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New York City Credit Update: Noise vs. Signal

New York City (NYC) has once again moved to the center of the municipal market narrative. Between a new administration, an active policy and budget agenda, headlines have turned decisively more cautious as credit rating agencies have revised the city outlook to negative.

But if this were translating into real credit stress, we would expect to see it in the market. We're not...

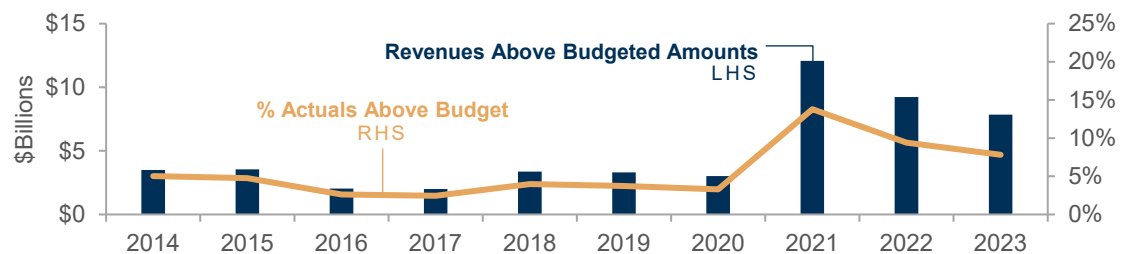
As one of the largest and most active issuers in the municipal bond market, NYC spreads remain contained, fundamentals are holding, and in our view, in the current backdrop it is not surprising. Further, a broader drift away from tax-backed credits towards essential service/revenue credits was a cornerstone in our 2026 Top 5 Insights. Still, though, in a retail driven market, it is important to peel apart the layers of nuance that separate headlines from actual fiscal reality.

Headlines vs. fiscal reality

As Mayor Zohran Mamdani advances his policy agenda, the city's FY 2027 budget has become a focal point. The preliminary plan includes a \$5.4 billion deficit—down meaningfully from the \$12.6 billion projection last November, supported by stronger personal income tax collections and incremental state support.¹

Looking ahead, projected outyear gaps of approximately \$6–7 billion are elevated but broadly consistent with prior financial plans.¹ More importantly, New York City operates within a disciplined fiscal framework: budgets must be balanced annually and supported by a rolling four-year financial plan. That structure, combined with historically conservative forecasting, has been a reliable constraint on fiscal drift.

FIGURE 1: ACTUAL REVENUES CONSISTENTLY EXCEED ADOPTED BUDGET AMOUNTS



Source: New York City Annual Comprehensive Financial Report FY 2014 through FY 2023

1. NYC Mayor's Office of Management and Budget - The City of New York Preliminary Budget Fiscal Year 2027.

The rating agencies' move to a negative outlook reflects the evolving policy backdrop, but it does not, in our view, represent a fundamental shift in credit quality.

Closing the gap: policy in focus

The path to closing the remaining gap is coming into clearer focus. The administration is weighing a mix of revenue options, including higher taxes on high earners and corporations (subject to state approval) and a potential property tax increase as a fallback.

The latter faces resistance from the City Council, while at the state level, Governor Hochul has thus far pushed back on broader tax increases—making Albany a key swing factor, particularly with the April 1 budget deadline approaching.

Importantly, the policy process itself is a stabilizing feature. Multiple layers of oversight—City Hall, the Council, and Albany—create a system of checks and balances that has historically moderated more aggressive fiscal outcomes.

FIGURE 2: FISCAL CONTROLS



Reserves and structural strength

Even under a scenario where reserves are utilized, the city's financial position remains strong. Current plans contemplate drawing on the Rainy Day Fund and Retiree Health Benefits Trust, but reserve levels would remain in the \$6+ billion range ², consistent with solid historical coverage.

More broadly, New York City's fiscal foundation continues to provide meaningful support. Reserves have reached record levels in recent years, and when including additional available resources, total savings represent a significant share of revenues.³ Just as importantly, the city has a long track record of revenue outperformance relative to budget assumptions, reflecting conservative forecasting practices.

Market perspective: positioning vs. fundamentals

If headlines were translating into sustained credit concern, spreads would be much wider.

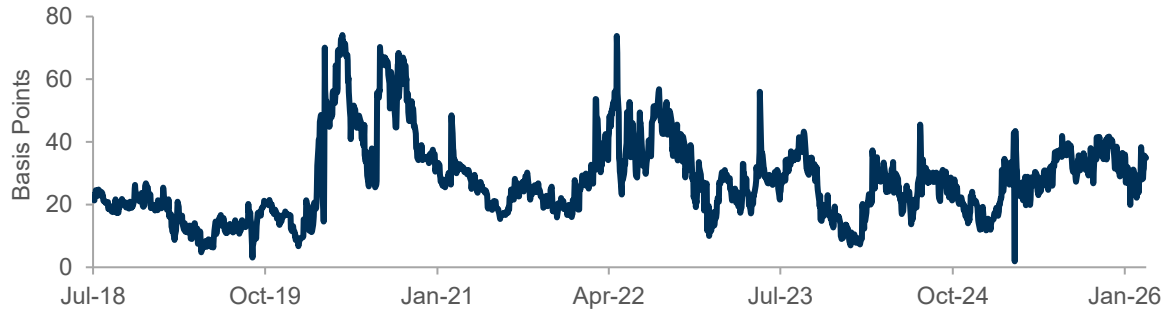
Instead, 10-year NYC GO spreads are ~34 bps, not too far from longer term averages and a far cry from the wides we saw in 2020. Notably, spreads have remained somewhat range bound following Moody's outlook revision, suggesting the market is not pricing in meaningful deterioration.

² NYC Mayor's Office of Management and Budget - The City of New York Preliminary Budget Fiscal Year 2027

³ New York City Annual Comprehensive Financial Reports FY25

That said, sentiment was more cautious earlier in the cycle. Periods of volatility were amplified by participation from more tactical, headline-driven investors, creating technical pressure at times.

FIGURE 3: NEW YORK CITY CREDIT SPREADS



Data as of March 24, 2026
Source: Bloomberg

Interestingly, this week, the city is coming to market with a multi-billion-dollar issuance. This supply arrives at a more challenging moment for the broader market, with rates under pressure, geopolitical uncertainty elevated, and a heavy municipal calendar weighing on demand. Against that backdrop, it would not be surprising to see some concession or weaker pricing on the deal.

Even so, we would view any near-term weakness through the lens of market technicals rather than a fundamental shift in credit quality.

Economic and revenue backdrop

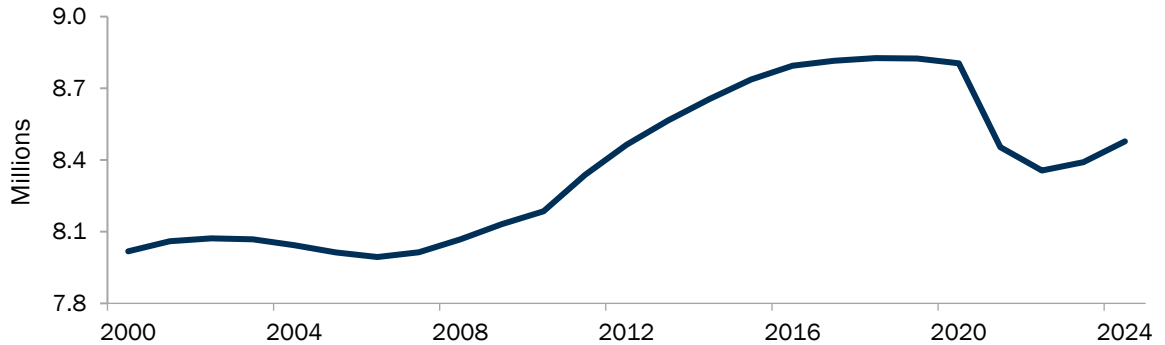
The fundamental story for New York City remains intact. Revenues are at record levels, with personal income tax collections up 10% and corporate tax revenues up 5%. The labor market continues to show resilience, with private-sector employment approximately 144,000 jobs above pre-pandemic levels.⁴

Demographic trends have also stabilized, with population growth returning over the past two years, supported by international migration. At the same time, office utilization has surpassed 2019 levels—an important signal for the city’s commercial base and broader economic normalization.

New York City also benefits from strong bondholder protections embedded across both GO and Transitional Finance Authority (TFA) structures, providing an additional layer of credit stability through cycles.

4. NYCEDC State of the New York City Economy 2025

FIGURE 4: NEW YORK CITY POPULATION | 2000-2024



Data as of July 2024
 Source: United States Census Bureau Intercensal Estimates

Bottom line

We expect there will be no shortage of headlines as the FY 2027 budget process unfolds, and the potential for rating pressure remains if fiscal or policy outcomes weaken over time.

Rating agencies also tend to take a more active posture with larger, high-profile issuers, where maintaining fiscal discipline is viewed as particularly important. That dynamic can at times contribute to a more cautious tone in outlooks and ratings actions.

That said, while we cannot predict whether the city will ultimately be downgraded...however, the core credit story remains intact.

New York City continues to benefit from a large and diversified economic base, structurally conservative budgeting, multiple layers of fiscal oversight, and substantial reserves. While market technicals—including the upcoming issuance—may drive near-term price action, we remain focused on these underlying fundamentals.

FIGURE 5: BONDHOLDER PROTECTIONS PROVIDE ADDITIONAL LAYER OF CREDIT STABILITY THROUGH CYCLES

GO Seniority



GO bondholders receive payment ahead of operating expenses, regardless of short-term population changes, ensuring stable debt service.

State Management of Fund



Property tax collections are held in the General Debt Service Fund, which is managed by the State Comptroller until debt service is paid in full.

TFA Automatic Transfer



The TFA indenture provides for an automatic transfer of income tax and sales tax revenues, which cannot be accessed by the city until debt service is satisfied.

Source: Bloomberg

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