

ECONOMY

Bouts of Volatility
Rattle Investors

THINK STRATEGICALLY:

Digging Deeper into Puerto Rico Stocks

BY FRANCISCO RODRÍGUEZ-CASTRO | frc@birlingcapital.com



What is the Birling Capital Puerto Rico Stock Index?

The Birling Capital Puerto Rico Stock Index (PRSI) is a market value-weighted index composed of five companies with headquarters or primary domicile on the island. All companies are listed in either the New York Stock Exchange (NYSE), its Amex Composite Index or the NASDAQ Composite Index.

The Birling PRSI began in 2021 with a bang, with the companies that make up the index rising to lofty levels as most are viewed in a much better position as we wrap up the pandemic. To highlight each of the stocks, we make a collective and individual comparison of each versus the Dow Jones Industrial Average, the S&P 500 and the Nasdaq.

The following yields are for the Jan. 1 to April 23 period:

- Birling Capital Puerto Rico Stock Index: 22.34 percent
- Dow Jones Industrial Average: 11.23 percent
- S&P 500: 11.29 percent
- Nasdaq Composite: 8.76 percent

As we calculate the returns, note that the Birling PRSI's 22.34 percent yield is 98.93 percent higher than the Dow's, 97.87 percent higher than the S&P 500, and 155.02 percent higher than the Nasdaq Composite. Interested? Let's dig deeper.

Birling Capital PRSI company yields for the first quarter of 2021 (1Q21) and price per share when the market closed:

First Bancorp (FBP): 31.13 percent, exceeding the PRSI, Dow Jones, S&P 500 and Nasdaq, with a price per share at the close of April 23 of \$12.09.

Earnings: The holding company for FirstBank Puerto Rico beat Wall Street expectations Monday, reporting earnings of \$61.2 million and \$225.6 million in revenue, with its stock more than doubling year-to-date.

OFG Bancorp (OFG): achieved a yield of 30.42 percent, exceeding the Birling PRSI, the Dow, S&P 500 and Nasdaq, with a closing price per share of \$24.18.

First Quarter 2021 Earnings: OFG reported \$127.7 million in revenue on April 21, compared to \$132.8 million in 4Q20. Total Income was \$29.1 million.

Popular Inc. (BPOP): achieved a 29.3 percent yield exceeding the Birling PRSI, the Dow, S&P 500 and Nasdaq, with a closing price per share of \$72.82.

Earnings: As of this writing, the expectation in Wall Street is that Popular should deliver a year-over-year increase in earnings on higher revenues when it reports results for 1Q21 on April 28.

Triple S Management (GTS): achieved a yield of 18.74 percent that lags behind the Birling PRSI, Dow Jones, S&P 500 and Nasdaq, with a closing price per share of \$25.35.

Earnings: The expectation from Wall Street is that Triple S should deliver a year-over-year increase in earnings on higher revenues when it reports results for 1Q21 on May 6.

Evertec Inc. (EVTC): a minus-0.03 percent yield, or below the Birling PRSI, Dow Jones, S&P 500 and Nasdaq, with a price per share of \$39.71.

Earnings: The expectation is Evertec will deliver a year-over-year increase in earnings on higher revenues when it reports results for 1Q21 on Thursday.

Please take note that at its worst close on March 23, 2020, the Birling PRSI saw a minus-32.73 percent yield; however, it has had a sustained and spectacular recovery. We suggest that investors in the index, as they deserve a fresh look to consider them as part of a diversified portfolio.

Week in Markets: The most volatile week in months causes Wall Street to drop from record highs.

The U.S. stock market had its most volatile week in months following record highs April 16. Then, as we believe now, the view of the market of the future was supported by five pillars of support:

- The nascent economic recovery
- Massive vaccination efforts
- Rising corporate profits
- U.S. stimulus efforts
- Federal Reserve support

However, last week, the market took a turn, with all indexes falling from the record to end the week with losses. As we have often mentioned, when markets are in eruption mode following an exogenous shock, such as the pandemic, there will be bouts of volatility and some pullbacks that will rattle investors. In this specific case, the culprit is President Biden's proposal to raise both corporate and capital gains tax rates. Simultaneously, the market reacted negatively; we do not understand

why, given that Biden's position has been widely known. Let's look at the fundamentals to allow you to draw your own conclusions.

— U.S. Real Potential GDP rose to \$23.62 trillion, up from \$23.52 trillion last quarter, a change of 0.42 percent from the previous quarter.

— U.S. Real GDP is at 4.3 percent, compared to 33.4 percent last quarter and 2.4 percent last year. This rate is higher than the long-term average of 3.17 percent.

— U.S. Initial Claims for Unemployment Insurance fell to 547,000, down from 586,000 last week, a change of minus-6.66 percent.

— U.S. Unemployment Rate is at 3.9 percent, compared to 4.1 percent last month, a 4.87 percent reduction.

— U.S. Corporate Earnings; 25 percent of the S&P 500 companies have reported results for Q121, and 84 percent have reported earnings above estimates, which is higher than the five-year average of 74 percent.

The economy is firing on all cylinders, and the market's fundamentals are pretty strong, so let's review the factors that are causing increased volatility.

— Tax Increases always cause angst, but their impact on the markets is short-lived.

— Will inflation become a problem? Although under control, the combination of rising demand and the supply-chain disruptions are guiding consumer prices gradually higher and the rate is at 2.62 percent, compared to 1.68 percent last month and 1.54 percent last year. This is lower than the long term average of 3.21 percent.

— The crypto bubble will burst: Bitcoin prices and other cryptocurrencies have risen sharply this year, with the world's most significant digital coin climbing to as high as \$63,558.48 before taking a nosedive. Bitcoin Price is at a current level of \$49,955.17, down significantly. We think the threat of asset bubbles lie in their widespread acceptance and cryptocurrency has all the characteristics of a bubble.

As we march along for the rest of the year, we think the bull market will continue, but bouts of volatility and

pullbacks will sharpen its course and take the market further ahead.

The Final Word: Sakoku

For the 220 years of Japanese history, the nation went through isolation termed as Sakoku, or "chained country."

During Sakoku, no Japanese could leave the country on the death penalty, and very few foreign nationals were permitted to enter and trade with Japan.

The sakoku effect has in many ways impacted how the current Japanese culture operates. The term also refers to several situations, including the isolated development of globally available products, policies or customs.

For example, in Japan, 45 percent of the nation's cellphone customers use a phone aptly named Garakei, a clamshell or flip-phone or Gara, from the combination of Galapagos (connoting isolation) and karei, a word for mobile phone in Japan. Many well-known Japanese phone brands and manufacturers still produce flip phones. Garakei holds a much longer charge and is more resistant to breaking from drops than their "smart" relatives.

As we have experienced during the past few decades, after five centuries of colonialism and more recently commonwealth, we have developed "the Sakoku Syndrome," which has distorted most Puerto Rico's vision.

The Sakoku Syndrome has prevented us from expanding our potential as a nation in many ways; however, the most fun is the fact that Puerto Ricans are the only ones that:

- Pump gas at the station in liters
- Measure driving distances in miles
- Roads are measured in kilometers and hectometers
- Measure liquids in ounces
- Measure in feet
- Temperature is measured in Fahrenheit until you get sick—that is measured in Celsius
- Land is measured in "cuerdas"

Just to name a few of the many oddities.

Francisco Rodríguez-Castro is president and CEO of Birling Capital LLC. Think Strategically® is a publication by Birling Capital LLC that summarizes recent geopolitical, economic, market and other developments. This report is intended for general information purposes only and does not represent investment, legal, regulatory, or tax advice. Recipients are cautioned to seek appropriate professional counsel regarding any of the matters discussed.

Weekly Market Close Comparison	4/23/21	4/16/21	Return	YTD
Dow Jones Industrial Average	34,043.49	34,200.67	-0.46%	11.23%
Standard & Poor's 500	4,180.17	4,185.47	-0.13%	11.29%
Nasdaq Composite	14,016.81	14,052.34	-0.25%	8.76%
Birling Puerto Rico Stock Index	2,501.99	2,514.30	-0.49%	22.34%
U.S. Treasury 10-Year Note	1.58%	1.59%	-0.63%	0.60%
U.S. Treasury 2-Year Note	0.16%	0.16%	0.00%	0.75%