

ECONOMY

Robust holiday sales could offset factors driving volatility

THINK STRATEGICALLY:

Gifts That Change Lives

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Week in the Markets: Looking toward Black Friday

The stock market could not sustain its momentum, again falling into negative territory, and only able to achieve mixed results. The negative sentiment returned, with the three markets finishing the week by erasing any gains from the past week. The Dow Jones Industrial Average stood at 25,413.22, a loss of 576.01 for the week, leaving the year-to-date (YTD) return at 2.8 percent. The S&P 500 closed at 2,736.27, a loss of 44.74 for the week, and a YTD return of 2.3 percent, and the Nasdaq closed at 7,247.81, a loss of 159.09 for the week and a YTD return that is down to 5 percent. The main culprit is Apple, which represents 12 percent of the Nasdaq Composite and 5 percent of the Dow Jones Industrial Average, with increased rumors that iPhone sales may be

disappointing and may lead the company to reduce its growth targets. Finally, the 10-year Treasury yield was up slightly to 3.06 percent.

In the broader market, we have been expecting to obtain guidance on consumer sentiment during this week's Black Friday sales events as the Christmas shopping season officially begins. Several factors drive Wall Street's volatility:

- Uncertainty from U.S. midterm elections and changes in control.

- Renewed Federal Reserve policy of interest-rate hikes.

- Trade wars and increased tariffs.
- Probability corporate earnings may peak by 4Q 2018 or by 1Q 2019.

These four factors may be eased if a stronger-than-usual holiday season is achieved. Moreover, we reaffirm our view that the market will recover from current losses to finish the year on a positive note.

2019 market outlook

As we get closer to the year's end, we begin the study of the trends that made this year unique, and we believe the stock market will continue to deal with a complex set of issues well into the new year. Investors must consider that the U.S. economy has so far curbed inflation and is maintaining unprecedented low unemployment, which has translated into strong consumer spending and wages that continue to rise. In our view, these factors will allow the U.S. economy to continue to expand even as world trade remains an unresolved issue.

Having established the positives, let's analyze the negative factors to look out for:

- **Rising consumer prices:** Upon reviewing the report on the consumer price index (CPI), we note that

inflation increased during October and overall consumer prices rose 2.5 percent over the past year. However, the recent drop in oil prices has staved off more drastic interest-rate increases.

- **It is about time to look for bonds:** While nearly 10 years of low-interest rates have removed the allure of U.S. Treasury Notes and other Municipal bonds, and with Puerto Rico bonds mostly out of consideration of most investors, we see excellent opportunities for investors seeking to rebalance their portfolios and in corporate bonds. To make our point, since 1979-80 when the stock market posted losses that would average minus-14.7 percent, the average return on bonds those years was 8.8 percent. This is the reason we always recommend investors maintain diversified portfolios to balance the risk and rewards in the market.

- **Stock market to stage comeback:** The recent ups and downs in the market have created new market leaders. Up to September, healthcare and communications were leading the market to new heights and, since October, the balance of power shifted to consumer staples and utilities. As the market complexity increases, it is always wise to diversify your portfolios to allow room to maneuver any losses.

- **Shifting politics, politics, politics, politics:** The new ingredient in market turmoil, with a new Congress led by Democrats in the House and Republicans in the Senate, and an unpredictable president, the table is set for larger-than-life fights. In our view, this may hamper any progressive agenda in Washington, D.C. during the coming years.

Final Word— Gifts that change lives: Puerto Rico Symphony Orchestra

Christmas is the season for giving and sharing; I was reminded how a single act of kindness could change a person forever. In England, famous retailer John Lewis & Partners has a big tradition with Christmas ads, and

Market Update 11/19/2018

	11/2/18	11/16/18	Change
Dow Jones Industrial Average	\$25,989.23	\$25,413.22	2.27%
Standard & Poors 500	\$2,781.01	\$2,736.27	1.64%
Nasdaq	\$7,406.90	\$7,247.81	2.20%
U.S. Treasury 10-Year Note	3.05%	3.065%	0.49%

this season they chose to highlight how “Some gifts are more than a gift,” with the ad recounting the story of a four-year-old who received a piano from his grandmother and mom.

In reverse order from the present, the story shows us at the same piano and takes us back until that Christmas when, as a four-year-old, he gets the piano that changed his life and touched ours. The ad uses the world-famous “Your Song” tune to play out Elton John’s life right in front of us.

This story made me think about how many artists, painters, writers, novelists, poets, sculptures, performers, musicians and actors, among others, we could have supported if we joined efforts to back them when they were just starting out. We do not need to go very far to back a local organization in need of support. In Puerto Rico, we have two artistic endeavors that need our help, and they are the Pablo Casals Festival and the Puerto Rico Symphony Orchestra, both organizations under the tutelage of Maestro Maximiano Valdés. Max has made us proud of the work he has put into both the Orchestra and the Festival, and they both need our monetary support. Some seem to believe that culture and



tradition are things of the past. There is always a misconception that Puerto Rico does not need to invest in its culture, music or folklore. Some months ago, we went to see the opera “Tosca,” and I cannot even begin to describe the incredible experience it is to listen to the beautiful music played and conducted by our very own Puerto Rico Symphony Orchestra, led by Max Valdés. If you have never been to an opera, you must go; you will love it forever. In addition, did you know the Orchestra was nominated for a Latin Grammy with Daddy Yankee for the song “Yo contra ti” as best Urban Fusion/performance. You see, some gifts are more than just a gift, and supporting our cultural institutions is supporting the essence of Puerto Rico. Please sponsor, donate, support, advise and help both our Orchestra and the Festival Casals, both venerable institutions that are celebrating 60 years of service.

Francisco Rodríguez-Castro, president & CEO of Birling Capital, has more than 25 years of experience working with government, and multinational and public companies.

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