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Think Strategically

Puerto Rico Banks Blast Higher with Birling Capital's Indices Capture Parabolic 3Q25 Surge

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Three Quarters Down, One More to Go to End 2025

As 2025 enters its final stretch, investor sentiment remains broadly positive across asset classes. **Q3 optimism was fueled by the Federal Reserve's rate cuts, easing inflation pressures, and improving global liquidity**, all of which strengthened the outlook for 2026. Risk assets rallied as growth-supportive central banks signaled confidence in a soft landing scenario.

Key highlight: Puerto Rico's banking sector delivered **exceptional Q3 earnings and balance-sheet growth**, underscoring strong financial-sector performance and regional resilience.

Recent months have brought steady gains across most asset classes, reaffirming the **importance of diversification** as markets transition from policy-driven cycles to fundamentals-led growth. Previously lagging equities have rebounded, with **large-cap technology and communication stocks** leading the advance. Enthusiasm surrounding **artificial intelligence and declining yields** has broadened participation, lifting cyclical and value-oriented sectors that trailed earlier in the year.

In fixed income, **bonds that struggled through the tightening cycle are regaining ground** as yields decline. **High-yield and lower-quality credit** have particularly benefited from lower benchmark rates and renewed investor demand for income. Overall, Q3 marked a **turning point toward a more balanced and opportunity-rich environment** as 2025 approaches its close.

Revised U.S. Macro Backdrop

Recent forecasts indicate that the U.S. economy continues to expand at a **moderate but stable pace**. According to the **IMF's October 2025 outlook**, real GDP is expected to grow **2.0% in 2025** and **2.1% in 2026**, suggesting resilience despite tighter financial conditions and global trade frictions. The **Conference Board** cautions that late-2025 and early-2026 could bring renewed headwinds from **tariffs, slower consumer spending, and a cooling labor market**. Globally, the **IMF projects growth of about 3.2% in 2025** and **3.1% in 2026**, underscoring a steady but modest global expansion.

Inflation remains sticky, restraining the Federal Reserve's ability to move swiftly toward easing.

Still, **investment in technology, R&D, and productivity-enhancing sectors** continues to provide a critical foundation for corporate earnings and long-term growth. As activity moderates, **interest rates may begin to drift lower**, or at least expectations of easing may firm, though any policy shift will remain **highly dependent on inflation progress and labor-market stability**.

In this environment, investors face a "lower-for-longer" growth regime, elevated uncertainty, and transitioning monetary policy. Strong growth tailwinds from past cycles are fading; the next leg will likely

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depend more on structural pivots (AI, productivity) and policy easing than on cyclical acceleration. Sectors and markets that are priced for strong growth might struggle; those that lean into structural change, quality, and earnings resilience are likely to fare better.

Key U.S. Economic, Inflation and Labor Data:

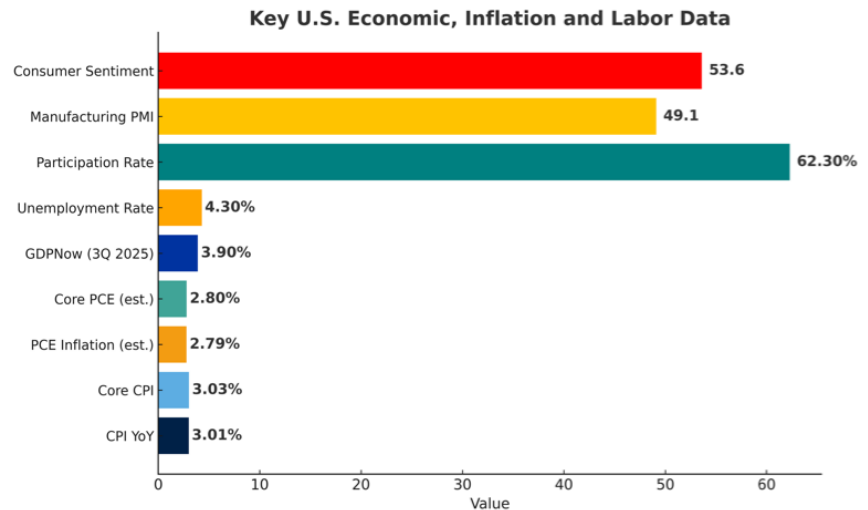
- **CPI YoY:** 3.01 %
- **Core CPI:** 3.03 %
- **PCE Inflation:** 2.79 % (est.)
- **Core PCE:** 2.80 % (est.)
- **GDPNow (3Q 2025):** 3.9 %
- **Unemployment Rate:** 4.3 %
- **Participation Rate:** 62.3 %
- **Manufacturing PMI:** 49.1.
- **U.S Consumer sentiment:** 53.6.

Inflation continues to ease toward the Federal Reserve's 2% target, signaling progress but not yet victory, keeping rate-cut expectations alive.

Economic growth remains resilient at 3.9% despite softening manufacturing and weak consumer sentiment, suggesting an uneven but sustained expansion. For investors, this environment favors a balanced approach—leaning toward quality equities and fixed income.



Key U.S. Economic Data



Earnings Season Momentum

Corporate earnings season is off to a solid start, with **S&P 500 earnings projected to rise 8.7 percent year-over-year**, marking the **strongest growth in more than six quarters**.

Seven of eleven sectors are expected to post gains, led by **technology, financials, and utilities**.

This broad-based recovery **could fuel balanced market leadership** across sectors, reinforcing Birling Capital's case for **diversified portfolios** amid high valuations.

Market Performance YTD as of October 24, 2025

- **Dow Jones Industrial Average:** has a year-to-date return of **10.96 %**, closing above **47,000** for the first time ever.
- **S&P 500:** has a year-to-date return of **15.47 %**, led by technology and communications.
- **Nasdaq Composite:** has a year-to-date return of **20.17 %**, powered by AI-driven innovation.
- **Birling Puerto Rico Stock Index:** has a year-to-date return of **5.45 %**, dragged down by **Evertec** and **OFG Bancorp**.
- **Birling U.S. Bank Index:** has a year-to-date return of **31.88%**, confirming strong **financial-sector momentum despite CRE headwinds**.

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Dow Jones, S&P 500, Nasdaq, Birling P.R. Stock Index, Birling U.S. Bank Index, Popular, Firstbank, Oriental & Evertec YTD Returns 10.24.25



Puerto Rico Banking Performance for Q3 2025

1. **Popular, Inc. (BPOP):** reported **3Q 2025 revenues of \$817.7 million**, increasing **11.01 percent**. Net income reached **\$211.3 million**, up **0.42 percent**, with **earnings per share of \$3.15**, topping analyst estimates. The bank maintains a robust **Tier 1 Capital Ratio of 15.84 percent** and a **stock price objective of \$145**. With **year-to-date returns outperforming the Birling Puerto Rico Stock Index and the Dow Jones Industrial Average**, Popular slightly trails the **Birling U.S. Bank Index**. Pebbling Capital believes Popular is **positioned for consolidation, with liquidity and capitalization allowing it to assess acquisition opportunities, especially in nontraditional Hispanic markets where competition is less intense**. Acquiring these banks could guide Popular **into the U.S. mainstream**, diversifying geography and demographics. Keeping acquired brands for several years **would build trust and enable** the gradual integration of products and technology.

Popular may expand **transactional and trade-finance banking** in **Colombia, Chile, and Brazil**, potentially gaining **5–10% EPS accretion within 2 years** while preserving strong capital.

2. **First BanCorp. (FBP):** reported **3Q 2025 revenues of \$248.7 million**, rising **6.01 percent**, and **net income of \$100.52 million**, up **36.34 percent**. **Earnings per share of \$0.63** exceeded expectations, supported by margin discipline and prudent credit management. The bank maintains a **stock price objective of \$25.33**.

The stock has a **year-to-date return of 9.47 percent**, outperforming the **Birling Puerto Rico Stock Index (+4.02 pp)** but trailing the **S&P 500 (-6.00 pp)** and the **Birling U.S. Bank Index (-22.41 pp)**. FirstBank's solid foundation and conservative risk culture support **selective acquisitions** in the **U.S. mainland and Latin America, focusing on banks with \$2–\$7 billion in assets and markets facing earnings and CRE challenges**. Such acquisitions would support geographic and customer base diversification, with a strategy of retaining local brands to foster loyalty before full integration.

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In Latin America, FirstBank **may pursue** minority investments in **fintech-adjacent lenders** in **Chile, Peru, and Mexico**, leveraging **Evertec's cloud and analytics**. These steps **could boost noninterest income** and deliver 3–5% **EPS accretion** over the medium term.

3. **OFG Bancorp. (OFG)**: reported **3Q 2025 revenues of \$183.98 million**, up **5.68 percent**, and **net income of \$61.37 million**, with **earnings per share of \$1.16**, surpassing analyst expectations. The bank maintains a **Tier 1 Capital**. OFG's **year-to-date return is –6.36 percent**, underperforming key indices, while maintaining a strong capital base. OFG **may pursue high-ROI bolt-on acquisitions of smaller institutions across select U.S. regions, aiming to diversify customer bases and expand into new geographies**.

Maintaining the acquired bank's brand preserves trust, while Evertec supports **integration**.

Successful execution could deliver **EPS accretion in 12–18 months, positioning OFG for a valuation re-rating toward 1.2× tangible book** by 2026.

4. **Evertec, Inc. (EVTC)**: has a YTD return of –13.50% and will report **Q3 2025 results on November 5**. Despite short-term swings, EVERTEC remains **Puerto Rico's most global fintech**, operating in **26 Latin American countries** and serving key regional and cross-border clients with payments and analytics infrastructure.

Its recent acquisitions—**Sinqia (Brazil, 2023)**, **Grandata (Mexico, 2024)**, **Nubity (Mexico, 2024)**, and **Tecnobank (Brazil, 2025)**—expand its reach across **software, cloud, and digital registry services**. Analysts forecast **revenues of \$225 million** and **EPS of \$0.73–\$0.89**. With a **fair-value estimate of \$38.60** versus its **\$29.87 close**, EVERTEC appears **undervalued by 16.5%**.

Evertec **could serve as the technological enabler** of Puerto Rico's bank-led expansion, offering the digital and analytics backbone needed to **integrate U.S. and Latin American acquisitions** efficiently.

The **Puerto Rico banking sector delivered a robust 3Q 2025**, with consolidated revenues of **\$1.25 billion** and net income of **\$373 million**, reflecting solid profitability, disciplined credit management, and healthy loan demand. Supported by strong capital positions and liquidity across Popular, First BanCorp., and OFG Bancorp, the sector remains resilient despite global uncertainty. With a **market capitalization of \$14.35 billion**, investor confidence remains high, driven by sound fundamentals, improved efficiency, and ongoing digital transformation that positions Puerto Rico's banks for sustainable growth into 2026.

Strategic Insight a Basis for A Robust Acquisition Strategy

Puerto Rico's top banks now stand at a **strategic crossroads** as they **could leverage** strong capital ratios and operational efficiency to **acquire undervalued franchises**—particularly those **strained by CRE exposure or earnings weakness**—in both **Hispanic and nontraditional U.S. markets**.

Such acquisitions **would broaden** Puerto Rican institutions' geographic reach and **anchor their transformation into mainstream U.S. banking players**.

Puerto Rico Economic Update: Real GNP Growth Forecast 2024–2030

Puerto Rico's economic outlook over the next seven years underscores the island's continued struggle to sustain consistent growth amid structural challenges and demographic pressures. After two years of modest expansion in 2024 and 2025—both registering **0.7% real GNP growth**—the economy is projected to enter a period of contraction that extends through 2029, reflecting the lingering effects of high energy costs, limited private investment, and slow execution of federal disbursements.

The year **2026** is expected to mark the beginning of this contraction phase, with a 0.8% decline, followed by a mild 0.10% decline in 2027 as household consumption weakens and external headwinds persist. The downturn deepens in **2028**

(–1.7%) and **2029 (–2.0%)**, signaling the cumulative drag of declining labor participation, outmigration, and the expiration of federal recovery funds.

However, a **turnaround is expected in 2030**, with the economy forecast to expand by **0.5%**, suggesting the beginning of a stabilization period as infrastructure investments mature, manufacturing and tourism recover modestly, and private capital begins to reenter the market.

Puerto Rico's near-term economic performance presents a mixed but instructive picture of partial recovery amid structural strain. The October 2025 indicators show areas of strength in construction and modest improvements in labor dynamics, counterbalanced by declines in consumer activity and continued weaknesses in production and energy reliability.

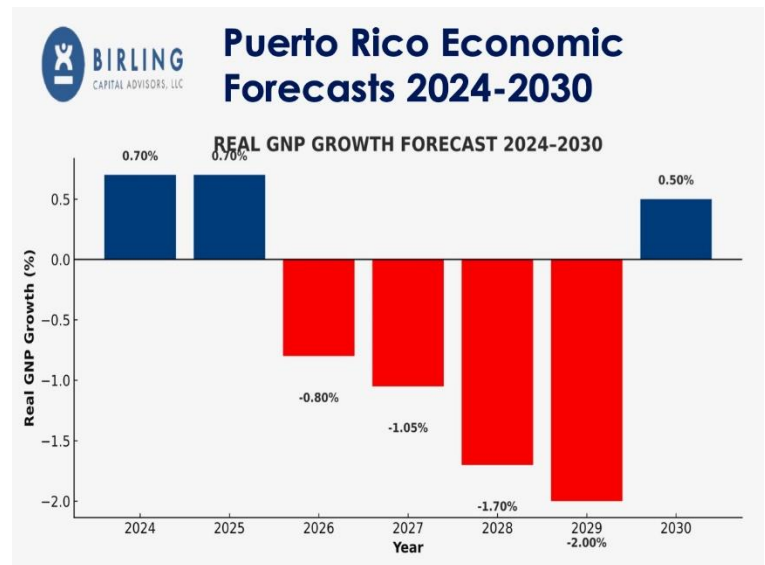
Cement sales reached **1.325 million bags**, rising **13.7% year over year**, a strong signal of continued expansion in the construction sector fueled by reconstruction funds, infrastructure investment, and renewed private development. The **Manufacturing PMI** climbed slightly to **46.7**, up **0.65%**, but remains below the critical 50 threshold, indicating that manufacturing continues to contract—albeit at a slower pace. Consumer demand weakened sharply, with **auto sales dropping to 7,686 units**, a **19.5% decline** that underscores the impact of tighter credit conditions and reduced household purchasing power.

Meanwhile, the **Electric System SAIDI** rose to **1,580 minutes**, an **11.2% deterioration** that highlights energy reliability as one of the island's most persistent barriers to competitiveness and industrial continuity.

The labor market presents a similarly nuanced story. **Unemployment increased to 5.6%**, while the **labor participation rate improved slightly to 45.1%**, indicating a modest re-entry of workers into the labor force but limited overall job creation. The **Economic Activity Index (EAI)** posted a **0.9% year-over-year improvement**, suggesting that while momentum remains fragile, some underlying sectors are regaining traction.

At the macro level, **GDP growth slowed to 1.1%**, reflecting a deceleration in broad economic activity after two years of modest expansion. Stable gasoline prices at **\$0.747 per liter**, down **0.4%**, have helped ease inflationary pressures, but not enough to offset the drag from slowing output and weakening consumption.

Taken together, these indicators depict an economy at a crossroads: construction strength and moderate labor improvements provide short-term support, but declining consumer activity, fragile industrial output, and chronic energy inefficiencies continue to weigh on growth. The path forward demands a deeper



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focus on productivity, private investment, and policy reforms that expand economic freedom—key levers for transforming Puerto Rico's current stabilization into sustainable, long-term prosperity.

The Final Word: What Investors Should Specifically Monitor for the Remainder of 2025 / Early 2026

Here we discuss the key indicators and inflection points:

1. **Federal Reserve policy path** – Watch for communications around timing and pace of cuts. If inflation remains sticky, rate cuts may be delayed, potentially altering the expected earnings boost for equities.
2. **Earnings revisions breadth** – Upward revisions across broad sectors would support equity upside. If revisions narrow, the risk of multiple compressions rises.
3. **Labour market dynamics** – A sharp deterioration (rising unemployment rate or job-loss flows) would raise recession risk and favour defensives; conversely, resilient labour data supports discretionary and cyclical exposure.
4. **Business investment and capex** – Since tech and AI capex are tailwinds, a greater flow into these areas signals increased growth potential. Vanguard highlights above-trend tech-capex.
5. **Tariff/trade policy developments** – New tariffs or trade disruptions pose a risk to global supply chains and growth.
6. **Sector rotation evidence** – Rising industrial/utilities stock performance (versus growth) could signal the pivot you are recommending.
7. **Bond yields and term structure** – Declining long yields or steepening of the yield curve could support duration and growth assets; persistently high yields may cap equity upside.
8. **Global growth divergences** – With global growth modest (~3.2% in 2025) per the IMF, greater dispersion will matter.
9. **Structural themes (AI, productivity, infrastructure)** – These can be independent drivers even in a low-growth regime.

As 2025 moves toward 2026, investors adjusting their portfolio strategy to face a market defined by moderation—**slower growth, easing inflation, and selective opportunity**. The strategy ahead must emphasize balance: capturing upside through quality equities while maintaining protection through disciplined diversification.

Equities remain the core growth engine, particularly among U.S. large- and mid-cap companies with strong earnings resilience, robust cash flows, and exposure to enduring themes such as **AI, automation, and digital infrastructure**. A measured equity tilt, complemented by selective investment-grade bonds, provides a cushion against volatility while preserving participation in potential market gains. In fixed income, **emerging-market debt** from stable, hard-currency issuers offers yield potential, while **longer-maturity Treasuries** serve primarily as diversification tools. Within equities, the spotlight should remain on **industrials and utilities**, sectors benefiting from infrastructure expansion, reshoring, and the global energy transition.

Looking ahead, the winning portfolios will prioritize **quality, adaptability, and patience**—positioning for sustainable value creation rather than short-term rallies in an efficiency-driven market cycle.

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“Puerto Rico’s banks are no longer following the cycle — they are defining it. In a world searching for yield and stability, their resilience has become the new benchmark for disciplined growth, and we want more”.



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