Bond Case Briefs

Municipal Finance Law Since 1971

Puerto Rico’s Bankruptcy a ‘Dramatic Reshaping’ of Muni Risk.

Municipal Market Analytics’ Matt Fabian expects the muni market’s default rate to roughly double thanks to Puerto Rico’s bankruptcy.

The muni market hasn’t posted much reaction to Puerto Rico’s mammoth bankruptcy filing this week. The iShares S&P National AMT-Free Municipal Bond Fund (MUB) stayed right around $109, roughly where it has been for the past three months.

But that doesn’t mean muni investors should be shrugging off the largest bankruptcy filing in U.S. history.

Municipal Market Analytics’ Matt Fabian puts it in pretty start terms in his Default Trends report Friday. Here’s his summary of his report:

> Assuming all remaining Puerto Rico bonds end up in payment default, as now appears likely, the municipal market’s total for bonds in default will have roughly doubled to $74B, with Puerto Rico issuers accounting for 85% of that total. This would also roughly double the municipal market’s current default rate from 1.02% to 1.93% (versus 0.30% excluding Puerto Rico bonds). This is a dramatic reshaping of the industry’s overall risk profile and will doubtless drive at least somewhat more conservative investor behavior in the future, in particular as regards large distressed governments like IL, NJ, CT, KY, and Chicagoland credits.

Barron’s

By Amey Stone

May 5, 2017 4:49 p.m. ET