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# Think Strategically

## Puerto Rico Banks Enter a New Market Regime: Breadth, Capital Strength, and Execution

February 9, 2026

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### Puerto Rico Economic Update: Activity Turns the Corner as Growth Normalizes (2025–2027)

After more than a year of sustained contraction, Puerto Rico's economy is showing **clear and measurable signs of stabilization—and early expansion**, marking an important inflection point in the island's economic cycle.

The **Puerto Rico Economic Activity Index (PR-EAI)**, which had remained in contraction for **13 consecutive months**, returned to **positive year-over-year growth in late 2025**, signaling that the downturn phase has likely bottomed. The index posted **+0.2% growth in October 2025**, followed by a stronger **+0.8% increase in November**, confirming a broad-based improvement across key activity measures.

Crucially, **month-over-month gains reinforced that this rebound was not a statistical anomaly or base-effect distortion**. Instead, the data point to a transition out of a prolonged contractionary phase and into a **modest but increasingly sustained expansion** in aggregate economic activity.

### Real GNP Context: Recovery Is Real—but Slowing

This improvement in economic activity aligns with the broader **Real GNP trajectory**, which shows Puerto Rico firmly past crisis-level contraction and operating in a **low-growth recovery phase**.

Following a solid rebound in **2021 (+1.4%)** and a stronger-than-expected expansion in **2022 (+2.6%)**, growth moderated in **2023 (+0.6%)** as higher interest rates and slowing reconstruction momentum weighed on private investment. Activity re-accelerated in **2024 (+2.1%)**, supported by infrastructure spending, manufacturing stabilization, and resilient tourism demand.

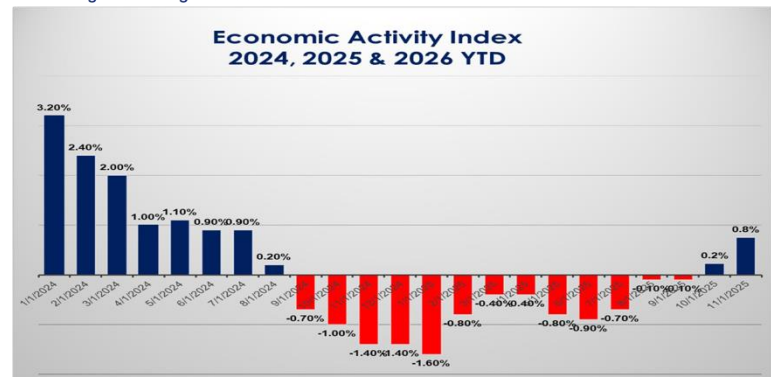
Looking ahead, **growth is projected to decelerate but remain positive**, reflecting normalization rather than renewed contraction:

- **2025:** Real GNP growth of **+1.2%**, supported by ongoing federal disbursements, steady construction, and service-sector activity.



### Economic Activity Stabilizes After Prolonged Contraction

Following 13 straight months of contraction, the Economic Activity Index moved back into expansion in **October 2025 at 0.2%** and accelerated to **0.8% in November 2025**, marking the first signs of economic stabilization.



- **2026:** Growth moderates to **+0.4%** as reconstruction spending peaks and labor constraints persist.
- **2027:** Growth slows further to **+0.3%**, placing the economy near stall speed but **not in recession**.

### What is the PR-Economic Activity Index Inflection Telling Us

The turning point in the PR-EAI is especially important because **economic activity typically leads to Real GNP**. Historically, sustained improvements in activity precede:

- Higher transaction volumes
- Improving credit performance
- Stronger earnings visibility
- More durable balance-sheet conditions across banks and financial infrastructure providers

For Puerto Rico's financial system, this marks a shift from **defensive positioning toward cautious normalization**.

### Structural Constraints Remain

While the direction of travel has improved, the recovery's altitude **remains limited**. Structural headwinds—demographic decline, labor force constraints, energy inefficiencies, regulatory friction, and uneven execution capacity—continue to cap medium-term growth potential.

Absent reforms that translate reconstruction into private-sector-led expansion, Puerto Rico risks settling into a **sub-1% structural growth regime**, leaving the economy vulnerable to external shocks and the eventual tapering of federal support.

Puerto Rico's economy has **turned the corner**. The contraction phase is over, activity is expanding, and recession risk has receded. However, the next phase will determine whether this inflection evolves into **durable growth** or stabilizes into a prolonged period of **low-velocity expansion**.

The data no longer point to crisis—but they do demand **execution, reform, and capital alignment** to prevent stabilization from becoming stagnation. The Birling Capital Puerto Rico Stock Index: A Diffusion Index of Market Health

The **Birling Capital Puerto Rico Stock Index** is a **diffusion index**, designed not simply to measure market returns, but to assess the **breadth, consistency, and directional strength** of Puerto Rico-based publicly traded companies.

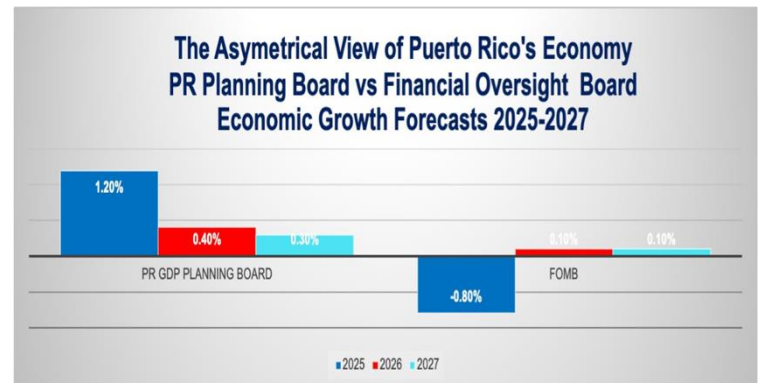
Unlike traditional capitalization-weighted indices—where performance can be dominated by one or two large names—a diffusion index focuses on **how broadly performance is shared across its components**. In this structure, index movements reflect whether gains or losses are being driven by widespread participation or by narrow leadership.

As a diffusion index, it answers three critical questions:

1. Are improvements **broad or concentrated**?



## Puerto Rico Economic Forecasts 2025-2027



2. Are returns supported by **fundamentals across companies**?
3. Is momentum **strengthening, stabilizing, or weakening beneath the surface**?

This makes the index particularly effective at identifying **turning points** and confirming whether market advances are sustainable.

### The Birling Capital Puerto Rico Stock Index Five-Year Performance Across Market Cycles

Viewed through the lens of diffusion rather than simple price appreciation, the index's performance tells a disciplined story:

- **2021: +43.88%:** Broad-based post-pandemic recovery with widespread earnings normalization and strong participation.
- **2022: -12.45%:** A contractionary phase driven by aggressive global monetary tightening and valuation compression—reflecting orderly repricing rather than systemic weakness.
- **2023: +16.12%:** Recovery year as inflation moderated and breadth improved across sectors.
- **2024: +8.83%:** A normalization phase with steadier growth and more selective leadership.
- **2025: +8.98%:** A fundamentals-driven advance supported by earnings growth, capital strength, and improving macro visibility.
- **YTD 2026: +5.51%:** Early confirmation that improving economic activity and earnings breadth are aligning.

Taken together, the index suggests that Puerto Rico's equity market has matured into a **fundamentals-anchored cycle**, where returns increasingly reflect execution rather than excess liquidity or narrative momentum.

### Earnings Season Takeaway: Fundamentals Over Narrative

Fourth-quarter and full-year 2025 results across Puerto Rico's banking sector reinforced three key themes:

1. **Earnings quality remains strong**, driven by core operations.
2. **Capital positions are robust**, providing flexibility and resilience.
3. **Dispersion is increasing**, rewarding disciplined balance-sheet management.

This environment favors banks with scale, pricing power, and conservative risk management—traits clearly reflected in the **Birling Puerto Rico Bank Index**.

### The Financial Core of the Index: Banks and Financial Infrastructure Drive Earnings Breadth

Puerto Rico's financial sector sits at the center of the island's economic transmission mechanism. As economic activity stabilizes, banks and payment platforms are among the first to reflect normalization through higher transaction volumes, improving asset quality, and operating leverage.

The Birling Capital Puerto Rico Stock Index captures this dynamic by combining **traditional banking institutions** with **payments and fintech infrastructure**, offering a comprehensive view of how economic activity is monetized.

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## Puerto Rico Financial Sector Leaders: Performance, Fundamentals, and Market Validation



### 2025 Returns for Popular, Inc. (BPOP), FirstBank (FBP), Oriental (OFG) and Evertec, Inc. (EVTC)



#### 1. Popular, Inc. (BPOP): 2025 Total Return: +32.38%, Scale, Consistency, and Capital Leadership

Popular remains the cornerstone of Puerto Rico's financial system and the anchor constituent of the index. The company's **+32.38% total return in 2025** reflects market recognition of its superior scale, earnings durability, and capital strength as the island's economy transitioned from contraction to stabilization.

In **4Q2025**, BPOP reported revenues of **\$823.8 million (+9.04% YoY)** and net income of **\$233.9 million (+10.68% YoY)**. Earnings per share of **\$3.53** exceeded expectations, driven by strong net interest income, disciplined cost control, and stable credit quality.

For the **full year 2025**, Popular generated **\$833.2 million in net income**, representing **36% growth**, reinforcing its position as the highest-quality earnings franchise in the local banking system.

With a **Tier 1 capital ratio of 15.77%**, Popular maintains substantial flexibility for dividends, buybacks, and reinvestment, supporting a **stock price target of \$145.70**.

**Strategic takeaway:** Popular's outsized equity performance confirms that markets reward **scale plus consistency**. BPOP leads not just by size, but by its ability to compound earnings across cycles while maintaining capital optionality.

#### 2. First BanCorp (FBP): 2025 Total Return: +11.51%, Predictability, Capital Discipline, and Execution

First BanCorp continues to distinguish itself through disciplined growth and a strong balance sheet. Its **+11.51% return in 2025** reflects steady investor confidence rather than momentum-driven repricing. In **4Q2025**, FBP delivered revenues of **\$257.17 million (+6.50% YoY)** and net income of **\$87.1 million (+15.05% YoY)**. EPS of **\$0.55** exceeded expectations, supported by operating efficiency and stable funding costs.

For **full-year 2025**, net income reached **\$344.9 million (+15.45%)**, reinforcing FBP's reputation for earnings predictability.

FBP closed the year with a **Tier 1 capital ratio of 16.76%**, among the strongest in the sector, supporting a **\$24.00 stock price target**.

**Strategic takeaway:** In a low-growth macro environment, FBP's equity performance underscores the enduring value of **durability and capital discipline** as sector dispersion widens.

#### 3. OFG Bancorp (OFG): 2025 Total Return: -3.17%, Operational Leverage in a Normalizing Cycle

OFG's **-3.17% return in 2025** reflects market caution rather than fundamental deterioration, highlighting sensitivity to growth normalization and valuation discipline in a maturing cycle.

In **4Q2025**, OFG reported revenues of **\$185.4 million (+0.75% YoY)** and net income of **\$55.9 million (+7.74% YoY)**, with EPS of **\$1.27**.



For **full-year 2025**, net income totaled **\$206.8 million**, supported by disciplined expense control, stable asset quality, and effective balance-sheet optimization.

OFG ended the year with a **Tier 1 capital ratio of 13.97%** and a **\$47.60 stock price objective**.

**Strategic takeaway:** OFG demonstrates that **efficiency and execution can sustain profitability**, but equity markets remain selective when top-line growth moderates and relative scale advantages are narrower.

#### 4. **Evertec, Inc. (EVTC): 2025 Total Return: -15.76%, Latin American Expansion: A Disciplined Build-Out**

Evertec represents the financial infrastructure backbone of Puerto Rico's modern economy and a differentiated component of the index. Its **-15.76% return in 2025** reflects near-term investor caution, as the company invests aggressively in long-term platform expansion rather than immediate margin expansion.

EVTC is executing a focused strategy to evolve from a regional payment processor into a **full-stack Latin American fintech and financial software platform**. Through targeted acquisitions, the company has expanded into payments, financial software, cloud infrastructure, and data analytics—deepening its integration into the operating core of financial institutions across the region.

**Brazil** sits at the center of this strategy. The **2026 acquisition of Dimensa** expands Evertec into insurance software and strengthens fund administration and financial systems capabilities. This follows the **2025 acquisition of a controlling stake in Tecnobank**, adding digital credit infrastructure and vehicle-finance technology. Together, these moves accelerate EVTC's transition toward **recurring, software-driven revenues** in Latin America's largest financial market.

Beyond Brazil, **Nubity** enhances cloud and DevOps capabilities, while **Grandata** adds advanced analytics, AI, and credit risk intelligence. Earlier acquisitions—including **Sinqia, Zunify, BBR, and PlacetoPay**—laid the foundation for this integrated fintech ecosystem.

With earnings scheduled for **February 25, 2026**, and a **stock price objective of \$32.80**, EVTC provides exposure to **transaction growth, software penetration, and fintech infrastructure scale**, rather than traditional credit risk.

**Strategic takeaway:** Evertec's 2025 underperformance reflects **investment-cycle timing**, not strategic failure. The company is deliberately trading short-term equity volatility for long-term platform relevance across Latin America's digital financial system.

### Looking Ahead to 2026: What the Indices Are Signaling Together

The dispersion in **2025 returns—BPOP (+32.38%), FBP (+11.51%), OFG (-3.17%), EVTC (-15.76%)—perfectly mirrors Puerto Rico's macro reality**: the economy has turned the corner, but growth is selective, capital-intensive, and execution-driven. Markets are rewarding **scale, capital depth, and earnings visibility**, while demanding patience for transformation stories and punishing ambiguity.

Taken together, the **Puerto Rico Economic Activity Index (PR-EAI)**, the **Birling Capital Puerto Rico Stock Index**, and the **Birling Puerto Rico Bank Index** are no longer flashing mixed or transitional signals. They are converging around a single message:

Puerto Rico has moved beyond stabilization and into the **early stages of a new operating regime**.

Economic activity has decisively exited contraction. Earnings participation across banks and financial infrastructure is broadening rather than narrowing. Capital strength is not being consumed defensively—it is being preserved strategically. This is not the profile of an economy or market clinging to recovery; it is the profile of one **resetting its baseline higher**.

Crucially, the alignment across macro activity, equity breadth, and bank fundamentals reduces the probability that recent gains are cyclical noise or liquidity-driven distortions. Instead, it increases confidence that Puerto Rico's financial system is transitioning to a phase in which **execution, balance-sheet quality, and operating leverage** matter more than policy support or external stimulus.

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## The Final Word: Strategic Outlook: From Repair to Performance Puerto Rico Enters the New Phase

As Puerto Rico advances through 2026, the strategic backdrop is materially different from prior years:

- Economic momentum is no longer fragile—it is **self-reinforcing**.
- Banks are not rebuilding capital—they are **deploying optionality**.
- Fintech infrastructure is not speculative—it is **embedded and scaling**.
- Equity performance is not concentrated—it is **diffused and fundamental**.

This matters for investors, boards, and policymakers alike. Markets driven by breadth and capital discipline tend to be more durable, less volatile, and more selective—rewarding quality over momentum and strategy over speculation.

Puerto Rico's financial system and equity market are no longer defined by recovery narratives, post-crisis comparisons, or resilience alone.

They are now defined by **earnings depth, capital strength, and strategic execution**.

The indices are not signaling exuberance—but they are signaling confidence. And in market cycles, confidence built on fundamentals is what sustains performance.

Puerto Rico is no longer asking whether it can stabilize.

It is beginning to answer a more important question:

**How much can it compound from here? The Key with these opportunities is how to profit from them.**



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