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Coronavirus Shutdown Weighs on Higher-Risk Muni Issuers.

Investors are rattled as low tax revenue, big payouts and underfunded pensions add to strain

Though some municipal bonds have rebounded alongside other markets in the past few weeks, the economic impact of the coronavirus pandemic is weighing down some higher-risk issuers, increasing strain on muni borrowers and rattling some long-time investors.

U.S. state and local governments borrow from investors in the form of municipal bonds, pledging a range of taxes and fees to repay the debt. But with many businesses shut down, cities and counties are collecting far less in taxes on restaurant meals, hotel stays and car rentals. Meanwhile, states are being forced to distribute hundreds of millions of dollars in unemployment checks to residents from whom they recently collected income taxes.

Adding to the financial pressure in the nearly $4 trillion municipal bond market, major public pension fund investments are down by $419 billion in the first quarter as a result of the virus' market impact, according to Milliman, a consulting and actuarial firm. Analysts at the major ratings firms are lowering municipal outlooks by the dozens.

Continue reading.

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By Heather Gillers

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