

ECONOMY

Markets reach record highs;
calls for P.R. governor's resignation grow

THINK STRATEGICALLY:

The Moral Compass & Karma

Leaked Chat Messages Reveal how Power in Hands of Unscrupulous Officials can Cause Enormous Devastation

BY FRANCISCO RODRÍGUEZ-CASTRO | frc@birlingcapital.com



Puerto Rico's constitutional crisis

The Moral Compass is one's inner sense that allows individuals to distinguish what is right and wrong for morally appropriate behavior. A person's moral compass will determine most consequences in their life because someone without a moral compass will act in a way that will inflict harm not only on others but eventually to themselves. Meanwhile, Karma is often defined as signifying the result of a person's actions as well as the works themselves. Karma is what occurs to a person because of their actions. As we live our lives, we are living the fruits of our past efforts; in other words, it is a cycle of cause and effect, both the Moral Compass and Karma work in unison.

As we discovered this past week, Gov. Rosselló and a group of collaborators had initiated and been participating in a "Telegram chat" to discuss all kinds of issues, including public policy, adversaries, people from their party and members of the press. As the details became public, the Governor and his inner circle were not only a disgrace to themselves, their families and Puerto Rico, but their actions against others have no comparison. The offensive remarks were about well-known members of the press, women with children and husbands, collaborators within their party, including Resident Commissioner Jenniffer González, Senate President Thomas Rivera Schatz, House Speaker "Johnny" Méndez; all decent public servants who deserve our respect.

As Puerto Rico read Telegram messages, we learned about the Governor and his inner circle's lack of a moral compass. Once thing for sure is that the situation has allowed all Puerto Ricans to examine what a so-called elected leader can do when placed in a discussion without filter and assumes all conversations were to remain private. Once the Governor took off his mask, he revealed a despot. The strong preference to demean and insult women, his bias against the LGBTT communities, and a lack of empathy even to those who died in the hurricanes and other leaders. As the very worst of human interactions was revealed, the country has learned how power in the hands of insecure, immature and unscrupulous people can cause enormous devastation. We have seen how ignorance and prejudice are turned into political propaganda directed at anyone who might seem contrary to their views.

Our mission as Puerto Rican citizens, therefore, is to confront this lack of a moral compass and ignorance with knowledge, their bigotry with tolerance, their isolation with the outstretched hand of generosity, their derision with the teachings of the Bible, and their lack of respect with severe condemnation of their actions.

A Governor without a moral compass is not capable of leading a nation, and is incapable of protecting the poor, the weak, children, the sick or those less fortunate.

A Governor without a moral compass has no place in our society, and his actions have to be penalized by calling for his resignation or through impeachment.

Week in markets

On July 11, the Dow Jones Industrial Average closed above 27,000 for the first time in history, and it also closed the week well above that mark, at 27,332.03, for an increase of 409.91, or 1.52 percent, and a year-to-date (YTD) return of 17.20 percent. In addition, the S&P 500 closed above 3,000 for its first time in history, and for the week at 3,013.77, for a gain of 23.36, or 0.78 percent, and a YTD return of 20.20 percent. The Nasdaq closed the week at 8,161.79, for an increase of 82.35, or 1.01 percent, and a YTD return of 24.20 percent. Meanwhile, the U.S. Treasury's 10-year note rose during the week, reaching 2.11 percent, an increase of 3.43 percent with a YTD return of minus-0.057 percent.

What is driving the markets?

- As investors continue to expect central banks around the world, including the U.S. Federal Reserve Bank, will implement a monetary easing policy with reduced interest rates, that expectation will continue to drive markets to new highs.

- The European Union, which has been suffering from a sluggish economy, policymakers such as David Lipton, the current acting CEO of the International Monetary Fund, has stated the need for a stimulus from the world's central bank systems to prop up the economy.

- The European Central Bank has been considering reducing its interest rates and also some form of quantitative easing.

- Now is the appropriate time to rebalance portfolios to position them to face the lower interest-rate environment.

- While we believe for the rest of 2019 the market will continue to grow, it is advisable to review all portfolios to ensure they are well-diversified.

- As the economic cycle continues its momentum, we must note that consumer spending remains at a healthy pace.

- Unemployment is at 50-year lows, with employment and wages rising.

What could stop momentum and impact the markets?

- Inflation that is too low.** If inflation is too little or too high, it usually is bad for the economy; however, in our specific case, deflation may impact the current bull market. Deflation happens as demand for goods and services stalls, making prices fall. When prices fall, businesses invest less.

- Continued trade tension between U.S. and China.** The impact on global growth is decreasing business investment and disrupting overall trade. World trade growth has fallen from 3.9 percent in 2018 to 2.1 percent in 2019. Even China's economic growth has slowed to 6.2 percent in the second quarter, which is its slowest pace since the 1990s.

- Global growth rates reduced.** The impact from Brexit, trade tensions and other political risks have created the basis for less vigorous economic growth.

With so many challenges and uncertainty, market volatility is expected to continue during the rest of the year. Investors should prepare their portfolios to face an uncertain fate in the markets. Investors with well-defined goals, aspirations, diversified portfolios and constant evaluation of risks should fare well during this period.

Final Word: Gov. Rosselló breaching public trust

Gov. Rosselló is not the only senior politician who has mislaid his moral compass. However, he will be the first Governor in Puerto Rico's history to be brought down for not defending the people he swore to protect and serve.

As his New Progressive Party was choosing its candidate for Governor in a 2016 primary, then-Resident Commissioner Pedro Pierluisi said it best during a debate on May 15, 2016: "Candidate Rosselló is not fit to lead Puerto Rico during its worst possible time. He has no experience, he is immature, has not had a real job or managed people. Life simply does not work that way, he might have a great future, but he is not ready to be Governor."

Both the Moral Compass and Karma work in unison to allow every morally correct individual to conduct their life. In the case of Gov. Rosselló, the lack of a Moral Compass has destroyed his political career. Karma...caught up with him.

Market Close Comparison	7/12/19	7/5/19	Change	YTD
Dow Jones Industrial Average	27,332.03	26,922.12	1.52%	17.20%
Standard & Poor's 500	3,013.77	2,990.41	0.78%	20.20%
Nasdaq	8,244.14	8,161.79	1.01%	24.20%
U.S. Treasury 10-Year Note	2.11%	2.04%	3.43%	-0.057%

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