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PM Spotlight: Munis and the Magic of Stability

Nick Venditti, CFA, senior portfolio manager for the Municipal Fixed Income team, is not your average muni guy. Despite all the market noise, he's a staunch believer in the power of municipal bonds to continue to add value to a diversified portfolio.

Authors	Date	Topic
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Key takeaways

- The outlook for munis appears bullish, especially for income. The market may also be poised for outsized returns, even if the yield curve doesn't move lower anytime soon.
- The risk/return profile of municipal bonds may be worth doing cartwheels over, particularly for investors looking for diversification without sacrificing a lot of yield potential.
- Munis are less correlated with geopolitical and macroeconomic risks than the broader credit market, but it's their stability that really adds value over time.

Q: You have a fairly nontraditional background. How did you end up managing municipal bonds?

A: My background is in big, scary math—not munis, not even fixed income. I studied theoretical and applied economics, and then I taught statistics at the University of North Carolina in Greensboro. I enjoyed teaching but decided to pursue life outside of academia.

I started with a muni bond insurance company, building a sophisticated loss reserves model that would predict reserves on every policy they underwrote. To do that effectively, I needed to learn a lot about muni bonds—why they go bad, what happens when they go bad, what recoveries look like, and what are the avenues of recourse. I quickly became a municipal bond credit expert, especially for the worst-performing municipal bonds like Puerto Rico, Detroit, and so many other places that have struggled.

When the Global Financial Crisis hit, my skillset became significantly more valuable overnight. It was a stressful time but also hugely advantageous to work through it in such a hands-on way. You never learn as much and as fast as when the world is burning down around you. From there, I jumped to the buy side and ultimately came to manage the municipal bond desk at Allspring.

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Q: Is that bond insurance background a benefit in managing muni investment portfolios?

A: I think it gives me an appreciation for risk management that many portfolio managers take for granted. I can tease out our risk management models to understand where their strengths lie and where weaknesses might eventually appear. No statistical model is perfect. I can look at a risk management model and focus on what is really meaningful from a portfolio construction perspective instead of the noise.

That's important for munis because they are definitely a different beast. Think about the equity market. The benchmark of a typical U.S. large-capitalization fund is the S&P 500 Index. That's 500 securities, give or take. One of the things that's interesting about munis is that there are over 60,000 issuers and 1 million investible securities. That dwarfs the global equity market of around 10,000 corporate names. Models are important in managing this broad market, but so are experience and risk awareness, to think about what might be coming around the corner.

Q. What's your outlook for the muni market for 2026?

A: We're bullish on munis and especially for income. The market may also be poised for outsized returns, even if the yield curve doesn't move lower anytime soon. If it does move lower, investors could expect to see equity-like returns for bond-like risk.

The interest payments on muni bonds are generally exempt from federal income taxes. As long as the federal budget deficit remains high, the burden on tax revenue continues to grow and the value of muni tax exemption becomes more attractive. That tax exemption simply doesn't exist in any other market. So if you believe that part of successful investing is building low-correlation, tax-efficient portfolios, then munis are an attractive asset class. Fundamentally, munis look strong overall.

Security selection will matter a lot. Investors need to choose the right bond, at the right price, at the right time.

Q: Are munis attractive in a tight credit spread environment?

A: I think the credit risk profile makes it very attractive. Most investors would be surprised that BBB-rated munis default less often, on average, than AAA-rated corporates. So, statistically speaking, we're more likely to see a default from Apple than a default from the Chicago Board of Education.

We see a lot of opportunities for investors to take some risk but pick up considerable yield. For example, if you have a 20-year, AA-rated issue yielding just over 4.25% and you're in a 37% tax bracket, that grosses up to around 7%. We think that risk/return profile is worth doing cartwheels over, especially for investors looking for portfolio diversification without sacrificing a lot of yield potential.

Q: What opportunities in particular are you eyeing?

A: There's been concern that federal cuts could impact the higher education system. We think that could potentially be a good-news, bad-news scenario. Overall, the sector may be facing a demographic challenge with increasing supply and decreasing demand. The COVID-19 stimulus has run out, and federal funding could be cut.

On the other hand, opportunities will remain. Security selection will matter a lot. Investors need to choose the right bond, at the right price, at the right time. That calls for rigorous bottom-up credit analysis and robust portfolio risk management. Munis are less correlated with geopolitical and macroeconomic risks than the broader credit market, but it's their stability that really adds value over time.

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