Insured municipals offer investors additional assurance

December 12, 2019

by Gregory Rawls

of Invesco

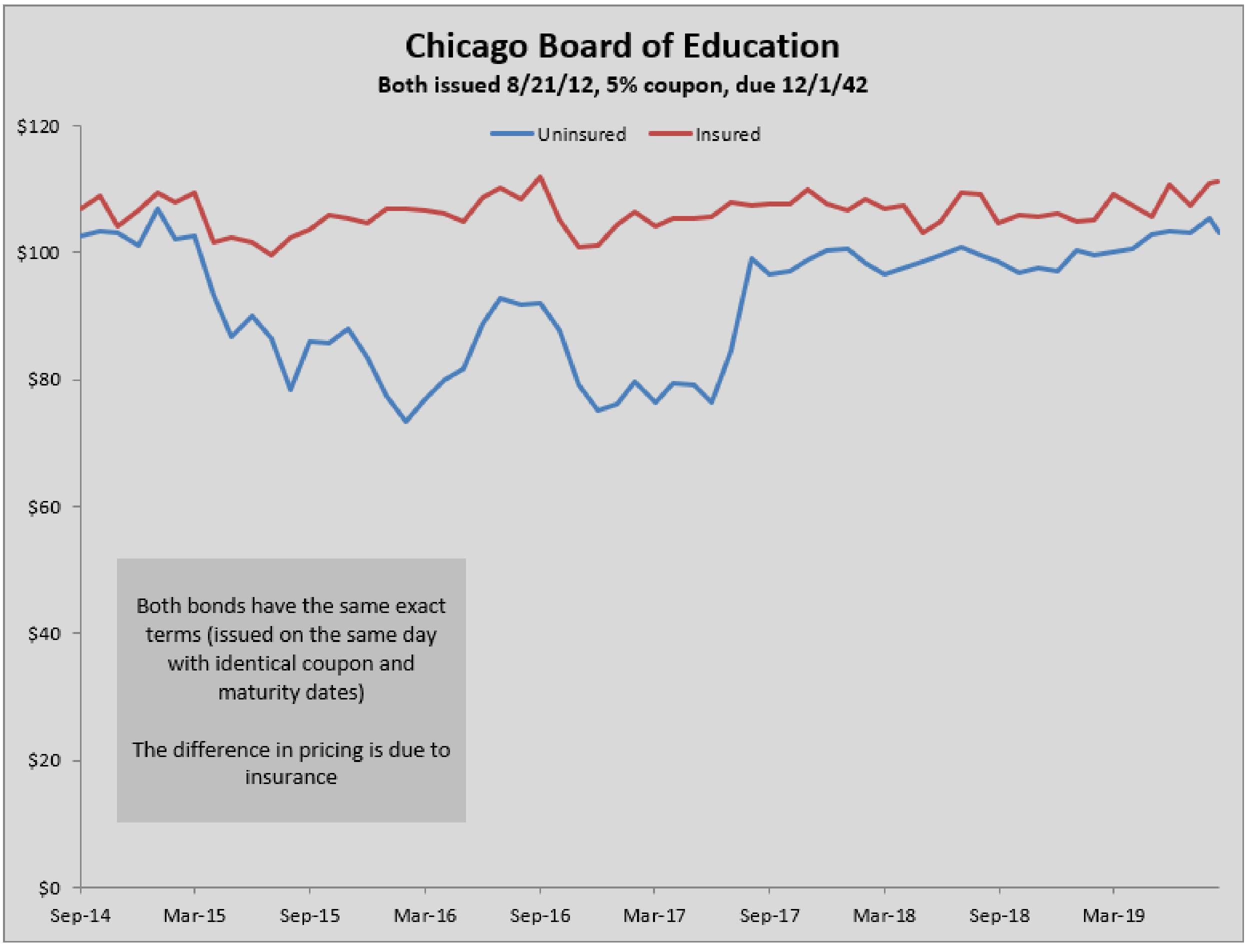
Benjamin Franklin famously declared: "In this world, nothing can be said to be certain, except death and taxes." For investors looking to lessen the impact of taxes, municipal bonds may be particularly attractive — their interest income is often exempt from federal taxes and may be exempt from state and local taxes as well. And for those who are looking for extra assurance regarding the certainty of their income, insured municipal bonds may provide a solution.

What are insured muni bonds?

Insured municipals are a niche market, accounting for 6% of all municipal issuance so far in 2019[1]. But, they provide assurance that a bond's interest and principal will be paid on time — even if the issuer defaults.

How does this work? Municipal bond insurance companies issue policies that guarantee that they will make timely interest and principal payments on those insured bonds in the event that the issuer defaults. The cost of the policy is reflected in the bonds' yields — an insured bond will typically have a somewhat lower yield than an identical uninsured bond. However, the true value of the policy can be seen if an issuer gets into financial trouble.

The chart below shows pricing for two Chicago Board of Education general obligation bonds. The bonds have identical terms, but one is uninsured and the other is insured by Assured Guaranty. Over the last five years, Chicago Board of Education has been downgraded multiple notches, causing investors to be concerned about future payments. During this time the insured bonds did not trade below $99.50, whereas the uninsured bonds traded as low as $73.50, highlighting the potential value of the insurance.



Source: Bloomberg, L.P. as of Sept. 16, 2019.

Who insures muni bonds?

A key concern for investors, of course, is that these insurance companies are financially stable. As the table below shows, even after the high-profile municipal defaults of Detroit and Puerto Rico general obligation bonds in 2013 and 2016, the credit ratings of three major municipal bond insurance companies indicate that they are stable.

Assured Guaranty (AA/stable) — a municipal bond insurer with exposure to Puerto Rico — had its ratings affirmed by Standard & Poor's (S&P) in June 2019. Build America Mutual (AA/stable), a municipal bond insurer with no exposure to Puerto Rico, also had its ratings affirmed by S&P in June 2019.

Insurer	**S&P Rating**	**Market Share**
Assured Guaranty	AA / Stable	52.4%
Build America Mutual	AA / Stable	44.4%
Municipal Assurance Corp. (subsidiary of Assured)	AA / Stable	3.2%

Sources: Ratings information from S&P, data from Thomson Reuters as of Aug. 31, 2019

How does the insurance process work?

Bonds can be insured at the time they are issued or afterward. At Invesco Unit Trusts, we carefully assess the fundamentals of bonds that are already insured. We also seek to leverage our strong relationships with broker-dealers and municipal bond insurance firms to create unique and attractive opportunities for muni bond investors. How do we achieve this?

- We work with broker-dealers to identify attractive, favorably priced bonds that are not insured.
- We identify insurance companies that are willing to insure that specific bond, and seek to negotiate the best price possible for the policy.
- We then purchase the "new" insured bond from the broker-dealer.

Talk to your advisor

Talk to your financial advisor and explore the Insured Municipals Income Trust, a diversified portfolio of insured muni bonds that provides investors with professional bond selection and ongoing active surveillance based on the underlying credit quality of each municipal issuer.

1 Source: Thomson Reuters, “The Municipal Market Monitor (TM3),” Aug. 31, 2019

Important Information

Blog header image: Etienne Boulanger/Unspash.com

A bond issuer may cease to be rated or its ratings may be downgraded. Such action may adversely affect the value of the bonds in the trust and the value of the units.

Municipal securities are subject to the risk that legislative or economic conditions could affect an issuer’s ability to make payments of principal and/or interest.

There is no assurance that a unit investment trust will achieve its investment objective. An investment in this unit trust is subject to market risk, which is the possibility that the market values of securities owned by the trust will decline and that the value of trust units may therefore be less than what you paid for them. This trust is unmanaged. Accordingly, you can lose money investing in this trust.

An investment in a trust should be made with an understanding of the risks associated therewith, such as the inability of the issuer or an insurer to pay the principal of or interest on a bond when due, volatile interest rates, early call provisions and changes to the tax status of the bonds.

The financial condition of an issuer may worsen or its credit ratings may drop, resulting in a reduction in the value of your Units. This may occur at any point in time, including during the primary offering period.

The value of the bonds will generally fall if interest rates, in general, rise. In a low interest rate environment risks associated with rising rates are heightened. The negative impact on fixed income securities from any interest rate increases could be swift and significant. No one can predict whether interest rates will rise or fall in the future.

The trust may realize gains when a municipal bond is sold, is called, or matures and unitholders may incur a tax liability from time to time.

The insurance provides coverage for the bonds held by the trust, not on units of the trust.

Invesco and its representatives do not provide tax advice. Individuals should consult their personal tax advisors before making any tax-related investment decisions.

Please see the Information Supplement for a discussion of situations in which the Trust may designate previously distributed interest income during the year as taxable net capital gain in order to satisfy certain of the annual distribution requirements for regulated investment companies.

A credit rating is an assessment provided by a nationally recognized statistical rating organization (NRSRO) of the creditworthiness of an issuer with respect to debt obligations, including specific securities, money market instruments or other debts. Ratings are measured on a scale that generally ranges from AAA/Aaa (highest) to D/C (lowest); ratings are subject to change without notice. For more information on Standard and Poor’s rating methodology, please visit www.standardandpoors.com and select “Understanding Ratings” under Rating Resources on the homepage or Moody’s at www.moodys.com and select “Rating Methodologies” under Research and Ratings on the homepage.

Gregory Rawls

Greg Rawls is an Investment Research Analyst on the Unit Trust Investment Research Team, responsible for investment recommendations, surveillance and research.
Mr. Rawls has over ten years of industry experience, including equity and debt research. He has a diverse knowledge base with experience in equity, private equity as well as municipal and corporate fixed income securities.
Mr. Rawls earned a BS degree in finance from Marquette University, where he was a member of the Applied Investment Management Program, and earned a MS degree in finance from the University of Notre Dame. He is a CFA charterholder and a CAIA charterholder.