

ECONOMY

Puerto Rico products and retailers poised for shot in the arm

THINK STRATEGICALLY:

Orange Wednesday or Black Friday?

Puerto Rico Businesses Well-Positioned to Post Better-Than-Expected Christmas Season

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Week in the Markets: Worst Thanksgiving week for stock market in seven years

The stock market this past week achieved the title of “The Worst Thanksgiving Week in Seven Years.” The negative sentiment continued, with the three markets finishing the week in negative territory and erasing any gains for the year. The Dow Jones Industrial Average stood at 24,286, a loss of 1,127 for the week, which places the year-to-date return (YTD) at minus-1.8 percent. The S&P 500 closed at 2,633, a loss of 103 for the week, and a YTD return of minus-1.5 percent, and the Nasdaq closed at 6,939, a loss of 308 for the week, and a YTD return that is down to 0.5 percent. Finally, the 10-year Treasury yield was slightly down at 3.04 percent.

When investing: Diversify, diversify, diversify

The worst Thanksgiving week was achieved as all stock markets came back into the same lows that were reached in late-October. These new lows erased all gains for the year and left investors to ponder whether the bull run is over or not. In our view, we do not believe the market is quite there because we expect the market will recuperate from the current lows, as the news of the strong start of the holidays spreads into most investors’ sentiment. However, we think the end of the cycle of strong stock-market growth may be coming to an end by first quarter 2019.

As we review the behavior of most stocks, we notice international stocks held up their values better than other stocks. Those investors with a fully

diversified mix of stocks and bonds based on their risk tolerance, financial goals and perspective can help them stay in the market even under periods of increased volatility and market downturns. In every instance that we see market downturns, we feel obligated to discuss the “Efficient Frontier,” developed by Nobel Prize Economist Harry Markowitz in 1952. The efficient frontier is a set of optimal portfolios that offer the highest expected return for a specified level of risk. It is still one of the most explicit

demonstrations of the power of diversification. No investor should disregard diversification due to tax advantages, inheritance laws or any other country-specific advantage in lieu of a diversified portfolio that considers the best possible balance between risks and returns.

What’s in store for holidays, year-end and 2019

Thanksgiving marks the start of the holiday season and this year we have had more than one special sales event to monitor consumer health and sentiment. Here in Puerto Rico, there was a mix of special sales that started with the local retailers’ Orange Wednesday and Black Friday sales that began as early as the afternoon of Thanksgiving.

From the available press reports and notable coverage from all forms of media, we note the Christmas season started strong and we can safely predict the strong consumer confidence will have an impact on the Christmas season. Puerto Rico, with the most prolonged and festive Christmas period in the world, and with most of the country absent from Christmas last year, we see most Puerto Ricans coming back with a vengeance.

In our view these are the facts to look for:

•**Consumers appear healthy:** The most significant piece of the U.S. and Puerto Rico economy is the consumer and the experience of strong retail sales is a pivotal parameter to determine growth. With a steady inflow of new jobs, reduced unemployment and decreasing gas prices, Puerto Ricans are positioned to post a better-than-expected Christmas season.

•**E-commerce vs. regular shopping:** We are closely watching how Cyber Monday performs as compared with Black Friday. With the overall sales percentage of e-commerce at 10 percent and growing steadily, we may see this number reach 15 percent this year. All is not lost with regular retailers; however, they need to have robust and easy-to-use apps to drive traffic to them and away from the e-commerce sites. If a strong Cyber Monday happens, the old-school retailers will have to make even more

transformative adjustments.

•**Looking to 2019:** Economic growth in the United States was strong in both 2017 and 2018. However, the outlook for 2019 and 2020 is that the economic growth may not be as robust. For Puerto Rico, the outlook is quite the contrary; we must expect a healthy 2019 and a stronger 2020. As we have pointed out, the trade risks present a downside to the U.S. and the global growth outlook for 2019 and 2020. While we will see growth, it will not be as strong as during these past years.

The Final Word: Orange Wednesday or Black Friday take your pick

We want to commend Empresarios por Puerto Rico and its President Enid Monge for creating and hosting the second Orange Wednesday sales event to promote local Puerto Rico business and retailers of all shapes and sizes. Having a strong and robust domestic sector is a critical element of a healthy economy.

After Hurricane Maria, where we lost more than 5,000 local businesses, this effort must be supported and expanded because we must always favor our local products and retailers. With the slogan “primero lo nuestro,” it creates awareness toward our local homegrown businesses and their spectacular offerings.

The efforts reminded me of a similar attempt we saw while traveling in Peru a couple of years ago, where we witnessed a nationwide ad campaign that very elegantly stated, while we support all businesses, we prefer you choose local Peruvian products and retailers. These ads were everywhere, from billboards to TV to social media, with year-round awareness to buy local products. Not only did it create a sense of pride toward locally manufactured products, services and retailers, it was also as strong a testament you can find to support your country.

In my view, this must be the next step for Empresarios por Puerto Rico, creating a campaign that unites all local organizations in the private and public sector to promote our local business. We commend them in their effort and offer our help and support to create an even bigger campaign.

So, in choosing between Orange or Black, choose Orange and go native.

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	11/16/18	11/23/18	Change
Dow Jones Industrial Average	\$25,413.22	\$24,286.00	-4.44%
Standard & Poors 500	\$2,736.27	\$2,633.00	-3.77%
Nasdaq	\$7,247.81	\$6,939.00	-4.26%
U.S. Treasury 10 Year Note	3.05%	3.040%	-0.33%