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What the U.S. Credit Rating Moves Mean for Muni Bonds.

After Fitch Ratings put the U.S. government's debt on watch for a negative downgrade Wednesday, Fitch analysts have been busy working out the implications for the $4 trillion muni bond market.

While the credit-rating firm believes Republicans and Democrats will reach a federal spending compromise before any Treasury bills default, Fitch analysts are wary of how a spending deal could hit the revenues of state and local governments.

"We're certainly watching very closely," said Doug Offerman, a senior director at the firm's public finance states group. Local governments rely directly on federal funding for healthcare, education and transportation. With federal spending amounting to a third of gross national product, any big change will affect local economies. "It's a big footprint," Offerman said.

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Barron's

By Bill Alpert

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