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# Think Strategically

## 2023 In Retrospect: The 12 Stories that Re-Shaped the Global, U.S. and Puerto Rico Economies

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### The 12 Stories that Re-Shaped the Global, U.S. and Puerto Rico Economies

As we bid farewell to the eventful year of 2023, we must reflect on the 12 pivotal stories that left an indelible mark on the global, U.S., and Puerto Rico economies. These narratives have defined the economic landscape from the Federal Reserve's relentless battle against inflation to transformative bank acquisitions, public-private partnerships, and the impressive performance of Puerto Rico's stock market.

Join us on a journey through the key events that unfolded, reshaping the economic trajectory and setting the stage for the years to come.

#### 1. The Fed's Inflation Fight and Interest Rate

**Campaign:** On March 16, 2022, the Federal Reserve Bank began its late entry into the inflation fight and ultimately increased rates 11 times. In the words of Fed Chairman Jerome Powell, stating that "Higher inflation is temporary; the Fed will be 'patient' as inflation will pick up in the coming months but that it would likely prove to be temporary" The Fed's temporary outlook on inflation proved to be wrong as by March 2022, the CPI had risen to 8.54%, and it was at that point that the Fed began to act, increasing rates on March 16, 2022, by 25 basis points. The Fed would increase rates six more times during 2022 and five more in 2023, taking rates to the range of 5.25%-5.50%; by the time the August CPI hit 3.67%, above the Fed's 2% target, the Fed paused its interest hiking campaign, in November

also paused and following its December 13 meeting with the CPI at 3.14% the Fed left rates unchanged. Lastly, the Fed's preferred inflation benchmark, Personal Consumption Expenditures (PCE), fell to 2.64%, just 24.24% away from the Fed's 2% inflation target rate.

FOMC	Rate Change	Fed Funds Rate	Prime Rate
12/13/2023	Unchanged	5.25%-5.50%	8.50%
11/2/2023	Unchanged	5.25%-5.50%	8.50%
9/20/2023	Unchanged	5.25%-5.50%	8.50%
7/26/2023	0.25%	5.25%-5.50%	8.50%
5/3/2023	0.25%	5.00%-5.25%	8.25%
3/22/2023	0.25%	4.75%-5.00%	8.00%
2/1/2023	0.25%	4.50%-4.75%	7.75%
12/14/2022	0.50%	4.25%-4.50%	7.50%
11/2/2022	0.75%	3.75%-4.00%	7.00%
9/21/2022	0.75%	3.00%-3.25%	6.25%
7/27/2022	0.75%	2.25%-2.50%	5.50%
6/16/2022	0.75%	1.50%-1.75%	4.75%
5/5/2022	0.50%	0.75%-1.00%	4.00%
3/17/2022	0.25%	0.25%-0.50%	3.50%

## 2. **Soft Landing: The Global Growth forecast is 3% in 2023 and 2.9% in 2024.**

In the most recent IMF forecasts, growth is expected to **slow from 3.5% in 2022 to 3% in 2023 and 2.9% in 2024**. These latest economic projections are well below historical averages. The U.S. economy remains strong, growing last quarter at 4.90% GDP, and the forecast for the fourth quarter **GDPNow Forecast is at 2.30% GDP**.

## 3. **The Silicon Valley Bank Failure that Created a Crisis of Confidence in Global Banking:** SVB had, as of December 31, 2022, some \$209.0 billion in total assets and about \$175.4 billion in total deposits, and is the most significant bank failure since 2008.

The SVB failure impacted the broader banking sector, with many banks suffering sharp decreases in their stock prices.

The FDIC, Fed, and treasury created the Bank Term Funding Program (BTFP), which offers loans of up to one-year maturity to banks, savings associations, credit unions, and other eligible depository institutions pledging U.S. Treasuries, agency debt and mortgage-backed securities, and other qualifying assets as collateral.

The profile and business strategy of Silicon Valley Bank is entirely different from those of the Banks operating in Puerto Rico since all of its business was focused on technology companies, start-ups, Venture Capital Funds, and Private Equity Funds' typical commercial clients.

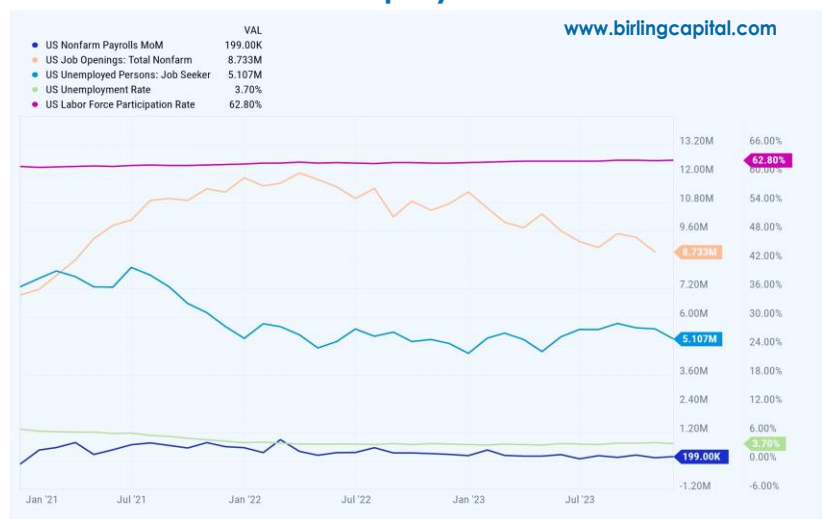
## 4. **The Robust and Resilient Labor**

**Markets:** The U.S. Nonfarm Payrolls rose to 199,000, up from 150,000 last, an increase of 32.67% from the previous month and ahead of expectations. The unemployment rate fell to 3.70%, compared to 3.90% last month, and is lower than the long-term average of 5.71%. For 2023, total nonfarm job growth totals 2,587 million or 235,180 monthly. Compared to 2022, job growth has slowed by 46.02%, as total nonfarm payrolls reached 4,793 million. The only plausible analysis on the softening of the labor markets is that it helps lower upcoming inflation numbers, allowing the Fed to eventually pivot toward reducing rates during 2024. The forecast of the U.S. unemployment rate for 2024 is 4.1%.



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## US Nonfarm Payrolls, US Job Openings, US Job Seekers and US Unemployment Rate



## 5. **The Acquisition of Credit Swiss by UBS made UBS a \$5 trillion institution.** UBS became 2nd only to Morgan Stanley in global wealth management, moving up from #4, and in global asset management, moving from 19th to 11.

Under the terms of the all-share agreement, Credit Suisse shareholders received 1 UBS share for every 22.48 Credit Suisse shares held, a total purchase price of \$3.25 billion.

The merged banks are expected to generate an annual run rate of cost reductions of more than \$8 billion by 2027.

## 6. **First Citizens Bank (FCNCA) agreed to buy Silicon Valley Bank (SVB):** the transaction included purchasing about \$72 billion of SVB Bank's assets at a discount of \$16.5 billion. After the news, First Citizen's shares rallied to close at First Citizens BancShares Inc (FCNCA), closing 2023 at \$1420.17, up 87.89%.

- 7. Federal Reserve Banks Vice Chair for Supervision Michael S. Barr called SVB's failure "a textbook case of mismanagement".** Mr. Barr stated that SVB "waited too long to address its problems, and ironically, the overdue actions it finally took to strengthen its balance sheet sparked the uninsured depositor run that led to the Bank's failure". Silicon Valley Bank was a **classic case of incompetent management, with a deadly mixture of a business model focused on the technology and venture capital sectors with too rapid growth** that took the It also grew exceedingly quickly, tripling in asset size from \$71 billion in 2019 to \$211.79 billion in 2022. Simultaneously, the Bank had 97% of its deposits concentrated from venture capital firms and the tech sector and was considered volatile.
- 8. JP Morgan Chase acquired First Republic Bank:** The beleaguered First Republic Bank (FRC) was seized by the Federal Deposit Insurance Corporation (FDIC) and accepted a bid from JPMorgan Chase Bank to assume all of the deposits and most of the assets of First Republic Bank. First Republic Bank's 84 offices in eight states reopened as branches of JPMorgan Chase Bank. The FDIC and JPMorgan Chase Bank entered a loss-share agreement on single-family, residential, and commercial loans purchased from the former First Republic Bank. The FDIC estimated that the cost to the Deposit Insurance Fund will be about **\$13 billion**.
- 9. The Abertis-Metro Pistas Public Private Partnership:** The contract awarding to Abertis-Metro Pistas Public-Private Partnership to operate four highways through a 40-year public contract valued at \$2.85 billion is a win for Puerto Rico. Metropistas will also operate highways PR-52, PR-53, PR-66, the Martínez Nadal or PR-20, and highways PR-22 and PR-18 that it already operated.
- 10. The Power Generation Public Private Partnership to Genera PR:** The award of the contract that transferred the Puerto Rico Electric Power Authority's former power generation operations to Genera PR, an independently managed subsidiary of New York-based energy company New Fortress Inc. has received a multimillion-dollar, 10-year contract to operate, maintain and decommission power generation units on the island. Genera will receive an annual royalty of \$22.5 million for the first five years, and then the cost will decrease after the fifth year to a minimum of \$5 million annually.
- 11. The Performance of the Birling Puerto Rico Stock Index and all four Puerto Rico Public Companies:** The double-digit performance of Puerto Rico's four public companies with consolidated assets of \$100.140 billion, consolidated net income of \$884,408 million, and consolidated market capitalization of \$13.257 billion has positioned the Birling Puerto Rico Stock Index as the second best index of 2023 with a return of 32.65%, second only to the Nasdaq Composite. These impressive metrics underscore the market's confidence in Puerto Rico's public companies' resilience, credibility, and growth potential. In an environment where market sentiment plays a key role, the sizable market capitalization is a testament to the companies' influence in Puerto Rico's economic ecosystem.



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**Birling Puerto Rico Stock Index  
Total Returns for 2023: Oriental,  
Firstbank, Evertec and Popular**



## 12. The Last Word: Puerto Rico's Economic Revival

For Puerto Rico, the strength of infrastructure investment is the engine of economic growth. Combined with the \$2.7 billion in debt service savings, the government has ample dry powder to expand, enhance, and improve Puerto Rico's infrastructure.

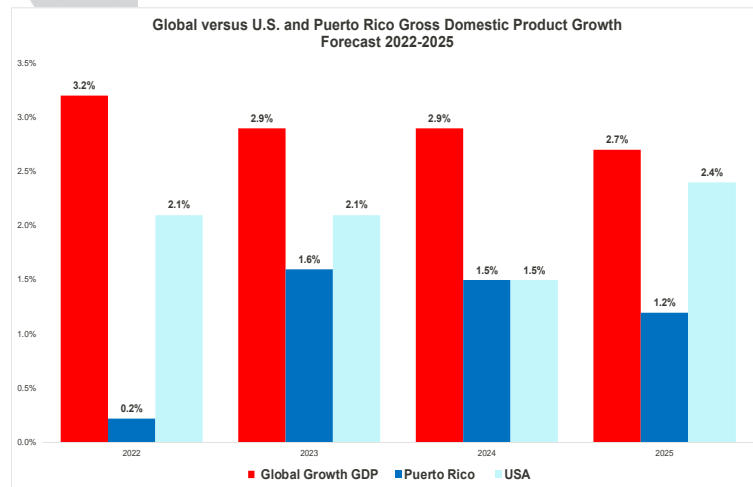
Birling Capital forecasts that Puerto Rico will close in 2023 with a GDP of 1.6%, 1.5% for 2024, and 1.2% for 2025.

As we begin 2024, we must remember, **Our present circumstances do not determine where we can go; they only determine where we start, and our attitude determines how far we can go.**

**We wish you a Happy and Healthy 2024.**



### Global, U.S. and Puerto Rico GDP Growth Forecast 2023-2025



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