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Muni-Bond Downgrades Top Upgrades for First Time Since 2014.

- **Moody's downgraded 309 municipal borrowers last year**
- **New York-related credits made up largest share of rating cuts**

Municipal-bond rating downgrades exceeded upgrades last year for the first time since 2014, according to Moody's Investors Service.

There were 309 downgrades compared with 296 upgrades in 2020, Moody's said in an emailed report. The cuts affected $215.2 billion, or about 84% of the total debt affected by rating changes last year. About $42.1 billion of debt saw higher ratings, according to the report.

New York State, New York City and their related entities accounted for the largest share of the rating cuts by dollar amount, with nearly $100 billion of downgrades combined, according to Moody's.

Borrowers that depend on tourism and commuters also suffered. New York's Metropolitan Transportation Authority had its rating cut twice and still has a negative outlook. Hawaii, which is rated Aa2 with a stable outlook, had nearly $8 billion in debt downgraded.

"Unlike the last economic cycle with a recession, where you saw the downgrades happen later than the initial economic shock, the fact that the downgrades are happening now shows how much more proactive rating agencies have gotten," said Dora Lee, director of research for Belle Haven Investments.

While investors should be mindful of risks taken with various credits, "these downgrades aren't indicative of a widespread wave of default for the investment-grade space," she said.

Many municipal governments are facing budget shortfalls because of rising costs and falling revenue amid the pandemic. President Joe Biden's proposed relief package includes $350 billion of emergency aid to states and local governments, but Republicans have outlined a stimulus package that omits that.

Federal relief could mitigate some downgrades in the future, but not necessarily prevent them, according to Belle Haven's Lee.

"These are governments under a lot of stress, and will be under stress for multiple years," she said.

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