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Think Strategically

Moving from High Inflation and Interest Rates into Growth, The Road Ahead May Be a Golden Opportunity

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A Market Health Check UP: Three Quarters Down, One-Quarter To Go

As we march through 2024, the financial markets have showcased a dynamic landscape with varying performances across different sectors. With the high inflation and High interest rate environment, it is welcoming to note that leading the charge is the Utilities sector surging ahead with an impressive 28.39% gain, reflecting strong investor confidence and robust demand. Close behind, Communication Services and Financial Services have also demonstrated significant growth, with 25.08% and 21.41% returns, respectively.

The Industrials and Information Technology sectors have maintained solid momentum, contributing 18.18%and 17.05% gains. Meanwhile, Consumer Staples and Materials have shown steady progress, achieving double-digit growth.

Despite facing challenges, the Healthcare, Energy, and Consumer Discretionary sectors have managed to post respectable gains, while Real Estate rounds out the list with a more modest 8.64% increase.

This diverse performance highlights the resilience and adaptability of various sectors in navigating the economic landscape in 2024.

Year To Date 2024 Sector Performance:

1. **Utilities**: **28.39%**
   - Top Performers are **Constellation Energy(CEG)**, with a YTD return of **145.60%**, and **NextEra Energy (NEE)**, with a YTD return of **41.16%.**
2. **Communication Services**: **25.08%**
   - Top Performers are **Meta Platforms (META)**, with a YTD return of **68.87%,** and **Netflix (NFLX)**, with a YTD return of **47.82%.**
3. **Financial Services**: **21.41%**
   - Top Performers are **Goldman Sachs(GS)**, with a YTD return of **28.36%,** and **JP Morgan Chase (JPM)**, with a YTD return of **24.17%.**
4. **Industrials**: **18.18%**
   - Top Performers are **GE Aerospace (GE)**, with a YTD return of **84.35%**, and **RTX Corp (RTX)**, with a YTD return of **51.14%.**
5. **Information Technology**: **17.05%**
   - Top Performers are **NVIDIA (NVDA)**, with a YTD return of **152.30**%, and **Taiwan Semiconductor Manufacturing (TSM)**, with a YTD return of **76.07%.**

6. **Consumer Staples: 13.11%**
   - Top Performers are **Walmart Inc (WMT)**, with a YTD return of **55.52%,** and **Costco Wholesale (COST)**, with a YTD return of **34.39%**.
7. **Materials**: **11.26%**
   - Top Performers are **Southern Copper (SCCO)**, with a YTD return of **41.48%,** and **Sherwin-Williams Co (SHW)**, with a YTD return of **19.82%.**
8. **Healthcare**: **11.19%**
   - Top Performers are **Eli Lilly and Co (LLY)**, with a YTD return of **52.92%,** and **AbbVie Inc (ABBV)**, with a YTD return of **28.96%**.
9. **Energy**: **11.14%**
   - Top Performers are **Diamondback Energy Inc (FANG)**, with a YTD return of **30.45%**, and **Exxon Mobil Corp (XOM)**, with a YTD return of **24.86%**.
10. **Consumer Discretionary: 10.83%**
    - Top Performers are **Alibaba Group (BABA)**, with a YTD return of **47.76%**, and **Amazon.com Inc (AMZN)**, with a YTD return of **22.76%**.
11. **Real Estate: 8.64%**
    - Top Performers are **Welltower Inc (WELL)**, with a YTD return of **41.83%,** and **Simon Property Group Inc (SPG)**, with a YTD return of **23.57%**.

Key Insights and Investment Strategies

The investment opportunities are plentiful and well diversified, and despite negative YTD returns in previous years, sectors like financial services and energy may present significant upside potential. Investors should consider these sectors for long-term growth, especially as they recover from past downturns.
The decrease in short- and long-term yields has alleviated valuation pressures on high-growth companies, contributing to the S&P 500's rise in March. This trend suggests a favorable environment for growth stocks, making them attractive for investors seeking capital appreciation.

The Time to Begin Sector Rotations Is Now

Suppose you are looking for an appropriate time to begin performing a sector rotation strategy, shifting investments from overperforming sectors like Utilities and Communication Services to undervalued sectors with growth potentials, such as Financial Services and Energy. This approach can capitalize on the recovery potential of these sectors while locking in gains from the top performers.

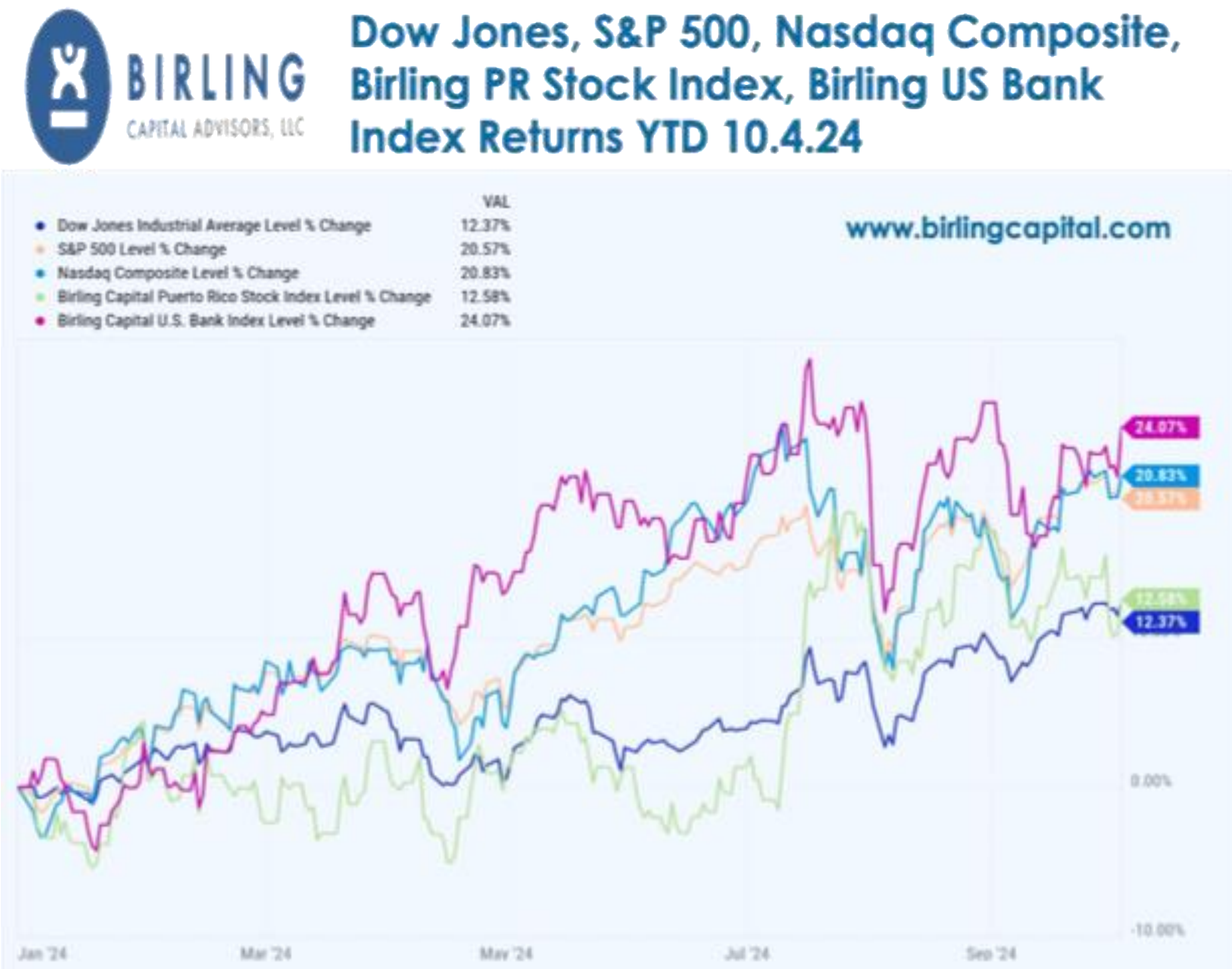
Highlighting the standout companies within each sector can provide targeted investment opportunities. The diverse performance across sectors underscores the resilience and adaptability of the market in navigating the economic landscape of 2024. Sectors like Healthcare, Energy, and Consumer Discretionary have managed to post respectable gains despite facing challenges, indicating robust underlying fundamentals.

Consider your financial goals, risk tolerance, and investment time horizon. Maintaining a well-diversified portfolio that includes a mix of stocks, bonds, and other financial instruments is one of the keys to success, but the other is patience.

The Key Indexes Performance Year To Date

As we put the third quarter of 2024 behind us, we rank the five indices we follow by returns from 1/1/24 of 10/4/24, all the results are in the double digits:

1. **Birling U.S. Bank Index** has a Return of **24.07**%.
2. **Nasdaq Composite** has a Return of **20.83%.**
3. **S&P 500** has a Return of **20.57%.**
4. **Birling PR Stock Index** has a Return of **12.58%**.
5. **Dow Jones Industrial** has a Return of **12.37%.**



The Top 10 Issues of 2024

As we approach the final quarter of 2024, we highlight the top 10 critical issues and trends shaping the economic, financial, and geopolitical landscape. These are the top concerns as we close the third quarter and transition into Q4 2024:

1. **Economic Concerns**:

   The economy remains a top issue, with high inflation and economic stability being significant concerns. The GDPNow for the Third Quarter of 2024 was updated on October 1 to 2.50% and remained at a healthy growth rate, supporting the Fed's "Soft Landing" Narrative. The September employment report revealed stronger-than-expected job growth, with total nonfarm payrolls increasing by 254,000 or 69.33% above the forecasted 150,000. Additionally, the unemployment rate fell to 4.1%. Many voters and analysts are focused on how economic policies will impact growth and stability, and from our vantage position, the economy is in good shape.

2. **Inflation and Monetary Policy**:

   While inflation is gradually easing, it remains a concern. The Fed's preferred inflation benchmark, the PCE, has fallen from its high of 7.12% in July of 2022 to 2.24% in August 2024, a 68.53% decrease and just 10.71% away from the Fed's 2% inflation target.

   The International Monetary Fund (IMF) forecasts that global inflation will decline from 6.8% in 2023 to 5.9% in 2024, reaching 4.5% in 2025. Advanced economies are anticipated to return to their inflation targets sooner than emerging and developing economies. This means that the US is in excellent shape, inflation-wise.

3. **Cost-of-Living Crisis**:

   The cost-of-living crisis remains a severe threat, affecting people's ability to afford basic necessities. According to the World Economic Forum, the soaring cost of food and energy is pushing millions into poverty. The United Nations Development Programme (UNDP) estimates that an additional 71 million people could be impoverished due to the crisis.

   The crisis is particularly severe in developing countries, with the worst effects seen in regions like Central Asia, sub-Saharan Africa, Latin America, and South Asia. Even in developed countries, many people are struggling to afford necessities. For example, in the UK, as many as 1 in 7 adults now say they can't afford to eat daily.

4. **Recession Fears**:

   There are ongoing fears of a potential recession driven by economic instability and market volatility. The recent Fed outsized interest rate cut of 50 basis points for the first time in four years on September 18, 2024, was done to mitigate recession fears. Also, the unemployment rate rose to 4.3% in August 2024, sparking concerns about an economic slowdown, but in Friday's jobs report, it fell to 4.1%. Increases in unemployment have historically been a reliable recession indicator.

5. **Geopolitical Tensions**:

   The World Economic Forum's Global Risks Report 2024 identifies geopolitical tensions as a primary concern. The report highlights conflicts in Ukraine and the Middle East and tensions between major powers like the US and China as significant risks to global stability.

   The Russia-Ukraine war and the Israel-Hamas conflict have led to regional instability, impacting energy and food security—these results in higher prices and increased inflation rates.

The BlackRock Geopolitical Risk Indicator (BGRI) captures overall market attention to geopolitical risks. The indicator shows elevated levels of geopolitical risk, reflecting more profound fragmentation between competing geopolitical and economic blocs.

6. **Public Debt Levels**:

   High levels of public debt are undermining government efforts to boost growth. The US public debt has reached over **$34 trillion** in 2024. The Congressional Budget Office reports that debt held by the public is expected to rise from 99% of GDP in 2024 to 122% by 2034. The US has been consistently spending more than its total revenues; below is the data on U.S. federal government revenue and spending from fiscal years 2020 to 2023:

   - **2020**:
     - Revenues: $3.4 trillion
     - Spending: $6.6 trillion
     - Deficit: 94.1%
   - **2021**:
     - Revenues: $4.0 trillion
     - Spending: $6.8 trillion
     - Deficit: 70%
   - **2022**:
     - Revenues: $4.9 trillion
     - Spending: $6.3 trillion
     - Deficit: 28.6%
   - **2023**:
     - Revenues: $4.5 trillion
     - Spending: $6.2 trillion
     - Deficit: 37.8%

   Any inaction toward fighting the public debt and accumulated deficits may threaten the US credit rating, which could cause it to lose the last AAA credit rating from Moody's, which has a negative outlook. Both Fitch and S&P have the US at AA+ with a stable outlook.

7. **Climate Change**:

   Climate-related risks are among the most pressing long-term threats. NOAA reports that January 2024 was the warmest January, with global surface temperatures 2.29°F above the 20th-century average. Carbon Brief's analysis indicates a 95% probability that 2024 will surpass 2023 as the warmest year on record.

8. **Misinformation and Disinformation**:

   The spread of false information is a significant short-term risk—the World Economic Forum's Global Risks Report 2024 identified Forum's information and disinformation as the most severe short-term risks. NBC News highlights the unprecedented threat of disinformation in the 2024 US presidential election.

9. **China's Economic Slowdown**:

   China's economy is slowing down, which has significant implications for the global economy. The IMF expects China's GDP growth to slow down to 4.6% in 2 of China's analyses, which have noted a significant slowdown in China's economic growth, with structural China and weak consumer demand being substantial factors.

10. **Puerto Rico Economic Conondrum:**

    Puerto Rico's Government has made its strategic infrastructure investments the cornerstone of economic progress, primarily with federal reconstruction funding of **$90 billion**. Of this, $1.8 billion was pegged to this budget, and an added $2.7 billion in debt service savings means the government now has $4.5 billion in ample resources to expand and strengthen the Island's infrastructure. This infusion has led to a marked increase in economic optimism, as evidenced by the upward revision of the GDP growth projection by the Puerto Rico Planning Board, which increased from 1.80% to a robust 2.80%—56% higher and 300% more than the 2023 GDP of 0.7%.

    As of last week, there were three distinct forecasts of Puerto Rico's economic growth: the PR Planning Board, The International Monetary Fund, and Birling Capital; we now must add a fourth one, and this time, it is one of the rating agencies, Moody's Investors Services.

    Moody estimates that Puerto Rico's real gross domestic product (GDP) could fall by approximately -0.2% in fiscal year 2025. These numbers contrast with the Planning Board's optimistic projections. Moody highlights that the economy is expected to remain statistically stagnant, with federal funds projected to sustain employment. However, overall economic growth is constrained by factors such as the aging population and a decreased number of employed people.

At Birling Capital, we offer a balanced outlook for Puerto Rico's GDP growth, with rates of 1.5% by 2024 and 1.2% by 2025. This cautious outlook is based on the recent increase in construction activity, which, although significant, may need to be revised to sustain such high growth rates in the coming years.

These issues highlight the complex and interconnected nature of the global economy in 2024. Addressing these challenges will require coordinated efforts and innovative solutions.

The Final Word: Navigating the Complexities of 2024: Hard Choices are Hard to Make

As we transition into the final quarter of 2024, it is clear that a complex interplay of factors shapes the economic, financial, and geopolitical landscape. These issues will continue to influence global dynamics, from economic stability and inflation to geopolitical tensions and public debt.

In conclusion, while the economy shows signs of resilience with healthy growth rates and easing inflation, challenges such as the cost-of-living crisis and geopolitical tensions remain significant. The ability of policymakers to navigate these issues will be crucial in determining the trajectory of global stability and prosperity.

We must remain vigilant and adaptive as we reflect on these critical issues. As the renowned **economist John Maynard Keynes** once said**, "The difficulty lies not so much in developing new ideas as in escaping from old ones".**

If hard choices were easy, we would all call them easy choices. They're hard; they take time, effort, willpower, perseverance, and consistent work.

If there was a time when both the US and Puerto Rico needed innovative solutions and forward-thinking policies to address our evolving challenges, it is now.

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