The two biggest challenges facing municipal bonds

Dan Rabasco, head of municipal bonds at Mellon, a BNY Mellon company, says there are distinct shorter- and longer-term challenges for his asset class.

There are challenges that are confronting municipalities across the board with some differentiation, though, between the municipalities. I will highlight two.

Pension fund challenges. That is something that every state and local government is facing to a degree. There are some states and localities that are doing a good job, and there are other states and localities that aren’t doing a good job. But the unifying feature is they’ve got this responsibility, this obligation, they have to fund it, and some are doing well and some aren’t. But that’s something that our credit analysis looks at when making a decision in terms of fundamental credit research.

The other challenge is climate change. Municipalities are going to be facing that challenge over the long-term, and they’re on the forefront, they’re on the frontlines. The Federal Government has abrogated its responsibilities in terms of the Paris Accords, municipalities have stepped it up forming alliances to try to reduce emissions, try to foster sustainability and resiliency. And then they’re also trying to harden infrastructure for the challenges of climate change. With sea levels rising, coastal communities can be affected, coastal population migration could develop, outmigration as property values fall, as these municipalities are hit by flooding.

Additionally, agrarian-type economies in the Midwest will be facing higher temperatures, droughts, and impacts to their GDPs. So municipalities have to face these challenges, and some have long-term plans in place that they’re pursuing and others are just starting. So that is another challenge for municipalities.

Definitions

Paris Accords - The Paris Agreement (or Accords) is an agreement within the United Nations Framework Convention on Climate Change, dealing with greenhouse-gas-emissions mitigation, adaptation, and finance, signed in 2016.

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