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Puerto Rico Bonds Have Long-Term Value, OppenheimerFunds Says.

The value of Puerto Rico bonds will increase in the long term even as their prices plummeted to record lows after passage of a debt-restructuring law, OppenheimerFunds Inc. said.

“The distressed securities have far more upside than downside in the long term,” according to a post on OppenheimerFunds’ website.

The New York-based investment firm held about \$5.2 billion of Puerto Rico debt, the most among U.S. mutual funds, as of May 29, according to Morningstar Inc. (MORN) Prices on the securities sank after the legislature last week approved a measure allowing certain public corporations to reduce their debt loads and the commonwealth on July 1 received a three-level downgrade from Moody’s Investors Service. Oppenheimer Rochester Funds, a subsidiary in Rochester, New York, and Franklin Templeton Investments (BEN) are challenging the law.

Puerto Rico’s fiscal challenges affect the entire \$3.7 trillion municipal-bond market because 66 percent of U.S. muni mutual funds hold the securities, which are tax-free nationwide. Debt sold by the commonwealth and its agencies lost 3.4 percent yesterday, the biggest one-day drop since Dec. 26, 2008, according to S&P Dow Jones Indices.

Rating Downgrade

The declining value of Puerto Rico securities has harmed some Oppenheimer funds. Prices on the \$67.4 million The Oppenheimer Rochester™ Maryland Municipal Fund fell by 2.1 percent, the steepest one-day drop in a year, to \$9.52 per share yesterday, the lowest since Feb. 5, data compiled by Bloomberg show.

The fund directed about 42 percent of its assets to commonwealth securities as of March 31, according to Morningstar data. It has earned 5.14 percent this year through July 2, beating 32 percent of its peers, Bloomberg data show. Moody’s cut the island’s \$14.4 billion of general-obligation debt July 1 by three levels to B2, five steps below investment grade, citing the commonwealth’s new preference for shifting fiscal pressures to creditors.

Even though the debt-restructuring law may weaken Puerto Rico’s willingness to repay all obligations, “this is just speculation and, in our opinion, likely premature,” the OppenheimerFunds blog post said.

By Michelle Kaske Jul 3, 2014 12:50 PM PT

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