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Can the Municipal Bond Market Weather the Coronavirus Storm?

The U.S. Federal Reserve is stepping in to toss a life preserve to the bond markets, including corporate debt and high yield, but few may have seen municipal bonds seeking help. Local government debt is perceived as some of the safest debt, but the coronavirus pandemic is raining on that safe haven parade.

“With local economies grinding to a virtual halt, businesses closed and more than 22 million Americans thrown out of work, the fallout is rippling through the $3.9 trillion markets that finances far more than just governments that virtually never default on their debts,” a Bloomberg report said. “Hospitals, airports, stadiums and speculative ventures like the Virgin Trains USA railroad in Florida have also sold debt through government agencies — and it’s backed by the money generated by their businesses.”

The report went on to state that a wave of defaults could follow, but whether it’s low tide or tsunami depends on how quickly local governments can recover in a post-coronavirus environment.

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