

ECONOMY

Ease of doing business made hard in the Caribbean

THINK STRATEGICALLY:

The Eight Auspicious Signs of Good Fortune

BY FRANCISCO RODRÍGUEZ-CASTRO | frc@birlingcapital.com



The Eight Auspicious Signs of Good Fortune

Eight signs of good fortune are an essential part of Tibetan culture. If you travel to Tibet, you will see that signs play a critical role. The Buddhist signs are everywhere, from hotels to restaurants to public buildings. My favorite is the pair of golden fish, which represent the wish that all beings attain wisdom and are freed from the ocean of suffering.

As we discuss which signs investors should look for as we head into the last part of the year, let us see whether the eight signs below will bring good fortune for the rest of the year.

The Federal Reserve estimates that third-quarter gross domestic product (GDP) will register a 26 percent increase.

U.S. GDP grew to \$20.35 trillion, up from \$19.32 trillion last month, or a 5.33 percent increase, but down from \$21.4 trillion last year.

The U.S. housing market has not only bounced back; it is doing much better than pre-pandemic levels. One of the drivers of this growth are the thousands of families who are moving to the suburbs in search of more space and a lower concentration of people. Also, as

hundreds of thousands of Americans work remotely long term, the need to be close to their workplace is substituted with more spacious homes outside of the major metropolitan cities.

Most industrial benchmarks have recovered, including the U.S. ISM Manufacturing PMI, automobile manufacturing, and inventories orders.

Although unemployment fell slightly to 10.2 percent, it is still very high for U.S. standards; there are close to 7 million Americans seeking unemployment benefits.

U.S. coronavirus case increases seem to have slowed from a July high of 71,000 a day to fewer than 40,000 a day. There have been recent reports of advances in clinical trials of new drugs, as well as new test kits that may significantly improve case detection.

Corporate earnings have been much better than estimates, and since 98 percent of the S&P 500 companies have reported their second quarter results, we can say the worst is behind us.

Recession periods: As we note in the table below comparing periods of recession with their decline from peak levels. Even though the 2020 drop was the worst on record, its recovery has also been astonishing.

Week in Markets: An August to remember; Bear Market Dies, Nasdaq Returns 30.3 percent YTD

The U.S. stock market ended the trading week Aug. 28 with a bang, with much higher increases than previous weeks and on route to register an August for the record books. If the current rally holds, it would be the best August since 1986. With the Nasdaq Composite having a year-to-date (YTD) return of 30.3 percent and the S&P 500 Index growing close to 55 percent since the bear market and is currently showing an 8.6 percent growth YTD. We can safely say the bear market is dead with the economic recovery taking a firm hold, as several vital benchmarks improved significantly, which we review below.

Suppose you feel like me, that someone robbed you of your summer. In that case, you are not alone, and the Covid-19 lockdown altered the normal flow of the year in many areas that include education, family vacations, workflow, buying habits, and many other changes tracing to the social distancing measures put in place as a result of the pandemic. However, as the summer ends, the markets are in a healthier position than in March. It is a direct result of an easing of the exogenous economic shock that the economy suffered as COVID-19 spread globally.

Results for the week ending Aug. 28

The Dow Jones Industrial Average closed at 28,653.87, up 723.54 points, or 2.59 percent.

Weekly Market Close Comparison	8/28/20	8/21/20	Change%	YTD
Dow Jones Industrial Average	28,653.87	27,930.33	2.59%	0.40%
Standard & Poor's 500	3,508.01	3,397.16	3.26%	8.60%
Nasdaq	11,695.63	11,311.80	3.39%	30.30%
Birling Puerto Rico Stock Index	1,574.70	1,557.82	1.08%	-22.73%
10-year U.S. Treasury	0.74%	0.65%	13.85%	-1.20%
2-year U.S. Treasury	0.14%	0.13%	7.69%	-1.30%

The Standard & Poor's 500 closed at 3,508.01, up 110.85 points, or 3.26 percent.

The Nasdaq Composite Index closed at 11,695.63, up 383.83 points, or 3.39 percent.

The Birling Puerto Rico Stock Index closed at 1,574.70, up 16.08 points, or 1.08 percent.

The U.S. Treasury 10-year note closed at 0.74 percent, up 13.85 percent.

The U.S. Treasury 2-year note closed flat, at 0.14 percent.

Six critical economic indicators show significant signs of improvement:

• **U.S. Initial Unemployment Claims:** 1,006,000, an 8.88 percent drop from the 1,104,000 claims the previous week.

• **U.S. New Single-Family Homes Sold:** 901,000, up from 791,000 last month, for an increase of 13.91 percent.

• **U.S. Durable Goods New Orders:** Rose to 11.19 percent from 7.57 percent last month.

• **U.S. Index of Consumer Sentiment:** 74.10, up 2.21 percent from 72.5 in July.

• **U.S. ISM Manufacturing PMI:** Rose to 54.2, up from 52.6 last month, a 3.04 percent change.

• **U.S. Existing Home Sales:** 5.86 million, up from 4.7 million last month, or 24.68 percent.

• **U.S. Real Disposable Income:** Rose to \$16.58 trillion, up from \$15.06 trillion last quarter, or 10.12 percent.

The Final Word: Every Puerto Rican Should be Discussing Island's Status

As most everyone knows, the Puerto Rico government has included in the November elections a status plebiscite to vote on whether people want statehood.

Before we continue, it should be clear that I cherish my U.S. citizenship and I think that the status discussion is of great relevance because it is time for Puerto Ricans to vote with their conscience.

However, before they do, let's talk in-depth about the island's status, not politically but in many more, just as important, terms. Let me begin with our

ranking on the World Bank's "Ease of Doing Business 2020."

Puerto Rico was ranked No. 18 by the World Bank in 2006. But let's not go back that far. In 2017, when the current administration took over, the island ranked No. 55 out of 190 economies. By 2020, it fell to No. 65 in the world, an 18 percent decline. When measured since 2006, Puerto Rico dropped 47 spots, or 261 percent. Worldwide, 115 economies made it easier to do business.

According to the World Bank, the economies with the most notable improvement in Doing Business are Saudi Arabia, Jordan, Togo, Bahrain, Tajikistan, Pakistan, Kuwait, China, India and Nigeria. Not a single Latin American or Caribbean economy is ranked among the top 50.

Some of the metrics used by the World Bank and Puerto Rico's "status," when compared with 190 economies:

- Starting a Business: 59
- Dealing with permits: 143
- Getting Electricity: 92
- Registering Property: 61
- Getting Credit: 4
- Protecting Minority Investors: 88
- Paying Taxes: 163
- Trading Across Borders: 70
- Enforcing Contracts: 70
- Solving Insolvency: 10

Our rankings are horrific and worsening every year, especially the last four, and all of these issues—aside from insolvency and credit, which are mostly dealt with in the federal realm (and are the best ranked)—if we took the time to fix them, it could be done in less than a year.

Additionally, we should also ask about the status, or state, of our education? What is the status on eradicating corruption? What is the status on dealing with crime? What's the status of the hundreds of thousands who lost their jobs? What's the status on the worsening living conditions in Puerto Rico?

Status, status, status... People want to talk about status? Let's begin by fixing all that is broken in Puerto Rico. Before we continue entertaining voters with ideas that might or might not come to pass, we can decide to improve citizens' lives merely by dedicating enough time to follow and improve upon the metrics provided by the World Bank and make Puerto Rico the best place to live in the world.

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