



## U.S. Municipal Bond Market

# LOWERED AIRPORT SECTOR OUTLOOK: RECENT COVID-19 IMPACT

### Summary

The number of COVID-19 cases in the U.S. has topped 1,000. Preparations at the state and local level have intensified but are uneven. Washington Governor Jay Inslee banned gatherings of 250 or more in Seattle, WA.<sup>1</sup> New York state established the country's first containment zone in New Rochelle, Westchester County.<sup>2</sup> Globally over 100 countries have reported COVID-19 cases and the number of cases globally has reached over 117,000. Sixty thousand patients have recovered while there have been 4,200 deaths reported. Only 24 new cases have been reported in China, which is potentially news that can be built on over the near term.<sup>3</sup>

### COVID-19 Uncertainty Impact on the U.S. Municipal Bond Market Activity

After the Federal Reserve enacted their surprise 50 basis point cut on March 3, much has happened in municipals. After a record 60 straight weeks of flows into municipal mutual funds, Lipper reported on March 5 that \$249 million flowed out of municipal funds. This was an important signal of shifting investor demand and a key dropping-off point because, previously, it could have been argued that municipals were being viewed as one of the sheltered asset classes. After this point, that was not the case. Demand for U.S. Treasuries accelerated and caused municipal-to-Treasury (M/T) ratios to rise. However, this M/T environment was generally not seen as a buying opportunity. A total of about \$11 billion of primary market municipal issuance was expected to price during the week of March 9. But, municipal bond market demand has been unsteady at best. The issues being priced are coming at spreads wider than expected and some issues have already been postponed.

### HilltopSecurities Municipal Sector Credit Outlooks

Sector	Hilltop Credit Outlook	Recent Action	Key Sector Trends
State Government	Cautious	None	Oil prices will weigh on some budgets & pension assets could be damaged
Local Government	Cautious	None	Local economic activity could take a hit b/c lack of events, students, etc.
School Districts	Cautious	None	Schools and charter schools could be pressured without state/federal aid
Airports	Stable	Lowered	We lowered our outlook because of expected pressure from less activity
Health Care	Negative	None	Uncertainty especially about how prepared the sector is for COVID-19
Higher Education	Negative	None	Dozens of schools have postponed or prepared for students to work remotely
Housing	Positive	None	Minimal potential credit impact to large state HFA programs, others case by case
Public Power (Elec.)	Stable	None	Essential purpose, usage could slow, only material if for an extended time
Tobacco	Negative	None	Seen credit spreads in this sector continue to widen out
Toll Facilities	Stable	None	Some activity could be impacted on a case by case basis, duration a key
Water and Sewer	Stable	None	Essentially continues to be a key factor in this sector, most will agree

Source: HilltopSecurities

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*While it is too early to predict the exact impact on domestic and international airport activity, including enplanements, we are seeing enough forecasts and shifting behavior from major airlines to act and lower our outlook.*

### **Credit: We are Lowering Our Airport Sector Outlook to “Stable” from “Positive”**

While it is too early to predict the exact impact on domestic and international airport activity, including enplanements, we are seeing enough forecasts and shifting behavior from major airlines to act and lower our outlook. Therefore, we are dropping our Airport sector outlook to “Stable” from “Positive.” This is what we are seeing from the airlines:

- American Airlines announced it plans to cut 7.5% of its domestic flights in April and 10% of its international activity over the summer.<sup>4</sup>
- Delta is planning to cut their domestic flights by 10-15% and will go further with its international flights as the airline plans to trim them by 20-25%.<sup>5</sup> Delta’s CEO explained, “We are prepared to do more as the situation evolves. Should the environment get worse, we can go deeper.”
- United Airlines described that their net domestic demand (new reservations minus cancellations) was down 70% while gross domestic bookings, a measurement of current demand, are down by 25%. United is planning to cut domestic flights by 10% and international by 20%, and is planning to cut more if necessary.<sup>6</sup>
- JetBlue says flight demand has fallen more in response to COVID-19 than it did after 9/11. The JetBlue CEO also said, “We’re planning for it to get worse. We don’t think bookings have stabilized yet.”<sup>7</sup>

After 9/11, domestic enplanements fell by a little over 12% while after the financial crisis they fell by almost 9%. A key difference is that the U.S. airline industry and most large, medium and small U.S. hubs were in better fiscal shape before March 2020 than they were prior to 2001 and 2008. “This is what they have prepared for. Every CEO that’s running an airline today was involved in the airline industry in some capacity in 2001 and 2008,” said Helene Becker a senior airline analyst. We are going to consider a wide range of factors related to the airlines generally and specific airports as we observe activity over the coming weeks and months.

We have been seeing municipal airport and airline bonds trading at wider spreads in recent weeks over similar news and expect this activity could continue in coming weeks especially if the news worsens before it gets better. At this point, we believe we are still probably closer to the beginning than the end of this process, and this is especially the case as we await news on an almost daily basis about how the federal, state and local levels of government are reacting to the spread of COVID-19. We expect that our “Stable” outlook will remain unless updates from the airports indicate demand has softened even more. Our opinion could also fall further if airport activity is muted for an extended period. For now, we believe larger airport hubs are in a better position to weather the storm. The medium and smaller airports should be considered on a case-by-case basis.

### **Will there be Additional Federal Stimulus?**

There have been recommendations of including incentives focused on the airline industry in a potential federal stimulus plan. However, the timing and the content of the stimulus at this point cannot be counted on, based on our assessment of the political landscape. Meaning: 1) it does not seem as though conversations are occurring across the aisle in Washington, D.C., at this point that would move the needle from an overall dollar amount, and 2) we are not hearing or reading anything that leads us to believe that aid to the airline or airport sector is imminent. However, we would view this as a positive if or when it occurs.

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### Recent HilltopSecurities COVID-19 Municipal Commentary

- [Falling Confidence and No Federal Stimulus Increase to Start the Week](#), March 9, 2020
- [Uncertainty – What the Municipal Market Knows and Doesn't Know About COVID-19](#), March 4, 2020
- [Bracing for the Worst; the Coronavirus Market Effect – Status of the Coronavirus Impact on the US Municipal Bond Market \(page 2\)](#); Feb 26, 2020.

### Recent HilltopSecurities COVID-19 Economic Commentary

- [Untying the Knot](#), March 10, 2020
- [Runaway Markets Ignore Massive Payroll Number](#), March 6, 2020.
- [Bracing for Zero](#), March 5, 2020

<sup>1</sup> [Gov. Inslee to ban gatherings, events of more than 250 in Seattle amid coronavirus outbreak, AP Reports](#); KIRO7, Associated Press; March 10, 2020.

<sup>2</sup> [Soucheray, Stephanie; First US COVID-19 Containment zone in NY, 51 more cases in Massachusetts](#); University of Minnesota Center for Infectious Disease Research and Policy; March 10, 2020.

<sup>3</sup> [U.S. Cases Top 1,000; Containment Efforts Boosted: Virus Update](#); Bloomberg News; March 10, 2020.

<sup>4</sup> [Isidore, Chris; American and Delta slash US and overseas flights as coronavirus causes a plunge in bookings](#); CNN; March 10, 2020.

<sup>5</sup> *Ibid.*

<sup>6</sup> [Josephs, Leslie; United Airlines' US bookings plunge 70% as coronavirus spreads](#); CNBC; March 10, 2020

<sup>7</sup> [JetBlue CEO says demand for flights has fallen more due to coronavirus than after 9/11](#); CNBC; Mar 10, 2020.

<sup>8</sup> Bureau of U.S. Transportation Statistics from article: [Fixed revenue, strong DSCRs will fortify US airports through a mild recession](#); Moody's Investor Service; Sept 24, 2019.

<sup>9</sup> [Chokshi, Niraj; U.S. Airlines Say They Can Absorb Impact of Coronavirus on Travel](#); New York Times; March 10, 2020;

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