

ECONOMY

Where's the beef?

THINK STRATEGICALLY:

The Show About Nothing

Markets Demonstrate Reversal of Fortune Over Previous Week's Congressional Community Listening Session

BY FRANCISCO RODRÍGUEZ-CASTRO | frc@birlingcapital.com



Merger in works for two German titans: Deutsche Bank, Commerzbank

Over the weekend, news broke that a possible merger may be in the works between Deutsche Bank and Commerzbank. The merger has been widely speculated since the financial crisis and even more so after the restructuring that Deutsche has been implementing.

At least on paper, the merger appears to make sense from strategic, financial and opportunities for growth points of view.

The merger of Deutsche Bank and Commerzbank appears to have the backing of the German government. This implicit approval comes as officials seek to solidify the domestic banking sector with a new German titan that would rule over the nation's economy, protect its export model and prevent an exodus of much-needed foreign capital.

Key Highlights

While is still too early to tell when the merger will go through, we are safe to assume that Deutsche Bank will absorb Commerzbank in an all-share deal with current Commerzbank shareholders receiving new Deutsche Bank shares and one of the keys to this merger is the fact the German government is Commerzbank's largest shareholder.

Week in markets: Strong reversal of previous week's losses

The markets experienced a substantial reversal of last week's losses driven by global markets reaching a four-month high, mostly positive economic data and little signs of inflation. The scenario supports the world's central banks following suit with the U.S. Federal Reserve Bank and are now in sync with a weaker outlook toward interest-rate increases.

Deutsche Bank	Commerzbank
Total Assets: \$1,527 Trillion	Total Assets: \$523 Billion
Total Revenue: \$28.69 Billion	Total Revenue: \$9.71Billion
Net Income: \$386 Million	Net Income: \$980 Million

Moving on the market performance, we note U.S. equities finished the week in positive territory and were marked by the celebration of the bull markets' 10th anniversary. The Dow Jones Industrial Average closed the week at 25,848.87, a rise of 398.63 or 1.57 percent for the week, and a year-to-date (YTD) return of 9.1 percent; the S&P 500 closed at 2,822.48, a rise of 79.41 or 2.89 percent, and 12.60 percent YTD. The Nasdaq closed at 7,688.53 or an increase of 280.30 or 3.78 percent, and a YTD return of 15.9 percent. Meanwhile, the U.S. Treasury's 10-year note went down to 2.59 percent, or a decrease in yield of minus-1.53 percent.

S&P 500 bull market now 10 years young, should we worry?

Will it help to worry? The answer is no; the S&P has delivered 412 percent return over the past 10 years and is just below all-time highs. One of the better ways to understand this growth and any market cycle is to know that every cycle is driven by a series of events, and these events usually follow each other with a predictable sequence. In this case, our current period originated after the Great Recession. To describe it, we should point out what causes the next cycle and what accompanies each cycle.

Macro environment: Includes trends in the gross domestic product (GDP), inflation, employment, spending, and monetary and fiscal policy.

Corporate growth rates: Overall stock prices and profitability of corporations in the market.

Access to capital: Not being able to

borrow enough can be as impactful as borrowing too much.

The popularity of investing: In positive cycles, the popularity of investing becomes a driving force that attracts large amounts of capital.

Investor sentiment and outlook: The predictive power of investor sentiment in the cross-section of stock returns across economic expansion and recession states.

The key message that everyone must understand is that volatility is an integral part of investing and, if you have a well-diversified portfolio, you may weather the storm.

Final word: The show about nothing

The U.S. House Natural Resources Committee, as expected, arrived to Puerto Rico headed by Chair Raúl Grijalva (D-Ariz.) along with several members of Congress.

The committee held its initial meeting at the Roberto Clemente Coliseum where hundreds filled the coliseum to speak at an unprecedented public hearing. The Congressmen were visiting the island after a slew of complaints about the P.R. Oversight, Management & Economic Stability Act's (Promesa) lack of progress, including its austerity measures directed at University of Puerto Rico, retirees and all government agencies, which is having an impact on more than those that have outstanding bond issues. The other topic is the snail's pace of federal hurricane-recovery funds nearly two years after Hurricane Maria.

Those in attendance, who came from towns across the island, included students, retirees, construction workers and executives. Others even brought their gamecocks to protest the federal ban on the cockfighting industry.

The committee heard numerous speeches from Puerto Ricans claiming unfair treatment, slow response and inequality by the federal government. Some mentioned losing their homes, while for others, the biggest concern was the loss of their hard-earned government pension. The crowd had numerous signs requesting

the Government's \$72 billion debt be canceled while others demanded that Promesa be eliminated.

While to some it seems unfair that pensions and other benefits may be cut, including housing and Medicaid, these slashes are the product of the Government's fiscal imprudence and aggressive spending over the past 20 years or so.

To some, it appeared the audience was supporting statehood for Puerto Rico, and many of them booed loudly when San Juan Mayor Carmen Yulín Cruz addressed the committee.

In addition to Chair Grijalva, in tow were Reps. Rob Bishop (R-Utah), Nydia Velázquez (D-N.Y.) and Darren Soto (D-Fla.), and Resident Commissioner Jennifer González (R-P.R.).

The legislators were focusing on the effects of decisions taken by the Financial Oversight & Management Board and its management of the finances of the government of Puerto Rico.

Chair Grijalva stated that the committee will soon revise Promesa, and to him it was important to hear directly from the people most affected by the economic crisis and the aftermath of the hurricanes, and his plan is to create, as he stated, "A law that is more humane, more equal and less oppressive." The hearing was held following the U.S. Government Accountability Office's (GAO) issuance of a report stating obvious facts about how our 78 municipalities are struggling financially because they have not been fully reimbursed for work already completed after the hurricanes.

The GAO said Puerto Rico has estimated it needs \$132 billion to rebuild from the hurricanes, and the U.S. Federal Emergency Management Agency has earmarked nearly \$4 billion in public assistance grant funding. Both the hearings and study made me think about a Seinfeld episode in which Jerry Seinfeld and George Constanza pitch "a show about nothing." While it is our sincere hope that something significant does develop from both the study and the hearings, until something dramatic happens, the first thought on my mind will be that "the show was about nothing."

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

Market Close Comparison	3/8/19	3/17/19	Change
Dow Jones Industrial Average	25,450.24	25,848.87	1.57%
Standard & Poor's 500	2,743.07	2,822.48	2.89%
Nasdaq	7,408.14	7,688.53	3.78%
U.S. Treasury 10-Year Note	2.63%	2.59%	-1.52%