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Wall Street Loses Faith That Congress Will Rescue States, Cities.

- **Investors, analysts widely anticipated aid in stimulus bill**
- **BofA, once expecting \$400 billion, says expectations ‘fading’**

Wall Street banks are losing confidence that Congress will soon provide a rescue for states and cities that have seen tax collections tumble because of the recession.

Bank of America Corp. analysts, who earlier predicted that the federal government would extend as much as \$400 billion of aid by the end of September, said in a note Friday that their expectations of a stimulus package by the November election were “fading.” Barclays Plc strategists made a similar call.

“We have fading expectations of a stimulus package before the election,” Bank of America strategists led by Yingchen Li and Ian Rogow said in the note. “Which could mean that the next best chance is probably sometime in 1Q21 — and, again, dependent on the outcome of the election, which is far from certain.”

Analysts and investors in the municipal-bond market had broadly expected that a new economic stimulus plan would include aid for states, local governments and public transit systems, all of which have seen their revenue decline as the coronavirus shutdowns sent the economy into the worst recession since World War II.

While House Democrats’ stimulus package in May included some \$1 trillion in aid for states and localities, Senate Republicans balked as President Donald Trump mischaracterized it as a “bailout” for Democratic strongholds.

Other banks have also become more skeptical that the two sides will be able to resolve the stalemate.

“Without negotiating progress in the short term, we’re inclined to remove proactive fiscal stimulus that avoids negative economic consequences in 2020 from of our base case,” Morgan Stanley strategists said Sept. 13.

The lack of progress has helped drive up benchmark municipal yields since August, Bank of America’s Li and Rogow said. They predicted that the lack of a stimulus deal by the end of the month could weigh on the prices of lower-rated securities. The note also said they’re slightly “bearish” on municipal bonds given the risks posed by the election.

But that could change if Democrat Joe Biden defeats Trump and the party makes gains in Congress. Barclays strategists led by Mikhail Foux noted that a Democratic sweep in November could lead to a sizable aid package for states and cities that could total more than \$500 billion.

“If Democrats do not sweep, there might still be some desire to provide additional money to state

and local governments, but an agreement might be elusive, and the package would almost certainly not be as large as the first one,” the Barclays strategists said. “It would also depend on the state of the US economy and the pace of a recovery.”

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By Amanda Albright

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— *With assistance by Martin Z Braun*

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