



## Muni Upgrades? Not So Fast...

Yesterday, Fitch and Moody's Investor services announced that they are delaying the implementation of their ratings recalibration process due to the recent financial turmoil. We certainly believe that this is a prudent decision as state and local governments are facing budgetary headwinds and constrained conditions to raise capital.

What impact will this news have on the municipal bond market? We believe none. Why should bonds that are rated less than "AAA" be worth any less today, when bonds never appreciated on the initial news of the recalibration. If the credit was never officially upgraded, there should be no "give back" because there was no benefit. Said another way, the worst performing segment of the municipal bond market has been in the lower-rated universe. If investors were truly pre-paying for a FITCH/ Moody's upgrade, then these credit spreads (difference between high and low quality bonds) would have tightened during the quarter and not widened.

The same could not be said when some of the financial guarantors lost their "AAA"-rating. In that instance, the market had to adjust the price of the bonds as there was a true change in the creditworthiness of the bond. At RSW Investments we never purchased "A"-rated bonds in the hope that the recalibration process would take them to "AA". Rest assured, we purchase bonds based on their creditworthiness, which includes taking into consideration the reliability of their revenue source.

Also noteworthy yesterday, was the Federal Reserve announcement that it will purchase commercial paper directly from corporate issuers. The goal of the program is to provide short-term liquidity to cash starved entities. Thus far, there hasn't been any concrete announcement that states are part of the program but we believe they will be. Let me get this straight, the Fed will inject cash in to the corporate coffers of GE, but will say no to providing funding to the State of Massachusetts. Please!

Sincerely,  
Robert S. Waas  
Managing Member

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