Investors grab hefty yields in Illinois and Chicago bond sales

Excerpt below from “Investors grab hefty yields in Illinois and Chicago bond sales”
By Karen Pierog, Reuters, March 26

Shaun Burgess of Cumberland Advisors

CHICAGO – Yield-hungry investors on Tuesday snapped up more than $1.1 billion of general obligation bonds offered by Illinois and Chicago, two of the U.S. municipal market’s most financially troubled issuers.

While the state and its largest city continued to pay a high price for their fiscal woes, their deals benefited from low supply in the $3.8 trillion market and “a ton of cash” looking for bonds to buy, according to Greg Saulnier, a Municipal Market Data (MMD) analyst.

“Yields are so low that some guys are willing to take a risk for the yield grab,” he said.

Shaun Burgess, a portfolio manager at Cumberland Advisors, agreed. “Clearly, demand is discounting some of the credit risks associated with these issuers,” he said. MMD narrowed so-called credit spreads for Illinois, the lowest-rated U.S. state, at a notch or two above junk, due to its huge unfunded pension liability and chronic structural budget deficit, in the wake of a $440 million bond sale. The state’s spreads remain the widest among U.S. states.

Chicago, which is also struggling with pension funding and deficits, increased the size of its bond offering to nearly $728 million and moved pricing up by a day. There was enough demand to allow underwriters to lower yields by 5 basis points in most maturities through a repricing.

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