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Wall Street Muni Underwriters Poised for Record Year in 2020.

- **Pace of new muni-bond sales poised to surpass 2016 peak**
- **Refinancing wave a boon for BofA, Citigroup, JPMorgan**

Wall Street's muni-bond underwriters are having a banner year.

Driven by waves of refinancing, state and local governments have already sold \$424 billion of bonds this year, leaving the pace poised to easily exceed the previous peak of about \$426 billion in 2016, according to data compiled by Bloomberg.

This surge reflects the steep drop in interest rates this year and shows how steady the \$3.9 trillion municipal market has held up despite the pandemic-triggered recession, which dealt a financial hit to governments, airports and public transportation operators. While debt sales dried up after the virus' first wave triggered a mass exodus from state and local government bonds, that proved short-lived as prices rallied back from a record-setting drop in March as the Federal Reserve promised to step in and lend if needed.

"It is a testament to the resiliency of the market," said Eric Kazatsky, a Bloomberg Intelligence municipal strategist. "Issuers still need to sell bonds to keep the lights on in their towns and cities. That still needs to get done whether the virus has impacted tax collections or not."

The debt-selling spree has been a boon for big banks including Bank of America Corp., Citigroup Inc. and JPMorgan Chase & Co., which together underwrote more than one third of this year's municipal-bond issues.

With interest rates so low, over \$130 billion of the borrowing was done through taxable bonds, roughly twice as much as was sold in 2019, allowing governments to avoid federal restrictions that come with traditional tax-exempt bonds. That helped ease the pressure on the market by expanding the base of buyers to those who don't typically buy tax-exempt securities, like investors overseas who are seeing near zero or negative yields in their home countries.

Citigroup Inc. municipal-bond analyst Vikram Rai anticipates that issuance will continue to be high next year as governments contend with the financial fallout of the coronavirus shutdowns. State and local governments are projected to face large budget shortfalls, and so far there has been no new aid to emerge from Congress since March.

There will be borrowing to paper over some of those deficits as a result, Rai said. At the same time, interest rates are expected to remain favorable for issuers, and the U.S. continues to have massive infrastructure needs.

"If you see what's happening over the last 10 years, the municipal supply has been on an upward trend," Rai said. "We're expecting that next year supply will be even more."

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