Municipal Bond Markets and the 2020 Election

Lord Abbett's municipal bond team shares their thoughts on the potential implications of the 2020 election for select areas of the tax-free fixed income market.

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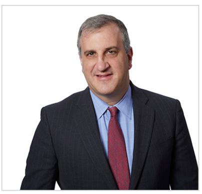

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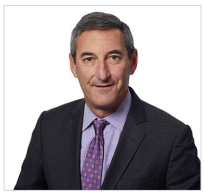

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For this week's *Market View*, we decided to take a deeper dive into the municipal bond markets and the potential implications of the 2020 election. (You can find additional commentary on taxable fixed income and equities on LordAbbett.com.) We'll explore specific sectors, but before we do so, it's important to note first and foremost that we believe municipal bond markets will be in good shape after Election Day regardless of which candidate wins. We think a Republican victory would mean tax rates remain where they are, and we think a Democratic victory would mean higher taxes for individuals and corporations. In both cases municipal markets would see strong demand.

2020 ELECTION SCORECARD: Municipal Bond Markets

ISSUE	IF THEY WIN ...	POSSIBLE IMPLICATIONS
Fiscal Stimulus	If Democrats win the White House and the Senate, the likeliness of a fiscal stimulus increases	Fiscal support for state and local governments would also increase
Health Care	If Republicans win, there could be some pressure in the Health Care sector if moves are made to reverse the Affordable Care Act	If patients lose their health insurance or access to Medicaid, it could mean more unpaid bills at the hospital.
Education	If Democrats win, the education sector could face some uncertainty	Lower cost and free college education initiatives would be more supportive of public universities Demand for some lower-tier private universities could decrease
Real Estate	If Democrats win, they could move to reverse the cap on state and local tax deductions	This could improve real estate values in higher tax states such as New York, New Jersey and California
Infrastructure	Either party is likely to increase spending on infrastructure	An emphasis on infrastructure would increase municipal bond supply We might see more taxable bonds than tax exempt, similar to the Build America Bond program after 2008

Source: Lord Abbett.

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Future Fiscal Stimulus

If the Republicans win, and there isn't a significant amount of additional stimulus, we believe it will impact the overall supply in the marketplace. From what we've seen in recent weeks and months, any supply is being met with more than enough demand, and we think that's likely to continue. If Democrats win, we believe the likelihood of additional fiscal stimulus increases, and the size of the bill would be that much greater. In our view, there would also be increased fiscal support for state and local governments.

The Health Care Sector

While Republicans' plans for the health care sector are still to be determined, we think the sector has performed relatively well under the current administration. However, a Republican win could renew pressure on a reversal of the Affordable Care Act. Without knowing what an alternative would be, it is likely many people would lose health insurance, meaning more unpaid hospital bills. If Democrats win, certain provisions of the Affordable Care Act could be reinstated, which means fewer unpaid bills and more proactive care.

Public and Private Education

We don't believe there will be much of a change in higher education policy if Republicans remain in power. If Democrats win, we believe private universities within the education sector could face some uncertainty. The reason, in our view, is that any plan to provide lower cost or altogether free college education will likely better support public universities, thus reducing demand for some lower-tier private universities.

Real Estate & Other Tax Implications

If there's a Republican win, it's less clear as to where the underlying tax rate may go, but we imagine it might have little if any impact on the municipal bond market. We believe that a Democratic victory would likely mean higher taxes. We see this as a positive for the municipal bond market, as it would make the asset class much more attractive on a relative basis, both for corporations and individuals. A Democratic win may also mean a reversal of the cap on state and local tax deductions, which we believe could improve real estate values in higher tax states such as New York, New Jersey and California.

An Emphasis on Infrastructure

For the most part, we believe infrastructure will be a key focus for Washington after the election, regardless of outcome. This could increase municipal bond supply. While this could put some upward pressure on yields, we think the market is likely to absorb the new supply. One thing we'll be keeping an eye on is whether we see an issuance of more taxable municipal bonds (versus tax-exempt), which is what we saw after 2008 with the Build America Bond program. At the same time, increased infrastructure spending will require new funding sources, which is a positive for municipal credit.

The days and weeks following the 2016 election proved to be particularly challenging for municipal markets, when we saw a steepening yield curve and municipal bond fund outflows. We don't believe the outcome this year will have an impact, and are focusing more on the economic implications of a potential COVID-19 resurgence.

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