

ECONOMY

Bazooka Stimulus Huge Shot in the Arm



THINK STRATEGICALLY:

Another Look at Puerto Rico Stocks

With 23 percent return, Birling Stock Index is beating Dow, S&P 500 and Nasdaq

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What is the Birling Capital Puerto Rico Stock Index?

The Birling Capital Puerto Rico Stock Index (PRSI) is a market value-weighted index composed of five companies with headquarters or domiciled in Puerto Rico. All companies are listed on the New York Stock Exchange (NYSE), NYSE Amex Composite Index (AMEX) or the Nasdaq exchange.

Birling Capital Puerto Rico Stock Index has a 23.14 percent yield

We have compared the Birling Capital Puerto Rico Stock Index's Jan. 1 to March 12 performance against the Dow Jones Industrial Average, S&P 500 and the Nasdaq Composite Index, and you will notice that the results are highly favorable for local stocks. Let's see the results.

The Birling Capital index had a solid year in 2020 among the five companies that make up the index. Next, we make a collective and individual comparison of each Birling Capital Puerto Rico Stock Index component versus the Dow Jones, the S&P 500 and the Nasdaq. The Birling Capital index had

a yield of 23.14 percent from Jan. 1 to March 12; when compared with the following results, you will notice why it makes sense to look at Puerto Rico stocks again.

The Birling PRSI: Individual returns and prices per share:

Triple S Management (GTS): achieved a yield of 34.66 percent that exceeded the Birling PRSI, Dow Jones, S&P 500 and Nasdaq, with a price per share at the close of March 12 of \$28.75

First Bancorp. (FBP) achieved a return of 31.34 percent, exceeding the Birling PRSI, Dow Jones, S&P 500 and Nasdaq, with a price per share at the close of March 12 of \$12.11

Popular Inc. (BPOP) achieved a return of 30.26 percent, exceeding the Birling PRSI, Dow Jones, S&P 500 and Nasdaq, with a price per share as of March 12 of \$73.36

OFG Bancorp (OFG) achieved a yield of 22.55 percent, exceeding the Birling PRSI, Dow Jones, S&P 500 and Nasdaq, with a price per share as of March 12 of \$22.72

Evertec Inc. (EVTC) achieved a yield of minus-4.09 percent, or lower than the Birling PRSI, Dow Jones, S&P 500 and Nasdaq, with a price per share at the close of March 12 of \$37.71

Please take note that at its worst close on March 18 the Birling PRSI had a return of minus-32.17 percent; however, it has had a spectacular, sustained recovery.

Average returns of the comparative indices versus the Birling PRSI:

Dow Jones Industrial: 7.1 percent

S&P 500: 4.99 percent

Nasdaq: 3.35 percent

Birling PRSI 23.14 percent, which is 225.9 percent higher than the Dow, 363.7 percent higher than the S&P 500, and 590.7 percent higher than the Nasdaq.

We suggest that investors re-examine all stocks in the Birling PRSI, as they deserve a fresh look to be considered as part of a diversified portfolio.

Week in Markets: Stock Market at record highs; what does \$1.9 trillion buy

The U.S. stock market reached record highs last week as renewed optimism over a faster than anticipated economic recovery took hold with investors. While there have been bouts of volatility alongside inflation concerns, the long-awaited U.S. Consumer Price

Index report highlighted that inflation remained under control in February, with consumer prices rising only 1.3 percent over the past year.

In our view, the main event for the market's good fortune was the enactment of the American Rescue Plan, which we refer to as the \$1.9 trillion bazooka stimulus that President Biden signed into law Thursday.

While investors had expected the stimulus to pass, we now change gears to determine the overall impact on the economy and markets.

We expect the stock rotation in the market from those favored during the pandemic towards those industries least favored during the pandemic.

What does \$1.9 trillion buy these days? Every American will receive \$1,400 in direct payments that total approximately \$400 billion; \$360 billion in direct aid for states, territories and municipalities.

Unemployment Insurance benefits have been extended until September with \$300 per week, which adds another \$200 billion.

Schools receive another \$165 billion in aid; \$100 billion for child tax credits.

The remainder is a potpourri of allocations, including pension-plan funding, Covid-19 vaccines and testing, insurance subsidies and child care assistance, as well as restaurant, rental and several other assistance programs.

How does the \$1.9 trillion bazooka impact the economy?

The economic recovery is already underway, but significant portions of the economy and labor force remain impaired. In other words, there has been a meaningful rebound in GDP from last year's recession low that allowed the United States to end the year with a 4.1 percent GDP growth. The economic recovery has not been absolute all over the country, and close to nine million Americans are still out of the workforce. Thus, this fiscal aid represents a necessary, but presumably final, bazooka stimulus to bridge the pandemic induced economic gap.

Given that consumer spending makes up 70 percent of the U.S. GDP, as most

income levels receive a boost from this bill, we predict economic growth will accelerate significantly in the next two quarters, with GDP growth likely to be considerably above average in 2021.

We must consider that the \$400 billion in stimulus checks represents only about 2 percent of the U.S. annual GDP, so the magnitude will be quite considerable.

However, a final thought is that the extreme digitalization that the pandemic forced upon us is here to stay. As technological tools have taken hold, we shall see rising productivity stemming from the following areas:

- Working remotely
- Zoom and Teams Meetings instead of traveling
- Digitization of processes
- Automation
- Cloud computing
- Virtual learning
- These and other changes will become part of our everyday life.

The Final Word: How have fiscal stimuli worked in the past?

Motivation and timing are two key elements that must be considered when evaluating the implications of fiscal stimulus. Two examples come to mind:

The New Deal of 1933: Franklin Delano Roosevelt's fiscal plan was just shy of 40 percent of GDP; with that, you can assess the dramatic damage of the Great Depression. The stimulus was allocated over a decade which is considered a decisive factor in the recovery.

The American Recovery and Reinvestment Act (2009): Before the pandemic, this was the most extensive U.S. fiscal-stimulus plan by dollar amount (\$840 billion), but represented less than 6 percent of 2008 GDP.

While favorable policy tailwinds are critical in a fundamentally positive outlook, in our view the path ahead is likely to get complicated before we are out of the woods.

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.

Weekly Market Close Comparison	3/12/21	3/5/21	Return	YTD
Dow Jones Industrial Average	32,778.64	31,486.30	4.10%	7.10%
Standard & Poor's 500	3,943.34	3,841.94	2.64%	4.99%
Nasdaq Composite	13,317.86	12,920.15	3.08%	3.35%
Birling Puerto Rico Stock Index	2,518.24	2,350.74	7.13%	23.14%
U.S. Treasury 10-Year Note	1.64%	1.56%	5.13%	0.70%
U.S. Treasury 2-Year Note	0.14%	0.14%	0.00%	0.60%