ONE YEAR LATER – RATING AGENCY PERSPECTIVES ON COVID-19

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Transportation

Transportation

FitchRatings

Air traffic recovery has been slower than forecast in 1H21; growth should accelerate in 2H with increased vaccinations and the release of pent up leisure and holiday travel demand.

KBRA

Passenger volume is improving to various degrees with American Rescue Plan Act (ARPA) stimulus dollars providing near to medium term support. Pandemic fears will continue to play a part in the overarching credit picture.

Moody's

Liquidity has been the key. The additional $8 billion of support for airports from ARAP through 2024, and the improved prospects for domestic air travel have stabilized the US airport sector. For metros, ARAP stabilizes near term credit profiles, but expect the need to balance social inequalities with a permanent drop in operating revenue post pandemic to present challenges.

S&P Global

The federal fiscal and policy response over the past year played an outsized role in supporting credit quality across the transportation subsectors hit hardest by the pandemic. Healthy reserves heading into 2020 and strong management were also important considerations.

Economically Sensitive Taxes

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KBRA

ARPA is a shot in the arm but the more sensitive/narrow the base, the longer the road back.

Moody's

Municipal sector's strong ability and willingness to pay proved critical, particularly willingness of parent governments to support tourist based credits.

S&P Global

Many tax sources were more resilient than expected (sales/personal income tax) while others experienced sharp reductions that could be prolonged (hospitality taxes). The ability to restructure bond issues and the presence of reserves were important to credit performance for issuers who saw significant revenue shortfalls.

FitchRatings

Strength in retail that has supported strong sales tax performance may reverse as vaccinations increase and demand shifts to service-based activities that are subject to varying levels of taxation.

Healthcare

Healthcare

Moody's

Expect funding by hospitals to ensure more equitable access and distribution of healthcare services and the rise in labor expense (e.g. nursing) to continue.

S&P Global

The sector displayed significant resiliency over the past year. Federal stimulus funds early on coupled with management discipline and healthy balance sheets insulated many not for profit health care entities from longer-term impact pandemic related disruption.

FitchRatings

Emergency department volume may not rebound to 2019 levels for many years, if at all; this should be fine for larger health care systems, but may have consequences for smaller hospitals.

KBRA

Size and management matters. The divide in credit quality among providers is likely to remain.

Higher Education

Higher Education

S&P Global

Proactive management has been critical in navigating the swift transition to online learning and revenue deterioration. The importance of enterprise risk management was magnified given the events of the past year.

FitchRatings

State and federal funding will support most schools for the next year or two, but pre-existing sector challenges were exacerbated by the pandemic and will still pressure the sector over the long run.

KBRA

COVID-19 spotlights the gap between stronger institutions and more marginal institutions.
Strength of management, brand and financial flexibility/liquidity key to allowing management to pivot away from lost revenue sources.

Moody's

Expect trends already in place to accelerate- shift to hybrid forms of delivery, focus on value and affordability, social determinants of educational success….

General

General

FitchRatings

High-frequency data are particularly useful in a rapidly changing environment like the pandemic, allowing analysts to recognize and monitor emerging trends.

KBRA

Expect the unexpected: not all of COVID's knock on credit effects have materialized and not all significant credit developments will be solely COVID-19 related.

Moody's

COVID-19 pandemic crystalized racial, gender and income inequalities that will impact governance, operations and investment decisions in all sectors of the municipal market going forward.

S&P Global

The past year has been a spotlight on ESG issues that we expect will have lasting credit implications.

QUESTIONS?