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## Riskiest Tobacco Bonds Slide as a Drop in Smoking Hits Payments.

- **Annual payments from tobacco firms drops to a record low**
- **High-yield debt backed by legal settlement boomed in 2023**

Tobacco bonds faltered to become the worst performers in high-yield municipal debt as a decline in smoking drove the payments that back the securities to a record low.

The debt dropped 0.4% in the year to May 7 compared to a 2.3% gain for the high-yield tax-exempt market, according to data compiled by Bloomberg. US states are receiving a combined $5.8 billion from tobacco companies this year, the smallest amount since payments from their legal settlement, which are linked to cigarette shipments, started in 1999.

Though shipments have fallen as the share of Americans who smoke has dropped — government data show almost 12% of US adults are smokers, down from 21% in 2005 — the April announcement on the size of this year's settlement payments nevertheless took investors by surprise. A shrinking supply of the securities and investors' search for yield may yet help the bonds recover.

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**Bloomberg Markets**

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