

Muni Power: Keep More of What You Earn

Key Takeaways

- Concerns of losing its tax exempt status and technical pressures led municipals lower in 2025.
- Despite headline risk, compelling yields, steady state and local finances, diversification benefits reinforce the appeal for tax-aware investors.

For over 200 years, municipal bonds or "munis," which are debt securities issued by states and local governments, have funded American projects such as schools, utilities, and more. The interest paid on munis is generally exempt from federal taxes and sometimes from state and local taxes, too. Munis are off to a rocky start in 2025. The Bloomberg Municipal Bond Index returned **-0.6%** vs. **3.0%** for the Bloomberg U.S. Aggregate Index year to date through June 20th, 2025.

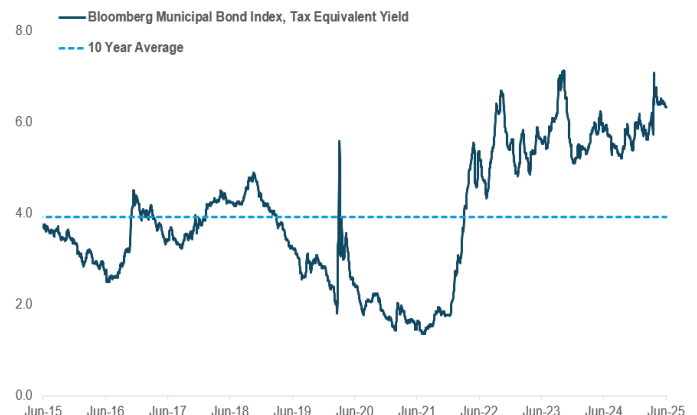
The decline wasn't driven by deteriorating conditions for local governments, but rather by technical pressures. Fears about changes in tax-exempt status for munis sparked a retail exodus, causing forced sales in a market already adjusting to higher issuance from local governments who were trying to get ahead of tariff-related economic uncertainty.

While concerns about munis' tax-exempt status are not new, institutions like Capital Group¹, Nuveen², among others, are not convinced that munis might lose their tax-exempt status. Even in the worst case scenario, existing tax-exempt bonds would be grandfathered into the current rules, and that would make them more attractive for investors going forward.

For investors in a high tax bracket, here are three reasons why munis remain attractive.

Compelling Yields

Muni yields have increased to new highs in recent years. For investors in the highest tax bracket, current yields can be more compelling after taxes. This is because the Bloomberg Muni Index **4.0%** tax-free yield is equivalent to earning **6.3%** on a taxable investment, which is much higher than the taxable equivalent of the Bloomberg US Aggregates **4.7%** yield³. For investors in high-tax states like California and New York, the opportunity could be even more compelling.



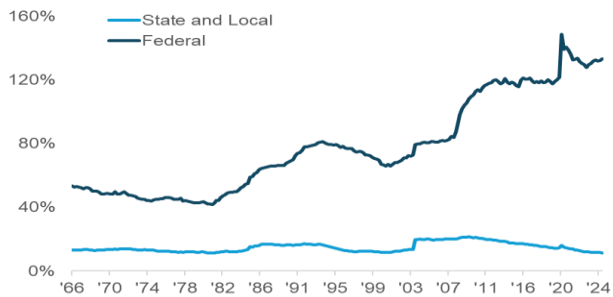
Source: Bloomberg, FRED. Data as of 12/31/2015-06/20/2025.

*Calculated based on a 37% federal income tax bracket.

Steady State, Local Finances

While federal debt has ballooned and is expected to continue rising over the next 10 years, state and local debts have held steady. Unlike the federal government, many states require their legislatures to pass balanced budgets.

Percent of GDP, 1966-2024



Source: Source: Bloomberg, FRED, National Association of State Budget Officers (NASBO)

In addition, many municipalities came through the pandemic with strong balance sheets thanks to billions of dollars in federal aid, helping to build their rainy day funds to record highs. Lastly, even during recessions, consumers may give up going on vacation, but they will still keep their essential services like water and sewer. This explains why, in past recessions, the muni market has not historically experienced a spike in defaults due to the prevalence of essential service monopolies.

Munis Can Help Diversification

Muni bonds are domestically focused and are less tied to geopolitical and other global risks, and thus could provide diversification relative to stocks and other bonds in portfolios.

Conclusion

In investing, there is an old adage: "It's not what you earn, but what you keep". This perfectly captures how munis can help maximize after-tax returns for high-income earners. While headline risks over potential tax-exempt status will continue to dominate, compelling yields, strong fundamentals, and historical resilience create an attractive potential for munis. Investors should consult with their financial advisor and tax professional to understand if munis are suitable for their specific financial situation and goals.

¹ <https://www.capitalgroup.com/advisor/investments/fixed-income/perspectives/volatility-hits-munis.html>

² <https://documents.nuveen.com/Documents/Nuveen/Default.aspx?uniqueid=3cbce446-92ed-4703-80aa-0cbf80e4e1ca>

³ Yield to Worst. Data as of 6/20/2025

AssetMark, Inc.

1655 Grant Street
10th Floor
Concord, CA 94520-2445
800-664-5345

Important Information

This is for informational purposes only, is not a solicitation, and should not be considered investment, legal or tax advice. The information in this report has been drawn from sources believed to be reliable, but its accuracy is not guaranteed, and is subject to change. Investors seeking more information should contact their financial advisor. Financial advisors may seek more information by contacting AssetMark at 800-664-5345.

Investing involves risk, including the possible loss of principal. Past performance does not guarantee future results. Asset allocation cannot eliminate the risk of fluctuating prices and uncertain returns. There is no guarantee that a diversified portfolio will outperform a non-diversified portfolio. No investment strategy, such as asset allocation, can guarantee a profit or protect against loss. Actual client results will vary based on investment selection, timing, market conditions, and tax situation. It is not possible to invest directly in an index. Indexes are unmanaged, do not incur management fees, costs, and expenses, and cannot be invested in directly. Index performance assumes the reinvestment of dividends.

Investments in equities, bonds, options, and other securities, whether held individually or through mutual funds and exchange-traded funds, can decline significantly in response to adverse market conditions, company-specific events, changes in exchange rates, and domestic, international, economic, and political developments.

Bloomberg® and the referenced Bloomberg Index are service marks of Bloomberg Finance L.P. and its affiliates, (collectively, "Bloomberg") and are used under license. Bloomberg does not approve or endorse this material, nor guarantees the accuracy or completeness of any information herein. Bloomberg and AssetMark, Inc. are separate and unaffiliated companies.

AssetMark, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission.
©2025 AssetMark, Inc. All rights reserved.

8118516.1 | 07/2025 | EXP 07/31/2027