

# ECONOMY

Our culture needs to be protected by all;  
Congress cannot force us to change

THINK STRATEGICALLY:

## The Divine Contrarians Realm

Trade War in Detente, Growth Slows, Increased Expectation of Global Recession; Cultural Battles Taking Roost Over Cockfights

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### Week in the Markets: The divine contrarians

In the poem “The Divine Comedy” by Dante Alighieri, Hell is described as nine concentric circles of torment located within the Earth. The market has taken us down a similar path to Dante’s Hell. As the markets have reached correction territory, we have entered the Divine Contrarian Realm, and for market contrarians, this is their arena.

As U.S. stocks finished lower for the week, the S&P 500, Dow and Nasdaq are in correction territory for the first time since February 2016.

The Dow Jones Industrial Average

closed at 24,101 for a loss of 288 for the week and year-to-date (YTD) return of minus-2.5 percent. The S&P 500 closed at 2,600, or a loss of 33 for the week, and a YTD return of minus-2.8 percent, while the Nasdaq closed at 6,911, or a loss of 58 for the week and a YTD return of 0.1 percent. Finally, the 10-year Treasury yield was up to 2.89 percent.

### Trade tensions front and center

While there are some signs of detente in the trade demagoguery, this fact was considered less important than the global economic growth concerns now engulfing the markets. Nonetheless,

China discussed changes to its economic policies that would implement the following:

- Increase market access for foreign companies;
- Purchase U.S. agricultural products; and
- Provide tariff-rate discounts on imported U.S. cars.

The trade differences between the U.S. and China are going to be resolved in the short term. As we have said many times, we do not expect an all-out trade war; the ensuing tension while the agreement is reached will continue to add volatility to the markets, including the European Union. While on this subject, we must point out that U.S. economic data continues to be positive as retail sales grew at a faster clip than expected and buoyed by strong consumer confidence. Even as the current market position seems quite bleak, we continue to see strong economic fundamentals, and we remain positive toward our outlook for stocks.

### Global economy growth to slow

The global growth for 2018–19 is projected to remain steady at its 2017 level, slowing to 3.5 percent next year, led by a deceleration in the U.S. and further softening in China. According to the International Monetary Fund, the potential for upside surprises has receded, given the tightening of financial conditions in some parts of the world, higher trade costs, slow implementation of reforms and waning growth momentum.

While financial market conditions

remain accommodating in advanced economies, they could rapidly tighten if trade tensions and policy uncertainties intensify, or unexpectedly high U.S. inflation triggers a stronger-than-anticipated monetary policy response.

Tighter financial-conditions growth, still above potential in most developed economies, continued labor market tightening, gradually rising core inflation and, in many cases, higher policy rates. Downside risks to global growth have increased in the past six months. The potential for upside surprises has receded—along with the adverse impact on trade measures, weaker outlook for emerging markets and developing economies arising from country-specific factors, tighter financial conditions, geopolitical tensions and higher oil import bills.

### Federal Reserve Bank policy to tighten

Our Federal Reserve consensus remains truculent relative to the market, and with two to three more 25 basis-point hikes to a funds rate of 2.75 percent to 3.00 percent at the end of 2019. While it is true that higher rates and tighter financial conditions will slow growth over the next year, our state-side unemployment forecast target is 3 percent. While some economists believe there may be a global impact in response to the Federal Reserve’s monetary tightening policy, we do not think tighter Fed policy is overdone. The most significant risk should be a more substantial U.S. overheating which in turn could trigger steeper rate hikes.

### Forecast into 2019 and beyond

There is increased expectation that a global recession is likely to show up as more and more developed market economies operate at or above full employment: economic growth and the need to continue to eliminate relaxed policies implemented during the great recession. One of the positive signs we have reviewed among all the global data is the improvement in equity valuations, which create substantial investment opportunities. For example, with the S&P 500 down nearly 10 percent, we note that

earnings have increased significantly, reducing its price-earnings ratio to 16.3, which is below its average over the past five years.

### Final Word: With cockfights now illegal, it’s a cultural wake-up call

Congress made cockfights illegal in the U.S. & its territories, including Puerto Rico, and marks the end of the sport that dates back to the 1770s.

Experts claim the sport generates 12,000-plus jobs and has an overall economic impact of \$18 million.

As Gov. Rosselló Nevares traveled to Washington to exclude Puerto Rico from the law, Congress moved on the issue and passed the measure. As soon as the governor landed, he blamed the island’s colonial status as the culprit. I do not agree; the culprit is not making your lobby efforts in time to avert the results.

Cockfighting in Puerto Rico was first officially recognized in 1770, and it was not legal until 1933 when Law 1 was passed. Puerto Ricans have a completely different set of customs and traditions that differentiate us from the U.S. states, and it is these differences that make our diversity broader than the U.S.

For one, have you ever had a “chillo entero frito” (entire fried red snapper) in any state? Of course not. We also celebrate the longest Christmas in the world, at 60 days, beginning Nov. 22 and ending Jan. 20 after the Fiestas de la Calle San Sebastián.

While in college, a French classmate was confused with the different ways U.S. Americans identified themselves as African-American, Hispanic-American, Asian-American, Native-American and so on.

My friend then pointed out to me that in France, you are either French or you are not—very simple, no cultural differentiations to create a divide, or strong words to think about.

So, back to our culture; yes, we are different racially/ethnically, culturally, phonetically, and we are warm, hospitable people, all traits to be proud of. Our culture needs to be protected by all, and Congress cannot force us to change who we are, what we do, or moreover, how we do it.

Mahatma Gandhi said it best, “A nation’s culture resides in the hearts and in the soul of its people.”

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### Weekly Stock Market Change

	12/7/18	12/14/18	Change
Dow Jones Industrial Average	\$24,389.00	\$24,101.00	-1.18%
Standard & Poor’s 500	\$2,633.00	\$2,600.00	-1.25%
Nasdaq	\$6,969.00	\$6,911.00	-0.83%
U.S. Treasury 10-Year Note	2.850%	2.890%	1.38%