

Bond Case Briefs

Municipal Finance Law Since 1971

S&P: All U.S. Public Finance Sector Outlooks Are Now Negative

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Following mobility restrictions and closure of large segments of the economy due to COVID-19 and the swift onset of recession, all of S&P Global Ratings' sector outlooks in U.S. public finance are now negative. At the start of 2020 all sector outlooks were stable with the exception of higher education, ports, and mass transit. The shift in our outlooks to end the first quarter reflects the expectation of sharp decline in the economy through at least the second quarter and uncertainty about the rate of spread and peak of COVID-19 as well as the timing of economic recovery.

Sector outlooks are an indication of credit trends in the year ahead and may be informed by existing outlook distributions or existing and emerging risks that could influence rating actions. By themselves, we do not expect that these sector outlook revisions will lead to immediate issuer- or issue-specific negative rating actions. However, given the confluence of events from COVID-19 and the ensuing recession, we believe that rapid expenditure increases and precipitous revenue declines will generate more negative than positive rating actions across U.S. public finance for the remainder of 2020.

The financial position of governments and not-for-profits was generally healthy at the beginning of the year, which we believe provides flexibility to respond to the evolving situation. However, we see real fiscal challenges ahead across all sectors (see table 1). The rapid onset of the recession with projections of sharp GDP decline, surging unemployment, and decreased consumer spending will pressure credit quality.

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