
Illinois Lowers Yields, Accelerates $1.26 Billion Bond Sale.

- **3-year yield less than one-third rate on December Fed loan**
- **Deal comes one week after S&P revised outlook to stable**

Illinois moved up its $1.26 billion bond sale by one day and cut the yields being offered to investors, a sign of strong demand as President Joe Biden's economic relief package promises to ease the fiscal strain on the lowest-rated U.S. state.

The tax-exempt sale had been expected to price Wednesday but was closed ahead of schedule by Morgan Stanley, the lead underwriter. The yields on an $850 million portion of the securities ranged from 0.69% for those due in 2022 to 2.81% on 2041 bonds, down from the 0.81% to 3% initially offered, according to data compiled by Bloomberg.

The yields on bonds due in 2024 were 1.09%, about one-third of the 3.42% Illinois paid when it borrowed $2 billion from the Federal Reserve's emergency lending facility in December.

The drop in yields shows how much investors expect Illinois to benefit from the aid package signed into law by President Joe Biden last week. S&P Global Ratings lifted the state's credit outlook to stable from negative, indicating little near-term risk that it could be cut to junk, in part because of the $7.5 billion in relief funding Illinois stands to receive.

The high demand for the debt also reflects the strong inflows into high-yield muni mutual funds and a relative dearth of new bond issues form states and cities, said Dan Solender, director of tax free fixed income at Lord, Abbett & Co., which holds the state's debt as part of $33 billion of municipal securities.

"There is a lot of interest," Solender said. "They still have long-term issues but are definitely doing better than expected a year ago."

The bond sale was accelerated given "strong demand," Paul Chatalas, the state's director of capital markets, said in an emailed statement. Illinois received more than 700 orders from more than 130 different investors, including names that have not invested in the state for a decade, which led spreads to contract to the lowest in several years for the longest maturing debt, he said.

"Investors recognize the state is emerging from a period of unprecedented turbulence due to a global pandemic," Chatalas said.

Illinois still faces significant fiscal challenges that started even before the Covid-19 pandemic. The state's unfunded pension liabilities have grown to $141 billion. S&P rates the state BBB-, one step above junk. Moody's Investors Service and Fitch Ratings also rank Illinois at the lowest-level of investment grade but still have a negative outlook.

But like other states, Illinois has seen its tax collections fare better than initially feared when the pandemic struck last year. Illinois's general fund revenue for fiscal 2021 through February rose 18.1% to $29.8 billion from the same period a year earlier, according to a report by the state's

Commission on Government Forecasting and Accountability.

“I expect the deal came earlier because of generally favorable technical factors combined with the beneficial effects of a strong stimulus plan, and better than expected revenues,” said Dennis Derby, a portfolio manager for Wells Fargo Asset Management, which holds Illinois debt as part of about $40 billion in muni assets.

Bloomberg Markets

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March 16, 2021, 1:39 PM PDT Updated on March 16, 2021, 3:55 PM PDT