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Wall Street Risk Analysts Rise in the Muni Bond Market.

- **Credit analysis returns as slowdown hits almost every sector**
- **Prices revived, but financial toll may not be known for months**

Don't be fooled by the market's calm: these are hectic times for Wall Street's municipal-bond analysts.

The $3.9 trillion state and local government debt market, typically the safest of havens, has suddenly become one where assessing risk matters again, thanks to the economic wreckage wrought by the pandemic.

Since the nation went virtually overnight from a record-setting expansion to the worst recession in decades, analysts at investment firms have been sifting through a wave of bond documents, disclosures and data from governments, city agencies, universities, hospitals, public transit authorities and nursing homes.

The challenge is to figure out what's still a safe investment bet. That's a difficult feat considering there's no clear way to predict how it will keep affecting American life and the worst of the financial effects typically don't show up until well after a contraction begins.

At DWS Group, an investment firm, six full-time municipal credit analysts are working closely with portfolio managers and traders there, attending two team calls a day to discuss trades and sector trends. "They're busy," said Ashton Goodfield, who leads the municipal department.

The municipal market, used by some 50,000 issuers, has gone through a period of unprecedented volatility. In March, investors pulled record amounts out of mutual funds, triggering a steep rout and moves by the Federal Reserve to stabilize the market. Since then, prices have essentially recovered, raising the possibility that the financial impacts of the slowdown have been too deeply discounted.

At Franklin Templeton, the firm's new head of municipal debt investing, Ben Barber, is also focusing on risk analysis. The firm has more than a dozen credit analysts that have dedicated sector focuses like student housing and tobacco-settlement backed bonds. Tom Walsh leads the company's municipal credit research effort.

Credit research is "very near and dear to my heart," Barber said.

Barber started his career as an analyst covering the classic segment of the muni market, states and local governments. He said he still views municipalities positively despite their shutdown-related budget deficits, given that they have tools at their disposal like raising taxes.

The DWS research team has been looking for bonds at risk as well as those that are showing strength, Goodfield said. That way, she said, "if we want to sell something we think is showing weakness, we know where to go with that money, we know what to replace it with."

Defaults have remained relatively rare compared with other markets, though they've started to rise.

In a note to clients last week, Municipal Market Analytics said at least 29 borrowers became impaired in May, which includes defaults and steps like tapping reserves to avoid them. That's the most since December 2014, according to MMA.

Goodfield said that it's hard to generalize both positively or negatively about the plethora of industries that tap the muni market. For the most part, though, the firm is cautious on high-yield deals that were sold for ventures that seek to make novel products from waste. One such deal for a California project to turn rice waste into fiberboard skipped bond payments in June.

Issuers have been uploading so-called continuing disclosures online that give details to investors on how their business is faring. The volume of those rose nearly 13% in the week ended June 7, according to the Municipal Securities Rulemaking Board.

The increase of information is welcome in a market where issuers are notoriously slow to post financial updates.

Yet some of the filings are more detailed than others. Take Foley, Alabama, which included a big caveat for bond analysts: "This information is subject to change without notice."

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— *With assistance by Danielle Moran*