

# ECONOMY

Volatility may be curtailed during Q4

THINK STRATEGICALLY:

## ‘What is Essential is Invisible to the Eye!’

U.S.-China Trade Deal in the Works, Brexit by Month-End; Markets, Economy Forecast to End 2019 on High Note

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### The DNA of a U.S. President

Since the United States became an independent nation, we have had as president farmers, lawyers, generals, movie stars, engineers and career politicians. One thing we have never had was a president who lacks a moral compass, does not distinguish between right and wrong, or lacks empathy, compassion and honesty. As we analyze the current situation in the United States, it is noted that the greatest presidents have been those who served during great times of crisis.

In Antoine de Saint-Exupéry's book, "The Little Prince," there is a brief discussion about the importance of love and friendship, while the fox asks the little prince to domesticate him, the little prince explains what friendship entails, and a more substantial part—missing someone, needing a person. The confused fox is told—"what is essential is invisible to the eye"—to describe the feelings of friendship. Presidential power and influence, in no small degree, are invisible to our eyes. It has to do with the distinct personality of each president, and for that, there is no single measurement. For example, President Washington's integrity, President Lincoln's fight for equality, President Truman's principles and courage, President Kennedy's charm and wit, President Reagan's ability to unite the United States or the powerful connection many felt with President Obama.

If we choose to harness presidential power with a single phrase, it has to be potency of language and words. There is no better example than JFK's inaugural address and its famous line, "Ask not what your country can do for you; ask what you can do for your country."

These words transcend time and are as relevant today as they were in 1961.

One of the differences of President Kennedy was the fact that he rarely talked about himself using first-person

singular pronouns or in the third person, in stark contrast to President Trump.

While we have an opportunity to watch each presidency, one thing that is quite particular in all presidencies is the fact that all the power, symbols, mantras and actions are synthesized by one single reaction: the ability to convey a message.

In the end, the presidency is all about character, honesty, respect, confidence, passion, clarity and caring. Qualities we can conclude are essential but invisible to our eyes.

### Week in markets: Positive trade, Brexit news drive markets

Most stocks rose marginally as the news of a possible trade deal between the United States and China is in the works, and Washington officials have pointed to an agreed-upon framework that would lay the foundation for a more permanent solution. Subsequently, the United States has stated that for now, no further tariffs would be implemented. In the Eurozone, there are reports of at least a glimmer of hope that a Brexit deal would be possible by Oct. 31. Although British Prime Minister Boris Johnson pointed out there was much work needed to reach a permanent agreement, most international markets recorded significant gains, which made the period the largest weekly gain in more than 16 weeks.

While the markets' optimism is key to these current gains, we stress there are quite a lot of moving parts for the trade deal to be a permanent agreement, and there are hundreds of hurdles the U.K. must pass or meet before the Brexit deadline. Until both are signed, sealed and delivered, there will be constant volatility.

As we review the week, we note the Dow Jones Industrial Average closed

the week at 26,816.59, for a gain of 242.87 points, or 0.91 percent, and a year-to-date (YTD) return of 15.0 percent. The S&P 500 closed the week at 2,970.27, for a gain of 18.26, or 0.62 percent, and a YTD return of 18.50 percent. The Nasdaq closed the week at 8,057.04, for an increase of 74.57, or 0.93 percent, and a YTD return of 21.40 percent. The Puerto Rico Stock Index closed the week at 1,644.57, a gain of 24.33, or 1.50 percent over the previous week, and a YTD gain of 69.15 percent.

Meanwhile, the U.S. Treasury's 10-year note rose during the week, closing at 1.73 percent, or a gain of 13.82 percent, with a YTD return of minus-0.95 percent. The U.S. Treasury's 2-year note rose during the week to 1.59 percent, an increase of 13.57 percent for the week, with a YTD return of minus-1.03 percent.

### Final word: 4Q market outlook, and into 2020

We forecast the stock markets and economy will finish 2019 on a high note and enter 2020 with solid footing. With all indices trading at YTD double-digit returns and the new trade deal framework, indications are that volatility may be curtailed during the fourth quarter.

**Economic forecast:** The U.S. economy will grow between 1.3 percent and 2.1 percent during 2020. This is supported by continued job growth, low unemployment of 3.5 percent and



low-interest rates.

**Stock markets:** We are forecasting the stock markets will continue their growth and will outperform the bond markets. However, volatility will continue until the trade deal is signed.

**Fixed income:** With the current scenario of low-interest rates, we do not see much upside for bonds. However, every investor should maintain an adequate balance of not less than 30 percent in relationships to support periods of increased volatility.

**Eurozone outlook:** With the European Union (EU) economic sentiment index at 100 percent, unemployment at 6.30 percent and inflation at 1.40 percent, we note the International

Monetary Fund has slashed global forecasts because of the trade wars. However, once the trade tensions have subsided, the EU's recent quantitative easing monetary policy will allow the economy to grow faster than in 2019.

**Global economic growth:** As a direct response to slower growth, most central banks in the world have started to ease monetary policy in an attempt to stimulate economic growth.

**Global manufacturing:** After being impacted by much weaker global demand and trade tensions, late 2019 and into 2020 should be positive for the manufacturing sector.

All investors must review their portfolios and prepare them for 2020 to appropriately capitalize on opportunities. In the end, what matters is having a trusted adviser.

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Weekly Market Close Comparison	10/11/19	10/5/19	Change	YTD
Dow Jones Industrial Average	26,816.59	26,573.72	0.91%	15.00%
Standard & Poor's 500	2,970.27	2,952.01	0.62%	18.50%
Nasdaq	8,057.04	7,982.47	0.93%	21.40%
Puerto Rico Stock Index	1,644.51	1,620.18	1.50%	69.15%
U.S. Treasury 10-Year Note	1.73%	1.52%	13.82%	-0.950%
U.S. Treasury 2-Year Note	1.59%	1.40%	13.57%	-1.030