Municipal Bond Sector Credit Outlooks

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- We assigned two “Positive,” three “Stable,” three “Cautious,” and three “Negative”outlooks to our municipal bond sectors.
- Common themes: 1) How issuers are reacting to the New Fiscal Reality and 2) rising costs of pension liabilities are obvious drivers of credit quality and are the leading reasons we assigned “Cautious” outlooks to the tax-backed sectors.
- The Airport, Public Power, and Toll Facilities sectors are “Positive” or “Stable” but could encounter some weakness during the next economic downturn.
- The Health Care, Higher Education, and Tobacco sectors have all been experiencing a moderate to high amount of general credit deterioration and market conditions have generally resulted in an above average number of rating downgrades. Each of these sectors have a “Negative” outlook as a result.
- We assigned a “Positive” outlook to the Housing sector mostly because of the duarability state housing finance agencies (HFAs) exhibited through the recession, and because of the reinforcement most underwent in recent years by adding supplementary financing options to their repertoire.
- Water and Sewer issues are typically more insulated from economic cycles, and they have built extraordinary liquidity cushions since the end of the Great Recession. We assigned a “Stable” outlook to the sector.

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