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Assessing the Impact of COVID-19 on the Municipal Debt Market.

The municipal bond market was in great shape prior to the COVID-19 outbreak. After the passage of the Tax Cuts and Jobs Act in 2017, the combination of strong investor demand for yield and a limited supply of tax-exempt issues led to a compression in quality and sector spreads. Of course, the COVID-19 outbreak led to a sudden disruption of financial markets, including muni markets.

COVID-19's Impact on Munis

The U.S. COVID-19 outbreak in March sparked a rapid sell-off across financial assets. In the municipal bond market, \$40 billion in redemptions in just three weeks caused a severe liquidity crisis, particularly as leveraged funds were forced to sell. Quality and sector spreads also widened as investors sought out safe-haven assets, such as general obligation bonds.

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