

ECONOMY

It will take weeks to decipher economic impact

THINK STRATEGICALLY:

At One Point, Coronavirus Led to Loss of \$5 Trillion

Global markets experienced worst drop since Great Recession over fears of pandemic

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As the coronavirus spreads and becomes a pandemic, the economic cost to China, initially placed at \$62 billion, is now being estimated at closer to \$1.1 trillion. Added to that is the impact on the world's stock markets, which at the end of last week lost a combined \$5 trillion in three days. That was the worst loss of value since 2008, during the global financial crisis of the Great Recession, as the coronavirus spreads beyond China's borders. In that nation, the number of new infections finally seemed to begin to drop despite having surpassed 80,000 people and more than 2,900 deaths. In other parts of the world, there are more than 10,000 cases in 58 countries and more than 104 deaths outside China, according to the World Health Organization.

The increased concern that the coronavirus would have an impact on the world's economy developed into a market sell-off that saw most indices

decline last week as follows:

- Dow Jones Industrial Average: minus-12.36 percent
- Standard & Poor's 500: minus-11.49 percent
- Nasdaq: minus-10.35 percent
- Birling Puerto Rico Stock Index: minus-12.76 percent

A drop of more than 10 percent is considered a market correction, and in this case, the velocity of the market reaction was fierce. We saw all indices fall in three days, evaporating all positive year-to-date returns that had been accumulated. The yield on the 10-year Treasury note fell to the lowest level recorded, 1.13 percent; this market reaction points to significant concerns: Investors are troubled that the coronavirus will have a severe impact on global growth; and the added expectation that the Federal Reserve Bank will cut rates, implement stimulus actions or both.

There is a lot we do not know, and the

market reaction to this pandemic will be fast and fluid. However, this crisis is a short-term issue, and we forecast the bull market will continue during the rest of 2020.

Week in markets: Coronavirus evaporates trillions in wealth

This past week, global stocks took a turn for the worse as investors fueled a massive sell-off that drove the world's markets into correction territory while forcing the biggest retraction since the global crisis in 2008. The reactions are driven by fears the coronavirus outbreak will turn into the equivalent of the Black Plague of our generation. From the latest reports from the World Health Organization, it is noted that the rate for new cases has begun to decline.

While it will take more than 30 days to decipher both the economic impact and overall behavior of the pandemic, some scenarios point out that this pandemic may continue until as early as April or as late as July.

What this means for investors:

- Do not react emotionally, as emotions will cost you dearly.
- The coronavirus pandemic will bow out sooner than you would expect, and many global manufacturers are already signaling their operations are normalizing.
- In the United States, the economy is healthy, and consumer sentiment is high.
- U.S. real gross domestic product growth is at 2.1 percent, compared with 1.1 percent last year.

The Dow Jones Industrial Average

closed the week of Feb. 28 at 25,409.36, for a loss of 3,583.05 points, or minus-12.36 percent, and a year-to-date (YTD) return of minus-11 percent. The S&P 500 closed at 2,954.22, for a loss of 383.53, or minus-11.49 percent, and a YTD return of minus-8.6 percent. The Nasdaq closed at 8,567.37, for a loss of 989.22, or 10.35 percent, and YTD return of minus-4.5 percent.

The Birling Capital Puerto Rico Stock Index closed at 1,615.11, for a loss of 236.19, or 12.76 percent, and YTD return of minus-20.75 percent. Meanwhile, the U.S. Treasury's 10-year note closed at 1.13 percent, or 22.6 percent lower, and YTD return of minus-0.3 percent. The U.S. Treasury's two-year note lost nearly 0.86 percent, or 35.82 percent, and a YTD return of minus-0.5 percent.

One factor most people have overlooked is that the fixed-income markets with investment-rated bonds have had an average 3 percent return for 2020.

Investors are advised to maintain a well-diversified portfolio with the right balance of stocks, bonds and other instruments; this allows for softer landings when volatility hits the markets.

Final word: Puerto Rico Conference's Dr. Scott Cowen

One highlight of the Puerto Rico Conference 2020 was the keynote by Dr. Scott Cowen, president emeritus of Tulane University. He was asked to speak because his academic institution in New Orleans faced as daunting a challenge after Hurricane Katrina in 2005 as we faced after Hurricane Maria in 2017.

- The city of New Orleans faced the third-deadliest and most expensive hurricane in U.S. history with \$160 billion in damages. In summary, these were its losses:
 - 1,836 deaths
 - 400,000 jobs lost
 - 275,000 homes destroyed; 10 times as many as in any other U.S. natural disaster.

Impact on Tulane was horrific:

- 70 percent of both the main and health sciences campuses was flooded for at least 57 days.

- 13,000 students and 8,000 employees were displaced for five months
- First major U.S. university in past century to close its doors for an entire semester
- Storm led to more than \$650 million in losses

After Cowen was evacuated to Texas, his board asked him to prepare three plans: Close forever; reopen as before; and total transformation. As far as he was concerned, there was only one choice: To perform a total transformation. He got to work with his team on this process and decided Tulane would reopen Jan. 16, 2006.

However, he soon discovered New Orleans was not ready to accommodate them, so he decided to open and operate their own village. They bought a K-12 school so the children of Tulane employees and faculty could have access to a school. They built a health clinic, ultimately opening more than 60 of them. To house the faculty and students, they rented two cruiseships and anchored them in the Mississippi River, near the campus, and many other needed services were provided. The transformation would lead to the right-sizing of the university, the elimination of 1,000 faculty members and other employees, as well as one of its colleges. Meanwhile, Cowen was highly critical of the response of the Federal Emergency Management Agency, as well as the entire federal government; his efforts became a voice for New Orleans.

Dr. Cowen states 4 principles that guided him:

- Crisis comes with obligation to recover, emerging stronger and better
- Hope is not a plan
- Look in the mirror for the solution
- Leaders appear in challenging times (at all levels).

Cowen's message is that the private sector has the obligation to push for change, and push both federal and local governments hard to seek what is right for its citizens.

As his speech ended, there was a rousing ovation from the more than 600 attendees at the conference. Dr. Cowen was asked to return in two months to continue to assist with Puerto Rico's transformation. For his speech and all contents of the Puerto Rico Conference 2020, visit www.camarapr.org.

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

Weekly Market Close Comparison	2/28/2020	2/21/2020	Change	YTD
Dow Jones Industrial Average	25,409.36	28,992.41	-12.36%	-11.00%
Standard & Poor's 500	2,954.22	3,337.75	-11.49%	-8.60%
Nasdaq	8,567.37	9,556.59	-10.35%	-4.50%
Birling Puerto Rico Stock Index	1,615.11	1,851.30	-12.76%	-20.75%
U.S. Treasury 10-Year Note	1.13%	1.46%	-22.60%	-0.3%
U.S. Treasury 2-Year Note	0.86%	1.34%	-35.82%	-0.5%