

Think Strategically



BIRLING
CAPITAL ADVISORS, LLC

After the Banks Crisis, Change is Inevitable, Growth is Optional

June 4, 2023

by Francisco Rodríguez-Castro
frc@birlingcapital.com

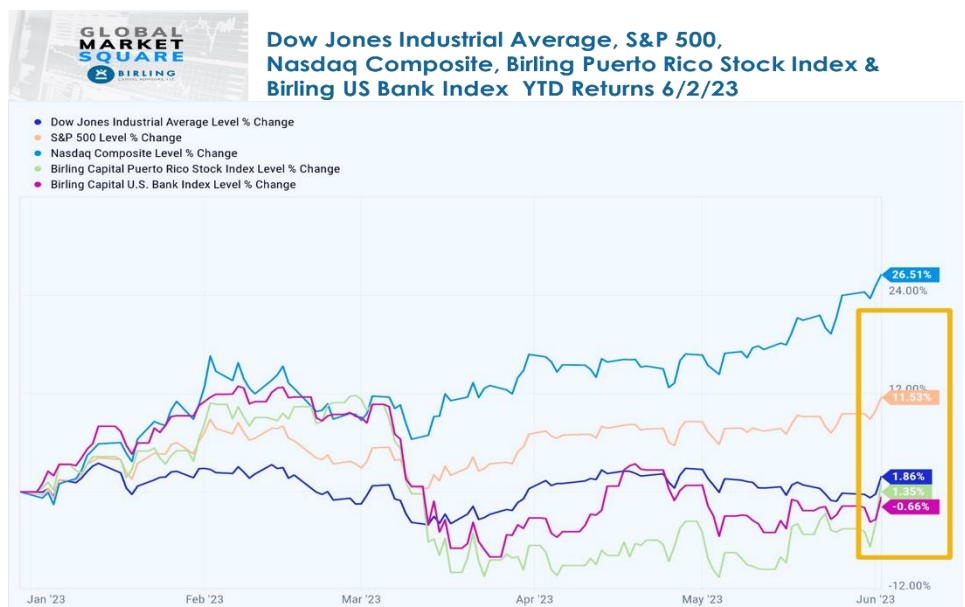
A Bank Crisis of Confidence that Began when Silicon Valley Bank Collapsed

No one wants to get caught in a Banking crisis of confidence, yet the U.S. banking sector has been at the center of one following the failures of some or forced mergers for others; the failures include Silicon Valley Bank (SVB), Signature Bank, and First Republic Bank, while in Europe the once mighty Credit Swiss was forced by regulators to merge with longtime rival UBS.

The headlines that ensued forced the hand of millions of clients to retire their money and place them in larger too big to fail banks; the global crisis of confidence has spilled over to the Puerto Rico banking sector, even though our three public Banks are and have been in a solid financial position. In that regard, reviewing how the broader banking sector has performed since then and how the two bank indexes we own have performed Year to Date until June 2, 2023, is prudent. It is worth remembering that Change is Inevitable, and Growth is Optional.

The Five Indexes we follow are ranked by their performance YTD:

- Nasdaq Composite has a return of 26.51%. S&P 500 has a return of 11.53%.
- Dow Jones Industrial Average has a return of 1.86%.
- Birling Capital Puerto Rico Stock Index has a return of 1.35%.
- Birling Capital U.S. Bank Stock Index has a return of -0.66%.



The Birling Capital Puerto Rico Stock Index

Now, let us revise the results so far for 2023. The four Puerto Rico Public Companies that make up the index have stood up well and better than some stateside and are in a much better position. We review each company in that light, analyzing their performance from 1/1/23 to 6/2/23. The Birling Capital Puerto Rico Stock Index closed on June 2, 2023, at 2,554.19 points with a YTD Return of 1.35%, which lags the Dow Jones, S&P 500, and Nasdaq Composite but beats the Birling Capital U.S. Bank Index.

The Birling Capital Puerto Rico Stock Index Constituents Stocks Performance YTD:

1. **Evertec, Inc. (EVTC)**, Achieved a total return of 11.49%, beating the Dow Jones, Birling PR Stock Index, and the Birling U.S. Bank Index. In comparison, underperforms the S&P 500 and Nasdaq. The Stock price on 6/2/23 was \$36.10 with a price target of \$36.20.
2. **Firstbank Corp.(FBP)**, Achieved a total return of -2.67% underperforming the Dow Jones, S&P, Nasdaq, Birling PR Stock Index, and the Birling U.S. Bank Index. The Stock price on 6/2/23 was \$12.38 with a price target of \$14.20. The Tier 1 Capital Ratio is at 16.63%.
3. **OFB Bancorp. (OFG)**, Achieved a total return of -3.40%, lagging the Dow Jones, S&P, Nasdaq, the Birling PR Stock Index & Birling U.S. Bank Index. The Stock price on 6/2/23 was \$26.65, with a price target of \$33.25. The Tier 1 Capital Ratio is at 13.64%.
4. **Popular, Inc. (BPOP)**, Achieved a total return of -5.20%, underperforming the Dow Jones, S&P, Nasdaq, Birling PR Stock Index, and the Birling U.S. Bank Index. The Stock price on 6/2/23 was \$62.87, with a price target of \$72.00. The Tier 1 Capital ratio is at 16.39%.

As you can see, the Birling Puerto Rico Stock Index at 1.35% beats the Birling U.S. Bank Index at -0.66% by a wide margin.

The Puerto Rico Companies are geared toward growth.

The Puerto Rico Public Companies remain on solid footing, and their revenues, net income, and continued business generation model remain firing on all cylinders.

Puerto Rico is in such an economic position that it should avoid the much-talked-about U.S. recession; the Island is in a position of strength with more than \$100 billion in Federal Funds allocated to reconstruction efforts; the key is to transform our economy while seizing these great funding sources.

The disbursement of the reconstruction funding is the key to Puerto Rico's economic growth in the short term; however, the combined efforts of the Department of Economic Development and Commerce, Invest Puerto Rico, and Discover Puerto Rico are providing a solid dose of new business development and a steady stream of new opportunities for the creation of new business to create a sustainable economy beyond the non-recurring reconstruction funding.

The funding sources are as follows:

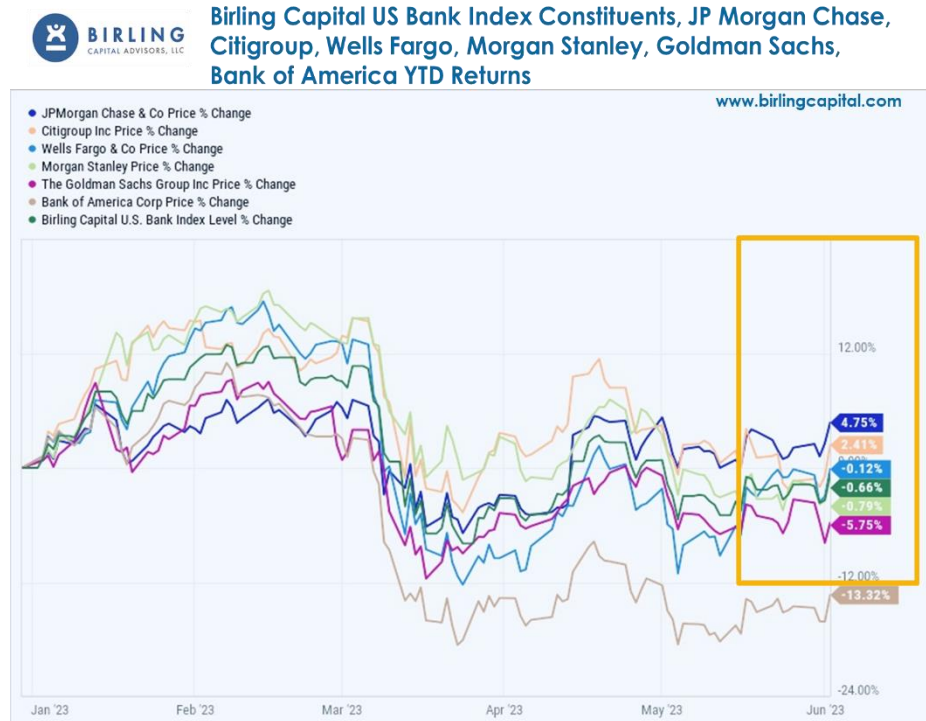
- \$74,245 million in funds allocated by the U.S. Congress for the reconstruction efforts in P.R.
- \$68,510 million in funds obligated by federal agencies for distribution.

- \$43,297 million Funds obligated from FEMA, of which only \$16,932 billion have been disbursed, and 61% remain due to be spent.
- \$19,769 million Funds obligated from CDBG-DR, of which only \$1.08 billion have been disbursed, and 95% remain due to be spent.

The Birling Capital U.S. Bank Index Constituents Stock Performance YTD

When pegged against the other indexes, the Birling U.S. Bank index lags the Dow Jones, S&P, Nasdaq, and Birling Puerto Rico Stock Index. Let's see how each Birling U.S. Bank Index company has performed individually and against the major indexes.

1. **JP Morgan Chase & Co. (JPM)**, Achieved a total return of 4.75%, lagging the S&P and Nasdaq and beating the Dow Jones, Birling PR Stock Index & Birling U.S. Bank Index. The Stock price on 6/2/23 was \$140.47, with a price target of \$159.96. The Tier 1 Capital Ratio is at 13.20%.
2. **Citigroup Inc. (C)**, Achieved a total return of 2.41% that underperformed the S&P and Nasdaq while beating the Dow Jones, the Birling PR Stock Index & Birling U.S. Bank Index. The Stock price on 6/2/23 was \$46.32, with a price target of \$55.49. The Tier 1 Capital Ratio is at 13.00%.
3. **Morgan Stanley (MS)**, Achieved a total return of 0.79%, lagging the Dow Jones, S&P, Nasdaq, and Birling PR Stock Index while beating the Birling U.S. Bank Index. The Stock price on 6/2/23 was \$84.35, with a price target of \$97.43. The Tier 1 Capital Ratio is at 17.20%.
4. **Wells Fargo & Co (WFC)**, Achieved a total return of -0.12%, underperforming the Dow Jones, S&P, Nasdaq, and Birling PR Stock Index, beating the Birling U.S. Bank Index. The Stock price on 6/2/23 was \$41.24, with a price target of \$48.31. The Tier 1 Capital Ratio is at 10.60%.
5. **Goldman Sachs Group (GS)**, Achieved a total return of -5.55% underperforming the Dow Jones, S&P, Nasdaq, Birling PR Stock Index, and the Birling U.S. Bank Index. The Stock price on 6/2/23 was \$325.65, with a price target of \$388.33. The Tier 1 Capital Ratio is at 15.10%.

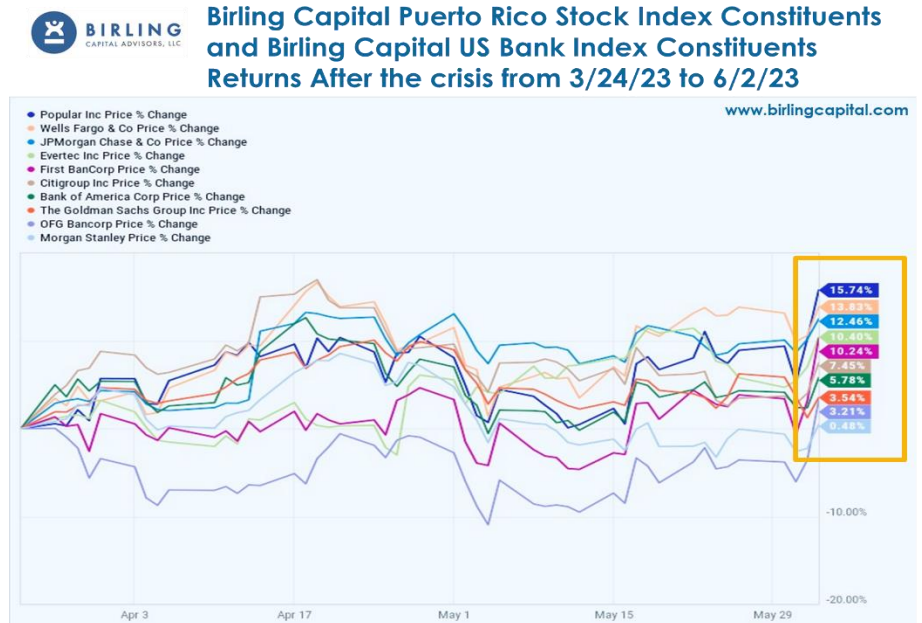


- Bank of America Corporation (BAC)**, Achieved a total return of -13.32%, underperforming the Dow Jones, S&P, Nasdaq, Birling PR Stock Index, and the Birling U.S. Bank Index. The Stock price on 6/2/23 was \$28.71, with a price target of \$35.52. The Tier 1 Capital Ratio is at 11.20%.

Investing wisely in a crisis may pay off handsomely.

Let's take another look at how each of the 10 Birling Capital PR Stock Index and Birling Capital U.S. Bank Index has performed since the height of the crisis on 3/24/23 to 6/2/23, and we ranked them according to their returns:

- Popular Inc. delivered a 15.74% return.**
- Wells Fargo & Co. delivered a 13.83% return.**
- JP Morgan Chase delivered a 12.46% return.**
- Evertec, Inc. delivered a 10.40% return.**
- Firstbank Corp. delivered a 10.24% return.**
- Citigroup delivered a 7.45% return.**
- Bank of America delivered a 5.78% return.**
- Goldman Sachs delivered a 3.54% return.**
- OFG Bancorp. Delivered a 3.28% return.**
- Morgan Stanley delivered a 0.48% return.**



The Puerto Rico Public companies show a dramatic recovery ranking #1 Popular, # 4 Evertec, #5 FirstBank, and #9 Oriental.

The crisis of confidence was just that lack of confidence in some banks that spread like wildfire among the global economies; we have said it before and will repeat it investing during trying times can be a highly profitable endeavor if you know to choose your investments wisely,

Change is Inevitable; Growth is Optional.

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.