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The Spyglass Advisor: When Greed Turns Into Fear

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When Greed turns into Fear

As of today according the World Health Organization there are 292,142 confirmed cases of coronavirus with 12,784 deaths and the virus has spread worldwide. Dealing with the uncertainty coronavirus brought to the world plays a critical part in the market downturns. Make no mistake; the global economy will take an insurmountable hit in terms of GDP decrease and total employment, with a cost that could surpass \$6 trillion. With a large part of the economy closing all companies other than Hospitals, Pharmacies, Supermarkets, and restaurants, the impact on the small and medium-sized entrepreneurs will be severe. For that very same reason, governments, including Puerto Rico, announced measures that support the economy and thousands of businesses that are obligated to close to prevent the spread of the coronavirus. In the Eurozone and the U.S., stimulus packages are being worked on that surpass the \$1 trillion mark.

You see markets oscillate between greed and fear because investors and people oscillate between greed and fear; it is human nature. When we feel good about our prospects, and the fundamental of the markets are good, most investors get greedy and focused on making money. Their greed and hubris cause markets to rise, and most asset classes to increase in value. However, as soon as uncertainty or negativity dominates the markets, fear takes over and begin buying less and start thinking about preserving their money. The best advice we can provide investors, to resist external influences, to remain emotionally balanced, act rationally, and weighs on both negative and positive events.

Washington Update

The Trump administration and the U.S. Congress and working on a bi-partisan plan named "Stimulus 3" of unprecedented scope to help soften the economic impact from the coronavirus pandemic.

The bill could exceed \$1.2 trillion and will impact virtually every American.

Additionally, President Trump signed a law that is estimated to cost over \$100 billion contains a variety of Coronavirus response measures, including the following:

- Funding for an expansion of federal health programs to cover the testing and treatment of COVID-19 expanded sick leave for impacted employees,
- Virus-related insurance coverage
- Paycheck replacement for affected workers,
- The purchase of emergency protective equipment for health personnel
- Continued coverage of federally subsidized meals to eligible school children while schools are closed.

Governor Wanda Vázquez Announces \$ 787 Million Aid Package

Today at 12:30 pm Governor Wanda Vázquez announced a series of measures designed to try to appease the impact of the Lock-Down by the Coronavirus, among the measures we summarize some:

- They will continue to pay salaries employed by the government and municipalities
- A similar incentive to be implemented for the Private Sector
- The Department of the Treasury is ordered to:
 - a. Payment period extended until July 15
 - b. IVU is suspended at the docks and distribution chain for 3 months
 - c. Withholding of 10% of services for 3 months is eliminated
 - d. It is ordered not to impose penalties on the payment of IVU biweekly for 2 months and. There will be no penalty in the first term of the estimated tax
- For self-employed employees, an incentive of \$ 500.00 is granted
- The Department of Economic Development will make a contribution of \$ 1,500 to business whose operations ceased
- Bonuses ranging from \$ 2,500 to \$ 4,000 are awarded to nurses, police, emergency technicians, firefighters, among others.
- The services AAA and AEE will not be disconnected.
- Tolls will not be charged.
- Extended Unemployment Benefits are assigned
- Both the Bank and the Credit Unions will offer 90-day moratoriums on mortgage, personal, auto, credit card and commercial loans, it is required to call and coordinate with your bank since the moratoriums are not automatic.

Economic front: Primary indicators Calendar for March. 23-27

- U.S. New Single Family Houses Sold- reports on 03/24
- U.S. Durable Goods New Orders MoM- reports on 03/25
- U.S. Durable Goods New Orders YoY- reports on 03/25
- U.S. Initial Jobless Claims- reports on 03/26
- U.S. Real GDP Growth- reports on 03/26
- U.S. Personal Savings Rate- reports on 03/26
- U.S. Personal Consumption Expenditures- reports on 03/27

Primary U.S. Economic Indicators that reported for the week of March 16-22

- U.S. Retail Sales YoY- reported at 4.23%, compared to 4.70% last month.
- U.S. Business Sales-reported at 1.471T, up from 1.461T last month.
- U.S. Business Inventories-reported at -0.23%, compared to 0.10% last month.
- U.S. Housing Starts- reported at 1.599M, down from 1.624M last month.
- U.S. Initial Jobless Claims- reported at 281,000., a rise of 70,000.00 or 33.18% from last week, we expect this number to rise to 2,000,000 million by next week.

Federal Reserve Bank Take Decisive Action

The FED took steps to deal with the recent illiquidity in parts of the credit markets, including:

- Injected \$700 billion in liquidity to free up markets.
- Expanding bond purchases, including municipal bond markets.
- Lowered the discount window rate for banks.
- Implemented commercial paper purchases to allow companies to borrow
- The FED worked with other central banks to increase swap lines and prevent a shortage of U.S. dollars.
- Backstopping money market funds that were under pressure as investors sold off assets.

The Wall Street Update

On to the markets, the Dow Jones Industrial Average closed the week of March 20 at 19,173.18, for a loss of 4,012.44 points, or -17.31 percent, and a year-to-date (YTD) return of -32.81 percent. Besides, the S&P 500 closed at 2,304.92, for a loss of 406.10 or -14.98 percent, and a YTD return of -28.66 percent. The Nasdaq closed at 6,879.52 for a loss of 994.56 or -12.63 percent and YTD return of -23.33 percent. The Birling Puerto Rico Stock Index closed at 968.82, for a loss of 427.56, or -30.62 percent, and YTD return of minus -52.46 percent. Meanwhile, the U.S. Treasury's 10-year note closed at 0.92 percent, or -2.13 less, and YTD return of minus -1.1 percent. The U.S. Treasury's 2-year note closed at 0.37 percent, losing -2.13 versus last week, and a YTD return of -1.5 percent.

Weekly Market Close Comparison	3/20/20	3/13/20	Change	YTD Return
Dow Jones Industrial Average	19,173.18	23,185.62	-17.31%	-32.81%
Standard & Poor's 500	2,304.92	2,711.02	-14.98%	-28.66%
Nasdaq	6,879.52	7,874.08	-12.63%	-23.33%
Birling Puerto Rico Stock Index	968.82	1,396.38	-30.62%	-52.46%
U.S. Treasury 10-Year Note	0.92%	0.94%	-2.13%	-1.1%
U.S. Treasury 2-Year Note	0.37%	0.49%	-24.49%	-1.5%

Senator Vargas-Bidot's Discordant Senate Bill 1538

The Senate Project or P.S. 1538 pretends that all businesses in Puerto Rico continue paying all employees their salaries and benefits while the Governors Lock-Down order is in place, forcing most companies in Puerto Rico to close. Projects like PS 1538 and many other votes seeking populist schemes are the main reason Puerto Rico is in bankruptcy. As Puerto Rico businesses are forced to close or work remotely, some have been able for now to pay their employees, most have asked them to seek unemployment benefits. Those in Government have to understand that the private sector is the only one that produces capital, investments, creates jobs and wealth. The Government creates nothing, acts as an obstacle to development, mismanages, and overspends our hard-earned tax dollars. We commend the House of Representatives for defeating this bill.

Our market perspective report The Spyglass Advisor contains both our analysis that the economy in the U.S. and markets and banking sector. We hope that you have enjoyed this issue of The Spyglass Advisor ©, and we very much welcome your comments, thoughts, and ideas; you may reach us at frc@birlingcapital.com or 787-247-2500.



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