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Tobacco Bonds Are on Fire, Defying the Odds.

Backed by cigarette sales, they continue to thrive despite high rates and declining smoking

Anyone who has tried to quit smoking knows that cigarettes are tough to resist—almost as hard as it is for politicians to keep their hands off big piles of money.

Smoking and government spending had a rare chance to interact in the late 1990s when the largest American tobacco companies agreed to pay \$206 billion over 25 years to 52 U.S. states and territories in exchange for those jurisdictions giving up future legal claims against them. The payers and the terms have been tweaked over the years as a result of more companies joining and lawsuits involving some states, but they are now effectively payments in perpetuity.

At least 21 states or territories, plus local entities within some of them, didn't want to wait for the money to trickle in, taking it up front and transferring that risk to municipal bond investors. Even after all these years, tobacco bonds are close to 9% of the high-yield municipal bond market, according to analysts at Invesco. Unlike those who buy bonds secured by the full faith and credit of a state government with taxing authority, though, tobacco bond investors typically have no recourse if the cash runs low.

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