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Illinois Bonds Rally on End of Impasse That Triggered Downgrades.

- **Gap between yields on Illinois debt and benchmark narrows**
- **Despite action, Moody's warns that cut to junk still possible**

Illinois bonds climbed after the state enacted its first full budget in two years and raised taxes to reduce its chronic deficits, ending a long-running impasse that triggered multiple downgrades and pushed the state's rating to the precipice of junk.

The securities were the most actively traded municipal bonds Friday, a day after the legislature overrode Governor Bruce Rauner's vetoes to enact the spending plan. Without that step, Illinois was at imminent risk of another downgrade, which could have scared off individual investors who dominate the market and left some mutual funds unable to buy its debt. That's remains a possibility, with Moody's Investors Service saying this week that it has placed the state on watch for a potential downgrade.

"Investors are breathing a sigh of relief," said Vikram Rai, a municipal-bond analyst with Citigroup Inc. "If it weren't for the overhang of the Moody's downgrade after the recent statement, the bonds would have rallied more."

Over $21 million of Illinois general-obligation bonds due in 2023 traded Friday morning, according to data compiled by Bloomberg, and the average price rose of 101.4 cents on the dollar from 98 cents on Thursday. That pushed the yield to 2.3 percentage points more than benchmark securities, down from 2.9 percentage points.

The push for lawmakers came largely from major rating companies, which threatened to pull Illinois's investment-grade rank if the government did not produce a budget for the year that began on July 1. Though that deadline was missed, lawmakers worked through the weekend and and on the July 4 holiday to avoid the cut, which would have reduced Illinois's rating to an unprecedented low for a U.S. state.

Bloomberg Markets

By Kristy Westgard

July 7, 2017, 9:29 AM PDT