

Bond Case Briefs

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The Fight Between Texas and Wall Street Is About to Get Bigger.

- **Gun and oil laws have put some bank deals on hold during boom**
- **‘This is much bigger than the municipal bond business’**

Outside San Antonio this month, a veteran of Texas politics got so upset about Wall Street’s retreat from fossil fuels that he compared the oil industry’s fight for funding to the civil rights struggle.

In Dallas, a hedge fund manager trading junk bonds on his iPhone lamented his upcoming move to the posh Highland Park neighborhood, fearing locals might brand him an outsider even though he relocated from New York years ago.

And at an Austin diner, a finance executive whose grandfather was governor hoped for compromise between Wall Street and the Lone Star State, but warned it may get worse before it gets better.

Welcome to the tense battle brewing between Big Finance and Texas. Just a few months ago, drawn by the promise of low taxes and light regulation, some of the largest banks and asset managers in the U.S. were ramping up their flight from the coasts.

Then Governor Greg Abbott signed a law banning state investments in firms that cut ties to oil and gas and another blocking local governments from working with banks that limit their lending to gun companies. That halted business for some top municipal-bond underwriters. JPMorgan Chase & Co., Bank of America Corp., Citigroup Inc. and Goldman Sachs Group Inc. have all stopped muni underwriting in the state, at least for now.

But what’s happening in Texas isn’t just about muni bonds or a Republican governor leaning to the hard right in a bid to win reelection next November. It’s a broader conflict between a state that would be among the world’s top economies if it were its own country and an industry whose leaders have begun to raise their voices on social issues from racial equity to climate change while pledging to consider stakeholders besides investors.

Interviews with more than a dozen bankers, traders and investors suggest that when Texas decides banks have gone too far, it presages a bigger struggle over corporate power and the reach of Wall Street’s influence.

Bigger Than Munis

“This is much bigger than the municipal bond business,” said Phil Gramm, a former Republican U.S. senator from Texas. “This is the beginning of telling Wall Street that if you’re going to discriminate due to your fealty to special interest groups, you’re going to have to pay for it.”

Gramm helped write the law that allowed for the creation of Citigroup and other Wall Street giants, and later was vice chairman of UBS AG’s investment bank. He prefers to use what he calls the language of the civil rights movement, comparing an oil driller’s ability to borrow funds to the right

to sit at segregated lunch counters: "Discrimination is discrimination."

Until recently, the finance industry's ties to Texas had never looked stronger. Goldman Sachs has been on the hunt for a new Dallas-area campus that could be its biggest in the U.S. outside Manhattan. Charles Schwab Corp. built new headquarters in the wealthy suburb of Westlake. And Vanguard Group announced a new Dallas-Fort Worth office not too far from fresh space for hedge fund Canyon Partners.

Inside an Austin restaurant called Cisco's, where a wall of luminaries includes a photo of former governor Bill Clements, his grandson George Seay ate huevos rancheros with biscuits and gravy.

Seay, the founder of investment firm Annandale Capital, said it was "a big, big move" when JPMorgan boss Jamie Dimon and other top executives said in 2019 they're redefining the purpose of corporations to benefit workers and communities, not just shareholders.

The way he sees it, things are coming to a head in Texas because corporations have "become woke" just as Abbott, who's running for a third term, is signaling to supporters that he's the biggest conservative in town.

Texas all but banned abortion this year and stopped transgender high school athletes from playing on teams that don't align with their birth certificate. When North Carolina passed a parallel bathroom bill five years ago, corporate boycotts helped pressure the state to abandon it.

"That's not going to work down here," Seay said last week. Instead of one side getting its way on social issues, he said, executives and politicians will have to each make compromises, he said. "You can be friends with someone who doesn't agree with you."

'We Need the Brains'

When Bobby Tudor moved to Texas decades ago, Goldman colleagues told him he was making a mistake. But then they gave him a hard time around bonus season because he got to keep so much more of it than colleagues in New York, where taxes are higher. "My answer was: 'Move to Texas, dude.'" Some of them did.

Tudor, who co-founded the energy-focused investment bank Tudor, Pickering, Holt & Co., said Texas didn't start this fight. Corporate leaders are "feeling compelled to speak out and take positions on all sorts of matters that aren't necessarily central to their business."

In an office that looks down on the Houston Ship Channel, he said people in Texas feel their "version of a great world isn't the same as Larry Fink's." He added that the Greater Houston Partnership, a group of business leaders he has helped run, supports the right of businesses to require vaccinations, something Abbott has tried to ban.

Asked about the tension, Abbott said "people and businesses vote with their feet, and month after month they are choosing to move to Texas," according to a statement sent through a spokesperson. He cited the pull of "no corporate or personal income taxes, a predictable regulatory climate, and a young, growing, and skilled workforce."

The fight is already spreading past Texas. Last week, a panel in Louisiana delayed approving a \$700 million state bond sale set to be underwritten by JPMorgan while the attorney general presses for information on the bank's gun policies. Dimon told Congress this year that his bank doesn't finance gun companies that sell military-style weapons to consumers.

Over the years, it's frustrated Lucy Billingsley to watch Texas pass socially conservative laws she can't support. Even so, the Dallas real estate investor and developer adores the state's pro-business environment, those low taxes and light regulation. She wants finance firms to embrace that same calculus.

"Come engage and lead," she said. "We need the brains — and we need to make this a better place."

Cullum Clark, a finance veteran who teaches economics at Southern Methodist University and runs the Bush Institute-SMU Economic Growth Initiative, predicts a long push and pull over corporate influence.

"We will see more and more statements and measures like the Texas one, some left and some right," he said. And then, he predicts, executives may fight back. "Wall Street is strong, these are not weak entities that have no resources. I think they're watching closely."

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