

CONNECTICUT AND HARTFORD YIELDS RISE IN WAKE OF DOWNGRADE BY CREDIT RATING AGENCIES

The State of Connecticut was downgraded by S&P on Wednesday, making it the last of the largest three rating agencies to cut its rating on the issuer. The S&P rating cut was preceded by rating cuts by Moody's and Fitch. The issuer was dropped from AA- to A+ by S&P/Fitch and from Aa3 to A1 by Moody's.

The consensus amongst the rating agencies was due to overall economic weakness resulting in slumping state revenues. Population data provided by IHS Markit has shown a steady decline in Connecticut's population from 2013 through 2017. In 2013, Connecticut had roughly 3.6 million residents. The number of residents has declined to 3.56 million residents in 2017.

Connecticut's economic woes have taken a toll on its bond yields. Evaluation data provided by IHS Markit have shown an uptick in yields on its outstanding debt. For example, yields on the 5% coupon, State of Connecticut GO bond due in 2035 have increased 16 basis points to 3.47% following the downgrade. Yields on this State of Connecticut GO bond were evaluated as low as 3.31% this month.

Connecticut's economic troubles are not limited to the state level. The state's capital of Hartford has also suffered from economic troubles. S&P recently lowered its rating on the city of Hartford from BBB to BBB-, just one notch above junk bond status. S&P stated that the downgrade was due to uncertainty around whether Connecticut will increase intergovernmental aid or lend state aid to Hartford. Hartford currently has a \$40 million dollar budget shortfall, and that number is expected to balloon to \$70 million by 2021. The mayor of Hartford has even explored the option of filing for Chapter 9 bankruptcy.

The municipal bond market didn't react well to this news as yields on Hartford GO bonds skyrocketed. According to evaluation data provided by IHS Markit, yield on a 5% coupon, Hartford GO bond due in 2029 spiked to 7.09% - a whopping 429 basis points above IHS Markit's AAA curve. The yield on this Hartford bond was evaluated around 5.14% earlier this month. After the downgrade on this Hartford GO bond occurred, IHS Markit observed a dramatic increase in dealer quotes and MSRB trade data.

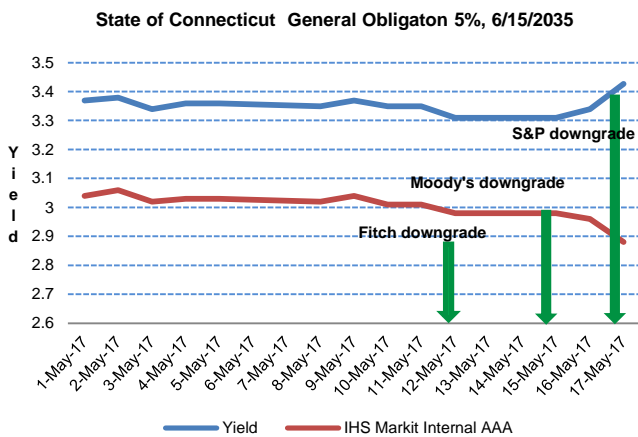


Figure 1: Yield of the 5% 2035 maturity Connecticut State GO amidst the downgrades

Source: IHS Markit

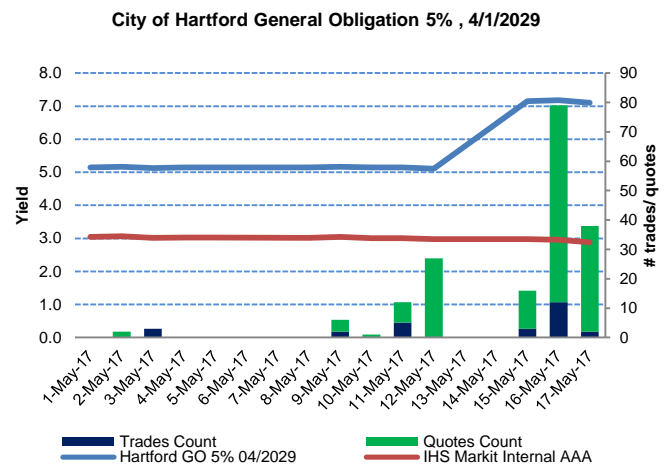


Figure 2: Yield of the 5% 2029 maturity City of Hartford GO and its trade/quote volume

Source: IHS Markit



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