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Think Strategically

A Great Reset for 2026: How Monetary Policy, AI, and Global Capital Are Rewriting the Rules of Growth

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Francisco Rodríguez-Castro, President & CEO

Epigraph

Periods of apparent stability often conceal the greatest transformations. The real work of strategy must accelerate during transition—not crisis. This is the moment for decisive, disciplined action. We are fluent in this language—and we help you capitalize on it.

2025: The Anatomy of a Structural Reset

The year 2025 will be remembered as a **structural reset**—a year in which the rules governing economic growth, capital allocation, and institutional behavior fundamentally changed, not from a single shock, but from converging **policy realignment, institutional change, and technological acceleration**.

Markets absorbed a disruptive tariff regime, navigated prolonged political and fiscal uncertainty, endured historically extreme concentration in equity leadership, and financed the largest capital-expenditure cycle in modern history. Remarkably, they did so while demonstrating unprecedented resilience, recovering from a bear-market-level drawdown at one of the fastest speeds ever recorded.

This was not a passive adjustment. **Active institutional change**, including the decisive reorientation of federal economic policy under **President Trump, reshaped trade, industry, and regulation. Beneath the surface, capital allocation shifted** from narrow leadership to **productivity, balance-sheet strength, and execution**, laying groundwork for 2026.

Puerto Rico: A Microcosm of the Structural Reset

For Puerto Rico, 2025 was a **compressed version of the global reset**, with structural forces converging with local opportunities. The island stood at the intersection of **federal industrial policy, reshoring advanced manufacturing, and capital redeployment to strategic U.S. jurisdictions**.

As trade policy favored domestic production, Puerto Rico's role in pharmaceuticals, medical devices, aerospace, and high-value manufacturing gained renewed importance. Simultaneously, institutional reform, fiscal normalization, and better access to capital markets began reshaping investor perception. Challenges remain—in **energy, labor participation, and government execution**—but the reset repositioned Puerto Rico as a **strategic platform in the U.S. industrial framework**. The opportunity for 2026 lies in structural alignment with long-term capital and strategic industries, not in cyclical recovery.

The Federal Reserve Pivot: Policy at the Edge of a New Cycle

The Federal Reserve's pivot marks the end of monetary tightening and the beginning of recalibration. Between September 2024 and December 2025, cumulative rate cuts of **175 basis points** brought policy into a range consistent with slowing—but resilient—growth.

The December 2025 meeting was notable less for the expected 25-basis-point cut than for **forward guidance and liquidity moves**. Chair Powell ruled out near-term hikes, cited labor softening, lowered inflation forecasts for 2025 and 2026, and initiated **\$40 billion per month Treasury-bill purchases to stabilize** markets.

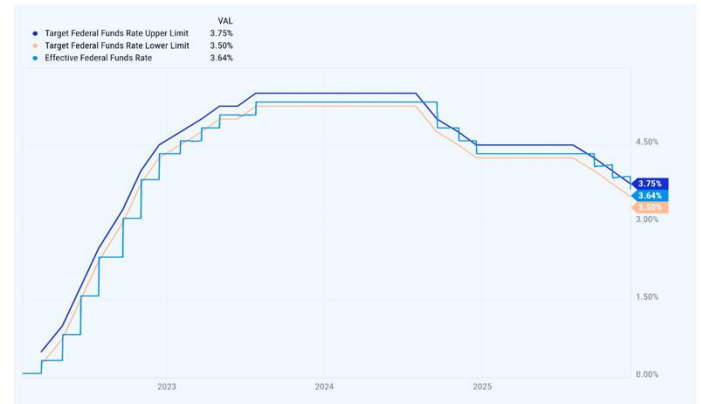
While not formal quantitative easing, this liquidity management has **similar marginal effects on financial conditions**, reinforcing the Fed's shift from restraint toward balance.

Key Data: Fed Policy Snapshot

- **Total rate cuts since Sept 2024** 175 basis points
- **Current Fed Funds Range** 3.50%–3.75%
- **Birlinging Capital 2026 Base Case** 3.00%–3.50%
- **FOMC Members Seeking Lower Rates** 12 of 17



Federal Reserve Interest Rate Actions Since March 2022 to December 2025



The U.S. economy enters 2026 in a late-cycle slowdown, not a contraction.

The U.S. economy enters 2026 in a **late-cycle slowdown, not a contraction**. Real GDP growth decelerated to **1.7% in 2025** and is forecast to improve to **2.3% in 2026**, reflecting a transition away from policy-induced restraint toward a more balanced growth profile. This improvement is not driven by renewed fiscal or monetary stimulus, but by **productivity gains stemming from technology adoption, automation, and capital deepening**, which are increasingly offsetting the drag from higher interest rates and slower hiring.

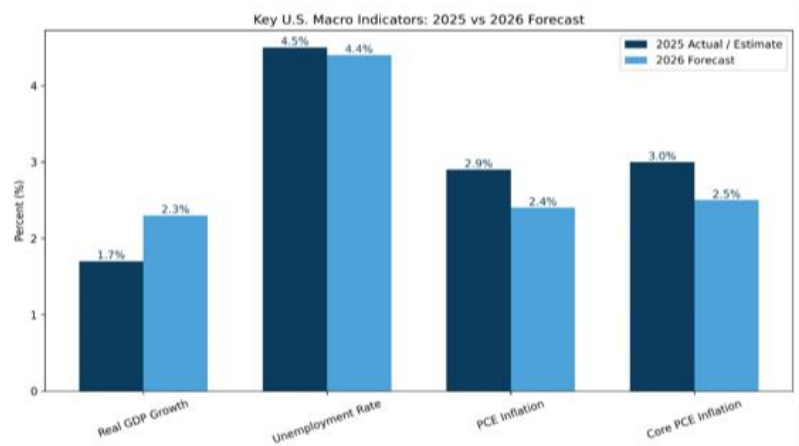
The labor market is also cooling—

but **crucially, it remains orderly rather than**

distressed. Unemployment rose to **4.5% in 2025** and is expected to edge down modestly to **4.4% in 2026**, signaling normalization rather than deterioration. Job creation has slowed, yet the absence of a sharp increase in unemployment confirms that businesses are adjusting primarily through **attrition, efficiency gains, and productivity improvements**, rather than widespread layoffs. This dynamic reinforces the Federal Reserve's confidence that labor-market rebalancing can occur without triggering a recession.



U.S. Macro Indicators: US Real GDP, Unemployment Rate & PCE & Core PCE Price Index 2025 & 2026 Forecast



Inflation trends further reinforce this constructive slowdown narrative. **Headline PCE inflation** eased from **2.9% in 2025** to a projected **2.4% in 2026**, reflecting continued normalization in goods prices and a gradual cooling of demand-driven pressures. More importantly for policymakers, **Core PCE inflation** is forecast to decline from **3.0% to 2.5%**, indicating that underlying inflation momentum is slowing even as growth stabilizes. This downward trajectory in core inflation suggests that restrictive monetary policy has largely achieved its objective **without materially impairing economic activity**.

Taken together, these dynamics describe an economy that is **cooling with control**. Growth is moderating but stabilizing, unemployment is adjusting modestly rather than abruptly, and both headline and core inflation are moving decisively lower. This environment gives the Federal Reserve room to pivot from restraint toward **calibration**, reinforcing the broader thesis of **2026 as a year of rebalancing rather than retrenchment**—and setting the stage for broader market leadership and more durable, productivity-driven expansion.

Labor Market Detail

- Monthly NFP Trend
90k–120k
- JOLTS Job Openings
8.7M
- Openings / Unemployed
1.25x (down from 2.0x)
- Atlanta Fed Wage Growth
4.3%
- Temporary Help Employment
Negative YoY

The labor market is cooling but not collapsing—supporting **incremental easing rather than** emergency stimulus.



Market Structure: Historic Concentration Risk Beneath Headline Strength

Market leadership in 2025 reached **historic and precarious extremes**. The Magnificent Seven accounted for more than **33% of the S&P 500**, with the top ten stocks representing approximately **37% of total index weight**, while the remaining 400 companies comprised less than 40%.

This concentration exceeds late-1990s tech-bubble levels and distorts both **risk perception and capital allocation**. Index-level performance increasingly depends on flawless execution by a handful of firms, amplifying vulnerability to earnings disappointments, valuation resets, or regulatory shocks.

Such concentration is historically unsustainable. After peaks, leadership broadens via top valuation compression or accelerating earnings elsewhere. Early signs of this transition are visible as easing financial conditions benefit mid- and small-caps **and cyclicals**.

Strategic Implication

Even modest Fed easing benefits **mid-caps, small-caps, and cyclicals**, accelerating leadership rotation.

The AI Supercycle: Capital Expenditure at an Unprecedented Scale

The AI investment wave is the **largest and fastest corporate CapEx cycle in modern history**, surpassing prior buildouts associated with the internet, mobile computing, and cloud infrastructure.

By 2025, hyperscalers will be committed to a generational infrastructure transformation. Amazon deployed **\$65–70 billion**, Microsoft **\$45–50 billion**, Alphabet and Meta **\$35–40 billion each**, and Oracle **\$12–15 billion**, pushing annualized AI-related CapEx to **\$190 billion or more**. In Q3 alone, investment exceeded **\$100 billion**, an all-time quarterly record.

At the center stands **NVIDIA**, whose market capitalization peaked near **\$5 trillion**, supported by a data-center revenue run rate exceeding **\$90 billion**. While growth has moderated from peak levels above 200%, valuation reflects NVIDIA's uniquely strategic position in the AI value chain.

The cycle is entering a **critical transition**. With infrastructure ordered and capacity being installed, markets now shift focus from scale to **monetization, margins, and returns**. **The next winners** will convert AI into productivity and earnings.

NVIDIA: The Defining Asset of the AI Era

- Market Cap Peak (2025) \$5T
- Data Center Revenue \$90B+ run rate
- YoY Revenue Growth >200% peak
- Forward P/E 30–35x
- Forward EV/Sales 18–22x



NVIDIA Stock Price from 12.11.21 at \$13.01 to \$175.02 on 12.12.25 a 1,245.27% Increase



Inflation: Data vs. Psychology

Measured inflation is easing, but inflation is still lived **and judged psychologically**, not just statistically. This gap between actual and perceived inflation now strongly shapes economic confidence as the U.S. enters 2026.

Technically, inflation is moving in the right direction. Headline pressures waned, energy prices are negative year over year, goods inflation has normalized, and even shelter inflation is slowing. Both CPI and PCE confirm the 2021–2022 peak is past. Core PCE, the Fed's preferred measure, is trending lower, reflecting the success of restrictive policy in cooling price growth.

Federal Reserve Chair Jerome Powell has repeatedly emphasized this progress while maintaining caution. As he has noted in recent communications, "Inflation has eased significantly from its highs, but it remains above our longer-run goal. Our task is to ensure that progress continues and becomes durable." This framing underscores the Fed's challenge: acknowledging meaningful progress without declaring premature victory.

Yet consumers are not responding to inflation charts or core metrics—they are responding to **prices they see repeatedly and cannot avoid**.

Food-at-home prices remain elevated at roughly 3.2% year over year. While far below peak levels, this pace continues to pressure household budgets. Certain highly visible items—most notably eggs—have taken on symbolic importance. Their volatility, amplified by media coverage, has magnified public perception of price instability far beyond their statistical weight in inflation baskets. These items function less as economic indicators and more as **psychological reference points**, disproportionately shaping sentiment.

Shelter inflation, still running near 5.6% year over year, remains the single most powerful anchor of inflation psychology. Even as leading indicators such as new lease rates show clear deceleration, the lagged nature of housing data means households continue to experience elevated rents and ownership costs in

real time. Housing is not an abstract index; it is the largest monthly expense most families face. As long as shelter costs feel high, inflation will feel unresolved—regardless of what headline data suggests. Core services inflation, excluding housing, is currently near 4.5%, reinforcing this perception. Services such as insurance, healthcare, education, repairs, and personal care are recurring expenses, not discretionary purchases. Their persistence keeps inflation psychologically “alive,” even as goods prices soften and supply chains normalize.

Energy prices are negative year over year and no longer drive inflation. However, brief gas price spikes still fuel anxiety, overshadowing broader disinflation in the public mind.

This disconnect between improving inflation data and stubborn inflation perceptions creates the core policy challenge: maintaining public trust and economic stability as headline progress lags behind household realities.

If inflation expectations drift, households may believe prices will stay high regardless of the data.

Confidence, spending decisions, wage demands, and politics all shift. Consumers delay purchases, demand higher pay, and grow doubtful of institutions. Businesses get cautious. Markets become sensitive to any inflation surprise.

It is in this context that President Trump has framed inflation not merely as an economic statistic, but as a lived burden on households. He has consistently argued that *“Inflation is crushing American families,”* and has emphasized that restoring price stability is central to economic confidence, competitiveness, and real income growth. His policy messaging underscores a broader political reality: inflation is judged at the grocery store, the gas pump, and the rent check—not in central bank models.

For the Federal Reserve, managing inflation in 2026 is therefore not only about adjusting interest rates—it is about **managing expectations and restoring trust**. Chair Powell has acknowledged this challenge directly, emphasizing that the Fed must remain *“data dependent, patient, and focused on bringing inflation sustainably back to 2%.”* A decline in measured inflation alone may not be sufficient if households do not feel tangible relief in their daily expenses.

This is why policy calibration in 2026 will be delicate. Easing too quickly risks reigniting price pressures and undermining hard-won credibility. Easing too slowly risks prolonging the psychological burden of inflation and dampening confidence just as growth stabilizes.

In this environment, **credibility becomes as important as calibration**. The success of the next phase of monetary policy will depend not just on where inflation settles numerically, but on whether households believe—through lived experience—that price stability has genuinely returned.

Inflation, in short, is no longer just an economic variable.

It is a behavioral force—and managing it requires both precision and trust.

Inflation, in short, is no longer just an economic variable. It is a behavioral force.

And until perception converges with reality, inflation will continue to shape markets, politics, and confidence well beyond what the data alone

Navigating 2026 With Clarity and Conviction

As we look ahead to 2026, the strategic landscape is best understood not through a single forecast, but through a **probability-weighted framework** that reflects the economy’s asymmetries. Birling Capital’s base case—assigned a **60% probability**—envisioning an environment of **slower but sustained growth**, supported by **one to two additional rate cuts**, easing financial conditions, and a gradual broadening of market leadership. This is not a scenario of exuberance, but of normalization: an economy adjusting to higher productivity, moderating inflation, and a Federal Reserve focused on balance rather than urgency. At the same time, the upside tail remains meaningful. In our **20% upside scenario**, artificial intelligence transitions more rapidly from infrastructure buildout to measurable productivity gains, lifting corporate earnings, real incomes, and confidence simultaneously. In this outcome, growth surprises to the upside without reigniting inflationary pressures, rewarding investors positioned for innovation, mid-cycle expansion, and global diversification.

The principal downside risk—assigned a **15% probability**—centers on the labor market. A sharper-than-expected deterioration in employment could undermine consumer spending and business confidence, forcing policymakers to respond more aggressively. While this scenario would introduce volatility, it would also accelerate policy support, reshaping yield curves and asset correlations rather than triggering a systemic downturn. Finally, the **low-probability inflation re-acceleration scenario (5%)** serves as a reminder that policy vigilance remains essential; should inflation expectations re-anchor higher, the Federal Reserve would be compelled to pause, prolonging restrictive conditions.

Taken together, these scenarios underscore a central truth: **2026 is not defined by fragility, but by choice.** The distribution of outcomes favors resilience over recession, opportunity over contraction—but success will depend on positioning, discipline, and adaptability. Investors who understand the balance of probabilities, rather than betting on extremes, will be best equipped to navigate the Great Reset ahead. This is not a moment for reaction. It is a moment for judgment.

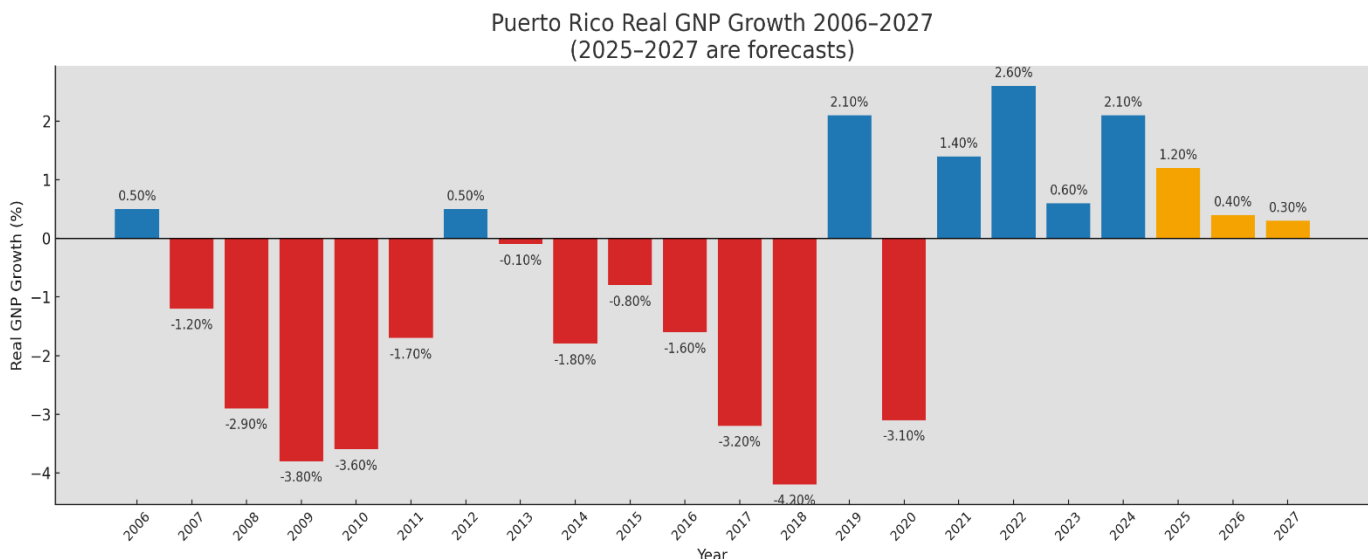
Puerto Rico's Economy 2025–2027: Growth Forecasts, Institutional Tension, and the Reality on the Ground

The main difference in this cycle is that politics and the implementation of public policy have become one and the same.

Economic outcomes in Puerto Rico are no longer driven solely by market forces or cyclical dynamics, but increasingly by how effectively political decisions are translated into executable public policy. This fusion defines the current moment—and explains why official growth forecasts, fiscal oversight projections, and real-time economic indicators are sending mixed signals.

A Split Narrative: Forecasted Growth vs. Measured Activity

On paper, Puerto Rico appears to be entering a modest recovery phase. The **Planning Board's medium-term outlook points to positive real GNP growth between 2025 and 2027**, reflecting expectations of post-disaster reconstruction tailwinds, federal funding deployment, manufacturing resilience, and normalization following years of contraction. Under this view, Puerto Rico is transitioning from survival to stabilization, with growth becoming incremental but positive.



However, the **Financial Oversight and Management Board (FOMB)** presents a far more conservative—and institutionally binding—assessment. Its projections acknowledge structural constraints, fiscal rigidity, demographic headwinds, and execution risk. The FOMB forecast includes a **contraction in 2025**, followed

by only **modest and uneven growth through 2028**, signaling that any recovery will be fragile, policy-dependent, and highly sensitive to implementation failures.

These two forecasts are not merely technical disagreements. They reflect **different assumptions about execution**:

- The Planning Board assumes **policy intent becomes policy outcome**.
- The FOMB assumes **policy friction, delays, and institutional bottlenecks persist**.



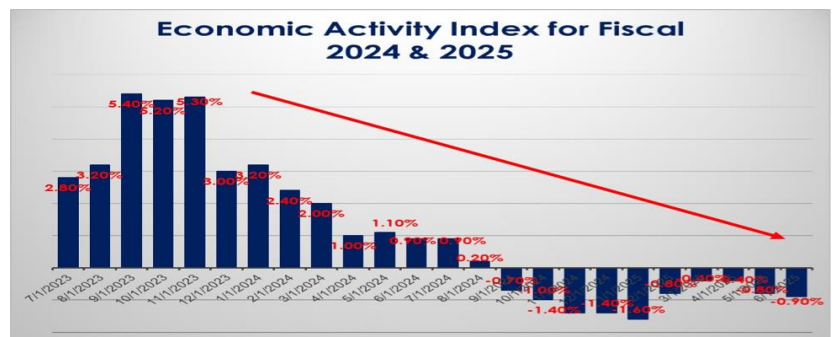
The Decisive Signal: The Economy Is Already Cooling

While forecasts debate the future, **the Index of Economic Activity is speaking in the present tense**.

By mid-2025, Puerto Rico's **Economic Activity Index had been in contraction for ten consecutive months**, with a **-0.90% reading in June 2025**. This sustained decline is not noise—it is a signal. It indicates that the underlying economic momentum is weakening despite optimistic projections.

This contraction reflects:

- Slowing consumption and services activity
- Reduced private-sector dynamism
- Delays in the real economic transmission of federal funds
- Persistent execution gaps in infrastructure, energy, and permitting



In other words, **growth is being forecast—but not yet felt**.

Why the Disconnect Exists

The divergence between forecasts and reality stems from a single structural issue: **execution risk**. Puerto Rico today operates in a system where:

- Funding exists, but deployment lags.
- An industrial opportunity exists, but permitting slows it.
- Strategic relevance exists, but institutional capacity constrains it.

When politics and public policy are indistinguishable, economic outcomes hinge not on vision, but on **discipline, coordination, and follow-through**. Without execution, growth remains theoretical.

2025–2027: A Conditional Recovery

The period ahead should be understood as a **conditional recovery**, not a guaranteed one.

- **2025** is shaping up as a year of **deceleration and adjustment**, consistent with the contracting activity index and the FOMB's caution.
- **2026** represents a potential inflection point—but only if public policy transitions from announcement to implementation, and from intent to measurable outcomes.
- **2027** offers upside optionality, contingent on whether Puerto Rico can align capital, policy, and execution in sectors where it already holds a strategic advantage—manufacturing, pharmaceuticals, medical devices, logistics, and energy transition.

Absent that alignment, growth will remain episodic and fragile.

Puerto Rico is not facing a lack of opportunity. It is facing a **test of governance and execution**.

The economy is not collapsing—but it is cooling. Forecasts point upward, activity points downward, and the difference between the two is **policy effectiveness**. The next two years will determine whether Puerto Rico converts strategic relevance into sustained growth—or whether optimism once again outruns reality.

This is not a forecasting problem.

It is an execution moment. And in cycles like this, outcomes are decided not by what is promised—but by what gets done.

The Final Word: The Meaning of the Great Reset

The Great Reset of 2026 is not a crisis. Instead, it signals a strategic shift: investors and organizations should move from relying on monetary restraint to seeking balance, from concentration to diversification, from focusing on infrastructure build-out to driving productivity, and from U.S. dominance toward greater global participation. Recognize and reposition for these transitions to capture upside potential.

Investors who understand this transition will not merely preserve capital. They will compound opportunity. The key is to constantly learn, understand the risks, and adjust our strategies to deal with the unexpected. Each lesson learned better prepares us for opportunities and mitigates losses in a changing world.

The importance of learning and adaptability in investing is recognized, with knowledge and preparation recognized as fundamental to success.



Francisco Rodríguez-Castro, President & CEO • frc@birlingcapital.com
PO Box 10817, San Juan, PR 00922 • 787.247.2500 • 787.645.8430

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