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Is Covid-19 Putting Municipal Bonds in Jeopardy?

Municipal bonds have long been considered some of the most reliable fixed income options with a low default rate. Enter Covid-19 and a once untouchable space could now be in jeopardy with defaults.

“The pandemic is threatening the creditworthiness of many municipal securities long seen as safe investments—bonds for higher education, health care, tourism and travel,” a Wall Street Journal report noted. “Moody’s Investors Service has lowered its outlook to negative on all municipal bond sectors except for housing-finance agencies and water, sewer and public power.”

“It’s amazing that we’ve sustained six months of being shut down to some degree with very minimal rating actions,” said Lisa Washburn, a managing director at Municipal Market Analytics.

According to the WSJ report, the number of municipal bond “defaults have reached their highest rate since 2011, the aftermath of the last recession, according to Municipal Market Analytics data. Still, Americans continue to pour money into municipal bond mutual funds, which are clocking 17 straight weeks of inflows since mid-May.”

March’s sell-offs due to Covid-19 saw a flood of money head into municipal bonds as a safe haven with a tax-exempt benefit. Per the report, “fund managers see big-name borrowers who have good relationships with creditors as a good long-term buy even if their bonds are at risk of a short-term downgrade.”

“We’re modestly more comfortable with those guys because there is a possibility that we’re entering a terrain where sophistication and access to markets is a big credit differentiator,” said Adam Stern, co-head of research at Breckinridge Capital Advisors.

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by BEN HERNANDEZ on SEPTEMBER 8, 2020