



RRIEGER **B**REPORT[®]

Municipal v. US Treasury & Corporate Bonds

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AA Municipal Bonds v. US Treasury & Corporate Bonds

Investor flows into muni ETFs remain positive but continue to slow. Municipal bond ETFs have attracted \$796million (down from \$1.46billion) in assets in the last 30 days, \$8.9billion year-to-date and now total over \$58.1billion. In comparison, fixed rate investment grade corporate bond ETFs have gained over \$52billion in assets year-to-date and \$4.5billion in the last 30 days.

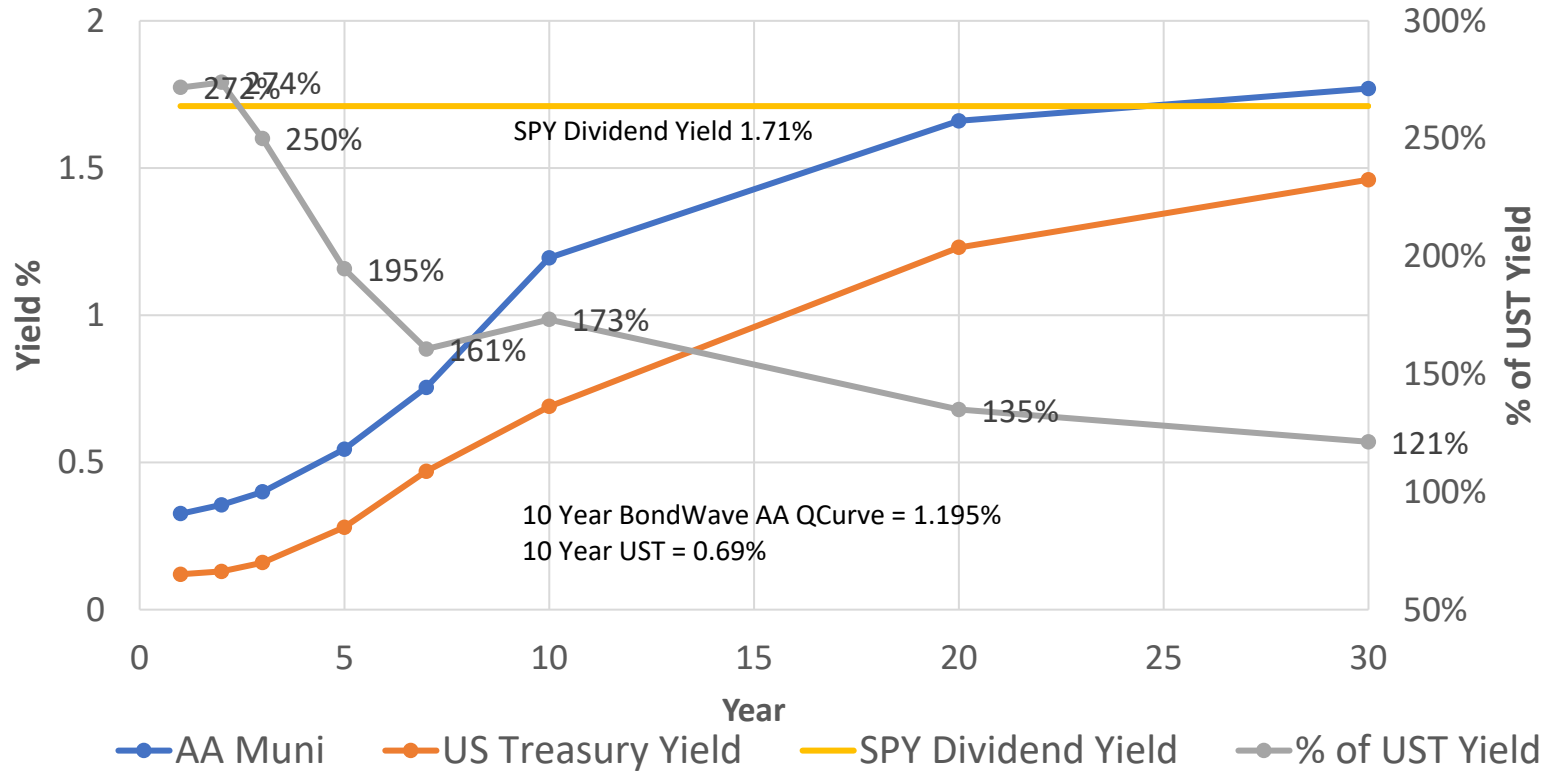
Corporate and muni yields have risen reinforcing the value of AA tax-exempt bonds.

- **Relative value:** Across the curve for high tax-bracket investors, AA Municipal bond yields have become attractive relative to high quality corporate bonds & U.S. Treasury bonds.
 - One has to go down to the 24% marginal tax-rate to find AA municipal bond yields are matching yields on a Taxable Equivalent Yield (TEY) basis to high quality corporate bonds.
 - On the short-end of the curve, 0 – 5 years, AA munis at the 24% tax-bracket and above have a positive value proposition from a TEY basis.
- **Duration risk:** The effective duration of the largest muni bond ETF, iShares MUB, ended 3.5 years shorter than the iShares LQD (investment grade corporate bonds) inferring less volatility if rates fluctuate v. corporate bonds.

Sources: [ETF Action, BondWave](#) (Municipal bond yields), [AdvantageData](#) (Corporate bond yields), and the [U.S. Department of Treasury](#). Past performance is not a guarantee of future results. Data as 9/30/2020.

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AA Municipal Bond Yields Relative to UST Yields & SPY Dividend Yield

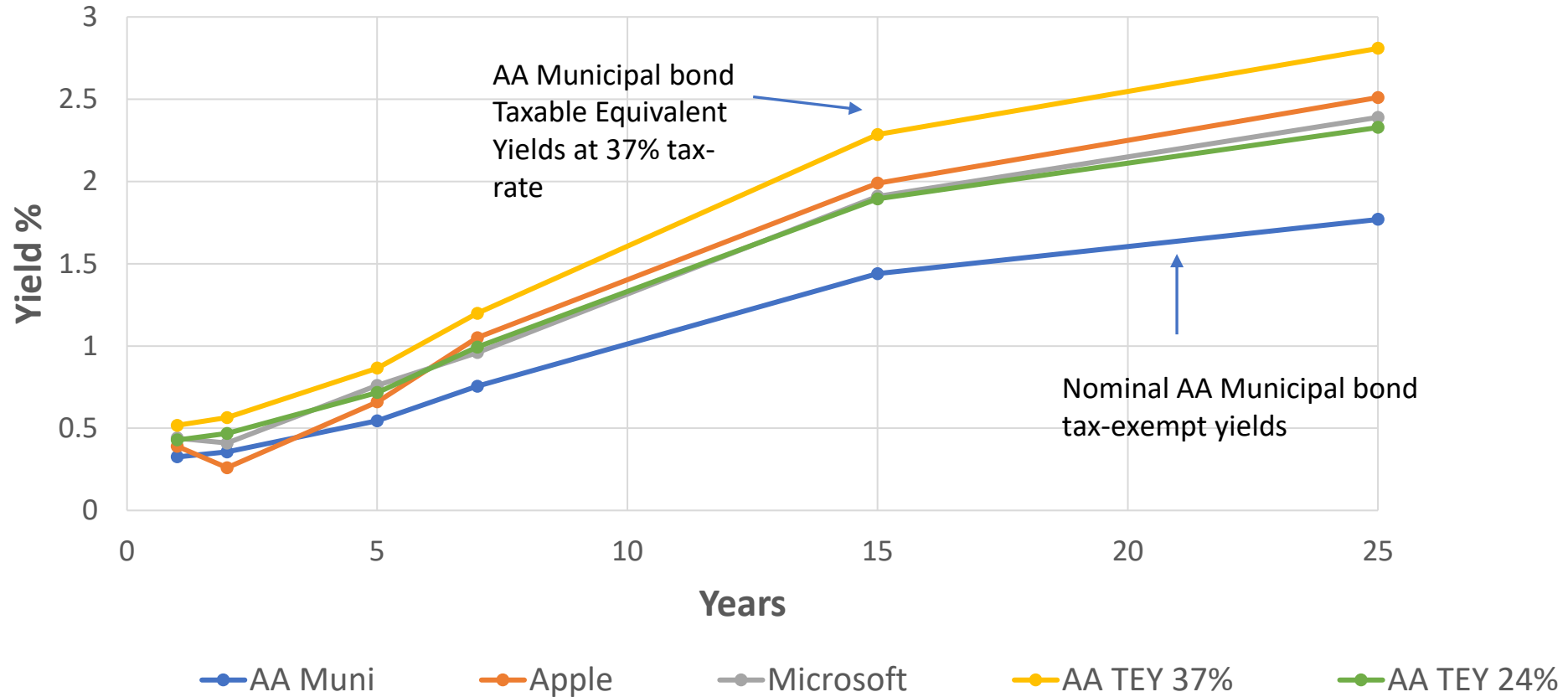


Sources: [BondWave](#) (Municipal bond yields), [AdvantageData](#) (Corporate bond yields), [SPDR](#) and the [U.S. Department of Treasury](#). Chart is provided for illustrative purposes only. Past performance is not a guarantee of future results. Data as 9/30/2020 with exception of SPY Dividend yield which is as of 9/29/2020.

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AA Municipal Bond Yields v. Apple Inc. & Microsoft Corp. Bond Yields



Sources: [BondWave](#) (Municipal bond yields), [AdvantageData](#) (Corporate bond yields). Chart is provided for illustrative purposes only. Past performance is not a guarantee of future results. Taxable Equivalent Yields (TEY) are calculated using the stated marginal tax-rate. Data as 9/30/2020.

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Select Asset Class Total Returns & Yields Year-to-Date

| Asset Class | 2020 Year-to-Date NAV Return | Yield to Maturity | Taxable Equivalent Yield (37% Tax Rate) |
|---|------------------------------|--------------------|---|
| iShares National Muni Bond (MUB) | +3.06% | 1.16% | 1.84% |
| iShares iBoxx \$ Investment Grade Corporate (LQD) | +7.44% | 2.16% | |
| iShares iBoxx % High Yield Corporate (HYG) | -1.39% | 5.4% | |
| iShares TIPS Bond (TIP) | +9.22% | 0.48% | |
| SPDR S&P 500 ETF (SPY) TR | +15.15% | 1.71% ¹ | |

Insight:
MUB has a duration that is approx. 3.5 years shorter than LQD

Sources: [iShares by BlackRock](#), [SPDRs](#). Table is provided for illustrative purposes only. Past performance is not a guarantee of future results. TEY = Taxable Equivalent Yield calculated at assumed tax rate indicated. Data as 9/30/2020. S&P 500 ETF Dividend Yield as of 9/29/2020.



Data Resources Used in this Report

- Municipal bond yields: BondWave www.bondwave.com
- Corporate bond yields: AdvantageData www.advantagedata.com
- U.S. Treasury bond yields: U.S. Department of Treasury <https://www.treasury.gov>
- iShares ETF data: iShares ETFs www.ishares.com
- Fund flows: ETF Action www.etfaction.com
- SPDR SPY dividend yield: SPDR ETFs www.ssga.com

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Notes:

- Taxable Equivalent Yield = Tax Exempt Yield / (1 – Federal Tax Rate)
- 2020 tax brackets however, not all tax brackets are represented herein
- End of day yields are used

Analyst Disclosure:

- At the time of this writing, JR Rieger's fixed income related holdings include various investment grade & high yield municipal bonds, insured municipal bonds, municipal bond money market funds and a position in the VanEck Vectors High-Yield Municipal Index ETF (HYD)

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