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Fitch: Rate of Pandemic-Related Downgrades Muted for U.S. Public Finance

Fitch Ratings-New York-13 April 2021: U.S. public finance downgrades again exceeded upgrades last quarter, though Fitch Ratings' latest quarterly rating actions report shows credit profiles for municipalities remained quite stable overall despite the fallout of the pandemic.

Fitch upgraded 14 U.S. public finance ratings while downgrading 32 ratings in 1Q21, compared to 22 upgrades and 38 downgrades in 4Q20. Of note were local governments (four coronavirus-related Downgrades, four Negative Outlooks) and state governments, six states of which carried Negative Rating Outlooks by Fitch at the end of last quarter.

Despite the increase in negative rating activity in 2020, the sector maintained overall credit stability amid the ongoing coronavirus pandemic. Fitch has affirmed ratings and maintained Stable Outlooks for the vast majority of its rated municipalities with upgrades representing roughly 1.6% of 1Q21 rating actions, and downgrades represented approximately 3.6%. "Substantial direct federal aid under the ARP, including \$350 billion for state and local governments, could support stabilization of some Negative Outlooks if states utilize the receipts to restore fiscal resilience," said Arlene Bohner, Fitch's head of U.S. Public Finance.

Municipalities will continue to endure coronavirus-related pressures this year. The inadequacy of current infrastructure funding remains a concern despite ongoing efforts from states to address the challenges and recent and potential federal action. Medicaid also remains an ongoing budgetary pressure point for all states. That said, "most municipalities will be able to maintain their credit quality," said Bohner.

Fitch published its revised "U.S. Housing Finance Agencies General Obligation (GO) Rating Criteria" and "U.S. Public Finance Not-For-Profit Life Plan Community Rating Criteria" in January and March 2021.

"U.S. Public Finance Rating Actions Report and Sector Updates: First Quarter 2021" is available at www.fitchratings.com.

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