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How To Wipe Out Puerto Rico's Debt Without Hurting Bondholders.

During his visit to hurricane-stricken Puerto Rico, President Donald Trump shocked the bond market when he told Geraldo Rivera of Fox News that he was going to wipe out the island's bond debt. He said on October 3rd:

You know they owe a lot of money to your friends on Wall Street. We're gonna have to wipe that out. That's gonna have to be - you know, you can say goodbye to that. I don't know if it's Goldman Sachs but whoever it is, you can wave good-bye to that.

How did the President plan to pull this off? Pam Martens and Russ Martens, writing in Wall Street on Parade, note that the U.S. municipal bond market holds \$3.8 trillion in debt, and it is not just owned by Wall Street banks. Mom and pop retail investors are exposed to billions of dollars of potential losses through their holdings of Puerto Rican municipal bonds, either directly or in mutual funds. Wiping out Puerto Rico's debt, they warned, could undermine confidence in the municipal bond market, causing bond interest rates to rise, imposing an additional burden on already-struggling states and municipalities across the country.

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