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Check Out Your State - And Maybe Sell Its Tax-Exempt Bonds.

Which muni bonds are at risk? The ones from states with outsized pension debts.

Rent strikes. Moratoriums on foreclosures. A collapse in the tax revenues that support municipal bonds.

The suppliers of capital—landlords, banks, bondholders—are about to experience some unpleasantness. This report will look at prospects for the third group, savers who lend money to states and municipalities. To give away the ending: Tax-exempt bonds are dangerous.

So far into the 2020 recession, distress in the muni bond market is scarcely discernible. There was a moment of panic in March, but it was quickly over when the Federal Reserve stepped in to bid up the short-term paper of states and cities. Municipal bonds are currently fetching high prices, an average 12% premium over par value in the Vanguard Tax-Exempt Bond index fund.

Continue reading.

Forbes

by William Baldwin

Apr 26, 2020

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