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A Warning to Muni Bond Investors: Coronavirus Recession Will Decimate State Finances

‘Defund the police?’ More like ‘defund everything’

The effects of the coronavirus pandemic have spread widely, causing over 100,000 deaths in the U.S., massive disruptions to the global economy and the loss, however briefly, of some 40 million jobs.

Now the next wave is about to hit: Shutdowns, layoffs, and business bankruptcies will cause a sickening drop in tax revenues for state and local governments, plunging their budgets deep into the red. That is likely to result in a steep drops to government payrolls, maybe higher taxes and cuts in essential services.

It also could mean sharp declines in the quality of life of thriving urban centers. And it makes municipal bonds, which have done exceptionally well in recent years and have become particularly attractive to middle- and upper-middle-class people in high-tax states, a far less desirable investment.

Continue reading.

MarketWatch

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