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Weekly Market Commentary



A Muni Market Misstep

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A developing story in the municipal bond market is reaching a critical juncture this week. It centers on Brightline, the high-speed rail line connecting Miami and Orlando. Launched in 2018, Brightline remains the only privately owned and operated intercity passenger railroad in the United States. More than \$5 billion in debt was issued to fund its construction and related costs.

Fast forward to today: Brightline recently deferred an interest payment and now faces a \$985 million mandatory bond repayment on Wednesday. The affected bonds, which were trading as high as \$102 last month, have since fallen to \$85. Other securities in the company's capital stack are trading around \$60. The primary driver of this deterioration is ridership coming in well below original projections.

Investors are watching closely, as Brightline is one of the largest and most liquid issuers in the high-yield municipal market. While Mill Creek does not currently have exposure to high-yield municipal bonds, this episode underscores the importance of manager selection and ongoing oversight in the riskier corners of the bond market. Several actively managed mutual funds hold significant allocations to these bonds, so the selloff is weighing on performance and flows. That said, if negative sentiment pushes prices to attractive levels, we could consider opportunistically allocating to take advantage of the dislocation.

Fig. 1: Brightline Tax-Exempt 12% Bonds, due 7/15/2032



Source: Bloomberg

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