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## [Municipal Bonds Are in Firing Line When Economic Growth Run Ends.](#)

- JPMorgan Asset Management sees U.S. recession as soon as 2019
- 'You'll start seeing warts show up,' portfolio manager says

States and municipalities are basking in accelerating tax revenue as the U.S. economy extends its second-longest expansion on record. But muni bonds from the weakest links look vulnerable when the cycle turns, according to David Sivinski, executive director and portfolio manager at JPMorgan Asset Management Inc.

Sivinski expects a U.S. recession as soon as next year, dragging the muni bond market into turmoil shortly after. When that happens, states already under fiscal pressure — such as New Jersey, Illinois, and Connecticut — may be in trouble, said Sivinski.

“Right now you’re in sort of a sweet spot where taxes are coming in, and most municipalities are not having too much of a financial problem,” Sivinski, who manages \$1.2 billion in municipal bonds, said in a telephone interview on July 10.

“It’ll only be once that downturn hits, six to nine months later you’ll start seeing some of the warts show up as some may say,” added Sivinski, whose firm had \$1.68 trillion of assets under management at the end of the first quarter.

The Bloomberg Barclays Municipal Bond Index has returned 0.03 percent year to date. Since the start of the Great Recession, it’s climbed about 55 percent.

“When [the recession] hits, what ends up happening is revenues start to come down,” said Sivinski. “If some states or localities have financial problems that’s when they start cropping up.”

Every state would be hit hard by a recession, but some could fare better than others, Sivinski said.

“You obviously have states like New Jersey, Illinois, and Connecticut that are having issues now. This would not help them,” said Sivinski. “There are some states that are AAA rated that will probably be able to withstand it better, and you’re talking about the Virginias and the North Carolinas and those kinds of states. But they’re still going to feel the pinch.”

Sivinski also expects bonds with longer maturities to potentially benefit from recession because of the possibility of lower rates.

### **Bloomberg Markets**

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