

# ECONOMY

A dialectical whirlwind of excitement without resolution...

THINK STRATEGICALLY:

## ‘With Me, Yes it is True That No! or *Connmigo Sí que No*’

Federal Gov't Shutdown Could Cost as Much as it Would to Build a Border Wall  
Stock Market Continues to Rise; P.R. May be Forced to Sue D.C. for *Cupones*

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Gov. Ricardo Rosselló

This was quite an exciting time for Puerto Rico. While “Hamilton” fever continues, the administration of President Donald Trump is alleging an additional \$600 million for the Nutrition Assistance Program (PAN, by its Spanish acronym) is unnecessary and wasteful, along with a threat from the chief executive that he could carve out disaster-relief funding to build his wall with Mexico. As Gov. Ricardo Rosselló reacts, we will use one of Raúl Juliá’s famous translations of a Puerto Rican saying: “With me, Yes it is true that No! (Connmigo Sí que No).”

### The shutdown, the wall and the president’s address

The U.S. government shutdown that began Dec. 22, 2018, has achieved the distinction of being the longest in history as it surpassed all other shutdowns. On Jan. 19, 2019, President Trump gave an address to the nation in which he said that in exchange for

allocating \$5.7 billion for his border wall, he offered two proposals:

- Three years of legislative relief for 700,000 Deferred Action for Childhood Arrivals (DACA), who were brought here unlawfully by their parents.
- A three-year extension of the “temporary protected status” of 300,000 immigrants, who are facing expiration.

While the Republican base supported President Trump’s recent offer, House Speaker Nancy Pelosi rejected the proposal by stating it was “a compilation of several rejected initiatives, each of which is unacceptable and do not represent a permanent solution.” The House Speaker branded the most recent offer a “nonstarter.” Because the government shutdown has an impact on more than 800,000 federal workers, many are either furloughed from their jobs or working without pay.

President George W. Bush, on his personal Facebook page, recently praised the secret service agents as they stayed on their post protecting his family. In a

photo, we saw President Bush handing out pizzas to agents.

The most recent extended government shutdown, which occurred in 2013 and lasted 16 days, cost the government \$2.1 billion. At more than 30 days, the current shutdown may end up costing about the same as building the border wall, along with the cost for government contractors of \$200 million daily and its ripple effect on suppliers of other services to the government. With no solution in sight, we can only hope reason prevails, and both sides can agree on a sensible solution. Eight hundred thousand federal workers’ lives are upside down, and with most people living from paycheck to paycheck, it is creating damaging results for most federal workers and their families.

### Week in the markets

This past week, the stock market continued its rise and reached its fourth-consecutive week in positive territory, which is the longest run since August 2019. After the gains, the markets with the Dow Jones Industrial Average closing the week at 24,706.35, an increase of 710.35 or 2.96 percent; and the S&P 500 closed at 2,671.71, a gain of 74.71 or 2.89 percent. The Nasdaq closed at 7,157.23, or a gain of 186.23 or 2.67 percent. While the U.S. Treasury’s 10-year note rose to 2.79 percent, or an increase in yield of 3.33 percent.

As we enter into earnings season with most public companies reporting their

fourth-quarter results, investors are now evaluating the recently published results from money center banks and other blue-chip companies. Overall, most earnings were more positive than analysts expected, and the overall outlook remains positive.

On the other hand, in international markets, the news was more mixed, with some reacting positively to China’s efforts to stimulate the local economy, with its statement that it is considering actions to reduce its trade surplus with the U.S. to reach a trade agreement. In addition, in Europe, the drama around Brexit continues to have an impact on markets as the United Kingdom’s prime minister survives a no-confidence vote after the Parliament did not approve May’s proposal to leave the European Union.

### Outlook for 1Q 2019

With 2018, there was increased volatility and significantly lower returns in almost every sector. In the past three weeks, stocks have staged an impressive recantation to begin 2019.

To place in proper perspective, these three weeks have all but erased all of 2018’s losses and signals the best start of the year since 1987. I should mention that Black Monday also happened on Oct. 19, 1987, and was a date when all stock markets crashed, and the Dow Jones lost 22.6 percent of its value in one day. To put into context, that would be equal to using this past week’s Dow Jones close to a 5,583.5-point drop in one day. We are not there yet. However, we should mention that many factors that drove the markets to erase its gains last year continue to be unresolved, including:

- U.S. companies and consumers are less bullish about the future.
- Powerful economies like Germany and China are pointing to a global slowdown driven by the trade war.
- The U.K. is in turmoil over Brexit.
- The most extended federal government shutdown in history.

However, we should be mindful that market volatility is sure to show its face sometime down the road, and thus emphasizing the importance of always maintaining a portfolio that is

appropriately diversified.

In the specific case of bonds, they outperformed stocks due to a drop in share prices in the latter part of the year. The long-term view of bonds is cautious because interest rates are expected to continue to rise and portfolios with more than 15 percent bond exposure are not recommended.

As pointed out during past months, the pace of overall economic growth is predicted to slow during 2019 with the combined effects of tax cuts, which boosted the gross domestic product, and probable impact on sectors such as housing and interest rate-sensitive sectors such as homebuilders and companies with substantial debt burdens.

### Final Word: Connmigo Sí que No

As I was writing this column, I remember a story of a dear friend who was one of Raúl Juliá’s roommates at Fordham University. He would tell us that Raúl would love to translate Puerto Rican sayings into English for fun and a way to confuse recipients. Well, my favorite is “With Me, Yes it is true that No! (Connmigo Sí que No),” and this week that is precisely what Gov. Rosselló was pushed to say to President Trump. As the president attempts to swindle Puerto Rico out of its disaster-relief funds and eliminate \$600 million in PAN funds, its reason enough to say “enough is enough,” and Puerto Rico may be forced to sue the federal government if the president undertakes such action. In other news, the Financial Oversight & Management Board (FOMB) is asking a court to invalidate more than \$6 billion worth of general-obligation (GO) bond debt that Puerto Rico issued in 2012 and 2014, which is an action that would further destroy bondholders. The FOMB stated: “The debt includes all [GO] bonds that were issued in 2012 and 2014 in “clear violation” of debt limits established by Puerto Rico’s Constitution. Instead of adhering to a balanced budget requirement, they were used to finance deficit spending.”

If Judge Jaura Taylor Swain agrees with the FOMB’s assertion, bondholders will lose their investments.

While it is undetermined when such a ruling may happen, it must be mentioned that Detroit made a similar claim during its bankruptcy process.

### Market Close Comparison

Markets	1/11/19	1/18/19	Change
Dow Jones Industrial Average	23,996.00	24,706.35	2.96%
Standard & Poor’s 500	2,596.00	2,670.71	2.88%
Nasdaq	6,971.00	7,157.23	2.67%
U.S. Treasury 10-Year Note	2.700%	2.790%	3.33%

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