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The Last Recession Crippled U.S. States. But Bondholders Won Big.

- **Even during 2008 chaos, city and state debt delivered gains**
- **Debt rallied Wednesday amid concern about global slowdown**

The last time the U.S. went into a recession, states and cities were left reeling from budget deficits so vast that they slashed their payrolls, cut deeply into spending and even raised taxes to stay afloat.

But bondholders were just fine.

In 2008, when the stock market plunged and the collapse of Lehman Brothers Holdings Inc. unleashed financial havoc worldwide, bonds backed only by states' and cities' promise to repay them still posted a return of 1.5%, according to Bloomberg Barclays indexes. The next year, they returned nearly 10%. That wasn't an anomaly. In 2001 — when the economy was roiled by the bursting of the dot-com bubble — the state and local debt rallied, with returns of 5% that year and 9% in 2002.

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