

# ECONOMY

Markets receive certainty from the Fed

THINK STRATEGICALLY:

## Taking La Piquiña from Ponce to San Juan

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### Traveling from Ponce Before 1975

Traveling from Ponce to San Juan was a nearly three-hour trip until the Autopista Luis A. Ferré, or PR-52, was finished in 1975. This 67-mile expressway began in 1968 under the administration of Gov. Roberto Sánchez Vilella and continued during the administration of Gov. Luis A. Ferré. The latter, an MIT-trained civil engineer from Ponce, knew the dire need for such a road for the southern part of the island, and I should mention that my grandfather, Tito Castro, built more than 50 percent of that highway, but that is another story.

Since my dad was from San Juan, we often traveled from Ponce to San Juan to visit our grandparents, who lived in Condado. Dad was also in the Air Force at the time.

Today, a trip from Ponce to San Juan is just about 1 hour and 15 minutes, but until 1975 the journey took 2 hours and 41 minutes. That is if you

were lucky enough not to find yourself behind a convoy of sugar cane or cement trucks while at “La Piquiña” or any accident on PR-1. However, the trip afforded some luxuries that were common back then.

One of those luxuries included a halfway stop in Cayey, at the Lechonería El Cuñado, to sample copious amounts of *lechón asado* (roast pork), *morcilla* (blood sausage), pigeon pea rice and all the trimmings. Once, while waiting for our table, my brothers and I saw a pig being slaughtered; I guess the impression was such that at least that day, I had chicken. Another famous stop in Cayey was the Cafetería San Antonio, where the *carros públicos* (public cars) would stop to get passengers going to other parts of the island. Also, it was one of the stops of the Puerto Rico Motor Coach service, which was the equivalent of Greyhound in the states.

However, our grandparents’ preferred

stop was the Los Toritos Restaurant at the entrance of Cayey, an elegant and tasty place with a great bar.

I must admit that I would stop there to have a stiff drink when I lived in Ponce and worked in San Juan.

The rest of the trip included passing through Caguas and seeing the Flower Clock, passing through Río Piedras until you arrived in Santurce, and then our final arrival in Condado.

It was pretty common to see families picnicking along the road or under the shade of trees.

So, next time you are planning to go from San Juan to Ponce and want to understand how travel was until 1975, take PR-1 until you reach Ponce; in Cayey, the Lechonería El Cuñado is still there serving their famous “lechón asado.”

### Week in Markets: The Fed has Spoken, Tapering is Coming; Jobs, GDP to Rise

This past week, as often happens when the Federal Reserve Bank hosts its annual Jackson Hole meeting, investors were focused, first on the expectation and then on the results.

Additionally, geopolitical events filled the news cycle with unfortunate images from Afghanistan; the loss of life and people fleeing in despair added another twist to the already complex Middle East situation.

As the Federal Reserve’s Jackson Hole conference drew to a close, it became clear that the tapering of its asset program will be happening by the end of the year.

Fed Chair Jay Powell’s speech

provided the best guidance for the timing of the \$120 billion COVID-19 stimulus program. Powell also said that the U.S. labor market had shown clear progress towards reaching full employment.

The Federal Reserve had two principal goals before deciding when to reduce the asset program.

One was maintaining inflation below 2 percent, and the other was reaching full employment.

“My view is that the ‘substantial further progress’ test has been met for inflation, and there has also been clear progress toward maximum employment,” Powell said.

As the markets received the needed certainty from the Fed, it continued.

While examining the broader economic benchmarks, we note the following:

U.S. Real GDP rose to 6.60 percent, compared to 6.30 percent last quarter.

U.S. Unemployment Rate is at 5.40 percent, compared to 5.90 percent last month.

U.S. Labor Force Participation Rate rose to 61.70 percent, compared to 61.60 percent last month.

U.S. Nonfarm Job Openings rose to 10.07 million, up from 9.48 million last month, or 6.22 percent more.

U.S. Personal consumption expenditure (PCE) Price Index fell slightly to 0.40 percent, compared to 0.50 percent last month.

In our view, the broader outlook remains positive, with continued economic progress, jobs growth and rising corporate earnings. However, these expansions will suffer as investor sentiment changes depending on how these and other vital benchmarks improve or deteriorate throughout the rest of the year.

Last week, the U.S. stock markets reached another record high, adding close to 50 records in 2021 alone.

The S&P 500 has had a return of 20.06 percent year-to-date (YTD), ranking in the top ten of all yearly gains. The Nasdaq Composite is not far behind with a YTD return of 17.39 percent and the Dow Jones Industrial Average follows with 15.84 percent YTD.

What is quite surprising is the fact that

the YTD of the Birling Capital Puerto Rico Stock Index is of 39.44 percent, outpacing all other indexes; this return is 148.98 percent higher than the Dow Jones’, 96.61 percent higher than the S&P 500’s and 126.79 percent higher than the Nasdaq Composite’s.

The Birling index consists of the five Puerto Rico-based public companies, which include Popular (BPOP), Firstbank Corp. (FBP), OFG Bancorp (OFG), Evertec (EVTC) and Triple S (GTS), if you have not looked at Puerto Rico stocks, this would be an excellent time to look into them.

### The Final Word: Consumer Spending Deteriorating, What to make of it?

A final thought. We must mention that consumer spending has somewhat deteriorated, as the rise of the delta variant has brought restrictions. Last week, a sample key economic spending report showed an impact to the economy from the restrictions, the increase of the Delta variant, and the elapsing of all stimulus funding. The July PCE report showed a modest 0.4 percent decrease in spending compared with June; also, U.S. initial claims for unemployment insurance rose to 353,000, up from 349,000 last week, a 1.15 percent rise from the previous week.

In our view, U.S. employment will continue to rise with more than 10 million job openings. The Pandemic Unemployment Assistance benefits elapsing in September provides a solid case for most to return to the workforce.

Additionally, the global supply chain disruptions and capacity constraints have not allowed us to meet the rising consumer demand for all kinds of products, resulting in severe limitations of investment increases.

The American economic machine will not only meet but surpass all rising demand with production increases, and the economy is beginning to fire on all cylinders. are cautioned to seek appropriate professional counsel regarding any of the matters discussed.

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  | 8/27/21   | 8/20/21   | Return | YTD    |
|---------------------------------|-----------|-----------|--------|--------|
| Dow Jones Industrial Average    | 35,455.80 | 35,120.08 | 0.96%  | 15.84% |
| Standard & Poor's 500           | 4,509.37  | 4,441.67  | 1.52%  | 20.06% |
| Nasdaq Composite                | 15,129.50 | 14,714.66 | 2.82%  | 17.39% |
| Birling Puerto Rico Stock Index | 2,851.55  | 2,550.30  | 11.81% | 39.44% |
| U.S. Treasury 10-Year Note      | 1.31%     | 1.26%     | 3.97%  | 0.40%  |
| U.S. Treasury 2-Year Note       | 0.22%     | 0.23%     | -4.35% | 0.45%  |