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Riskiest Higher Education Bonds See Gains as Vaccines Rev Up.

- **High-yield education index sees top returns in March**
- **Barclays calls higher education 'attractive asset' class**

The expansion of the nation's vaccination campaign to younger adults is bolstering the outlook for higher education bonds amid growing optimism for a more normal return to campuses in the fall.

The Bloomberg Barclays index of the riskiest municipal securities for education — which includes those sold for student housing and other facilities — climbed 1.93% last month, the biggest gain among high-yield muni sectors. That marks a turnaround from the 10% decline in March 2020 as colleges nationwide sent students home and moved classes online. The high-yield education index is also the second-best performer this year among the riskiest muni debt, only surpassed by returns for convention center bonds.

Optimism has climbed in the past month after states began to lower age eligibility for Covid-19 shots, colleges started to announce vaccination mandates for the coming school year, and the American Rescue Plan earmarked about \$40 billion in aid for higher education. Moody's Investors Service on March 22 raised its outlook on higher education to stable from negative, citing "improved revenue prospects" over the next year to 18 months. The rating firm expects more students returning this fall along with greater federal support and steadier state funding.

"They're not as vulnerable as they thought they were," Clare Pickering, a Barclays Plc municipal analyst, said in an interview Wednesday. "It's still an attractive asset class."

Barclays has a strong outlook on higher education because of the Centers for Disease Control and Prevention's eased social distancing guidelines, the stimulus funding and an expanding national vaccine campaign that will bolster the creditworthiness schools that had been upended by the pandemic, according to Pickering. A return to campuses in the fall would support the finances of dormitories and housing, frequent issuers of high-yield debt that were suddenly vacated when outbreaks sent students home last year.

Risks remain even as the outlook for higher education is favorable in the intermediate term, she said. These institutions still face elevated risk "due to uncertainty on the duration of the COVID-19 pandemic," according to a report April 5 by S&P Global Ratings, which kept its negative outlook on higher education.

Fitch Ratings, which also has a negative outlook on the sector, is closely watching the next admission cycle and state funding as factors that could shift its outlook to stable, said Emily Wadhwani, senior director of U.S. public finance for the firm.

The negative outlook is based on the depressed enrollment environment for this academic year, but March and April are key months for admissions, she said. Any changes to loosen travel restrictions, adjustments to immigration policies and more funding from states could all impact higher education,

she said.

“The stakes are higher because we are building momentum and the level of expectations are growing as we proceed for a return to campus,” Wadhwani said in an interview. “All those things bode well for a more favorable admission cycling, increasing enrollment picture and a return to an on-campus environment.”

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