ECONOMY

Market transitions from exogenous shock to economic recovery

THINK STRATEGICALLY:

Struggling Does Not Mean Failing

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Throughout history, we have seen that people always look for leaders to guide them through crises. Currently, the coronavirus pandemic has become one of the most significant challenges the world has ever faced, putting most political and business leaders in very difficult positions and obligating us to navigate uncharted waters. Consider what leadership expert John C. Maxwell often says: "On the other side of a storm is the strength that comes from navigating through it; raise your sail and begin."

During these past 12 months, we have struggled to deal with the health crisis and it dawned on me that just because we are struggling, it does not mean we are failing. Frequently, people who struggle think they are failing; not even close, if we are struggling, it tells me we are still fighting. More often than not, we do not see the opportunities these challenges bring. On the one hand, they usually come shrouded in difficulty, but we must always fight through the difficulty.

So the next time we face adversity in our lives, don't allow the crisis to numb you. Be alive, feel, fail, grow, learn; that is what it is all about. There is a hero within us all. During this challenging time, let the hero come out. Let people see the best in us. Let's be the heroes our people need.

Week in Markets: Wall Street Breaking Records

The U.S. stock markets ended last week with record highs, with the S&P 500 recording a four-week record streak. The week was full of solid economic data. For instance, the Chinese economy reported an impressive 18.3 percent growth during the first quarter of 2021, which is the fastest pace in history. In less than a year, China staged a 286.73 percent recovery from its first quarter (1Q) 2020 gross domestic product (GDP) of minus-9.8 percent, a solid indication that the world's economies are on route to a sustained recovery.

The smorgasbord of robust economic data, retail sales growth, lower unemployment claims and renewed support from the Fed is the strongest signal that the U.S. economic recovery is firing on all cylinders. As we highlighted last week, the corporate earnings season began with a bang.

An explosive beginning to a record-breaking season, the week started with Goldman Sachs, JPMorgan, Wells Fargo and 10 of the largest banks in the U.S. delivering impressive first-quarter earnings. What was even more outstanding was that all 13 banks exceeded estimates by a wide margin. While there was weak loan demand, the reduced credit costs, increased trading and investment banking revenue offset the reduced lending activities.

We review the top seven banks reporting that are part of the Birling Capital U.S. Bank Index, which has had a year-to-date (YTD) return of 18.17 percent, which surpasses the S&P 500's 11.43 percent return by 58.96 percent.

Let's review the individual banks's 1Q 2021 earnings:

— Goldman Sachs (GS): net revenues of $17.7 billion, more than doubling its 1Q2020 results; record quarterly net earnings of $6.84 billion. The stock closed at $342.31, for a YTD return of 29.81 percent.

— JPMorgan Chase (JPM): $32.3 billion in revenue, managed revenue of $33.1 billion and net income of $14.3 billion. Closed at $153.20, for a YTD return of 20.64 percent.

— Wells Fargo & Co (WFC): revenue of $18.06 billion and net Income of $4.7 billion. Closed at $43.83, for a YTD return of 45.26 percent.

— Citigroup ©: net revenues of $19.3 billion, 7 percent less than in 1Q2020; record quarterly net earnings of $7.9 billion. The stock closed at $72.45, for a YTD return of 17.5 percent.

— Bank of America (BAC): net revenues of $22.8 billion, flat compared to 1Q2020, record quarterly net earnings of $8.1 billion. Closed at $39.15, for a YTD return of 29.17 percent.

— U.S. Bancorp. (USB): net revenues of $5.5 billion, 5.2 percent less than in 1Q2020, record quarterly net earnings of $2.3 billion. Closed at $57.86 for a YTD return of 24.19 percent.

— Morgan Stanley (MS): net revenues of $15.7 billion, with net income of $4.1 billion, a 60.2 percent increase from 1Q2020. Closed at $78.59 for a YTD return of 14.68 percent.

The banking sector has largely expected to return to increased profitability; however, unexpectedly actual earnings were 36 percent better than projections. The U.S. economy rebounded stronger than expected. However, the impressive earnings did not translate as of closing time Friday on any significant stock price increases for any of the banks—a surprising development.

Our expectation is that the rest of the S&P 500 companies will surpass the 20 percent to 25 percent earnings growth range, which is the most significant rate since 2018.

The Final Word: Will the Market Rally Continue?

Our projection model signals that economic and corporate fundamentals will continue to improve during the year until the economic growth rate slows as we get closer to the pre-pandemic levels. As the market transitioned from the exogenous shock to economic recovery, and now we enter the expansion phase, it signifies we are on the positive side of the cycle. However, investors must be mindful that most equity YTD returns will likely begin to hover at moderate growth. We should also expect increased volatility as the stock rotation will cause strong pullbacks; these market pullbacks are expected to become more recurring.

As we note with great anticipation watching the Dow Jones surpass the 34,000 threshold for the first time in history, we must wonder, now what?

The stimulus money is raising consumer spending at a healthy rate. There is job growth, 25 percent less initial unemployment claims, greater corporate earnings than expected, and some degree of inflation introducing itself. These are all the signals of an accelerating recovery. Improved consumer spending and corporate earnings will be critical factors in extending the sustainability of the new economic expansion and bull market. At the same time, inflation pressures can be problematic if they persist.

Let's Review the Economic Data:

— U.S. Retail Sales: increased 9.44 percent, up from minus-2.83 percent last month, the second-fastest jump in 30 years, driven by the $1,400 stimulus checks.

— U.S. Retail Sales: increased to 26.87 percent, versus 9.85 percent last month, another big jump and higher than the long-term average of 4.32 percent.

— U.S. Initial Claims for Unemployment Insurance: fell sharply to 576,000, versus 769,000 last week, a 25.1 percent drop, and more than 6.6 million fewer than a year ago.

— U.S. Auto and other Motor Vehicle Sales: rose to $124.89 billion, up from $108.1 billion last month, a 15.53 percent increase and up from $71.3 billion, or 75.14 percent, one year ago.

— U.S. Electronics and Appliance Store Sales: rose to $8.51 billion from $7.69 billion last month, or 10.54 percent.

— U.S. Retail and Food Services Sales: rose to $619.1 billion from $563.73 billion last month, a 9.82 percent rise.

— U.S. Personal Saving Rate: is at 13.6 percent, compared to 19.8 percent last month, which is higher than the long-term average of 8.95 percent.

The significant rise in sales across the board is the strongest signal yet of the easing of restrictions and the quantum leap in vaccinations, allowing citizens to resume their usual spending patterns.

Is This Growth Pattern Sustainable?

While it is prudent, and expected, to assume that some of the sales growth may be stimulus spending, most of the sales growth comes from recurring sales as consumers return to more normalized spending patterns.

However, considering the large amount of stimulus funding, we note that the U.S. personal savings rate is at an all-time high. If consumers spend part of those savings in the U.S. economy, the boost will be significant.

We expect the economy to ride to normalization and achieve an even loftier GDP growth of 6.5 percent.

Weekly Market Close Comparison	4/16/21	4/9/21	Return	YTD
Dow Jones Industrial Average	34,200.67	33,800.60	1.18%	11.74%
Standard & Poor's 500	4,185.47	4,128.80	1.37%	11.43%
Nasdaq Composite	14,052.34	13,900.19	1.09%	9.03%
Birling Puerto Rico Stock Index	2,514.30	2,468.21	1.87%	22.95%
U.S. Treasury 10-Year Note	1.59%	1.67%	-4.79%	0.70%
U.S. Treasury 2-Year Note	0.16%	0.16%	0.00%	0.75%

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