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Muni-Bond Buyers Shrug Off California Governor's Recall Peril.

- Newsom faces gubernatorial recall, state's second, on Sept. 14
- Bond sale set same day underscores lack of investor concern

Municipal-bond investors are seemingly unfazed by the prospect that voters this month may toss out the governor of California, the most prolific issuer of such debt, and replace him with a popular conservative talk-radio host.

In fact, California's 10-year general-obligation bonds are yielding about 0.06 percentage point over benchmark munis, a smaller premium than the 0.11 percentage point seen at the beginning of the year. California's credit ratings are at the highest in about 20 years and demand for munis is soaring, especially for the state's debt as wealthy residents seek tax-exempt bonds.

Gavin Newsom, a first-term Democrat, is facing a rare recall election Sept. 14. While polls shows he's got a good chance of keeping his seat, Democrats worry that he could lose and a political neophyte like Larry Elder, a Republican who's opposed to mask and vaccine mandates, could end up in the governor's office.

Though Elder or any of the other 45 candidates on the ballot could upend state policies through executive orders and political appointments, Democrats would still control both chambers of the legislature. And Newsom's replacement would be up for election next year in a state where Democrats outnumber Republicans nearly two to one.

"We just don't think it's going to be a large impact on credit, even if the recall is successful," said Jennifer Johnston, director of research for Franklin Templeton Fixed Income's municipal bond team. "I don't think there's much damage, so to speak, that a new governor could do in this time frame."

Propping up Wall Street's confidence in the world's fifth-largest economy are California's booming technology industry and other lucrative sectors and its progressive tax system that have led it to notch a record \$75.7 billion surplus. Revenue collections are again running ahead of projections this fiscal year. Not only has California weathered a gubernatorial recall election before, but its finances are even better than in 2003, when voters expelled Democrat Gray Davis and tapped Republican Arnold Schwarzenegger as his successor.

"The state's credit is very strong. Revenue receipts this summer have exceeded expectations," said Parker Colvin, a managing director at underwriter Raymond James. "The market is in need of large, liquid, benchmark transactions."

In a testament to how little the political furor has impacted bonds, the California treasurer's office has scheduled a sale of \$2.1 billion of tax-exempt general-obligation bonds the day of the recall election.

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