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Think Strategically

9 Issues & 9 Answers: Ending 2025 with a Sturdy Global Backdrop and a Constructive Setup for 2026

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Epigraph

"Transitions do not announce themselves with clarity. Strategy is the only way to recognize them".

The New Normalization

The final stretch of 2025 has been marked by delayed data, confusing signals from the government and the central bank (policy noise), and uncertain markets. Government shutdowns affected official economic reports, making measures such as inflation and labor less clear, while stock market gains were mostly limited to a few companies (narrow equity leadership). Meanwhile, worldwide economic growth slowed from the surge seen after the pandemic. Still, financial markets are rarely most understandable during big changes or turning points.

When viewed strategically—not through short-term actions—the evidence points to **normalization (a return to typical conditions) rather than decline. Inflation is slowing, economic growth rates are leveling off, central banks are easing monetary policy, and money is spreading to more stocks and sectors rather than remaining concentrated. This shift can feel unsettling, but it positions markets for positive progress.** Against this backdrop, we now frame the environment through **nine critical issues—and nine clear answers—that define the investment landscape as we enter 2026.**

Issue #1: Can Investors Trust Late-2025 Economic Data?

Answer: Directionally, yes—even if statistically imperfect.

Shutdown-related disruptions distorted October–November data, limiting precision. However, across wages, job openings, labor turnover, consumption, and credit conditions, the message is consistent: **economic momentum is cooling, not collapsing.**

Wage growth has slowed meaningfully, layoffs remain low, and consumer spending is moderating rather than retrenching. Markets do not require flawless data; they require confirmation that risks are not accelerating. On that score, late-2025 data provide reassurance.

Issue #2: Is Inflation Truly Easing—or Just Temporarily Masked?

Answer: Inflation is easing structurally, not cyclically.

Headline and core inflation surprised to the downside late in the year, with core measures at their slowest pace since 2021. While shelter inflation was likely understated due to data gaps, forward-looking housing indicators confirm ongoing disinflation.

Birling Capital inflation outlook for 2026:

- Core CPI: **2.2%–2.4%**
- Core PCE: **2.1%–2.3%**

This is not a return to pre-pandemic complacency, but a **stable disinflationary regime**—sufficient for rate cuts, earnings stability, and valuation support.

Issue #3: Is the Labor Market About to Crack?

Answer: No—it is rebalancing.

Employment growth has slowed, but job losses have not accelerated. Rising unemployment reflects labor-force reentry, not layoffs. Hiring has cooled, and firing has not surged.

2026 labor base case:

- Monthly job gains: **50,000–100,000**
- Unemployment rate: **4.4%–4.7%**
- Wage growth: trending toward **~3%**

This configuration cools inflation without destroying demand—precisely the outcome policymakers and markets have been seeking.

Issue #4: Is the Global Economy Slowing or Stabilizing?

Answer: Stabilizing, with regional divergence.

Birling Capital expects **global GDP growth near 2.8% in 2026**, modestly above consensus.

- **United States (~2.6%):** Supported by easing financial conditions, residual fiscal impulse, and fading tariff drag.
- **China (~4.7%–4.9%):** Manufacturing and export strength offset domestic and property-sector weakness.
- **Euro Area (~1.2%–1.4%):** Structurally constrained but supported by targeted fiscal stimulus and Southern European demand.

Growth is becoming **less labor-intensive and more productivity-driven**, improving margin durability even as headline GDP moderates.

Issue #5: Will Monetary Policy Help or Hurt Markets in 2026?

Answer: It will quietly help.

With inflation easing and labor markets cooling, the **Federal Reserve** and other developed-market central banks are transitioning from restrictive to neutral-to-accommodative stances.

Birling Capital rate outlook:

- End-2025: **~3.75%–4.00%**
- End-2026: **3.00%–3.25%**
- Expected cuts: **50–75 basis points**



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Federal Reserve Bank Dot Plot Economic Projections 2025-2028

Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, December 2025

Variable	Median ¹					Central Tendency ²					Range ³				
	2025	2026	2027	2028	Longer run	2025	2026	2027	2028	Longer run	2025	2026	2027	2028	Longer run
	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent
Change in real GDP	1.7	2.3	2.0	1.9	1.8	1.6-1.8	2.1-2.5	1.9-2.3	1.8-2.1	1.8-2.0	1.5-2.0	2.0-2.6	1.8-2.6	1.7-2.6	1.7-2.5
September projection	1.6	1.8	1.9	1.8	1.8	1.4-1.7	1.7-2.1	1.8-2.0	1.7-2.0	1.7-2.0	1.3-2.0	1.5-2.6	1.7-2.7	1.6-2.6	1.7-2.5
Unemployment rate	4.5	4.4	4.2	4.2	4.2	4.5-4.6	4.3-4.4	4.2-4.3	4.0-4.3	4.0-4.3	4.4-4.6	4.2-4.6	4.0-4.5	4.0-4.5	3.8-4.5
September projection	4.5	4.4	4.3	4.2	4.2	4.4-4.5	4.4-4.5	4.2-4.4	4.0-4.3	4.0-4.3	4.2-4.6	4.0-4.6	4.0-4.5	4.0-4.5	3.8-4.5
PCE inflation	2.9	2.4	2.1	2.0	2.0	2.8-2.9	2.3-2.5	2.0-2.2	2.0	2.0	2.7-2.9	2.2-2.7	2.0-2.3	2.0	2.0
September projection	3.0	2.6	2.1	2.0	2.0	2.9-3.0	2.4-2.7	2.0-2.2	2.0	2.0	2.5-3.2	2.2-2.8	2.0-2.4	2.0	2.0
Core PCE inflation ⁴	3.0	2.5	2.1	2.0		2.9-3.0	2.4-2.6	2.0-2.2	2.0		2.7-3.1	2.2-2.7	2.0-2.5	2.0	
September projection	3.1	2.6	2.1	2.0		3.0-3.2	2.5-2.7	2.0-2.2	2.0		2.7-3.4	2.2-2.9	2.0-2.4	2.0-2.2	
Memo: Projected appropriate policy path															
Federal funds rate	3.6	3.4	3.1	3.1	3.0	3.6-3.9	2.9-3.6	2.9-3.6	2.8-3.6	2.8-3.5	3.4-3.9	2.1-3.9	2.4-3.9	2.6-3.9	2.6-3.9
September projection	3.6	3.4	3.1	3.1	3.0	3.6-4.1	2.9-3.6	2.9-3.6	2.8-3.6	2.8-3.5	2.9-4.4	2.6-3.9	2.4-3.9	2.6-3.9	2.6-3.9

Markets do not need rapid interest rate cuts; even moderate easing (loosening of monetary policy) is enough to provide more cash flow (liquidity), support asset prices (valuations), and boost investors' willingness to take risks (risk appetite).

Issue #6: Is the Mega-Cap-Led Market Model Sustainable?

Answer: Not indefinitely—and it does not need to be. By late 2025, the dominance of very large companies (megacaps) in the stock market reached historically high levels, with these firms showing both higher stock prices relative to earnings (elevated valuations) and greater spending on assets and operations (rising capital intensity). This does not indicate a crash, but rather a shift in market focus. Markets rarely abandon leadership themes outright. They broaden. That process is now underway.

Issue #7: Where Will Returns Come From in 2026?

Answer: From breadth, not dominance.

Easing financial conditions, improving productivity, and more balanced valuations favor:

- U.S. mid-caps
- Cyclical and industrials
- Value-oriented equities
- Select international markets

Corporate earnings growth—not just increases in market prices relative to earnings (multiple expansion)—is likely to be the main source of returns. This market favors selecting strong individual stocks (a stock-picker's market), rather than relying on gains from a few dominant companies.

Issue #8: How Should Portfolios Be Positioned?

Answer: Balanced, disciplined, and intentional.

Birling Capital positioning framework:

- **Equities:** Neutral overall; broaden exposure beyond mega-caps
- **Technology:** Benchmark-neutral, not overweight
- **Fixed income:** Benchmark-neutral duration; income remains attractive
- **Cash:** Reduce excess liquidity as yields compress

2026 favors **participation with resilience rather than** maximum beta.



The Magnificent 7 Year To Date Stock Returns as of 12.19.25



Dow Jones, S&P 500, Nasdaq Composite, Birling Puerto Rico Stock Index & Birling US Bank Index YTD Returns 12.19.25



Issue #9: Puerto Rico — Slower Jobs, Stronger Investment, and a Shift in the Growth Equation

Answer: Puerto Rico is in an investment-led transition, not an employment-led slowdown. Puerto Rico's latest data illustrate an economy **building capacity ahead of labor absorption**—a pattern consistent with capital-intensive growth cycles.

Seasonally adjusted employment reached **1,169,000 in October**, up **4,000 jobs year-over-year (0.3%)**, the slowest pace in 29 months. Still, employment is **1.6% higher year-to-date**, with **18,300 net jobs created** over the past 10 months. This marginal slowdown awaits sectoral clarity from updated payroll data. In contrast, **investment activity has strengthened materially**:

- **\$2.1 billion in new manufacturing plant investments in 2025**, concentrated in pharmaceuticals, medical devices, and advanced manufacturing
- **Private construction investment up 5.6% to \$4.1 billion**, the first increase in three years
- **Public construction investment up 6.4% to \$3.0 billion**, the highest in six years
- **Total construction investment is at \$8.0 billion**, the highest in seven years.
- Construction now equals **9.1% of Puerto Rico's GNP**, the highest share since 2019

This sequencing matters. Manufacturing and infrastructure projects deploy capital first—facilities, equipment, technology—before labor demand ramps up. Employment follows with a lag and is more selective and higher-value.

Birling Capital's Outlook for Puerto Rico — Scenario-Based Growth Assessment

As we have stated in prior *Think Strategically* issues, Puerto Rico's economic outlook is characterized by a **highly asymmetrical set of official forecasts**, reflecting divergent modeling assumptions rather than a unified view of the island's economic trajectory.

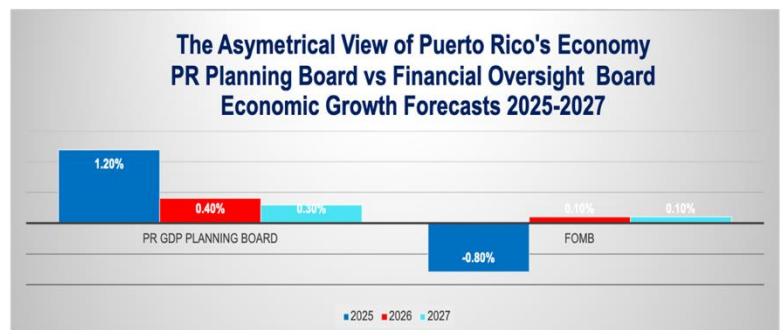
On one end of the spectrum, the **Puerto Rico Planning Board** projects real GDP growth of **1.2% in 2025**, followed by a sharp deceleration to **0.4% in 2026**. On the other hand, the **Financial Oversight and Management Board** presents a markedly more pessimistic outlook, forecasting a **-0.8% contraction in 2025** and only **0.1% growth in 2026**, largely reflecting assumptions about fiscal drag, public-sector contraction, and the timing of federal funding.

Complicating the picture further, the **Economic Activity Index produced by the Economic Development Bank for Puerto Rico** has remained in contraction for several consecutive months, with its most recent reading (June 2025) at **-0.9%**. This index, while useful as a coincident indicator, is inherently backward-looking and tends to lag inflection points driven by private-sector capital formation. Taken together, these forecasts paint a cautious—and in some cases dire—baseline outlook. However, they share a common limitation: **they remain heavily anchored to public-sector dynamics and short-term labor metrics**, while underweighting the scale and composition of new private investment now underway.

However, we must consider the following facts: Puerto Rico has been allocated the following disaster relief funding:



Puerto Rico Economic Forecasts 2025-2027



- **Allocated:** \$91,662,667,893
- **Obligated:** \$84,744,771,168
- **Disbursed YTD:** \$40,727,671,363
- **Unused Funds:** \$50,937,996,530 or 55.57%

Puerto Rico already has the money. The issue is not allocation—it is execution.

To date, Puerto Rico has received **\$91.7 billion** in disaster relief funds. Of that amount, **\$84.7 billion has been formally obligated**, but only **\$40.7 billion has actually been disbursed**. That leaves **\$50.9 billion—more than half of the total—still unused**.

To understand the opportunity this represents, let us assume a realistic and disciplined scenario:

Puerto Rico deploys **\$4.25 billion per year over the next 12 years**, roughly equivalent to the remaining unused balance.

That level of annual spending would be transformational.

A Meaningful Boost to the Economy—Every Year Into 2037

Puerto Rico's economy generates roughly **\$115–120 billion annually**. Injecting **\$4.25 billion annually** would be equivalent to adding **about 3½% % of the economy each year, before considering any ripple effects**. And those ripple effects matter.

Construction, infrastructure, energy, and reconstruction projects generate activity well beyond the initial spending. Workers spend wages locally, suppliers expand, and businesses invest. Even using conservative assumptions, every dollar spent could generate **\$1.20 to \$1.50 of economic activity**.

In simple terms:

- The economy could gain **\$5 to \$6.5 billion of additional activity each year**.
- That represents **4% to 6% of Puerto Rico's economy annually**.

This is far larger than Puerto Rico's typical growth rate in recent years.

Jobs, Not All at Once—but Sustained Over Time

This level of investment would not create a one-time hiring boom. Instead, it would support **steady employment demand year after year**.

At this scale:

- Roughly **35,000 to 40,000 jobs** could be supported annually across construction, engineering, professional services, suppliers, and local businesses.
- Many of these jobs would be tied to **higher-skill, higher-wage activities**, especially in infrastructure, energy, and manufacturing support.

Importantly, this type of employment growth is **sustained**, not temporary, because the spending would occur over more than a decade.

The Hidden Benefit: Long-Term Growth

The biggest impact is not the spending itself—it is what the spending leaves behind.

Better roads, a more reliable power grid, modern water systems, and resilient public facilities reduce costs for businesses and households. Over time, this:

- Makes Puerto Rico more attractive for **manufacturing and private investment**
- Improves productivity

- Expands the tax base without raising rates
- Strengthens economic resilience

These benefits compound year after year.

Adding to these data is the fact that there is a manufacturing wave that, in 9 months, has added \$2.1 billion in manufacturing expansions. If these investment trends persist or expand into 2026, Puerto Rico's economy is positioned to **outperform these official projections**, particularly as manufacturing, construction, and export-oriented capacity convert from capital deployment into production. Accordingly, Birling Capital frames Puerto Rico's outlook using a **scenario-based approach**, rather than a single-point estimate:

- **Best-case scenario:**
Real GDP growth of 1.5%–1.8%, driven by sustained manufacturing investment, continued strength in tourism, and the conversion of construction activity into operational production.
- **Base-case implication:**
Modestly positive growth, above official projections, assuming **partial—but not full—capital deployment efficiency**, alongside ongoing execution challenges related to energy reliability and permitting.
- **Worst-case scenario:**
A **contraction of approximately -0.50%**, reflecting material investment delays, energy disruptions, or an abrupt slowdown in external demand that interrupts the investment-to-output pipeline.

The key takeaway is not that Puerto Rico is immune to downside risk, but that **manufacturing-led capital inflows have become the dominant marginal driver of growth**—a structural shift that legacy models have yet to fully incorporate.

Puerto Rico should therefore no longer be evaluated solely through the lens of fiscal restraint or month-to-month job growth, but through the **scale, durability, and sectoral composition of private investment now underway**, which will ultimately determine the island's medium-term growth path.

The Final Word: Transition, Discipline, and Strategic Focus

The defining feature of late 2025 is not fragility—it is **transition**. Markets are adjusting from an era of excess liquidity, concentrated leadership, and restrictive policy toward one defined by normalization, selectivity, and capital discipline. That shift is inherently noisy, but it is also necessary—and historically constructive. The data are clear on the fundamentals that matter most. Inflation is decelerating into a manageable range. Labor markets are cooling without breaking. Monetary policy is evolving from a headwind into a tailwind. Capital is rotating away from narrow concentration toward broader participation. These are **not** the conditions that precede contraction; they are the conditions that support **durable expansion**. For global investors, 2026 will not be a year of uniform acceleration or indiscriminate risk-taking. It will be a year that rewards **judgment over momentum, allocation over speculation, and strategy over reaction**. For Puerto Rico, the message is even more pointed—and more consequential. The island should no longer be evaluated solely through the lens of fiscal restraint, backward-looking coincident indicators, or month-to-month job growth. That framework explains the past, but it **misreads the present**. Puerto Rico is now defined by a different set of forces:

- More than **\$50 billion in already-allocated disaster-recovery funds** remain unused—not a lack of capital, but a challenge of execution.

- A **manufacturing investment wave of \$2.1 billion in just nine months**, concentrated in pharmaceuticals, medical devices, and advanced manufacturing.
- Construction investment is at its **highest level in 7 years**, accounting for over **9% of GNP**.
- An economy in which **capital formation leads and labor absorption lags** is a classic sequencing in investment-led cycles.

These realities explain why official forecasts remain pessimistic—and why they risk being overtaken by events. Legacy models remain anchored to public-sector contraction and short-term labor metrics, while the **dominant marginal growth driver has shifted to manufacturing-led private investment**.

If capital deployment accelerates and execution improves, Puerto Rico has a clear path to **outperform its official baseline forecasts**, with upside growth potential well above current projections. If execution falters, downside risks remain. But the balance of outcomes has changed.

The real risk entering 2026—globally and in Puerto Rico—is not economic deterioration.

It is **misdiagnosis**: mistaking normalization for weakness, transition for stagnation, and caution for opportunity missed.

The environment ahead favors disciplined portfolios, diversified exposures, and a forward-looking assessment of **where capital is moving, not where headlines linger**.

That is how 2026 should be approached. That is how Puerto Rico should be evaluated, and that is how we **Think Strategically**.

“Change is rarely the risk. The real risk is confronting it with outdated thinking”.



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