

ECONOMY

The Recession Question

THINK STRATEGICALLY:

Stock Market Alarm Bells Are Ringing; What's Next?

BY FRANCISCO RODRÍGUEZ-CASTRO | frc@birlingcapital.com



U.S. vs. Puerto Rico Banks, Who is Ahead in 2022

We begin our analysis by examining the top six U.S. bank holding companies, part of the Birling Capital U.S. Bank Index. We will discuss how each company's stock fared from Jan. 1 to May 6 and compare them to the Dow Jones Industrial Average, S&P 500 and the Nasdaq composite and how they managed against the Birling Capital U.S. Bank Stock Index.

The returns of these four indices follow:

- Dow Jones: -9.46 percent
- S&P 500: -13.49 percent
- Nasdaq composite: -22.37 percent
- Birling Capital U.S. Bank Index: -14.54 percent

The Birling U.S. Bank Index has a return of -14.54 percent year-to-date (YTD), and when pegged against the other indexes, the Birling U.S. Bank index beats the S&P and Nasdaq. Let's see how each Birling U.S. Bank Index company has performed individually and against the major indexes.

-Wells Fargo & Co (WFC): Achieved a -7.15 percent return, beating the S&P 500, Nasdaq and Birling U.S. Bank Index handsomely. The stock price on May 6 was \$44.55.

-Morgan Stanley (MS): Achieved a -14.19 percent return, beating the Nasdaq and Birling U.S. Bank Index. The stock price on May 6 was \$84.23.

-Citigroup Inc. (C): Achieved a -14.52 percent return that underperformed the Birling U.S. Bank Index, the Dow and S&P, but beat Nasdaq. The stock price on May 6 was \$51.62.

-Bank of America Corp. (BAC): Achieved a -15.82 percent return, beating the Nasdaq. The stock price on May 6 was \$37.45

-Goldman Sachs Group (GS): Achieved a -18.19 percent return, beating the Nasdaq. The stock price on May 6 was \$312.96.

-JP Morgan Chase & Co. (JPM): A -21.87 percent return, lagging behind the Birling U.S. Bank Index, Dow and S&P 500 but beating Nasdaq. The stock price on May 6 was \$123.72.

The Birling Capital Puerto Rico Stock Index yielded -5.31 percent YTD. Now, let us review the results for a year that began much more robustly than anticipated. The three bank holding companies that make up the index have stood better than those stateside and are in a much better position. We review each of the banks in that light, analyzing their performance from Jan. 1

to May 6. The Birling Capital Puerto Rico Stock Index had a -5.31 percent return, which beat them all compared to the other indexes. The Dow returned -9.46 percent, the S&P -13.49 percent and Nasdaq -22.37 percent, while the Birling Capital U.S. Bank Index yielded -14.54 percent.

Now let's take a look at each stock and its returns:

OFB Bancorp. (OFB): Achieved a return of 2.6 percent, beating the Dow, S&P, Nasdaq, Birling U.S. Bank Index and Birling P.R. Stock Index. The stock price on 5/6/22 was \$27.25.

Firstbank Corp. (FBP): Achieved a total return of -0.36 percent, beating the Dow, S&P, Nasdaq, Birling U.S. Bank Index and Birling P.R. Stock Index handsomely. The stock price on 5/6/22 was \$13.73.

Popular, Inc. (BPOP): Achieved a total return of -2.69 percent, beating the Dow, S&P, Nasdaq, Birling U.S. Bank Index, and Birling P.R. Stock Index. The Stock price on 5/6/22 was \$79.83.

As you can see, the Birling Puerto Rico Stock Index, at -5.31 percent, beats the Birling U.S. Bank Index's -14.54 percent by a handsome margin. It is worth looking at Puerto Rico stocks as part of a well-diversified portfolio of stocks, bonds and other securities for your long-term financial goals.

The Week in Markets: U.S. job growth ahead of consensus estimates

The U.S. stock market ended the week building up more losses as the sell-off continued with heavy volatility and market swings. It's worth noting that some of these swings produced the most significant daily decline and the most prominent daily increase in 2022,

which is quite a swing. Most investors are debating between the Federal Reserve's inflation-fighting stance, the impact on economic growth, and if the market's expansion would continue under the current scenario, which is the principal cause of the outsize volatility.

There was one bright spot for the U.S. economy: Non-farm payrolls were able to add 428,000 jobs in April. According to the Bureau of Labor Statistics, the number was the same as last month. Job growth exceeded estimates of 391,000 by 8.64 percent, or 37,000 more jobs. The unemployment rate remained at 3.6 percent, a stone's throw from the 3.5 percent reported in February 2020, just before the pandemic. However, there is no sign of solving the deficit between job openings and job seekers, which at nearly 11.6 million job openings versus some 4.7 million job seekers, is a 59.06 percent deficit.

What's ahead for the rest of May?

-Inflation continues to impact the markets. This week, in the Consumer Price Index report from April, estimates are slightly lower from the figure in March, 8.5 percent. If it is below, it will be the strongest signal yet that inflation has peaked.

-As the Federal Reserve implemented the first of at least four 50 basis point increases, the rate increases became a crucial part of the market's dynamics. The U.S. 10-year Treasury note could very well point the direction of Wall Street.

-As the Fed ruled out a faster-paced interest rate increase of 75 basis points or more, it provided vital market guidance.

-Strong corporate earnings remain an integral part of the broader market outlook; however, we must look at how incremental costs affect most companies.

-Shanghai, China, remains under strict lockdown because of COVID, and 45 Chinese cities have lockdown measures in place as the country struggles to contain the highly infectious omicron variant. The port of Shanghai, which ships nearly 3.8 million containers a month, or some 45 million containers a year, is in lockdown, with containers stacking up at the port—adding to the global supply chain disruptions.

Looking ahead at next week's economic data:

- May 9: U.S. Wholesale Inventories
- May 11: U.S. Consumer Price Index and U.S. Inflation Rate.
- May 12: U.S. Producer Price Index and U.S. Initial Claims for Unemployment
- May 13: U.S. Consumer Sentiment, U.S. Import Prices and U.S. Export Prices

The Final Word: Our defensive stocks portfolio and how it has behaved YTD:

-Kraft Heinz Co. (KHC): a 21.42 percent return, and the stock closed at \$43.49.

-Coca-Cola (KO): a 9.34 percent return, and the stock closed at \$64.74.

-Phillip Morris (PM): a 4.15 percent return, and the stock closed at \$98.94.

-Johnson & Johnson (JNJ): a 3.1 percent return, and the stock closed at \$176.37.

-Procter & Gamble (PG): a -4.63 percent return, and the stock closed at \$156.00.

-Wells Fargo (WFC): a -7.15 percent return, and the stock closed at \$44.55.

-Blackstone (BX): a -21.56 percent, and the stock closed at \$101.49.

-JP Morgan Chase (JPM): a -21.97 percent return, and the stock closed at \$123.72.

In conclusion, while many issues are at play, the ever-rising uncertainty is usually more impactful than some events or market data. Case in point, interest rate increases we have been expecting since January. Also, the economic growth rate is slowing down due to issues that include the elapsing of federal stimulus funding, as well as rising inflation and its impact on salaries, and the ongoing supply chain issues. The recent market behavior, including the massive sell-off following the Fed's interest rate hike, indicates to some that there is risk of an imminent recession, a view that we disagree with.

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	5/6/22	4/29/22	Return	YTD
Dow Jones Industrial Average	32,899.37	32,977.21	-0.24%	-9.46%
Standard & Poor's 500	4,123.35	4,131.93	-0.21%	-13.49%
Nasdaq Composite	12,144.66	12,334.64	-1.54%	-23.37%
Birling Puerto Rico Stock Index	2,726.23	2,698.25	1.04%	-5.31%
U.S. Treasury 10-Year Note	3.12%	2.89%	7.96%	1.60%
U.S. Treasury 2-Year Note	2.72%	2.70%	0.74%	1.60%