

# ECONOMY

Distorted vision has made us believe the island is the center of the world

THINK STRATEGICALLY:

## The Galapagos Syndrome

'Hamilton' in San Juan Made its Final Curtain Call; Federal Gov't Reopens, a Big Loss for President Trump

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### Hamilton's contribution to Puerto Rico culture

As "Hamilton" made its last curtain call, Puerto Rico has witnessed its best three weeks culturally and socially, regarding tourism, and its impact has been felt all across the San Juan metropolitan area. "Hamilton's" run allowed Puerto Rico to shine in every way possible, from moving the venue to Bellas Artes, to the Jimmy Fallon broadcast, to all the celebrities who have come to Puerto Rico to pay homage to Lin-Manuel Miranda and spend some time exploring the island's beauty. Every day, most restaurants and bars in the area surrounding Centro de Bellas Artes were packed, as if there were some festival, proving there is a space for Broadway shows in Puerto Rico. As Friday drew to a

close, we witnessed President Donald Trump capitulate to pressure from most U.S. Americans, making a deal to reopen the Government for three weeks. Some argue that it was the pressure that caused him to capitulate; however, we have another theory. You see, Trump would make any deal to avoid canceling his State of the Union Address, his affection to boasting or, more aptly described as vanity, proved too high for the President not to seek a deal.

### Shutdown ends without any sign of the wall

The U.S. government shutdown that began Dec. 22, 2018, finally ended Jan. 25, 2019, after 35 days. President Trump caved in, and the nine federal departments and agencies that were

mainly closed were instructed to reopen. As the President signed a three-week funding resolution bill allowing the Government to open with funding flowing until Feb. 15, with the hope that a broader bipartisan deal might be struck. If a deal does not happen, President Trump has threatened to invoke emergency authority to use the powers allowed under the Constitution to provide funds for border

security and the wall. According to our Washington sources, we believe this will be the route the President will take because the Democratic-led House has shown little appetite to strike any deal.

### Week in the markets

The U.S. stock market finished the week with mixed results after reaching its fourth-consecutive week in positive territory. The Dow Jones Industrial Average closed the week at 24,737.20, an increase of 30.95 or 0.12 percent; and the S&P 500 closed at 2,664.76, a loss of 5.95 or minus-0.22 percent. The Nasdaq closed at 7,164.15, or a gain of 6.92, or 0.11 percent, while the U.S. Treasury's 10-year note went down to 2.75 percent or a yield decrease of minus-1.47 percent.

This past week, the International Monetary Fund reduced its global growth forecast for 2019 and 2020; we had predicted the slowdown since the advent of the U.S.-China Trade war, the Brexit situation and declining activity from Asia to Europe.

While the markets' volatile ride continues, we are still more than 9 percent below last year's market high, with investors appearing more confident and the overall sentiment better with a total rise of 2,900 points in the S&P 500 alone.

Even with the Government shutdown and continued trade tensions, we believe the robust economy, strong labor-growth numbers and mainly strong corporate profits have allowed investors to breathe easier.

### What are the drivers of good news:

**Corporate earnings:** With 25 percent or more of the S&P 500 companies reporting profits that have risen more than 13 percent in the last quarter, and even as some earnings estimates have been reduced for 2019, the consensus forecast is a healthy 6 percent profit growth.

**Job growth:** Last week, the U.S. Department of Labor reported jobless claims fell to 199,000, a 49-year low, which is further evidence that the labor market remains robust.

While the shutdown and the continued

U.S.-China trade tensions remain at top of mind, investors have absorbed the market risks and have taken a mostly positive tone toward the markets.

### Final word: The Galapagos Syndrome

The Galapagos Syndrome is a term mostly of Japanese origin, which refers to several situations, including isolated development of globally available products, policies or customs. The term is used as an analogy to a part of Charles Darwin's "On the Origin of Species." In the Galápagos Islands, Darwin encountered isolated flora and fauna, which had undergone evolutionary changes independently from the mainland U.S. This phenomenon was a key to the development of evolutionary theory. Similarly, to the development of goods or policies "in relative isolation from the rest of the world because of a focus on the local market."

As we have experienced during the past few decades, after five centuries of colonialism and more recently Commonwealth, we have developed "the Galapagos Syndrome," which has distorted most Puerto Ricans' vision and made us believe Puerto Rico is the center of the world.

The Galapagos Syndrome has prevented us from breaking the island's chains that bind us and have prevented us from expanding our potential as a nation. Puerto Rico's food supply, local manufacturing and most products have largely been made to be sold to the now-3.5 million Puerto Ricans, rather than for the world's billions of citizens. As we delve further into the Galapagos Syndrome, we thought we were a rich nation, when in fact we were just the holders of a big credit card until our card was taken away. We had the benefit of Section 936 funds since the 1970s and we did not procure the creation of a strong healthy local base of Puerto Rico corporations that would grow as large as their U.S. counterparts to expand our economy. We had the benefit of fiscal autonomy and we abused it. We have been living in the 21st century for the past 18 years, and the Galapagos Syndrome has taken a big hold of every generation and most citizens.

It's about time we find a cure for the Galapagos Syndrome!

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### Market Close Comparison

| Markets                      | 1/18/19   | 1/25/19   | Change |
|------------------------------|-----------|-----------|--------|
| Dow Jones Industrial Average | 24,706.35 | 24,737.20 | 0.12%  |
| Standard & Poor's 500        | 2,670.71  | 2,664.76  | -0.22% |
| Nasdaq                       | 7,157.23  | 7,164.86  | 0.11%  |
| U.S. Treasury 10-Year Note   | 2.790%    | 2.75%     | -1.47% |