

# ECONOMY

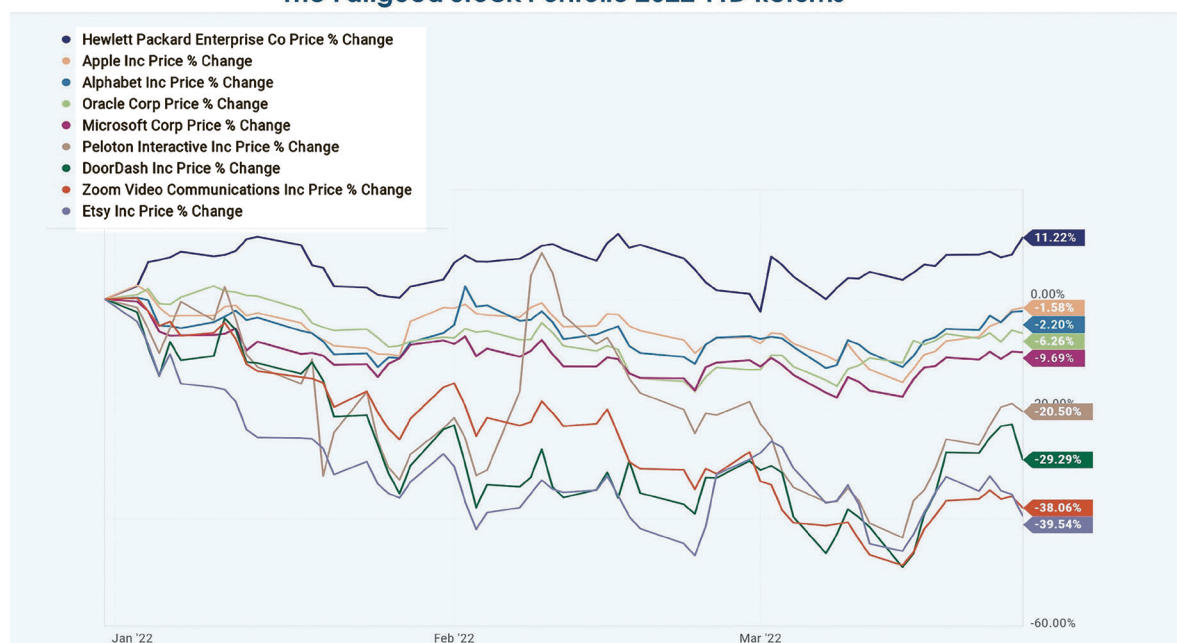
Looking Beyond  
Fed Funds

THINK STRATEGICALLY:

## Brush the Past Aside, Never Bow Before It

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The Fatigued Stock Portfolio 2022 YTD Returns



Puerto Rico has not adequately learned to brush the past aside, given that we continue to talk about our recent history for decades; most bow before it.

Allow me to explain. Since 1996, some 26 years ago, the administration of Gov. Pedro Rosselló determined that section 936 of the U.S. tax code must be given away for nothing to the U.S. Congress for ideological reasons. At its peak, Puerto Rico had 2,358 section 936 companies providing 163,605 direct jobs on the island. By 2022, less than 1,300 corporations employ 69,600 people.

According to the Bureau of Labor Statistics, in the 10 years following the repeal of section 936, the Puerto Rico labor force declined by 281,500 workers. For 26 years, Puerto Rican politicians and the private sector refused to put the past aside; instead, most continued to bow before it, as if by doing so, section 936 would come back intact.

Late Friday, the Department of Labor announced that Puerto Rico's unemployment had fallen to 6.8 percent, its lowest level in history. While it sounds fantastic to see such low levels of unemployment, as we analyze the numbers,

one must ponder how it took 26 years to get unemployment under control. Finally, we must all remember that we lost 526,000 residents who left the island since 2006 seeking better opportunities.

The aforementioned stopped Puerto Rico from developing a sustainable economic engine that would have prevented the island from falling into recession since 2006. As we bow before the past, we continue to live in it rather than embrace the future. Puerto Rico had a decade then to prepare as section 936 was being phased out. We chose not to and decided to live as if, somehow, another magic section would arise from Congress. It never happened. Puerto Rico proposed many alternatives that never saw the light of day in Congress.

We must rebuild Puerto Rico's economic engine and make it completely independent from federal incentive laws.

Puerto Rico has many similarities in size, gross national product (GNP), employment and demographics with many nations. Some of the following thrive and have grown their GNP to levels twice that of Puerto Rico's.

The World Bank Ease of Doing Business last published in 2020 highlighted the following nations in the top 10:

1. New Zealand
2. Singapore
3. Hong Kong SAR, China
4. Denmark
5. Korea
6. United States
7. Georgia
8. United Kingdom
9. Norway
10. Sweden

Puerto Rico was ranked No. 65—way down from 2006, when it was ranked No. 18.

What are we doing wrong? What are our worst metrics?

– Starting a business: ranked No. 59

- Construction permits: ranked No.143
- Trading across borders: ranked No. 70
- Getting Electricity: ranked No. 92
- Registering Property: ranked No. 161
- Paying taxes: ranked No. 163

While these parameters seem simple, both the Puerto Rico government and the private sector have not found common ground to develop strategies to curtail our declining competitiveness.

Puerto Rico's gross domestic product has been in negative territory since 2006, and our leaders have used bond issues to balance budgets since 2000, instead of creating opportunities to expand and enhance Puerto Rico's economy and infrastructure. As you well know, these actions took us into bankruptcy, and Congress passed the Puerto Rico Oversight, Management and Economic Stability Act, or Promesa, ushering in the era of the Financial Oversight and Management Board, which was created to straighten out the finances of Puerto Rico.

President Ronald Reagan often said, "Procrastination is opportunity's natural assassin"; and he was right. Here in Puerto Rico, we have taken procrastination to a new level of sophistication.

We have begun to pay creditors and bondholders under the agreements of the plan of adjustment, and the time is appropriate to determine a new path setting Puerto Rico's new economic engine.

With Puerto Rico relying so much on federal funds for its economy, most of which are not recurrent, it becomes a priority to create a sustainable economic model; the question is, are our leaders ready, willing and able to do so? We have the momentum and we have the tools; we need the power of execution that has eluded Puerto Rico.

In conclusion, life is all about defining moments. Puerto Rico has entered one of the most transformative junctures in its history. What becomes of the island will be decided with the outcomes of the following four fiscal years to determine whether our path is correct; time will only tell.

While doing so, we must brush the past aside; never bow before it.

Weekly Market Close Comparison	3/25/22	3/18/22	Return	YTD
Dow Jones Industrial Average	34,861.24	34,754.93	0.31%	-4.06%
Standard & Poor's 500	4,543.06	4,463.12	1.79%	-4.68%
Nasdaq Composite	14,169.30	13,893.84	1.98%	-9.43%
Birling Puerto Rico Stock Index	2,785.80	2,817.59	-1.13%	-3.24%
U.S. Treasury 10-Year Note	2.48%	2.14%	15.89%	0.90%
U.S. Treasury 2-Year Note	2.30%	1.97%	16.75%	0.90%

### The Week in Markets: Markets deliver 2nd winning week; the power of long-term investing

The U.S. stock market ended the week with mixed results as the Dow Jones Industrial Average and S&P 500 posted gains for a second consecutive week.

The market rally continues even with faster than expected interest rates and concerns over the escalating war in Ukraine; the reason is that with stagflation worries mixed with rising rates, there are simply very few asset classes better than stocks. Finally, the U.S. economy delivered a nearly 53-year-low in unemployment claims, with only 187,000 people filing, providing investors renewed trust that the U.S. economy can keep expanding despite the existing global conflicts. However, pending U.S. home sales fell 5.4 percent; and the 30-year fixed mortgage rate shot up to 4.95 percent.

As we continue to face much uncertainty, we must remind ourselves that before jumping into emotional selling or changing your financial goals, we must review the historical year-over-year returns from the Dow, S&P 500, Nasdaq composite and Birling Puerto Rico Stock Index. It will always serve you well to stick with your financial goals while having a long-term view of the markets; doing so will allow you to stay invested, and rewards will come your way.

### The Final Word: Looking for opportunities

We review our Fatigued Stocks' YTD portfolio; it consists of nine tech stocks that did very well during the pandemic. We show their YTD returns:

- Hewlett Packard (HPE): 11.22 percent
- Apple, Inc. (AAPL): -1.58 percent
- Alphabet (GOOG): -2.2 percent
- Oracle (ORCL): -6.26 percent
- Microsoft (MSFT): -9.69 percent
- Peloton (PTON): -20.5 percent
- Door Dash (Dash): -29.29 percent
- Zoom Video (ZOOM): -38.06 percent
- Etsy, Inc. (ETSY): -39.54 percent

While we transition onto other investments for our portfolios, it serves well to investigate some of these stocks, which could deliver welcome news.

*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.*