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Morgan Stanley Wealth Sees Risks in Credit on U.S. Stimulus Woes.

The standoff in Washington over the flow of stimulus money to state and local municipal governments is adding more risk to U.S. credit markets, according to Morgan Stanley Wealth Management.

State and local government budgets have been severely damaged by the Covid-19 pandemic due to lost tax revenue and rapidly rising expenses, and that may have ramifications for investors, Morgan Stanley Wealth Management strategists Scott Helfstein and Monica Guerra wrote in a note Tuesday.

"Though municipal budgets are strained, muni bond yields have reached historic lows due to constructive seasonals and risk-off sentiment," the strategists wrote. "Failure to secure aid for state and local governments presents downside risk for bonds of low credit quality at a time when investors are willing to move down the credit curve."

A $600 enhanced weekly benefit for unemployment insurance expired at the end of July, and negotiations between Congress and the Trump Administration haven't progressed much. President Trump announced an executive order that would offer $400 a week in jobless benefits, with states covering 25% of the cost, as one of several moves that he may lack the authority to make unilaterally.

Another area flagged by Morgan Stanley Wealth was in student loans, where deferral of principal and interest payments was automatically extended to Dec. 31 for some federal loans.

"Those with private loans get no reprieve from payment due on principal and interest," the strategists said. "Thus, we believe that securities backed by private student loans with speculative grade credit quality and tranches with few enhancements may experience pressure."

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— *With assistance by Christopher Maloney*