New York City Bonds Belie Pandemic Toll With Investors Unfazed.

- **Yields lower than before Covid; credit spreads little changed**
- **CreditSights says bondholders not paid enough for the risk**

New York City is still reeling from the impacts of the pandemic, but there's little sign of that in the price of its bonds.

Interest rates have tumbled so steeply that the city's 10-year debt is yielding just 1.41%, less than it was at the start of 2020 even after the market's selloff last month, according to Bloomberg BVAL indexes. That's about 30 basis points more than what the highest-rated states and cities pay, a jump of just 20 basis points from before the pandemic shut down New York City, eliminated hundreds of thousands of jobs and triggered the first drop in property-tax collections in a quarter century.

To the analysts at CreditSights, that's not enough to compensate investors for the risks.

"The city has suffered economic dislocation that may be somewhat obscured by federal stimulus pulsing through the economy," John Ceffalio and Patrick Luby wrote in a report, placing a "market underperform" rating on New York City's debt ahead of its $1.45 billion debt sale Wednesday. "There are myriad uncertainties to the recovery, notably two Manhattan staples: tourists and commuters. We expect both to return, but how soon and how many of each are open to questions."

New York is still staggering from the loss of more than 570,000 jobs last year, the steepest in the city's history, and employment isn't forecast to return to pre-pandemic levels until 2023. Office buildings are struggling with record vacancy rates with only a small fraction so far returning to the office. Some residents appear to have left for good and property tax revenue is forecast to decline by $2.5 billion, the first drop in 25 years.

The city's recovery is closely tied to the success of public health efforts to slow the spread of Covid-19 and new, more contagious variants. New York remains below the national average for the percentage of the population vaccinated, suggesting recovery will be "slow and fragile," until the vaccination rate increases, wrote the city's Independent Budget Office on Monday. New York City has administered more than 2 million doses of the vaccine, including 76,000 on Friday, Mayor Bill de Blasio said Tuesday.

Before last month's bond market selloff, strong demand for municipal bonds, coupled with scant new issues and an improving economic picture, had driven spreads on risker municipal bonds close to pre-pandemic levels. Despite economic uncertainty, investors are confident that New York City will navigate through the pandemic storm as it has in the past, said Ben Pease, head of municipal trading at Breckinridge Capital Advisors, Inc.

New York City stands to receive $5.6 billion as part of the Biden administration's proposed $350 billion additional aid to states and cities.

When New York sold general obligation bonds in October, 10-year debt was priced to yield 0.8 percentage point more than AAA rated bonds. The city priced 10-year debt in a retail order period at a spread of 0.5 percentage point, according to a person who received pricing information on this week's sale.

"Despite recent volatility, there remains an appetite for bonds with spread inside fifteen years," Pease said.

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