
Winds Driving Muni-Bond Rally Are Blowing Hardest in Illinois.

- **No state but Texas faces as big a supply gap over next month**
- **With bonds near junk, Illinois also gains from hunt for yield**

The forces that are driving the municipal-bond market rally are especially strong in Illinois.

Over the next 30 days, agencies in the state will pay off about $1.3 billion of debt, more than eight times as much as is currently scheduled to be sold, according to data compiled by Bloomberg. While that gap may narrow as more bond offerings are announced, nowhere except Texas currently faces as large a mismatch between supply and demand. That's a positive sign for Illinois debt, which this year has already outperformed every other U.S. state tracked by Bloomberg as rock-bottom interest rates cause investors to snap up higher-yielding bonds.

The wide gulf between the cash sloshing around — from debt payments, new investments into mutual funds, and those seeking havens from stock market volatility — pushed the municipal-securities market in January to the biggest one-month gain in six years. Those same dynamics appear poised to continue in February, when bondholders will receive even more in principal and interest payments than they did last month.

"The technicals are way, way overwhelming," said George Huang, an analyst who follows state and local government debt for Wells Fargo & Co. That "would point to further tightening of spreads and yields across all munis and also for comparatively yieldier Illinois bonds."

The broader rally has cut municipal-debt yields to the lowest in more than six decades, fueling interest in bonds with higher payouts. That has helped fuel the outperformance for Illinois, whose rating three years ago was at risk of being cut to junk because of the government's large debt to employee pension funds and the gridlock the former Republican governor encountered in the Democrat-controlled legislature.

The end to the political divide since Democratic Governor J.B. Pritzker took office last year has also contributed to the state's outsize gains. The difference between the yields on Illinois's 10-year bonds and those with the highest credit ratings — a key measure of the perceived risk — has narrowed to a little over one percentage point, the smallest since at least 2013 and down from more than three percentage points in 2017 at the height of a long-running impasse over the budget, according to data compiled by Bloomberg. The yield-penalty on Illinois bonds is still the highest of the 20 states tracked by Bloomberg.

Even so, Illinois's returns have been driven more by the broader dearth of new bonds than by the government's fiscal health, said Dan Solender, head of municipal securities investments at Lord Abbett & Co.

"There is very limited supply," Solender said.

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