

ECONOMY

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THINK STRATEGICALLY:

Cautiously Optimistic About Puerto Rico

Capitalism in Spotlight Again After Midterm Elections;
Global Growth Slows, U.S. Trade Deficit Bulges;
Rural Development Holds Investor Summit in P.R.

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Rise of populism: AOC calls capitalism 'irredeemable'

U.S. Rep. Alexandria Ocasio-Cortez, or "AOC," as the New York congresswoman of Puerto Rican descent is often referred, is part of the new wave of populist politicians to be sworn in after the midterm elections. Others like her have risen to prominence with ideas that are often based on little or no facts, and even falsehoods. AOC recently called capitalism an "irredeemable" system that is the culprit of income inequality.

Of course, this is false. Let's see why capitalism has been essential to the U.S. as far back as the early days of the American Revolution. By 1800, the United States was undergoing not one, but two, revolutions: one political, the other economic. The founding fathers, led by Alexander Hamilton, unleashed the forces of these revolutions—democracy, industrialization and capitalism—which were developed in tandem and transformed the country's look and character.

In 1789, when Hamilton was secretary of the Treasury, the United States

was a new, underdeveloped country of just over five million people. By 1901, it had increased by more than 77 million Americans.

Capitalism is in the nation's DNA

In 1776, economist Adam Smith published the book, "The Wealth of Nations." In this masterpiece, he argued that to produce wealth in incremental numbers, individuals must be allowed to pursue their entrepreneurial self-interests, with little interference from the government. Moreover, in following their entrepreneurial interests, individuals would serve the public interest, as if guided by an "unseen hand." Smith's theory then coincided, as is still the case, with the long U.S. American tradition of entrepreneurship, individualism and opposition to government interference.

To sum it up, the 29-year-old, first-term, democratic socialist congresswoman from New York stated: "Capitalism is an ideology of capital—the most important thing is the concentration of capital and to seek and maximize profit. Moreover, that comes at any cost to the

people and the environment, so to me, capitalism is irredeemable."

Other statements by AOC

•Statement 1: "The Pentagon makes \$21 trillion in accounting errors. Medicare for All costs \$32 trillion and 66 percent of Medicare for All could have been funded by the Pentagon." Ocasio-Cortez's \$21 trillion estimate exceeds the entirety of national security spending since 1940, which checks in around \$17.8 trillion.

•Statement 2: "Just last year, we gave the military a \$700 billion budget increase, which they didn't even ask for." What happened was that Congress gave the military a \$61 billion increase from fiscal year 2017 to 2018. The total military budget for 2018 was \$700 billion.

Another reality about populism and populists is that they eventually run out of other people's money or they destroy the country; recent examples are Venezuela and Bolivia. AOC reminds me of something I once told a newly elected senator. This senator, after he asked for my opinion, only said I was wrong. I responded: "Senator, had I have known that to become an expert in banking, the only thing I had to do in life was to get elected senator; it would have saved my 25-plus years in the corporate & investment banking sector."

Week in the markets: U.S. stocks mark best two-month start since '87

U.S. equities finished the week in negative territory, making it one of the worst in 2019, as slowing global growth and bulging U.S. trade deficit numbers had an impact on investors. The Dow Jones Industrial Average closed the week at 25,450.24, a decline of 576.08 or minus-2.21 percent for the week, and a year-to-date (YTD) return of 9.1 percent. The S&P 500 closed at 2,743.07, a decline of 60.62 or minus-2.16 percent, and 9.4 percent YTD. The Nasdaq closed at 7,408.14, a drop of 187.21 or minus-2.46 percent, and a YTD return of 11.6 percent. Meanwhile, the U.S. Treasury's 10-year note went down to 2.63 percent, or a decrease in yield of minus-4.36 percent.

Another factor contributing to recent market declines is the fact that other central banks in the world have followed suit with the Federal Reserve Bank and are easing their stances toward rate hikes or are taking new measures to boost their economies. The latest example is the European Union's Central Bank, which offered guidelines for steady interest rates until the end of 2019.

What should investors expect in 2019?

•A less powerful China economy. The Chinese government announced plans to cut taxes, increase loans to small businesses and boost infrastructure investment to support growth. China's export growth may decline from 11 percent in 2018 to 4 percent in 2019, dragging down the country's gross domestic product growth.

•Corporate earnings should continue to power stock-market performance. Investors are looking to measure the health of the corporate sector, which always seems to meet or beat earnings expectations.

•Seven million U.S. Americans are 90 days or more behind on their auto payments. Data released by the Federal Reserve Bank of New York shows delinquent loans following a trend of steady increases since 2011, which has risen to the highest level in the 19-year history of the bank's loan origination data.

•The U.S. Bureau of Labor Statistics reported unemployment declined to 3.8 percent, and the number of unemployed persons decreased by 300,000 to 6.2 million.

•Below-average earnings forecast. Looking ahead, some analysts are forecasting a decline in earnings that hovers around 3.1 percent to 3.5 percent for first quarter 2019, and 3.9 percent to 4.2 percent for the full year. As a result, investors may be forced to look at below-average growth rates for 2019.

Final word: National Rural Lenders Summit 2019

This past week, the director of Puerto Rico's Rural Development office of the U.S. Department of Agriculture (USDA), Josué Rivera, hosted for the first time in the agency's history the National Rural Lenders Summit in Puerto Rico. In attendance were some of the most active lenders and stakeholders in the guaranteed lending industry, the USDA, Small Business Administration, more than 100 banks and investors, along with Bette Brand, USDA administrator of Rural Business-Cooperative Services; Resident Commissioner Jennifer González; P.R. Economic Development & Commerce Secretary Manuel Laboy; P.R. Housing Secretary Fernando Gil; and Thomas Kimsey, president & CEO of Thomas USAF Group. The topics covered included Access to Capital, Opportunity Zones, Recovery Funds and the Farm Bill.

We commend the efforts of the Rural Development Puerto Rico director for putting this effort together and for inviting us to participate on the opportunity zone panel.

With these developments, we are more than ever "#CautiouslyOptimistic PuertoRico."

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

Market Close Comparison	3/1/19	3/8/19	Change
Dow Jones Industrial Average	26,026.32	25,450.24	-2.21%
Standard & Poor's 500	2,803.69	2,743.07	-2.16%
Nasdaq	7,595.35	7,408.14	-2.46%
U.S. Treasury 10-Year Note	2.75%	2.63%	-4.36%