



4 FORECASTS, 4 THEMES & 4 REACTIONS As Leaders Must Talk Less & Do More

As we share this issue of The Zenith Investor, I would like to first thank Francisco "Paco Pepe" Rodríguez Castro, President & CEO of Birling Capital for his valuable contributions to the Puerto Rico Chamber of Commerce all these years with his collaboration and leadership in various successful investor conferences. This time, we have the opportunity to collaborate in a monthly financial publication. If you want to stay on top of the latest financial trends, as well as getting solid, long-term insight that you can use in your financial and investment planning efforts, reading The Zenith Investor on a regular basis can be a big help.

I take this opportunity to also invite you to have a deep and active reflexion about our role as businessmen and women and encourage you to be well informed about our global competitive environment. Today, our country's context and global competitive position demands that we reinvent ourselves, rediscover new strengths and advantages, focusing more on our human capital; along with the financial and social capital. We are planning significant events for 2020 that will provide a timely and unparalleled opportunity for deep discussion that we hope will lead to the type of entrepreneurial solutions that will rekindle our economy and lead to sustained growth.

Jose E. Ledesma-Fuentes, CFA
President and Chairman of the Board
Puerto Rico Chamber of Commerce

Business acumen ("business savvy" and "business sense" are often used as synonyms) is defined as the keenness and quickness in understanding and dealing with a "business situation" (risks and opportunities) in a manner that is likely to lead to a good outcome. Additionally, business acumen has emerged as a vehicle for improving financial performance and leadership development. Consequently, several different types of strategies have developed around improving business acumen.

Financial literacy is a comprehensive understanding of the drivers of growth, profitability, and cash flow; an organization's financial statements; key performance measures; and the implications of decisions on value creation. It entails the ability to take the knowledge of business fundamentals and use it to think strategically and then take appropriate action.

And while financial literacy is almost never a need for senior managers and high potentials; most already possess degrees in business, including MBAs, and many have also had experience in the business sides of their professional roles, we are privileged to count with the knowledge, experience, and business acumen of our collaborator, Francisco J. Rodríguez-Castro, to help us navigate these turbulent waters.

The need for managers will always be to understand how their actions and their behavior impact their financial decision-making and how this in turn affects financial outcomes at the unit and the corporate level.

Please enjoy this issue of our Zenith Investor.

Miguel L. Vargas-Jiménez
Executive Director & CEO

As we publish The Zenith Investor for May 2020, we are facing the biggest and most destructive challenge the modern world has ever faced. The Coronavirus pandemic as of April 30, 2020, has reached a total of 3,307,660 million cases with 234,074 thousand deaths, in the U.S. there are 1,095,023 million cases with 63,856 deaths, while in Puerto Rico we have 1,539 cases with 92 deaths, one of the modern era's worst tragedies. The Coronavirus Pandemic crisis has resulted in one of the fastest economic contractions in history.

As a reference the U.S. reached this week 30.3 million new unemployed, in just five weeks, erasing the 22 million job created during the economic expansion that began on 2009.

We have begun to analyze what may determine the shape of the recovery in the U.S. and Puerto Rico.

As the economy of the U.S. and Puerto Rico came to a halt, we knew that the economic impact would be fast and severe. However, what we need to figure out is how we come out of this economic contraction. There are three distinct variables to the economic recovery that follows. In these situations, the recovery represents itself in either "V," "U," or "L" shape. We predict a "U-shaped" recovery since it is better represents the gradual resumption of activity that the White House Medical Task Force is favoring after the prolonged period of social distancing measures begins to ease. The International Monetary Fund predicts that the U.S. Real GDP Outlook will contract during 2020 in the range of -5.90% and Puerto Rico Real GDP Outlook is predicting a -6.0% contraction, and we do not expect to experience optimal economic activity until the latter part of 2021.

Even when considering the approval of the stimulus relief laws passed

that amount to \$2.680 trillion, that includes the \$660 billion of the highly popular Payment Protection Loan Program and another measure. However, most businesses, the overall economy, and markets will take longer to recover than anyone expects. Already we can see that thousands of businesses that were making ends meet may fall into bankruptcy, even companies that were doing well may be forced into bankruptcy.

Many industries may be affected for years to come, for example, tourism, cruise lines, airlines, car rentals, retail, food services, restaurants, car manufacturers, concert halls, sports arenas. This list includes many other activities that we used to take for granted.

The permanent effects the Coronavirus to China, Europe, U.S., and Puerto Rico economies are difficult to determine and too early to calculate. Our new reality is wearing face masks, using latex gloves, carrying sanitizer, alcohol and practicing social distancing, avoiding large crowds is on route to becoming a long-term habit and a daily routine for all of us.

Leaders Must Talk Less and Do More!



However, not all our discussion will be around the economic impact, we must discuss in detail **“The Essential Qualities of Great**

Leaders are Compassion and Honesty”

This past week, during one of the White House press briefings on the Covid-19 epidemic, President Trump wondered whether light and disinfectants could be used inside the human body to cure the disease.

“Supposing you brought the light inside the body, which you can do either through the skin or in some other way,” the president said. “Then I see the disinfectant knocks it out in a minute, one minute. Is there a way we can do something like that, by injection inside or almost a cleaning?”

The remarks caused furor to erupt on social media over concern about the gravity of such remarks being made at the White House. State emergency and poison control hotlines saw spikes in the number of calls. The makers of Clorox and other major disinfectant manufacturers issued statements. RB, which makes Lysol and Dettol, reportedly said that “under no circumstance should our disinfectant products be administered into the human body.”

A day later, Trump claimed he was being sarcastic, which in my opinion, after watching the footage several times, I did not find Trump's statement to be true.

So often, when we listen to Trump we note that he fails in accountability. Why do I say that? Accountability is doing the right thing and taking responsibility whether or not anyone is watching, but he is unable to make himself accountable even as the whole nation is watching.

To be fair, we must remember that the hallmarks of Trump's term in office have become undone, and they were as follows:

- Tax Reform
- Stock Market at record levels.
- Unemployment at 50-year low levels.

- Employment growth in most sectors
- The U.S-China Trade Deal
- The USMCA trade deal
- The Economy in a robust expansion with solid fundamentals

Before late February, President Trump seemed invincible in the November 2020 general election. Few could have predicted how coronavirus would destroy the U.S. economy and, with it, the reelection of President Trump.

One of the most distinct traits that a good leader must have is "Emotional Intelligence"; Most leaders with emotional intelligence outperform those without it.

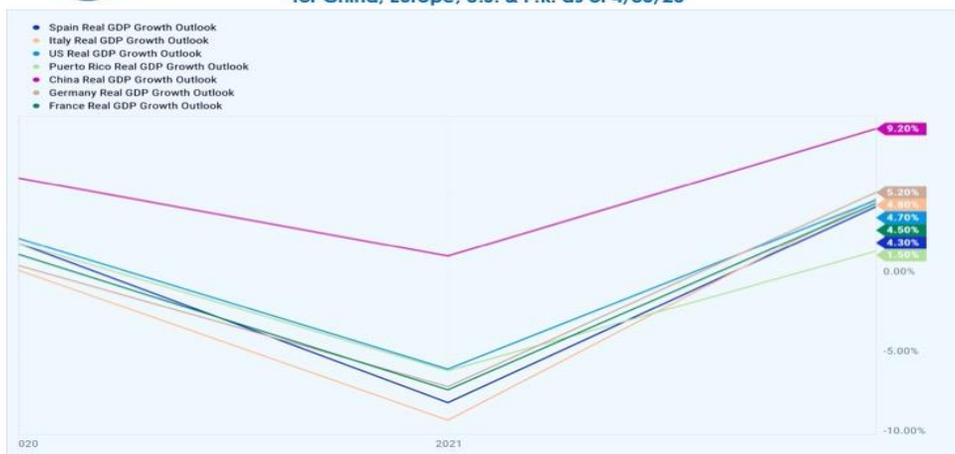
How does emotional intelligence work?

- **Self-Awareness**- is the ability to recognize and comprehend one's moods, emotions, and drives, as well as their impact on people.
- **Self-Regulation**- is the ability to control or redirect disruptive impulses and moods—the propensity to suspend judgment or not thinking before acting.
- **Motivation**- a passion for working for reasons that go beyond money or status. A determination to pursue goals with energy and persistence.
- **Empathy**-the ability to understand the emotional makeup of other people. Skill in treating people according to their emotional reactions.
- **Social Skills**- proficiency in managing relationships and building networks. Finding common ground and building rapport.

President Trump focuses primarily on himself and the lack of praise he has received from the media for the so-called "Fantastic Job" his administration has done under the pandemic.



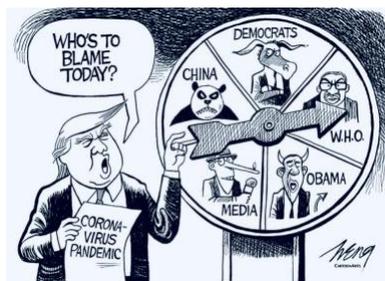
The Real GDP Growth Outlook for 2020 & 2021 for China, Europe, U.S. & P.R. as of 4/30/20



As write these pages, there are in the U.S. 1,095,023 Coronavirus cases with 63,856 deaths. In my opinion, the coronavirus pandemic can only be categorized as a human tragedy.

Any leader must excel in listening, serving, and observing. While developing healthy relationships, which, to me, is the foundation for leadership. Additionally, any leader that lacks humility cannot have empathy. Humility does not make you weak, and arrogance is never a strength.

As we have listened to, President Trump blames anyone and everyone for his troubles. His lack of accountability, humility, and transparency, so after much analysis, it dawned on me that he is simply a Psychological Coward, unable to have the courage to support his convictions, his statements or his behavior.



My friend and mentor, Tony Faria, said to me a long time ago, "A leader with credibility always under-commits and over-delivers. "and "Remember you will make some mistakes when you

make them own up to them, be humble and learn."

Against the backdrop of this powerful sentiment, that has meant so much in my life. These words become the reason I am compelled to compare anyone in power to them.

Forecast 1: The Worlds Economies Contract to recessionary levels:

We have analyzed the International Monetary Fund World Economic Report, and their outlook is quite harmful to the remainder of 2020 with a more rosy outlook for 2021. International Monetary Fund World Economic Report Real GDP Growth Outlook show a grim reality for the world:

- Spain is forecasted to contract in 2020 by -8.00% and for 2021 a growth of 4.30%
- Italy is forecasted to contract in 2020 by -9.10% and for 2021 a growth of 4.80%
- U.S. is forecasted to contract in 2020 by -5.90% and for 2021 a growth of 4.70%
- Puerto Rico is forecasted to contract in 2020 by -6.00% and for 2021 a growth of 1.50%
- China is forecasted to grow in 2020 by 1.20% and for 2021 a growth of 9.20%

- Germany is forecasted to contract in 2020 by -7.00% and for 2021 a growth of 5.20%
- France is forecasted to contract in 2020 by -7.20% and for 2021 a growth of 4.50%.

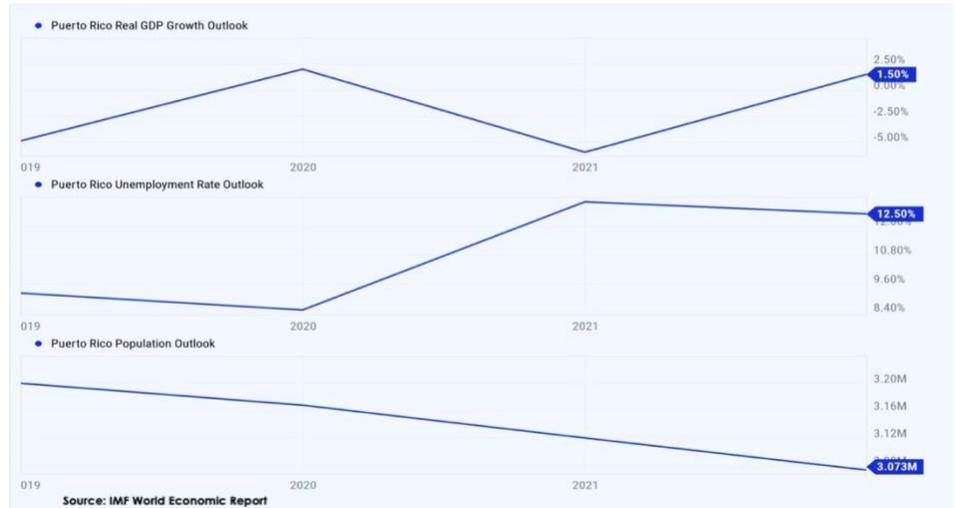
The U.S. Real Gross Domestic Product numbers reported today and its shows the economy contracted at -4.80%, compared to 2.10% last quarter and 3.10% last year. This is lower than the long term average of 3.18%.

U.S. Real GDP Growth is measured as the year over year change in the Gross Domestic Product in the U.S. as adjusted for inflation. Gross Domestic Product is the total value of goods produced and services provided in a the U.S. Real GDP Growth is a vital indicator to analyze the health of the economy. Two quarters of consecutive negative real GDP growth officially signifies a recession.

Forecast 2: The Puerto Rico that we once knew, is gone forever:

At Birling Capital we had forecasted for that for 2020 the Puerto Rico Economy would grow at a rate 1.9%, after having reached 1.7% in 2019 and with so much new federal funding being deployed it presented a positive prospect for the Island. However having the economy perform a hard stop for 45 days an counting has destroyed the prospects of the island and it threatens to further harm more than 50,000 business, in all sectors of the economy.

The impact of Government lock-down that began on March 15 has been severe to the daily lives of all families that are unable to earn a living either because they work in an essential services operation or they are working remotely. For the private sector workers, most have had to file for unemployment. Our numbers show that more than 300,000 employees have filed for unemployment benefits, which after



45 days, not a single unemployment check has been issued as the Secretary of Labor is totally unable to execute her duties, by taking extraordinary measures to provide support to those that most needed. Her inability is evidenced that after seven weeks the excuses of not providing the help are the norm. Also, the Governor of Puerto Rico has not owned up to the realities of what the lockdown she ordered has created, and the dire need to create a safety net for people not only to reset their lives but to be able to thrive again. The Governor has been defending her performance with words, not actions. In my view, she needs to perform a realistic self-assessment of her inability to lead in a crisis. One of the clear signs that the Governors are in trouble is the fact that others are setting the standards of her work, not her. The constant flip-flopping of decisions, the inability to accept mistakes, and own up to them, has destroyed what little ground she had gained.

Often times when the federal government grants you free money to distribute that would be an easy vote getting taks and the Governor cannot even give free money away correctly.

Great Leaders win over the hearts and minds of others by leading with

empathy, compassion, honesty, and transparency, all essential qualities in a leader.

“Since when the winners are those that begin to claim victory, without even crossing the finish line.”

For a while it thought the Governor Vazquez spent so much time singing into the rain her triumphs, because she did not get it, Now it has become obvious that the problem is that she cannot sell it, and with that her illusion to become an elected Governor vanish.

Throughout history, we have seen that during any crisis people will always look for a leader to guide them, the Coronavirus Pandemic has placed most political and business leaders in positions that are challenging, uncomfortable and for many navigating uncharted waters. On every occasion in my life where I needed guidance, I have reached out to the wisdom of John C. Maxwell, author, and motivational speaker. This past week during one of our weekly sessions, he said something that I want to share. John C. Maxwell said, **"On the other side of a storm is the strength that comes from navigating through it, raise your sail and begin.** Just because you are struggling, it does not mean you are failing,

sometimes people that are struggling think they are failing, not even close. If you are struggling, it tells me you are still in the game. We don't see these incredible opportunities first, because a problem always surrounds them, we always have to go thru the door of problems.

So the next time you have adversity in your life, Don't allow the crisis to numb you, be alive, feel, fail, learn, that is what is all about. There is a hero within you; during this tough time, let the hero out, let people see the best in you, you be the hero they need."



You see, in a Crisis Leaders either adapt bodily or fail miserably, it is during these crisis that the real leaders Grow and Thrive and Separates them from those pretending to be leaders. There is an incredible crisis of leadership in Puerto Rico.

Forecast 3: The Payment Protection Program is replenished, will not last long, We are going to need a bigger boat!

President Trump signed the new Stimulus package being called "Stimulus 3.5"; The ink on the bill is not even dry, and there is widespread speculation that the Payment Protection Program may run out in less than a week. In less than a month the U.S. Government has approved \$2.684 Trillion in Stimulus funding and \$660 billion in the SBA's Payment Protection Plan alone.

Let's examine the details of what was approved:

1. Stimulus 3.5: With overwhelming bipartisan support, the House and Senate passed stimulus 3.5. We must

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note that although it is called Stimulus 3.5, this is, in fact, the fourth stimulus bill Congress and The Trump Administration have passed in less than 60 days to help Americans fight the Coronavirus pandemic. The \$484 billion will be distributed as follows:

\$310 Billion to replenish the hugely popular Paycheck Protection Program (PPP)

\$174 Billion for Hospitals and COVID-19 Testing.

We believe that the PPP funding will be depleted in a few days with so many business making requests; should this happens as we expect it to occur, the U.S. Congress will be under extreme pressure to replenish the funds again.

2. The Stimulus 4.0: in our view, there is one absolute initial scenario for the next Stimulus bill, and it will be once the PPP runs out of money.

The U.S. Congress will be forced to not only to replenish it but to leave the program operating for the rest of the year. The rest of the Stimulus will largely depend on how long the pandemic continues and how severe is the impact on States, cities, and businesses. We expect that Stimulus 4.0 will contain expended funding to all 50 states and towns hardest hit with the pandemic. Also, it must include specific funding for the nation's hardest-hit business sectors, similarly as it occurred after the 2008 global crisis.

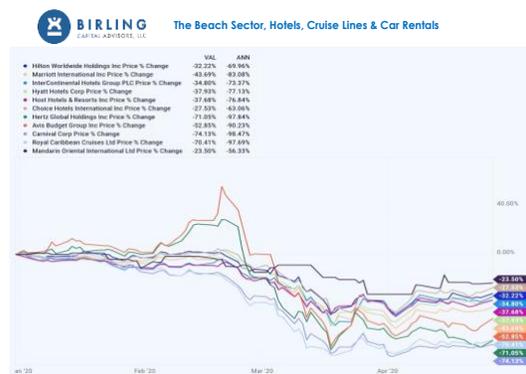
Critical needs at that time will be prioritized, but there will be dozens of other requests made by lawmakers who will view this as perhaps the last stimulus bill that will move forward this year. As such, they will try hard to get provisions they feel strongly about in the bill. This is the bill where more familiar ideas like infrastructure spending, payroll tax forgiveness, and the reinstatement of the full SALT tax deductions may be considered.

Forecast 4: The Worlds Economic Sectors Impacted By COVID-19 may never fully recover:

Let's review several sectors of the economy to evaluate why we mention that the economic recovery may be longer than anticipated.

• The Beach Sector: Hotels, Cruise Lines & Car Rentals:

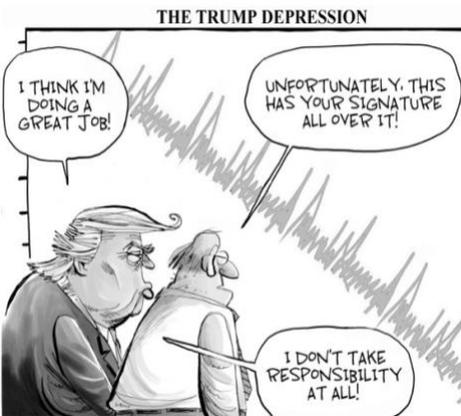
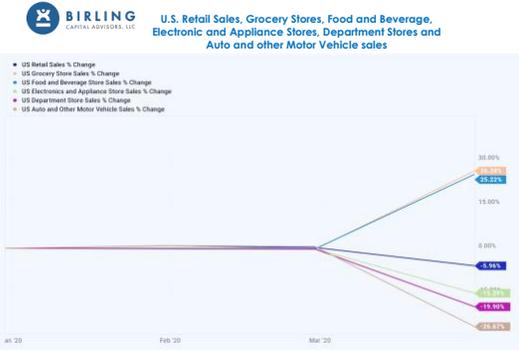
We have reviewed the losses to the U.S. tourism industry from the coronavirus, and the impact is mounting to be about seven times larger than the effects during 9/11. According to the U.S. Travel Association, the slump in travel alone will reach \$910 billion, with an estimated 6 million travel jobs were at risk.



• The Retail Sector: U.S. Retail Sales, Food and Beverage, Electronic and Appliance Stores, Department Stores and Auto and other Motor Vehicles

- U.S. Retail and Food Services Sales MoM fell -8.73%, down from -0.45% last month.
- U.S. Grocery Store Sales rose to 74.16B, up from 58.42B, which translates to an increase of 27% in month, as people eat at home.
- U.S. Electronics and Appliance Store Sales fell to \$6.87B, down from \$8.095B last month or 15.5% less.
- U.S. Department Store Sales fell to 8.779B, down from 10.94B last month or 19.75%.

- U.S. Auto and Other Motor Vehicle Sales fell to \$71.94Billion, down from 98.73B last month or -27.13% less.



- The U.S. Banking Sector: We show in the graph the their levels of losses since January 2020.**

The United States banking sector could see earnings decrease by nearly 25% in 2020 as net interest margins contract, and credit costs rise. The recent sell-off in bank stocks suggests that investors see a high likelihood of that occurring. The economic impact due to the effect on the lockdown measures implemented to most of the economy, and this will impact most of the bank's portfolios, resulting in credit losses, increases in client bankruptcies, and the economic contraction resulting from the outbreak of the coronavirus.

- The Worlds Auto Manufacturers:** Most of the Auto manufacturers show losses to their stock prices, and Ford Motor announced that it would take a \$5 billion hit furing the 2Q2020, however Tesla is the outlier as their stock price has risen 89.30%



- The Oil & Energy Sector:** The Oil glut due to the combination of loss of demand in Consumer, Airlines, Cruise Lines, Manufacturing, and the limited storage capacity has made the prices of crude oil to crash causing a stunning \$811 billion in combined losses to the top 25 U.S. oil producers and a loss of capitalization of \$2 trillion and counting.



"Leaders instill in their people a hope for success and a Belief in themselves. Positive leaders empower people to accomplish their goals."

- An Overall View to the Principal Economic Benchmarks in infographic form:**



Theme 1: Government Leaders with Dysfunctional Values:

The coronavirus pandemic has positioned our leaders in situations that most of them never expected to be in. You see, a crisis moves us; a crisis reveals which are the real leaders, ultimately a crisis tests the abilities of a leader. In my book, leaders must lead by values, not by pressure or by an obsession with power. As leaders face a crisis, they must understand the context of the crisis and act with awareness, anticipation, and agility. During the coronavirus pandemic, the most significant sign we have seen is a detour sign, life, as we knew it has changed, probably forever and our job now is to find alternate ways of going about our lives. The lack of adequate leadership has placed the U.S. and Puerto Rico on the verge of a healthcare and economic collapse. The pandemic reminded me of a term called The OODA Loop. The OODA Loop was a tool developed by military strategist John Boyd to explain how individuals and organizations can win in uncertain and chaotic environments. **The OODA is an acronym that stands for:**

- Observe- actively absorb the entire situation
- Orient- find mismatches: errors in your previous judgments that come in conflict with the reality of a crisis.
- Decide- requires the capacity to decide on and adjust the strategy as needed
- Act- executing the decision.

To get the best possible results from any action, you need to make sure that everyone involved is 'In Agreement' with the choices that you have made, out of conviction and not out of loyalty to a particular person or, worse, party.

The OODA Loop is useful, and during any crisis, the more smart people you have around you, and the more questions you ask, the better your response as a leader will be.

It pains me to watch President Trumps' and Governor Vazquez' fail at their jobs. They have become the worst example of leadership in recent memory. President Trump demonstrates every day a lack of compassion, which, combined with the delayed action of the federal government, has made the U.S. lose thousands of lives.

President is always focusing on the so-called "Great Job he is doing," Coronavirus has become the ultimate challenger to his reelection, not Joe Biden.

In the case of Governor Vazquez from Puerto Rico, it has become quite clear that she failed management 101. While most of Puerto Rico initially agreed with the initial lock-down order, the follow-up orders defied reason and logic. She eliminated adversely impacted the healthcare sector by ordering citizens to stay away from hospitals, cancelling elective surgeries, closing Doctors offices, while eliminatng most of the available shopping days for people, also

impacting how the supply chains work, and virtually closing down the island. Making matters worse, the famous \$38 million contract for a COVID-19 test with a construction company without any experience in the healthcare sector, and claiming not knowing about it is false. A deal of this size, scope, and urgency has to pass thru La Fortaleza. As we hear more about leadership deficits, we realize that it is a character issue and an issue of the absence of values with power as their substitute. We live in a dysfunctional culture; especially when we take into account the values of these two leaders, who express dysfunctional values during the press conferences versus the solid values that are needed to guide a society in the midst of a crisis. I will highlight some:

The Dysfunctional Values:

- **Acceptance**
- **Comfort**
- **Control**
- **Freedom**
- **Happiness**
- **Entertainment**
- **Entitlement**
- **Expression**

The Solid Values:

- **Attitude**
- **Courage**
- **Responsibility**
- **Commitment**
- **Integrity**
- **Humility**
- **Hope**
- **kindness**
- **Perseverance**
- **Teamwork**
- **Gratitude**
- **Self Regulation**

On one side, there is President Trump who has said I would not wear face masks, and on the other, we have Governor Vazquez with custom made face masks with the Governor's logo embossed in them. Both have similar attitudes, and autocratic styles and they are only

interested in one thing only getting re-elected. While telling you how is to blame other than themselves.

Moral courage is doing the right thing in the face of fear. We don't just need more leaders—we need better leaders.

“When the situation is good, enjoy it. When the situation is terrible, transform it. When the situation cannot be transformed, transform yourself.”

Theme 2: The Coronomics Transformation: Some Business Changing Forever:

In due time the coronavirus pandemic shall eventually pass, leaving a path of human destruction in terms of lives lost, psychological impact, and economic devastation. While we all adjust to this pandemic, that has much of the world in lock-downs, social distancing, taking extreme measures to preserve human lives. We have begun to see that the skies in China, Los Angeles, and Mexico City are blue. We see fish and wildlife return all over the world in droves as we have abandoned their habitats. This weekend in the famous Gilligan Island in Guanica, schools of all types and colors of fish can be seen. In Venice, the waters have turned crystal clear. All over the world we could see animals returning to their habitats, lions, zebras, horses, The unlikely beneficiary of the Coronavirus has been our planet earth, and this should be a wake-up call to us all. As I see these changes all around me, I have started to think about how The Coronomics Transformation would engulf the world.

Coronomics will emerge out in three repositionings:

First, Some fundamentals will never regain their former status; it will

impact how we conduct physical proximity. How we go to restaurants, stadiums, or concerts, will people return to airplanes and cruise ships, how you get your groceries and supplies, will we use face masks from now on to protect ourselves from future outbreaks.

Second, some of the current trends will surge because their immediate need has been indisputable during this critical period, that there will be so many more adopters who will experience the benefits from now on. For example, online education, take-out food, online shopping, working remotely, video conferencing, portability of offices, among others, and this new trend may be irreversible.

Third, unique ecosystems will be created around these new heightened levels of personal protection and health security. The transformation will impact at least three generations of humans and will be irreversible altering human behavior for their lifetimes. Every transformation brings about brand new economic opportunities that will dominate our lives as we emerge from this horrific time.

I have often said that “Transformations are not 100-meter races, they are marathons”; however, there is no better motivator than preserving human life to transform the habits of the human race. We are living a rude awakening to the human race.

Theme 3: U.S. Initial Jobless Claims reach 30 million, Federal Reserve Bank takes dovish stance.

As the Coronavirus Pandemic forced thousands of businesses all across the U.S. to close, the job losses mounted weekly, and by April 11 or in only five weeks for the U.S. economy to erase 100% of all the job gains, it added over the last 11 years. While it seems quite unreal to absorb when we review the weekly numbers, we can see the tidal wave of initial unemployment claims. Let's see the timeline of how the job losses accumulated:

- March 21 3.307M
- March 28 6.867M
- April 4 6.615M
- April 11. 5.237M
- April 18 4.442M
- April 25 3.839M
- **Total 30,307M**

The job loss figure represents 18.3% of the total U.S. labor force difficult numbers to absorb. As we are closely watching all the actions that the Federal Reserve Bank has undertaken by Chairman Jay Powell.

However, this week he sent a powerful message to all investors that erased all forecasts of a "V" shape recovery. Chairman Powell alluded that in the FED's view, what remains of the year will not be able to position the economy in positive territory. The bank has assumed the position that the fight against the Coronavirus pandemic will be

longer than anyone had anticipated. The Fed chairman's doomsday scenario was exposed in the FOMC's press release, and we quote "considerable risks to the economic outlook over the medium term, and there seems to be considerable damage to the productive capacity of the economy." We must also consider how this economic impact would affect the overall sentiment of businesses, consumers that would remain both vigilant and afraid to begin investing or spending again.

Let's look at the facts, and we detailed above, it took 11 years to the U.S. economy to create 22 million jobs. After the permanent effect, the Coronavirus will have significant portions of the economy. We continue to predict that the economy will have a "U" shape recovery that would be represented as the economy gradually begins to open under a new set of rules for client engagement, which would include obligatory masks, sanitizers, gloves, and daily sanitation of business

Monthly Market Close Comparison	4/30/20	3/31/20	Change%	YTD
Dow Jones Industrial Average	24,345.72	21,917.16	11.08%	-14.69%
Standard & Poors 500	2,912.43	2,584.59	12.68%	-9.85%
Nasdaq	8,889.55	7,700.10	15.45%	-0.93%
Birling Puerto Rico Stock Index	1,452.67	1,245.52	16.63%	-28.72%
U.S. Treasury 10 -Year Note	0.64%	0.70%	-8.57%	-1.30%
U.S. Treasury 2-Year Note	0.20%	0.29%	-31.03%	-1.40%

Theme 4: Month in Markets: An April for the record books, even as it seems like a lifetime:

The first quarter of 2020 was a record-breaker- All seemed quite rosy as the Dow Jones, S&P 500, Nasdaq & Birling Puerto Rico Stock Index set all-time-highs in mid-February. This fact had pointed that the markets were on route to extend the longest-running bull market well into 2020, Then COVID-19 spread from China through Europe, the U.S., and the rest of the world, and that pushed equity markets into a nosedive.

In the ensuing weeks, investors have seen some of the best and worst single days in market history as investors consider both positive and concerning developments. We've also seen record unemployment claims, crude oil futures trading at unfavorable prices, and the CBOE S&P 500 Volatility Index closed on March 16, 2020, at 82.69 one of the highest on record, this is well above its average lifetime level of 19.3 and its currently at 31.23. When dealing with markets is quite hard to predict

the direction of the markets. Still, we must admit that the current environment is something that never lived before, and investors are becoming restless.

Dow Jones Industrial Average closed April 30, 2020, at 24,345.76 for a gain of 2,428.56 points, or 11.08% percent return and YTD return of -14.69%. The S&P 500 closed April at 2,912.43 for an increase of 327.84, a return of 12.68%, and a YTD return of -9.85%. Nasdaq closed April at 8,889.55 for a gain of 1,189.45 points and a 15.45% return and a YTD return -0.93%. The Birling Capital Puerto Rico Stock Index closed April at 1,452.67 for an increase of 207.15 or a return of 16.63% and a YTD return of -28.72%. Meanwhile, the U.S. Treasury's 10-year note closed at 0.64% or a decrease of -8.57% and a

YTD return of -1.3%. The U.S. Treasury's 2-year note fell to close at 0.20%, a loss of -31.02% a YTD return of minus -1.40%.



Wall Street Stock Market Close April 30, 2020



What are Investors to expect from the economy? As the economy was forced into a sharp halt, the big question is how fast will it reset. We predict a "U-shaped" recovery since it is better represents the gradual resumption of activity. There will be areas of the U.S. with less COVID-19 impact that will be able to open and operate near normal levels, while other areas hardest hit such as New York, New Jersey, Massachusetts, Illinois, California, Pennsylvania, Michigan, and Florida.

“If you want to be reminded of the love of the lord, just watch a sunrise.”





The Small Business Reorganization Act (SABRA) and COVID-19

by CPA Cesar Hernández-Monagas, Principal Birling Capital

The Small Business Reorganization Act (SABRA) became effective on February 19, 2020. SABRA referred to as Subchapter V, added a new bankruptcy process to the United States Bankruptcy Code. The main objective of the SABRA is to reduce the costs associated with small business bankruptcy reorganizations. SABRA also provides a faster reorganization; in practical terms, it is a combination of chapter 11 and chapter 12/13. A month later, the COVID-19 global pandemic hit the United States with a devastating impact on small businesses. SABRA seems to be a blessing fallen from heaven.

Subsequently, on March 27, 2020, President Trump signed the Corona Virus Aid, Relief, and Economic Security Act, Public Law No. 116-136 (the "CARES Act"), which provides a package of different stimuli to mitigate the negative impact of COVID-19 on the economy. As part of the CARES Act, congress included certain modifications to SABRA. It should be noted that these modifications are temporary.

Eligibility

The original version of SABRA stated that to be eligible, a debtor could not have debts over \$2,725,625, but the CARES Act increased the debt limit to \$7,500,000. At least 50% of the debt must come from "commercial or business activities" to qualify for SABRA relief. This increase in debt limit will be available for a limited time, businesses with debts between \$2,725,625 and \$7,500,000 have until March 27, 2021, one year after the approval of the CARES Act, to apply under SABRA.

This substantial change in eligibility is expected to result in a significant increase in debtors seeking the protection of this, less expensive, reorganization mechanism.

Chapter 11 vs. Subchapter V

The differences between the two bankruptcy proceedings are as follows:

Although other provisions are treated differently under SABRA, the ones mentioned above are the most important.

Discharge

Once the court confirms a plan agreed by the creditors, the debtor is entitled to discharge at the time of confirmation. If the plan does not have the creditor's approval, the debtor will receive the discharge once the payments due within the first three years of the plan are completed. The debtor will not receive discharge for payments that are outstanding within the plan after three years.

Changes to SABRA under the CARES Act will apply only to cases submitted to March 27, 2020, and it is not allowed to convert previously filed cases under chapter 11 to Subchapter V.

At first glance, SABRA appears to have significantly modified the reorganization of a small business under chapter 11. The support of the small business trustee, among other measures, provides the small business with a real opportunity of a reorganization rather than liquidation.

And what was its criticism of SABRA, the allowed debt amount, was properly altered under the CARES Act.

The use of SABRA was expected to be limited. However, with the expansion of the rules of eligibility under the CARES Act, we understand that this new alternative will be used by small businesses to recover from COVID-19.

Please contact us at Birling Capital if you believe that you can benefit from SABRA.

	CHAPTER 11	SUBCHAPTER V
Faster process with debtor controls	Debtor has exclusive right to file a plan of reorganization within the first 120 days. This period can be extended for an additional 120 days and after that period it is possible that a creditor can file a plan.	The debtor must file a plan within 90 days of filing for bankruptcy.
Creditor Support	Plan requires at least one of class of creditors, vote to accept the plan	If the plan meets confirmation requirements under 11 USC §1129, the plan can be confirmed without creditor support
Right in primary residence	No alteration	Rights can be altered if the loan secured was not used to acquire the residence, but was related to the debtor's business
Administrative Claims	Must be paid in full at once	Can be paid over time
Debtor equity		Debtor can keep its equity by committing its projected disposable income to paying unsecured creditors for a minimum of 3 years
Trustee	Appointed under certain circumstances	Standing trustees monitors every case
Automatic Stay	Automatic with filing	Automatic with filing

The Final Word: Leaders Must Talk Less and Do More!

We hope this publication finds you well, and you and yours are healthy and safe. The main goal of producing this newsletter is to provide you with useful information that will help you better understand the shape of things to come.

Since 1948 Puerto Rican's has been electing its Governors, we have had as Governors a journalist, doctor, engineers, lawyers, industrialists, and career politicians. As we analyze the current situation in Puerto Rico, we note that the most celebrated Governors have been those who served during great times of crisis.

In Antoine de Saint-Exupéry's book, "The Little Prince," there is a brief discussion about the importance of love and friendship. At the same time, the fox asks the little prince to domesticate him, the little prince explains what friendship entails, and a more substantial part is missing someone, needing a person. The confused fox is told, "What is essential is invisible to the eye" to describe the feelings of friendship. The power and influence a Governor has, in no small degree, are invisible to our eyes. It has to do with the distinct personality of each Governor, and for that, there is no single measurement. For example, Governor Muñoz-Marin's vision and focus, Governor Ferré's taught us all a valuable lesson on leadership, humility, and decency, Governor Hernández-Colón's intelligence and compassion.

If we choose to harness the Governor's power with a single phrase, it has to be the potency of language and words. One example comes to mind and is Governor Ferré saying, "Reason does not scream, Reason Convinces."

While we have an opportunity to watch each Governors, one thing that is quite particular in all Governors is the fact that all the power, symbols, mantras, and actions are synthesized by one single reaction: the ability to convey a message.

For all the above reasons, we can, with a high degree of certainty, can conclude that Governor Vazquez has to talk less and do more to measure up as a Governor. Her lack of action and accountability issues are causing significant harm to Puerto Rico. In the end, being Governor is all about character, honesty, respect, confidence, passion, clarity, and caring. Qualities we can conclude are essential but invisible to our eyes.

Allow me to end with a quote from George Washington-Carver, who said:

"How far you go in life depends on you being tender to the young, compassionate with the aged, sympathetic with the striving, and tolerant of the weak and the strong. Because someday in life you will have been all of these."

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.



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You have problems... We provide long term solutions. Doing the right thing at the right time.

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