



CIO expects active municipal ETFs to remain a significant growth driver. (UBS)

Spotlight: Steady growth for municipal bond ETFs

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Municipal bond ETFs have exhibited steady growth since their introduction in September 2007. The municipal ETF market now consists of 112 ETFs that combine for USD 141bn in assets. The number of issuers has expanded, and there are now 36 issuers of municipal bond ETFs.

Despite the growth, the municipal ETF market remains concentrated as 41% of municipal ETF assets are in BlackRock ETFs and 27% in Vanguard ETFs. Actively managed ETFs have been a significant growth driver for the ETF market. There are 70 actively managed ETFs, and their share of ETF assets has increased to 17%.

The growth of the municipal ETF market has not come at the expense of the municipal mutual fund market. Both municipal mutual fund and ETF assets have grown over the past 15 years. Nevertheless, the percentage of municipal bonds held in ETFs has risen from 1% to 15% over the 15-year period. Inflows into municipal ETFs have been greater than their share of assets, and the flows have been more consistently positive relative to mutual funds. In 2024, municipal ETF inflows totaled USD 18bn with 67% of the inflows going into broad-based municipal ETFs. MUB and VTEB inflows accounted for USD 7bn of the USD 12bn of inflows into broad-based municipal ETFs. From a maturity perspective, there was greater demand for short- and intermediate-term strategies versus long-term, which isn't surprising given last year's increase in Treasury yields. For the second consecutive year, there was increased demand for single-state municipal ETFs. Inflows in 2024 totaled USD 2bn, the second year in a row that inflows exceeded USD 1bn. Prior to 2023, single-state municipal ETF inflows hadn't surpassed USD 600mn. Actively managed municipal ETFs accounted for 42% of the inflows last year versus their 17% share of assets. Active municipal ETFs have consistently punched above their weight with regard to flows. We expect this trend to continue and for active municipal ETFs to remain a significant growth driver for the municipal ETF market.

Municipal mutual fund flows returned to positive territory last year with inflows of USD 29bn. In 2022 and 2023, outflows were USD 149bn and USD 21bn, respectively. Over half of the inflows last year went into funds Morningstar classifies in the Muni National Intermediate category. This category includes funds focused on intermediate maturities and many broad-based national municipal strategies given their duration often falls into the intermediate bucket. High yield municipal mutual funds captured 45% of the 2024 inflows, which is significantly higher than their 16% share of municipal mutual fund assets. We suspect that the outperformance of the high yield municipal market last year was a major driver of the increased demand. High yield municipal bonds returned around 5% in 2024 while the investment grade municipal market returned just over 1%. Surprisingly, the demand for high yield municipal funds was not seen with ETFs. Based on Morningstar's classifications, high yield municipal ETF inflows were 5% of the inflows last year, which was roughly in line with their share of municipal ETF assets.

Finally, we take a look at the large and growing segment of the municipal market—Separately Managed Accounts (SMAs). An SMA is a portfolio of securities managed professionally for a client, separate from other such client portfolios. SMAs allow investors greater portfolio customization with respect to credit quality, state, and sector. SMAs typically invest in the short and intermediate part of the curve, although there is flexibility on that front as well. SMAs generally require higher investment minimums and charge higher fees compared to mutual funds and ETFs. Since 2018, SMAs have grown significantly, with total Assets Under Management (AUM) now at more than USD 1.6tr. The growing need for customization among high net worth retail and institutional investors and technological advancements facilitating easier client communications and investment administration have driven SMA growth, a trend we expect will continue.

See the original report: [Municipal Market Guide: Policy matters, 11 February 2025](#), which includes additional disclosures.

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