



**2 FORECASTS,
2 THEMES &
2 REACTIONS**

**For Great Execution Time is Mandatory,
So it is the Willingness to Act**

Birling Capitals' goal is to provide you with expert opinions and commentaries from all over the world to our readers with a detailed view of the economy, markets, and geopolitics. We also offer you our outlook for Puerto Rico's economic progress and the United States to allow you to plan with a 3 to 5-year window.

We invite you to examine this month's insights to help you stay ahead of the curve.

We thank you for your continued support.

*Francisco Rodríguez-Castro
President & CEO
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**Life is Always About
Timing, If it's Too Soon,
No One Understands.
If You Are Too Late,
Everyone's Forgotten**

As we published the March 2021 edition of The Zenith Investor, our schedule's first topic must be the Financial Oversight & Management Board's (FOMB) Puerto Rico's Title III Case. The Plan Support Agreement, Shows that Puerto Rico's debt is reduced from \$18.8 Billion of Debt to \$7.4 billion a reduction of 61%. It also reduces the Debt Service Payments to \$1.15 Billion per year. The new agreement with general obligation (GO's) bondholders and Public Building Authority (PBA's) bondholders.

- **Reduces \$18.8 billion of Commonwealth debt held by GO's and PBA's bondholders by 61%, to \$7.4 billion.**

- **Reduces total debt service payments by 62%, from \$90.4 billion under the original contractual debt agreements before PROMESA to \$34.1 billion under the new debt restructuring agreement.**

In our view, the new agreement places Puerto Rico in a more favorable financial position and would allow the Island to emerge from Bankruptcy sooner than anticipated.

The Plan will allow Puerto Rico to resolve its insolvency; with a once and done approach, this Plan must be respected and supported. For Great Execution Time is mandatory, So it is the willingness to act.

Forecast 1: Puerto Rico needs a \$15.5 billion Transformation

Puerto Rico closed 2020 with a -6.0% contraction; Let us imagine how Puerto Rico would look with real growth of 4% G.N.P. If Puerto Rico had grown at 4% adjusted for inflation, the economy would have increased by \$2.8 billion in practical terms.

Suppose for a moment that we grew our economy at that rate for five years, Puerto Rico would create about \$15.5 billion in additional revenue during that period. These are approximate numbers, but they

provide reasonable, achievable orders if we develop a plan to reach our goals.

We have developed a path to Transform Puerto Rico that would, in turn, create more than \$15.5 billion in economic activity, wealth creation, job growth, and education. Before analyzing the benefits of demonetizing thousands of Government contracts and businesses that can now be offered either free and online.

The \$15.5 billion transformation of Puerto Rico contains the following elements:

- High levels of well-paid and stable employment in the non-governmental sector.
- A social culture focused on economic development.
- The ability to insert itself into the global economy effectively.
- Flexible governance structures adapted to the requirements of the worldwide economy.
- A competitive, innovative local business sector with export capacity.
- A diversified economy with high levels of productivity.
- Levels of social welfare comparable to those of the most advanced countries
- High quality of the environment and excellent quality of life.

As we take the journey to implement the \$15.5 billion Transformation begins with implementing the Puerto Rico FIRST Goals.

The Puerto Rico FIRST Goals are a vision that must be communicated, discussed, and implemented. Every citizen must understand, respect, and protect the goals and followed by every Puerto Rico citizen.

The Puerto Rico FIRST Goals are as follows:

- **Transform Puerto Rico into a country with robust economic development and sustained growth of 4% in ten years:** This growth rate is similar to the average annual real growth of

the Puerto Rico economy from 1950 to the present. That and the fact that it is a growth rate that our peers and competitors have surpassed in recent years suggests that it is an achievable goal. Previously, the Investment that would be necessary to generate this growth rate in four years was indicated.

- **Transform our industrial structure in which manufacturing, R&D, and employment activities are focused on the knowledge-based economy with 25 percent of the gross national product in 10 years:** our direct employment in high technology manufacturing (approximately 5.0% of total employment) and employment in advanced services directly related to knowledge production (about 10%) is close to 15% of full employment. The goal of reaching 25% within ten years is not unrealistic, mainly when the existing advanced services base is considered. A knowledge economy that grows at least at the assumed general economy rate of 4.0% would generate an additional \$ 3.5 billion per year.
- **Create 300,000 new jobs in the private sector in the next ten years.**
- **Increase our labor participation rate to 55% in ten years.**
- **Reduce the unemployment rate to 5% in ten years:** Goals 3, 4 & 5 work in tandem.
- **Close the "development gap":** its means the percent of G.N.P. that represents consumption and the percent representing an investment that in Puerto Rico far exceeds that of our peers. The structure of Income in Puerto Rico (65% of people's revenue arises from three sources: public employment, federal transfers, and the informal economy) and how the tax system has been structured has stimulated consumption and not savings and Investment. Placing ourselves at the same

levels as our competitors will require profound changes in the tax system and an educational effort that transforms the culture of consumption into one of Investment.

- **Move to a government structure characterized by the following: employing no more than 15% of the employed workforce and a Consolidated Budget that does not exceed 25% of G.N.P.:** Currently, these two figures are around 28% and 50%, taking into consideration that the Consolidated Budget includes public corporations. Although this objective could be interpreted as one aimed at reducing the Government, which should be a social objective, the mere fact of growing at a 4.0% rate would facilitate its achievement.
- **Increase the average per capita income by 30% in ten years, from \$ 20,873.00 to \$ 27,134.00:** translates into \$ 7.2 billion of additional revenue and policies to improve the workforce's quality and facilitating market entry.
- **Transform the educational system from primary to university level into one focused on entrepreneurship, trades, and transformation:** This is critical to achieving a more focused educational system focused on entrepreneurship and wealth creation rather than educating students to seek work.
- **Measure ourselves with all international metrics to maintain competitiveness.**

There is a need to have a clear vision of the economic future of Puerto Rico and to consider not only the size of the economy but also its essential characteristics. This vision must be implemented and followed by every citizen. Every political



Forecast 2: What should investors expect? The economic growth outlook has improved during the last 60 days, and the much alluded to V-shaped recovery is looking that it may materialize.

- **President Biden's \$ 1.9 trillion Bazoooka stimulus package** will hit the economy as massive vaccine distribution takes shape and can take the economy into ludicrous growth mode.
- **U.S. GDP Forecast rose to \$23.97 trillion**, up from 23.84 Ttrillion last quarter and up 0.51% from last quarter. The G.D.P. could grow at its fastest rate in 35 years, exceeding 5%.
- **Stocks sectorial rotation will create volatility**, but the outlook remains relatively bright.

In his semiannual testimony to Congress on Wednesday, Federal Reserve Bank Chair Powell stated that "The Fed expectation was not to raise interest rates from their current levels to allow the economy to reach full employment.

The Fed Chair also stated that he was cautiously optimistic that "a return to more normal conditions would occur this year"; and reaffirmed the Banks intention to continue its strong support to the U.S. economy.

At the juncture, good news for the economy is bad news for the market. This phenomenon often occurs at the end of multiyear expansions, as robust economic data change expectations for Fed policy. Unlike now, where the Fed has stated that Interest rates will not rise, the short-term rates tend to increase in other circumstances. The overall outlook and sentiment remain positive, supported by fiscal stimulus, low-interest rates, massive vaccine distribution with a fourth one dose vaccines, and robust corporate-earnings trends. Good news for the

economy will likely continue to be good news for the markets for a while longer.

In conclusion, as the economy normalizes, investors are in for quite a ride; however, these rides are full of buying opportunities that translate into outside profits.

Theme 1: What did we learn from The Tobin Report of 1976? Was it ignored?

Some of us have heard of the Tobin Report, which contained a formula that would have prevented a good portion of the troubles Puerto Rico is facing.

James Tobin was an American economist who served on the Council of Economic Advisers and consulted with the Board of Governors of the Federal Reserve System, and taught at Harvard and Yale universities. Tobin received the Nobel Prize in Economic Sciences in 1981 for his "extensive and creative work on analyzing financial markets and their relationships to spending, employment, production and price decisions."

The Committee for the Study of the Finances of Puerto Rico was appointed by Governor Rafael Hernández- Colón in March 1974. Its members were:

- **President- James Tobin, Sterling Professor of Economics at Yale University**
- **William Donaldson, Dean & Founder of the Yale University School of Management**
- **Kermit Gordon - President, The Brookings Institution**
- **Wilfred Lewis- Executive Director, National Planning Association.**
- **Sidney Robbins, Professor of Finance, Columbia University.**

In its letter to Governor Hernández-Colón, the committee stated, "**The economic development and fiscal problems of Puerto Rico have increased since 1969. Although some of the current issues facing the Commonwealth are outside of their control, the current trend of**

the government expenses, the accumulation of deficits by public corporations, and public debt and production costs will not be sustainable even under the most favorable economic conditions."

The committee found that the need for an austerity program was evident and made the following recommendations:

- **Limitation of Government Expenses and Salary increases: Puerto Rico may be unable to access the debt markets;** So it must create its savings to finance the island's economic growth adequately. The government budget must be right-sized to begin creating Surplus.
- **Tax Increases:** The committee recommends there critical changes to the commonwealths tax structure.
- **Property Tax:** the property tax assessment must be made considering certified appraisals and must eliminate the taxpayer's primary residence's current substantial exemption. We still use the byzantine 1954 formula.
- **Income Tax:** a comprehensive tax reform must be implemented and better adoption processes.
- **Special Tax to Luxury Durable Goods:** this would include automobiles with an ascending tax rate according to their cost.
- **Government Public Corporations must create Surplus:** all public corporations must right-size their operations and eliminate the issuing debt's reliance to finance large-scale projects. They must operate financially with the recommended surpluses while seeking a achieve a complete financial transformation.
- **Responsible Marketing of Puerto Rico Bonds:** the only real protection for Puerto Rico's credit is limiting debt issuance.

Those specific policies are adopted to guarantee that Puerto Rico can meet its debt obligations.

- **Specific Measures to train and employ the younger generations:** there are critical federal programs to solve the dire situation of unemployment in Puerto Rico. Key examples include trade schools, direct training in jobs, and government projects. The committee recommended that the Government seeks in Congress a waiver to the federal minimum salary to those younger than 20 years old.
- **General Limitations of salaries:** a broad freeze to all pay scales and salaries of Government employees and public corporations.
- **Incentives for Investment and employment creation of Exented Corporations:** the committee recommended that a system be created to grant tax credits to those corporations that generate employment and reinvest.
- **Investments to generate more jobs in the private sector:** the committee recommends that the Governor seek out the largest corporations in Puerto Rico and ask them to begin new investments and projects in Puerto Rico.

A very revealing fact in the Tobin Report is that most of the recommendations it makes are similar to those made by the Financial Oversight and Management Board (FOMB) in its fiscal Plan. As the FOMB has negotiated the Puerto Rico public debt plan of adjustment, it makes more sense than ever to understand appropriately. Why did our political class choose not to pay attention and never executed on the as recommended in these and other similar plans? Had Puerto Rico implemented just 50% of the Plan we would be in a completely different economic and financial position.

The sad conclusion is that what ails us as a nation is the political unwillingness to effect transformative changes with a once and done approach. As the FOMB and the Government of Puerto Rico embark toward the normalization of Puerto Rico's debt structure and the adoption of strict measures. We must achieve the needed four consecutive years of balanced budgets. Our politicians need to understand that the best way to help Puerto Rico is to understand the actions and fix our fiscal imprudence. Every political leader, from every party, must become part of the solution to allow Puerto Rico to transform the way the Government conducts its processes and enable the FOMB to steer the change.

There is no better quote than this one from John Maxwell to drive home my point that we must steer change;

"Make a point to continually search for a better way of doing things, even when things are going well, to ensure that a better alternative has not been overlooked and to keep your creative talents in practice."



Theme 2: Month in Markets: Massive Government Bond Sell-Off, Creates Increased Volatility, even as Fed Chair Powel promises to keep rates low until the U.S. reaches full employment: even though last week, the U.S. stock markets had the most extensive government bond sell-off in years,

as investors were focusing on interest rates.

The sell-off spilled over to equities forcing an increase in stock rotation as investors doubled down on buying those stocks more affected by the Pandemic in place of those most benefited from the Pandemic. The cruise ship industry is seeing robust gains, with Norwegian Cruise Line Holdings Ltd (NCLH) rising from \$10.03 on March 27 and closing at \$29.58, an increase of 194%, and Royal Caribbean Group (RCL) rising from \$34.50 and closing at \$93.37 a rise of 170%.

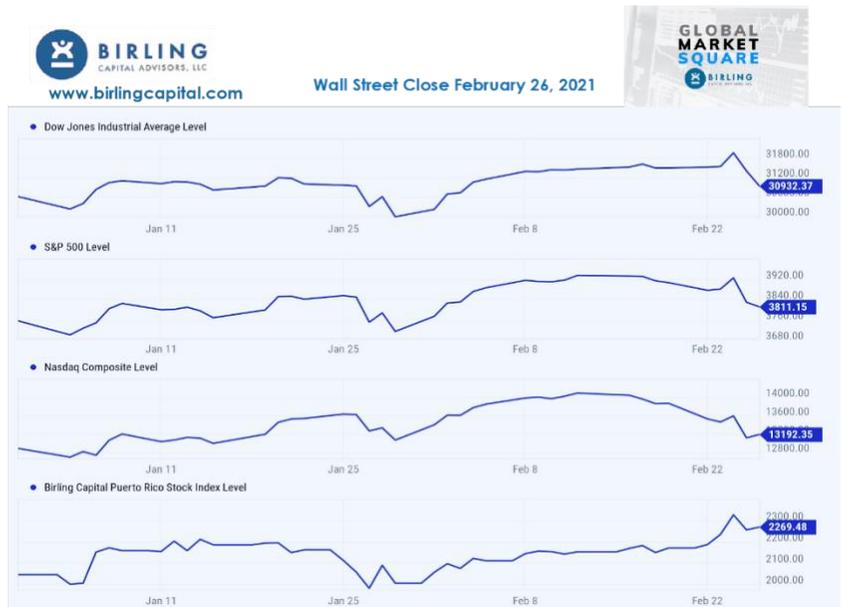
While the Government bonds' yields are still meager from a historical perspective, yields have marched steadily higher over the last two months due to the prospects of a sustained economic recovery that accelerates rapidly.

The sell-off in U.S. Treasury bonds continued taking the yield on the 10-year Treasury note to 1.44%. These rates are rising for a reason, and not a bad one at that. First, inflation is now at its highest level since 2013, and higher inflation expectations determine a rebound in economic activity.

Secondly, rates are just adjusting to where they were in February of 2020, so as the market normalizes, it was about time these rates went back to where they were a year ago.

In his semiannual testimony to Congress on Wednesday, However, during testimony to Congress, Federal Reserve Bank Chair Powell stated that "The Fed expectation was not to raise interest rates from their current levels to allow the economy to reach full employment.

The Fed Chair also stated that he was cautiously optimistic that "a return to more normal conditions would occur this year"; and reaffirmed the Banks intention to continue its strong support to the U.S. economy. At this juncture, good news for the economy is bad news for the market. This phenomenon often occurs at the end of multiyear expansions, as robust economic data change expectations for Fed policy. Unlike now, where



the Fed has stated that Interest rates will not rise, the short-term rates tend to increase in other circumstances.

Wall Street summary for the month end of February 26, 2021;

- **The Dow Jones Industrial Average** closed at 30,932.37, up 949.75 points, or 3.17%, and a year-to-date return of 1.06%.
- **The Standard & Poor's 500** closed at 3,811.15, up 96.91 or 2.61% points, and a year-to-date return of 1.47%.
- **The Nasdaq Composite Index** closed at 13,102.34, up 31.65 points or 0.24% , and a year-to-date return of 2.36%.
- **The Birling Puerto Rico Stock Index** closed up at 2,269.48, up 264.86 points or 13.21%, and a year-to-date return of 10.98%.
- **The U.S. Treasury 10-year note** closed at 1.44%, rising 29.73% and a year-to-date return of 0.50%
- **The U.S. Treasury 2-year note** closed at 0.14%, a rise of 27.27%, and a year-to-date return of 0.60%.

Primary U.S. Indicators Events Calendar 3.1 to 3.7.21

- **U.S. ISM Manufacturing PMI** reported on 03/01/2021: rising to 60.80, or 3.58% up from 58.70 last month and up from 50.10 one year ago.
- **U.S. Initial Claims for Unemployment Insurance:** will report on 3.4.21 and the last week reported 730,000 claims a decrease of -13.20%.
- **U.S. Unit Labor Costs: Nonfarm Business QoQ:** will report on 3.4.21 and last time it reported a rise of 6.80%.
- **U.S. Manufacturing Shipments** will report on 3.4.21 and last report was 501.82 Billion.
- **U.S. Manufacturing New Orders:** will report on 3.4.21, and last report was at \$493.55 Billion.
- **U.S. Total Nonfarm Payrolls:** will report on 3.5.21, last report was at \$142.63Million.

Monthly Market Close Comparison	2/26/21	1/29/2021	Return	YTD Retun
Dow Jones Industrial Average	30,932.37	29,982.62	3.17%	1.06%
Standard & Poor's 500	3,811.15	3,714.24	2.61%	1.47%
Nasdaq	13,102.34	13,070.69	0.24%	2.36%
Birling Puerto Rico Stock Index	2,269.48	2,004.62	13.21%	10.98%
U.S. Treasury 10-Year Note	1.44%	1.11%	29.73%	0.50%
U.S. Treasury 2-Year Note	0.14%	0.11%	27.27%	0.60%



The Final Word: Investors Listen as the Oracle Speaks

This weekend, the most sought after and analyzed shareholder letter in the world, Warren Buffett's Berkshire Hathaway letter to shareholders, was published. In the letter, Buffet reports that Berkshire Hathaway (BRK.A), which is trading near its all-time highs, having closed on Friday at \$364,580. Berkshire earned \$42.5 billion in 2020, with operating earnings of \$21.9 billion. There was \$4.9 billion in realized capital gains, another \$26.7 billion in unrealized capital gains, and included a write-down totaling \$11 billion from the loss in the value of Precision Castparts, which Buffet said, "I paid too much

for the company." I guess everyone is allowed to make an \$11 billion mistake. For Buffet, the operating earnings are what truly counts, and their focus is increasing their income and acquiring large and favorably-situated businesses. As is evidenced in the report, Berkshire was unable to meet either goal last year as they made no significant acquisitions, and operating earnings fell 9%. However, Berkshire was able to take advantage of the Pandemic and increased their per-share intrinsic value by a 5% stock repurchase plan and by retaining earnings. Berkshire's holdings of marketable stocks at yearend 2020 were worth a whopping \$281 billion with a robust and diversified business portfolio.

When compared the 2020 performance to the 2020 S&P 500 with dividends, the results are as follows:

- **Berkshire 2.4% vs. the S&P 500 18.4%**
- **Berkshire Hathaway from 12.31.09 to 2.26.21 257.50% versus the S&P 500 241.80%**
- **Berkshire compound gain 1965-2020 was 20% versus the S&P 500 10.2%.**
- **Berkshire's overall gain 1965-2020 was 2,810,325% versus the S&P 500 of 23,454%.**



Buffet, called the Oracle of Omaha, is widely viewed as the most successful investor in America with a unique folksy manner and down-to-earth person; shared a story of an investing book he read in 1958 by Phil Fisher. The latter wrote a superb book on investing. In it, he makes a comparison between running a public company to managing a restaurant. He said if you are seeking clients, **"You can attract a clientele and prosper featuring either hamburgers served with a Coke or a French cuisine accompanied by exotic wines. But you must not switch from one to the other."** Your potential customers' message has to be consistent with your offering and what they will find when they visit you.

Warren Buffet closes by saying, **"At Berkshire, we have been serving hamburgers and Coke for 56 years. We cherish the clientele this fare has attracted."**

With the Dow Jones at 30,932.37 points this past week, we must remember The Oracle of Omaha's: **"Be greedy when others are fearful." The best investment advice ever.**

We hope that you have enjoyed this issue of The Zenith Investor ©, and we very much welcome your comments, thoughts, and ideas; you may reach us at frc@birlingcapital.com or 787-247-2500.

Francisco Rodríguez-Castro
President & CEO

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