

ECONOMY

Thin veneer in national crème brûlée

THINK STRATEGICALLY:

The Thin Veneer of Civilization

Stock Market Roaring Back to new Highs; Earnings Increase; U.S.-China Trade Tensions Appeasing; More Stable Monetary Policy

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Thin veneer of civilization: It turns out the 'Fake News' was true

The "thin veneer theory" is a term coined by Dutch primatologist Frans de Waal to place a label on the Hobbesian view of human morality. The idea of the veneer theory was advocated by biologists such as George C. Williams and, more recently, used by Former CIA Director General Michael Hayden. We have viewed in dismay how a mature democracy like the United States has morphed during the 827 days of President Donald Trump's tenure toward a behavior similar to an oppressive egalitarian state identical to Venezuela, Cuba or Nicaragua. In our view, the thin veneer of civilization that protects us as U.S. Americans is fractured and fragile. It is that veneer that protects us

from radical groups such as neo-Nazis, white supremacists, bigots and other discriminatory instances from showing up and being heard.

One of the most daunting images in our recent memory was the day of hate, rage, violence and death that occurred in Charlottesville, Va., during a "Unite the Right Rally." This occurrence happened on Aug. 11 & 12, 2017, and led to the death of Heather D. Heyer.

In President Trump's initial remarks on Charlottesville, he did not denounce the marchers explicitly; instead, he condemned "hatred, bigotry and violence on many sides." He stated there were "very fine people on both sides," much to the country's dismay. In our view, this was only the beginning of a troublesome set of actions that have singled out the President as a racist and

bigot. I have often thought that if you have a single doubt about whether a person is racist, the balance leans toward that person being racist. As it turns out, the so-called "Fake News" by President Trump was indeed true, as it turned out that Russia was attempting to tip the balance of U.S. elections toward Trump. The Trump campaign was actively sharing polling data results with Russia. Even though the

President and his team have attempted to spin the story as a vindication, in my view, the President of the United States betrayed the country. What will Congress do about it?

Week in markets: Roaring back to new highs

After the Easter holiday, the U.S. stock market came back with a bang as both the S&P and Nasdaq reached new highs and, with it, put last year's market decline into memory. The Dow Jones Industrial Average (DJIA) closed the week at 26,543.33, a loss of 16.21, or minus-0.06 percent and a year-to-date (YTD) return of 13.80 percent; and the S&P 500 closed at 2,939.88, a gain of 34.85, or 1.20 percent, and a YTD performance of 17.30 percent. The Nasdaq closed at 8,146.40, an increase of 148.34, or 1.85 percent, and a YTD return of 22.80 percent. Meanwhile, the U.S. Treasury's 10-year note fell to 2.50 percent with a YTD return of minus-0.18 percent. The main drivers of growth are Corporate America providing increased earnings, U.S.-China trade tensions appeasing and a more stable monetary policy. North of 50 percent of U.S. Public corporations have reported their first quarter (1Q) 2019 results, and most are on track with gains over 4Q 2018.

As we have stated in our recent columns, we predict that the market will continue to reach new highs based on the following:

- **Strong 2019 market fundamentals.** Increased earnings, fueled by economic growth.
- **Corporate America delivering growth.** Corporate profits are on the path for gains.
- **U.S. economic growth.** The U.S. economy grew at a 3.2 percent pace.

U.S. economy increases growth to 3.2 percent GDP

The United States economy defied skeptics and delivered a 3.2 percent gross domestic product (GDP) increase during 1Q 2019, which easily beat economic predictions that pointed to 2.3 percent growth, which was 45 percent better than the 2.2 percent rate recorded during 4Q 2018. The recent

financial data destroys the recession fears and places the U.S. to reach its longest-ever expansion.

Final word: Birling 'Stock to Watch' at end of 2019

Birling Capital's "Stock to Watch" includes an array of companies from Biotech, Banks and Technology, and you will note below how our portfolio of stocks have performed since Oct. 19, 2018, with an 8.06 percent return on the average.

We want to concentrate on two local bank stocks that have been perennial favorites in the portfolios of many Puerto Rico investors, Popular Inc (BPOP) and Firstbank Corp. (FBP). Below are their 1Q 2019 results.

Popular Inc. (BPOP). Price as of April 26, 2019: \$57.08

- 1Q 2019 Results: Popular reported 1Q 2019 net income to common stockholders of \$167.0 million, an increase of 58.3 percent when compared to the \$106.4 million earned in 4Q 2018.
- Gross loans increased to \$26.6 billion.
- Total deposits increased by \$1.2 billion to \$40.9 billion.
- Net interest income fell \$5.3 million, or 1.1 percent, from the prior quarter, caused by lower fair-value accretion income on the acquired Wells Fargo auto loan portfolio.
- Regulatory Tier One capital ratios stood at 16.39 percent and is considered a "well-capitalized" institution.

First Bancorp (FBP). Price as of April 26, 2019: \$11.28

- 1Q 2019 Results: First Bancorp reported 1Q 2019 net income of \$42.6 million, compared to the \$100.4 million recorded in 4Q 2018.
- Gross loans rose to \$138.7 million. The state of Florida region saw an increase of \$50.3 million while Puerto Rico grew \$74.1 million and the Virgin Islands experienced growth of \$4.3 million.
- * Total deposits increased \$76.1 million to \$9.01 billion.
- * Net interest income increased to \$140.2 million.
- * The Regulatory Tier One capital ratio stood at 20.85 percent and is considered a "well-capitalized" institution.

As the recovery of Puerto Rico continues, we should expect both banks to play a significant part in all developments.

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

Market Close Comparison

Markets	4/18/19	4/26/19	Change	YTD%
Dow Jones Industrial Average	26,559.54	26,543.33	-0.06%	13.80%
Standard & Poor's 500	2,905.03	2,939.88	1.20%	17.30%
Nasdaq	7,998.06	8,146.40	1.85%	22.80%
U.S. Treasury 10-Year Note	2.56%	2.59%	1.17%	-0.12%