Investor Intelligence

Newsletter©

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From the Executive Desk

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Founder & Chief Executive Officer

Results from the midterm elections provide interesting insights into changes in the U.S. electorate. Race continues to represent a primary fault line, with whites overall continuing to favor Republican candidates, while minorities support Democrats. As the minority group continues to grow, and increase their electoral participation, their votes becoming even more decisive in many states. The 2018 exit polls show that minorities—including African Americans, Hispanics, Asians, and other nonwhite groups—constituted an all-time high, 28 percent, of midterm voters, and 38 percent of votes from young adults between the ages of 18 and 29. Nationally, the total population under age 45 favored Democrats, and much of this was due to the larger minority presence among younger voters. But perhaps even more important for Democrats were gender and education patterns in white voting. The Brookings Institute recently published an article that shows Democrats gained favor from white college educated young adults, when compared to the 2016 elections. White college educated women, increased their support for Democrats by 13%, while white college educated men increased by 10%, almost splitting their votes in half between Democrats and Republicans. Simultaneously, non-college educated white men and women, who arguably provided decisive support for Donald Trump in the 2016 election, reduced their voting difference between Democratic and Republican candidates by 12% and 13% respectively. While racial minorities remain essential to Democrats, these key shifts among segments of the white electorate will be important to watch moving forward. As newly elected representatives occupy their seats in the house, it will be interesting to see if this recent Democratic push will be able to challenge the Administration's political views and economic policies.

Economic Perspectives

Edmundo J. Garza
President

A weaker U.S. dollar, in the wake of the U.S. midterm elections, is giving way to a rebound in emerging-market currencies. Electoral results left Democrats with a majority in the House of Representatives, and they are expected to bring gridlock to Washington, by blocking support for Trump's dollar-boosting tax cuts. These expectations have dragged the value of the U.S. dollar lower this past week, and the weakening dollar has supported emerging market economies who have seen their currencies rise in relative value. The ICE U.S. Dollar Index was down 0.3% on November 7th, while the South African rand and the Indian rupiah were up by 1.35% and 1.4% respectively. The dollar's biggest rival, the Euro, rose by 0.2% and the British pound closed stronger on the same day buying US$1.3143 versus $1.3099 the previous day. A weakening dollar can ease the debt burden for emerging market economies with dollar-denominated debts that are in turn serviced using local currencies. Investors might start revising growth expectations for the U.S. lower and the Federal Reserve may do so as well. While they will most likely stick to another interest rate hike in December, the reaction of the markets suggests that investors are expecting less aggressive interest rate hikes in 2019.

Indicators (As of November 10, 2018)

United States:
CPI: 2.3% Chg. from yr. ago
Unemployment Rate: 3.7%
GDP: 3.5% Comp. Annual rate of Chg. on 2018:Q3
Ind.Prod.Index: +0.3% change from previous month
Source: *St. Louis Fed. Res.*

Japan:
CPI: 1.0% Chg. from yr. ago
Unemployment Rate: 2.3%
GDP: 0.7%, Comp. Annual rate of Chg. on 2018:Q2
Ind.Prod.Index: -1.1% change from previous month
Source: *Moody's Analytics*

Eurozone:
CPI: 2.1% Chg. from yr. ago
Unemployment Rate: 8.1%
GDP: 0.4%, Comp. Annual rate of Chg. on 2018:Q1
Ind.Prod.Index: 1.0% change from previous month
Source: *Moody's Analytics*

Puerto Rico:
CPI: 0.0% Chg. from yr. ago
Unemployment Rate: 8.6%
Payroll Employment: -2.6% Chg. from yr. ago
GDB Econ. Act. Index: 1.5% Chg. from yr. ago
Source: *Economic Development Bank of Puerto Rico*

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Market Recap

Evangeline Dávila, CIMA®
Chief Research & Investment Officer

Stocks: Market volatility returned in October. The S&P 500 moved up or down by more than 1% in a single day on ten occasions last month – two more times than in the whole of 2017. The S&P 500 ended the month down 6.8%, which now leaves the index up 3.0% year-to-date in total return terms. All other equity markets also fell on the month and value outperformed growth.

Bonds: The US 10-year Treasury yield breached 3.2% in October. Most of the increase in yields was driven by real rates moving higher, rather than concerns over rising inflation. In fact, the headline consumer price index fell to 2.3% year on year in October. Thus, the increase in 10-year Treasury yields was for positive reasons, which suggests the growth outlook is still healthy. The Global Aggregate Bond index ended down 1.1%.

Alternatives: Performance of the natural resources sector was flat during October. The S&P US REIT index showed Real Estate dropped by -2.5%. Gold prices were up 1.86% at the end of the month from September 28. Because gold is bought and sold in U.S. dollars, its price typically increases when the greenback loses strength.

The Advisor's Corner

Ernesto Villarini Baquero, MBA
Advisor & Managing Director

We trust social entrepreneurs and impact investors moved to vote this past week in U.S. midterm elections. Government at all levels impact the work they do and the assets they invest in. The United Nations Sustainable Development Goals (SDGs) provide a list of issues that are part of the business model of socially motivated entrepreneurs or integrated into the investment strategies of impact investors. The SDGs cover broad challenges such as economic inclusion, diminishing natural resources, geopolitical instability, environmental degradation and the impacts of climate change. Governments should facilitate sustainable development and support businesses investing in that direction. The right policymakers understand there's a business case to be made for aligning companies with the SDGs and it focuses on the following: Business Growth - while growth is tied to the SDGs at a macro level, entrepreneurs can also act at a local level to pursue these goals. For example, when a dairy farm invests in a watershed to replenish the aquifer water it uses and commits to providing access to clean water to the surrounding communities, they align with SDG No.6 – Clean Water and Sanitation. In securing the water supply needed for dairy production, they also invested in the community and strengthen their brand. Risk – Each SDG represents a risk area for businesses. Supply chains are particularly exposed to the effects of climate change and geopolitical instability. Investing in organic recycling, local food production and partnerships with local food banks, can help mitigate the risk of supply chain disruptions. Taking these measures is aligned with SDGs 12, 13, 14, and 15. Purpose - Running a profitable business should not be at odds with creating value for others. Businesses can work with government to pursue shared outcomes. When a company focuses on sustainable development it challenges itself to act as a catalyst for innovation, engage and motivate employees, and open new markets and opportunities for growth over the long-term. Companies deploying renewable energy solutions exemplify the pursuit of SDG No.7; making clean and affordable energy available. Judging by the business momentum, you would think a future of cheap and clean energy is assured but ignoring the government's hand in this transition would be thoughtless and naïve. Investment advisors should educate investors on sustainability principals, specially decision makers at public corporations, universities and employee pension systems, which are some of the biggest investors in the world. However, voting for the right government officials gives us an even stronger start as they can integrate SDGs in public policy and put the best people in charge of administration.

What to Do?

The positive U.S. stock market trend seen in September, had an abrupt end in October. However, volatility was within the expected range and the general mood improved as we approach the U.S. midterm elections. International developed and developing markets still lag behind expectations and political developments have increased concerns over an increasingly divided Europe over the topics of immigration and economic policy. What we have experience in 2018 should encourage investors to adhere to a total portfolio approach and keep a long-term outlook. A***mid an uncertain scenario we continue to recommend prudent asset allocation and risk assessment, based on future capital needs, for plan sponsors, institutions and individual investors. Due diligence reviews and an adherence to a well-developed investment policy remain the most prudent course for long-term investors. Continued fiduciary education is paramount.***

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