

# ECONOMY

Bull market should continue  
for the rest of 2019

THINK STRATEGICALLY:

## Conscience Does not Follow a Majority Rule!

Mueller Details Evidence of Obstruction of Justice Against Trump; Big Gains in Earnings, Industrial Stocks; Improved Manufacturing Data From China

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### Mueller Report: The next fight is in Congress; the issue is obstruction of justice

The Mueller Report is a 448-page document split into two volumes; the first describes the many ties between Trump's presidential campaign and Russia, and the following outlines 10 episodes in which Special Counsel Mueller details that there was possible evidence of obstruction of justice. The Mueller investigation did not establish that the Trump campaign "conspired or coordinated" with the Russian interference effort, which has been described as "sweeping and systematic."

In our view, the two key findings are:

- The Special Counsel could not find evidence of criminal conspiracy between the President's campaign team and Russia.
- The Special Counsel decided not to recommend charges against President Trump, even as Mueller found several instances where the president tried to derail or close down the investigation.

One area that Special Counsel Mueller

focused on was whether there was a conspiracy with Russia, and that is a crime. However, what he found was collusions with Russia, and the Mueller Report provides some examples.

- Trump campaign members Paul Manafort and Rick Gates provided polling information to a Russian oligarch that Gates believed was a "spy" for the Kremlin;
- Trump foreign policy adviser George Papadopoulos, with the president's approval, tried to arrange meetings between Trump and Russian President Vladimir Putin;
- The Russians tried to hack into Hillary Clinton's office some hours after Trump called on Moscow to find her deleted emails.

From the report, it becomes quite clear that the Russian government tried to help Trump win the elections and key members of the President's campaign staff had clear troubling ties with Russia.

As we pointed out, Special Counsel Mueller examined 10 instances where

President Trump allegedly obstructed justice, and in our view the clearest examples are:

- Trump directed White House counsel Don McGahn to fire Mueller, which McGahn refused to do;
- Trump tried to pressure then-Attorney General Jeff Sessions to un-recuse himself and curtail the investigation.

Since Special Counsel Mueller did not have the authority to bring obstruction charges against President Trump, it will be up to Congress to decide how to handle the findings of the report, and this situation is seemingly far from over.

The only thing that does not follow the majority rule is a person's conscience. Even though the majority of [U.S.] Americans may agree that President Trump did nothing wrong, many people know deep down in their heart what the truth is, and in my view, a moral person has the responsibility to own up to the truth and do the right thing. For me, the most telling fact is that President Trump's conscience is talking to him is the fact that when former Attorney General Jeff Sessions told the President that Special Counsel Mueller had been appointed, the President said, "Oh my God. This is terrible. This is the end of my Presidency. I'm f..ed." The fact this was President Trump's reaction in the early days of the investigation is a clear sign of conscience doing the talking.

### Week in markets: Mostly flat; earnings season is coming

The short Easter holiday week was mostly flat as most stocks and indices finished the week with little gains. The Dow Jones Industrial Average closed the week at 26,559.54, an increase of 147.24, or 0.56 percent, and a year to date (YTD) return of 13.90 percent; the S&P 500 closed at 2,905.03, a loss of 2.38, or minus-0.08 percent, and a YTD performance of 15.90 percent. The

Nasdaq closed at 7,998.06, an increase of 13.90, or 0.17 percent, and a YTD return of 20.50 percent. Meanwhile, the U.S. Treasury's 10-year note remained at 2.56 percent with a YTD return of minus-0.12 percent.

The industrials led the market this past week, with substantial gains in most industrial stocks, driven by better-than-expected earnings and improved manufacturing data from China. We note that stock valuations are hovering near historical averages, as is evidenced by most U.S. indexes we follow, which are trading close to their all-time highs. As earnings season gets underway, we are expecting corporate earnings will likely be the key to driving markets higher and keeping the momentum going for the rest of 2019. The week will start with a significant array of companies in the S&P 500 reporting their first quarter results, which will provide most investors plenty of opportunities in which to invest.

### Are we riding a fighter jet or a bomb?

When flying a fighter jet, you go up, you go down, and you end up back where you started; however, if you are riding a bomb, well, you will never be the same. Since October 2018, the U.S. stock market has behaved mostly like a fighter jet. The S&P 500 is back to its September 2018 peak, with most investors in for quite a ride, which included heavy losses late last year and healthy gains to start 2019. There are three critical observations for investors:

- Diversification and balance in your portfolio.** This means you can almost avoid the volatility with a more comfortable cycle versus the peaks and valleys and dramatic losses in the U.S. indices.

- A well-planned investment strategy for the long term is crucial.** Planning and sticking to your strategy with a long-term perspective is critical for investors and, by doing so, will avoid panic selling, remain invested and make purchase selectively.

- The bull market should continue for the rest of 2019.** Back to the future, it is September 2018 again, as we have the same all-time highs. We have the gross domestic product growing at 3 percent, healthy employment, little inflation and interest rates have remained low. The tone is set for the market to continue its rally.

So, while it is always tempting to ride the performance of various markets and asset classes, the importance of a well-diversified and well-planned portfolio is the key to successful investing.

### Final word: P.R. GO bonds illegal since 2012?

There have been claims filed that seek to declare illegal more than \$6 billion in P.R. general-obligation (GO) bonds. The argument is that the Government of Puerto Rico had borrowed in violation of its debt-service limit and the balanced-budget clause of the P.R. Constitution.

What does it all mean? If debt is declared illegal, Puerto Rico does not benefit as invalidating the debt, which may mean you have to pay restitution to those bondholders. For this specific reason, those objecting to the legality of the GOs are making the argument that bondholders have no right to restitution, under a theory of unjust enrichment.

We can only wonder. How can Puerto Rico's penalty for borrowing above its constitutional debt limit be that they are allowed to keep the money and erase the debt with bondholders?

As unfair as this sounds, the applicable law dictates that this might be the likely legal outcome.

As we await the conclusions of this legality with the GO bonds, I am reminded of a conversation with someone who invested exclusively in P.R. GO bonds.

He had four main reasons—interest rate, tax exemption, inheritance law exemption and that our Constitution protected that debt. During the conversation in 2010, I asked him a single simple question. "Let us suppose for a second that any governor of Puerto Rico is faced with the choice of paying the debt to bondholders or paying police, doctors and teachers. What would the Governor choose to do first?"

I told him, hell will freeze over before we see any Governor prefer to pay a bondholder over the police, doctors or teachers. The client, a very wealthy landowner, told me, "You might be right. But I am sticking with my Constitution."

In any country that respects its laws—it would have been the obvious choice. Sadly, we chose to avoid paying our debt to keep the government running without any sacrifices. The pain that decision has caused Puerto Rico is measured with its immigration numbers, as we note every municipality has lost north of 4 percent of its population—without an end in sight.

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