ECONOMY

Staying public, relevant and profitable is the hard part

THINK STRATEGICALLY:

A Legend in his own Mind!

Wave of IPOs Leads Federal Reserve to all but Call off Interest-Rate Increases

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Trump: A legend in his own mind!

A legend in his own mind is a person who believes he or she is of greater importance or notoriety than is the case. There is a famous line in one of Clint Eastwood's Dirty Harry movies, when a supervisor in the police department asks, "Do you know who I am?" Dirty Harry responds, "You are a legend in your own mind." This line made me think of President Donald Trump and some of his most recent antics.

As Trump restarted his slew of attacks directed toward the Federal Reserve Bank, he tweeted, "If the Fed had done its job properly, which it has not, the stock market would have been up 5,000 to 10,000 additional points, and the GDP [gross domestic product] would have been well over 4 percent instead of 3 percent, with almost no inflation."

President Trump also added that "quantitative tightening was a killer, should have done the exact opposite!" He has no expertise in interest-rate oversight or market movements, or even the slightest knowledge about how economic principles are analyzed in tandem with the Fed to develop a holistic monetary policy. What is truly unprecedented is that he is probably the first President in my generation to attack the Fed so viciously and vociferously. His only goal is his political stance and whether his campaign promises are delivered.

We must also note that there is open, widespread Senate opposition to his chosen ones for the Federal Reserve Board of Governors: former Republican presidential candidate Herman Cain, and writer and economic commentator Stephen Moore.

As I said, in the beginning, it takes a lot of self-pride and ego to run for President. But it brings a particular illusionary gravitas and over-the-top thoughts of oneself to become "a legend in his own mind!"

Week in markets: S&P 500, Nasdaq increase YTD returns

The activity in the markets globally was generally flat as most stocks and indices finished the week with small losses and gains. The Dow Jones Industrial Average (DJIA) closed the week at 26,412.30, a loss of 12.69, or 0.05 percent, with a year-to-date (YTD) return of 13.20 percent; the S&P 500 closed at 2,907.41, a gain of 10.67, or 0.51 percent, and a YTD performance of 16.00 percent. The Nasdaq closed at 7,984.16, an increase of 55.47, or 0.70 percent, and a YTD return of 20.30 percent. Meanwhile, the U.S. Treasury's 10-year note increased to 2.56 percent, or an increase in yield of 2.40 percent.

As the International Monetary Fund (IMF) reduced its global growth forecast for 2019 from 3.5 percent to 3.3 percent, investors are reacting to the IMF's report titled, "World Economic Outlook, April 2019 Growth Slowdown, Precarious Recovery." The story did not change either the stance or narrative of most investors that had been expecting the downturn because the market had all but braced for impact. We have discussed the drivers of this situation for the past six months, and they are:

- China's growth has decreased through a combination of new regulations in shadow banking and trade tensions with the U.S.;
- The Eurozone economy lost more momentum than expected as consumer and business confidence weakened;
- The introduction of new emission standards disrupted car production in Germany;
- Investment dropped in Italy as sovereign spreads widened; and
- External demand, especially from emerging Asia, softened.

Trade tensions took a toll on business confidence and financial market sentiment worsened, with economic conditions tightening for weak emerging markets.

The Brexit elusive deadline was pushed back to Oct. 31, and newly released Chinese data for March show signals of a rebound in economic activity.

Income distribution

What is the impact of market power on growth and income distribution? How does it affect the drivers of growth, such as investment and innovation, as well as labor income shares?

There has been a moderate rise in corporate market power across advanced economies. Economy-wide markups increased by nearly 8 percent, on average, across firms, with rising profits and market concentration.

S&P in celebratory mode

Those who invested using the S&P 500 just celebrated a key milestone this past quarter with the 10th anniversary of the bull market in stocks. With the S&P 500 having recorded its strongest quarterly gain in 10 years and strongest first quarter since 1998, most of us are asking how we can follow these results. Even as the economic outlook remains positive, we must expect increased volatility.

Market Close Comparison

Markets	4/7/19	4/12/19	Change	YTD%
Dow Jones Industrial Average	26,424.99	26,412.30	-0.05%	13.20%
Standard & Poor's 500	2,892.74	2,907.41	0.51%	16.00%
Nasdaq	7,928.69	7,984.16	0.70%	20.30%
U.S. Treasury 10-Year Note	2.50%	2.56%	2.40%	-0.12%

U.S. consumers increasing savings

Reviewing consumer fundamentals, we note that most are well-positioned to maintain the current pace of spending. As the unemployment rate nears a 50-year low and wages continue to rise at the fastest pace in the 10-year cycle, the result is that consumers will continue to strengthen their balance sheets. The Federal Reserve Bank has reported that most U.S. households are saving 7.5 percent of their incomes, and this new figure is above the 10-year average of 7.1 percent. Another parameter measured is homeowners' home equity, which is the difference between the house value and the mortgage debt, and this figure is at an all-time high of $15.54 trillion.

Final Word: Looking for the next unicorn

Following Lyft's initial public offer (IPO) and Uber's upcoming IPO, there is a vast array of companies coming to market and, yes, some are calling it "Unicorn Season." The simple fact behind this IPO pipeline has the Federal Reserve all but calling off the interest-rate increases. The inverted-yield curve that is showing its head is signaling to these companies to "go public now," before the market turns on them. The next one to debut will be Pinterest (PINS) of San Francisco, in a deal valued at $1.2 billion coming to the N.Y. Stock Exchange with lead underwriter Goldman Sachs. The company operates a social pinboard-style photo-sharing platform and had revenue of $756 million last year, which was a 60 percent increase from 2017 and a loss of $63 million in 2018, compared to a loss of $130 million in 2017.

Pinterest allows people to search for and "pin" images as inspiration for fashion, interior design, travel and more. The company has 250 million users each month, and users have saved more than 175 billion pins since the site was launched.

Pinterest has raised nearly $1.5 billion in the private markets and was last valued at $12.3 billion in 2017. While we do not know if this is the next Unicorn, if it smells like one, looks like one and behaves like one, it well may be. Good luck Pinterest. Going public is comfortable; staying public, relevant and profitable is the hard part.

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