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Chicago’s Bond Penalty Plunges as Investors Hunt for Yields.

Chicago boosted the size of its first sale of general-obligation bonds since March as heavy demand for higher-yielding securities slashed the interest penalty that investors extracted to own the city’s debt.

Chicago, the nation’s third-biggest city, sold about $466 million of the bonds, according to data compiled by Bloomberg, about $100 million more than initially had been offered. The yields were steeply lower than what Chicago paid during its last such sale, with the 10-year bonds priced for yields of 2.38% on Wednesday, or 1.03 percentage point over top-rated debt. That extra interest, a key measure of perceived risk, was down from 1.69 percentage point in March.

By seizing on lower interest rates, the sale will help Mayor Lori Lightfoot close an $838 million shortfall in the budget of a city that has struggled for years with mounting pension bills. The sale comes as yields in the municipal market hold near a more than half-century low, leaving investors clamoring for lower-rated securities like Chicago’s that pay higher yields.

“The investor search for yield continues,” Tamara Lowin, an analyst for Belle Haven Investments, which holds about $11 billion of municipal bonds, including Chicago’s. “The the spread tightening since March speaks more to technicals than credit quality.”

Chicago is planning to follow Wednesday’s sale with an offering of sales-tax-backed bonds this week.

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