



Synchronized Sinking: Puerto Rico and Greek Debt Crisis Update (6/29/15)

As reported by the *New York Times* last night and the *Wall Street Journal* this morning, the Governor of Puerto Rico has publicly stated that the Commonwealth's \$72 billion of debt is not payable. A report commissioned by the Commonwealth prepared by former IMF and World Bank officials concluded that the debt is unsustainable. The Governor is to address the issue later tonight in a speech.

- This is not a political opening statement as Puerto Rico's immediate and long term credit issues are real, supporting default and restructuring steps.
- RSW has never invested in Puerto Rico obligations on behalf of our clients, even when the bonds enjoyed investment grade ratings.
- We suspect that the market reaction will, at a minimum, include a widening of credit spreads for lower investment grade bonds and those states and municipalities with runaway unfunded pension liabilities.
- We do not invest in the state of Illinois or city of Chicago obligations.
- Further, our holdings of New Jersey, Connecticut, and Pennsylvania state obligations are of short durations dictated by the state's respective pension issues (more to come on these states in RSW's forthcoming Q2 commentary to be released in mid-July).

Puerto Rico :

- Will miss or use reserves to pay debt service on Electric Authority bonds coming due July 1st.
- Short term cash and liquidity concerns are real and problematic.
- Puerto Rico cannot legally declare bankruptcy making default and restructuring necessary.
- Debt per capita is huge, taxes are high, the economy remains weak, educated professionals are migrating in relatively large numbers, and unemployment is high.

The bottom-line math is simple, much like the Greek debt crisis currently in the global spotlight, "You cannot get blood from a stone". The Commonwealth's obligations are just too large compared to the revenues and resources needed to pay.

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