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Harvey's Havoc May Bypass the Muni Market.

Investors weren't too worried Monday about the hurricane's impact on the broader muni market, or even Houston's munis.

Devastating flooding in Houston, the country's fourth largest city, is bound to have an impact on the municipal bond market, but it hasn't shown up yet.

Munis traded flat Monday with the iShares National Muni Bond ETF (MUB) up 1 cent in late afternoon trading to \$111.32. Surprisingly, a newly issued block of Houston school bonds traded well, says Peter Block, credit strategist with Ramirez & Co. He says investors are well aware that federal and state funds will stabilize the economy.

"Investors also know that Houston is such an important economic hub," he adds. "Given that, rebuilding efforts should occur in a (relatively) timely and adequate fashion. Therefore, I think the market would only react if recovery is slower or worse than expected in the coming weeks, months, years."

If there is a short-term selloff, it would likely be a buying opportunity, believes Matt Fabian of Municipal MarketAnalytics. He writes Monday:

The effects of Hurricane/Tropical Storm Harvey are unlikely to: 1) interrupt national municipal market outperformance; or 2) create a material break in strong southeastern Texas growth trends and/or related issuer credit quality improvements. To the extent local bonds cheapen by more than a few points, they will reasonably present value to both income and performance-oriented investors (meaning that, in this market, any depressed prices probably won't last long).

Nonetheless, he isn't so sure munis will experience the usual medium-term tax revenue and credit improvements that regions often see following natural disasters. He writes:

Traditional municipal strategy expectations for major storms producing medium-term credit and tax revenue improvements (as insurance policy proceeds are spent on rebuilding) come with somewhat less confidence here, noting the extreme size and duration of the ongoing disaster. Houston public infrastructure may take a decade or longer to fully repair. Because this is the third major flooding event in Houston in as many years, immediate private sector rebuilding efforts may not seek to recapture 100% of the property being lost today, even in the downtown area. That a great deal of Houston's recent private construction occurred within or nearby 100 year flood plains (as reported by ProPublica) amplifies this point.

One possible impact to municipal bond market could come if insurance companies sell munis held in

reserve to fund claims. Current estimates are that Harvey could cause \$40 billion in damage.

Barron's

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Aug. 28, 2017 3:47 p.m. ET

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