

Five Reasons Municipal Bonds Aren't Just for the Rich

Regardless of their tax bracket, many fixed-income investors may want to consider muni bonds.

Municipal bonds often conjure up images of golfers taking in a few rounds at the country club before shopping for their dream yachts. But as we see it, municipal bonds (aka muni bonds) aren't just an investment option for the wealthiest investors.

Issued by states or local governments to finance public works and infrastructure projects, muni bonds are generally exempt from federal taxes and are often exempt from state and local taxes (although investors may be subject to the federal Alternative Minimum Tax).

Though we feel it's unjustified, this potential advantage is more pronounced in higher tax brackets, which is how muni bonds earned their reputation as an investment geared toward wealthy individuals.

New Administration, New Tailwinds for the Muni Market

Several Biden Administration proposals could make muni bonds more attractive for a variety of investors. This includes raising the individual tax rate from 37% to 39.6% on those who earn more than \$400,000 and raising the corporate tax rate from 21% to 28%. President Biden has also proposed an infrastructure bill that would not only support traditional "roads and bridges" projects, but could also support climate-change and green-related projects, providing potential tailwinds for a variety of muni-bond issuers.

It's unclear how long it might take to actually pass new legislation or how much the final version may differ from the initial proposal. While we wait for policies and their potential impacts to materialize, here are five reasons investors may want to consider investing in muni bonds:

1. **Municipal bond defaults are infrequent.** According to a Moody's report, the five-year all-rated cumulative default rate from 1970-2019 was only 0.08% for muni bonds.¹ Compare that to global corporate bonds, which defaulted at a 6.7% rate over that same time frame.¹ It's important to note that the overall muni default rate remained that low despite 2017 having the highest municipal defaults volume on record, mostly related to Puerto Rico, and that a bond issuer up against hard times can be downgraded in quality without defaulting.
2. **Municipal bonds tend to move independently of equity markets.** Because they are domestically focused, muni bonds generally lack exposure to some of the same concerns and sources of volatility that global equities face. So when equity markets gyrate, muni bonds can serve as an important diversification complement within your portfolio. It's important to note diversification does not ensure a profit or protect against a loss in a declining market.



Key Points

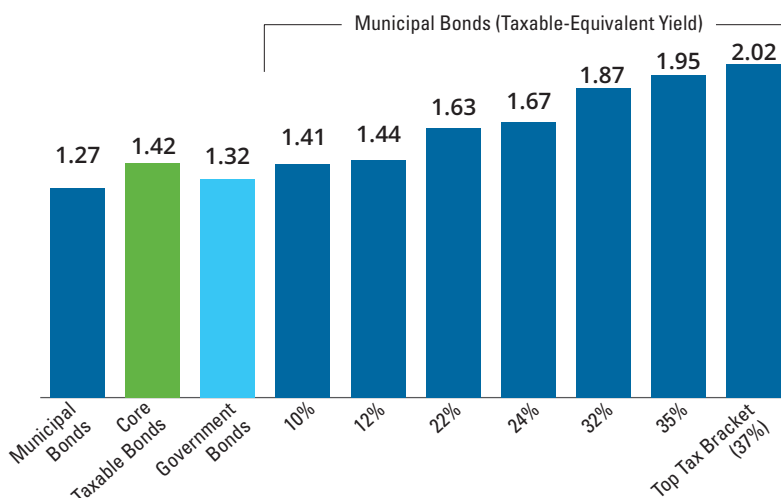
- Municipal bonds have typically been popular with wealthy investors, but investors in a variety of tax brackets may want to consider them.
- Some of the factors that make municipal bonds appealing include attractive after-tax yields, diversification relative to equities, and historically positive performance regardless of the interest-rate environment.
- Talk to your financial professional to see if municipal bonds make sense for your investment portfolio.

Client Conversations

3. **Because municipal bonds seek to provide tax-free income, they have generally offered higher tax-equivalent yields than their taxable counterparts.** For example, as of February 28, 2021, muni bonds were yielding 1.27% and 10-year US Treasuries were yielding 1.42% before taxes. But after considering the impact of taxes, the taxable-equivalent yield (the return required on a taxable bond to make it equal to the return of a tax-exempt bond) of municipal bonds was more attractive, 2.02%, for investors in the highest (37%) tax bracket. Investors in six of the seven tax brackets would have received higher after-tax returns from municipal bonds than US Treasuries or other taxable bonds (FIGURE 1).

FIGURE 1
The Taxable-Equivalent Yield of Municipal Bonds Benefits Investors in Most Tax Brackets

Distribution Yield % as of 2/28/21



Data sources: FactSet and Hartford Funds, 3/21. Municipal bonds are measured by the Bloomberg Barclays Municipal Bond Index, core taxable bonds are measured by the Bloomberg Barclays US Aggregate Bond Index, and government bonds are measured by the Bloomberg Barclays Government-Related Index. See index definitions on page 4 for more information. The calculation for distribution yields employs the most recent distribution, which may be interest, a special dividend, or a capital gain, and multiplies the payment by 12 to get an annualized total.

Past performance does not guarantee future results. The performance shown is index performance and does not reflect the performance of any fund. Indices are unmanaged and not available for direct investment.

Investors in all but the lowest tax bracket would have received higher after-tax returns from municipal bonds.

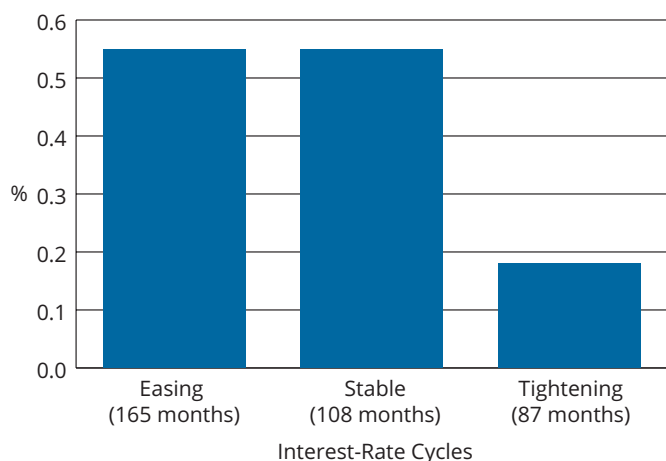
4. **Muni bonds have historically had a favorable supply/demand balance.** In March 2020, uncertainty surrounding the COVID-19 pandemic led to a supply glut for the first time since 2013.² But investor demand for ways to help reduce taxes will always exist, and as the recovery takes hold, so could the interest in munis. In addition, the government has taken steps that could support the muni market. For example, 2020's Coronavirus Aid, Relief, and Economic Security (CARES) Act authorized billions of dollars of relief to municipalities, airlines, and other businesses; the American Rescue Plan passed in March 2021 provided an additional \$350 billion in direct aid to state and local governments to help address postponed capital-improvement needs or reduce reserve dependence.

Client Conversations

5. **Municipal bonds have tended to generate positive returns regardless of the interest-rate environment.** The Fed began raising interest rates, or “tightening” policy, in 2015. In 2019, they put their rate increases on hold and cut rates as economic conditions shifted, and cut them to near zero in 2020 in response to the COVID-19 pandemic. Although there can be short-term volatility when rates move unexpectedly, **FIGURE 2** shows that muni-bond performance has historically been interest-rate agnostic: On average, muni bonds have posted positive returns whether interest rates were rising, stable, or declining.

FIGURE 2
During the Last 30 Years, Muni Bond Returns Have Been Positive Regardless of the Interest-Rate Environment

Bloomberg Barclays Municipal Bond Index Average Monthly Returns (%) from 1991–2020



Muni-bond performance has historically been interest-rate agnostic.

Data sources: FactSet, NDR, Morningstar, and Hartford Funds, 3/21. A tightening cycle is considered at least three consecutive rate increases without an intervening easing cycle. An easing cycle is considered at least two consecutive rate cuts within a 12-month period without an intervening rate hike. **The performance shown above is index performance and does not reflect the performance of any fund.** For illustrative purposes only.

The More You Know

In short, municipal bonds aren’t an asset class reserved just for the wealthiest investors. There are many reasons to consider including municipal bonds as a core holding in your fixed-income portfolio, regardless of your tax bracket. But like all investments, they have opportunities and risks to consider first.

Hartford Funds Municipal Bond Fund Suite

Funds	A	F	I	Y	ETF
Hartford Municipal Income ³	HMKAX	HMKFX	HMKIX		
Hartford Municipal Opportunities	HHMAX	HHMFX	HHMIX	HHMYX	HMOP
Hartford Municipal Short Duration	HMJAX	HMJFX	HMJIX		

Talk to your financial professional today to see if tax-free municipal bonds are the right choice for you.

¹Moody's Investors Service: "US Municipal Bond Defaults and Recoveries, 1970-2019," most recent data available.

²St. Louis Fed: "How COVID-19 Has Affected the Municipal Bond Market," 4Q2020

³Within the next quarter, the Fund will undergo changes which may include the fund name, objective, principal investment strategy and/or benchmark. For more details, see the applicable Fund's prospectus.

Bloomberg Barclays Municipal Bond Index is an unmanaged index of municipal bonds with maturities greater than two years.

Bloomberg Barclays US Aggregate Bond Index is composed of securities from the Bloomberg Barclays Government/Credit Bond Index, Mortgage-Backed Securities Index, Asset-Backed Securities Index, and Commercial Mortgage-Backed Securities Index.

Bloomberg Barclays Government-Related Index is a universe of Treasury bonds used as a benchmark against the market for long-term maturity fixed-income securities. The Index assumes reinvestment of all distributions and the interest payments.

Additional Information Regarding Bloomberg Barclays Indices Source: Bloomberg Index Services Limited. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). BARCLAYS® is a trademark and service mark of Barclays Bank Plc (collectively with its affiliates, "Barclays"), used under license. Bloomberg or Bloomberg's licensors, including Barclays, own all proprietary rights in the Bloomberg Barclays Indices. Neither Bloomberg nor Barclays approves or endorses this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith.

Important Risks: Investing involves risk, including the possible loss of principal. • Fixed income security risks include credit, liquidity, call, duration, and interest-rate risk. As interest rates rise, bond prices

generally fall. • Municipal securities may be adversely impacted by state/local, political, economic, or market conditions. Investors may be subject to the federal Alternative Minimum Tax as well as state and local income taxes. Capital gains, if any, are taxable. Diversification does not ensure a profit or protect against a loss in a declining market.

Investors should carefully consider a fund's investment objectives, risks, charges and expenses. This and other important information is contained in a fund's full prospectus and summary prospectus, which can be obtained by visiting hartfordfunds.com. Please read it carefully before investing.

Mutual funds are distributed by Hartford Funds Distributors, LLC (HFD), Member FINRA. Exchange-traded products are distributed by ALPS Distributors, Inc. (ALPS). Advisory services may be provided by Hartford Funds Management Company, LLC (HFMC) or its wholly owned subsidiary, Lattice Strategies LLC (Lattice). Hartford Funds refers to HFD, HFMC, and Lattice, which are not affiliated with ALPS.

This information should not be considered investment advice or a recommendation to buy/sell any security. In addition, it does not take into account the specific investment objectives, tax and financial condition of any specific person.

This information has been prepared from sources believed reliable but the accuracy and completeness of the information cannot be guaranteed. This material and/or its contents are current at the time of writing and are subject to change without notice.

Hartford Funds Distributors, LLC, Member FINRA.

CCWP027_0421 222606