

# THE BOND BUYER

## Issuers on alert amid high-stakes debt ceiling talks in White House

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As President Joe Biden holds a high-stakes meeting Tuesday with House Speaker Kevin McCarthy to try to break the debt ceiling impasse, issuers are keeping watch on the specter of a possible U.S. rating downgrade, which would reverberate through the municipal bond market.

For issuers, a downgrade of the U.S. sovereign rating — which could occur even without a default, as happened in 2011 — would carry downstream effects on state and local governments.

In 2011, the S&P Global Credit Ratings' one-notch downgrade of the U.S. debt [led to cuts in local and state credits](#) that were closely linked to the federal government. Housing, health care and Garvee bonds, secured by federal transportation bonds, are among the most exposed to downgrades. Muni credits that carry AAA ratings also face cuts if the sovereign rating falls below that threshold.

"The tethered nature of the sovereign [rating] to states and local governments is a true concern for us," said Emily Brock, federal liaison for the Government Finance Officers Association, during a Bond Buyer podcast that will air next week.

"The potential for the sovereign to receive the downgrade could potentially draw down the credits of states and local governments," Brock said.

In the wake of the Bipartisan Infrastructure Law, federal funding has become more important than ever to a variety of infrastructure projects.

"At the end of the day, what we're talking about in colloquial terms is costs rising at the state and local level and we can't have that right now. This is a precarious point in time where there are lots of states and local governments participating in projects" that rely on federal funding, she said. "And so that intergovernmental relationship is extreme right now."



President Joe Biden will meet with congressional leaders to try to hammer out a deal to avoid a default on the nation's debt.

***Bloomberg News***

As capital markets begin to churn in reaction to the political brinksmanship, some issuers may opt to hold off pricing deals, lowering issuance in an already low-volume market.

The meeting comes as Treasury Secretary Janet Yellen warned the U.S. could hit its \$31.4 trillion debt limit as soon as June 1. Last week, [Treasury suspended the sale of State and Local Government Series securities](#), narrowing refunding options for issuers.

Biden and Senate Democrats are pushing to lift the debt limit without conditions while Republicans are demanding spending cuts. The House GOP on April 26 [passed legislation](#) that includes deep cuts as well as clawing back pandemic relief funds, an issue that also has issuers on high alert.

Tuesday's meeting, which includes Biden, House Speaker Kevin McCarthy, R-Calif., Senate Minority Leader Mitch McConnell, R-Ky., House Minority Leader Hakeem Jeffries, D-N.Y., and Senate Majority Leader Chuck Schumer,

D- N.Y., likely will not resolve the debate but possibly open a path to more negotiations.

"I wouldn't call it a debt ceiling negotiation. I would call it a conversation between the four leaders and the president," White House press secretary Karine Jean-Pierre told reporters on Monday.