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Hedge Funds Take Muni-Bond Market By Storm.

Something big is cooking in Puerto Rico, and it demands our immediate investment attention.

For the last seven years, the beleaguered Puerto Rican economy has been mired in the muck, enduring GDP contraction in five of those seven years.

To keep the commonwealth afloat, policymakers have suffered through innumerable debt offerings, which now tally roughly $73 billion, according to bond documents.

But did Puerto Rico just hit rock bottom in February?

Likely so.

In February, the three largest rating firms slashed Puerto Rico's credit below investment grade, citing "liquidity problems" as the culprit.

Since then, however, the commonwealth has been getting tons of "big money" attention.

Puerto Rico's mid-March bond issue (valued at $3.5 billion) is now the largest U.S. municipal junk bond sale in history.

Trading of the bonds has been fast and furious, with demand outstripping supply by a huge margin.

Orders totaled more than $16 billion from 270 different accounts.

The second-most-popular bond in the first quarter had orders totaling only $131 million.

Yields on the bonds have spiked as high as 9.425%.

But here's where the story really gets juicy . . .

Hedge funds accounted for roughly 70% of the Puerto Rican bond issue.

Why is that significant? Because hedge funds rarely dip their toes into the municipal bond pool.

Och-Ziff Capital Management, Paulson & Co, Fir Tree Partners, Perry Capital LLC and Brigade Capital Management each bought more than $100 million of the bonds.

Billionaire hedge fund manager, John Paulson, is among the believers, saying that "Puerto Rico will become the Singapore of the Caribbean."

Paulson has municipal debt interests in Puerto Rican hotels and continues to strategically add to his Puerto Rican portfolio. In fact, he's on pace to invest $1 billion in the territory over the next two years, mostly through real estate.

The fact that Puerto Rico’s governor just announced that it will balance the budget without selling debt – for the first time in 20 years – only adds to the investment appeal.

One particular stock now stands ready to explode as a result of the situation.

Onward and Upward,

Robert Williams

Founder, Wall Street Daily

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