ECONOMY

Geopolitical Conflict Catalyst for Volatile Market

THINK STRATEGICALLY:

Biden's Gov't Progress Index Takes a Hit

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The Government Progress Index is a set of metrics developed by Birling Capital that evaluates the performance of the U.S. economy and other variables to measure progress in governance. In this installment of the index, we focus on assessing President Biden's performance on a month-by-month basis.

When Biden took office on Jan. 20, 2021, the Government Progress Index he inherited from President Trump had 12.4 points. On Jan. 27, when we presented the index, it showed that Biden achieved a 29.8 on the index, a 140.3 percent improvement over his predecessor. The index evaluates the same 15 parameters using a 40-point scale to gauge how the government is advancing or regressing in its efforts. We note a deterioration of -9.4 percent in February for the reasons found below. Let us look at the metrics that the Government Progress Index evaluates and how it performed over the past month, up to Feb. 20.

Focus Areas:

– Price per gallon of gasoline: One of the segments outside the government's control is the price of energy, gasoline and its derivatives, but we measure it because it is one of the parameters that most affects consumers' pockets, as well as their sentiment; the price in January stood at $3.06 per liter, and in February it rose to $3.79 per liter, a 23.9 percent increase, which affects multiple industries and consumers. With the warlike confrontation in Ukraine by Russia, the price of crude oil increased dramatically.

– U.S. Equity Markets had performed spectacularly throughout 2021, achieving double-digit returns in all three major indices. As 2022 began, the mix of inflation and the omicron variant, changes in monetary policy, and now the Russia-Ukraine conflict have triggered increased volatility this past month causing significant losses. The returns of all the major indices are all in negative territory.

– Economic Progress: Gross domestic product growth is now at 7 percent, representing an improvement of 204.3 percent for the first month of the year, compared with the 2.3 percent reported in January 2021.

– Employment Growth and Unemployment: In 2021, the U.S. created more than 8 million jobs; this trend continues as non-farm employment increased by 678,000 in February, higher than 2021's monthly average of 555,000; at this pace another 8.14 million jobs would be created. The U.S. unemployment rate fell to 3.8 percent in February, slightly below market expectations of 3.9 percent. Over the year, the unemployment rate is down 2.6 percentage points, and the total number of unemployed is down 3.7 million. It should be noted that there are still about 10.9 million job openings in the U.S. and only about 5.7 million people looking for work.

– Inflation hurts the economy and impacts the presidency: Inflation benchmarks continue to affect Biden and, to a greater degree, the entire U.S. economy, as the consumer price index (CPI) rose to 7.48 percent in February versus 7.04 percent in January, an increase of 6.3 percent; the producer price index (PPI) dropped for the first time in months to 9.65 percent in February, versus 9.68 percent in January. The inflation rate rose to 7.48 percent in February, versus 7.04 percent in January, a 6.3 percent rise. Federal Reserve Chairman Jerome Powell is expected to raise interest rates in March, and Birling Capital forecasts at least three to four interest rate hikes this year. The most recent NPR poll reflects that 38 percent of the nation wants inflation to be Biden's top priority this year. Given that inflation is 274 percent higher than the Fed's 2 percent target, it is a priority.

– President's Approval Rating: According to Gallup, Biden had a 41 percent approval rating in February, an increase of 2.5 percent compared with his 40 percent rating in January. His average approval rating since he took office is 47 percent.

In conclusion, the Government Progress Index reflects a total score of 27 for February, which, compared with the 29.8 in January, represents a 9.4 percent decline. This score indicates that Biden has a lot of work ahead to improve the economy.

Birling Capital's Government Progress Index helps you see what success looks like and how to understand it.

This Week in Markets: A 41% Rise in Payrolls; Economic Costs to Consider

The U.S. stock markets closed the week with more losses; not even a 40.96 percent rise in nonfarm payrolls was able to offset the rising geopolitical risks of Russia's invasion of Ukraine.

In our view, while the highest cost is to human life, several economic costs that arise from the Ukraine-Russia conflict that are problematic include:

– Direct Gross Domestic Product Hit: The region has come to a standstill; the impact on Europe's GDP will be significant; however, on a global level, Russia's GDP is $1.7 trillion, smaller than that of Texas. Russia accounts for less than 2 percent of global GDP.

– Lower Exports: Russia is a crucial oil and gas supplier, and the most significant threat is for Europe as it depends on 40 percent of all its natural gas and 25 percent of all its oil from the country, while Germany has the greatest exposure, at 60 percent. Last Friday, the price of oil closed at $115 a barrel.

– Lower Commodity Exports: Russia and Ukraine are big food producers. Ukraine is the world's largest producer of sunflower oil, followed by Russia; they account for 60 percent of global production. Also, it is a significant exporter of wheat, fertilizer, metals and corn. Automobile manufacturers BMW, Porsche and Volkswagen have halted production due to shortages from key Ukrainian suppliers.

– U.S., European Impact: U.S. exports to Russia represent 0.02 percent of domestic GDP, and its imports from Russia account for 0.08 percent—mainly oil, at more than 0.06 percent. The most considerable impact domestically will be the rise in oil prices due to the war.

When large-scale geopolitical conflicts mix with economic and inflationary pressures, we have the basis for a market that will be volatile and enduring large swings depending on the instincts of most investors. Often, in these market conditions, some investors tend to react emotionally rather than using the combination of their long-term goals mixed with their portfolio diversification. We recommend making minor changes to portfolios, knowing your financial goals and understanding your assets, which will usually pay for themselves; sometimes, doing nothing is the key.

Weekly Wall Street summary for March 4:

Dow Jones Industrial Average closed at 33,614.80, down 443.95 points, or 1.3 percent, for a -7.49 percent year-to-date (YTD) return.

Standard & Poor's 500 closed at 4.328.67, down 55.99, or 1.28 percent, for a YTD return of -9.18 percent.

Nasdaq Composite Index closed at 13,313.44, down 381.19 points, or 2.78 percent, for a YTD return of -14.99 percent

Birling Capital Puerto Rico Stock Index closed at 2,699.55, down 204.01 points, or 7.06 percent, for a YTD of -6.24 percent.

The U.S. 10-year Treasury note closed at 1.74 percent.

The U.S. 2-year Treasury note closed at 1.5 percent.

Another critical fact to be mindful of is that high market volatility tells us that negative sentiment has more or less taken over the markets. This fact does not mean that there will not be further market downturns, but rather that the risks have been considered in the stock market correction.

Weekly Market Close Comparison	3/4/22	2/25/22	Return	YTD
Dow Jones Industrial Average	33,614.80	34,058.75	-1.30%	-7.49%
Standard & Poor's 500	4,328.67	4,384.66	-1.28%	-9.18%
Nasdaq Composite	13,313.44	13,694.62	-2.78%	-14.99%
Birling Puerto Rico Stock Index	2,699.55	2,904.46	-7.06%	-6.24%
U.S. Treasury 10-Year Note	1.74%	1.97%	-11.68%	0.20%
U.S. Treasury 2-Year Note	1.50%	1.55%	-3.23%	0.20%

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.