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## **S&P Rates 2022 Muni Outlook Stable Despite Accelerating Inflation Risk.**

- **Ratings group expects credit stability across U.S. munis**
- **Headwinds include inflation and rising interest rates**

S&P Global Ratings largely expects a stable outlook for muni credit this year even as it watches for new risk factors including inflation that could increase costs for state and local governments, according to Robin Prunty, the firm's chief analytical officer for U.S. Public Finance.

The credit ratings firm expects a favorable economic outlook for 2022 with steady revenue growth and federal stimulus continuing to support state and local finances, according to a report issued Wednesday. It foresees "credit stability in 2022 across U.S. public finance" despite headwinds from inflation, supply chain challenges, tight labor markets and rising interest rates.

Federal Reserve Chair Jerome Powell said on Wednesday the central bank was ready to raise interest rates in March and didn't rule out moving at every meeting to tackle the highest inflation in a generation.

The strength of the economy should support continued "positive momentum" for public finance, S&P said. However, the firm cautioned issuers from states, local governments, higher education, healthcare, utilities, charter schools and housing could face inflation pressures. Prunty said rising wages, the cost of materials and supply chain problems could weigh on munis for the first time in decades. Inflation could add to expenses for municipal budgets, but so far they've mostly benefited from increased income and sales tax revenue levied on rising wages as well as higher-priced goods and services, she said.

"It's been muted for the municipal sector but we see it as a risk in the future," Prunty said in an interview. "Inflation has accelerated as a risk but I don't think it's the only risk."

Threats such as new Covid-19 variants, pension costs, cybersecurity risks, demographic changes and climate change are all on the watch list, S&P said. Its muni sector views are stable except for the airport subsector, which is positive, while the parking subsector remains negative.

### **Bloomberg Markets**

By Shruti Singh

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