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## **Muni Prices Stable Amid Texas Floods, but Investors Watch for Risks.**

Longtime municipal finance maven Marilyn Cohen unloaded several million dollars worth of Houston-area utility bonds on Tuesday even though she did not see a high risk to the debt – because a few of her clients were getting nervous.

The concerns were “not what you want to hear in muni-land,” said Cohen, president of Envision Capital Management in California, who like other investors has been reviewing the storm’s potential impact on payments from securities meant to be safe and boring.

The sales were, however, just a small piece of her total Houston holdings, and so far prices in the space have not changed dramatically. “It’s an orderly market,” she said.

Her views are common as municipal bond investors and analysts try to assess the overall damage to Houston, the fourth-largest city in the United States.

Television news has shown nonstop footage of flooded freeways, submerged homes and dramatic boat rescues.

However, data from the Municipal Securities Rulemaking Board shows that large debt issues in the area have not traded heavily, reflecting expectations that insurers and government agencies will make sure critical infrastructure, schools and hospitals can continue to operate.

Texas’ credit spreads are unchanged this week, versus prior to the storm, with the credit quality of the state’s taxpayer-backed debt remaining around 11 basis points over top-rated 10-year U.S. municipal debt.

Major credit rating agencies said it is too soon to know whether they will downgrade issuers as a result of the storm.

Historically, the market impact of major natural disasters has varied widely depending on the government’s response, said Daniel Berger, a senior market strategist with Thomson Reuters Municipal Market Data.

In the three months after Hurricane Katrina, the spread of Louisiana’s general obligation bond widened by 14 basis points, signaling a sharp spike in risk and uncertainty, according to Berger’s research. Texas, which was also struck by the 2005 storm, saw a widening of only one basis point by the end of those three months.

Craig Brandon, co-director for municipal investments at Eaton Vance Corp in Boston, said investors expect little long-term disruption. “You don’t see a lot of bonds out there at a discounted price,” he said.

Nor are there signs of property insurers looking to sell munis to pay their own claims, he said, a step

that could signal market stresses ahead.

The biggest risk for credit investors could be faced by high-yield projects like nursing homes, charter schools or jails that may not be able to replace their patients, students or inmates once repairs are completed, according to an investor note by researcher Municipal Market Analytics.

“Larger credits like the city, county, school districts, will have lots to deal with, but it is still a safe assumption they will continue to make debt service payments when due. Other smaller credits like municipal utility district bonds may be more impacted,” John Bonnell, vice president of fixed income investments at USAA in San Antonio, said via email.

Jim Schwartz, head of municipal credit research at BlackRock Inc’s Global Fixed Income group, said he was reviewing the asset manager’s \$1.8 billion worth of municipal bondholdings from the city of Houston, Harris County and other areas, but that “it’s a little too early” to make buy or sell decisions.

By REUTERS

AUG. 31, 2017, 9:42 A.M. E.D.T.

(Reporting by Ross Kerber in Boston and Laila Kearney in New York. Additional reporting by Hilary Russ; Editing by Steve Orlofsky)

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