ECONOMY

The Biden era kicks off intent on healing

THINK STRATEGICALLY:

The Dawn of a New Presidency

BY FRANCISCO RODRÍGUEZ-CASTRO | frc@birlingcapital.com

President Biden becomes 46th President of the United States of America

As we say goodbye to Donald J. Trump's tumultuous presidency, his legacy will be dividing the United States and giving a voice to racists, white supremacists, QAnon conspirators and many other loyalists who found in Trump a voice and a leader.

President Trump leaves office with a 29 percent approval rating, the second lowest in 47 years, and the distinction of being the first president to be impeached twice. From my perspective, Trump's worst nightmare was the coronavirus pandemic and his initial decision to dismiss the virus. From that point on, as the nation suffered and the economy tanked, his presidency went downhill quite quickly. Finally, what made him lose the election were his rambling press conferences, full of reality distorting arguments, and his unwillingness to implement a national plan to protect all U.S. citizens.

Let's take a quick look at final presidential approval ratings:

Trump: 29 percent
Obama: 59 percent
Bush: 34 percent
Clinton: 66 percent
Bush Sr.: 56 percent
Carter: 34 percent
Ford: 53 percent
Nixon: 24 percent

The administration of President Joe Biden, which took over Wednesday, faces a divided nation, a surging healthcare crisis that the last administration all but ignored for months, and national security threats that are rocking the world's oldest democracy.

Certain initial steps that must be taken will set the Biden administration's tone, allowing it to navigate the current crisis.

Improving the federal government's handling of the Covid-19 pandemic: Coronavirus infections are surging, with an average of 225,000 cases a day in the last seven days. In comparison, between March and April, the average case growth was 35,000 cases a day, representing a 542 percent rise in cases per day.

Implementing a massive vaccination program: So far, the vaccination program has been lackluster, slow, and fallen short of expectations. The Biden administration has promised 100 million vaccinations in 100 days; this is the type of massive program we expect Washington to implement to finally turn the Covid-19 corner.

Making economic growth sustainable: Even as most economists predict that the United States will achieve economic growth of 4.3 percent GNP during 2021, with coronavirus cases surging, the economy begins to lose steam. Certain economic benchmarks are already showing signs of weakening:

U.S. initial claims for unemployment insurance: Rose dramatically, to 965,000, from 784,000, a 23.09 percent increase. One year ago, the number of claims was 212,000, or 355.2 percent fewer.

U.S. Retail and Food Services Sales month-over-month (MoM) fell to -0.68 percent compared to -1.37 percent last month and 0.06 percent last year.

U.S. Auto and Other Motor Vehicle Sales: Rose to $106.93 billion, up from $104.84 billion last month, a 1.99 percent increase from the previous month and 10.63 percent from one year ago.

U.S. Industrial Production MoM: Grew to 1.57 percent, compared to 0.47 percent last month.

Assault on the Capitol: Two weeks after the insurrection by right-wing Trump supporters at the capitol, there is much concern in the United States these types of violent demonstrations will continue to create chaos in many states with the intent of derailing the Biden administration.

$2.8 Trillion Bazooka: Biden's $1.9 trillion proposal and the already approved $908 billion provides a $2.8 trillion bazooka-like attempt to close the so-called "output gap," the level of goods and services the United States would likely produce over the next three years without a stimulus package and what it would achieve with a robust stimulus package.

Diminished Global reputation: Biden's foreign policy team will inherit a weakened and ridiculed foreign policy apparatus, probably the worst in 245 years. This points to a considerable challenge for the administration. However, the team Biden has chosen can hit the ground running with years of experience and critical connections worldwide.

Domestic Agenda: Domestic issues are likely to be prioritized, especially because of the weakened state of the U.S. economy. We have already heard the president-elect highlight a plan "made in all of America" by all of its workers. The Biden agenda calls for revitalizing U.S. manufacturing and creating the basis to allow the sector to bring its factories back to the United States.

As the Dawn of the Biden Presidency arrived, I wondered if you can recall who said the following words? "How can we love our country and not love our countrymen? And loving them, reach out a hand when they fall, heal them when they're sick, and provide opportunities to make them self-sufficient so they will be equal in fact and not just theory." These words are from one of my favorite inaugural addresses that Ronald Reagan gave on Jan. 20, 1981, in the dawn of his own presidency.

Week in Markets: Biden $1.9 trillion Stimulus, Unemployment Claims rise 23.09 percent, Wall Street Falls

The U.S. stock market finished the week with losses last week after record highs the week earlier. The earnings season began with J.P. Morgan, Citigroup and Wells Fargo, which delivered impressive results, which we highlight below. Another factor that investors are considering is Biden's announcement of another $1.9 trillion fiscal-stimulus plan to counter the effects of the Covid-19 pandemic. As the economy weakens amid a surge in cases and unemployment claims rise at a 23.09 percent clip, there is a dire need for additional fiscal stimulus.

Yearly Market Close Comparison	1/15/21	1/8/21	Return	YTD
Dow Jones Industrial Average	30,814.26	31,097.97	-0.91%	0.68%
Standard & Poor's 500	3,768.25	3,824.69	-1.48%	0.32%
Nasdaq	12,998.50	13,201.98	-1.54%	0.86%
Birling Puerto Rico Stock Index	2,185.74	2,158.21	1.28%	6.88%
U.S. Treasury 10-Year Note	1.11%	1.13%	-1.77%	0.20%
U.S. Treasury 2-Year Note	0.13%	0.14%	-7.14%	0.15%

After Biden's stimulus announcement, the impact on global stocks was broad and fast. The biggest losers have been defensive stocks, with a -2.7 percent return year-to-date (YTD), followed by technology stocks with a -2 percent return YTD.

As we review some of the favorite tech stocks, we note their closing prices at the end of last week:

Apple,Inc. (AAPL) closed at $127.14, down $1.77, or 1.37 percent.

Microsoft (MSFT) closed at $212.65, down $0.37, or 0.17 percent.

Alphabet (GOOG) closed at $1, 736.19, down $3.99, or 0.23 percent.

Tesla (TSLA) closed at $826.16, down $18.84, or 2.23 percent.

The corporate earnings season began with three of the top U.S. banks reporting their 4Q20 earnings.

JP Morgan Chase (JPM) reported $12 billion in earnings, a 42 percent increase with revenues of $30.2 billion during the fourth quarter, the full year 2020 profits were $29 billion, and the stock closed at $138.39, down $2.78, or 1.97 percent.

Citigroup (C) reported $4.6 billion in earnings, on revenues of $16.5 billion, full-year profits were $11.4 billion; its stock closed at $64.60, down $4.41, or 6.34 percent.

Wells Fargo (WFC) reported $3 billion in earnings, on revenues of $17.9 billion; its stock closed at $32.01, down $2.4 or 7.88 percent.

With most economists projecting that the U.S. economy will grow at a 4.3 percent rate during 2021, we expect the United States to get the upper hand on the pandemic with a combination of aggressive protection plans and massive vaccinations. In a recent economic poll, there was unanimous consent that the 100 million vaccines in 100 days effort will set the tone and pace of a massive effort that will benefit the economy and the markets.

We suggest that investors re-examine all stocks in the Birling Puerto Rico Stock Index, as they deserve a fresh look when rebalancing portfolios.

Francisco Rodríguez-Castro is president and CEO of Birling Capital LLC. Think Strategically© is a publication by Birling Capital LLC that summarizes recent geopolitical, economic, market and other developments This report is intended for general information purposes only and does not represent investment, legal, regulatory, or tax advice. Recipients are cautioned to seek appropriate professional counsel regarding any of the matters discussed.