



## MUNICIPAL BOND RATING OUTLOOKS AND WATCHES

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Bond Rating “outlooks” and “credit-watches” are not rating changes. They were first instituted by S&P in 1981, and subsequently adopted by Moody’s and Fitch. They should represent leading indicators for future bond ratings. But because the raters are slow in changing ratings, the bond market treats them as rating upgrades or downgrades.

Outlooks indicate possible rating upgrades/downgrades over three-years. A credit watch is more serious: it indicates that the rating may be upgraded/downgraded in the next three to nine months. Having worked as Chief Municipal Rating Officer at S&P, it is my opinion that negative rating outlooks and “watch” assignments are applied more frequently than positive forecasts. In addition, there is no requirement that a negative outlook/credit watch be assigned prior to an actual rating change. This is common for smaller bond issuers, which are reviewed less frequently than states, large cities, counties, and school districts which sell new bonds several times in a year.

New bond issues generate additional revenue for the raters by policy. Failure to have new bond issues reviewed and charged can cause existing bond ratings to be withdrawn. Infrequent issuers pay no fees unless they sell a new bond issue. The raters strive to do annual reviews on issuers that do not sell new bonds, but that frequency is spotty. These issuers can provide value to investors if you or your advisor do your homework. You might find an issuer that is underrated because the raters are late in their review. Conversely, you might want to sell a “distressed” bond before the raters catch up with that issuer’s poor financials. Finding gems or “fool’s gold” is basically my job for Stoever Glass.

## About the Author

### **RICHARD P. LARKIN, Stoever Glass & Co., Inc.**

*Richard Larkin, a recognized 40 year industry veteran, has joined SG & Co. as Director of Municipal Credit Analysis. Mr. Larkin began his career in credit rating analysis at Standard & Poor's in 1975. After rising through the ranks in various analytical and management positions, Dick left S&P as its Chief Municipal Rating Officer, responsible for municipal rating policy, practices, governance and criteria. In 1998, Mr. Larkin joined Fitch Ratings as Chairman of its Public Finance Criteria Committee.*



*“Dick will be a unique resource to Stoever Glass' municipal clients. His knowledge in specific issues and areas of the municipal bond industry will aid our representatives and their clients in making educated decisions, in a sector where this type of research is unique,” said Roland Stoever of Stoever Glass.*



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