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Wall Street Job Boom Fades as Puerto Rico Convulses: Muni Credit.

Money managers in the municipal market are adding analysts at the slowest pace since before the financial crisis, a sign research staffs are able to manage the volatility stemming from beleaguered Puerto Rico.

AllianceBernstein Holding LP, Nuveen Asset Management, T. Rowe Price Group Inc. and Vanguard Group Inc. — which combined have 59 researchers and oversee about \$270 billion in munis — haven't added analysts in the past year-and-a-half. Neither have banks such as Barclays Plc. (BARC) Morningstar Inc. in Chicago stopped providing muni research as of June 30.

The hiring freeze coincides with a slowdown in issuance that's leaving the \$3.7 trillion market poised to contract for an unprecedented fourth straight year. The scarcity is driving a rally in 2014, led by riskier credits. That shows investors have the analytical power to separate financial woes in Puerto Rico and Detroit from other localities.

"The boom time for analyst employment has come to at least a temporary end," said Matt Fabian, managing director at Concord, Massachusetts-based research firm Municipal Market Advisors. "You have to be more careful about how you allocate resources."

Research Reluctance

Membership in the National Federation of Municipal Analysts has risen 2 percent in the past 18 months to 1,348, said Lisa Good, the group's executive director. That compares with an average 5.3 percent annual increase in the five years after 2008, which was the fastest growth since at least 1990.

The trend reflects a pattern across Wall Street where companies are evaluating staffing costs since the financial crisis, said Jeanne Branthover, managing partner in New York at Boyden Global Executive Search. While investors always need research, it's a segment that doesn't generate revenue and is vulnerable during slowdowns, she said.

"When a business stands still or a market shrinks, we've seen companies really pay attention to not continuing to hire," Branthover said. "Research analysts are very much the backbone and support, but they don't need more of them than the money the group is generating."

Even in equities, where hiring has picked up as the Standard & Poor's 500 Index (SPX) sets record highs, new research jobs are minimal, she said.

Finance Oasis

The years after 2008 proved a boom time for muni employment even as other parts of the financial markets faced firings. Subprime-mortgage-backed debt guarantees pummeled bond insurers' top grades, removing a swath of munis from the AAA universe and prompting a hiring spree for credit

research.

The collapse of bond insurance created “the full employment act for analysts,” said Bill Delahunty, head of muni research in Boston at Eaton Vance Management.

The market was also growing at the time. The federal Build America Bonds program pushed local-debt sales to a record \$408 billion in 2010. In December that year, banking analyst Meredith Whitney incorrectly predicted “hundreds of billions of dollars” of municipal defaults in the following 12 months, prompting questions about credit quality and spurring an exodus from mutual funds.

This year, supply is 27 percent below 2010, pushing yields to generational lows, and Janney Montgomery Scott forecasts declining issuance through 2017. Credit quality is also improving with the economy. The number of new issuers defaulting is set to be the lowest since at least 2009, according to MMA.

‘Plain Vanilla’

“Much of the market is fairly plain vanilla and stable types of credits,” said Joe Rosenblum, director of muni credit research at New York-based AllianceBernstein, which manages \$30 billion of local debt and has eight muni analysts.

“We don’t think you need to pay a lot of attention to those,” he said. “It’s the ones that have potential problems or opportunities that are more complicated, and that’s where we want to focus our analytical time.”

High-yield bonds have gained about 9 percent this year, the best start since 2012 and better than the broad market’s 6.4 percent return, according to S&P Dow Jones Indices. Unrated deals this year include senior communities in Florida and Oregon and a facility that converts biosolids into fertilizer outside Orlando.

Yet over the past year, investors and analysts have been most transfixed by developments in Puerto Rico, which has \$73 billion in debt when including its agencies.

Distress Push

Rating companies cut the island to junk in February and lowered it again this month after lawmakers passed a bill allowing some public corporations to restructure their debt. Commonwealth debt plunged 6.4 percent in the week through July 4, the largest drop since at least 1999, S&P Dow Jones Indices data show.

Demand for Puerto Rico bonds has shifted from traditional muni funds to hedge funds, potentially quelling the need for extra analysts.

Default is already a reality for holders of Detroit debt. The Motor City filed a record bankruptcy a year ago and plans to repay some bondholders as little as 11 cents on the dollar.

“There was definitely a scramble to get some analysts in place over the past couple of years — it was the downgrade of the bond insurers and credit stories in Puerto Rico, Detroit,” said Delahunty at Eaton Vance. “Now it can really be firm by firm.”

The company, which oversees \$26 billion in local debt, added one muni analyst in the past year, for a total of 15.

Hiring Breakdown

Vanguard, based in Valley Forge, Pennsylvania, has 20 muni credit researchers, unchanged from the start of 2013. Chicago-based Nuveen has 23, with no additions since 2012. Baltimore-based T. Rowe has had eight muni analysts since 2008.

At Morningstar, Jeff Westergaard remained head of fixed-income data and analytics after the company discontinued muni research because of insufficient demand, said Nadine Youssef, a spokeswoman. Of the others working on the research service, one took on a new role and the other left, she said.

Barclays in January 2012 hired Tom Weyl from Eaton Vance as its head of muni research and hasn't added muni researchers since 2013.

The NFMA says it consists primarily of research analysts from mutual funds, insurance companies, broker dealers, bond insurers, ratings companies and advisory firms.

Regional groups associated with the NFMA include the Municipal Analysts Group of New York, or Magny, which was founded in 1949. Job postings on Magny's website include positions at Moody's Corp. (MCO:US), MetLife Inc. and Deutsche Bank AG. (DBK)

Positions on NFMA's website are down from two or three years ago, Delahunty said.

It's a sign a shift may be ahead in the industry because of falling underwriter fees and subdued supply, said Fabian, who led Magny from 2010 to 2011.

In contrast with the buildup after the financial crisis, "we might even see a reverse because analysts are expensive," he said.

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July 28, 2014

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