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Municipal Finance Law Since 1971

Why Regional Economics Matter For Municipal Bonds.

Summary

- At the most basic level, the credit quality of a municipal bond issuer is largely influenced by the economics of the region in which it's located.
- Knowing which areas are prospering and expanding today, and what to watch for in the future, can help muni bond investors avoid potential credit problems down the road.
- Be cautious of areas that are growing too fast and causing financial strain for the municipality.

When you buy a municipal bond, you're making a loan to a state or local government, for which it promises to pay you back an amount at some date in the future - potentially as long as 30 years in the future. How do you know if the municipality will be able to make good on its promise by then?

At the most basic level, the credit quality of a municipal bond issuer is largely influenced by the economics of the region in which it's located. Issuers in thriving economic regions with stable or growing populations generally have greater financial flexibility and can meet their debt payments more easily. Knowing which areas are prospering and expanding today, and what to watch for in the future, can help muni bond investors avoid potential credit problems down the road.

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Seeking Alpha

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