

Uncertainty Resurfaces for Puerto Rico Munis

- Late last week the Commonwealth of Puerto Rico suffered a setback in its attempt to shed some of the debt burden crippling the island. A U.S. district court ruled on Friday that the “Recovery Act” passed in June 2014 by the Puerto Rican government was unconstitutional. At issue is the manner by which public corporations, namely the Puerto Rico Electric Authority, can restructure outstanding debt.
- The court has seemingly knocked down the underlying intent of the “Recovery Act” that built a path for GO bondholders to escape restructuring by allowing the various public corporations and their bondholders to bear the brunt of any markdowns. Longer term implications are unknown at present, but price volatility could reignite if the ruling stands and the GO debt shield falls by the wayside.
- The Commonwealth continues to face large liquidity needs to meet regular principal and interest payments on its outstanding obligations, and some form of funding will likely be needed within the next several months. The court’s decision may dampen investor interest in a new bond deal if an uncertain legal landscape persists.
- We continue to view Puerto Rico’s high unemployment and depressed manufacturing as symptoms of larger structural issues unlikely to be resolved any time soon. As such, we continue to avoid debt associated with Puerto Rico in our client accounts and continue to closely monitor the situation for circumstances that may drive broad market sentiment.