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CURRENT YIELD

## Puerto Rico Needs a Plan

*After President Trump suggested the commonwealth's \$74 billion in debt would be wiped out, bonds took a hit. What's next?*

By [AMEY STONE](#)

Oct. 7, 2017 12:46 a.m. ET



Getty Images

Say a prayer for Puerto Rico. The commonwealth was already bankrupt before Hurricane Maria hit, and it's going to take a lot of money to get it back on its feet. Those funds aren't flowing yet, and the island is set to run out of cash on Oct. 31. Meantime, many of its 3.5 million residents—and let's hope no one still needs reminding these are U.S. citizens—suffer in medieval conditions, without electricity or water.

"When you look back on history, there has really been nothing like this," says Peter Hayes, head of the municipal-bond group at BlackRock.

President Donald Trump didn't help matters last week when he suggested Puerto Rico's \$74 billion in debt would be wiped out. Bond investors were aghast. "If you unilaterally wipe out the debt, you've undermined all credit markets," notes Jim Robinson of Robinson Capital.

In response, Puerto Rico's bonds, which had been surprisingly resilient up until Maria hit, plummeted. The benchmark 8% coupon general-obligation bonds maturing in 2035 fell to an all-time low of 32 cents on the dollar Wednesday, recovering some after the White House walked back Trump's threat. On Friday, the bonds were at 38 cents.

Even some insured municipal bonds fell, after initially trading above par post-Maria. Yields, which move inversely to prices, rose from about 4.1% to 4.75%, and then fell back to 4.3%. "That's a lot of gyrations off of one statement that didn't mean anything," says John Mousseau, director of fixed income at Cumberland Advisors. His firm owns insured Puerto Rico debt and bought more during the panic.

Most investors are already avoiding Puerto Rico debt. Robinson, whose firm is located in a Detroit suburb, bought distressed debt after that city's bankruptcy, but he doesn't see opportunity in Puerto Rico yet. "I don't know where the opportunities and pitfalls are," he says. "The whole thing looks kind of like a pitfall to me."

What's next? Puerto Rico needs emergency aid—whether in the form of grants or very low-cost loans—and Congress has no choice but to step up. After that, a comprehensive plan to rebuild and modernize its infrastructure is needed. That could halt the dire problem of outmigration by creating new jobs and boost the economy by allowing tourism to flourish, says Mousseau.

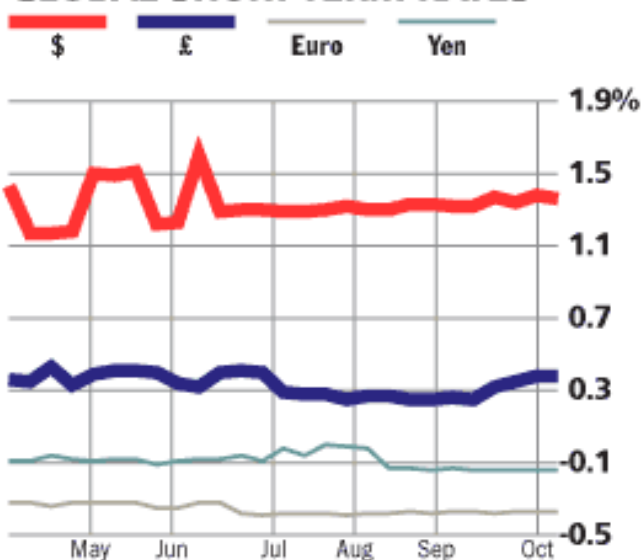
Elon Musk generated a spark of hope that innovative solutions could emerge on Friday when he tweeted that Tesla could rebuild the island's electric grid. "Let's talk," the governor tweeted back.

**LET'S HOPE.** Last year, Congress came up with a process for restructuring Puerto Rico's \$74 billion in debt and created a fiscal control board. That process has been postponed, and rightly so. "The reality is that at this point there isn't a single dollar available for debt payment," says Eric LeCompte, executive director of Jubilee USA Network, which advocates for the poor.

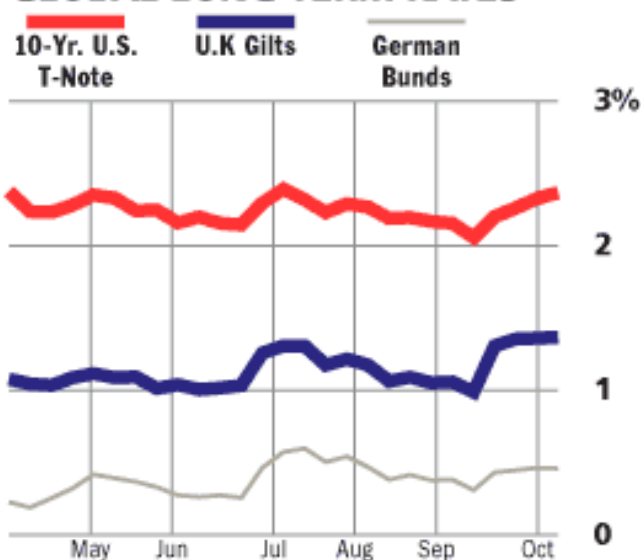
He says the financial control board created by the Puerto Rico Oversight, Management, and Economic Stability Act, known as Promesa, can handle the twin goals of rebuilding and restructuring the debt. Congress has no appetite to come up with new rescue legislation, he adds. He advocates for Promesa to be expanded to the U.S. Virgin Islands, which is similarly debilitated by hurricanes and has no process in place to restructure its own unpayable debts. While he sees bondholders taking steep haircuts, he believes rebuilding could be financed with new bonds tied to economic growth.

Mousseau thinks a more ambitious framework, including a bonding authority, is needed. His firm is calling on Trump and Secretary of State Rex Tillerson to create a Caribbean version of the Marshall Plan, like the one that allowed much of Europe to rebuild after World War II. That sounds ambitious, but no more so than what a crisis of this magnitude demands.

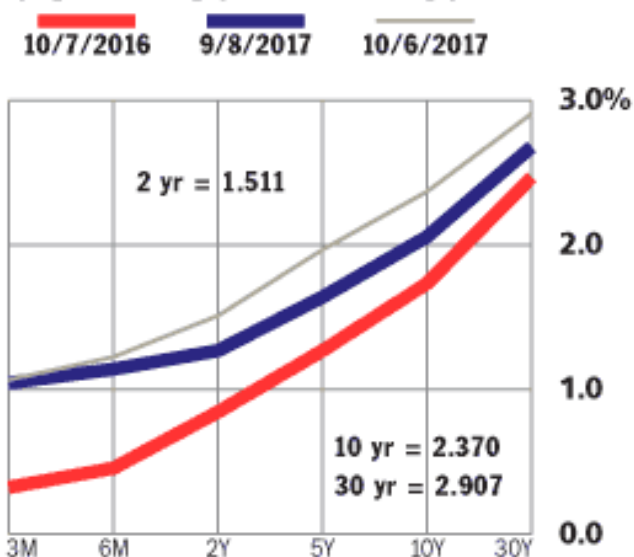
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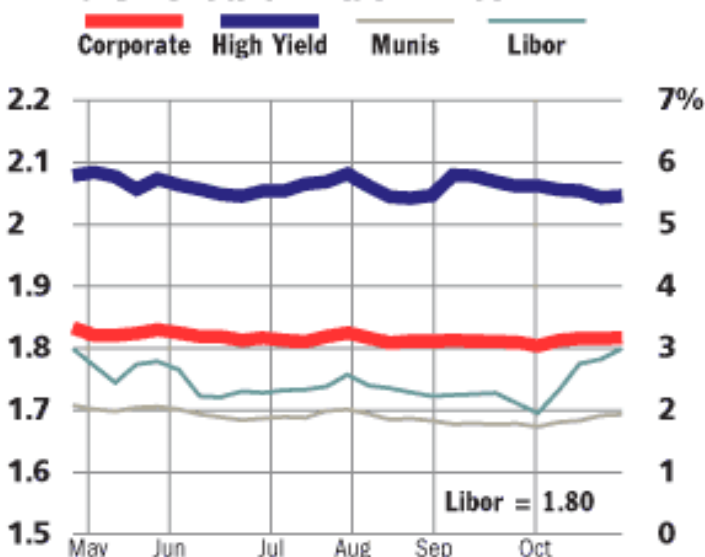
### GLOBAL LONG-TERM RATES



### U.S. TREASURY YIELD CURVE



### U.S. Credit - Libor Rate



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