Investor Intelligence

Newsletter©

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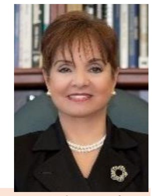
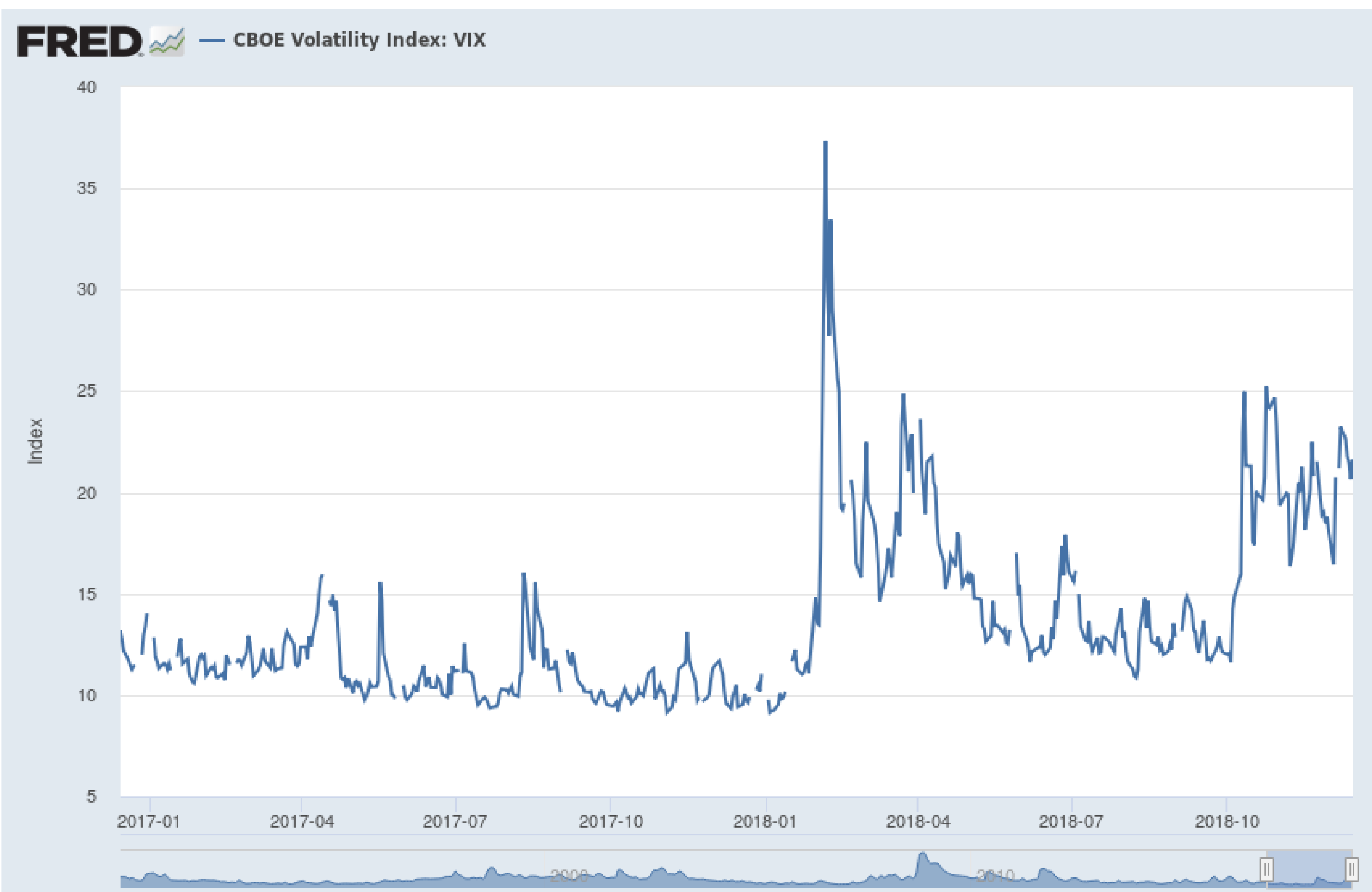
Myrna Rivera, CIMA®
Founder & Chief Executive Officer

From the Executive Desk



Markets are enduring one of the most prolonged periods of turbulent trading of the past decade. So far this year, there have been 12 instances of the S&P 500 moving at least 3% from its intraday low to its high, according to data from S&P Dow Jones Indices analysts. This figure is the most in a single year since 2011, when the European debt crisis flared up and S&P cut its rating on U.S. government debt. Volatility has accelerated in the 4th quarter, as worries about trade, global growth and interest rates continue to keep investors on edge. Investment analysts look to the VIX volatility index to monitor these swings in the stock market. The volatility index (VIX) created by the Chicago Board Options Exchange (CBOE), is a popular and closely watched indicator because it serves as a proxy for risk, fear and uncertainty in the market. The VIX is a weighted index that blends together several S&P 500 index options, with the notion that the greater the premium on these options, the more the uncertainty about the direction of the market. Its numeric value is expressed in percentage points and it is calculated as the square root of 30-day period returns. The VIX is a forward-looking representation of what sort of volatility the market expects in the short-term. For financial instruments like stocks, volatility is a statistical measure of the degree of variation in their trading price observed over a period of time. In 2017, we hardly paid attention to the VIX. As seen in the chart below, its value was considerably stable throughout the year. The past 12 months have been a totally different story, as we have seen the value rise and fall dramatically. While short-term traders may use volatility as a tradeable asset, investors with a long-term horizon, will focus on total portfolio performance and evaluating risk-return tradeoff over market cycles. Savvy investors know that different types of securities respond differently to market forces over time, one of the reasons diversification pays off.



Source: St. Louis Federal Reserve Bank / CBOE

Economic Perspectives

Edmundo J. Garza
President

While the US economy remains broadly positive, there has been some softness in recent economic data. Retail sales growth, for example, slowed in November; the future expectations component of consumer confidence slipped; and housing data has been mixed as higher mortgage rates have dampened the market's recovery. While most economists do not expect a recession in 2019, there is an increasing likelihood that it will occur in the near term, and with it the risk of a bear market. Therefore, economic conditions warrant a close watch by investors. Leading economic indicators typically turn negative ahead of a recession. As shown in their most recent press release, the Conference Board Leading Economic Index (LEI), increased during the 3rd quarter of 2018, and increased slightly in October, pointing to robust economic growth in early 2019. However, the pace of improvement has slowed and, according to Ataman Ozyildirim, Director of Economic Research at the Conference Board, "while near term economic growth should remain strong, longer term growth is likely to moderate to about 2.5% by mid to late 2019". The technical notes show that five of the ten indicators that make up the increased in October. The positive contributors were average consumer expectations for business conditions, the interest rate spread, the Leading Credit Index™ (inverted), the ISM® New Orders Index, and manufacturers' new orders for nondefense capital goods excluding aircraft.

Indicators (As of December 26, 2018)

United States:
CPI: 2.2% Chg. from yr. ago
Unemployment Rate: 3.7%
GDP: 3.4% Comp. Annual rate of Chg. on 2018:Q3
Ind.Prod.Index: +0.6% change from previous month
Source: *St. Louis Fed. Res.*

Japan:
CPI: 1.0% Chg. from yr. ago
Unemployment Rate: 2.4%
GDP: -0.6%, Comp. Annual rate of Chg. on 2018:Q3
Ind.Prod.Index: 2.9% change from previous month
Source: *Moody's Analytics*

Eurozone:
CPI: 1.9% Chg. from yr. ago
Unemployment Rate: 8.1%
GDP: 0.2%, Comp. Annual rate of Chg. on 2018:Q3
Ind.Prod.Index: 0.2% change from previous month
Source: *Moody's Analytics*

Puerto Rico:
CPI: 1.0% Chg. from yr. ago
Unemployment Rate: 8.0%
Payroll Employment: -2.6% Chg. from yr. ago
GDB Econ. Act. Index: 4.6% Chg. from yr. ago
Source: *Economic Development Bank of Puerto Rico*

Market Recap

Evangeline Dávila, CIMA®
Chief Research & Investment Officer

Stocks: November reporting showed that the third-quarter earnings season was reasonably strong, especially in the US where earnings per share (EPS) grew in excess of 25% y/y. In Europe, over 50% of companies beat EPS expectations and overall EPS growth was 10% y/y. After an exceedingly difficult year, emerging market equities stabilized in November but remain down over 7% year to date. The MSCI Asia ex Japan was the top index performer with a 4.0% increase, followed by MSCI emerging Markets at 3.0%.

Bonds: The US 10-year Treasury yield fell back to 3.01% as markets became more concerned about the outlook for global growth and the oil price fell. Credit continued to struggle across the board as investors fretted about the high level of corporate leverage and the prospects for slowing growth.

Alternatives: The price of oil fell sharply in November from a peak of USD 76 per barrel in early October, to USD 51. This was mainly attributed to supply side changes, such as the huge increase in US production, higher production in Saudi Arabia and the introduction of exemptions on Iran sanctions. Concerns about the outlook for global demand also served to send oil prices lower. The Organization for Economic Co-operation and Development revised down its 2019 global growth forecasts (from 3.7% y/y to 3.5% y/y) after citing risks from trade tensions.

The Advisor's Corner

Ernesto Villarini Baquero, MBA
Advisor & Managing Director

Robeco, an international asset manager based in Holland, recently published one of the most comprehensive guides to Sustainability Investing (SI) that I have come across. The "Big Book of SI" addresses the role of finance in relation to sustainability, global trends shaping the future (climate change, inequality and cybersecurity), and the relationship between investment performance and the integration of environmental, social and governance (ESG) factors in the investment process, among other topics. It shows that there continues to be an increasing change in thinking in the investment world. Previously, we were satisfied with avoiding companies that have a negative impact on the environment and society (a process sometimes referred to as negative screening or responsible investing). Now, we look to invest in companies that have positive impact (also referred to as positive screening or impact investing). This very week I read how the Episcopal Church in the United States decided to divest from fossil fuel investments and invest in renewable energy. Sustainability strategies consider a wide range of social issues, such as human rights, governance matters and gender equality in the workplace, and the United Nations Sustainable Development Goals have made them more tangible and measurable. There is a wide variety of sustainability approaches for investors to choose from. Hence, more and more investment management firms are incorporating sustainability research to their investment processes, mostly by implementing a bottom-up approach where ESG considerations are included in the process of security valuation and selection. Alternatively, sustainability data may be implemented via a top-down approach. Investors or advisors can start by identifying themes that can lead to market opportunities for certain companies, and with said mandate, portfolio managers can look for securities fitting these strategic themes. Either way, it has become commonplace among institutional and individual investors to look at sustainability as an integral part of their total portfolio strategy design. In this century, were according to scientists we have surpassed the Earth's carrying capacity, growing your portfolio assets may highly depend on it.

What to Do?

The positive U.S. stock market trend seen in September, had an abrupt end in October and volatility has stayed with us to date. Economic indicators have remained positive in the U.S., but trade disputes and political developments have increased concerns abroad, as the European economy remains sluggish and global discussions continue over tariffs and trade. 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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