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Fitch: U.S. Munis & Transportation Solid Under New U.S. Interest Rate Outlook.

Fitch Ratings-New York-04 May 2017: Higher interest rates in the coming years should not exert much downward pressure for U.S. public finance and transportation infrastructure, according to Fitch Ratings in a new report.

Fitch's Economics team expects interest rates to move higher over the next three to four years by approximately 150-300 basis points. This new scenario also calls for real potential U.S. GDP growth and inflation to remain at roughly 2% per year. The U.S. economy's expected resilience to withstand higher rates represents a significant buffer against negative credit implications. According to Senior Director James Batterman, this outlook should by and large extend into public finance and transportation.

"A growing economy with stable employment implies that retail sales volumes as well as taxes on earned income should not be adversely affected," said Batterman. "The same growth assumption implies that property values and property tax revenues also may not be greatly impacted."

The same limited ripple effect should hold true for infrastructure. "Revenues and volumes for airports, seaports and toll roads tend to be a function of the general level of economic activity as well as factors specific to the issuer," said Batterman.

Higher interest rates do increase the hurdle rate for new investments and the cost of financing. As such, Fitch sees this as more of an analytical consideration for issuers carrying higher leverage that need to take on new debt. Nevertheless, most issuers would likely be able to absorb any extra costs stemming from higher interest rates. Further, higher rates imply greater investment returns on cash holdings.

Downside risk is not out of the realm, however. The most likely culprit would be any increase in interest rates that is too rapid to be absorbed by the market, which would stall the housing market and have much broader implications generally.

Fitch's 'Higher U.S. Interest Rate Scenario' for municipalities and transportation infrastructure is available at 'www.fitchratings.com'.