



BIRLING
CAPITAL ADVISORS, LLC

Think Strategically

2025 Year in Review: Six Thematic Forces That Defined Investor Outcomes

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Epigraph

"Progress remains an elusive ideal without the courage to embrace change. While change may bring discomfort, it is insignificant compared to the lasting cost of sustaining poverty. We must recognize change as the transformative force that shapes our future into a true beacon of possibility".

What 2025 Ultimately Proved

2025 was neither calm nor defined by crisis. Markets absorbed shocks, repriced risk, and rewarded discipline, diversification, and forward-looking capital allocation. Despite early trade disruptions, policy uncertainty, and volatility, global markets delivered positive returns, reinforcing a key lesson: **structure trumps sentiment**. Four forces stood out as decisive in shaping outcomes:

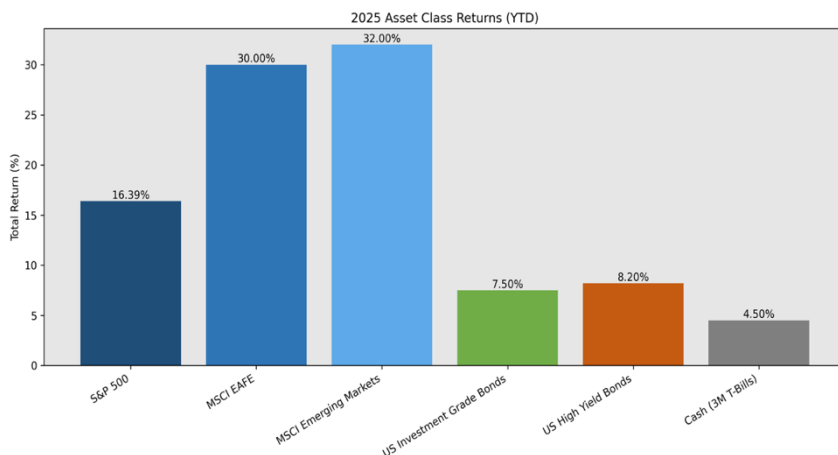
1. Markets proved resilient amid policy disruption and volatility.
2. Artificial intelligence transitioned from narrative to measurable economic driver.
3. International equities reclaimed leadership as the U.S. dollar weakened.
4. Bonds reasserted their role relative to cash as yields adjusted lower.

Key Takeaways

- **Positive returns across major benchmarks:** U.S. equities advanced meaningfully in 2025 (Nasdaq **+20.36%**, S&P 500 **+16.39%**, Dow **+12.97%**), while leadership remained highly selective.
- **AI and technology narratives drove benchmark outcomes—indirectly shaping everything else:** Concentration magnified gains in the largest indexes, raising the opportunity cost of being underexposed to the dominant winners.



2025 Asset Class Returns



- **International diversification reasserted its value:** Developed and emerging-market equities meaningfully outperformed many domestic, non-tech exposures—reinforcing the case for global reach.
- **Cash became a strategic drag:** Bonds and bond-like exposures regained relevance as rates eased and income once again mattered.
- **Puerto Rico equities produced positive but constrained performance:** The **Birling Capital Puerto Rico Stock Index returned +8.98%**, reflecting fundamentals, balance-sheet discipline, and internal dispersion (BPOP **+32.38%** vs. EVTC **-15.75%**).
- **Food price inflation moderated at the source, not the checkout:** Farm-level pricing in 2025 showed normalization and outright deflation across key categories (eggs, dairy, grains), while persistent grocery-store affordability pressures reflected downstream costs—processing, transportation, labor, and retail margins—rather than agricultural input inflation.

Theme 1 — Markets Relearned How to Digest Uncertainty

After an extended period of relatively suppressed volatility, 2025 marked a return to sharper market swings. Trade policy upheaval and a historically long U.S. government shutdown introduced meaningful stress into financial markets, particularly in the first half of the year.

Following the April tariff announcements by the Trump administration—pushing effective U.S. tariff levels to heights not seen in nearly a century—equities reacted swiftly. The S&P 500 posted multiple daily moves of more than 2%, and at its worst, the index declined nearly 19% from its peak amid recession concerns.

Yet this volatility proved transitory rather than structural. As negotiations tempered the most aggressive tariff measures and economic activity remained intact, markets stabilized. Earnings growth reasserted itself, and investor confidence gradually recovered. By year-end, the S&P 500 notched its **third consecutive year of returns above 15%**, underscoring the market's capacity to rebound when fundamentals remain sound.

Volatility is not inherently destructive; it becomes damaging only when portfolios are unprepared for it.

Diversified equity allocation should align with long-term objectives. Plan for volatility through asset allocation instead of tactical reactions.

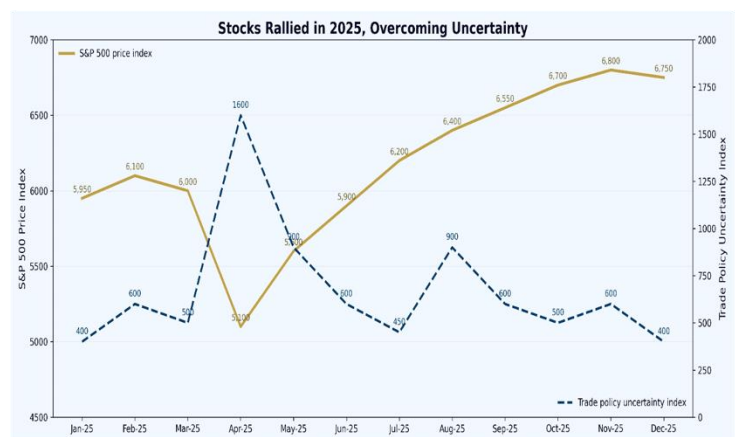
Theme 2— AI Became an Economic Input, Not Just a Market Theme

Technology leadership persisted in 2025, with artificial intelligence moving from promise to production. In technology and communication services, AI adoption has enhanced automation, data analytics, and cloud infrastructure. These sectors outperformed not through multiple expansion but through direct earnings growth driven by practical AI implementation.

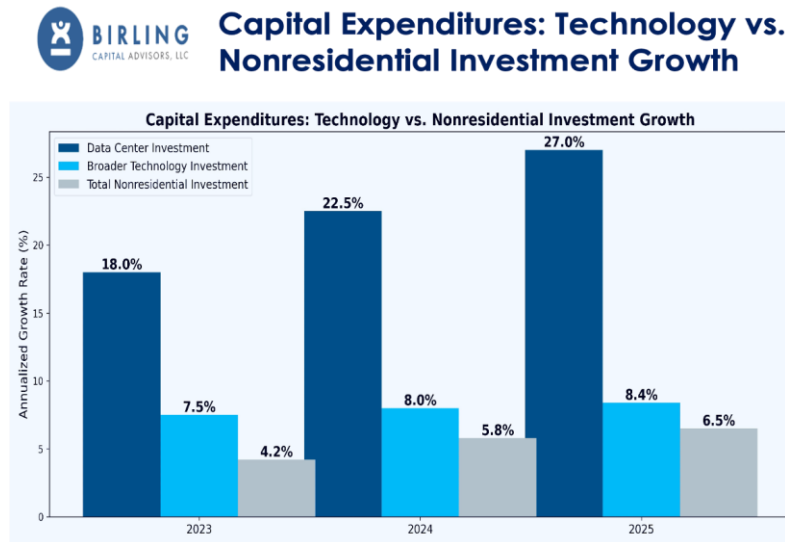
AI-driven capital expenditures surged. Since late 2022, investment in data-center infrastructure has accelerated, and in 2025, broader technology investment—especially in information-processing equipment—outpaced overall nonresidential investment. This directly supported productivity, margins, and GDP growth. AI's influence extended beyond mega-cap technology firms. Industrial automation firms



Stocks Rallied in 2025 Overcoming Trade Uncertainty



used AI to streamline manufacturing and reduce costs. Health care analytics adopted AI for patient data analysis and diagnostics. Logistics companies applied AI to route optimization, while consumer companies used AI for targeted personalization. These sector-specific applications expanded the AI earnings opportunity beyond headline technology names.



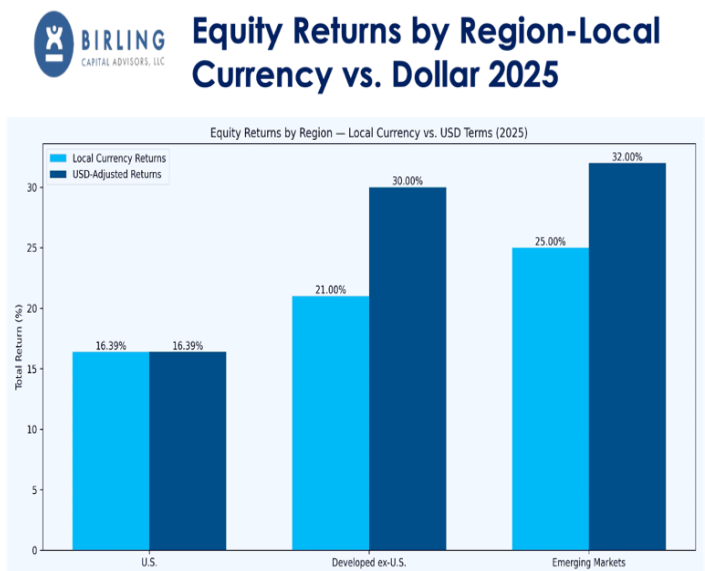
AI is no longer optional capital—it is becoming foundational infrastructure. Participate in AI-driven growth without overconcentration. Maintain exposure to sectors that benefit from productivity gains, including industrials, health care, and consumer discretionary, rather than relying solely on technology names.

Theme 3 — Global Diversification Finally Paid Off

After years of U.S. dominance, 2025 marked a decisive turning point for international equities. Developed and emerging markets outperformed U.S. stocks by a wide margin, supported by improving local fundamentals and a materially weaker U.S. dollar.

In Europe, fiscal stimulus—particularly in Germany—and monetary easing lifted momentum. Japanese equities benefited from rising profitability and governance reforms, despite elevated U.S. tariff exposure. Currency dynamics amplified these gains. The U.S. dollar declined more than 9% during the year, its sharpest annual drop since 2017, driven by narrowing yield differentials, fiscal uncertainty, and increased hedging by foreign investors. This currency backdrop meaningfully boosted dollar-based returns for international assets.

Emerging markets also benefited, particularly technology-heavy regions such as China and South Korea, where equity performance was driven by both earnings growth and valuation normalization.



Theme 4 — Bonds Reclaimed Their Strategic Role Over Cash

For the first time in several years, holding excess cash carried a visible opportunity cost. As the Federal Reserve delivered cumulative rate cuts totaling 75 basis points and labor-market conditions cooled, short-term yields declined, compressing cash returns.

Investment-grade bonds, by contrast, benefited from both declining yields and elevated starting income. U.S. investment-grade fixed income delivered its strongest annual return since 2020, outperforming cash by the widest margin in four years. Credit-sensitive segments, including high-yield and emerging-market debt, performed even better amid stable growth conditions.

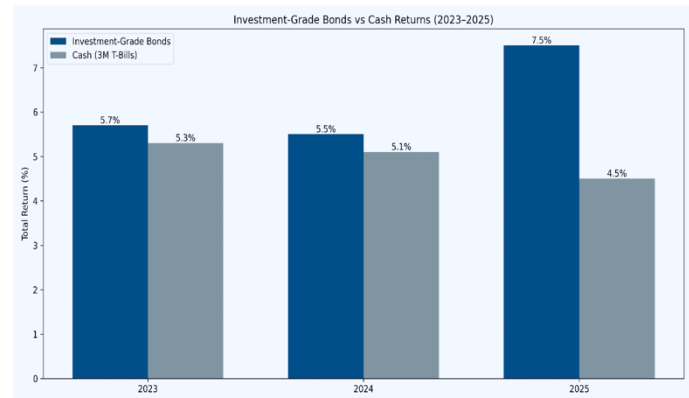
Importantly, yield differentials widened meaningfully by year-end. Investment-grade bonds offered a yield advantage of roughly 70 basis points over cash—near the upper end of recent ranges—reestablishing fixed income as a core contributor to returns rather than a defensive placeholder.

Cash protects capital—but does not compound it over full cycles.

Reallocate excess liquidity to investment-grade bonds or diversified fixed income as rates fall and yields remain stable.



Investment Grade Bonds versus Cash Returns 2023-2025



Theme 5: Birling Capital Puerto Rico Stock Index 2025 Performance

A Deeper, Data-Driven Assessment

- Index-Level Performance: Absolute Returns vs. Structural Reality**

In 2025, the Birling Capital Puerto Rico Stock Index rose by +8.98%. While this lagged the S&P 500 (+16.39%), Nasdaq Composite (+20.36%), and Dow Jones (+12.97%), it must be evaluated against its sector composition, beta profile, and earnings drivers. The most instructive comparison is not against the S&P 500, but against the Birling Capital U.S. Bank Index, which surged +45.32% in 2025.

That differential—over 36 percentage points—quantifies the premium the market assigned to:

- Large-cap balance sheet scale,
- Trading liquidity,
- Capital markets exposure,
- And nationwide earnings optionality.

Puerto Rico-centric banks operated in the same macro environment—declining rates, solid credit quality, easing funding pressure—but without the same earnings convexity. The result was positive but constrained performance, consistent with a lower-beta, domestically anchored index. The Puerto Rico Stock Index did not fail to participate in the rally; it participated in proportion to its structural limits.



Popular, Inc. (BPOP), Firstbank, (FBP), Oriental (OFG) & Evertec, Inc. (EVTC) 2025 Returns



- Internal Dispersion: The Hidden Story of 2025**

The Birling Capital PR Stock Index achieved a respectable 8.98%; however, the most important

data insight from the chart is dispersion, not the headline index return.

Constituent 2025 Total Returns:

- **Popular, Inc. (BPOP) +32.38%**
- **First BanCorp (FBP) +11.51%**
- **OFG Bancorp (OFG) -3.17%**
- **Evertec, Inc. (EVTC) -15.75%**

The spread between the best and worst performers was 48 percentage points, a level of dispersion typically seen in late-cycle or transition years. This confirms that 2025 was a stock-picker's market, even within a narrow regional index.

1. Popular, Inc. (BPOP): The Index Anchor and Primary Engine of Returns

In 2025, Popular was not simply the best-performing constituent of the Birling Capital Puerto Rico Stock Index—it was the **decisive driver of the index's positive outcome**. Popular's shares opened in 2025 at \$94.06 and closed the year at **\$124.52, increasing \$30.46** with shares advancing **32.38%**. BPOP outperformed the index itself by more than **23 percentage points** and exceeded the S&P 500 by approximately **16 percentage points**, placing it squarely in the performance range of national and super-regional banks. The magnitude of BPOP's contribution is difficult to overstate. The performance data strongly indicate that **absent Popular's advance**, the Puerto Rico Stock Index would have generated only a **low single-digit return** in 2025. In a year defined by concentration and dispersion, Popular provided the index with both direction and credibility.

Markets rewarded BPOP for structural reasons rather than narrative appeal. The bank entered the year with **capital ratios superior to many regional peers**, a **stable Puerto Rico deposit base** that exhibited minimal runoff, and an earnings profile that remained resilient even as **net interest margins compressed** across the industry. Just as important, Popular continued to benefit from its standing with institutional investors as a **dual-market franchise**, with meaningful operations in both Puerto Rico and the mainland United States. From a valuation perspective, the market did not treat BPOP as a local bank tied narrowly to Puerto Rico's economy. Instead, it was priced as a **quality compounder**, more akin to a mainland regional bank than a geographically constrained franchise. The stock's 2025 performance reflects that **repricing**, and confirms Popular's role as the index's anchor holding.

We have a 2026 price target for Popular of \$143.33.

2. First BanCorp (FBP): Steady Progress Without Re-Rating

First BanCorp shares opened in 2025 at \$18.59 and closed the year at **\$20.73, increasing \$2.14**, delivering a **+11.51% return** in 2025, exceeding the Puerto Rico Stock Index as a whole but trailing both Popular and the broader equity benchmarks by a meaningful margin. The data point to a bank that **benefited from the macro environment** but did not experience the multiple expansion necessary to deliver outsized returns. FBP's performance clustered closely with the **Dow Jones Industrial Average (+12.97%)**, underscoring its role as a steady, cyclical financial rather than a market leader. While declining rates and improving credit conditions were supportive, the stock exhibited **limited upside leverage** in a shifting rate environment and contributed less to overall index volatility than BPOP. In portfolio terms, FBP functioned as a **moderate beta amplifier**—adding incremental return without destabilizing the index. Its performance was consistent with a franchise still in **optimization mode**, focused on execution and balance-sheet normalization rather than acceleration or strategic transformation. In 2025, that profile delivered respectable but not transformative results.

We have a 2026 price target for Firstbank of \$24.17.

3. OFG Bancorp (OFG): Defensive Positioning in a Risk-On Market

OFG's shares opened in 2025 at \$42.32 and closed the year at **\$40.98, decreasing by \$1.34**, delivering a -3.17 % **decline**. This **decline** stands out not because of its magnitude, but because of the **market context in which it occurred**. In a year when the S&P 500 gained **16.39%**, the Nasdaq advanced **20.36%**, and U.S. banks surged **45.32%**, OFG failed to participate meaningfully in the rally. The data suggest a clear explanation. OFG exhibited **lower earnings sensitivity** to improving macro conditions, maintained a **conservative balance-sheet posture**, and derived minimal benefit from the broader market's re-rating of financial institutions. These attributes, while valuable in periods of stress, proved less attractive in a year dominated by risk appetite and earnings leverage. Crucially, OFG's role within the Puerto Rico Stock Index was never about maximizing returns. It functioned as a **volatility absorber**, providing balance-sheet defensiveness and downside protection. In 2025, that conservatism was penalized. In a downturn or credit-stress environment, the same characteristics would likely be rewarded. The stock's performance, therefore, reflects **timing, not weakness**.

We have a 2026 price target for Oriental of \$48.28.

4. Evertec, Inc. (EVTC): The Growth Paradox in a Narrow Tech Rally

Evertec shares opened in 2025 at \$34.53 and closed the year at **\$29.09, a decrease of \$2.14**, the **largest detractor** from index performance in 2025, with shares declining **15.75%**. The drawdown is best understood as a case study in **theme divergence**, rather than a repudiation of the company's long-term business model. While the Nasdaq Composite rose more than **20%**, EVTC underperformed that benchmark by approximately **36 percentage points** and lagged the S&P 500 by roughly **32 percentage points**. This divergence reveals a market that drew a sharp line between **mega-cap AI and hyperscale platforms** and **mid-cap, transaction-based fintech companies**.

EVTC faced several near-term headwinds: margin pressure stemming from reinvestment initiatives, slower transaction growth in certain markets, and valuation compression as capital rotated aggressively toward scale winners. In 2025, the market was unwilling to look through those pressures.

Yet EVTC remains the **only true secular growth asset** within the Puerto Rico Stock Index, with diversified international revenue streams and infrastructure critical to payments ecosystems across Latin America and the Caribbean. Its 2025 decline reflects **capital-cycle timing and valuation reset**, not structural irrelevance. Over a full cycle, EVTC remains the index's most direct exposure to long-term growth.

We have a 2026 price target for Evertec of \$32.80.

What the Data Ultimately Says

The +8.98% return of the Birling Capital Puerto Rico Stock Index in 2025 reflects:

Heavy reliance on one dominant outperformer (BPOP)

Meaningful internal dispersion

Structural underexposure to the themes that drove U.S. benchmarks

Lower volatility and lower drawdown risk than national bank indexes

This was not an index that failed. It was an index that behaved exactly as constructed.

Strategic Implication for 2026

If 2026 shifts toward:

- Lower rates,
- Earnings normalization,
- Reduced multiple expansion,
- Greater emphasis on cash flow and capital discipline, then the attributes that constrained the Puerto Rico Stock Index in 2025 may become relative strengths.

Theme 6: President Trump's Food Affordability Claims vs. the Data: What 2025 Farm Prices Actually Reveal

President Trump has repeatedly claimed that his economic agenda is responsible for lowering food prices and restoring affordability for American households. The implication is clear: policy actions translated into broad-based relief at the grocery store.

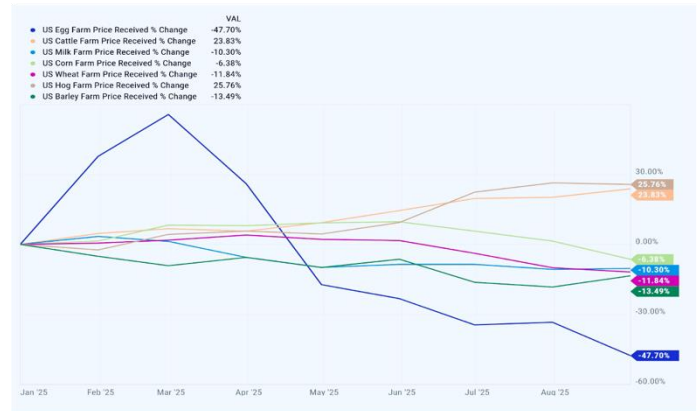
The data does not support that claim.

To test it, we examined **farm prices received**—the prices paid directly to U.S. farmers before any processors, distributors, transporters, or retailers apply markups. This is the cleanest way to isolate underlying food cost pressures and distinguish production economics from downstream pricing behavior.

What the data shows is not a Trump-driven affordability victory, but a **supply normalization story that largely occurred independent of presidential policy.**



U.S. Food Affordability in 2025: What the Farm Prices Paid Shows



Where Prices Fell — And Why Trump Can't Claim Credit

- Eggs: A Supply Shock Reversal, Not a Policy Win**

Farm-level egg prices declined **47.7% in 2025**, one of the sharpest corrections on record. This drop followed the resolution of avian flu disruptions and the normalization of production capacity. This was not the result of trade policy, tax changes, or executive action. It was a textbook supply recovery after an extraordinary biological shock. Claiming this as a political achievement conflates natural market rebalancing with governance.

- Dairy: Prices Down as Inputs and Supply Stabilized**

Milk prices fell **10.3%** at the farm level. Again, this reflects easing feed costs, improved logistics, and stable production—not a policy-driven intervention. Dairy affordability improved because inflationary pressures faded organically, not because of presidential price discipline.

- Grains: Broad Deflation from Yields and Weather**

Grain prices declined across the board:

- Corn: **-6.4%**
- Wheat: **-11.8%**
- Barley: **-13.5%**

These declines were driven by improved yields, favorable weather, and stabilizing global trade flows. None of these outcomes stems from short-term executive action. They are cyclical and structural dynamics in agriculture.

Where Prices Rose — And Why Affordability Still Hurts

- Livestock: The Real Inflation Problem**

Farm prices for proteins—the most visible grocery items—**rose sharply**:

- Hogs: **+25.8%**
- Cattle: **+23.8%**

These increases reflect tight herd sizes, higher operating costs, and sustained domestic and export demand. Importantly, these are **farm-level increases**, meaning retail prices inevitably rose further once processing and distribution costs were added.

If affordability truly improved under President Trump, this is where it should show up. Instead, this is precisely where consumers continue to feel the most pressure.

The Central Rebuttal: The Farm Is Not the Problem

Here is the key point President Trump's claims overlook:

Farm-level food prices in 2025 were broadly stable or falling.

If consumers did not experience meaningful relief at the grocery store, the cause lies **beyond the farm gate**—in processing, transportation, labor, energy, insurance, financing, and retail margins.

In other words:

- Farmers were not driving inflation.
- Farm prices normalized or deflated.
- Affordability pressures persisted elsewhere in the supply chain.

Claiming victory on food prices while ignoring these facts misdiagnoses the problem and misleads voters.

Bottom Line

President Trump's assertion that his leadership materially lowered food prices does not hold up under scrutiny.

The data shows:

- Price declines were driven by **post-shock normalization**, not policy.
- Persistent affordability issues remain concentrated in **proteins and downstream supply chains**.
- The disconnect between farm prices and grocery bills exposes structural cost inflation that presidential rhetoric does not address.

Food affordability in 2025 did not improve because of political action. It improved where markets healed—and remained strained where structural constraints persist.

The numbers are clear. The narrative is not.

The Final Word — Positioning with Intent for 2026

2025 ultimately delivered a clear verdict: markets did not reward reaction, concentration, or complacency. They rewarded **structure, diversification, and discipline**. Investors who remained anchored to fundamentals—rather than headlines—benefited from broad-based equity gains, a decisive revival in fixed income, and the reemergence of global diversification as a performance driver.

Within that framework, the **Birling Capital Puerto Rico Stock Index** delivered a **positive return of +8.98%**, reaffirming its role as a **fundamentally grounded, lower-beta allocation** rather than a momentum vehicle. While it lagged headline U.S. benchmarks in a year dominated by mega-cap concentration and thematic excess, the index behaved exactly as constructed—driven by balance-sheet strength, credit discipline, and execution, not speculative multiple expansion. In a market that rewarded scale and liquidity above all else, Puerto Rico equities participated **selectively and with restraint**.

As we move into 2026, uncertainty has not disappeared—it never does. But uncertainty alone does not derail markets. What matters is whether it overwhelms growth, earnings, and capital formation. At present, the evidence suggests otherwise. Economic momentum remains intact, corporate balance sheets are resilient, earnings growth continues to broaden beyond a narrow group of leaders, and monetary policy is

shifting from restraint toward normalization. These are conditions that favor **selectivity over speculation** and **fundamentals over narratives**.

The coming year will demand **thoughtful asset allocation rather than excess liquidity**, global reach rather than home-country bias, and intentional exposure to assets designed to absorb volatility while compounding capital over time. At Birling Capital, our role is not to predict the next headline—but to help investors prepare for the next cycle. That discipline—not short-term certainty—remains the most reliable path forward.

Think Strategically. Position deliberately. Invest with conviction.



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