

Think Strategically



BIRLING
CAPITAL ADVISORS, LLC

Moving from Crisis to Growth, The Road Ahead

April 2, 2023

by Francisco Rodríguez-Castro
frc@birlingcapital.com

One-Quarter Down, Three-Quarters to go.

As we put the first quarter of 2023 behind us, we must focus now on the three quarters to go, while it is safe to say that not even an Oscar-winning Hollywood script could have included as much drama in such a short period as the markets provided to us during the 1Q23.

Let's rank the five indices we follow by returns from 1/1/23 of 3/31/23; let's see:

- Nasdaq Composite **16.77%**.
- S&P 500 **7.03%**.
- Dow Jones Industrial Average **0.38%**.
- Birling Capital U.S. Bank Index **-3.18%**.
- Birling Puerto Rico Stock Index **-6.54%**.

Some of the critical issues we faced in these 90 days include:

- The markets closed a highly volatile but positive first quarter, mainly led by the tech stocks and the Nasdaq Composite offsetting the impact on most financial and bank stocks.
- A Banking Crisis of Confidence began in social media, taking down Silicon Valley Bank, Signature Bank, almost took down First Republic Bank and forcing the merger of UBS and Credit Swiss.
- As the banking contagion took hold, it impacted the stocks of most banks worldwide.
- With the Crisis of Confidence abating, the ensuing turbulence has shortened the Fed's aggressive interest rate campaign.

- While the Banking crisis of confidence is now almost behind, we must monitor the quarterly results of all banks and financials for potholes; we are watching closely the Commercial Real Estate sector, which we believe is a sector with increased susceptibility.

While the bank crisis of confidence shall be remembered as the ignitor of the intense downward pressure in shares of super regional, regional, large, and money center banks, not all was negative; as we mentioned before, the tech sector led the market in growth.

We reprise all sectors performance for the 1Q232:

1. Technology **21.35%**
2. Communication Services **20.80%**
3. Consumer Cyclical **15.78%**
4. Basic Materials **3.84%**
5. Industrials **3.02%**
6. Real Estate **1.22%**
7. Consumer Defensive **0.21%**
8. Utilities **-3.99%**
9. Healthcare **-4.70%**
10. Energy **-5.30%**
11. Financial Services **-5.99%**

Please be mindful that a YTD date negative return could be a considerable investment opportunity with significant upside potential.

The decrease in short- and long-term yields allowed for reversing valuation pressures that high-growth companies experienced last year. Pushing the S&P 500 to increase in March, even with a 15% to 22% decrease in banks stocks.

We highlight the Top Banks' performance during the first quarter of 2023, while we await the quarterly results of 1Q23, let's see:

1. UBS Group (UBS) has a 14.30% return, with a price target of \$23.81, and the stock closed at \$21.34.
2. Citigroup (C) has a 3.57% return, with a price target of \$56.02, and the stock closed at \$46.89.
3. JP Morgan Chase (JPM) has a -2.83% return, with a price target of \$155.48, and the stock closed at \$130.31
4. Morgan Stanley (MS) has a -3.27% return, with a price target of \$102.20, and the stock closed at \$87.80.
5. Goldman Sachs (GS) has a -4.74% return, with a price target of \$397.85, and the stock closed at \$327.11.
6. Wells Fargo (WFS) has a -9.47% return, with a price target of \$52.46, and the stock closed at \$37.38.
7. OFG Bancorp (OFG) has a -9.51% return, with a price target of \$34.74, and the stock closed at \$24.94.
8. First Bancorp. (FBP) has a -10.22% return, with a price target of \$15.60, and the stock closed at \$11.42.
9. Popular, Inc. (BPOP) has a -13.43% return, with a price target of \$74.00, and the stock closed at \$57.41.
10. Bank of America (BAC) has a -13.55% return, with a price target of \$28.60, and the stock closed at \$39.47.



Top Banks US, PR and Swiss Returns First Quarter 2023



The Birling Capital Puerto Rico Stock Index Compared to the Birling Capital US Bank Index:

Now, let us revise the results for the first quarter of 2023 of our Indexes Birling Capital Puerto Rico Stock Index and Birling Capital US Bank Index.

The Birling Puerto Rico Stock Index includes,

Banco Popular Firstbank and Oriental Banks and The Birling Capital US Bank Index include Bank of America, Citigroup, JP Morgan Chase, Goldman Sachs, Morgan Stanley, and Wells Fargo.

The Birling Puerto Rico Stock Index began the quarter at 2,520.76 and closed the quarter on March 31, 2023, at 2,355.01, down -164.85 points and a Year-to-Date Return of -6.54%. In comparison, the Birling US Stock Index began the quarter at 3,686.84 and closed the quarter on March 31, 2023, at 3,569.60, down -117.24 points and a Year-to-Date Return of -3.17%. The Birling US Bank Index is outperforming the Birling Capital Puerto Rico Stock index by 51.52%.



Birling Capital Puerto Rico Stock Index Vs. Birling US Bank Index



The Confidence Rises and Sizable opportunities become evident.

As confidence increases and the fears dissipate, investment opportunities become more attractive. In summation, the positive outcome of the crisis of confidence is that shook the financial stability of many institutions is proving to be a blessing in disguise, as the Fed's nine consecutive interest rate increases have created the scenario for many institutions to face unrealized losses in their portfolios and that will end the current interest rate tightening cycle.

In a testament to how fast and sharp the tide has turned for the banking sector and the Fed, it was less than 30 days ago that Fed Chair Powell, during his semiannual testimony to Congress, presented the FOMC preference of reaccelerating the pace of rate increases.

But the Fed is quickly dialing back its stance after the following bank failures.

A Key question investors may have whether a Fed pause would take markets to a bull market.

The short response is not as easy as it sounds; the answer is not as simple as it sounds; yes, there are stark similarities to the 1980s in the current inflation-laden macroeconomic environment. During the past twenty years, after the Fed paused, equities continued to gain steam as policy rates were cut further. So providing for the relationship between equities valuations and rising rates, we think the market hit bottom and is now on its way up even more once the Fed pauses.

In our view, the markets' attention will now focus on the macroeconomic data to determine the economic damage from the banking crisis of confidence and how robust the banking system truly is; we shall see that in-depth once the banks begin to report their quarterly earnings from 1Q23.

As Banks concentrate on increasing their liquidity levels, the possibility of stricter lending parameters becomes prevalent collateral damage. This could, in turn, result in a falling decline in credit growth, directly affecting the economy. Instead of avoiding a recession, the impact could drive us right into it.

The last GDPNow forecast for the first quarter of 2023 was updated on 3/31/23, falling to 2.50% GDP from 3.20% GDP, a 21.87% decrease.

The Last Word: Inflation Moderating, Investment Opportunities ahead.

In conclusion, while the ride will be like riding an "Unbroken Pony," we think the U.S. economy may continue growing despite the current headwinds and crisis. Also, with inflation beginning to moderate, as shown with the Fed's preferred inflation benchmark, the Personal Consumption Expenditures falling to 5.00%, decreasing 6.54%, and the Core PCE fell to 4.60%; the better-than-anticipated inflation data gave the markets lift and allowing investors to consider a better tomorrow. Investors can take advantage of the volatility and much reduced prices on some stocks to add opportunistic investments to their portfolios to realize sizable upside.

Think Strategically, © is a weekly column prepared by Birling Capital LLC and is a summary of recent geopolitical, economic, market, and other developments that may be of interest to clients of Birling Capital LLC. This report is intended for general information purposes only, is not a complete summary of the matters referred to, and does not represent investment, legal, regulatory, or tax advice. Recipients of this report are cautioned to seek appropriate professional counsel regarding any of the matters discussed in this report considering the recipients' particular situation. Birling Capital does not undertake to keep the recipients of this report advised of future developments or changes in any of the matters discussed in this report. Birling Capital. The man and log symbol and Birling Capital are among the registered trademarks of Birling Capital. All rights reserved.