

Market Commentary



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As August comes to a close, the world's economic forecast appears grim. The NASDAQ saw its biggest plunge since the 2008 crisis this weekend, accompanied and probably precipitated by an even steeper plunge in Chinese stocks. This coupled with an anemic European economy and a debt crisis in Puerto Rico, creates a deceptively dark perception of America's economic future. However, America's economy continues to show signs of consistent if muted growth, as second quarter GDP growth has been revised to 3.7%.

China's Shanghai Index continues to fall despite massive stimulus efforts enacted by the Chinese government. This is indicative of the continued slowdown of the Chinese economy, whose enormous manufacturing base and insatiable need for natural resources has been powering the global economy for the last decade. This, combined with the recent plunging price of oil has hit commodity heavy emerging markets especially hard. All of this has caused a

ripple effect which, combined with slow U.S. growth has led to the current downturn witnessed over the last few days. This is probably not, however, the start of a new recession. American stocks have been widely perceived as being somewhat overvalued relative to the real economy, and this is most likely simply a correction to reflect America's more modest but still strong growth. Although it is unlikely to have a strong impact on the overall U.S. economy, it is still important to note that Puerto Rico is currently in the midst of an overwhelming debt crisis. Puerto Rico is currently \$72 billion in debt; when considering Puerto Rico's relative poverty and population of 3.5 million, this is an astronomical amount. To put this in perspective, New York City, arguably the wealthiest city in the nation with a population of 8.5 million, currently has a debt of \$110 billion. This debt is mostly owned by private retail investors who invested in Puerto Rico due to its unique tax status as a territory rather than a state. This,

compounded by corruption and mismanagement endemic in the Puerto Rican government, created an enormous unsustainable glut in spending. Puerto Rico currently hangs in limbo, as the U.S. government remains uncertain as to how to handle the crisis. While some sort of debt restructuring is obviously needed, there is intense debate on whether Puerto Rico's territory status should allow it to declare bankruptcy. While Detroit notably declared bankruptcy in 2013, states and seemingly, territories, are unable to do so. This has called into question what rights Puerto Rico possesses as a territory, and has even opened a debate on whether Puerto Rico should be granted statehood or even become independent. Both of these options are unlikely however, as most Puerto Ricans continue to want to remain a part of the U.S., and the unwillingness of the U.S. government to grant Puerto Rico statehood. Suffice to say, across the world from China, to Greece, to Puerto Rico, the overhang of ill conceived spending and debt remains an intractable problem.

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