Illinois to sell debt as fiscal woes worsen in coronavirus outbreak

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by Karen Pierog – May 05, 2020

CHICAGO, May 5 (Reuters) – Illinois, the U.S. state in the worst fiscal straits even before the COVID-19 pandemic, faces high borrowing costs when it sells $2.2 billion of debt starting on Wednesday, in part to deal with the economic fallout from the virus.

A BofA Global Research report on Friday said: “Ultimately, we think there is a better than 50-50 chance that Illinois will be downgraded to below investment grade by the end of 2020 by at least one rating agency. That does not mean, however, that we expect the state to default on its debts.”

As long as it retains one investment-grade rating, most funds can continue to buy the state’s debt, according to John Mousseau, president and CEO of Cumberland Advisors. The fact that Illinois bonds have “yield in spades” could draw overseas buyers thirsting for yield to the $300 million of taxable bonds the state is selling next week, he said. “Having a wider audience, particularly if you are a credit that has issues, is better,” he said.

Full story at Reuters: https://www.reuters.com/article/usa-illinois-bonds/illinois-to-sell-debt-as-fiscal-woes-worsen-in-coronavirus-outbreakidUSL1N2CI2O0https://www.reuters.com/article/usa-illinois-bonds/illinois-to-sell-debt-as-fiscal-woes-worsen-in-coronavirus-outbreak-idUSL1N2CI2O0

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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