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Hurricane Florence Barrels Toward Unfazed Municipal-Bond Market.

- **North, South Carolina munis see little trading ahead of storm**
- **Even Hurricane Katrina didn't cause municipal-bond defaults**

With more than a million residents evacuating as Hurricane Florence heads toward North Carolina, one would expect money managers to be unloading bonds sold by local governments in the path of what may be the strongest storm to pummel the region since 1954.

But they're not.

On Tuesday, there was little trading in debt issued by governments in North and South Carolina and prices of the most active securities were little changed, according to data compiled by Bloomberg. It's a bond-market response similar to those ahead of previous natural disasters, including the hurricanes that dealt devastating blows to New Orleans and Houston.

Those storms, like others, prompted an influx of aid and insurance money and ultimately posed little peril to investors. And no state or local government whose bonds were rated by Moody's Investors Service has defaulted because of a natural disaster, according to the credit-rating company.

Even Hurricane Katrina, which caused a lasting exodus from New Orleans, didn't cause it to renege on bond payments. Nor did Hurricane Harvey, which submerged Houston and caused an estimated $125 billion in damages, stop most affected Texas localities from growing: Sales-tax revenue has actually climbed in the year since that storm, partly because of the rebuilding efforts, according to Moody's.

"If you go back and look at what happened in Houston, which had devastating results from Hurricane Harvey, the economy bounced back surprisingly well," said Patrick Luby, municipal strategist at CreditSights Inc., noting local governments' ability to rebound from storm damage in recent years. "What the market is hoping is that most of these issuers are going to have some free resources that they can redirect."

While storm surges are threatening hundreds of thousands of homes in coastal communities, it's so far impossible to predict what sort of specific damage could occur, much less the potential impact on creditors. Florence is projected to make landfall Sept. 13 or Sept. 14 between Charleston, South Carolina, and Norfolk, Virginia, according to the National Hurricane Center in Miami.

One of the most active North Carolina bonds, general-obligation securities due in 2029, had six trades, selling for an average of 105 cents on the dollar, down from 105.5 cents on Sept. 5, the last time they traded. The most active South Carolina state bond traded for about 109 cents, little changed from Sept. 5.

"The big thing is how much the damage is and how much it takes to come back," said Daniel Solender, head of municipal investments at Lord Abbett & Co., which manages $20 billion of state

and local debt. “A lot of times the insurance proceeds really cover a lot of the damage, or the state will cover it or the federal” government.

While states and cities typically recover, big storms can have lingering effects on small, lesser known borrowers in the municipal market. Hurricane Matthew, a Category 5 storm in 2016, caused disruptions that negatively affected Southeastern Regional Medical Center in Lumberton, North Carolina when families who lost their homes left the area, according to S&P Global Ratings. It also hurt the operating performance of the BBB rated Columbus Regional Healthcare System, which is located about 45 miles from the coastal city of Wilmington, North Carolina, according to the ratings company.

“There are some muni assets that could be adversely affected,” said Adam Buchanan, senior vice president of municipal sales and trading at Ziegler Capital Markets Group in Chicago. “We’ll have to wait and see.”

Bloomberg Markets

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