

ECONOMY

No time to fear
privatization

THINK STRATEGICALLY:

Defending the Undefendable

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The Death of Prepa

The Puerto Rico Electric Power Authority (Prepa) that we have come to know has begun its transformation into a privately owned corporation. LUMA Energy must transform the bankrupt government-owned monopoly into a viable going concern that produces and supplies electricity at an adequate cost.

As you may or may not know, Prepa has been in bankruptcy since July 2017, almost four years, so it was not as if Prepa was a solid corporation.

As LUMA began to gain control of Prepa, the Irrigation and Electrical Workers Union (Utier by its Spanish acronym) and others started a very late plan of action to avert the transfer from Prepa's Transmission & Distribution management to LUMA.

The labor leaders often use short phrases to describe Prepa; my favorite is "Prepa is the Crown Jewel of Economic Development"; while this is inaccurate, to some, it may sound true, but it is far from it. For the past 20 years, Prepa has become an obstacle to Puerto Rico's economic development and well-being.

There is very little public support for Utier or Prepa; people are tired of the lousy service and outages, as well as the union's petulant requests.

During those 20-odd years, Prepa became highly politicized, with its coveted jobs going to political cronies or passed on to family members as if it were hereditary. While some fault the Utier, the culprit is the political system that has made every effort to put pressure on every operation of the government.

The Prepa of the 1950s to 1970s was the pride and joy of Puerto Rico; its advanced systems and operations allowed Puerto Rico to become electrified in immeasurable numbers. Prepa was once a stable operation with a corporate governance structure that kept the political establishment from meddling in its affairs for a while. By 1980, Prepa had become a politicized entity.

While the world embraced alternative energy sources—natural gas, wind, hydro and many other forms of power generation—Prepa continues to mainly burn oil to produce energy. No one in Prepa seemed to comprehend that the historical use of producing electricity remotely and transmitting it over distances, as happens now, will be a thing of the past.

The lion's share of electric production will occur through an ever-expanding diversity of distributed energy sources that will include photovoltaic rooftop, energy storage assets, hydroelectric and many other forms of generation.

There are at least three examples in Puerto Rico of privatizations that worked quite well for Puerto Rico.

— Selling the Puerto Rico Telephone Co. to GTE: In the 20-plus years since the sale, we have seen the communications sector expand in Puerto Rico, lowering phone bills from significant per-minute calls to fixed contracts that include calls within Puerto Rico and to the U.S. mainland.

— Puerto Rico State Road 22 and PR-5 to Metro Pistas: No one can dispute

that these are the best maintained, safest roads in Puerto Rico.

— Luis Muñoz Marín International Airport to Aerostar Holdings: Since Aerostar took over the airport, the transformation has been significant; we now have a world-class airport with all kinds of amenities and an ever-increasing inflow of new airlines and routes.

While political personas and some leaders may attempt to prevent large-scale institutional changes from happening, there are leaders such as Gov. Pedro Pierluisi who understand quite clearly that this is the right path to begin transforming Prepa into a viable, productive going concern that provides best-in-class service.

As Winston Churchill said, "There is no worse mistake in public leadership than to hold out false hope soon to be swept away. People can face peril and misfortune with fortitude and buoyancy, but they bitterly resent being deceived."

In conclusion, to defend Prepa and the status quo is defending the undefendable.

Week in Markets: Jobs grow 101.1 percent, unemployment reaches 5.8 percent and Wall Street steers higher

The U.S. and European stock markets ended the week on solid ground following another volatile session that pushed higher with the largely positive U.S. jobs data, which also brought the unemployment rate down in the U.S. to 5.8 percent. Meanwhile, the Eurozone unemployment rate fell to 8 percent.

While employment numbers rose 101.1 percent in the past month, growth has not been as fast and significant as expected. Also, we must consider that investors have inflation on top of mind.

However, we are at a point in the recovery in which people frequently confuse good news with bad news.

To make my point, let us analyze how the jobs growth is good news and why

growth that is so fast and strong that pushes inflation higher is not good news.

In turn, the heightened risk of inflation for investment is horrible news; as a matter of fact, the risk of inflation is the worst threat that a favorable market environment has.

While U.S. nonfarm payrolls rose to 559,000, up from 278,000 last month, is a 101.1 percent increase over the previous month, however large this number fell short of the 670,000 estimated, or 111,000 fewer. Not reaching the forecast indicates that the job market continues to struggle from the pandemic chaos. Meanwhile, the U.S. unemployment rate fell to 5.8 percent, compared to 6.1 percent last month.

The U.S. economy is still 7.64 million jobs short of pre-pandemic employment levels, so we are a long way from reaching full employment.

Another issue impacting business owners across the United States and Puerto Rico is the consistent shortage of labor. There is the allegation that thousands of prospective workers prefer to continue receiving the enhanced unemployment benefits instead of going back to work.

So we decided to dig deeper and found that the Department of Labor states an asymmetrical inconsistency in the supply of workers and total labor demand. According to the data we reviewed, there were 8.1 million job ads and 9.3 million unemployed workers.

From our vantage point, I see that all the market fundamentals are quite positive, and note that the bull market will continue for a good while.

We think the fundamental outlook continues to be favorable, making a positive case for equities.

The mix of rising gross domestic product continues with rising corporate earnings, and low-interest rates will continue to push the bull market higher.

The Final Word: Gauging Investor Temperament in the Eurozone?

As some may recall, I developed the concept of the "Metronome of

Investor Temperament" for dealing with markets such as this one. Often, they alter investor temperament as a result of greed transforming into fear. A metronome is a device that produces a steady beat, marking it with a left-to-right tick to help musicians play rhythms accurately. Being vigilant and understanding the excessive swings of any cycle is an essential requirement for any investor.

As investor sentiment moves from defensive to opportunistic, the force of stock rotations will create volatility in the markets. As the global economy is again trying to normalize, we must point out that the world's real gross domestic product (GDP) fell to 2.34 percent, compared with 2.98 percent last year, which is lower than the long-term average of 3.49 percent.

While economies such as China grew their GDP by 18.3 percent and the United States grew at 6.4 percent, large economies still have negative GDP growth, as is the case for the United Kingdom, -8.6 percent, Spain -4.3 percent, Germany -3.4 percent and Italy, -1.4 percent.

Let us revise some of the recent economic data for the Eurozone:

— Eurozone Economic Sentiment Indicator rose to 110.30, up from 100.90 last month and a rise of 9.32 percent from the previous month.

— Eurozone Consumer Price Index fell to 0.5726, down from 0.938 last month, and decreased -38.96 percent from the previous month.

— Eurozone Retail Trade year-over-year rose to 23.9 percent, compared to 13.1 percent last month.

— Eurozone Industrial Production Index increased slightly to 0.1 percent, compared with -1.2 percent last month.

The silver lining here is that there is ample opportunity for investment in the Eurozone, which we will discuss further in a future column.

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| Weekly Market Close Comparison | 5/28/2021 | 4/30/2021 | Return | YTD |
|---------------------------------|-----------|-----------|--------|--------|
| Dow Jones Industrial Average | 34,529.45 | 33,874.85 | 1.93% | 12.82% |
| Standard & Poor's 500 | 4,204.11 | 4,181.17 | 0.55% | 11.93% |
| Nasdaq Composite | 13,748.74 | 13,962.68 | -1.53% | 6.68% |
| Birling Puerto Rico Stock Index | 2,645.85 | 2,496.15 | 6.00% | 29.38% |
| U.S. Treasury 10-Year Note | 1.65% | 1.65% | 0.00% | 0.70% |
| U.S. Treasury 2-Year Note | 0.16% | 0.16% | 0.00% | 0.70% |