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Big Illinois Bondholders Unlikely to Sell if Rating Cut to Junk.

(Bloomberg) — If Illinois' debt gets downgraded to junk status next month, it's unlikely there will be a stampede to the exits by the largest bondholders.

The seven largest holders of the debt, who collectively hold about $5.9 billion of the $23 billion in outstanding state general-obligation bonds, according to data compiled by Bloomberg, all said they will not be forced to sell should the bonds fall below investment grade.

The firms, each of which run mutual funds, said they can own varying amounts of junk-rated debt and can exercise their discretion to avoid unloading bonds under fire-sale conditions.

Illinois' debt was cut to one step above junk by Moody's Investors Service and S&P Global Ratings on June 1, giving it the lowest ranking on record for a U.S. state, because of a clash between the Democrat-controlled legislature and Republican Gov. Bruce Rauner that has left the government without a full-year budget for nearly two years.

If the state doesn't enact a plan that reins in its chronic deficit, S&P warned, Illinois will likely lose its investment-grade status around July 1.

Here are the seven largest holders of Illinois state debt, from largest to smallest. All derivatives, fully refunded and insured bonds are excluded from these calculations. Any zero coupon bonds are shown at accreted value.

Fidelity Investments: $1.77 billion

Fidelity, without addressing Illinois specifically, said in an email from spokeswoman Sophie Launay that its taxable and tax-exempt bond funds may invest in securities of less than investment-grade quality.

Vanguard Group: $1.44 billion

Vanguard spokesman Freddy Martino said in an email that the firm's actively managed investment grade national municipal bond funds are allowed to have as much as 5 percent of assets invested in junk-rated securities and that currently the funds were not close to that threshold.

Nuveen Investments: $854 million

John Miller, co-head of fixed-income at Nuveen, said the company's Illinois debt is held in funds that can own debt rated below investment grade. Some of the funds can have as much as 50 percent of their money in that category, he added.

Dodge & Cox: $561 million

The $50 billion Dodge & Cox Income Fund can own up to 20 percent in non-investment grade debt, spokesman Steven Gorski wrote in an email.

AllianceBernstein: $545 million

Guy Davidson, director of municipal bonds at AllianceBernstein, said in an email his firm could continue to hold its Illinois bonds if they were cut to junk.

Wells Fargo Asset Management: $441 million

"Our fund prospectuses allow for flexibility to retain securities that fall below investment grade, specifically to reduce the need to pressure sales following a downgrade," Lyle Fitterer, head of tax-exempt fixed income at Wells Fargo Asset Management, wrote in an email.

BlackRock: $334 million

Peter Hayes, head of municipal bonds at BlackRock, said his company could continue to hold its Illinois bonds if they were cut to junk.

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