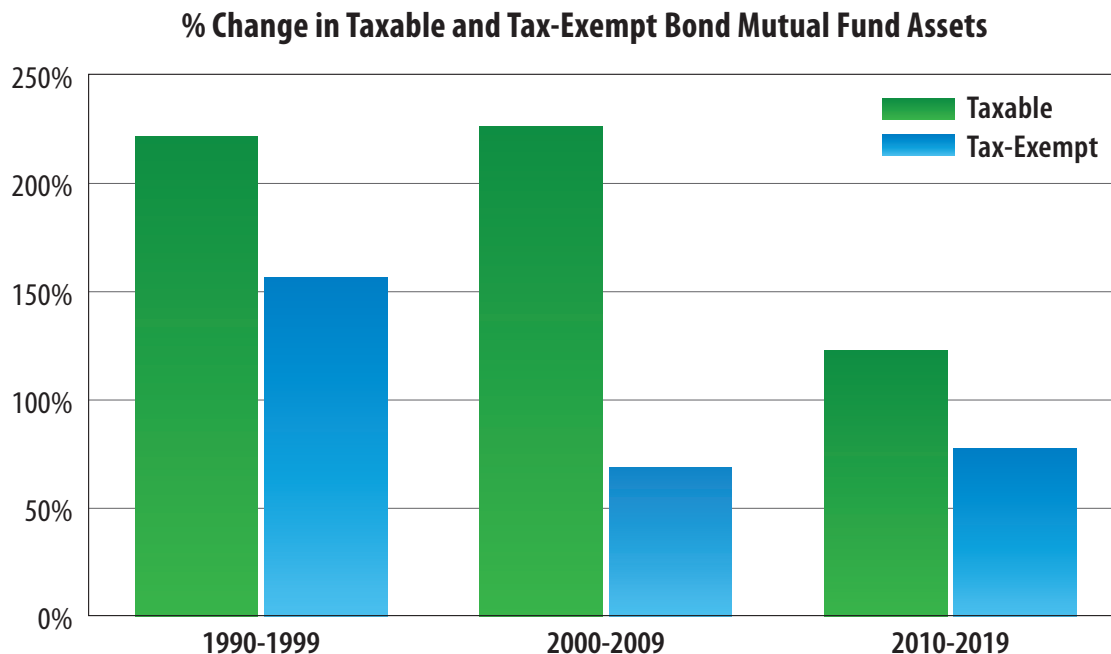


The Pace Of Growth In Bond Mutual Fund Assets



Source: Investment Company Institute (ICI). **Past performance is no guarantee of future results.**

View from the Observation Deck

1. Today's blog post is intended to offer investors a snapshot of the changing marketplace for taxable and tax-exempt (municipal) bond mutual funds over the past three calendar decades based on total assets under management (AUM). We also include data through 6/30/21 (not in chart).
2. Keep in mind that, while not a small market in its own right, the municipal bond market was valued at just \$3.95 trillion (outstanding debt) as of the close of 2020, according to data from SIFMA.org. For comparative purposes, outstanding debt in the taxable U.S. Treasury and U.S. Corporate Bond markets stood at \$20.97 trillion and \$10.56 trillion, respectively.
3. As of 6/30/21, Taxable and Municipal Bond fund AUM stood at \$4.6 trillion and \$941.6 billion, respectively, according to the Investment Company Institute (ICI).
4. The percent changes in AUM over the past three calendar decades (see chart) were as follows (Taxable vs. Tax-Exempt): 1990-1999 (221.87% vs. 156.78%); 2000-2009 (226.19% vs. 68.99%); and 2010-2019 (122.87% vs. 77.56%).
5. The slower pace of asset growth registered in the third decade (2010-2019) could be due to the steep decline in interest rates and bond yields over time, in our opinion. From 12/29/89-12/31/19, the yield on the benchmark 10-year Treasury note (T-note) declined from 7.94% to 1.92%, or a drop of 602 basis points, according to data from Bloomberg. Bond yields continued lower after 2019. The yield on the 10-Year T-note closed at 1.25% at the close on 8/23/21.
6. From 12/29/89-12/31/19, the yield on the Bond Buyer U.S. 40 Municipal Bond Index declined from 7.25% to 3.63%, or a drop of 362 basis points, according to data from Bloomberg. It stood at 3.41% at the close on 8/23/21.
7. The potential for higher individual tax rates moving forward could influence demand for municipal bonds. Even if the Biden administration were to leave current individual tax brackets as is, they are scheduled to change in 2026.
8. The Tax Cuts and Jobs Act of 2017 lowered the highest individual tax rate to 37%. Beginning in 2026, that rate reverts back to 39.6%.

This chart is for illustrative purposes only and not indicative of any actual investment. The Bond Buyer U.S. 40 Municipal Bond Index tracks 40 highly-rated, long-term municipal bonds.

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