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New York's \$34 Billion Budget Crisis and Its Implications for Municipal Bond Markets.

Takeaways

- New York's \$34B budget deficit raises concerns over state-backed debt risks despite AA credit ratings.
- The 2025-26 budget allocates \$254B, with 60% for Medicaid/education, while federal funding cuts threaten \$10.1B in support.
- Municipal bond markets underprice structural risks, with narrow yield spreads and uncertain tax policy expiration by 2027.
- Resilient sectors like healthcare, education, and climate projects offer undervalued opportunities amid fiscal uncertainty.
- Investors should prioritize short-duration bonds, sector diversification, and credit derivatives to hedge against potential downgrades.

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