

# ECONOMY

Will China lead overall economy for 2021?

THINK STRATEGICALLY:

## The Global Debt Sirimba

BY FRANCISCO RODRÍGUEZ-CASTRO | frc@birlingcapital.com



### The Sirimba

If you are wondering what sirimba means, it is used in the Dominican Republic to describe sudden dizziness, fainting, lightheadedness, vertigo and discouragement. If you have ever listened to Juan Luis Guerra's song "El Niagara en Bicicleta," he is taken to a hospital with a "sirimba."

The world is about to have its global debt sirimba, as the pandemic forced everything from businesses to governments to increase their debt load to face the COVID-19 pandemic. During the past nine months of 2020, the amount of global debt issued has risen by \$15 trillion, reaching \$275 trillion, as the pandemic has forced businesses to close, pivot, implement other sales channels and caused the most job loss numbers since the Great Depression in the 1930s.

By year's end, we expect that another \$5.2 trillion of debt, if not more, may be added, growing the global debt to \$281 trillion or 365 percent of the world's GDP. The significant debt growth that occurred during the first half of the year had slowed in line with the economic recovery occurring worldwide by the third quarter.

As of Nov. 29, there had been 62.8 million cases of coronavirus infection, which has claimed 1.46 million lives worldwide.

Measures, such as curfews and travel bans, as well as banning concert halls, arenas, sports events and other large gatherings have all been an attempt to

decrease the spread of the virus dramatically and its impact on economic activity worldwide.

As the third quarter came to a close, the debt-to-GDP ratio in emerging markets had increased to 250 percent. The most significant rise came from mature markets, which surpassed a 435 percent rise.

The largest debt growth sectors follow:

- Non-Financial Corporates: \$80 trillion
- Governments: \$78 trillion
- Financial Services: \$67 trillion
- Households: \$50 trillion

As three vaccines have been announced and Pfizer and Moderna's are being fast-tracked for approval, a glimmer of hope is slowly emerging.

However, the debt load that the pandemic forced on all sectors will not go away any time soon; it will take a relatively large economic recovery to allow the industries to reach their normal debt levels.

We need to take a long hard look at the implementation plan China rolled out to control the disease. So far, China has had 86,512 cases with 4,634 deaths, allowing some normalcy to begin to return for businesses. We predict that China will lead the overall world economy for 2021.

To state that this has been the worst exogenous shock since the Great Depression would be an understatement, and it will take enormous determination and innovation to recover to pre-COVID-19 levels.

Let's review how the world's

economies will finish 2020 and how we see 2021 unfolding.

"Oftentimes, the brightest rainbows follow the darkest rainstorms."

### Week in Markets: The Dow Hit 30,000, Nasdaq Surpassed 12,000 as COVID Cases Surge

The market has been reacting all month to the developments in the race for the COVID-19 vaccine. So far, we have four companies that announced breakthroughs in the creation of three effective vaccines. Pfizer/BioNTech, Moderna and AstraZeneca have all announced that their respective vaccines can be at least 90 percent effective.

These developments have made investors cautiously optimistic, allowing the Dow Jones Industrial Average to rise more than 12 percent for the month and close higher than 30,000 for the first time, and the market is positioned to have the best monthly gain since January 1987.

Also, the tech heavy Nasdaq Composite broke its own all-time high, surpassing 12,000 over the week.

Systemic uncertainty has typified 2020, mixed with financial evaporation and political confusion, and, sadly, for the United States, the worst record in cases and deaths of any nation facing COVID-19.

The states with the most rising cases during the past 30 days, compared with Puerto Rico:

- Michigan: 549.3 percent
- Louisiana: 438.4 percent
- New York: 310.6 percent
- California: 296.3 percent
- Pennsylvania: 167.5 percent
- New Jersey: 148.6 percent
- Puerto Rico: 56.1 percent

While the markets have found their footing, we must keep our eye on the

ball with regard to the COVID-19 surges. As with any market facing a rotation, most financial and strategic buyers are actively looking for growth opportunities embedded in those sectors most impacted by the pandemic. The flow of mergers and acquisition deals will regroup with increased gusto, searching for targets in those industries most affected.

### Results for the week of Nov. 27, 2020:

The Dow Jones Industrial Average closed at 29,910.37, up 646.50 points, or 2.21 percent, for a year-to-date (YTD) return of 4.81 percent.

The Standard & Poor's 500 closed at 3,638.35, up 80.75 points, or 2.27 percent, for a YTD return of 12.62 percent.

The Nasdaq Composite Index closed at 12,205.85, up 350.88 points, or 2.96 percent, for a YTD return of 36.03 percent.

The Birling Puerto Rico Stock Index closed at 1,956.58, up 48.31 points, or 2.56 percent, for a YTD return of -3.99 percent.

The U.S. Treasury 10-year note closed at 0.84 percent, a change of 1.2 percent, for a YTD return of -1.1 percent.

The U.S. Treasury 2-year note closed flat, at 0.16 percent, for a YTD return of -1.1 percent.

### The Final Word Your Legacy: Why it Matters

As we witness the end of many careers, whether they be politicians, athletes or business leaders, we analyze their legacies. I've always considered that the real power of a person's life is the great stories we get to remember once they leave us.

One's legacy is not an event over which there is no control. Everyone can choose what their legacy will be, making sure it is solid and clear. This is true for businesses and individuals and it does not matter how much or little you have; the key here is purposefully leaving a positive legacy to everyone you touch.

The best way to explain how legacy works is with a story.

My maternal grandfather, Alberto

"Tito" Castro, was a business tycoon, a self-made man, with hundreds of businesses in construction, concrete, hotels, hardware stores, block plants, terrazzo tiles, plants, gravel, quarries, asphalt paving, development and banking.

Growing up in the island of Cardona, just off Ponce, as his father was the lighthouse keeper, he grew up surrounded by an extended family.

He began his career as a teller in Banco Credito y Ahorro Ponceño, the same bank where he became chairman. His first taste of entrepreneurship was owning the Esso Gas station in La Alhambra. From there, he ventured into construction and a vast array of other businesses.

Since he did not have the luxury of a university degree, he wanted to make sure his grandchildren achieved both academic and professional excellence. He would visit us at our universities stateside, making sure we were doing well academically, and he also made sure we had fun with him.

I can still see him in the graduation pictures of most of us who were able to have him there, how proud he was of such an achievement that had eluded him.

There are many stories, however. The one that cemented his legacy with his grandchildren was a specific weekend he summoned most of them to spend the weekend in his beach house, which was Copamarina.

We had a great weekend of beach-going, boating, dinners and spending time with each other. On late Sunday, we all said our goodbyes; the following morning, he had a stroke while at his desk from which he would never recover, dying 28 days later 30 years ago on Oct. 28, 1990. His legacy, aside from his business and economic success, was his family, particularly his 18 grandchildren.

Benjamin Disraeli once said: "The legacy of heroes is the memory of a great name and the inheritance of a great example."

*Francisco Rodríguez-Castro is president and CEO of Birling Capital LLC. Think Strategically© is a publication by Birling Capital LLC that summarizes recent geopolitical, economic, market and other developments. This report is intended for general information purposes only and does not represent investment, legal, regulatory, or tax advice. Recipients are cautioned to seek appropriate professional counsel regarding any of the matters discussed.*

Weekly Market	Close	Comparison	11/27/20	11/20/20	Change%	YTD
Dow Jones Industrial Average	29,910.37	29,263.87	2.21%	4.81%		
Standard & Poor's 500	3,638.35	3,557.60	2.27%	12.62%		
Nasdaq	12,205.85	11,854.97	2.96%	36.03%		
Birling Puerto Rico Stock Index	1,956.58	1,908.27	2.53%	-3.99%		
10-year U.S. Treasury	0.84%	0.83%	1.20%	-1.10%		
2-year U.S. Treasury	0.16%	0.16%	0.00%	-1.10%		