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BlackRock Sees Potential Risk to Wider Market from Puerto Rico.

Debt-burdened Puerto Rico has the potential to upset the municipal bond market if there is a broad restructuring of the U.S. commonwealth, causing uncertainty among retail investors, the head of asset manager BlackRock's Municipal Bonds Group said on Thursday.

Puerto Rico finance officials have said the island could run out of money by the end of September without financing. Governor Alejandro Garcia Padilla in May signed into law a tax bill expected to provide about \$1.2 billion in revenue for the next fiscal year, allowing Puerto Rico to pursue negotiations with creditors over a much-delayed bond deal of up to \$2.95 billion.

BlackRock's Peter Hayes said at a press briefing that the delay in the bond deal, originally expected late 2014, "should be concerning to investors because lack of access to the capital markets and higher borrowing costs is always an indication of greater problems."

Puerto Rico bonds are fairly widely held by a variety of investors, he said, and a default or restructuring has the "bigger potential to upset the market."

"It has the potential to create some uncertainty among retail and the potential for some outflows, if you get a larger broader restructuring of commonwealth in general," Hayes said.

BlackRock does not own any bonds of power utility PREPA, which is struggling with \$9 billion of debt and is currently working on a turnaround plan. But he said he could see a buying opportunity if the price fell from around 50 cents on the dollar to around 30 cents on the dollar. PREPA's bonds maturing 2043 are trading around 53.50 cents on the dollar.

BlackRock also cited concerns about some states, particularly Illinois and Alaska, wrangling with budgets before their fiscal 2016 begins in July.

Overall, BlackRock forecast that municipal bond issuance was on pace for more than \$400 billion this year. Total issuance was \$315 billion in 2014 according to Thomson Reuters data.

REUTERS

(Reporting by Megan Davies; Additional reporting by Jessica DiNapoli; Editing by Richard Chang)

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