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The Coronavirus Crisis Is Starting to Hit Muni Bonds. Why That Matters.

Delinquencies in the municipal market—already on the rise as counties and cities get squeezed by the coronavirus crisis—are likely to worsen amid soaring unemployment, rising alarm about stressed municipalities, and Federal conflict about aid. This could lead to pernicious consequences for investors, who rely on muni bonds for safety and income, as well as for the people who rely on the multitude of city services—such as schools, hospitals, transportation, and sewers—that these bonds finance.

This week, Sen. Majority Leader Mitch McConnell said he supports the idea of allowing states to use bankruptcy protection to reduce debts instead of supporting them with more federal aid. Trouble is, most cities and states can't operate on deficit spending and the law currently prohibits bankruptcy for states.

Meanwhile, Congress approved a $484 billion coronavirus rescue package , which included no funding for state and local governments.

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Barron's

By Leslie P. Norton

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