# Bond Case Briefs

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## Sleepy Municipal-Bond Market Goes 'Dystopian.'

With Barclays Center gone dark, about the only action left involving the arena can be found in, of all places, the bond market. Because it could be a long while before there's another Nets game or concert, bonds backed by luxury-suite sales, sponsorships, concessions and other income streams at Barclays have slumped by 6%—a startling move in the normally somnambulant world of municipal bonds.

In fact, New York municipal bonds of all stripes are getting thumped as investors brace for the full economic impact of Covid-19.

"The word I use is dystopian," said Matt Fabian, a partner at Municipal Market Analytics, an independent research firm.

Muni bonds are ordinarily among the market's safest investments, with a default rate of 0.18%, and New York's bonds are considered best-in-class. The credit ratings for New York City and the state are both one notch below AAA, according to Moody's, which on Feb. 20 praised the state for taking "proposed strong measures to correct its unfavorable spending trend."

That was before the coronavirus struck, though. Gov. Andrew Cuomo last week described the economic cost of the outbreak as "incalculable." Mutual funds such as the Pimco New York Municipal Income Fund II have fallen below their net asset value—a sign investors fear a surge in defaults in a market used to pay for schools and fire and police departments.

"Look around the municipal bond market and you'll see issuers with high expenses, budget issues and big pension obligations," said Ed Grebeck, CEO of debt-strategy firm Tempus Advisors. "I think the market is due for a reckoning."

Plenty of people have incorrectly forecast doom before, but it's also true that during the past several years the $3.8 trillion muni bond market has gone to help pay for more speculative developments such as ballparks, nursing homes and convention centers. The bonds are regularly used to pay for college dormitories, and now that universities have sent students home, those bonds look riskier.

That said, defaults are highly unlikely among big New York muni-bond issuers, such as the Metropolitan Transportation Authority or the Port Authority. Fares or tolls could be raised, and the government surely would step in to provide financial support if necessary. In the case of the Barclays Center, Moody's says it has strong reserves and long-term contracted revenue, so it can pay bondholders even if the arena remains dark for a while.

But some of the new generation of muni-bond borrowers might have no choice but to default.

For instance, American Dream, the big new mall in East Rutherford, N.J., was paid for in part with $1.1 billion in municipal bonds. The mall, which had not fully opened yet, shut its doors Monday to help slow the spread of Covid-19. Fabian predicted the mall's owners soon will be negotiating to restructure bond payments. He reckons owners of other struggling muni bond–backed enterprises will follow.

“You’ll probably see businesses blaming things on the virus that aren’t the virus’s fault,” Fabian said.

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by Aaron Elstein

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