
‘Breathe a Sigh of Relief’: Muni Market Lauds State Rescue

- **Some $360 billion set aside to soften tax, economic hit**
- **Promises to ease credit stress in municipal debt market**

President Joe Biden’s stimulus plan aims to remove the financial pressure on states and cities, promising a considerable improvement to the outlooks for governments, airports and mass-transit agencies that have seen revenue disappear because of the year-long pandemic.

That’s made it welcome in the municipal-bond market, where prices rose slightly on Tuesday. Here’s immediate reactions from analysts on the implications of the $1.9 trillion stimulus measure — about $360 billion of which would be available to states, local governments and territories as direct aid.

Rating-Company Views

- Moody’s Investors Service raised its outlook on the credit ratings of states and local governments to stable from negative after the passage of the $1.9 trillion relief bill, the first that helps states and municipalities make up for revenue lost during the pandemic. The company said it will help stabilize state finances and support various sectors such as mass-transit, hospitals and higher education. Moody’s analysts called the plan a “a credit positive measure across all municipal finance sectors,” with most of the benefits for states and local governments. The aid will “help stabilize state finances and, coming amid most states’ legislative budget sessions, likely allow them to avoid downstream funding cuts for local governments, colleges and universities, and other programs.”
- Fitch Ratings said that the plan would “significantly boost near-term revenues” for states, local governments, transit systems and education providers through both direct aid and economic stimulus. Fitch said the aid could be used to cover costs or replace revenue lost because of the pandemic, “giving governments wide latitude in the application of the funds.” They said that other aid directed at school districts would “ease the financial burden on both states, which fund the bulk of k-12 education, and local districts.”

Investors, Analysts Weigh In

- The targeted aid for municipalities could help cover 2021 budget gaps, “allowing states to conserve funds and hold their ground as they wait for the economy to rebound to pre-COVID levels, mitigating broad concerns around municipal credit fundamentals,” wrote Catherine Stienstra, head of municipal bond investments and Douglas Rangel, fixed-income portfolio manager at Columbia Threadneedle Investments in a March 9 note.
- “Perhaps now that the relief legislation is destined for the oval office, the bond markets may be able to breathe a sigh of relief given that the ‘stimulus’ narrative may take a much-needed break,” wrote Jeffrey Lipton, head of municipal research at Oppenheimer & Co in a research note Thursday. He lauded support of the efforts to preserve muni credit, especially on the sectors hit hardest by the pandemic, like mass transit, higher education, health care providers and airports. “All in all, funding allocations are expected to be accretive to municipal credit quality which should help to return various sectors to a stable outlook.”

- The passage of the American Rescue Plan is a "major positive" for the municipal bond market, said Matt Fabian, a partner at Municipal Market Analytics. He said although the direct aid to state and local governments is helpful, the real benefit is the "overall influx of cash into the economy." He said that will likely boost spending, which governments collect taxes on. "Most of the direct aid goes directly to the states, which aren't the governments we are worried about," he said. "We worry about the little guys and they're helped by the loans people are getting, unemployment insurance, improved medical benefits. But overall, I don't know how you see this as anything but a huge positive for near term credit trends in the sector."
- Michael Zezas, the municipal market strategist for Morgan Stanley, said the amount of funds available will be more than enough to cover the tax loss of the pandemic. "The tax base didn't suffer nearly as much as we thought," he said in an interview with Bloomberg Radio. That "insures that state and local governments can undertake the normal amount of economic activity they otherwise would have," he said. "The muni market is pricing in a way that reflects a substantial amount of optimism — and I think well placed optimism about the strength of credit quality."

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