

ECONOMY

PRMA embracing diversity
to achieve prosperity



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Think Strategically: Celebration of Humanity

Open Communications with Kim Jong-Un Quite an Accomplishment U.S. Banks Poised for Consolidation

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The week in the markets: U.S., China & North Korea

Increased doubts surrounding the U.S.-China trade deal were put to rest, at least temporarily, as a trade war

“*entente cordiale*” was announced between the U.S. and China. This temporary agreement calming the markets is very narrow and fleeting. The new deal does not apply to tariff increases already in place for Chinese exports of steel, aluminum and other items.

The principal reason for the Trump administration’s change of strategy is to seek support from the Chinese government with improved trade relations while the U.S. prepares for the U.S.-North Korea Summit that was rescheduled after being canceled.

China is a crucial ally of North Korea, and the U.S. needs China to play the role of go-between. While at this point, it is quite uncertain which direction a U.S.-North Korea summit might head, one thing is for sure: The mere fact that President Trump has been able to open communications with Kim Jong-Un is quite an accomplishment.

Since the days of President Roosevelt, and every president who has followed, administrations have been better remembered for their foreign policy accomplishments, which the Trump White House knows they need as a huge win for the upcoming mid-term elections. However, should the president be successful in these negotiations, they would be reason enough for a celebration of humanity for the entire world.

The Dow Jones Industrial Average closed the week at 24,753, up 0.2 percent, and a year-to-date increase of 0.1 percent, along with the S&P 500 Index closing at 2,721, up 0.3 percent, with a year-to-date rise of 1.8 percent, as well as the Nasdaq closing at 7,434, up 1.1 percent and a year-to-date increase of 7.7 percent. If we use market history as a rule, this is a positive signal for investors. Since the 1950s, when the U.S. stock market was

higher for the year at the end of May, it has gone on to achieve a full-year increase of 94 percent.

Wall Street Update: M&A focus on Europe, U.S.

The mergers & acquisitions (M&A) rumor mill is strongly suggesting Barclays (BCS) has been exploring a merger with a rival international bank, with Standard Chartered (STAN) being mentioned as a Barclays target.

Barclays is under pressure from activist investor Edward Bramson and his Sherborne & Co. investment fund.

While M&As in the banking sector are not new, the idea of seeing two British multinational banks merging is quite a development should it occur.

An activist investor will create pressure to free up capital by eliminating operations or possibly reducing the focus of the investment bank and trading operations, among other scenarios, and with \$33 billion in capital at the investment bank, the target is difficult to miss.

Merging Barclays, with total assets of \$1.133 trillion, and Standard Chartered, with total assets of \$663 billion, creates a tremendous player that will favorably compete with the likes of Santander, HSBC, JP Morgan Chase, Morgan Stanley and Goldman Sachs.

A combined Barclays and Standard Chartered creates a bank that will be able to leverage each other’s specialties. Barclays will be able to sell investment banking and credit-card products across Standard Chartered’s emerging markets network and benefit from its cheap Asia deposits. Among the negatives is the fact that there is minimal geographic overlap among each other’s operations, with both banks lagging behind their U.S. peer group in profits and market value, and neither fully recovered from their past troubles. There is also the fact that both banks are “Globally Systemic Financial Institutions,” and since the 2008 financial crisis, a massive-scale banking merger. Both these stocks must be closely monitored.

U.S. banking sector poised for consolidation

A decade has passed since the 2008 U.S. banking crisis and, so far, most U.S. banks have not involved themselves in the business of merging with other banks.

From community banks to regional banks to large money center banks, there are more than 5,500 banks in the U.S. financial system and, according to the Federal Deposit Insurance Corp., net income increased during the first

quarter to \$56 billion. To create a wave of M&As in the banking sector, these factors must be considered:

- New lower mixed tax regime;
- Higher interest rates courtesy of the federal reserve bank;
- Most banks are better capitalized than ever; and
- Changes to the Dodd-Frank Act provide greater flexibility for banks below \$250 billion in assets.

The combination allows the U.S. banking sector to increase consolidation and create valuable investment opportunities.

Final Word: PRMA Convention May 29-June 2

The Puerto Rico Manufacturers Association (PRMA) this week is hosting its traditional yearly convention. However, this convention is anything but conventional.

This year, under the slogan “*Arropando a Puerto Rico*,” we spoke to PRMA President Rodrigo Masses, who stated: “In the aftermath of Hurricane Maria, we decided to take the convention to our members outside San Juan, and that meant converting the convention to canvass Puerto Rico, thus our slogan *Arropando*.” The convention starts in Ponce, May 29 & 30, and then moves to San Juan, May 31 to June 1. The PRMA will cover topics that include Medical Devices, Pharma, Agro Industries, Entrepreneurship, Energy and Industrial Women. To check out the event, go to www.convencionprma.com, and everyone is encouraged to attend.

As alluded in our title, in Puerto Rico, the “Celebration of Humanity” more often than not sorts out those who think differently than us, look different, speak differently or differ from our views. In fact, the biggest celebration of humanity is embracing the diversity of views, opinions, thoughts, actions and outlooks, and adopting them into a single cohesive culture as Puerto Rico’s long-term goal to achieve prosperity and create wealth rather than poverty. As we close, we give Rodrigo Masses and his board at the PRMA a big round of applause for embracing the view that all that is good and special about our diversity in Puerto Rico and the PRMA convention, and their plan of action becomes a Celebration of Humanity.

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