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Illinois, New Jersey Among Most Vulnerable in S&P Stress Test.

Municipal-bond investors in Illinois, Pennsylvania, New Jersey, and Connecticut have good reason to be worried.

The states are among those that S&P Global Ratings has deemed to have "only a limited capacity" to withstand the effect of a moderate recession, according to a report published by the credit-ratings company.

The report, titled "Fiscal Resilience Among U.S. States Varies As Economic Expansion Surpasses Seven-Year Mark," found that a majority of the 10 states with the most tax-supported debt outstanding have a limited ability to handle the effects of an economic downturn, judging by stress tests S&P conducted on their 2016-2017 budgets. States are better off by leveraging periods of economic growth to build reserves, S&P concluded.

"The results of our scenario analysis underscore that fiscal health across the U.S. state sector is subject to the powerful countervailing effects of pro-cyclical revenue trends and countercyclical expenditure pressures," said credit analyst Gabriel Petek.

Of the 10, S&P found that Illinois, Pennsylvania, New Jersey, and Connecticut are the most vulnerable to significant fiscal stress. Washington, Florida and New York are best-positioned should the economy turn south, the report said. California, Massachusetts, and Wisconsin rounded out the list of those states evaluated.

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