



ECONOMY

Be vigilant of issues that may impact stock market

THINK STRATEGICALLY:

The Ego Has Landed

P.R. Governor Attempts to Hold on to his Job as Politicians Discuss Impeachment Proceedings

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Gov. Rosselló will not seek re-election

As we observe the 50th anniversary of the U.S. landing on the moon and astronaut Neil Armstrong's now-famous words, "the eagle has landed," to announce the triumphant arrival of the Apollo 11 lunar module named "Eagle" on the moon's Sea of Tranquility on July 20, 1969, the phrase has become folkloric to describe that a successful mission has been completed. For this column, we changed Eagle to Ego because most of Puerto Rico's population has been asking the governor to reconsider his position.

No one runs for governor without a need and desire to wield power. No one runs for governor without the belief that they are capable of changing the course of history through their actions. So, having a big ego, while not exclusive to politicians, undoubtedly is a needed trait.

Running for a position such as the governor of Puerto Rico requires lots of work, from fundraising to planning the country's agenda, to dealing with a running mate, mayors, senators and all that comes with it. So, to relinquish the much-earned bid for re-election and the New Progressive Party's (NPP)

presidency are not easy decisions. First, you immediately become a lame-duck and powerless governor while facing an impeachment process.

P.R. Constitution's impeachment process explained

•**P.R. House of Representatives determines a formal accusation.** According to the P.R. Constitution, there must be a charge of treason, bribery, a crime or a misdemeanor. The House has the exclusive power to initiate the process after seeking a two-thirds majority vote. In this specific case, 34 votes are needed.

•**P.R. Senate.** Once the cause of action is determined and approved by the House, the P.R. Senate must hold a trial in which the chamber acts as a juror along with the chief justice of the P.R. Supreme Court, Maite Oronoz Rodríguez, participating as judge. The Senate has the exclusive authority to judge and dictate a sentence. Senators, after being sworn in, will participate in the impeachment process. By doing so, they are acting on behalf of the people of Puerto Rico.

•**Decisive process.** The P.R. Constitution establishes that the person being

impeached—in this case, the governor—will be exposed and subject to accusations, trial, sentencing and punishment according to the law. It also establishes the powers of the executive branch regarding suspension of the execution of criminal penalties, granting pardons, commuting sentences, and totally or partially waiving fines and confiscations for crimes committed in violation of the laws.

Puerto Rico has been a democracy since 1948, or for 71 years, when the people elected our first governor in a democratic election. To preserve our natural order for democracy, the governor must be allowed to pass through the impeachment process.

We have all seen the demonstrations, protests and a broad range of requests from top elected officials from the U.S. and Puerto Rico calling for the governor to resign. While there is precedent in the U.S. for such resignations,

in Puerto Rico, this would be the first time anything quite like this has ever happened. So, while Puerto Rico surely would prefer to finish this period once and for all, there is no indication the governor is considering to resign at this time, and the Puerto Rico Constitution provides him that right.

Week in markets: Earnings season is upon us

Most U.S. stocks finished the week slightly worse than the prior week. In this past week and the next one, all attention is on the corporate earnings season. The Dow Jones Industrial Average closed the week well at 27,154.20, but lower than the previous week, for loss of 17.93, or minus-0.65 percent, and a year-to-date (YTD) return of 16.40 percent. The S&P 500 closed below 3,000 for the week, at 2,976.61, for a loss of 37.16 or minus-1.23 percent, and a YTD return of 18.70 percent. The Nasdaq closed the week at 8,146.49, for a loss of 97.65, or minus-1.18 percent, and a YTD return of 22.80 percent. Meanwhile, the U.S. Treasury's 10-year note decreased during the week, closing at 2.05 percent, or a loss of minus-2.84 percent, with a YTD return of minus-0.64 percent.

U.S. banks begin 2Q19 earnings season

The four banks in the U.S. with global operations mostly have shown robust revenue growth, increased earnings per share, loan growth and low credit losses, which shows the global economy is healthy and U.S. consumer sentiment is strong.

•J.P. Morgan reported net income was a record \$9.7 billion, up 16 percent; net revenue was \$29.6 billion, up 4 percent; and assets under management of \$2.2 trillion were up 7 percent.

•Morgan Stanley's reported revenue of \$10.24 billion exceeded the consensus estimate and second-quarter (2Q19) earnings of \$2.2 billion, or \$1.23 a share, surpassing the \$1.14 estimate of analysts surveyed.

•Goldman Sachs beat expectations on revenue, with \$9.46 billion in 2Q19 and also reported earnings of \$5.81 per share vs. the \$4.89 per share that was forecasted.

•Bank of America reported revenue, net of interest expense, of \$23.1 billion increased 2 percent; with net income of

\$7.3 billion rising 8 percent, driven by durable asset quality. Diluted earnings per share of 74 cents rose 17 percent.

Looking ahead to 3Q19 and 4Q19

As the economy heads into the future, we still face issues that may potentially alter the current market cycle and its performance, including those that may have an impact on the markets. Please be vigilant:

•The ongoing U.S.-China trade negotiations are full of uncertainties. President Trump is pointing out that a deal may be far away.

•The market is holding a 50/50 debate not over whether the Fed will cut interest rates, but whether the interest-rate cut will be by 25 or 50 basis points.

•Economic data may show weakness. There is some critical data in the week ahead, and 2Q19 gross domestic product should show growth slowed to 1.8 percent from 3.1 percent in 1Q19.

•Weak global growth. The combined trade war, Brexit, recent turmoil with Iran and continued weakness across the European Union have continued to demonstrate weaker growth in most areas of the world.

Final Word: Resignation or impeachment of Gov. Rosselló?

An impeachment process may start against Gov. Rosselló as soon as the P.R. House passes a resolution for impeachment. This action will provide the appropriate committee the authority to investigate whether sufficient grounds exist to impeach the governor of any crimes or misdemeanors, primarily related to the "Telegram chat" scandal. This investigation could take up to a year once both the House and Senate perform their specific duties.

If this process indeed happens, it would be the very first time against a governor of Puerto Rico—in which an impeachment process is initiated following a full House vote for consideration. The impeachment process against Rosselló may very well result in his departure from office—either by impeachment or resignation. Meanwhile, Senate President Thomas Rivera Schatz has assumed the presidency of the NPP. We shall see what happens next. However, for the governor, "The Ego Has Landed."

Market Close Comparison	7/19/2019	7/12/2019	Change	YTD
Dow Jones Industrial Average	27,154.20	27,332.03	-0.65%	16.40%
Standard & Poor's 500	2,976.61	3,013.77	-1.23%	18.70%
Nasdaq	8,146.49	8,244.14	-1.18%	22.80%
U.S. Treasury 10-Year Note	2.05%	2.11%	-2.84%	-0.64%

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