

ECONOMY

Uncertainty
Abounds

THINK STRATEGICALLY:



Fatigued Stocks

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Since the COVID-19 pandemic began, consumers have been forced to adjust and adopt new ways of eating, exercising, entertaining themselves, studying, working, communicating and living life in general. For the most part, these rapid changes have been forced upon, and have important implications for businesses ranging from retailers to consumer companies. Many of the changes in consumer behavior will not last long-term, but others will remain with us and become the new normal.

The world is fatigued by having to use digital platforms as people attempt to move past the Covid lockdowns and restrictions, so we began building what we call the Fatigued Stock Portfolio. The following is a comparison of some of the companies' all-time highs, year-to-date returns and stock price:

– Peloton (PTON) operates an interactive fitness platform. It works in two segments: Connected Fitness Products and subscription. Connected Fitness Product revenue consists of sales of bikes, and subscription revenue consists of revenue generated from monthly Connected Fitness Subscription and Digital Subscription. The stock is down 73.99 percent from its highs, for a year-to-date return of

-71.3 percent; the stock closed last week at \$43.55.

– Zoom (ZM) provides a communications platform that allows people to connect through video, voice, chat and content sharing. The company's cloud-native platform enables face-to-face video and connects users across various devices and locations in a single meeting. During the pandemic, it took the world by storm. The stock is now down 58.62 percent from its high, with a year-to-date return of -45.49 percent. It closed last week at \$183.92.

– Just Take it Away, known as GrubHub (GRUB), operates an online marketplace that connects users in Europe and North America with restaurants. The company has 60 million active users on its platform. The stock is down 53.45 percent from its highs, with a year-to-date return of -49.52 percent; its stock closed at \$11.61 last week.

– DoorDash (DASH) is an online food ordering and delivery platform. By the end of 2020, DoorDash had 20 million customers and more than 1 million dashers on its platform and was generating \$24.7 billion in gross order volume. The stock is down -35.89 percent from its highs, with a year-to-date return of 10.48 percent; the stock closed at \$157.71 last week.

– Etsy Inc. (ETSY) operates a top-10 e-commerce marketplace platform in the United States and the United Kingdom, with sizable operations in France, Germany, Australia and Canada. With \$10.3 billion in 2020 gross merchandise volume, the firm has cemented itself as one of the most significant players. However, its stock is down 22.09 percent from its highs; with a year-to-date return of 30.03 percent, the stock closed last week at \$231.33.

Week in Markets: Wall Street hates uncertainty; what to expect from the markets?

The U.S. stock market ended the week with losses as the World Health Organization announced that the Omicron variant, which is more contagious than Delta, has been identified in dozens of countries, and 16 U.S. states have confirmed cases as well.

Another issue impacting markets was the U.S. jobs report, which revealed that only 210,000 new jobs were added, well below the 550,000 expected; however, the U.S. unemployment rate is the lowest since the pandemic began, 4.2 percent.

Moreover, the job numbers only make the broader employment picture more complex as businesses in the United States and across the world continue to grapple with finding enough candidates to fill vacant positions.

Global markets react to uncertainty by performing sector rotations in anticipation of which another COVID-19 case surge could affect. For that same reason, the VIX (Volatility Index), which measures the implied expected volatility of the U.S. stock market, was as low as 16.41 percent on Nov. 1, and had risen to 31.12 percent on Dec. 1, a 70.32 percent increase. The VIX usually increases when the market decreases and vice versa. During the Great Recession, the VIX reached 80.86.

Because of the Omicron-driven uncertainty, global markets have moved between gains and losses.

However, as a reference, we analyzed how far off their record highs the four leading indices were, and these are the results:

Weekly Market Close Comparison	12/3/21	11/26/21	Return	YTD
Dow Jones Industrial Average	34,580.08	34,899.34	-0.91%	12.98%
Standard & Poor's 500	4,538.43	4,594.62	-1.22%	20.83%
Nasdaq Composite	15,085.47	15,491.66	-2.62%	17.05%
Birling Puerto Rico Stock Index	2,899.79	2,898.79	0.03%	41.80%
U.S. Treasury 10-Year Note	1.35%	1.48%	-8.78%	0.40%
U.S. Treasury 2-Year Note	0.60%	0.50%	20.00%	0.60%

– Dow Jones Industrial Average: -5.08 percent.

– S&P 500: -3.53 percent.

– Nasdaq Composite: -6.05 percent.

– Birling Capital Puerto Rico Stock Index: -5.27 percent.

Also, note that all the leading indices have double-digit year-to-date returns. While investors must remain vigilant for market developments and selective investment opportunities, there is no immediate need to perform significant changes if you have a diversified portfolio.

We recommend that investors avoid the temptation to abandon long-term strategies based on near-term uncertainties.

Wall Street Monthly Review, as of Dec. 3:

– The Dow Jones Industrial Average closed at 34,580.08, down 319.26 points, or 0.91 percent, for a year-to-date (YTD) return of 12.98 percent

– The Standard & Poor's 500 closed at 4,538.43, down 56.19 points, or 1.22 percent, for a YTD return of 20.83 percent

– The Nasdaq Composite Index closed at 15,085.47, down 406.19 points, or 2.62 percent, for a YTD return of 17.05 percent

– The Birling Capital Puerto Rico Stock Index closed at 2,899.79, down 1 point, or 0.03 percent, for a YTD return of 41.8 percent

– The U.S. Treasury 10-year note closed at 1.35 percent.

– The U.S. Treasury 2-year note closed at 0.6 percent.

The Final Word: Health Care Uncertainty Translates to Market Uncertainty

As the Omicron variant goes global with cases reported in more than 40 countries, 16 U.S. states, and more locations being identified daily, we must concentrate on what is known about this disease and how the market could react. The new variant was the spark that rekindled fears worldwide as soon as it was announced, triggering a sell-off that saw the Dow Jones drop 319.26 points, the S&P 500 fall 36.19 points

and the Nasdaq Composite 406.19 points. The Birling Capital Puerto Rico stock index fell by only 1 point.

Omicron was evoking recent memories of lockdowns, restrictions, full hospitals, death and chaos that no one in the world is ready to relive, so let us see what is known about Omicron.

What do we know about Omicron?

Transmissibility: A new study in South Africa determined that the variant spread much more quickly than Delta.

Disease Severity: It is still unclear if the Omicron variant is more or less severe than Delta or other variants. Information from South Africa and the first two cases in the United States indicate mild symptoms, while some patients are asymptomatic.

Impact on Vaccine Immunity or Immunity from Previous Infection: So far, there are no data available to assess the effectiveness of the current vaccines and level of protection for vaccinated people. However, the U.S. government requests that everyone gets vaccinated, including the booster shot, as soon as possible. In the United States alone, more than 5 million people got their vaccine in only 48 hours. It is worth noting that vaccines are expected to protect us from severe hospitalizations.

Travel Restrictions: As Omicron became known, many nations tightened their travel policies; some banned flights and others are requiring a negative COVID-19 test 24 hours before traveling.

New tools to fight COVID-19: The Food and Drug Administration approved Eli Lilly's monoclonal antibody treatment for children and infants last Friday. Children under age 12 with COVID-19 have a higher risk of severe illness from the virus if they have such conditions as obesity or diabetes.

While we await the results from the fast-paced research the scientific community is conducting, we must all wear masks, socially distance and wash our hands or use hand sanitizer regularly.

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.