

# **Bond Case Briefs**

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## **Puerto Rico Collapse Casts Bond-Market Pall Over Pacific Island.**

- Territory of Guam's bonds lose since Congress acted on crisis
- Guam still investment grade as other territories cut to junk

The bond-market gales that battered U.S. territories in the Caribbean are reaching a Pacific Ocean island more than 7,000 miles away.

As Puerto Rico stumbles through record-setting defaults and the U.S. Virgin Islands contends with a building fiscal crisis, Guam is being penalized by investors even though it's kept an investment-grade rating. The island's debt has lost 4.4 percent since the end of June, following the unprecedented U.S. rescue of Puerto Rico, compared with a 2.5 percent loss in the broader municipal market, according to S&P Dow Jones Indices.

"They are all struggling financially," said Dan Solender, head of municipals at Lord Abbett & Co., which hold about \$100 million of Puerto Rico bonds and isn't buying territory debt. "As an investor, you don't know what your downside is anymore. You don't know if the terms you agreed to when you originally loaned them the money will be the terms that will be used to handle the situation if something goes wrong."

Investors' confidence in America's territories has been undermined by the U.S. effort to save Puerto Rico. That law, enacted in June, gave the government legal powers to cut its debts in bankruptcy-like proceedings, setting a precedent that Congress could extend to other cash-strapped territories.

The territories are wrestling with pension bills, heavy debt loads and economies dominated by a few key industries. The Virgin Islands since December has twice delayed a bond sale that it was counting on to help pay bills, and Monday its water and power company debt was downgraded to a few notches above securities already in default. Last month, Moody's Investors Service said it may cut American Samoa deeper into junk, in part because of the economic hit caused by the closing of a tuna-packing plant.

### **Star Territory**

But Guam has avoided falling into junk-bond status. In July, S&P Global Ratings graded the island's bonds BBB+, the third-lowest investment grade, after deciding not to change its assessment in light of the Puerto Rico legislation. While Moody's Investors Service doesn't rate all of Guam's bonds, it grades the power authority's securities Baa2, two steps above junk.

Guam is the "shining star of the territories," said Ken Kurtz, an analyst with Moody's. "It's not on the edge of a cash crisis like the Virgin Islands is. Guam could deal with its issues if it chooses to."

Governor Eddie Calvo on Jan. 31 proposed a \$722 million budget for the next fiscal year that he said balances after setting aside money for tax refunds and using \$14.7 million to pay down the deficit. Guam, with about 170,000 residents, had about \$2.6 billion of debt outstanding as of May — or

about \$15,000 per capita, according to bond documents.

“The governor has always taken the stance that we don’t need federal assistance when it comes to our financial situation because we will pay our debts no matter what,” said Jay Rojas, administrator for the Guam Economic Development Authority. “It’s in the budget for us to be able to take care of all the debt service that’s required.”

The island’s reliance on military bases, which occupy one-third of its territory, could be bolstered by President Donald Trump’s promise of increased military spending. International tourism is another major industry. Rojas said the governor’s office is looking at opportunities to expand into the shipping industry or the high-tech space.

“Diversification is always good,” said Rojas. “Right now we have a two-legged stool. If we add a third leg — which would be, you know, the creation of a new economy or a new industry on the island — it would make us even more secure.”

## **Bloomberg Markets**

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