

ECONOMY

Puerto Rico Divided
into haves and have nots

THINK STRATEGICALLY:
Tales from
Palm Island

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People will always look to leaders to guide them during a crisis, such as the coronavirus pandemic, one of the most significant challenges the world has faced, forcing political and business leaders to navigate uncharted waters. For Puerto Ricans, the journey had already turned difficult in the aftermath of Hurricane Maria and the earthquakes that struck the southwestern part of the island at the beginning of last year. During 2017 and 2018, we have lost more than 215,000 citizens, a trend that continues, although at a lesser rate. The level of outmigration was made evident in the 2020 census, which revealed that our population dropped from 3,726,157 in 2010 to 3,193,694 in 2020, a 14.3 percent reduction, or 532,463 fewer Puerto Ricans living here.

We only have to look at the adjacent map of Puerto Rico. There are stark differences in per capita income, showing that there are two different Puerto Ricos. The lowest median household income is in Aguadilla, at \$15,303, or \$7.97 an hour, while the highest is in the San Juan region, \$26,235, or \$13.66 an hour. One simply cannot make a decent living at \$7.97 or \$13.66 an hour. We must create a long-term plan to develop a path to create a greater number of higher-paying jobs from an extensive array of industries.

This map made me remember a book my grandfather gave me about Palm Island, which is 8 kilometers off of Townsville, Queensland, Australia, and was named by Captain Cook in 1770 and established in 1918 to replace a mission destroyed by a hurricane.

Palm Island is particularly disadvantaged. Its unemployment rate is said to be as high as 95 percent. It has high levels of alcoholism, domestic violence and child abuse. An average of 17 people live in each dilapidated home. There are also high youth suicide rates and murders.

Why are we comparing Puerto Rico with Palm Island? Simply because Puerto Ricans continue to suffer from the dramatic effects of the lack of employment, much less in well-paying

jobs—, it is a bleak future, and most citizens have stopped dreaming of a better life here to find it elsewhere.

Take, for example, the enhanced Pandemic Unemployment Assistance (PUA) benefits for a person with take-home pay of \$1,473.33 a month, or \$17,680 per year. As the pandemic hit, that person who lost their job began receiving the enhanced unemployment of \$3,640 per month, or \$43,680 per year, which represents a 147 percent pay increase, equivalent to getting paid \$21 an hour.

Our leaders must decide to use the \$15 billion infusion of federal funding to produce an economic transformation that will propel the island toward sustainable economic growth for years to come. The ultimate goal is to achieve pay levels and job growth to stop our fellow citizens from migrating elsewhere.

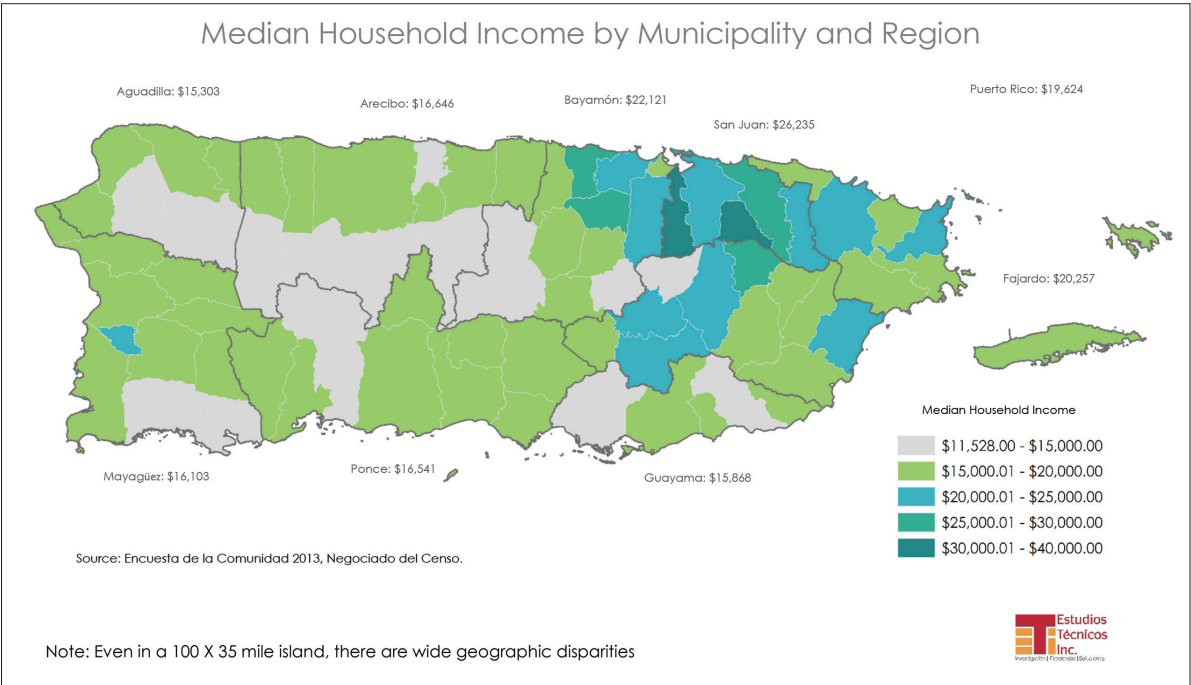
Week in Markets: April ends with a volatile, record-breaking month

The month of April turned out to be a game-changer for the stock markets as investor sentiment began to change. As the market fundamentals continue to improve, one does not need to be a savant to see why the market is doing so well. However, with improving markets, investors begin to raise their expectations, and often the metronome swings towards excessive optimism.

As we maintain our perspective in line with expectations, let us review four pillars of market development:

Robust Economic Growth: Since the economy has delivered back-to-back quarters of 4.3 percent and 6.4 percent GDP growth, the economy is solid. We must also add that the bazooka stimulus funding, the surge in consumer spending of 10.7 percent, combined with the massive vaccination distribution, and our economy is on solid ground.

Corporate Earnings Rising and Beating Estimates: With more or less 50 percent of all S&P 500 reporting in the earnings season as of April 30, more than 85 percent of companies have beat



their consensus estimates. So far, earnings are on route to growing 30 percent during the calendar year 2021. If last week's outsize results from Microsoft, Apple, Amazon, Facebook and Alphabet are any indication, we are in for an earnings extravaganza.

Low-Interest Rates and Federal Reserve Support: the Fed chair is keeping the low-interest-rate environment until the U.S. reaches full employment; in Fed speak, that could mean 18 months, that is good news for the economy.

Fiscal Stimulus and Continued Federal Support: The U.S. government has just finished a \$1.9 trillion stimulus round. It follows up with a \$2 trillion infrastructure bill and a \$1.8 trillion program focused on child care, education, and paid-leave programs.

The Final Word: Is there a downside somewhere?

Growth rates will not be able to keep up after 2021, and we will see where the markets take us. These are situations in which having a diversified portfolio of stocks bonds and other instruments will surely payoff in peace of mind.

We should also expect increased volatility as the stock rotation will cause

strong market pullbacks, which are expected to become more recurring.

The stimulus money is boosting consumer spending at a healthy rate; jobs growth; a reduction in initial unemployment claims; and increased corporate earnings, at higher than expected levels. Those are all signals of an accelerating recovery.

Let's review the economic data:

- U.S. Real GDP rose to 6.4 percent compared to 4.30 percent last quarter, driven by a 10.1 percent increase in consumer spending. We must note that the GDP growth has been the largest since 2003 and positioned just slightly below the pre-pandemic levels.
- U.S. Initial Claims for Unemployment Insurance fell to 553,000, down from 566,000 last week, or 2.3 percent lower.
- U.S. Personal Savings Rate rose to 21 percent, compared to 13 percent last quarter.
- Housing Prices Year-over-Year Accelerated, with annual gains topping 12 percent.
- U.S. home values are 40 percent above their historical peak, reached in April 2007 during the housing bubble,

and are 78 percent above the low point reached in May 2011.

- U.S. Personal Income rose to \$24.21 trillion, up from \$19.99 trillion last month, an increase of 21.07 percent
- U.S. Real Personal Consumption Expenditures rose 3.6 percent, compared to minus-1.2 percent last month.

In conclusion, we expect the economy to ride to normalization and achieve an even loftier GDP growth than 6.4 percent. The U.S. economy has been adding jobs every month since the year began, fueled by the reopening of most restricted activities during the pandemic, including Beach sector stocks, namely bookings, entertainment, airlines, cruise Lines and hotels.

The key to this trend is the upcoming U.S. Labor Department's non-farm payroll data for April, which will be released Friday. For April, the estimate is for 950,000 to 991,000 jobs to be added. The U.S. economy added 916,000 non-farm jobs in March, making it the most significant one-month increase since last year.

Weekly Market Close Comparison	4/30/21	3/31/21	Return	YTD
Dow Jones Industrial Average	33,874.85	32,981.55	2.71%	10.68%
Standard & Poor's 500	4,181.17	3,927.89	6.45%	11.32%
Nasdaq Composite	13,962.68	13,246.87	5.40%	8.34%
Birling Puerto Rico Stock Index	2,496.15	2,403.40	3.86%	22.06%
U.S. Treasury 10-Year Note	1.65%	1.74%	-5.17%	0.75%
U.S. Treasury 2-Year Note	0.16%	0.16%	0.00%	0.75%

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.