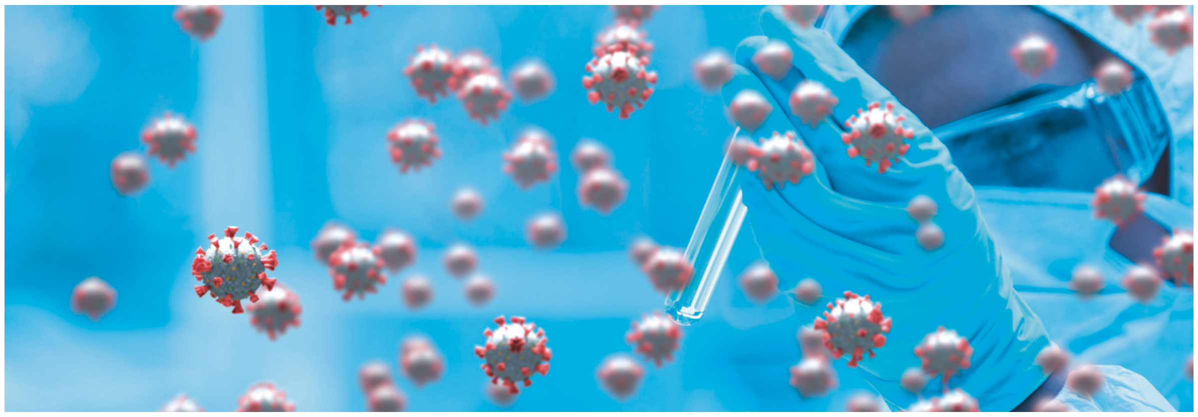
ECONOMY

New Variant Impacts the World

THINK STRATEGICALLY:



Will Holiday Season, Omicron Mix?

BY FRANCISCO RODRÍGUEZ-CASTRO
frc@birlingcapital.com

Global stock markets fell from the news that Omicron, the new COVID-19 variant had been identified in South Africa, immediately evoking thoughts of further chaos.

Initial reports suggested that Omicron could render the current vaccines ineffective and alter the progress attained to date. So far, there are too many unanswered questions to determine the strategy or focus of this new strain, and we do not know how much of a threat the new variant is to the global economy.

Omicron has been spreading globally as more and more countries impose travel restrictions to try to seal themselves off. From South Africa, the variant has now been detected in the United Kingdom, Germany, Italy, Netherlands, Denmark, Belgium, Botswana, Israel, Australia and Hong Kong.

According to the World Health Organization, Omicron may be more contagious than other variants; how severe the symptoms will be is undetermined.

However, South African Dr. Angelique Coetzee, who raised concern over Omicron, said the 30 patients treated reported the following symptoms: muscle aches, dry cough, scratchy throat, severe exhaustion, and only a few had a slight fever.

The positive side is that, unlike last year, there are more weapons in the medical arsenal to fight COVID-19 and its variants, with more treatments ready to roll out. So, we must take a holding-pattern approach to sort it all out.

Week in Markets: Black Friday, Omicron and Investor Sentiment Impacted

We had all been looking forward, like most families, to celebrating a more normalized Thanksgiving holiday weekend. However, the coronavirus had another surprise in store for the world with the Omicron variant discovered. Initially, two Sub-Saharan nations had also detected the new variant, but Omicron found its way to Europe and other countries.

As Omicron was detected in several regions, many countries began placing Africa travel bans, affecting global solidarity.

The newest COVID-19 strain has fueled a frenzy of concern over potential lockdowns, massive case surges, overflowing hospitals, and unforeseen chaos, sparking a meltdown in most markets that resulted in the worst decline in months.

Generally, during the Thanksgiving holiday week, with most people in the U.S. on vacation, the trading volume is usually light; however, the investors' reaction was significant due to the severity of the situation. Bear in mind that this is an excellent example that it does not matter if the economy is fundamentally sound with a rallying market; the pandemic was under control. However, when an exogenous shock hits, the market turns fearful.

Even with last week's market turmoil and the Dow Jones losing 702.64 points, the S&P 500 losing 103.34, the Nasdaq losing 565.78 and the Birling Capital Puerto Rico Stock Index losing 89.93, do not forget that the indices have all been providing double-digit returns year-to-date (YTD). With Thanksgiving and Black Friday behind us, the Christmas season is now in full swing; we think this is the perfect moment to provide some fresh perspective on the year-end market performance and what impact the consumer will play as we are treading new ground.

The holiday season is upon us; what to expect?

The stock market has historically done quite well following Thanksgiving and Black Friday, mainly because retailers see strong sales during the period. Suppose investors perceive that there will be a robust shopping season, pushing sales and stock prices higher. However, when retailers are unable to meet expectations on Black Friday, investor confidence plummets.

However, this Black Friday was not typical as most people are still concerned with the COVID-19 pandemic, but things almost seemed normal in shopping, with malls and stores reporting substantial traffic.

It is too early to tell what impact the higher prices, labor shortages and out-of-stock items have had on sales. Out-of-stock items due to supply crunches, higher prices for food and gas, and labor shortages that make it more challenging to respond to customers are also frustrating shoppers.

In our view, we think that the supply chain disruptions will significantly benefit the physical stores in search of items in stock; so far, the National Retail Federation (NRF) has forecast an 8.5 percent to 10.5 percent rise in holiday sales this year when compared with 2020.

Another factor that should positively impact the shopping season is that the U.S. Personal Saving Rate is at 7.3 percent, or $1.322 trillion; this is the third-highest rate entering a holiday shopping season in 25 years.

Finally, we must highlight that private sector employers have been raising salaries to lure employees back to the labor force. U.S. wages and salaries for private industry workers have risen to 1.6 percent, compared with 0.6 percent last year, a 166 percent increase.

What should Investors expect out of the current markets?

The U.S. gross domestic product is expected to continue growing in 2022 at 4 percent and Puerto Rico's at 2 percent. Also, labor trends are improving as unemployment claims are at 199,000, or below pre-pandemic levels of 205,000, and 26.3 percent below the previous week.

However, the labor shortages remain a complicated issue to solve, but all the recent data support a scenario in which the labor market continues to strengthen.

The final topic is when and how the Federal Reserve will raise interest rates; we see that happening sometime after the first half of 2022. In conclusion, all the ingredients support a market rally beyond 2021 and well into 2022; however, volatility will be high, and we are not sure that we shall see all the indices serving double-digit returns.

Wall Street Monthly Review, Nov. 26

– The Dow Jones Industrial Average closed at 34,899.34, down 702.64 points, or 1.97 percent, for a YTD return of 14.03 percent

– The Standard & Poor's 500 closed at 4,594.62, down 103.34 points, or 2.2 percent, for a YTD return of 22.33 percent

– The Nasdaq Composite Index closed at 15,491.66, down 565.78 points, or 3.52 percent, for a YTD return of 20.20 percent

– The Birling Capital Puerto Rico Stock Index closed at 2,898.79, down 89.93 points, or 3.01 percent, for a YTD return of 41.75 percent

– The U.S. Treasury 10-year note closed at 1.48 percent.

– The U.S. Treasury 2-year note closed at 0.50 percent.

The Final Word: Zoom, the tide turns on virtual technology companies

As we have discussed, similar to what happened to Peloton (PTON), there is a shift from these platforms to face-to-face encounters as most people have become "fatigued" by these virtual tools. The latest to suffer the paradigm shift is Zoom Video Communications (ZM).

Zoom provides communications platforms that connect people through video, voice, chat and content sharing. The company's cloud-native platform enables face-to-face video and connects users across devices and locations in a single meeting. Zoom was one of the companies that greatly benefited from the pandemic. Let's review its latest earnings.

Zoom reported third-quarter earnings of $1.05 billion, up 23 percent, and net income of $340.3 million, up 75.05 percent. During its earnings call, execs said the company was experiencing a revenue growth slowdown; following the disclosure, a large group of Wall Street firms reduced the price targets on the stock. The stock closed at $220.21, down from its 52-week high of $486.83, or 54.76 percent.

—Francisco Rodríguez-Castro is president and CEO of Birling Capital LLC. Think Strategically is a publication by Birling Capital LLC that summarizes recent geopolitical, economic, market and other developments This report is intended for general information purposes only and does not represent investment, legal, regulatory, or tax advice. Recipients are cautioned to seek appropriate professional counsel regarding any of the matters discussed.

Weekly Market Close Comparison	11/26/21	11/19/212	Return	YTD
Dow Jones Industrial Average	34,899.34	35,601.98	-1.97%	14.03%
Standard & Poor's 500	4,594.62	4,697.96	-2.20%	22.33%
Nasdaq Composite	15,491.66	16,057.44	-3.52%	20.20%
Birling Puerto Rico Stock Index	2,898.79	2,988.72	-3.01%	41.75%
U.S. Treasury 10-Year Note	1.48%	1.54%	-3.90%	0.60%
U.S. Treasury 2-Year Note	0.50%	0.52%	-3.85%	0.60%