

ECONOMY

Economy continues to expand



Think Strategically: 'La Danse Macabre'

Stock Market Attempts Recovery After 3 Weeks of Losses; Feds to Raise Interest Rates; Opportunity Zones Spurs Economic Activity

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'La Danse Macabre': Foreign policy Saudi style

The events surrounding the disappearance and now the death of Washington Post columnist and Saudi Arabian national Jamal Khashoggi has reminded me of something I read while in college. La Danse Macabre in French is an allegorical artistic genre of the Late Middle Ages and depicts the universality of death no matter one's station in life, and the Dance Macabre unites them all. La Danse Macabre consists of the dead, or its personification of death, as it summons representatives from every sector of life to dance along to the grave, and it might include a pope, emperor, king, child and laborer. They were produced as "mementos mori," to remind people of the fragility of their lives.

For more than two weeks, the government of Saudi Arabia denied the journalist's whereabouts and insisted he had walked out of the consulate unharmed. Not until worldwide outrage and intense criticism directed toward Crown Prince Mohammed Bin Salman was there a statement claiming a fist-fight had erupted in its Consulate in Turkey, costing Khashoggi his life, and the arrest of 18 Saudi nationals.

As one might expect, President Trump appeared to accept the Saudis explanation, but the U.S. Congress, intelligence officers and other foreign policy experts accused the government in Riyadh of a coverup. So, like all things surrounding President Trump, he is performing La Danse Macabre.

The Week in the Markets: Markets at crossroads, earnings season in full swing

The stock market attempted to recover after three weeks of losses. However, it was only able to achieve mixed results. The Dow Jones Industrial Average stood at 25,444.34, for a gain of 104.35 for the week, and kept its year-to-date (YTD) return at 2.9 percent. The S&P 500 closed mostly flat at 2,767.78, with a small gain of 0.67 for the week, and a YTD return of 3.5 percent, and the Nasdaq closed at 7,449.03, for a loss of 47.86 for the week and a YTD that is down to 87.9 percent. Finally, the 10-year Treasury yield was slightly up at 3.19 percent.

We reaffirm our view that the market will recover from current losses, and one early sign is the third-quarter

earnings season that is just beginning. Some stocks we follow closely include JPMorgan Chase & Co., which reported earnings Oct. 19 that topped analysts' expectations in both profits and revenues for the third-quarter, as the bank informed that results of its retail banking operation were able to offset the lagging effects from bond trading. JPMorgan Chase reported revenues increased to \$27.8 billion versus the consensus of \$27.5 billion, and the bank's earnings per share rose 33 percent to \$2.34, beating expectations of \$2.25.

Another of our stocks is Goldman Sachs, which also reported earnings that beat analysts' expectations for third-quarter profit. The bank reported strong growth in all major businesses expected to trade. The bank said revenue of \$8.65 billion surpassed the

estimated \$8.4 billion consensus. It also reported earnings per share of \$6.28, which exceeded the \$5.38 estimate.

One of the relevant plans of Goldman Sachs' new CEO David Solomon is to increase corporate and commercial banking, with the push into commercial banking—a significant change for the company because it is more known for advising on mergers & acquisitions or taking companies public. The foot-on-the-ground business of commercial lending and helping companies, especially in smaller markets, usually have the domain for a money center or regional commercial banks such as JPMorgan, Citigroup, Regions and others. We think the time has come for Goldman to increase its avenues of growth into new markets.

We expect our stocks, in our Stocks to Watch For, to end strongly by the end of 2018. To see how they have fared so far, see table (below). Stocks include AMD, Caterpillar, Apple and others. Even though it might seem the market is at a crossroad, the economic data proves otherwise.

U.S. Economic Outlook for year-end 2018

Current economic conditions remain consistent with a high-growth economy and a chance of moderate inflation at the end 2018 and into 2019. Driving these expectations is the fact that the Federal Reserve Bank remains committed to raising interest rates at their upcoming meeting in December, with a broader assumption that the Fed will also implement three rate increases in 2019. As the economy continues to expand, adding new jobs, wage increases, low unemployment and an expanding manufacturing sector in the U.S., we continue to see record-high job openings well into 2020, with the U.S. economy growing at a 3 percent.

Stocks to Watch For At End of 2018

Company	Ticker	Price \$ 7/2018	Price \$ 10/2018	Change \$
Advanced Micro Devices	AMD	19.79	23.66	3.87
Arena Healthcare	ARNA	38.71	40.00	1.29
Caterpillar Inc.	CAT	144.22	131.32	-12.90
Citigroup Inc.	C	72.49	68.86	-3.63
Delta Air Lines Inc.	DAL	54.65	53.39	-1.26
First BanCorp	FBP	8.36	9.18	-0.82
JPMorgan Chase & Co.	JPM	117.16	107.91	9.25
Popular Inc.	BPOP	50.95	50.17	0.78
OFG Bancorp	OFG	16.70	17.13	0.43
Goldman Sachs	GS	237.43	226.96	-10.47
Bank of America Corp.	BAC	30.88	28.32	-2.56
Apple Inc.	APPL	190.29	219.31	29.02

Final Word: Opportunity Zone tax incentive

Last Friday, Oct. 19, the U.S. Treasury Department issued proposed guidance related to the new Opportunity Zone tax incentive. This tax benefit, created by the 2017 Tax Cuts & Jobs Act, is designed to spur economic development and job creation by encouraging long-term investment in economically distressed communities nationwide.

According to Treasury Secretary Stephen Mnuchin, "We anticipate that \$100 billion in private capital will be dedicated to creating jobs and economic development in Opportunity Zones. This incentive will foster economic revitalization and promote sustainable economic growth, a major goal of the Tax Cuts & Jobs Act." The regulations released clarify several items, including:

- What capital gains qualify for deferral;
- Which taxpayers and investments are eligible; and
- The parameters for Opportunity Funds.

The regulations provide investors and fund sponsors the needed information to confidently enter into new business arrangements in designated Opportunity Zones. As established, the incentive offers a Deferred Tax on Capital Gains by Investing in Opportunity Zones. Among the investment benefits are:

- Deferral of tax on prior gains as late as 2026, if the amount of the increase is invested in an Opportunity Fund.
- Tax forgiveness on gains from that investment if the investor holds the stake for at least 10 years.
- Opportunity Zones retain their designation for 10 years, but under the proposed regulations, investors can hold onto their investments in Qualified Opportunity Funds through 2047 without losing tax benefits.

The designated regions, including Puerto Rico, have an average poverty rate of more than 32 percent, compared with the 17 percent U.S. national average. Besides meager median family income, Puerto Rico is uniquely positioned to benefit from the Opportunity Zone Tax Benefit. For more information visit www.irs.gov/pub/irs-drop/reg-115420-18.pdf.

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