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Citi's Muni Exit Creates Liquidity Test If Downturn Hits Market.

- **Nuveen's Blair says effect may be seen 'when it's risk off'**
- **BlackRock's Carney sees support in Citi bankers at new firms**

The recent departure of Citigroup Inc., a perennial top-10 underwriter of municipal debt, from that industry may eventually pose a challenge in the next muni downturn, said officials at two of the largest market participants.

"We haven't had an event that really presses on liquidity in the market in quite some time," Sean Carney, head of municipal strategy at BlackRock Inc., said at a public finance conference hosted by the Bond Buyer in Austin on Tuesday. He added that the hiring of many former Citigroup muni bankers and traders by other firms is a help to the industry.

The bank was a leader in the \$4 trillion market for US state and local debt for decades, working on financing projects as large as the rebuilding of the World Trade Center site and the installation of 65,000 streetlights in Detroit. When the unit slumped in recent years, Chief Executive Officer Jane Fraser determined it didn't fit with the firm's vision of becoming the premier bank for large, multinational corporations.

Citigroup's withdrawal from the market so far has had a "very marginal" effect on liquidity, David Blair, managing director at Nuveen LLC, said in a panel discussion at the conference. "Let's wait and see until we get that event when it's risk-off," he said.

Blair noted that a market downturn is when the absence of a liquidity provider could be felt. Banks often step in and buy bonds when prices are volatile. The muni market has posted a 1.25% loss so far this year, according to Bloomberg indexes.

Both Blair and Carney said that municipal bonds still look attractive despite high valuations.

It's "rates over ratios," Carney said, adding that tax-free securities still offer competitive yields compared to alternatives after adjusting for taxes. A 10-year tax-exempt bond sold by CommonSpirit Health in March had a taxable equivalent yield of 5.6%, he said.

"This is what people are looking at in the market," he said.

This year's increase in yields brings a "tremendous" investment opportunity within municipals, Nuveen's Blair said. His team likes high-yield municipals, given the risk of a recession is low, and bonds maturing in five to 10 years because of selling pressure in that part of the market.

BAB Brouhaha

During the panel, Blair touched on investors' pushback against refinancings of Build America Bonds, saying he's not confident they have a case against the refinancings. A group of bondholders have

hired a law firm to challenge a recent deal by the University of California.

Carney said he thinks the issuance of new deals could slow down and be pushed into the second half of the year and continue into 2025.

“It throws some sand in the gears of the timing of these deals,” he said.

The BlackRock strategist also said he’s focused on discussions with advisers about shifting out of cash, anticipating that once the Federal Reserve starts cutting rates, front-end yields will fall.

Regarding overall credit quality among munis, Carney said he’s seeing a “divergence” among states that rely on income taxes, like California, compared to states that rely on taxes on consumption, like Texas.

Bloomberg Markets

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April 16, 2024

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