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## New Jersey Joins Hawaii in Pandemic Credit Downgrades, but Their Bonds Have Diverged.

New Jersey just became the second state to get a credit-rating downgrade since the coronavirus pandemic struck, following Hawaii's downgrade earlier this year.

But New Jersey's bond yields have declined since then, even though rating downgrades typically drive bond prices lower and boost yields.

Last week New Jersey's 10-year general obligation bond—debt backed by a state's pledge to use its taxing power to repay, rather than a specific project or revenue stream—yielded 1.82%. At Tuesday's close, the bond yielded 1.77%, even though the state's credit was downgraded Friday to BBB+, three tiers above junk, by S&P Ratings.

In contrast, Hawaii's bond yields have climbed since its downgrade by Moody's in August. Its 10-year benchmark general-obligation bond yielded 1.1% on Tuesday, according to Bloomberg data, compared with 0.8% shortly before its downgrade.

Some of New Jersey's minor bond-price gains could be the result of the downgrade not being as severe as investors feared. But it could also be the result of optimism around the recent U.S. presidential election and a vaccine.

Yet Hawaii's finances—which are tied to the state's tourism industry—could be helped by a vaccine more than New Jersey's. Earlier this year, Hawaii said its tourism revenues aren't expected to get back to normal before 2024, according to Moody's. But it seems reasonable to think that an effective and widely distributed vaccine would move up that date.

New Jersey's problems, on the other hand, are more structural, as S&P Ratings pointed out in its Nov. 6 note downgrading the credit.

“Until the recent recession, New Jersey had been making progress on closing its...deficit,” the analysts wrote. “However, this progress depended on steady revenue growth during the long previous economic expansion. In recent years, most of the state's revenue growth has gone toward increasing New Jersey's annual pension contributions.”

And the possibility of a divided government could constrain the amount of federal aid New Jersey can obtain. That likely won't be determined until early January, when Georgia hosts two runoff elections.

In other words, if New Jersey's credit looks better after the election and vaccine, Hawaii's should look much better.

**Barron's**

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