Steve Hlavin On High-Yield Muni Strategies

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Stephen Hlavin, Managing Director and Portfolio Manager at Nuveen, sits down with Jane King to discuss high-yield municipal strategies, including the Nuveen Enhanced High Yield Municipal Bond Fund, an interval fund. The fund, which Hlavin manages, is a part of the $191 billion in high-yield municipal strategies that Nuveen manages, which also includes multiple closed-end funds (CEFs). Hlavin explains how interval funds and CEFs help investors access different areas of the municipal bond market to generate income. While that higher embedded yield comes with risk, the interval fund wrapper helps arbitrage that risk by "monetizing" it, Levin says. "We can get additional NAV or price return when credit spreads compress or active managers are contributing active credit selection to the portfolios," he added.

Hlavin also responded to discussions in Washington around eliminating the tax-exempt status of municipal bonds, calling the idea bad for the economy overall, with "possible negative impacts" on the higher education and healthcare sectors in particular. However, he noted the move could also generate positive impacts in energy and utilities, and potentially benefit the charter school movement.

Learn more about the Nuveen Enhanced High Yield Municipal Bond Fund and closed-end funds at Nuveen

JANE KING: Steve Hlavin is managing director and portfolio manager at Nuveen, as a member of the high-yield municipal portfolio management team, he's responsible for supporting all high-yield municipal strategies, and is specifically responsible for managing the Enhanced High Yield Municipal Bond Interval Fund, several high-yield municipal closed-end funds, along with Nuveen's flagship High Yield Municipal Bond strategy. You began your career with Nuveen in 2003.

STEVE HLAVIN: That's correct.

JANE KING: Yes, it's been a while. So Nuveen manages $191 billion in municipal strategies, there's 28 listed closed-end funds, high-yield municipal interval funds, talk about the difference between those and how you use those in portfolios.

STEVE HLAVIN: Yeah, investors use closed-end funds, and now a new iteration, the interval fund, to access different areas of the municipal bond market. The primary objective of all of these is income, and income can be magnified through the use of leverage, that's a common construct in either of these funds. When you create a portfolio that includes high-yield municipal bonds, then you are now able to not only produce more income inside the portfolio but have more credit spread to leverage in that type of wrapper.

JANE KING: And then these have received an annualized total return of 12%, so that's where the high yield comes in I guess, that's double the return of the S&P 500 municipal yield index. So how do you know? Because when I think high yield, I think higher risk, how do you know what's a good, prudent investment?

STEVE HLAVIN: Yeah, the 12+% total return is capable in something like a high-yield municipal interval fund, where we're getting that higher embedded yield and we're able to leverage that with that product wrapper. The interval fund also does something about arbitraging the growing liquidity risk in our market, so there is a liquidity risk component that we are also monetizing. And what's driving that total return, the majority of that is income, is the embedded yield, and that yield anchors such returns. We can get additional NAV or price return when credit spreads compress or active managers are contributing active credit selection to the portfolios.

JANE KING: Okay. What's your outlook for municipal bonds, high-yield bonds, for 2025?

STEVE HLAVIN: Well, after an unprecedented amount of outflows in 2022 and '23, and the subsequent credit spread widening, we're finally starting to see flows come back in.

Confidence is being restored, we are seeing good fund flows, consistent fund flows as reported by Lipper, but the flows that we've seen so far are still a fraction of the amounts that we saw come out of the market. So our outlook is for continued flows into municipal mutual funds and other products, and so as long as that continues, we are on a positive and upward trend in terms of not just high-yield returns but also those NAV and price returns on top of that.

JANE KING: Some of them are tax-favorable as well, so you're getting a lot of benefits there.

STEVE HLAVIN: When you look at the taxable equivalent yields on some of these products, particularly our high-yield municipal bond interval fund, that's what I think is driving a lot of the attraction. Because when you're looking at a dividend yield of roughly 5.75%, the taxable equivalent is pushing 10%. So where can you find 10% taxable yield with the type of default risk and credit risk that's managed through a municipal bond portfolio?

JANE KING: Interesting. Now we've got a new administration in Washington, that's federal, but do you anticipate that having any impact on the municipal bond market?

STEVE HLAVIN: We think that the impacts are going to be sector specific. The idea of eliminating the tax exemption is a very difficult thing I think to push through because of the cost and the burden that it passes on. When you get down to the detail and allow an intelligent conversation to happen, it's very clear that this is a massive and punitive tax on state and local governments, and would be a negative impact on the economy. Where we think that the impacts are going to be are possibly in sectors like health care or higher education would have some possible negative impacts, but we could also see positive impacts too. That's the other thing, is that policies could have positive impacts in sectors that would be utilities and energy, but also charter schools might actually see greater enrollment as more states and more communities adopt free choice.

JANE KING: Yes, and the vouchers, I know that that's been proposed in a lot of different legislatures for that.

STEVE HLAVIN: Yes, exactly.

JANE KING: Okay, so anything else on your radar screen for 2025?

STEVE HLAVIN: We look again for that continued flow into the market, and that's going to put downward pressure on credit spreads. And there's a lot of room still to go, we have not even come close as a market to getting back to where credit spreads and relative valuations were at the end of 2021, before all of the outflows started. We just have to remind ourselves just how unprecedented those outflows were in 2022.

JANE KING: Is that Covid related?

STEVE HLAVIN: No, this was post-Covid. This was just a violent reaction to interest rate volatility that folks have not seen in decades.

JANE KING: I see, Starting at the beginning of the Fed raising rates?

STEVE HLAVIN: Yes.

JANE KING: Okay.

STEVE HLAVIN: And so now that we are in a more stable rate environment that's offering higher yields, we are now starting to see those flows come back into the market.

JANE KING: Okay. Steve, thank you so much for sharing your knowledge with us.

STEVE HLAVIN: Thank you very much.

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