

ECONOMY

Puerto Rico's GDP expected to grow 1.9 percent in 2020

THINK STRATEGICALLY: The Year of the Rat

Big-Tech/Data Having Impactful Growth on Economy;
Banner 2019 for Stocks, Strong Start for 2020

BY FRANCISCO RODRÍGUEZ-CASTRO | frc@birlingcapital.com



In the Chinese zodiac, 2020 is the year of the rat, and is the first animal in their astrological calendar. In terms of yin and yang, the rat is yang and represents the beginning of a new day.

In Chinese culture, rats are seen as a sign of wealth and surplus. Because of their reproduction rate, married couples also prayed to this animal for children. So, 2020 should be a good year, according to the Chinese.

We live in an era of interruption, transformation and innovation with constant changes in the way we live, study, play, socialize, work and die. The rising fortunes of such economies as China, India and other emerging countries, combined with how technology, has had an impact on everything we do—not just locally but globally. Between 2000 and 2019, new businesses were created that have altered the way humans receive information such as:

•**The impactful growth of big-tech/data:** Between Amazon, Google and Facebook, these companies have

changed the ways we shop, socialize and seek information in more than any time in history.

•**Smartphones, wi-fi and the internet:** We now have in our hand's super-powerful computers that allow us to work anywhere we want. Apps such as Waze make dinner reservations with Opentable, get rides with Uber and many other now-standard advances that were unthinkable before 2010. As for wi-fi, in most houses, when a visitor arrives before saying hello, they ask for the wi-fi password.

•**The era of the entrepreneur:** During this decade, people's mentality changed from studying to finding an excellent job to start a business. This change had an impact on millions, and now, with a solid idea and a laptop, anyone can start a business. The entrepreneurs amount to 1 percent to 2 percent of the workforce; however, entrepreneurs are vital to the economy's competitiveness.

•**The rise of women in business:** It has taken nearly a century to witness material growth in women acquiring

leadership roles in business. Women CEOs are leading all kinds of enterprises at never-before-seen levels.

•**The products that defined the decade:** We analyze the contribution of products created during the 2010-2019 period:

- Apple iPad
- iPhone 4
- Microsoft Surface
- Samsung Galaxy Note
- Apple Watch
- Ring Doorbell
- Amazon Echo
- Apple AirPods
- Nintendo Switch
- iPhone X
- Tesla Powerwall

We can be sure many have at least five or six of these products that changed your life. Can you imagine living without them?

With so much change in just 10 years, we must expect significant changes to our lives in the decade ahead.

Week in markets:
2019 banner year for stocks, strong start for 2020

Overall, 2020 is expected to be a transformative and will obligate investors to deal with significant volatility for most asset classes. Like all such years, it brings renewed opportunities for investors.

The U.S. stock market ended 2019 with record highs to finish the year. While there are concerns about how long this expansion can last, we predict it will continue through 2020;

however, it will face significant volatility, as well as certain economic uncertainties.

Several factors to consider:

1. Economic growth has slowed: Other expansion periods have lasted an average of six years, and our current expansion could last anywhere between 12 to 14 years.

2. GDP & job's growth: While it is clear the gross domestic product (GDP) has slowed, U.S. jobs growth continues at a healthy pace, with only some kind of bubble or uncertain factor that could derail the current trend.

3. The market begins losing confidence: After a decade of growth, even the bulliest of investors may lose faith and start realizing profits; that scenario may have an impact on the overall market.

4. U.S. and China trade deal: Some experts believe the U.S. and China are not on the same page on relevant issues of the trade deal.

For 2019, all indices we follow ended the year with double-digit returns as follows:

- Dow Jones Industrial Average (DJIA) 22.34 percent
- S&P 500 28.88 percent
- Nasdaq 35.23 percent
- Birling Puerto Rico Stock Index 25.01 percent

When we compare how the DJIA of January 2020 with January 2019, it is noted that it closed at 28,634.88, for a gain of 5,758.66 points, or a 26.67 percent return. In addition, the S&P 500 began 2020 at 3,234/85, for a gain of 786.96 and a return of 32.15 percent. The Nasdaq opened 2020 at 9,020.77, for an increase of 2,557.27 and a 39.56 percent return. The Birling Capital Puerto Rico Stock Index (BCPRSI) opened 2020 at 1,744.69, or a gain of 382.88, and a yield of 28.12 percent. Meanwhile, the U.S. Treasury's 10-year note opened 2020 with a loss, closing at 1.80 percent, or a decrease of -29.69 percent. The U.S. Treasury's 2-year note opened 2020 with a loss of nearly 1.53 percent, or a return of minus-38.80 percent.

Yearly Market Close Comparison	1/3/20	1/3/19	Return
Dow Jones Industrial Average	28,634.88	22,606.22	26.67%
Standard & Poor's 500	3,234.85	2,447.89	32.15%
Nasdaq	9,020.77	6,463.50	39.56%
Birling Puerto Rico Stock Index	1,744.69	1,361.81	28.12%
U.S. Treasury 10-Year Note	1.80%	2.560%	-29.69%
U.S. Treasury 2-Year Note	1.53%	2.500%	-38.80%

Global economic outlook forecasts

Global GDP is expected to be 3.3 percent as the slowdown that began during the latter part of 2018 subsides. Below are our forecasts for the specific nations:

- U.S. 2.2 percent
- Puerto Rico 1.9 percent
- Euro Zone 1.2 percent
- Japan 0.3 percent
- UK 1.0 percent
- China 5.7 percent
- India 6.8 percent
- Russia 2.0 percent
- Brazil 2.0 percent

Final word: BCPRSI finished 2019 with 25.01 percent return

The Birling Capital Puerto Rico Stock Index includes the five institutions headquartered in Puerto Rico, and is a market value-weighted index composed of five companies, with all trading in national stock markets—NYSE, AMEX or Nasdaq. The BCPRSI includes Evertec Inc., First BanCorp, OFG Bancorp, Popular Inc. and Triple-S.

Each company's performance for 2019 was examined compared to the DJIA and how each has managed against the BCPRSI. When comparing the BCPRSI with the DJIA, note that the return on the BCPRSI was 25.01 percent for 2019, and the DJIA return was 22.34 percent. The institutions are ranked according to their performance against the DJIA and the BCPRSI:

- OFG Bancorp achieved a 43.44 percent return;**
- Popular Inc. 24.42 percent return;**
- First BanCorp 23.14 percent return;**
- Evertec Inc. 18.61 percent return; and**
- Grupo Triple-S achieved 11.76 percent return.**

The market perspective for 2020 contains both expectations and analysis that the U.S. and Puerto Rico economies will maintain their current growth levels. The world economic outlook is expected to continue to improve as the geopolitical issues hampering its growth prospects continue to dissipate.

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