

U.S. market brief

Wealth
Management

Texas municipalities in the wake of Hurricane Harvey

Hurricane Harvey may ultimately be one for the record books, but its full effects will not be known for several days or weeks. Therefore, we believe it would be premature to speculate if this storm is any different than past catastrophic hurricanes. Assuming Harvey is not an outlier, history has proven that the storm's devastation should not translate into any municipal bond losses.



The municipal market has experienced several catastrophic hurricanes including Hurricane Andrew, Katrina, and Sandy in recent decades, yet by our recollection there has never been a municipal bond default as a result.

Hurricane Andrew hit southern Florida in 1992 as a category 5 hurricane, then raced across the Gulf of Mexico and thumped Louisiana as a category 3 squall. The storm destroyed more than 63,500 houses and damaged roughly 124,000 others in Florida, and flattened 2,986 homes and damaged 23,000 others in Louisiana.

Hurricane Katrina hit Louisiana in 2005 as a category 3 hurricane, and ultimately disturbed roughly 90,000 square miles of the United States. Over 80% of the city of New Orleans was inundated with upwards of 14 feet of water, and the city's population decreased by over 50% immediately after the storm.

Superstorm Sandy hit New York/New Jersey in 2012 as a massive post-tropical cyclone. The storm damaged/destroyed 661,000 homes and decimated New York's regional transportation infrastructure. Downtown Manhattan was flooded with over 4 feet of water, and all tunnels absent one into Manhattan were swamped, as were subways under the East River and lower Manhattan.

Communities rebuild

Numerous communities, including New Jersey coastal communities, Breezy Point (Queens), Florida coastal communities, North Carolina Outer Banks, and Galveston, have been decimated by past storms, yet the communities continue to thrive today. Similarly, Miami, New Orleans, and New York City were flooded but these cities are still flourishing.

Forecasting what an individual or group will do after a tragedy is inherently unpredictable. However, we believe the likelihood of someone rebuilding significantly increases if there is a reasonable probability of future prosperity. From our perspective, the Houston-area economy was flourishing prior to Harvey, and notwithstanding the temporary inundation, the economy should continue to prosper in its aftermath. In the interim, rebuilding stimulus and federal funding should boost the suppressed regional economy until the region regains its footing.

Time will tell

Individual municipal credits may have unique characteristics that could lead to adverse outcomes. However, notwithstanding the current tragic events, at this point, we do not believe the aftermath of Hurricane Harvey will be any different than past storms.

We believe the rating agencies may put certain adversely impacted credits on negative outlooks as a precaution, but if history is any precedent, we do not expect any payment disruption.

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