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## Puerto Rico's Restructured Debt Poised to Boost High-Yield Muni Market.

- **Officials aim to restructure Puerto Rico's debt by March 15**
- **Puerto Rico set to begin repaying bondholders this year**

Puerto Rico is poised to exit bankruptcy and begin paying bondholders again, a milestone that's likely to boost not only the value of commonwealth debt but also other risky state and local securities.

Puerto Rico stopped paying debt service in 2016 and then fell into the biggest bankruptcy ever in the \$4 trillion municipal bond market the following year. Now Puerto Rico's financial oversight board is set to execute a restructuring plan, approved by a court last month, that will slash \$18.8 billion of commonwealth-guaranteed debt down to \$7.4 billion.

Prices on the newly restructured Puerto Rico securities are expected to increase following the debt exchange. That could help the high-yield municipal-bond market rebound from declining as yields have increased on anticipation that the Federal Reserve will raise interest rates.

"A rising tide lifts all ships," said Jeffery Burger, a senior portfolio manager at Insight Investment Management who runs the group's high-yield fund, "If Puerto Rico does well given they're so important to the high-yield market, that has the potential to knock onto other high-yield investments."

Below-investment-grade municipal securities and unrated state and local debt has dropped 3.5% this year and high-yield Puerto Rico debt has declined by 3.1%, according to Bloomberg Barclays Indexes.

Puerto Rico debt has a history of trading up in price once it's been restructured. A commonwealth bond backed by sales-tax revenue and maturing in 2058 traded Thursday at an average price of 110.5 cents on the dollar, up from 97.4 cents in February 2019 when Puerto Rico restructured the securities through a debt swap.

The oversight board on Feb. 21 is expected to certify a revised operating budget for the island that will include debt service costs for the fiscal year ending June 30 and also allocate \$10.8 billion in cash payments to investors, insurance companies and public workers. The island needs an amended budget with those allocations in order to complete the debt restructuring.

"Once it's finalized there's more value to the bonds because a deal's been done and they're paying," said Daniel Solender, head of municipals at Lord Abbett & Co., which manages \$35 billion of state and local debt, including Puerto Rico. "There might be more demand as investors want to get the yield and invest in a bond that they haven't been able to in awhile."

Along with the new bonds, investors will receive a combined \$7 billion upfront cash payment as part of the restructuring deal. That's money that may find its way into risky municipal-debt investments.

“It’ll create another large liquid bond in the market,” Solender said. “If it works out, it’s good for the high-yield muni market to have another credit like that.”

## **Bloomberg Markets**

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February 17, 2022, 12:00 PM MST

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