

ECONOMY

From the ridiculous
to the sublime

THINK STRATEGICALLY:

A Day of Action With Yo-Yo Ma

Markets Showing Early Signs of Trouble; EU Economic Data Weaker;
10-Year Treasury Note Yield Dropping Below Three-Month Treasury Bills

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Yo-Yo Ma

Mueller: Trump's campaign did not conspire with Russia

The highly anticipated report from Special Counsel Robert Mueller was released by the attorney general to U.S. Congress and, according to Mueller, the report did not find Donald Trump's presidential campaign conspired with Russia. The investigation on whether the president committed obstruction of justice did not conclude he committed a crime, but it also "does not exonerate him," Attorney General William Barr quoted from Mueller's report. President Trump and his team called Mueller's report a full vindication. Barr and Deputy Attorney General Rod Rosenstein made the decision over whether

to prosecute the president on obstruction and determined the evidence was "not sufficient" to support prosecution. The president called it a "complete and total exoneration." There is more to come on this matter.

Week in markets: Showing early signs of trouble

The markets were sounding the alarms early Friday, with weaker-than-expected economic data from the European Union (EU) and the yield on the 10-year Treasury note dropping under that of the three-month Treasury bill. We should note that the last instance this happened was just before the Great Recession, and the

bond market is signaling a more pronounced slowdown than expected. In the U.S., all three major stock indices recorded their worst numbers since early January. As we have mentioned many times before, when an inverted yield curve shows up, it is as a sign of a coming recession.

As expected with this news, U.S. equities finished the week in negative territory. The Dow Jones Industrial Average closed the week at 25,502.32, a loss of 346.55 or minus-1.30 percent for the week, and a year-to-date (YTD) return of 9.3 percent; the S&P 500 closed at 2,800.71, a loss of 21.77 or minus-0.80 percent, and 11.70 percent YTD. The Nasdaq closed at 7,642.67, a loss of 45.86 or minus-0.60 percent, and a YTD of 15.2 percent. Meanwhile, the U.S. Treasury's 10-year note went down to 2.44 percent, or a decrease in yield of minus-5.79 percent.

The U.S. stocks that faced the most sectorial volatility were in financials and industrials, with significant price changes in bonds. The Federal Reserve left interest rates unchanged while signaling no rate hikes for the rest of 2019 and included global challenges in their analysis.

Key metrics that impact markets

- Federal Reserve signals monetary easing. By keeping rates between 2.25 percent and 2.50 percent, projecting no new rate hikes for the rest of the year.

- Strong job growth, low inflation key elements. As we revise other periods

of a recession, economic cycles usually are impacted by raising rates to curb inflation.

- Diversify, diversify to protect your portfolio. Maintaining a diversified portfolio with the right mix of stocks and bonds will always help avoid the effects of volatility, mostly in the long term.

Lyft IPO slated to debut this week

Lyft, the car-ride-sharing San Francisco company that began in 2012, reached 2018 revenues of \$2.2 billion and losses of \$991 million. The company, which operates in 300 cities (not San Juan) and provides more than 120,000 rides a day, is going public. Its banker, J.P. Morgan & Co., plans to take the company public and will mark its debut next week. The car-sharing company's initial public offering (IPO) is expected to raise as much as \$2 billion. The IPO is only one of many similarly valued technology companies that have filed their documentation with the Securities & Exchange Commission and are expected to become public sometime later in the year. The list includes Uber, Pinterest, Postmates, Slack and some are predicting Airbnb may also become public.

Global equity markets impacted by weaker economic data in Europe

The pendulum of investor psychology took a beating last week. With weaker economic data and two significant warning signals showing up, global equity markets rattled investors and provoked a stock selloff, mainly in financials and industrials. The first indication of trouble was the fact that the yield on 10-year German bonds (the European benchmark) turned negative for the first time since 2016. As a result, the 10-year Treasury-note yield fell below the yield of the three-month Treasury bills. This inverted yield curve is usually the first sign of a recession because the yield on long-term debt is frequently higher. When we see this

inverted yield curve appear, it is always the beginning of bad news.

The other signal was the fact that Europe's economic outlook was reduced as weaker-than-expected economic data was presented from France and Germany. The deepest slump in German manufacturing in more than six years has taken hold. The most significant pressures facing the European economy was caused by drastic changes in manufacturers' expert orders, as the combination of trade tensions, weaker growth and tariffs are becoming too much for the EU to take.

Final word: A day of action with Yo-Yo Ma

This past Saturday, the extraordinary cellist Yo-Yo Ma held what he described as a "Day of Action Puerto Rico de Pie (Puerto Rico Stands Up): The Revitalizing Power of Culture," with a series of events all day. The day began with a lively "Cultural Conversation" at the Centro de Bellas Artes Luis Ferré that included Yo-Yo Ma, Chef José Andrés and Luis Miranda—immediately followed by a Block Party for the entire family that included food trucks, artisans, street painting, workshops and lots of music. Among the stars were Tribu de Abrante, PJ Sin Suela with Yo-Yo Ma and Pirulo with Yo-Yo Ma. Toward the end of the Day of Action, "Culture, Cuisine & Music: A Fashion Show," produced by Naomi Campbell to support the revitalization of Puerto Rico's high schools, was held at The Gallery Inn with a special concert by Yo-Yo Ma. In the aftermath of Hurricane Maria, we have seen how the power of culture can significantly support Puerto Rico. From "Hamilton," Jimmy Fallon and now Yo-Yo Ma, we have seen how awareness of Puerto Rico's destruction from Maria has brought together so many celebrities to support our culture, to share their craft with the public and help us change the conversation from destruction to construction and love, lots of love.

Yo-Yo Ma, the world's best cellist and a friend of Puerto Rico, is one of the most charismatic people I have ever met. His brilliance and love of people are evident wherever he goes. Thank you, Yo-Yo, for giving Puerto Rico a great day.

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	3/17/19	3/22/19	Change
Dow Jones Industrial Average	25,848.87	25,502.32	-1.34%
Standard & Poor's 500	2,822.48	2,800.71	-0.77%
Nasdaq	7,688.53	7,642.67	-0.60%
U.S. Treasury 10-Year Note	2.59%	2.44%	-5.79%

European Union Indicators	2017	2018	2019	2020
GDP Growth (% year over year)	2.4	1.9	1.5	1.7
Inflation (% year over year)	1.7	1.9	1.6	1.8