronounced in higher tax brackets, which is why muni bonds have earned a reputation as an investment geared toward wealthier individuals.

But as we see it, muni bonds aren't just an investment option for investors in the highest tax brackets. Here are five reasons investors may want to consider investing in muni bonds:

1. **Muni bonds tend to be high-quality investments.** The five-year cumulative default rate for muni bonds was only 0.08% from 1970-2021.¹ Global corporate bonds defaulted at 6.8% over the same time frame.¹ What’s more, many municipalities were bolstered by direct federal aid during the pandemic.
2. **Munis currently have a favorable supply/demand balance.** In 2022, local and state governments issued fewer new muni bonds because the Federal Reserve was raising interest rates to fight inflation. New issuance is expected to stay somewhat depressed in 2023 for the same reason. This could be a boon for the asset class: Investors will still want ways to help reduce their taxes, but the muni supply may be tight.
3. **Muni bonds can help diversify your portfolio.** 2022 was a challenging year for both bond and equity investors, but it was the exception, not the rule. Muni bonds are domestically focused, while many stocks have global exposure and are more sensitive to macroeconomic developments.

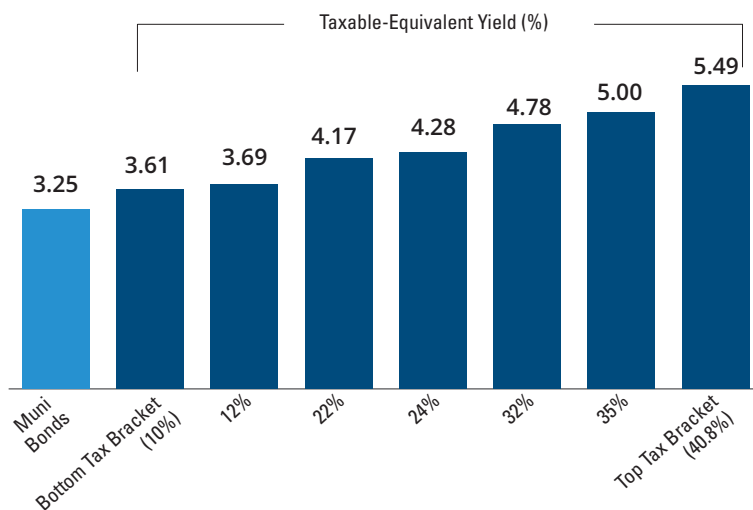
Key Points

- Muni bonds have typically been popular with wealthy investors, but investors in a variety of tax brackets may want to consider them.
- Muni bonds are high-quality investments that may be well positioned to weather potential recessions.
- Talk to your financial professional to see if muni bonds make sense for your investment portfolio.

Client Conversations

- Muni bonds may be well positioned to withstand a recession.** Many municipalities exited the pandemic with strong balance sheets thanks to billions of dollars in federal aid. In addition, it's common for muni bonds to back essential services, such as sewer, water, and garbage collection. If recession strikes and money is tight, consumers may give up discretionary services, but not basic necessities.
- Muni bonds could help investors keep more of their returns on an absolute basis.** As of March 31, muni bonds were yielding 3.25%. But their taxable-equivalent yield (the return required on a taxable bond to make it equal to the return of a tax-exempt bond) would increase to 3.61% for investors in the lowest tax bracket and 5.49% for investors in the highest tax bracket.

Taxable-Equivalent Yields Can Benefit Investors in Every Tax Bracket



As of 3/31/23. **Past performance does not guarantee future results.** Indices are unmanaged and not available for direct investment. Yield to worst (the minimum yield that can be received on a bond assuming the issuer doesn't default on any of its payments) shown for the Bloomberg Municipal Bond Index, an unmanaged index of municipal bonds with maturities greater than two years. Top tax bracket includes the 3.8% net investment income tax in addition to the 37% bracket (the additional 3.8% applies to individuals who have net investment income and high adjusted gross income). Data sources: Bloomberg and Hartford Funds, 4/23.

The More You Know

In short, there are many reasons to consider including muni bonds as a core holding in your fixed-income portfolio, regardless of your tax bracket.

Talk to your financial professional to see if tax-free muni bonds are a good fit for your portfolio.

¹ Moody's Investors Service: "US Municipal Bond Defaults and Recoveries, 1970-2021," most recent data available.

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