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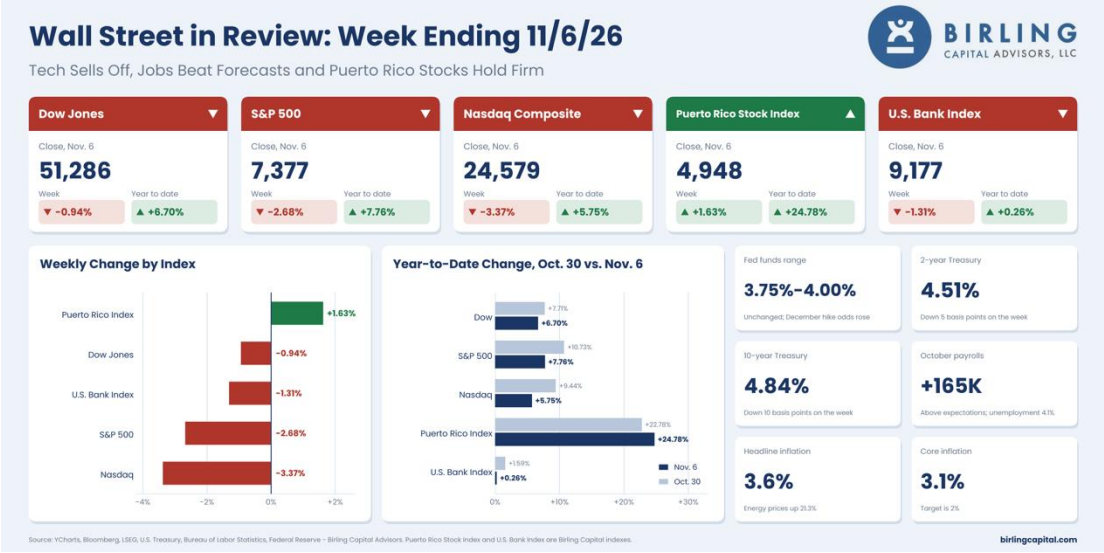
The Market Just Asked for Proof on AI and Puerto Rico Faces Very Hard Economic Questions

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The post election selloff was all about who gets paid for AI. Puerto Rico's rally faces the same test.

The Week In Wall Street ending November 6, 2026



Markets like clean headlines and Wednesday delivered one. The markets were up after the Dems took both houses of Congress, with the Dow up 3% and the S&P 500 up 1.6%. Oil was down, and the divided government trade looked like consensus.

Then Thursday came. The Nasdaq dropped 1,422 points (5.5%) to close at 24,315, clearly in correction territory. By Friday's close, the S&P 500 had had its worst week since June (down 2.7%), and the Nasdaq had lost 3.4% on the week (after a Friday rebound). Some $3 trillion in market value was gone. The election results were unchanged from Wednesday to Thursday. Only the market's risk appetite had changed.

That whiplash is definitely worth looking at as Puerto Rico is running the same experiment. Our markets are rewarding one sector of the economy while the rest waits for proof. This column covers both stories as the lessons are the same.

This week also delivered a local reminder of what happens when the proof doesn't arrive: one of the island's largest national multi-franchise restaurant operators filed for bankruptcy.

The catalyst was local, not federal

The first thought was to blame Washington, but that's wrong. Trump still has the veto, which limits how much federal restrictions can get through. The real fight will be at the state and local level. As of Friday, voters in communities across the country have approved over 40 ballot measures restricting data centers. Electricity bills, water usage, and land use are now campaign issues. Every data center needs a permit, a power contract, and a neighbor who doesn't mind, and the market is beginning to price that in. Smaller data center operators in the space (IREN, Applied Digital, Nebius) all fell over 14% on Thursday. The companies with the thinnest balance sheets and the most reliance on new build took the biggest hit.

Three tests for the AI trade

For three years, nearly anything related to the AI buildout was rewarded. Thursday suggests the next phase will be more selective, as demand is no longer the issue. Price and timing are. At Birling, we're going to frame the next phase as three tests:

- **The scarcity test.** Who owns hard-to-replicate capacity? If permits and power slow the buildout, existing capacity becomes more valuable. That favors hyperscalers over suppliers that rely on a constant flow of new build.
- **The funding test.** Who can fund growth at a higher cost of capital? Durable names will have strong balance sheets and diversified revenue streams.
- **The payoff test.** Who actually turns AI into lower costs and better service? The next winners are likely to be healthcare, financial, and industrial companies that use the technology, not those that build it.

The selloff has also reset the starting point. Following Thursday's correction, the Nasdaq is up just 5.75% for the year (vs. the S&P 500's 7.76%). Leadership, which had been quite narrow all year, has started to broaden, and the equal-weighted S&P 500 hit a record high on Wednesday. A reset isn't a catalyst, but it is a much healthier base to build from.

The rates wrinkle

The bond-friendly case post-election rested on three things: a divided Congress would limit deficit spending, lower oil would help inflation, and a slower AI build would reduce corporate borrowing—all three still hold. Oil actually fell sharply the day after the election as the prospect of an Iran deal took hold. Friday was a counterweight. October saw 165k jobs added by employers (well above expectations), and unemployment edged down to 4.1%, so the odds are now that the Fed will be raising rates in December and in 2027. Fiscal restraint now faces a labor market that will not cool. The 10-year Treasury yield finished Friday at 4.84% (well down from October's peaks), so some of the relief is already priced in. Falling oil and a patient Congress can drive yields down. A strong economy and a hawkish Fed can drive them back up again.

For Puerto Rico, that tension will matter more than in any other context, as the next section shows.

Puerto Rico's three speeds

Our island is moving at three speeds. The market is rewarding the banks. The real economy is not keeping up. The decisions that would close the gap on Medicaid, the electric grid, and the recovery funds are all sitting in Washington.

Start with the market. As of Friday's close, the Birling Capital Puerto Rico Stock Index was up 24.78% for the year, 17.02 points ahead of the S&P 500. The Birling Capital U.S. Bank Index closed at 9,177.46, down 1.31% for the week and up 0.26% for the year.



The week's trading is telling. Since just before the election, the PR index has gained about 1.4 points YTD, the S&P 500 has lost about 2.8 points, and the Nasdaq about 3.4. Our three banks have all declined modestly, between 0.2 and 1.2 points each. Evertec has been the big winner, its YTD gain increasing from 7.46% to 15.33%. That's a significant recovery for a stock that was trading around 20% below its January level in the spring.

The longer view is rather more sobering. Both the popular and the First BanCorp indices peaked at around 43% for the year in August, and the PR index peaked at around 33%. They've since given back c.17 and c.8 points, respectively. The market has already started to ask the very question this column is asking: can the real economy support the rally?

Our three banks aren't leading because the island is growing. They're leading on interest rates, credit quality, and capital returned to shareholders. That's a perfectly valid argument, and that's why the Fed's December decision matters so much to local investors. It's not a growth story.

The real economy is catching up very slowly

If the hard data doesn't reach the banks, the gap will close from above. The data is mixed, and forecasts range from no growth at all to contraction.

- **From flat to a recession.** The economy is projected to contract 0.1% in 2026 and grow 0.1% in 2027, with inflation at 3.1% and 3.6%, respectively. The fiscal year forecasts are for 0.3% growth in FY2026 and 0.2% in FY2027 in one case, and 0.10% and 1.00% in the other. A more pessimistic projection based on an internal model is for a 0.8% contraction in FY2026, then 1.4% in 2027 and 2.0% in 2028. That projection warns that weak consumption could put the island into a moderate recession. Consumption is well over 90% of GDP, and inflation-adjusted retail sales have declined 3.2%. The fiscal-year and calendar-year numbers aren't strictly comparable, and the assumptions behind the most pessimistic projection have not been published. The point is the range: there is no forecast of a boom.
- **Activity.** The Economic Activity Index contracted year on year for 13 consecutive months (Sept 2024 to Sept 2025). It returned above zero in the autumn, then contracted for 6 consecutive months (Feb to July 2026). The +0.1% in August and +0.8% in September are therefore a two-month rebound and not yet a trend. It's at 129.4, the highest level since Nov 2023.
- **Jobs.** The seasonally adjusted unemployment rate was up to 6.1% in August from 6.0% in July (about 76k unemployed). Labor force participation was up to 45.9% from 44.6% a year ago (1.3pp). Employment is 1,178,000 (about 15k more than a year ago), and the labor force is 1,254,000 (up 21k). Nonfarm payrolls are at 958,800 (up 8.7k).
- **Household stress.** 4,146 bankruptcies in the first 8 months of 2026 (531 in August alone, up 12% from August 2025). 2026 is expected to be the record year for bankruptcies on the island.

The bankruptcy and unemployment figures may reflect the pressure households and businesses face from the cost of energy, water and finance. That's the gap the hard data hasn't yet closed, and it's the credit risk that underpins the banks' very strong numbers.

The restaurant sector's warning shot

On November 5, Encanto Restaurants, the San Juan operator of KFC, Taco Bell and Pizza Hut on the island, filed for Chapter 11 protection in the federal bankruptcy court for the District of Puerto Rico. Its $29.8 million in assets stand against $123.9 million in liabilities, so debts exceed assets by about $94 million, and unsecured creditors are unlikely to receive any funds after administrative expenses. The filing came days after KFC and Taco Bell ended their relationship with the operator, and all KFC and Taco Bell restaurants on the island closed on November 2. Both brands are looking for a new franchise partner, and several Pizza Hut and IHOP locations run by the same company have also closed.

Every bankruptcy has its own causes, and this one will become clearer as the case proceeds. But the numbers suggest this wasn't a short-term cash squeeze—a balance sheet with four times as many liabilities as assets points to a deeper problem. Still, the sector is under real strain. About one in three restaurants on the island has been considering closing. Energy, food, labor, and financing costs are all high, and consumers are stretched. Consumption accounts for more than 90% of the economy, and inflation-adjusted retail sales are falling. Restaurants are among the first places households cut back, which is why this sector often shows trouble before the broader data does.

The labor market implications are significant but manageable. Encanto's workforce is about 2,600 to more than 3,000 people, depending on the count. If every one of those jobs were lost, it would equal roughly 3% to 4% of the island's 76,000 unemployed and about 0.3% of nonfarm payroll employment. The latest labor data are for August, so the effect has not yet appeared in the numbers. Some of the damage may be cushioned, because other chains, including McDonald's and Burger King, have announced hundreds of openings. Competitors absorbing displaced workers is the market working as it should. Suppliers, landlords, and vendors owed money are a different story. With nothing expected for unsecured creditors, they will carry losses that do not show up in the headline.

The longer-term picture has a constructive side. The brands intend to return, and a well-capitalized new operator could rebuild the network on a cleaner balance sheet. But the episode also exposes a concentration risk. One master franchisee ran four brands across the island, and its failure took them all out at once. For lenders, landlords and investors, the lesson is to look at the leverage behind every operator of a recognizable brand.

Supermarkets and Food Providers is the sector that cannot fail

On Thursday I joined a panel on Jugando Pelota Dura with Félix Aponte, president of MIDA and founder and president of Supermercados Agranel; Ariel Torres Ramos, a leading supermarket entrepreneur and vice president of the board of Supermercados Selectos; and Alfonso Lam Veloz, treasurer of the board of the Centro Unido de Detallistas. The message from the people who stock the island's shelves was blunt. Operating costs are rising faster than any business can absorb, led by a 49% rise in electricity bills. Refrigeration, lighting and cooking all run on power, so for supermarkets, grocers and restaurants energy is a core input, not an overhead line. Their warning was that prices will have to rise much higher and that many operators will close if relief does not come.

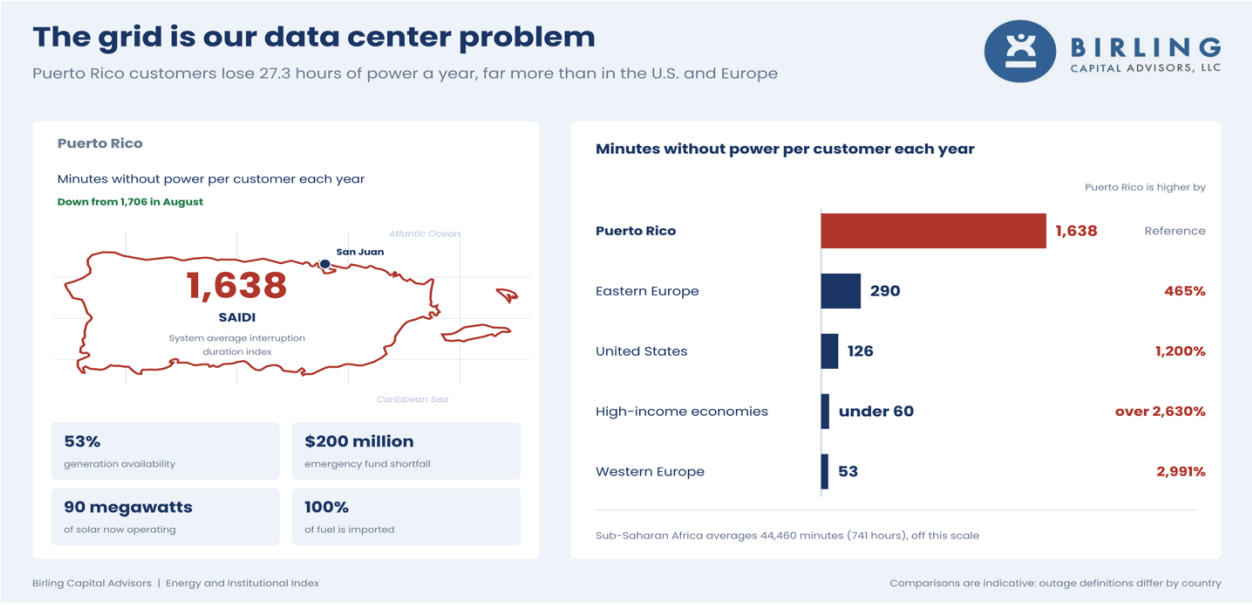
That matters more than any other story this week, because food is not discretionary on an island that imports most of what it eats. A restaurant chain failing is painful. A failing network of food distributors and grocers puts supply, prices, and household budgets at risk all at once. The loop is easy to trace. Higher power bills push up shelf prices, higher prices squeeze households, weaker spending thins margins, and thin margins lead to closures. Households are poorly positioned to absorb it, with unemployment at 6.1%, bankruptcies headed for a record, and real retail sales already falling. This is also where the banks' credit

quality will be tested, because a squeezed grocer and a squeezed household end up in the same loan book.
This is where decisions matter more than markets. In my view, three moves would help: accountability for what the island pays for power, a fast track for solar and storage at food retailers, whose cooling loads make them among the biggest beneficiaries, and a standing recognition in San Juan and Washington that the businesses that feed the island are critical infrastructure. Lower crude after the election helps only if it reaches the electric bill.

The grid is our data center problem

Mainland investors are now learning that power is the ultimate constraint on the AI buildout. Puerto Rico has had that experience for years. Our Energy and Institutional Index shows the system is up to 1,638 minutes of outage per year (down from 1,706 in August) compared to the Energy Bureau's reference of 1,243. Generation availability is at 53%, and the emergency fund is $200m short.
Progress is real but very modest. 90MW of solar is operational, with about 200MW more expected by year-end, plus about 385MW of batteries. We still import 100% of our fuel, so every spike in oil prices hits us hard. The lower crude following the election is good news. There have been 9 major protests between Jan 2025 and Aug 2026 (including the ASU strike), and that's a good barometer of instability.

Put the outage number in context. At 1,638 minutes, the average Puerto Rico customer loses 27.3 hours of power a year. The typical U.S. customer loses 126 minutes, so we are 1,200% higher. Eastern Europe averages 290 minutes, and we are 465% higher. Western Europe averages 53 minutes, and we are 2,991% higher. The high-income economies that compete for data centers sit below 60 minutes, which puts us more than 2,630% above the standard those investors expect. Even the places we think of as having troubled grids do better than we do.
The comparison is pretty stark. A data center needs a reliable power supply to get the capital it needs. So does every factory, every hospital, every bank branch on the island. Until reliability stops being a drag, capital will price it in, as Wall Street is now doing with its own power issues.



Washington decides what the market can't

Puerto Rico has 3.184 million citizens and no vote in Congress. Congress (sitting in January 2027) will have the power to determine the island's health, energy, and finances. Three issues in particular are of note:

1. **Medicaid (contributes around $4.2bn a year and covers just about 4/5 of the medical services for 40% of the population**). The multi-sectoral committee set up by La Fortaleza is asking for $4.815bn per year (some $615m more). If there is no further funding by October 1st 2027, then at least 860,000 people will lose coverage.
2. **The electric grid.** The island is still reliant on federal funding decisions and on the system being held to account.
3. **Recovery funds.** Funds already committed will come through only if Washington maintains them and pays them out on time.

The split result works both ways. Major changes to taxes, spending, and regulation will be harder, since each side can now block the other. On the other hand, issues that fall outside of either party (e.g., Medicaid, the grid, and recovery) are more likely to be dealt with as a bipartisan package. The clock is ticking. The new Congress takes office in January, with about nine months to resolve the Medicaid cliff, and Democratic leadership on the Energy and Commerce Committee has already indicated that a fix may not come until 2027.

What to watch next

1. **The December FED meeting.** The path of inflation data will determine whether a hike is a risk or the base case, and for Puerto Rico banks, it will affect both earnings and credit.
2. **Capital spend guidance.** Cuts or delays from the big cloud guys would point to a slower build-out. Reaffirmed plans with better returns would suggest the opposite.
3. **State capitols and county boards.** Watch the permitting rules, zoning battles, and power-pricing decisions in Texas, Ohio, and Georgia.
4. **Iran negotiations.** Diplomacy that holds would lower oil prices and inflation, which is directly relevant to an island that imports all its fuel.
5. **The Economic Activity Index.** Another positive reading following September's +0.8% would turn the rebound into a trend. A relapse would confirm the flat growth view.
6. **Consumer spending.** Consumption accounts for more than 90% of the economy, and it's real retail sales that would be the first to show a recession.
7. **The Encanto case.** Watch for the name of a new operator, a reopening timeline, the fate of the Pizza Hut and IHOP locations, and how much unsecured creditors, including suppliers and landlords, ultimately recover.
8. **Restaurant and retail closures.** With about one in three restaurants weighing closure, actual closures and layoffs will show whether that was a warning or a forecast.
9. **Bankruptcy and unemployment data.** These are the early warnings for the banks, and the first reading that includes October and November will capture Encanto's effects.
10. **January in Washington.** Watch for a single island voice, with the $4.815 billion figure and the October 1, 2027 deadline ready.



The Final Word: Stay invested, but be very mindful of all events

Stay invested, just be very aware of everything that's going on. The selloff that came after the election didn't kill the market. It priced in proof. The AI trade is still the best earnings story in the market, just investors have stopped paying for the promises and have started to pay for the results. The same discipline applies to everything we own. With the 10yr at 4.84% and the odds of a rate hike in December going up, every holding has to earn its place.

That's about paying attention to the events that drive the prices rather than the prices themselves. The next tech earnings will be a good barometer of whether AI spend is actually turning into revenue. The Fed and the 10 year yield will tell you if rates are tightening again. Washington will be the key. The decisions on energy, health funding and trade will be more important than any one quarter.

Puerto Rico's rally has been genuine. The Birling Puerto Rico Stock Index is up 24.78% this year and our banks and Evertec are well ahead of the S&P 500. The stocks are however running ahead of the economy. The forecast is for flat growth at best, a recession at worst. The island's biggest restaurant operator has filed for bankruptcy. The supermarkets are warning of a 49% hike in their electricity bills which will see prices go up and force some of them to close. The average customer is down 27.3 hours of power per year. Capital will continue to price in that reliability gap and we should too.

So stay invested, because time in the market still beats timing the market. **Warren Buffett has long argued that the market is a device for moving money from the impatient to the patient, and the weeks ahead will test that patience**. But patience is not passivity. Stay diversified, because no single story, AI or Puerto Rico, should carry your whole portfolio. And stay disciplined, because the next move will come from an event, not a forecast.

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