



Four Notable Insights About the Current Market and the Political Landscape in Puerto Rico Altered

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Four Notable Insights About the Current Market

Despite recent market hiccups, such as rising interest rates and persistent pockets of inflation, it's important to note that the broader economic momentum remains positive. The GDPNow estimate for the second quarter of 2024, updated on May 31, is a key indicator, even with a decrease to 2.70% from a previous 3.50%. This estimate still points to a positive trajectory for the U.S. economy.

Last week's inflation data brought reassuring news, aligning with expectations and indicating a stabilizing trend. The Fed's preferred inflation benchmark, the PCE (Personal Consumption Expenditures), fell to 2.65%, down from 2.70% last month and ahead of the Inflation Nowcasting of 2.68%. Similarly, the Core PCE, which excludes volatile food and energy prices, decreased to 2.75% from 2.81% last month, slightly outpacing the Inflation Nowcasting of 2.74%. These declines, while keeping the core PCE above the Fed's 2% target, suggest a reassuring stabilizing trend in inflation. The PCE is 24.52% above the Fed's 2% inflation target rate.

On the other hand, some disappointing corporate earnings have weighed down stock market performance. While much of 2024 has focused on the timing of potential Fed rate cuts and A.I. hype, there is more to this market than meets the eye.

Let's focus now on the scenario in the 2024 Global Markets from the point of view of all the five indexes we follow, which have continued their rise upwards with double digits returns and two with single digits:

- Dow Jones has a YTD Return of 1.62%.
- S&P 500 has a YTD Return of 11.02%.
- Nasdaq Composite has a YTD Return of 11.39%.
- Birling P.R. Stock Index has a YTD Return of 1.32%.
- Birling U.S. Bank Index has a YTD Return 19.13%.

After examining the VIX, which closed last week at 14.47, down from 19.34 one year ago (a 25.18% decrease from one year ago), we can safely say that volatility, while present, is not a critical factor at play.

Here are four insights to consider:

1. Remarkably Stable Market Amid Volatility

Pullbacks and volatility are ordinary in the stock market, yet 2024 exhibits unusual stability. Despite higher-than-expected inflation, rising interest rates, delayed expectations for Fed rate cuts, and escalating geopolitical tensions, the stock market has only seen a minor and brief dip. Year-to-date, the most significant pullback has been just 5.5%, and over the past 40 years, only four years

(1993, 1995, 2017, 2021) had more minor maximum intrayear pullbacks. This remarkable stability demonstrates the market's resilience, providing reassurance in these uncertain times. Moreover, daily market fluctuations have been modest. This year, there has been only one day with a 2% or more movement (an upward move), compared to an average of 21 such days annually since 2018. This year's market has been exceptionally calm despite numerous uncertainties, demonstrating a resilience that has confounded many analysts.

2. Equities Outperform High-Yield Fixed Income

With short-term interest rates at their highest in two decades, many investors are tempted by the seemingly attractive 5% yields on short-term bonds and C.D.s. While these are important for diversification, it's crucial to maintain long-term strategies. Since 2-year Treasury yields surpassed 4.5% in October 2022, the stock market has surged by over 50%. Even after peaking at 5.21%, equities have outperformed, returning 23% in the past seven months. This success of equities, despite the allure of high short-term yields, reinforces the potential for long-term growth and should inspire optimism in investors.

3. Broader Market Leadership Beyond Tech

While technology and growth stocks drove much of 2023's market gains, utilities have recently outperformed tech stocks, signaling a broader bull market. This trend reflects a shift towards more diverse market leadership. Our 2024 outlook predicted that laggards would catch up, benefiting from the advancing economic and market cycles. This has played out with utilities, energy, financials, industrials, and health care showing solid performance, alongside episodic rallies in other sectors. This diverse market leadership provides a comprehensive view of the market's performance, keeping investors well-informed.

In the first quarter, tech stocks reported an impressive 26% year-over-year earnings growth. However, they were joined by consumer discretionary, communication services, utilities, and financials, posting double-digit profit increases. Consensus estimates forecast approximately 11% profit growth for the S&P 500 in 2024, providing strong support for stock prices. With the economy in good shape, the potential for a Fed rate cut, and a broader range of market segments contributing to leadership, the market is poised to build on gains, albeit with some setbacks and fluctuations.

4. Outsized Corporate Earnings Season

The earnings season provides investors crucial information about a company's performance, including its revenue, net income, and earnings per share (EPS). In the most recent earnings season, 98% of S&P 500 companies reported first-quarter earnings results that exceeded expectations. This metric strongly indicates robust company performance and suggests potential for future growth.

Approximately 80% of these companies outperformed analyst forecasts, with an average surprise of 7.8%. The first quarter's year-over-year earnings growth was 6%, the highest since Q1 2022.

Projections indicate accelerating earnings growth, anticipated to reach 11% for the year.

Accelerating earnings growth refers to the rate at which a company's earnings growth increases.

It's important to note that while these trends are encouraging, they are also subject to change based on various factors, including shifts in market conditions, economic indicators, and company-specific events. Therefore, investors should continue monitoring these trends and consider them part of a broader investment strategy.

Closer to home, we review the Birling Capital Puerto Rico Stock Index public companies and their YTD Returns, and we discuss the Puerto Rico Primaries.

- **Popular, Inc.(BPOP)** has a YTD Return of 8.46%, a 2Q24 Earnings Per Share Estimate of \$2.104, and a Stock Price Objective of \$104.33.

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- **First Bancorp. (FBP)** has a YTD return of 7.78%, a 2Q24 Earnings Per Share Estimate of \$0.395, and a Stock Price Objective of \$20.40.
- **OFG Bancorp. (OFG)** has a YTD Return of -0.85%, a 2Q24 Earnings Per Share Estimate of \$0.965, and a Stock Price Objective of \$43.00.
- **Evertec, Inc. (EVTC)** has a YTD Return of -14.58%, a 2Q24 Earnings Per Share Estimate of \$0.706, and a Stock Price Objective of \$41.40.

The Puerto Rico Economy has a 2.80% GDP forecast from the Puerto Rico Planning Board, a 5.80% Unemployment Rate, and a total labor force of 1,140,000, translating into a 43.90% labor force participation rate.

The Puerto Rico Primaries

Also, we must delve into the recent political events that could significantly alter the future of the Puerto Rico economy. Yesterday, the main political parties held the election primaries, which had Governor Pedro Pierluisi of the PNP running against Resident Commissioner Jennifer Gonzalez, which upset the Governor with 56.06% versus the 43.94% for the Governor; [this is the first time in Puerto Rico's history that a sitting governor loses a primary of his party](#). In the Resident Commissioners Race, Senator William Villafañe won, obtaining 53.25% of the vote versus his opponent, Elmer Roman, with 46.75%.

In the Popular Democratic Party, House Representative Jesus Manuel Ortiz won 61.50% of the vote versus 38.50% of Senator Juan Zaragoza. There was no primary for the Resident Commissioner race, which chose Pablo Jose Hernandez as its candidate.

So, for Puerto Rico, the November electoral landscape is set, featuring the ticket of Jennifer Gonzalez from the PNP for Governor, with William Villafañe for Resident Commissioner, against Jesus Manuel Ortiz of the PPD for Governor, with Pablo José Hernandez for Resident Commissioner.

The Final Word: What are the Implications for the Business Sector of the Recent Primaries Results

The recent primary election results in Puerto Rico mark a significant political shift, with several potential implications for the island's governance, economic policies, and relationship with the United States. Here are some key points to consider:

1. Political Landscape and Governance

- **Change in Leadership:** Resident Commissioner Jennifer Gonzalez's defeat of incumbent Governor Pedro Pierluisi signifies a shift within the New Progressive Party (PNP). Gonzalez's victory could indicate a change in priorities or a reaction to Pierluisi's policies and performance.
- **Policy Continuity vs. Change:** Gonzalez's governance style and priorities differ from Pierluisi's. This could lead to changes in policy direction, particularly in areas such as economic development, infrastructure, and public services.

2. Economic Implications

- **Investment and Economic Policies:** If Jennifer Gonzalez adopts different economic policies from her predecessor, this could impact investment strategies, public-private partnerships, and financial recovery efforts post-Hurricane Maria.
- **Federal Relations and Funding:** The Resident Commissioner is crucial in securing federal funds and support. The new leadership must establish strong relationships with U.S. lawmakers to ensure continued and enhanced federal aid, critical for Puerto Rico's economic stability and growth.

3. Social and Public Policy

- Public Sentiment and Trust: The primary results reflect public sentiment and trust in the current administration. Gonzalez's win indicates a desire for change among the electorate, which could influence her policy focus areas, such as education, healthcare, and social services.
- Accountability and Governance: The historical context of a sitting governor losing a primary could drive both parties to emphasize accountability and transparency in governance, responding to public demand for more effective and ethical leadership.

There may be long-term implications for Economic Recovery and Development, with the leadership changes often bringing new financial plans. Gonzalez and Villafañe's approach to economic recovery, particularly in addressing debt restructuring, fiscal policies, and attracting investment, will be critical for Puerto Rico's future.

In conclusion, the changing political landscape in Puerto Rico following the primaries could lead to significant shifts in governance, economic policy, and federal relations. The new PNP leadership's ability to unify their party and effectively campaign against the PPD candidates will be crucial in the upcoming elections. Moreover, the direction taken by the new leadership could have lasting impacts on Puerto Rico's socio-economic development and its relationship with the United States.



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