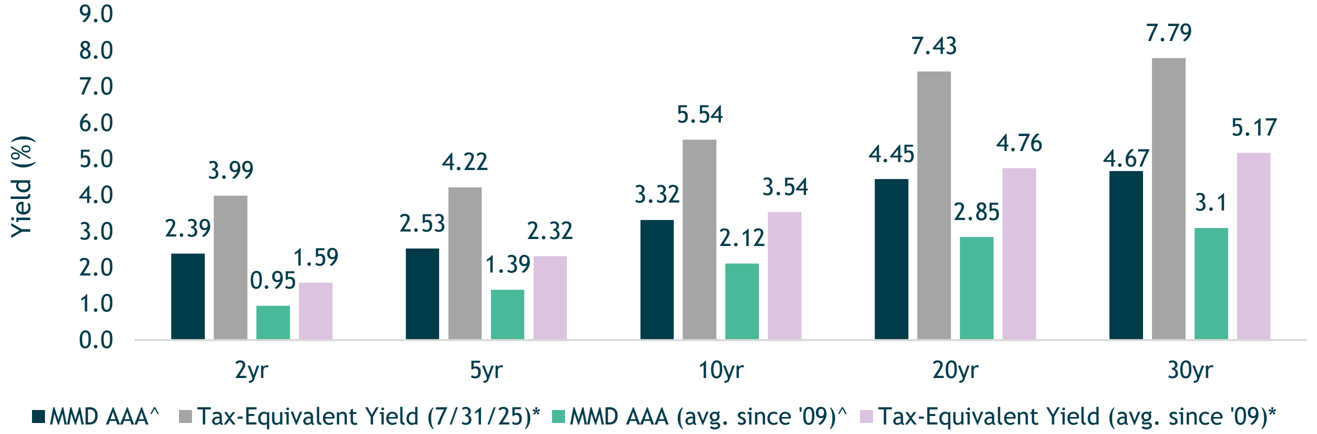
4 Reasons to Invest in Municipal Bonds Now

Yields Are Higher Than Their Post-Great Recession Average

Yields on tax-exempt municipal bonds are higher than their average since the Great Recession. For investors with a longer-term outlook, especially those in high-tax states, this presents an opportunity to transition from cash, and cash-proxies, to investment grade municipal bonds. Furthermore, investment grade municipal bonds provide tax-exempt income and have generally had a lower default rate[1] than corporate bonds. While the majority of the longer-term performance for debt is derived from the income[2] there is also the potential for a higher total return if rates decline.

Current National Average MMD AAA Yields (through July 2025) Vs. Average Since 2009 (post Great Recession)



Source: Municipal Market Analytics and U.S. Department of Treasury

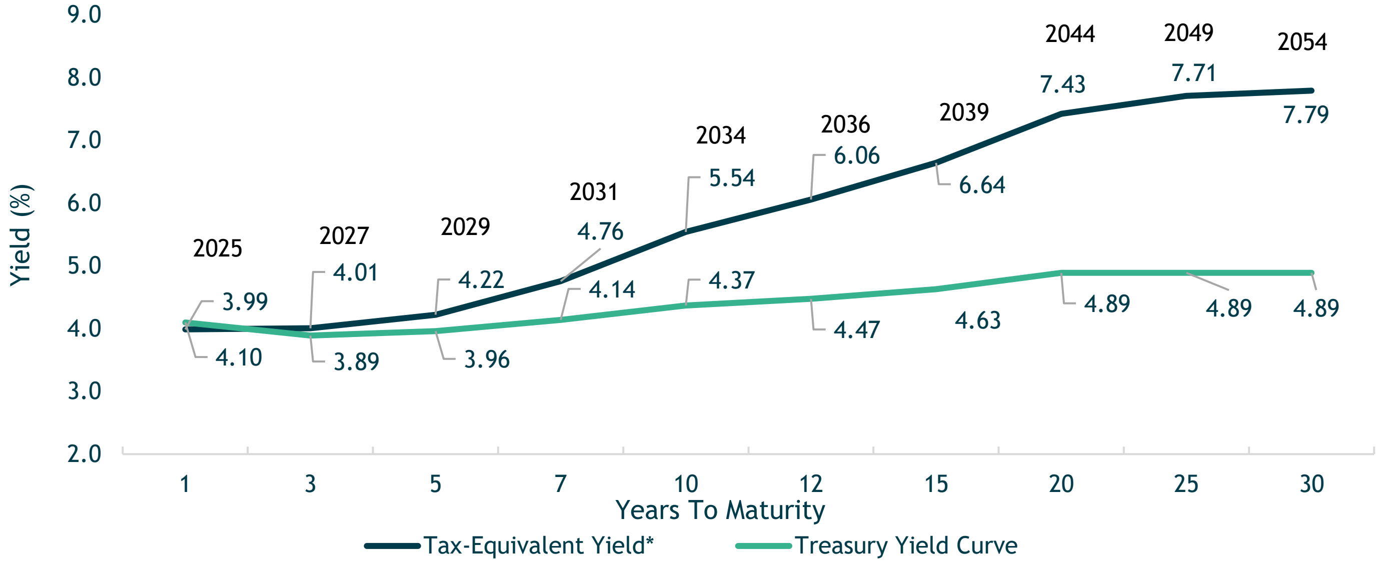
^Contains non-callable bullet bonds so yield-to-worst and yield-to-maturity are the same

*Taxable equivalent yield assumes the highest Federal tax bracket

Tax-Equivalent Yields That Compare to Equity Returns

Investors willing to take a longer-term approach can potentially earn higher yields by looking further on the curve where the relative value of municipal bonds increases on a tax-equivalent basis. Furthermore, investors in high-tax states can enjoy the additional benefit of not paying state and, in some cases, local taxes, which can produce equity-like returns. For example, from 2000-2024 the S&P averaged a 7.84% annualized return[3]. On an index level, through July 2025, the Bloomberg New York Municipal Bond Index had a yield-to-worst and yield-to-maturity of 4.06% and 4.30%, respectively. This would translate to a tax-equivalent yield of 9.14% and 9.68%, respectively, for a New York City resident in the highest tax-brackets. For a California resident, the Bloomberg California Municipal Bond Index had a yield-to-worst and yield-to-maturity of 3.79% and 4.03%, respectively. This would translate to a tax-equivalent yield of 8.26% and 8.78%, respectively, for a California resident in the highest tax-brackets[4]. Residents in other high-tax states who allocate to in-state bonds can benefit from elevated tax-equivalent yields when compared to a national portfolio as well.

Tax-Equivalent MMD AAA Yield Curve vs. Treasury Curve
(through July 2025)



Source: Municipal Market Analytics and U.S. Department of Treasury

*Taxable equivalent yield assumes the highest Federal tax bracket

Cash Is Historically A Poor Longer-Term Investment

Cash, including money markets and ultra-short fixed income, has provided relatively strong returns the last couple of years but has been one of the worst longer-term investments over time. For instance, since the Great Recession the average annual return for 3-month T-bills from 2010 – 2024 was only 1.21%[5] yet around $7 trillion was sitting in money market funds through July 2025[6].

Market Timing Is Difficult To Consistently Get Correct

Timing investments around Federal Reserve decisions can be challenging as the market will often move on macro projections as opposed to actual changes in the Fed funds rate. While markets are constantly changing and adapting, staying invested and opportunistically adding can smooth out returns over time, which has been highlighted over the past few years. Negative years for municipal bonds are rare and, prior to a challenging 2022, the Bloomberg Municipal Bond Index produced a positive total return every year since 2013, which was the last year of a negative total return prior to 2022. Investors who sold their municipal bonds in 2022 would have missed the 2023 return, which was the third largest for the index since 2013, and the index was positive again in 2024[7].

Conclusion

Asset Preservation Advisors (APA) believes that separately managed account municipal bond portfolios offer compelling, risk-adjusted, longer-term returns. This is driven by active management and tax-exempt income as yields are at levels that are higher than the post-Great Recession average. While there are a number of factors why the municipal bond curve is offering compelling tax-equivalent yields when compared to cash and cash-proxies, the key takeaway is that higher-income investors can earn equity-like after-tax returns amidst near-record highs in equity markets. This may also serve as a way to insulate a portion of a portfolio from reinvestment risk should the Fed opt to reduce rates in addition to the potential for additive roll-down returns.

[1]https://www.fidelity.com/bin-public/060_www_fidelity_com/documents/fixed-income/moodys-investors-service-data-report-us-municipal-bond.pdf

[2]https://www.lpl.com/research/weekly-market-commentary/key-themes-for-bonds-in-second-half-of-2024.html

[3]https://www.officialdata.org/us/stocks/s-p-500/2000#:~:text=Stock%20market%20returns%20between%202000%20and%202023&text=This%20is%20a%20return%20on,%2C%20or%204.38%25%20per%20year

[4]https://www.parametricportfolio.com/tools/tax-equivalent-yield-calculator

[5]https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html

[6]https://www.ici.org/mm_summary_data_2025.xls

[7]Morningstar Direct

About Asset Preservation Advisors (APA)

Asset Preservation Advisors (APA) is a boutique municipal bond manager founded in 1989, managing approximately $11 billion as of Q2 2025. APA has 26 dedicated municipal bond professionals with members of the investment committee averaging over 25+ years of experience. The trading team maintains over 140 institutional broker/dealer relationships, allowing them to compete for new deal offerings while remaining agile in the secondary market. Customization is at the core of APA and can be tailored to specific client needs.

Proactive Portfolio Management

APA actively engages in proactive tax-loss and bond-yield upgrade trades year-round, seizing opportunities instead of waiting for year-end directives. Depending on the strategy chosen and the individual portfolio investment mandate, APA invests in municipal bonds spanning the investment grade rating spectrum, from BBB-rated to AAA-rated, adjusting portfolio maturity and duration profiles in response to prevailing market conditions, while striving to optimize after-tax returns in a risk-adjusted manner.

About iM Global Partner

iM Global Partner is an asset manager with a difference. We are a dynamic network of specialist boutique investment managers, delivering best-in-class solutions, across asset classes, to our discerning Institutional and Professional Investors across the globe. We are proud to call these businesses our Partners and they are the essence of what iM Global Partner stands for. We had around USD ~$46 billion of assets under management as of June 30, 2025.

Disclaimer

Municipal bond risks include the ability of the issuer to repay the obligation, the relative lack of information about certain issuers, and the possibility of future tax and legislative changes, which could affect the market for and value of municipal securities.

A portion of a municipal bond's income may be subject to state and local taxes or the alternative minimum tax.

Investment in municipal bonds are subject to interest-rate risk and can lose principal value when interest rates rise. Bonds are also subject to credit risk, in which the bond issuer may fail to pay interest and principal in a timely manner.

Tax-equivalent yield (TEY) is calculated by dividing the portion of the yield that is tax-exempt (one minus the specified tax rate) and adding that amount to the portion, if any, of the yield that is not tax-exempt. The estimated TEY shown is calculated for the highest federal tax bracket of 37% and includes the 3.8% net investment income tax (NIIT) that applies to individuals whose modified adjusted gross income (MAGI) exceeds certain thresholds. TEY does not reflect tax credits, exemptions, deduction limitations, or alternative minimum tax (AMT). This calculation is for illustration purposes only and not intended to be a substitute for specific, individualized tax planning advice. In light of individual circumstances, APA recommends consultation with a qualified tax advisor or CPA.