

# Bond Case Briefs

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## Not Yet. AllianceBernstein Preaches Patience on Puerto Rico Debt.

Just wait, high-yield investors. That's the message from AllianceBernstein Holding LP on whether Puerto Rico securities offer a buying opportunity now.

While traditional municipal-bond investors need to hold off on purchasing commonwealth debt, buyers of riskier tax-exempt debt should wait for a potential opening, Guy Davidson, director of municipal-fixed income in New York at AllianceBernstein, which oversees about \$32 billion of state and local debt, wrote in an online posting Tuesday.

"A year ago, many people asked us if Puerto Rico's debt was a good investment. Our answer now, as it was then, is 'no,'" Davidson wrote. "For investors with strategies that can include high yield, it's 'not yet.' Puerto Rico has the same problem today that we warned of then: too much debt, especially for an economy that continues to contract."

Puerto Rico and its agencies owe \$70 billion after years of borrowing to solve budget shortfalls. Governor Alejandro Garcia Padilla is seeking to cut that amount by asking investors to accept losses on their holdings after announcing in June that the island was unable to repay all of its obligations. Two commonwealth agencies have defaulted and more payment failures may follow. The Government Development Bank owes investors \$422 million on May 1. The island owes another \$2 billion of principal and interest on July 1.

Puerto Rico securities have been trading at distressed levels for more than two years. A commonwealth general-obligation bond with an 8 percent coupon and maturing 2035, the island's most-actively traded security, changed hands Tuesday at an average 70 cents on the dollar, down from its original price of 93 cents, according to data compiled by Bloomberg. The average yield was 12 percent.

Commonwealth municipalities are unable to file for bankruptcy protection, as Detroit did. Puerto Rico officials are asking Congress to give the island broad restructuring powers as the debt is held by investors with different business strategies, including mutual-fund firms that purchased the debt at par and distressed-debt buyers who bought the securities at a discount. The island needs a legal map to fix its debt crisis, Davidson wrote.

"We believe that a legal framework would create a process for an orderly restructuring of Puerto Rico's debt," Davidson wrote. "It's an approach that would benefit both investors in Puerto Rico bonds and the citizens of Puerto Rico."

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by Michelle Kaske

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