Muni-Bond Buyers Join Commuters in Avoiding Public Transportation.

- **Barclays says to avoid transit debt amid weak ridership**
- **Office occupancy rates remain well below pre-Covid levels**

It's not just rank and file commuters who are eschewing trains and buses — so are municipal-bond buyers.

Barclays strategists Clare Pickering, Mayur Patel and Mikhail Foux advised clients to steer clear of bonds issued by public transit agencies, even as they touted some airport and toll road debt. That's because of the systems' weak ridership and the uncertainty of it reviving to pre-pandemic levels.

"Systems are even more dependent on federal support and significantly revived tax and fare collections to sustain operations and long term capital programs," they said in a report Thursday.

The recommendation underscores the winners and losers of the pandemic trade. Even as some sectors such as airlines rebound from the depths of the initial Covid selloff in 2020, others remain under pressure. The embrace of remote work means less revenue for agencies as large as New York's Metropolitan Transportation Authority and for those servicing less-populous areas.

"Smaller systems are also struggling," said Dora Lee, director of research at Belle Haven Investments. She urged wariness of mass transit bonds without backstops such as a secondary pledge of special taxes. "It's just that their shortfalls aren't well in into the billions."

While political leaders such as New York City Mayor Eric Adams exhort chief executives to bring bodies back behind desks, firms are facing labor shortages and the desire from their employees for flexibility. Less than a third of office workers were back in their buildings as of Feb. 9, according to an index of 10 of the largest U.S. business districts compiled by security company Kastle Systems.

In contrast, pent-up demand for travel and rising vaccination rates mean airports will fare better, S&P Global Ratings said in a report last month. The company expects U.S. enplanements returning to near pre-pandemic levels in the second quarter of 2023, but that mass transit will lag significantly. Its baseline scenario sees public ridership hitting only 75% of its previous volume by the end of 2024.

To be sure, the $69.5 billion in aid to transit systems from the federal government buys them time in avoiding a default. And if spreads widen enough, the Barclays strategists said that may even present a buying opportunity. But the aid will run out.

"Mass transit has always needed to rely on government funding to operate," Lee said. "Once the infrastructure money runs out, they'll have to figure out how to fill in the gaps again."

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