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## **Higher-Yielding U.S. Muni Bonds Cheer Biden's State, City Budget Relief.**

CHICAGO, Jan 15 (Reuters) – A big burst of federal aid for U.S. states and local governments in Democratic President-elect Joe Biden’s massive fiscal stimulus plan helped higher-yielding debt from lower-rated issuers in the U.S. municipal bond market on Friday.

While Municipal Market Data’s (MMD) benchmark triple-A yield scale was unchanged in the wake of the Thursday evening unveiling of Biden’s \$1.9 trillion proposal, the prospect for \$350 billion in new federal funding enhanced the attractiveness of debt from financially troubled issuers, according to Greg Saulnier, MMD managing analyst.

“(A stimulus plan from Biden has) pretty much been priced in. The only place you’re really seeing it is the lower credits that are tightening,” he said, pointing to issuers like Illinois and New Jersey, which are the two lowest-rated U.S. states due to their fiscal woes.

On Friday, New Jersey’s yield penalty for its 10-year bonds eased by 5 basis points to 62 basis points over MMD’s 0.790% yield for top-rated bonds, while Illinois’ penalty has contracted considerably in recent weeks to 120 basis points.

Investors have flocked to high-yield muni bond funds, which reported record-high net inflows topping \$1 billion in the week ended Jan. 13.

Groups representing states, cities and counties have been clamoring for more federal aid as the economic fallout from the ongoing coronavirus pandemic led to revenue shortfalls.

“The \$350 billion is definitely a breath of fresh air,” said Emily Swenson Brock, director of the Government Finance Officers Association’s Federal Liaison Center. Unlike the \$150 billion states and local governments received under last year’s CARES Act, which was restricted to coronavirus-related expenses, she said legislation for Biden’s proposal is expected to permit the governments to use federal dollars to replace revenue lost due to the pandemic.

Moody’s Analytics recently reduced its projected fiscal 2020 to fiscal 2022 gross shortfall for states and local governments to \$330 billion from \$450 billion due to an improved economic outlook.

With New York State’s new fiscal year beginning on April 1, Governor Andrew Cuomo on Friday called on Washington to pass Biden’s plan and fill the state’s \$15 billion budget gap.

“The \$15 billion in the scope of things is a modest amount. New York paid a higher price for COVID than any other state,” he said.

Even with Democrats’ new, but narrow control of the U.S. Senate, it was unclear if direct aid, which was rejected by Republicans in Congress last year, will pass, according to Tom Kozlik, head of municipal strategy and credit at HilltopSecurities Inc.

"It should be reinforced that state and local aid received significant pushback from lawmakers in 2020 and is likely to receive pushback in 2021 as well," he said.

By Karen Pierog

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(Reporting by Karen Pierog in Chicago Editing by Alden Bentley and Matthew Lewis)

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