

ECONOMY

Robust Gains in Corporate Earnings Drive Markets

THINK STRATEGICALLY:

Life in Cardona Island

BY FRANCISCO RODRÍGUEZ-CASTRO | frc@birlingcapital.com



The Island of Cardona

Every day as I enter my office, a beautiful aerial photo of Cardona Island and its lighthouse welcomes me. Cardona is an 8.71-acre island located just about 1.3 nautical miles from the Port of Ponce and close to the Ponce Yacht & Fishing Club. It has been home to the Cardona Lighthouse, which is listed in the U.S. National Register of Historic Places, since 1889. Because of its short distance from the Ponce Yacht Club, during my childhood it was pretty easy to sail, take a motorboat or swim to it and spend a great beach day there.

I want to share my grandfather Tito Castro's story about when his father, Arturo, was the Cardona Lighthouse keeper from 1903 to 1911. The whole family—my grandfather and his two sisters and three brothers, and Ana, my great-grandmother, lived in Cardona, spending many happy, but challenging years.

The lighthouse keeper job offered a house free of charge and regular income paid by the government and was seen as an excellent opportunity to raise a family in relative security. However, life on the small island was full of hardships.

Not surprisingly, it seems that both my great-grandfather and great-grandmother initially struggled to adjust to living away from the normalcy of life on the mainland.

My grandfather would tell us about

life in Cardona. He always emphasized how hard it all was, and that you were very much on your own. Whatever was needed, they had to do themselves. So, they had to become very skilled sailors and survivalists, with a strong dose of adventure and some fear.

The daily chores of the lightkeeper included cleaning, repairing, painting, building and of course, above all, keeping the light burning at night. In such harsh saltwater conditions, facilities and equipment suffer greatly and everything needs constant upkeep. As we asked more details about life there, my grandfather told me in his usual optimistic demeanor: Cardona offered them the best views of Ponce; if they went up to the lighthouse, the 360-degree views were enchanting; they could see the stars at night and enjoy the ocean breeze.

When they had school, a boat was the bus to the Playa de Ponce public school.

However, what they liked best was living there; when there was no school, they would go fishing; swimming and snorkeling for lobster was high on the list, as was rowing to Caja de Muertos Island, an 8.9-mile trip each way. They would also search the whole island daily for items that washed ashore, and they found all kinds of exciting things.

My grandfather loved the sea, and all throughout his life, he always found it to be his element, with total freedom of movement and direction; this is the

same spirit he instilled in all of us. As I can recall, he made sure he taught all his grandchildren to swim, fish and sail, and he shared with us his passion for the sea.

The Cardona Lighthouse links my family's story, both past and present. It also offers a view of a not-so-distant past, when life was hard—if you needed things, you had to build them, if you wanted fish, you had to go fishing, and most importantly, you made do with what you had.

Recently, the Coast Guard advised that it had revoked the certificate of occupancy, and the lighthouse is now condemned.

The Cardona Lighthouse had keepers from 1889 until it changed to electric-powered illumination on April 11, 1962; many families like mine raised their children overlooking the waters of Ponce.

On every occasion that I pass by the old Cardona Lighthouse, I recall my grandfather's stories about life there,

and it saddens me to see the lighthouse destroyed.

Week in Markets: Corporate Earnings, Jobs Drive Markets

The combination of more robust than expected gains in terms of corporate earnings and jobs growth and lower unemployment claims are driving markets up. It may lead to Wall Street optimism extending the current bull market. Let us analyze the market fundamentals to determine trends to guide us.

– **Much Stronger Corporate Earnings:** With north of 87 percent of all public companies having reported earnings above their normal range, at least 4.9 percent higher than projected, this recovery from an exogenous shock is quite dramatic compared with the Global Financial Crisis of 2007-'08, which took Wall Street about four years to recover from.

– **Jobs Growth and Full Employment:** It has taken the jobs market almost 18 months to recover from the pandemic shock that began on March 11, 2020; now there are substantial data that point to a labor-market tautness. The Bureau of Labor Statistics reports a record number of job openings that amount to more than the unemployed.

– **Less Leveraged Households:** After the housing speculation bubble exploded, taking billions of wealth with it, it forced consumers to pare their borrowing habits dramatically, and in many cases, it forced people to default. Even the economy improved, and the banks began lending a bit more aggressively; the recession taught many of us to pay down debt.

– **Low-Interest Rates and a Fed Focused on Easing:** There is no historical parallel to compare the pandemic-led economic shock that took the world deep into recession in 2020 and awoke the bear market. The crisis brought about the most enormous fiscal and monetary policy “bazooka,” totaling more than \$9 trillion in support that the world has ever seen during any recessionary period.

– **Inflation Pressures may Prove to be Temporary:** The July inflation numbers, while still high, reveal a dramatically

reduced pace. The consumer price index rose by 4.3 percent, edging lower from June. The rapid price increases stem from an economy that is reopening and is facing quickly increasing demand over the last couple of months.

Wall Street Weekly Review for August 13, 2021,

– The Dow Jones Industrial Average closed at 35,515.38, up 306.87 points, or 0.87 percent, for a year-to-date (YTD) return of 16.04 percent

– The Standard & Poor's 500 closed at 4,468.00, up 31.48 points, or 0.71 percent, for a YTD return of 18.95 percent

– The Nasdaq Composite Index closed at 14,820.90, down 14.86 points, or -0.10 percent, for a YTD return of 15.01 percent

– The Birling Capital Puerto Rico Stock Index closed at 2,606.48, down 2.57 points, or -0.10 percent, for a YTD return of 27.45 percent

– The U.S. Treasury 10-year note closed at 1.29 percent.

– The U.S. Treasury 2-year note closed at 0.23 percent.

The Final Word: What do Current Market Trends Mean for Investors?

The breakneck speed and strength of the economic, labor market and earnings recoveries are all ingredients that were absent during other periods of recession in the last decade. We believe that the market has plenty of gas in the tank to grow for another cycle, albeit shorter than the last one, which lasted more than 10 years. We should expect pullbacks and view them as great buying, or stock rotation and rebalancing opportunities. Note that we have yet to see the full reopening of the economy, and we expect some growing pains.

As we always advise, the best tool is to always maintain a well-diversified portfolio that includes an appropriate balance between bonds and stocks and exposure to sectors that are less sensitive to the business cycle, which will likely add value to portfolios.

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	8/13/21	8/6/21	Return	YTD
Dow Jones Industrial Average	35,515.38	35,208.51	0.87%	16.04%
Standard & Poor's 500	4,468.00	4,436.52	0.71%	18.95%
Nasdaq Composite	14,820.90	14,835.76	-0.10%	15.01%
Birling Puerto Rico Stock Index	2,606.48	2,609.05	-0.10%	27.45%
U.S. Treasury 10-Year Note	1.29%	1.31%	-1.53%	0.40%
U.S. Treasury 2-Year Note	0.23%	0.21%	9.52%	0.50%