

ECONOMY

A negative week
for the markets

THINK STRATEGICALLY:

You Do Not Represent Our Values

Recent Instability with Puerto Rico Gov't, Protests, Coronavirus and Impeachment Hearings Taking Toll on Economy

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This past week began with a series of firings by Gov. Wanda Vázquez, of three principal officials within her cabinet: Carlos Acevedo, commissioner of the Emergency & Disaster Management Bureau (NMEAD by its Spanish initials), Fernando Gil Enseñat, secretary of Housing; and Glorimar Andujar, secretary of the Family Department.

All were asked to resign amid the discovery by a person called “El León Fiscalizador” of a warehouse in Ponce that contained expired water and food in addition to tarpaulins, emergency beds, portable stoves and other critical supplies for an emergency.

As the government faced yet another credibility crisis and with most Puerto Ricans angry about the lack of adequate management of emergency resources, an outcry began against

the government. The anger resulted in a protest on Jan. 22; the rally was headed by rapper René Pérez, aka Residente, and baseball great Yadier Molina, and promote by pop star Ricky Martin. The principal purpose of the protest was to demand Gov. Wanda Vázquez’s resignation because of the poor management of relief efforts. The playbook followed was similar to the one observed during the “Summer of Ricky,” when now-former Gov. Ricardo Rosselló was ousted through protests by the people, and here is where the protests’ similarities end—once Puerto Rico is a democracy again, with general elections being held this November. We are a country of law and order and Puerto Rico cannot afford to have four governors in less than a year.

What is the alternative? The secretary of State is not confirmed and, according to the speaker of the

House, he does not have the votes to be confirmed. No one knows who the Justice secretary is and the Treasury secretary is not old enough to be governor, which leaves us with the Education secretary. The three protest leaders must know that they do not represent our local values: Two of them do not live here, they choose to live in the States, and while they have homes here, the stark reality is that the artists live stateside, with limited knowledge of Puerto Rico’s local realities.

In the days after the protest, we could see how the demonstrators caused hundreds of thousands of dollars of damage. Why is the municipality of San Juan paying for these repairs after protests, and not Martin, Residente and Molina? If you are leaders of a march, and you cause damage, you must pay up or shut up.

You do not represent our values; our Constitution must be respected and preserved; no one has the right to challenge our democracy.

Remember, you do not represent our values. Most Puerto Ricans value their U.S. citizenship and Puerto Rico’s permanent union with the U.S.

Every time anyone listens to Residente or the mayor of San Juan, their arguments about separatism and liberal leftist views should concern anyone who listens to them. Again, they do not represent the majority of residents’ values.

Week in markets: U.S. stocks down, global markets react to coronavirus

As the news of the coronavirus spread across the world, with a severe impact in China and direct impact in the United States and other global cities, U.S. stocks reacted, finishing the week with losses in all major indexes. In addition, global markets lost traction as the spread of Wuhan, China coronavirus is anticipated to have an impact on the Chinese economy, and the nation begins to celebrate the Year of the Rat.

China has had other episodes of viral outbreaks that had an impact on other cities worldwide. However, it is worth noting that the economic impact of these was limited. We are concerned about the nature of the market rally’s interruption, and as we cautioned during our 2020 forecast, we expect an increasingly volatile period for most investors. We believe the time is right to begin to think differently about current strategies and portfolio diversification. With a recent market that produced a 2 percent year-to-date (YTD) return on the S&P 500 and 3.8 YTD return on the Nasdaq, it may just offer the right opportunity to rebalance portfolios.

What are the market drivers?

- Bullish U.S. consumers;
- U.S.-China Phase One Treaty;
- Promising signs of growth in the global economy;
- Stable interest rates and inflation at bay.

Current market deterrents

- Concerns about the Wuhan coronavirus epidemic;
- Escalation of hostilities in Iran;
- U.S. Senate impeachment proceedings.

While the market deterrents are not viewed as material enough to cause a downturn, it is believed these issues will create volatility that has an impact on investor sentiment.

Economic front: Primary indicators for Jan. 20-25

- U.S. existing-home sales: Sales reportedly increased to 5.54 million

in December from 5.34 million in November, a 3.55 percent rise.

- U.S. initial jobless claims: On Jan. 23, initial jobless claims were 211,000, versus 205,000 during the previous week, a 2.92 percent increase.
- 30-year mortgage rate: The fixed interest rate U.S. homebuyers would pay if they were to take out a 30-year loan rose to 3.65 percent from 3.64 percent.

This was a negative week for the markets, with the Dow Jones Industrial Average closing at 28,989.73, a loss of 358.37 points, or 1.22 percent, and a year-to-date (YTD) return of 1.6 percent. The S&P 500 closed at 3,295.47, a loss of 34.10 points, or 1.03 percent, and a YTD return of 2 percent. The Nasdaq closed at 9,314.91, a loss of 74.03, or 0.29 percent, and YTD return of 3.8 percent.

The Birling Capital Puerto Rico Stock Index closed at 1,954.98, a loss of 52.37 points, or 2.61 percent, and a YTD return of -4.07.

Meanwhile, the U.S. Treasury’s 10-year note fell to 1.69 percent or a decrease of 8.15 percent. The U.S. Treasury’s 2-year note closed at 1.49 percent, or a loss of 5.7 percent.

Final word: Puerto Rico Conference 2020: Empowering Investment'

As founder & chair of “The Puerto Rico Conference,” it is my pleasure to highlight this leading macro-economic and investor event since it was founded in 2006. The Puerto Rico Conference is taking place Feb. 26, at the Sheraton Convention Center. On this occasion, the island finds itself in one of the most critical moments in its history from an economic and social standpoint. Today, Puerto Rico’s context and the global competitive environment lead us to reinvent ourselves, but also to rediscover new strengths and advantages, focusing more on our human capital, along with the financial and social capital. With this in mind, Birling Capital and the Chamber of Commerce assumed the leadership to present the “Puerto Rico Conference 2020: Empowering Investment.”

For investors and interested new residents, one can learn in a single day all that is going on in Puerto Rico. To access the agenda, go to: www.camarapr.org/Eventos_NW/Agenda-PRC-2020.pdf.

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

Weekly Market Close Comparison	1/24/20	1/17/20	Change	YTD
Dow Jones Industrial Average	28,989.73	29,348.10	-1.22%	1.6%
Standard & Poor's 500	3,295.47	3,329.62	-1.03%	2.0%
Nasdaq	9,314.91	9,388.94	-0.79%	3.8%
Birling Puerto Rico Stock Index	1,954.98	2,007.35	-2.61%	-4.07%
U.S. Treasury 10-Year Note	1.69%	1.84%	-8.15%	-0.2%
U.S. Treasury 2-Year Note	1.49%	1.58%	-5.70%	-0.1%