



# Charting Progress: Mapping Puerto Rico's Economic Growth Amid Challenges and Opportunities

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## **Puerto Rico's Future is the one we create.**

In our analysis, we discuss aspects of financial stability, including the rise in bankruptcies, higher rates, vulnerabilities, near-term risks, alternative investing, and our forecast for Puerto Rico for 2024 and 2025.

A crucial component of a healthy economy is financial stability, both in the United States, Puerto Rico, and globally. We discuss the significance of financial stability and other critical issues in the current economic environment. Puerto Rico needs essential Strategic Planning with proactive economic development strategies and Long-term investment plans. Puerto Rico also needs more Collaborative Initiatives with a sharp dose of Innovation, Creativity, and total Educational Empowerment.

## **Financial Stability Framework: Bankruptcies Rise 68% in October and 30%YoY.**

The Federal Reserve's framework for monitoring vulnerabilities in the financial system has made substantial progress by both regulators and the private sector in enhancing the resilience of the financial system since the great financial crisis of 2008. However, a crisis in banking can prop up at any time; such was the case earlier this year when a crisis of confidence erupted, attempting to create systemic risk in banking and financial services. As it developed, a run on the Bank caused the closure of Silicon Valley Bank, a \$212 billion institution, and the 16th largest Bank in the U.S., in what may be the first bank failure in history due to a lack of proper management of its deposits, a vulnerability from having 97% uninsured deposits, and a large proportion of deposits invested in hold-to-maturity securities.

Other Failures followed notably Signature Bank, a \$110.9 billion bank, then First Republic, which had total assets of \$232.9 billion and then contagion impacted Europe, and regulators forced the once mighty Credit Swiss, with \$531.36 billion in assets, to merge. In total, these four banks had collective Assets of \$1,087.16 trillion. While it was quite worrisome to see them fail, the bank system proved it was fundamentally sound and able to recuperate from a contagion crisis. These failures emphasize the importance of remaining vigilant and identifying essential risks.

The Global Financial Crisis was an example of how weaknesses in the financial system can lead to economic turmoil. A good stress test of the financial system's soundness is this year's bank failures of \$1,087.16 trillion; it proved it was sound and able to recuperate from the crisis quickly. These failures emphasize the vital role of the enhancements made following the financial crisis of 2008 to the financial system included the Dodd-Frank Wall Street Reform and Consumer Protection Act, Greater Regulatory Oversight, Basel III, and Stress Testing.

## Assessing Vulnerabilities: Asset Valuations and Borrowing by Business and Households.

The vulnerabilities in the financial system are crucial for maintaining stability and preventing economic crises. Let's expand on these categories and add more data to assess vulnerabilities effectively.

Asset Valuations, which refer to the prices of various financial assets, such as stocks, bonds, and real estate. High asset valuations can lead to bubbles and subsequent crashes, while undervalued assets can result in missed investment opportunities.

Borrowing by Businesses and Households which it can become a critical vulnerability, as excessive borrowing can lead to financial distress and defaults. An often-quoted reminder is the 2008 financial crisis, in which the high level of household mortgage debt created a systemic default situation that impacted most banks and caused thousands of failures in the banking system.

In Puerto Rico, during the last twelve months, we have seen bankruptcies rise 13% or 62,973 more between September 2022 and September 2023, reaching 433,658 bankruptcies this year, compared to 370,685 the previous year and in October bankruptcies shot up 68% for individuals and businesses, the most dramatic increase in is reflected in business bankruptcies which rose 30% Y-O-Y or totaling 17,051.

The upward trend in bankruptcies in Puerto Rico is partly due to factors such as the disruption caused by Hurricane Maria, the pandemic that, while it provided relief and liquidity without it, many businesses have been hit hard by the labor shortages, price increases, business and individual relief during the pandemic, and the cost financing.

## The Impact of Higher Rates

Interest rates have rise total of 11 times since March 2022 taking rates from 0.25% to 5.50% in July 2023 an increase of 2,100%. During this period, the Commercial and Residential Real Estate sector has been hit hard by two forces vacancies and Higher Interest Rates, causing some Commercial and Residential real estate to experience losses as financing becomes too expensive.

As office attendance took a 90% nosedive in many cities, Commercial real estate is undergoing a seismic shift, and demand for office and retail spaces in Beijing, Houston, London, Munich, New York City, Paris, San Francisco, Shanghai, and Tokyo is facing the most strenuous ride in decades. Even as Co-working spaces skyrocketed, not all fared well as WeWork, the company that reinvented Co-working and, once valued at \$47 billion, filed for Bankruptcy.

## Unleashing Creativity: Exploring Alternative Investment Strategies Beyond Traditional Avenues

As we note, the traditional landscape of investing is upended; this may be an excellent scenario to discuss creative thinking exploring alternative investment strategies that can offer highly attractive returns for investors seeking to diversify their portfolios and enhance returns. Traditional vs. alternative and What differentiates alternative investments from traditional investments?

**Traditional Investments** are strategies constructed primarily using public equities and bonds. They are characterized by:

- High liquidity profile

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- Assets in public markets
- High correlation to markets
- Passive shareholders
- Returns are driven mainly by beta, with a lower dispersion among investors.

**Alternative Investments** look to exploit market inefficiencies by focusing on non-traditional assets and investment strategies. They are characterized by:

- Potential lower liquidity
- Assets in both private and public markets
- Low correlation to markets
- Active shareholders
- Returns are primarily driven by alpha with higher dispersion among managers
- Often focused on inefficient markets

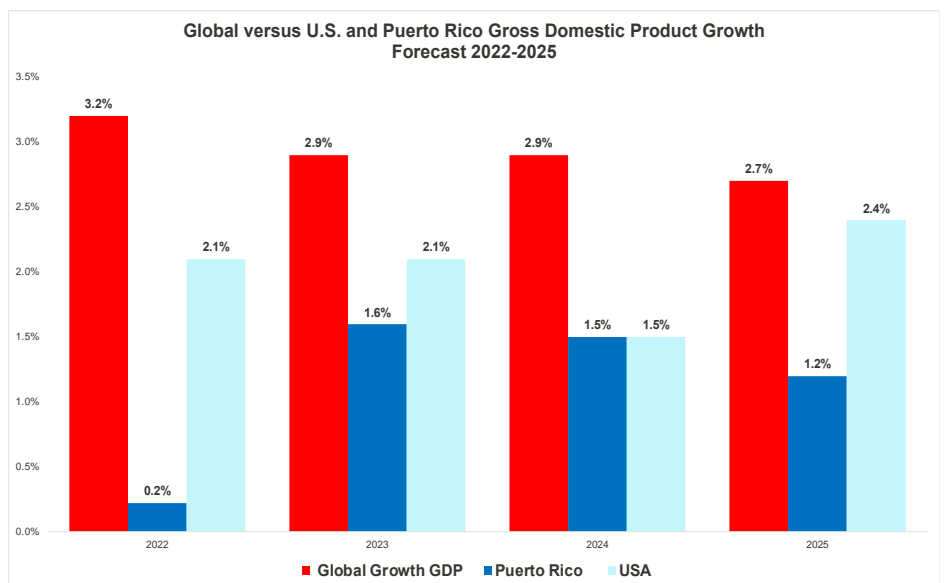
Some Alternative Investments Options to consider:

- **Private Equity:** is a beacon for those willing to take a longer-term approach and commit substantial capital. Unlike publicly traded companies, private companies offer investors the chance to be part of businesses not constrained by the short-term pressures of quarterly reporting.
- **Hedge Funds:** With their diverse range of strategies, hedge funds provide an avenue for non-correlated returns. From long-short equity to event-driven and global macro approaches, these funds operate outside the constraints of traditional markets.
- **Real Assets:** encompass a diverse range of assets, including private real estate, fine art, collectibles, commodities, and investments in infrastructure, such as bridges, highways, pipelines, airports, and data centers. These can act as a hedge against inflation and provide a safety net in times of economic uncertainty.

As investors explore this and other alternative investment strategies, it is paramount to conduct thorough research and understand the risk-return profile of each option.

### The Last Word: Forecast of the Puerto Rico Economic Landscape 2023-2025.

Birling Capital forecasts that Puerto Rico will close in 2023 with a GDP of 1.6%, 1.5% by 2024, and 1.2% by 2025; we compare the overall GDP growth forecast versus the U.S. In conclusion, we must remind ourselves that **Puerto Rico's future is not something we adapt and enter; Puerto Rico's Future is the one we create.**



Our economic model needs a dramatic diversification focusing on the knowledge economy sector. Lastly, Puerto Rico must appeal and think globally to Facilitate international trade and partnerships and integrate into global markets.

In conclusion, ensuring financial stability requires constant vigilance, adaptability, and an unwavering commitment to addressing vulnerabilities while embracing innovation. Only by doing so can we foster economic growth and security for the well-being of all.

**If you think about giving up at any time because you don't see results. Remember that the last thing that grows on a tree is the fruit.**



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