# ECONOMY

It is a happy chance if we, changing, continue to love a changed person

THINK STRATEGICALLY:

# 5 Predictions, 5 Issues & 5 Answers for 2019

## The Never-Ending Echelon

BY FRANCISCO RODRÍGUEZ-CASTRO | frc@birlingcapital.com


As we enter 2019, we face a radically different and more complex macroeconomic and investment environment.

Caribbean Business has outlined five key predictions that will have significant implications for global business, including:

•The U.S.-China Trade War getting much worse and intensifying while the China-Russia relationship becomes stronger and has global consequences. The lack of progress will force President Trump to double down on tariffs.

•Emerging Markets are poised to have a credit crisis that will grow in proportion and breadth. From Africa to Argentina, a crisis is looming.

•Bitcoin is to lead the consolidation of the cryptocurrency market. Expect bitcoins to account for 75 percent of the market.

•Global Shipping Industry to encounter new sulfur regulations. IMO regulations will have an impact on 90 percent of the world's trade.

•The world is running out of sand, and its shortages will have an impact as high as 300 percent in a cost hike on construction, pushing the planet to its limit.

As we continue to withstand stronger geopolitical forces, tighter monetary policy and volatility, it boils down to markets creating attractive investment opportunities, with the key being how to profit from them.

### Issue 1: Will U.S. growth slow?

Because we ended 2018 with 3.8 percent economic growth, CB forecasts it will slow to 3.4 percent in 2019. The outlook for the United States is that its growth will be impacted by political challenges led by the current federal government shutdown, volatile markets, with U.S. stocks having faced the most damaging losses in a decade and ending the year in negative territory. The trade war with China is causing a decline in global growth as tariffs force economic readjustment and signaling the end of an economic cycle.

### Issue 2: Is tighter monetary policy the culprit?

Two thousand nineteen will be the first year since the great global crisis that the Federal Reserve Bank will have to implement tighter monetary policies.

Our Fed consensus remains truculent relative to the market and will end 2019 with two to three more hikes of 25 basis-points to a funds rate of 2.75 percent to 3.00 percent. Fed policy may loosen up a bit after the recent market turmoil and avoid overheating the economy.

### Issue 3: The U.S. role—will Trump be impeached?

The world and the U.S. have reached critical turning points. Starting with the U.S.-China situation, which is much more than trade disagreements, the U.S. National Security Strategy has labeled China a "revisionist state." As it assumes a direct correlation between a state's hegemony, both political and economic, and as either a status quo state or a revisionist state; in China's case, its interest is contrary to those of the U.S. and will also bear the weight of the instability from the European Union. We are confident President Trump will face increased scrutiny from the Democratic U.S. House of Representatives and special counsel Robert Mueller's investigation may lead directly to the President. With both Paul Manafort and Michael Flynn branded as traitors, I believe Trump will be impeached before 2019 ends.

### Issue 4: Should investors expect a recession?

While current market turmoil may be leading us to believe a recession could be possible, we do not think it is likely to occur. With consumer sentiment, consumption rates, investment growth high and the labor market creating 312,000 jobs in December 2018 alone, we do not see a recession on the horizon.

### Issue 5: The markets—pessimist or optimist views?

The massive selloff following the rate hike this past week was both broad-based and pointed to corporate earnings that have reached their peaks. We have to wonder if the Federal Reserve may have raised rates to the point that the economy may not withstand it. The current outlook is that the pace of earnings growth will slow from a rate above 20 percent to less than 10 percent for 2019. Across all sectors, we see opportunities for the long-term investor, even with the current market downturn, for the following reasons:

Valuations are attractive. With the S&P down 9.77 percent this year and 18 percent from its high, this means the price per earnings ratio is below its five-year average and presents an attractive buying opportunity for most stocks.

Stay invested; this is a buyers' market and it will pay off. Be very selective: With all the chaos in the market, it is prudent to wisely choose the sectors with companies having high potential for growth and innovation.

### The Final Word: We are not the same

In 2019, more than any time in history, Puerto Rico needs to be creative with the tools it has. While it is true the recently approved Opportunity Zones create a once-in-a-lifetime opportunity to redevelop Puerto Rico and the hurricanes brought us within view of the abyss, we must, nonetheless, march on toward our next moves. Local opportunities may include:

•Starting to pay our bondholders some of the money we owe them.

•Creative use of the public-private partnership model to create hundreds of new possibilities.

•Decentralize and reduce the government to align it with current realities.

•Focus on economic development and growth.

•Seek municipal reforms to allow for centralization of services, programs, events, activities, purchasing and other critical services.

•Take advantage of the inflow of federal Community Development Block Grant funding.

•Create a government divestiture program to sell unneeded assets.

•Eliminate obsolete government rules, regulations, programs and agencies.

•Transform the government monopolies and define essential services.

### One phrase defines it all for Puerto Rico: 'Execution'

As a final thought, a quote by British writer W. Somerset Maugham: "We are not the same persons this year as last; nor are those we love. It is a happy chance if we, changing, continue to love a changed person."

### Market Update—Jan. 3, 2018 vs. Jan. 3, 2019: We are into the correction market

| Market Close Comparison | 1/3/2018 | 1/3/2019 | Change |
|---|---|---|---|
| Dow Jones Industrial Average | $24,922.68 | $22,606.22 | -9.29% |
| Standard & Poor's 500 | $2,713.06 | $2,447.89 | -9.77% |
| Nasdaq | $7,017.07 | $6,463.50 | -7.89% |
| U.S. Treasury 10-Year Note | 2.440% | 2.560% | 4.92% |

*Francisco Rodríguez-Castro, president & CEO of Birling Capital, has more than 25 years of experience working with government, and multinational and public companies.*