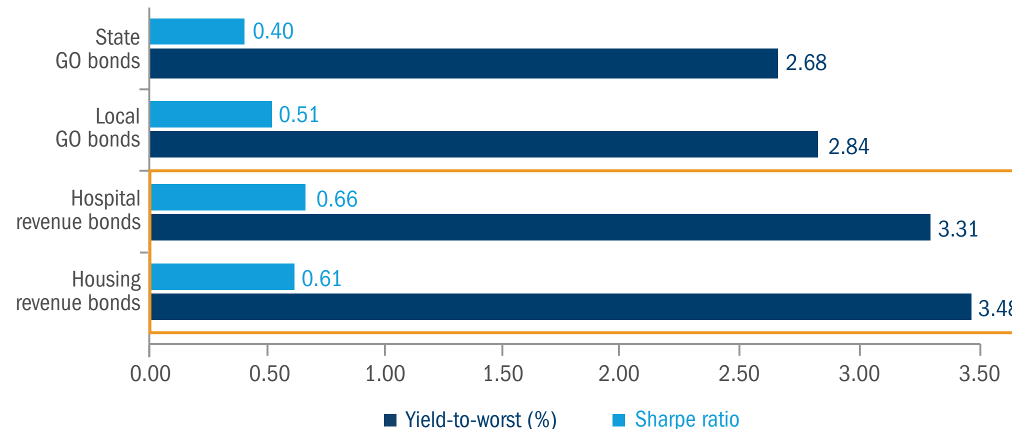
COLUMBIA THREADNEEDLE INVESTMENTS

Latest Insights | Municipal Bonds

The hospital and housing sectors can offer higher yield and risk-adjusted returns



Source: Bloomberg as of 09/30/18. **Yield-to-worst** is the lowest potential yield that can be received on a bond without the issuer actually defaulting. **10-year Sharpe ratio** divides gross return in excess of the Bloomberg Barclays U.S. Treasury Index by the investment's standard deviation to measure risk-adjusted performance. **Standard deviation** is a statistical measure of the degree to which an individual value in a probability distribution tends to vary from the mean of the distribution. **Past performance does not guarantee future results.**

By Catherine Stienstra,
Head of Municipal Investments

General obligation (GO) bonds versus revenue bonds: GO bonds are backed by the full faith and credit of the issuing municipality, and they can use all available resources to repay the debt, including raising taxes. Revenue bonds repay bondholders using revenue generated from specific projects.

Revenue bonds could be a missed opportunity. Several high-profile municipalities have recovered from bankruptcy by making cuts to bondholders. Despite this, investors' persistent demand for GOs keeps their yields down. Revenue bonds represent over 65% of the municipal market and often trade at a lower price and higher yield than GO bonds. This gives investors who can research the details of each bond an opportunity to earn more income and improve risk-adjusted returns — particularly in the housing, hospital and other higher yielding revenue sectors.

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