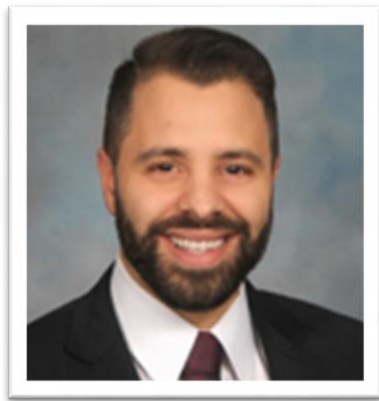




## Abrdn's Laranjeiro: Tax-Exempt Yields Are An Attractive Option Now

Friday, January 24, 2025



Chuck Jaffe, in this episode of The NAVigator podcast interviews Miguel Laranjeiro, investment director for municipal debt at Abrdn. Miguel says the appetite for muni-bond assets has been growing at a point when "tax-exempt yields look really attractive," with tax-equivalent yields running up to 6 percent for investment-grade bonds, an attractive option compared to corporate and other bond types. Laranjeiro notes that potential policy changes being discussed in Washington are likely to help muni-bond investors

and issuers, and that the biggest concern, a repeal of the tax exemption for muni bonds, is unlikely, and would not impact current paper if enacted. Further, Laranjeiro discusses how the wildfires in California, and similar disaster scenarios, are having some unexpected impacts on the muni-bond market.

The podcast can be found on AICA's website by clicking here: <https://aicalliance.org/alliance-content/pod-cast/>

**CHUCK JAFFE:** Miguel Laranjeiro, investment director at abrdn is here, and we're getting his outlook on the market for muni bonds, welcome to The NAVigator. This is The NAVigator, where we talk about all-weather active investing and plotting a course to financial success with the help of closed-end funds. The NAVigator is brought to you by the Active Investment Company Alliance, a unique industry organization representing the full spectrum of the closed-end fund business from investors and users to fund sponsors and creators. If you're looking for excellence beyond indexing, The NAVigator will point you in the right direction.

And today we're going in the direction of the muni bond market with Miguel Laranjeiro, investment director at abrdn, or Aberdeen, if you want to go back to its roots when it liked all of the vowels, and you can learn more about the firm and its closed-end fund offerings and more by going to [abrdn.com](http://abrdn.com). If you want to learn more about closed-end funds, interval funds, and business-development companies generally, go to [AICAlliance.org](http://AICAlliance.org), the website for the Active Investment Company Alliance. Miguel Laranjeiro, welcome back to The NAVigator.

**MIGUEL LARANJEIRO:** Thanks for having me, Chuck.

**CHUCK JAFFE:** You were last on about five months ago, and at that point you were talking about how we were seeing a robust inflow cycle into the muni space. So before we dig into a couple of things on current events that have at least the potential to impact muni bonds, let's start with your take on has that continued, are we still in a good spot where muni bonds are getting great flow? Or as we started to see rate cuts and have now seen rate cuts stall, is that changing the basic flows in and out of munis?

**MIGUEL LARANJEIRO:** Yeah, so to follow on how we finished the year, we wound up, specifically in the municipal marketplace, we wound up seeing \$40 billion in net inflows, that was bifurcated between investment-grade and high-yield. I think about \$25 billion of it was focused on investment-grade municipal assets, the remainder was dedicated to high-yield municipal assets, so pretty strong inflows. Year to date in 2025, we've seen about a billion or so of inflows into the market, so that appetite for municipal assets has continued, and from our perspective we think tax-exempt yields look really attractive when you add in the value of the tax exemption itself. So on a tax-equivalent basis, you can purchase bonds at 5.5-6% tax equivalent yield for investment-grade bonds, and we think that still remains a really attractive option in the market when you compare it to what corporate bonds are paying on a taxable basis, as well as the equity market. So we think it's a good time to get invested in the space and capitalize on these high yields and high tax-efficient income.

**CHUCK JAFFE:** Tax-efficient income brings to mind what we're going to see happening in Washington. Let's talk about how policy changes might impact the market for muni bonds, because we're in the first days of Trump 2.0, we are watching a lot of policy shifting, but the stuff that would affect municipalities isn't really being discussed. So what are the policy issues that you are looking at and what are your concerns, what are your potential benefits for the muni market?

**MIGUEL LARANJEIRO:** Yeah, so there's been several angles in terms of tax policy changes and how they could affect the municipal market. One of which would be extending the SALT tax deduction, so I think right now it's capped at \$10,000, the talk is to raise it to \$20,000 and then add some other tax-exemptions for high-tax states. We think for high-tax states, so states such as New York, California, Illinois, this could be a boon to tax receipts for those municipalities. The residents within those states will have more cash to spend within the state, which should enhance tax collections from the state and local municipality point of view, so that's one area that we see an opportunity in terms of tax policy changes. Obviously there's been much discussion around the tax exemption itself, and possible repeal of the tax exemption, we think the likelihood of a full repeal of the tax exemption is extremely unlikely. Where we think there could be some areas of risk of repeal of the tax exemption is potentially in hospitals or in higher education, so we think maybe on the margins there could be risk to those issuers where going forward their municipal bonds would lose their tax exemption. In our estimation, the current bonds outstanding would very likely be grandfathered in in terms of their tax exemption benefits, which should enhance the total return profile of those remaining bonds within the market as the tax exemption itself becomes sort of like a tradable commodity.

**CHUCK JAFFE:** Let's talk about a different type of current event, because one of the biggest stories early in the year has been the wildfires in California. While I don't want to take the focus off of the tragedy that we're seeing there, issues like the wildfires wind up having big impacts to the municipality space in that even if you don't live in those areas, your municipalities are watching what happens and how they might change things, et cetera. So is this a big enough event that it will have significant impact, not only what's happening in munis now, but what happens in the market going forward?

**MIGUEL LARANJEIRO:** Obviously as you said, Chuck, it's a tragic event for the residents and the people and the families that live in the area, but from a business investment perspective we've seen a trend of risks towards utilities, either investor owned or public utilities that operate in these areas, we've seen potential liabilities associated with these natural disaster events being really pointed towards utilities companies, most of which do not have a balance sheet to support these potential liabilities and lawsuits. So in our view, we look at it from a risk analysis perspective, what is the likelihood of a natural disaster or some type of

exogenous event in the area that is in these public power companies' coverage umbrella? And then what resources do they have to tap on in event that they are found liable and have to pay for the damages? So in most cases, these utilities do not have the balance sheet to support potential liabilities, so we look to state-run programs. I know California has what's called the FAIR Program, which is basically an insurance subsidy for residential homeowners who are not able to pay for fire insurance on their mortgage, those types of programs are supportive of public utilities in these types of events. I think in your high-risk areas especially we're going to need to initiate some additional programs to support these types of risks and the utilities within those affected areas.

**CHUCK JAFFE:** Will that create new and possibly different investment opportunities? I mean, will we be looking at a new class of bonds we're issuing as a result of this?

**MIGUEL LARANJEIRO:** We've seen this in certain states, for example, Florida has what's called a "catastrophe bond issuance" where insurance proceeds, the residents of Florida pay into a state-sponsored insurance fund, and then that is utilized to support insurance companies as well as residential homeowners in the event of a natural disaster. I think we'll see more programs like that across the United States, particularly those that are more exposed to these types of natural disaster events. So yeah, what we are going to require going forward is some type of program that's state sponsored, that can help mitigate some of the risks associated with these events to either the local municipalities or the local utilities. I assume California will take some steps towards that. As I said earlier, they do have this FAIR Plan, which was a step towards that, but I just don't think that is enough to cover the area of risk in question that's associated with these wildfires.

**CHUCK JAFFE:** Last question, bringing this back to where we started this, you talked about liking the outlook for muni bonds as we're moving forward and where we are right now. Of course we have seen the discount level in closed-end funds, that muni bonds get really wide and then narrow somewhat, et cetera, what do you think's going to wind up happening with discount levels? If this is a great time to be in muni bonds, is the rest of the investment world going to recognize that and make it that we wind up having narrow discounts or are the attractive discounts that we've seen in muni bond closed-end funds likely to continue in spite of the fact that this is a good place to be?

**MIGUEL LARANJEIRO:** At this point they have narrowed a little bit, as you said, Chuck, but I still think there are pockets of value within the closed-end fund municipal space, there are some funds out there with wide discounts, high leverage rates. From our perspective, a combination of responsible distribution policy as well as total-return management is probably how we look at things in terms of how to manage a possible higher for longer scenario. So in the beginning of the year I think markets had expected potentially two or three rate cuts, at this point the market is expecting possibly one rate cut for 2025, some market participants don't expect any rate cuts for 2025, so what we might not see from a total return perspective, I think you can see still from an elevated delivery tax-exempt income. So for those coupon clipping investors who are just looking to take in 4-5% tax-exempt coupons, I think this is really a good year to get invested and realize the tax-exempt income possibilities within the municipal market.

**CHUCK JAFFE:** Miguel, I really appreciate the time and the outlook on munis, I hope we get a chance to chat with you again as we watch it all play out down the line.

**MIGUEL LARANJEIRO:** All right, thanks for having me, Chuck.

**CHUCK JAFFE:** The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe, and yes, I'm Chuck Jaffe and I'd love it if you would dig into my show on your favorite podcast app or by going to MoneyLifeShow.com. If you want to dig into closed-end funds, interval funds, and business-development companies go to AICAlliance.org, it's the website for the Active Investment Company Alliance. Thanks to my guest Miguel Laranjeiro, investment director at Aberdeen, or as they prefer it, abrdn, learn more about the firm and its offerings at abrdn.com. The NAVigator podcast is new every Friday, make sure you don't miss an episode by subscribing or following on your favorite podcast app. We'll be back with more closed-end fund talk next week, until then, happy investing, everybody.

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