

ECONOMY

Phase One of U.S.-China trade deal drives markets

THINK STRATEGICALLY:

Be the Change You Want in the World

Even with Strides to Improve 'Ease of Doing Business,' 2020 World Bank Study Shows P.R. Gov't, Private Sector Inaction Leaves Island Behind Developed Economies

BY FRANCISCO RODRÍGUEZ-CASTRO | frc@birlingcapital.com



Be the change you want in the world

The World Bank's Ease of Doing Business 2020 Study shows most developing economies have been making strides to rise in the ranks and reduce the gap between developed economies in the area of the "ease of doing business." However tremendous the paces, the differences remain wide in developing countries, including Puerto Rico, because our ranking continues to suffer from the inaction of all local constituents, from the governments to the private sector.

Puerto Rico's rank is 65; however, in 2009, Puerto Rico was at 33. In 10 years, we have dropped 32 spots. Let us revise our worst metrics:

- Starting a business, our rank is 59;
- Dealing with construction permits, our rank is 143;
- Trading across borders, our rank is 70;
- Getting electricity, our rank is 92;
- Registering property, our rank is 161;
- Paying taxes, our rank is 163.

The reports further found Latin America and the Caribbean lag in terms of reform development, implementation and impact. Moreover, not a single economy in our region ranks among the top 50 for ease of doing business, while Puerto Rico once was among the top 35.

The private sector should lead the way to be the change we want in the world, with the single goal of improving Puerto Rico's ranking within three years and at least to regain our position within the top 35 in the Ease of Doing Business.

The Transforming Puerto Rico Initiative will lead the way to implement, promote and preserve changes in our current economic situation. That dialogue would then apply a set of "supranational goals for Puerto Rico," or those having power or influence that transcend national boundaries or governments.

Range of issues to discuss

- Puerto Rico's economic recovery;
- Job creation;
- Fiscal situation and national debt;
- Competitiveness;
- What leadership is needed; and
- Implementation of supranational goals.

Doing so requires a set of goals that will stand the test of time, will be protected and preserved no matter which party, ideology or government is in power, and are those chosen by the people.

Supranational goals

- Transform Puerto Rico with robust economic development and

sustained growth of 4 percent over the next four years.

- Have an industrial structure in which employment activities in the knowledge economy are not less than 25 percent of the gross national product within 10 years.
- Create 300,000 new jobs in the private sector in the next six years.
- Increase the labor-participation rate to 55 percent in six years.
- Reduce the unemployment rate to 5 percent in six years.
- Reduce the government apparatus by transferring to the private sector any corporation, operation or service that the private sector can perform more efficiently.
- Transform the education system, from primary to university level, into one focused on entrepreneurship, trades and transformation.

As we adopt the Transforming Puerto Rico Initiative, we become the change agents we want in the world and Puerto Rico.

Week in markets: Phase 1 trade deal, economic data drives markets

This past week, along with the LSU Tigers clinching the National College Football Championship, there was a driver of growth for the markets. Still, it was the culmination of the two-year U.S.-China trade war that ended with the signing of the "Phase One" Trade deal Jan. 15, mixed with a dose of better-than-expected economic data and a dash of corporate earnings that were better than forecasts.

Weekly Market Close Comparison	1/17/20	1/10/20	Change	YTD Return
Dow Jones Industrial Average	29,348.10	28,823.77	1.82%	2.8%
Standard & Poor's 500	3,329.62	3,265.35	1.97%	3.1%
Nasdaq	9,388.94	9,178.86	2.29%	4.6%
Birling Puerto Rico Stock Index	1,725.96	1,733.66	-0.44%	1.89%
U.S. Treasury 10-Year Note	1.84%	1.83%	0.55%	-0.1%
U.S. Treasury 2-Year Note	1.58%	1.56%	1.28%	-0.1%

What does the Phase One trade deal include?

China commits to increase purchases of goods and services by \$200 billion over two years. The breakdown includes \$78 billion in manufactured goods, \$52 billion in energy, \$32 billion in agricultural products and \$38 billion in services during the Phase One agreement, which relieves some of the pressure. However, until the Phase Two deal is signed, trade matters with China will likely remain a source of market volatility for 2020.

Economic front: Primary indicators for Jan. 13-17

- U.S. Consumer Price Index increased to 258.50 on Jan. 14 versus 257.94.
- U.S. Consumer Price Index (month over month [MOM]), reported Jan. 14, was at 0.22 percent, down from 0.26 percent.
- U.S. Producer Price Index (year over year [YOY]), reported Jan. 15, rose to 1.28 percent from 1.11 percent.
- U.S. Initial Jobless Claims dropped to 204,000 on Jan. 16, which was down from 214,000.
- U.S. Retail Sales MOM rose to 0.35 percent on Jan. 16, which was up from 0.26 percent, and was higher than the long-term average.
- U.S. Retail Sales YOY, reported Jan. 16, rose to 5.96 percent from 3.11 percent, and is higher than the long-term average of 4.26 percent.
- The 30-Year Mortgage Rate, reported Jan. 16, was flat at 3.64 percent from the previous month.
- U.S. Business Sales were up to \$1.466 trillion compared to \$1.456 trillion the previous month.

While growth is expected to slow during 2020 to just under the 10-year expansion metrics, consumers are predicted to continue to fuel the economic expansion.

This was a positive week for the markets, with the Dow Jones Industrial Average closing at 29,348.10, for a gain of 524.33 points, or 1.82 percent and a year-to-date (YTD) return of 2.8 percent. The S&P 500 closed at 3,329.35, for a gain of 64.27 points, or 1.97 percent and a YTD return of 3.1 percent. The Nasdaq closed at 9,388.94, for a gain of 210.08, or a 2.29 percent increase and a YTD return of 4.6 percent. The Birling Capital Puerto Rico

Stock Index closed at 1,725.96, or a loss of 77 points, or -0.44 percent, and a YTD return of 1.89. Meanwhile, the U.S. Treasury's 10-year note closed, gaining 1.84 percent or an increase of 0.55 percent. The U.S. Treasury's 2-year note closed at 1.58 percent, or a gain of 1.28 percent.

Final word: U.S. bank holding company earnings lead way

Some in corporate America have claimed President Trump has been the best thing that has happened to them, while other elite businesspeople believe his presidency is hurting the country, with budgets out of control and borrowing at increased levels. For these reasons, we decided to embark on an analytical glance at the helm of the U.S. banking sector. This past week, three of the top U.S. bank holding companies reported their fourth-quarter earnings, and most beat their estimates.

JPMorgan Chase & Co.

Ticker Symbol: JPM
 Stock Price Jan. 1, 2019: \$100.69
 Stock Price Jan. 15, 2020: \$138.20
 Stock Price Increase: \$37.51
 Fourth Quarter (4Q) 2019 Revenue: \$28.33 billion
 4Q 2019 Net Income: \$8.52 billion
 Total return for 2019: 42.80 percent

Citigroup Inc.

Ticker Symbol: C
 Stock Price Jan. 1, 2019: \$55.13
 Stock Price Jan. 15, 2020: \$81.12
 Stock Price Increase: \$25.82
 4Q 2019 Revenue: \$18.38 billion
 4Q 2019 Net Income: \$4.97 billion
 Total Return for 2019: 53.46 percent

Morgan Stanley

Ticker Symbol: MS
 Stock Price Jan. 1, 2019: \$40.40
 Stock Price Jan. 15, 2020: \$57.51
 Stock Price Increase: \$17.11
 4Q 2019 Revenue: \$28.33 billion
 4Q 2019 Net Income: \$8.52 billion
 Total return for 2019: 28.93 percent

When compared with the Dow Jones Industrial Average's return of 22.34 percent, it is noted that the three banks beat the Dow Jones handsomely:

Citigroup Inc. had a performance of 53.46 percent; JPMorgan Chase & Co. had a performance of 42.80 percent; and Morgan Stanley had a return of 28.93 percent.

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