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Puerto Rico Bonds Stage Record Rally as Surplus Projected.

- **Most active securities jump by 11% on new recovery forecasts**
- **With federal aid coming in, government now expects a surplus**

Puerto Rico bonds rallied the most since the island collapsed into a financial crisis, with prices jumping almost 11 percent after the territory projected budget surpluses that may allow it to resume bond payments in as little as two years.

General obligations with an 8 percent coupon and maturing in 2035, the territory's most active securities, rose Wednesday to an average price of 29 cents on the dollar, the highest since Nov. 1 and up from 26.2 cents Tuesday. It was the biggest one-day gain since the bonds were first issued in March 2014.

The increase reflects a more optimistic view by investors, who dumped the island's debt after it was battered by Hurricane Maria in September amid speculation they faced even deeper losses once the government emerges from bankruptcy.

But the influx of federal aid has left Puerto Rico anticipating a more rapid financial recovery than it did just last month. The updated fiscal plan released Tuesday projects that it will have a $2.8 billion surplus through fiscal 2023, after accounting for bankruptcy costs and other expenses. That's a stark shift from its forecast in January that it would have a large deficit over the next five years.

"The dearth of good news, when there is some, gets a quick positive reaction," said Matt Dalton, chief executive officer of Rye Brook, New York-based Belle Haven Investments, which manages $6.8 billion of municipal bonds, including insured Puerto Rico debt. "Surplus buy, deficit sell."

The rally extended to other commonwealth debt. Senior sales-tax bonds maturing in 2040 traded at an average 51.1 cents on the dollar Wednesday, the highest since Sept. 27, according to data compiled by Bloomberg. Securities issued by the public buildings authority that are due in 2039 rose to 26.9 cents from 24.2 cents.

Puerto Rico has been defaulting on bond payments since 2015 and last year filed for bankruptcy protection from creditors, as allowed under a law signed by then-President Barack Obama to help the island arrest its debt crisis.

The projected surplus could allow Puerto Rico to pay about 14 percent of the $20 billion of debt service due from fiscal 2018 through 2023, according to the plans, though whether any bonds are ultimately paid will be hashed out in bankruptcy court. The surpluses are projected to begin in 2020.

"It seems like the governor is getting what he wants, which is federal help," said David Tawil, president and co-founder of Maglan Capital LP, which bought Puerto Rico general obligations in the past few weeks after spurning the debt since 2014. "And on the basis of that federal help he is at least willing to play ball at some level with the bondholders."

Puerto Rico also provided the first public estimate of how much of the central government's approximately $41 billion of debt it may be able to repay, saying it could cover as much as $19.1 billion of principal if the debt can be restructured with an interest rate of 4.5 percent. The analysis doesn't spell out how that may be divided among varying classes of bondholders who are fighting in court, nor does it apply to debt sold by other arms of the government, such as the electric and water companies.

Even with Wednesday's gain, Puerto Rico bonds are still selling for roughly half what they were before the September hurricane, when they traded for about 56.7 cents.

Creditors are still at odds with the government over its efforts to plot a recovery. A group of bond-insurance companies and investors Wednesday said the commonwealth's federal oversight board and island lawmakers should reconsider the "flawed" turnaround plan and that the debt sustainability analysis relies on sparse data and "outright mischaracterizations."

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