Bond Case Briefs

Municipal Finance Law Since 1971

New York Subway Is Too Big To Fail: Long MTA Bonds

Summary

- Coronavirus is driving down subway and bus ridership.
- MTA bond prices dropped and credit agencies downgraded the bonds because of its budget deficit.
- I bought MTA bonds betting that the MTA is too big to fail and will get a bailout.
- Yields in the 5% range are attractive relative to the MUB ETF and other municipal bond alternatives.
- The MTA comprises 2% of the MUB ETF.

My investment thesis for investing in the Metropolitan Transportation Authority (MTA) bonds is based on:

- MTA is too big to fail. It received $4 billion from the CARES Act and I expect it to receive more.
- MTA issued new bonds in early May. Bond market investors are supporting the MTA, even before a bailout. Also, MTA bonds have rallied off their lows.
- The drop in prices is driving up yields. Depending on maturity and the type of bonds, there are investment opportunities with yields in the 5% range. This is higher on a tax-equivalent basis.
- Although MTA bonds may have more risk than the MUB ETF and other municipal bond alternatives, the lower price and higher yields compensate investors for this risk.

Continue reading.

Seeking Alpha

May 8, 2020