BIRLING
CAPITAL ADVISORS, LLC

THINK STRATEGICALLY:
5 Predictions, 5 Issues and & 5 Answers for 2019

January 3, 2019

The Never-Ending Echelon

As 2018 ended and we enter 2019 a radically different and more complex macroeconomic and investment environment is facing us.
As is our custom we have outlined five key predictions that will have significant implications for the global business and they include:

1. THE US-CHINA TRADE WAR WILL GET MUCH WORSE AND INTENSIFY WHILE THE CHINA-RUSSIA RELATIONSHIP BECOMES STRONGER AND HAS WORLDWIDE CONSEQUENCES- Lack of progress will lead President Trump to raise tariffs and impose additional ones to $300 billion in products. The trade war will lead to increased economic trade between China and Russia deepening their relationship.

2. EMERGING MARKETS ARE POISED TO HAVE A CREDIT CRISIS THAT WILL GROW IN PROPORTION AND BREADTH-from Argentina to Venezuela to Africa a credit crisis is unfolding, and with China being owned 20% from most Africans nations may face creditors defaults.

3. BITCOIN WILL LEAD THE CONSOLIDATION OF THE CRYPTOCURRENCY MARKET- with Bitcoin celebrating ten years in October 2018 we expect bitcoin to accumulate 75% of the cryptocurrency market by December of 2019

4. GLOBAL SHIPPING INDUSTRY WILL SUFFER FROM THE NEW SULFUR REGULATIONS- the international maritime organization is gearing to implement new sulfur regulations for the shipping industry that will have implications 90 percent of the world's trade.

5. THE WORLD IS RUNNING OUT OF SAND, AND ITS SHORTAGES WILL IMPACT WORLDWIDE CONSTRUCTION- the global construction boom is resulting in a shortage of sand and large price increases as high as 300%.

We shall continue to withstand stronger Geopolitical forces, a much tighter monetary policy from the Federal Reserve Bank, and the tail end of a global economic cycle that will contribute to volatile and tempestuous markets. Our goal in this issue is to highlight the attractive investment opportunities that are available in the midst of all the noise. However, investors must be ready for a bumpy and volatile ride.

As Global Markets face increased uncertainty, it is critical to have in place and diversified and disciplined plan to achieve your financial goals, without it you will be Blinded by the Chants of contrarians that have been favoring this bear market.

ISSUE 1: WILL GROWTH SLOW?

As we ended 2018 with a 3.8% economic growth, we forecast that global economic growth will slow down 3.4% in 2019. Our outlook for the United States is that its growth will be impacted by ongoing political challenges led by the current federal government shutdown. Volatile markets as U.S. stocks have faced the most damaging consecutive losses to end the year in negative territory for 2018, and most major indices now in correction territory and the Nasdaq in a bear market with 20% down from its high. The trade war with China is facing both the implementation of tariffs and their economic readjustment. The decline in global growth will mean a weaker global market, which could point us to the end of the economic cycle as 2019 goes further into the first quarter.

ISSUE 2: IS TIGHTER MONETARY POLICY THE CULPRIT?

Two thousand nineteen will be the first year since the great global crisis that central bank will implement tighter monetary policy and Federal Reserve Bank policy to tighten.

Our Federal Reserve consensus remains truculent relative to the market, and with two to three more 25 basis- point hikes to a funds rate of 2.75 percent to 3.00 percent at the end of 2019. While it is true that higher rates and tighter financial conditions will slow growth over the next year, our stateside unemployment forecast target is 3 percent. While some economists believe there may be a global impact in response to the Federal Reserve's monetary tightening policy, we do not think tighter Fed policy is overdone. The most significant risk should be a more substantial U.S. overheating which in turn could trigger steeper rate hikes.

As the European Central Bank have end quantitative easing can expect the impact of near to fill employment markets to be the risk of higher inflation, which could spark even faster rate rises.

ISSUE 3: THE ROLE OF THE U.S. AND WILL PRESIDENT TRUMP BE IMPEACHED?

The world and the U.S have reached critical turning points. Starting with the U.S.& China situation that is much more than trade disagreements, for one the US National Security Strategy has labeled China as a "Revisionist state." This is a term from Power Transition Theory within the broader field of international relations. The term assumes a direct correlation between a state's hegemony, both political and economic, and its standing as either a status quo state or a revisionist state, in this case, the trouble is that China's interest is contrary of those of the U.S.

In other parts of the world, we have Brexit, elections in India and Greece and changes in leadership in Germany and Italy.

These changes will bear increased instability from the EU.

We believe that President Trump will face coming January increased scrutiny for the Democratic House and the Robert Muller investigation has discovered a path that may lead directly to the President. We genuinely believe President Trump will be impeached and may be pushed out of office before 2019 ends.

ISSUE 4: SHOULD INVESTORS EXPECT A RECESSION?

While the current market turmoil may be leading us to believe that a recession may be possible, we do not think it is likely to occur. With consumer sentiment high, consumption rates, investment growth, and an unemployment rate close to full employment we do not see a recession showing up

The economy is strong. Underlining this decision is the Fed's view that the economy will continue to be robust and growing but at a slower pace next year than this year. We see evidence of this view as well. The labor market continues to strengthen, further evidence is that total nonfarm payroll employment increased by 312,000 in December 2018, and however the unemployment rate rose to 3.9 percent, as reported by the Bureau of Labor Statistics. Most Job gains occurred in health care, food services and drinking places, construction, manufacturing, and retail trade.

Market Update: The comparing January 3, 2018 to January 3, 2019: We are into the correction market

Market Close Comparison	1/3/2018	1/3/2019	Change
Dow Jones Industrial Average	$ 24,922.68	$ 22,606.22	-9.29%
Standard & Poors 500	$ 2,713.06	$ 2,447.89	-9.77%
Nasdaq	$ 7,017.07	$ 6,463.50	-7.89%
U.S. Treasury 10 Year Note	2.440%	2.560%	4.92%

ISSUE 5: WHAT TO EXPECT FROM THE MARKETS: PESSIMIST OR OPTIMIST VIEWS?

The Federal Reserve Bank current tone of raising interest rates seems asymmetrical in tone and implementation towards a market that is entirely negative. The massive selloff following the rate hike this past week was both broad-based and pointed to corporate earnings that have reached its peak. We have to wonder if the Federal Reserve Bank may have been raised rates to the point that the economy may not support it. The current outlook is that the pace of earnings growth will slow from a rate above 20% to less than 10% next year, and we continue to predict that stock prices will continue to grow. We see increased opportunities for the long-term investor even with the current market downturn for the following reasons:

Valuations are attractive. With the S&P down 9.77% this year and 18% from its high, it means that the price per earnings ratio is below its five-year average and presents an attractive buying opportunity for most stocks.

Stay Invested; this is a buyers market and the yield curve is signaling modest growth ahead, and by staying invested it will pay off. Be very selective: In all the chaos in the market, it's prudent to choose wisely the sectors, companies with high potential for growth and innovation.

THE FINAL WORD: WE ARE NOT THE SAME

In 2019, more than any time in history Puerto Rico needs to be creative with the tools it has. While is true the recently approved Opportunity Zones, create a once in a lifetime opportunity to re-develop Puerto Rico and the Hurricane brought us within view of the abyss but must march on towards our next moves. Local opportunities may include:

- Start to pay our Bondholders some of the money we owe them.
- Creative use of the Public Private Partnership model; creating hundreds of new possibilities.
- Decentralizing and Reducing the Government to align it with our current reality.
- Focus on Economic Growth and Economic Development.
- Seeking a Municipal Reform to allow for Centralization of services, programs, events, activities, purchasing and critical services.
- Take full advantage of the inflow of CDBG Federal Funding
- Create a Government divestiture program to sell unneeded assets.
- Eliminate obsolete government rules, regulations, programs and agencies.
- Transform the Government monopolies and focusing only on critical, essential service operations or agencies

One Key Word: EXECUTION

As a final thought, a quote by British writer W. Somerset Maugham:

"We are not the same persons this year as last, nor are those we love. It is a happy chance if we, changing continue to love a changed person."

We bid you all a happy and prosperous 2019.

Francisco Rodriguez-Castro

President & CEO

ABOUT BIRLING CAPITAL

Birling Capital is a boutique corporate advisory & consulting firm that offers broad corporate finance & advisory services to institutional, government, corporate, middle-market companies, family corporations and their owners, in identifying and resolving organizational finance-related issues. We use a holistic approach both assets and liabilities sides with integrated business, personal, family needs and objectives.

Over the past two decades, our firm's principals have advised on more than 150 transactions in the corporate, healthcare, retail, education, insurance, banking and government markets.

Our firm combines our senior leaders' more than two decades of advisory, consulting and transactional experience in corporate, healthcare, retail, education, insurance, P3's, banking and government markets with industry-focused financial operations and strategy professionals, enabling us to effectively advise our clients through their most critical corporate finance transactions.

Before founding Birling Capital, our firm's principal worked for over twenty-five years in corporate, consumer, investment banking and government areas developing a unique set of skills to suit our focus markets. Sharing a deep-rooted passion for providing quality advice to our clients that will help them to build enduring businesses and to accomplish their most critical strategic objectives. It is for this reason that we named our firm Birling Capital Advisors, after an ancient game of skill played by lumberjacks which each tries to balance the longest on a floating log while rotating, Our name signifies constant movement and change while maintaining balance. This is the foundation of both our approach and principles.

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