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Muni Pros Expect Rates to Drive 2017 Volume, See Green Bonds As a Ploy.

Los Angeles – Municipal bond pros at the 26th annual Bond Buyer California Public Finance Conference expect interest rates to have the biggest impact on issuance next year.

In a live market survey Wednesday 50% of the audience said rates will have the biggest effect on the market, 25.8% picked new money, and 22% chose refunding activity.

A panel of municipal bond market influencers at the conference in Los Angeles, which attracted a record number of attendees, commented on results as the audience responses were tabulated. Led by moderator Jessica Matsumori, analytical leader, education team for S&P Global Ratings, the panel was comprised of Bill Lockyer, counsel for Brown Rudncik LLP and former Treasurer of the State of California, Andy Nakahata, managing director and head of new business development for the western region at National Public Finance Guarantee and Rep. Loretta Sanchez, D-Calif., a candidate for the U.S. Senate.

"It's such a great way to get the pulse of the market," Matsumori said.

The audience was nearly split about whether it matters if the Federal Reserve raises interest rates by less than 100 points, as 56.9% said yes and the remaining 43.1% said no. This question was especially timely, as it was announced Wednesday that the Fed will hold rates where they are now.

"Even if they did something in December, it would be a small move up. I think the question is, is the government going to step and build more infrastructure? These are issues that are hard to grapple with in Congress," Sanchez said.

Defaults have been a hot topic, so it was surprising to see that 60.5% of the audience said that muni defaults have not affected the market.

"On an absolute rate level that is correct," Nakahata said. "Credit spreads are so thin — but on the other hand, it has affected how certain people look at certain types of credits."

Pensions are another popular topic and one that won't be going anyway anytime soon. When asked what will happen if investment assumptions prove to be too optimistic for CalPERS pension returns, 43.5% said that employer/employee contributions will be increased, 20.1% said benefits will be cut for future employees, 1.3% said benefits will be cut for current employees and 35.1% said all of the above.

"Given the magnitude of the issue, it would be great to come up with a solution that is all of the above, where everyone would share a little bit of the pain, but I don't see a clear path to achieve a solution like that," Nakahata said.

Green bonds were also a topic of conversation, in the midst of a record year for their issuance. A whopping 50.9% of the audience said that green bonds are purely a marketing ploy and part of a fad that won’t last. Still, 31.3% said that the designation makes some difference to investors, 13.5% said they have the potential to drive serious environmental change and 4.3% said greenness is “The wave of the future – will soon be a requirement for most bonds.”

“It is going to take some time and I do think we have to wait and see what happens, but part of that will be if there is a greater definition of what exactly truly is a green bond. In order for it to be meaningful, there has to be a common [definition] which everyone subscribes to or … my cup of coffee could be a green bond,” Nakahata said.

The Bond Buyer

By Aaron Weitzman

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