Bond Case Briefs

Municipal Finance Law Since 1971

What's Going On In the Municipal Bond Market? And What Is the Fed Doing About It?

When state and local governments need to borrow money, they often do so by selling municipal bonds—promises to pay investors a fixed amount of money at a future date. Before the pandemic began, state and local governments were mostly in very good shape, most of their bonds were considered very safe, and interest rates were low, so they could borrow at low rates without any trouble.

As the coronavirus outbreak worsened, that changed. Investors began withdrawing from municipal mutual funds: For the week ending March 18th, investors withdrew a record-setting $12 billion—almost 2.5 percent of assets—and another $13.7 billion the following week. Between March 9th and March 20th, state and local governments managed to sell only about $6 billion of the $16 billion in bonds they were seeking to issue. These withdrawals were accompanied by sharp increases in the interest rates borrowers were required to pay. From March 9th to March 24th, the Municipal Market Data yield—a measure of municipal bond yields produced by Thomson Reuters and commonly used as a pricing gauge by state and local bond issuers—went up by roughly 2 percentage points, a huge increase for this market.

At a time when they are already under enormous stress from the coronavirus outbreak, state and local governments suddenly found it hard to borrow.

Continue reading.

The Brookings Institution

by Finn Schuele and Louise Sheiner

March 31, 2020