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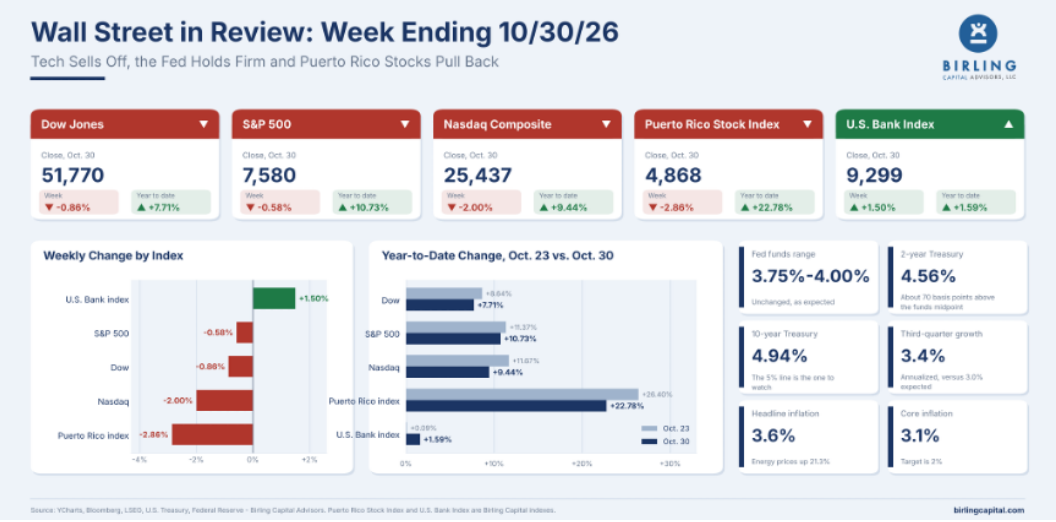
The Market's Travails: Tech Sells Off, the Fed Holds Firm, and Puerto Rico Stocks Pull Back

November 2, 2026

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Nasdaq had its worst day since June; the Fed left the door open to further hikes, and Puerto Rico's banks kept making money

The Week in Wall Street: An October to Reexamine



The split narrowed; the rotation didn't reverse. For the week ended Oct 30, the Dow was down 0.86% at 51,770, the S&P 500 down 0.58% at 7,580, and the Nasdaq down 2.00% at 25,437. The gap between the old and the new was 1.1 points (down from 2.9 the previous week). It narrowed because the Dow was down on Friday, not because the Nasdaq went up. On the island, the Birling Capital Puerto Rico Stock Index was down 2.86% at 4,868, and the Birling Capital U.S. Bank Index was up 1.50% at 9,299. That was the only index we track that went up.

Friday was the big mover. The Nasdaq lost 2.86% in a single day (its worst day since June) and closed 7.84% below its all-time high. The S&P 500 was down 1.83% and the Dow 1.09%. The Dow was the best performer because it is weighted more heavily toward industrials, consumer, and health care and has very little exposure to AI.

Earnings set the tone. Amazon missed the estimate and reported negative free cash flow of $42.4 bn, holding to its 2026 capital spending plan at $220 billion. Intel was down 29% after a weak outlook suggesting PC demand was slowing. The damage spread across the chip and storage sectors, with AMD down 11%, Broadcom 5%, Nvidia 4%, and SanDisk 13% (SanDisk beat the estimate and announced an 8-for-1 split). Walmart, Coca-Cola, Merck and Amgen all gained and provided some cushion to the Dow.

The PR index is up 22.78% for the year and is still number one in our set of indices, though its margin has narrowed. Its lead over the U.S. Bank index is now 21.19pts (down from 26.31), and its lead over the Nasdaq is now 13.34pts (down from 14.73). It peaked over 30% this summer and has since been on a downward trend. We see this week's decline as profit-taking after a very long run, rather than a change in the underlying fundamentals.

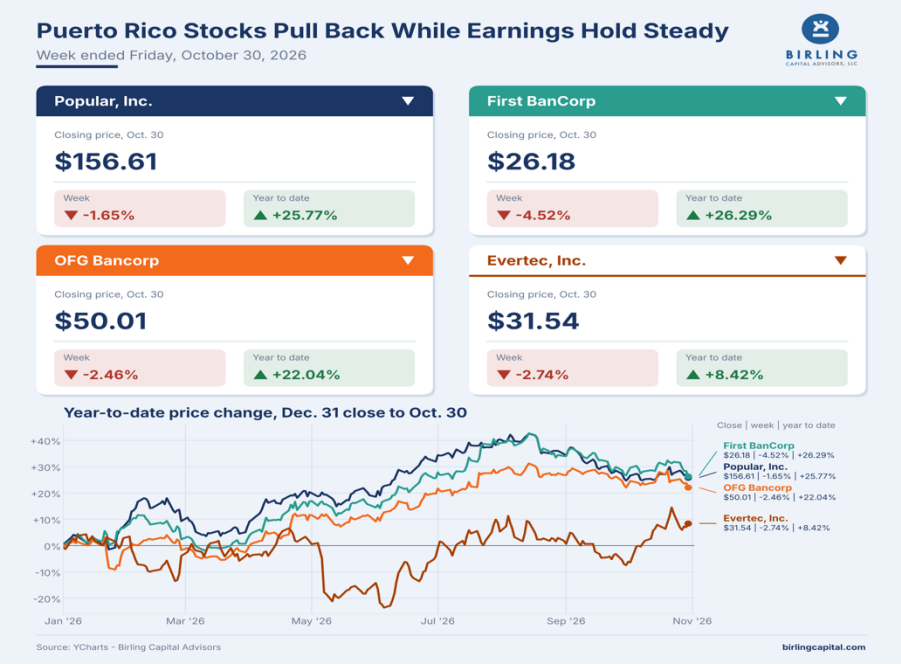
The U.S. Bank Index is the one to watch. It's bounced back to +1.59% after having dropped from around 15% in early September to pretty much flat in October. One week doesn't constitute a recovery and it's still well below the summer highs. Investors are clearly prepared to reward balance sheets that can generate returns even as rates remain high.

For the investor, the lesson of a third week of rotation is that leadership is going to change week by week and no group is off the hook, not even the group that's been the leader this year. We'd remain diversified across themes and would continue to favor self-funding balance sheets. We wouldn't be in the habit of chasing the last week's winner or of selling the week's laggard on a one-week move. The PR index is up 22.78% on earnings and capital returned, not on a multiple that requires a rate cut.

Puerto Rico's banks: steady while the tape shook

Local stocks lost ground this week, but the bank results didn't. For the week ended Oct 30, First BanCorp was down 4.52% at $26.18, OFG down 2.46% at $50.01, and Popular down 1.65% at $156.61. Evertec (the payments company in our index) was down 2.74% at $31.54. Popular and OFG were up on Monday before that reversed, and Evertec recovered from a Tuesday low of just under -5.3%. First BanCorp closed at the week's low.

The simple average of the four weekly moves is roughly −2.84%, in line with the −2.86% for the Birling Capital Puerto Rico Stock Index, so the index is behaving as a group. The Nasdaq was down 2.00% and the Dow down 0.86%, so it didn't escape the pullback. The three banks are still up 22-26% for the year (First BanCorp +26.29%, Popular +25.77%, OFG +22.04%) and Evertec is up 8.42%.

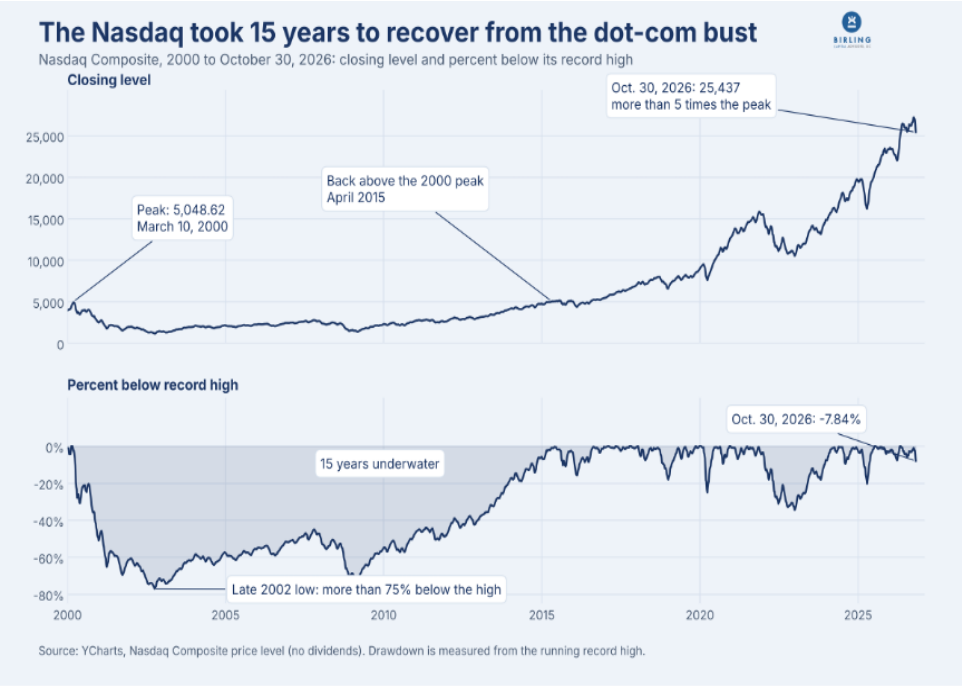


What was consistent was the business. Popular and OFG Q3 results were pretty much in line with Q2, and First BanCorp was flat. Credit costs were down at two of the three banks, capital ratios were stable and some $242.5m was returned to shareholders in buybacks as share counts continued to fall. The year-to-date gains are down to earnings and capital returned, which is precisely what investors want from AI companies. This week's selling looks like profit taking after a very long climb rather than a reaction to any actual deterioration in results.

Investors skeptical of AI as it reminds many of the dot-com bust

This week's results were an audit. A year ago, a big capital budget was a statement of intent. Now it's a line item that has to be matched by revenue, earnings, and free cash flow. MS did beat expectations. GOOG and AMZN both grew revenue at double digits, and yet both missed. GOOG had its worst day on record on Thursday with negative free cash flow of $9.07bn. AMZN's was negative $42.4bn, and it's held its 2026 capex plan at $220bn.

The skepticism is quite familiar. The Nasdaq Composite peaked at 5,048.62 on March 10th 2000. It was down over 75% from that peak by October 2002 and over $ 5trn in market value had been lost. It didn't close above that peak again until April 2015 (on a price-only basis), some 15 years later. It's now at 25,437, which is more than 5 times the 2000 peak.



The boom was driven by an IPO flood. In 1999 and 2000, respectively, 476 and 380 companies went public (856 in total), raising some $129 billion. Of those, 631 were tech companies, and they, on average, went up 86.7% on their first day in 1999 and 69.2% in 2000. The number of IPOs declined to 80 in 2001.

Some of the biggest first-day winners didn't survive. VA Linux closed at $239.25 and was down to $2.48 by January 2001. TheGlobe.com closed at $63.50 and was down to about 4.5 cents.

The damage was in the private companies behind those IPOs. By 2002, VentureOne had 22% of the 1,842 companies first funded in 1999 (i.e., 400 of them) and 18% of those first funded in 2000 all already dead. Shut-down startups founded since 1999 absorbed $15.3 bn of investment.

The internet didn't fail. The prices paid for it, and the debt used to build it out, did.

How many IPO companies disappeared?

Nobody's ever published a reliable figure on the number of dot-com IPOs that disappeared, or on the amount of money that went with them. The figures that are closest to the question are these:

- **Mergers.** Of the 477 companies that went public in 1999, 106 (21.8%) left the exchanges via merger within three years of listing. Of the 380 that listed in 2000, 55 (14.2%) did the same. That study doesn't include bankruptcies. There's a very fine line between an acquisition and a failure, as some of these were quite legitimate exits and others were genuine rescues at fire-sale prices. The data doesn't allow us to distinguish between the two so we don't count them as failures.
- **Market value, not IPO losses.** The $5 trillion figure I've quoted above and the PBS figure of $4 to $6 trillion are both measures of market value lost across the entire market. They are not IPO losses.

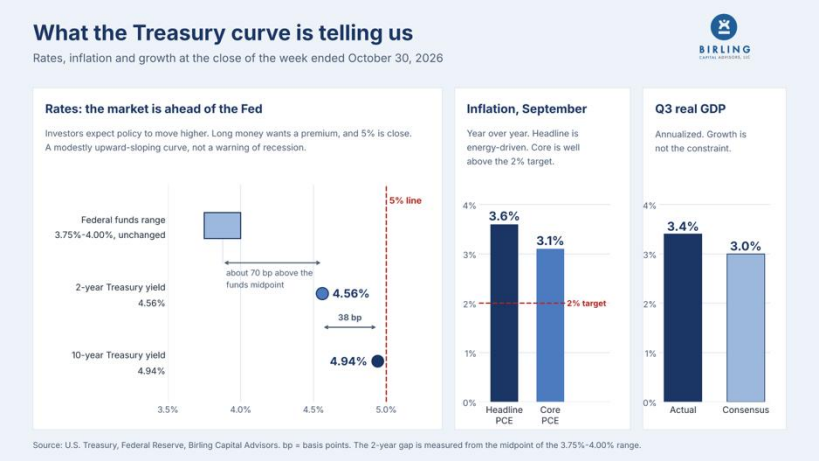
We see three kinds of companies emerging, and they sit at different distances from that history:

1. **Self-funders. Huge demand, AI revenue clearly on the rise, and sufficient** internal cash to do the buildout. They maintain their premium multiples.
2. **Bridge builders.** Heavy spend now, payoff later. Negative free cash flow can be a function of timing, as you're paying for your data centers and your chips years before you earn anything from them; they're on a much shorter leash.
3. **Borrowers.** Companies that need debt or new equity to finish the job. That's where the 2000 comparison is most relevant. CoreWeave down over 37% in October and Nebius down about 33%. The FT reported that Blackstone told investors Anthropic may not get an investment-grade rating on its debut, which somewhat offset the positive reaction to its filing earlier in the week.

What's different this time is the size of the drop and the strength of the balance sheets. The Nasdaq closed Friday 7.84% below its all-time high (not quite 75% down as in 2002), and the big tech companies still have very strong balance sheets and solid earnings growth. Demand isn't the issue as AI adoption continues to spread. The issue is what the spending will generate.

We see this as a repricing rather than a bust, and the difference is who pays for the buildout. If AI is funded from cash flow, skepticism leads to a pullback. If it's funded with debt that the returns can't service, then the 2000 comparison is very much in play. That's why we're as much in the habit of watching the credit spreads and ratings as we are of watching the earnings.

What the Treasury curve is telling us



The Fed held at 3.75%-4.00%, and Chair Warsh was non-committal on restrictive conditions, so the central bank did very little to resolve the debate. The bond market did more. The 2s closed at 4.56% (some 70bps above the fund's range midpoint). The 10s closed at 4.94% (just 38bps above the 2s).
Our view is straightforward. With growth at 3.4% and core inflation at 3.1%, the Fed has no reason to ease and every reason to keep the options open. The 2yr yield versus the funds rate tells you the market already expects the next move to be up. How far it goes is an open question, not a number we're in any position to give. The 10yr is the one to watch, as a move through 5% would raise the cost of capital for every borrower, including the AI spenders.

October's Asset Rotation

The month closed with the largest gap in a while. The Nasdaq was on course for a 5% drop, its steepest since March 2025. The S&P 500 was set for a very modest loss of just under 1%, and the Dow was on track for a 2% gain. Small and mid caps outperformed the large tech names, and value stocks were up. The memory and AI ETFs were down 20% and 17%, respectively.

The road ahead: Strong growth, Expensive money, a Pickier market

The next 3-6 months will be about whether the economy can absorb the borrowing costs markets are already pricing in. Four questions will be the decisive ones.

- **Can energy cool?** Energy is up 21.3% on the year and is by far the largest single contributor to headline inflation. If that fades, then headline readings can improve very rapidly. Core inflation at 3.1% will take longer to show signs of cooling. We don't expect the Fed to be comfortable until mid next year.
- **Does the 10-year hold below 5%?** At 4.94%, there's hardly any room. A sustained break higher would be very much in the realm of putting pressure on equity valuations and would put a strain on the balance sheets of any company that's borrowed to build.
- **Who's going to pay for the AI buildout?** The more it's funded via debt the more the story becomes one of credit rather than technology. Keep a close eye on the spreads and the ratings.
- **Does the Puerto Rico Stock earnings story continue to compound?** Strong capital, declining credit costs, and consistent buybacks provide the index with support that doesn't rely on a rate cut.

Three scenarios

We weigh the first as the most important and the second as the primary risk. The third is the new one: it's AI debt rather than AI demand that is showing the stress.



What we are watching

- **Midterm elections, November 3.** The balance of power shapes the fiscal, tariff, and regulatory backdrop.
- **October jobs report, early November.** Wage growth tests whether the labor market is running too hot.
- **October consumer and producer prices, mid-November.** The first read on whether price pressure is spreading or fading.
- **The Anthropic debut and its credit rating.** A test of how much debt the AI buildout can carry.
- **Remaining AI and retail earnings.** More evidence on whether spending is turning into cash.
- **Federal Reserve meeting, December 8-9.** The next chance for the Fed to confirm or contradict what the 2-year yield is saying.
- **The 10-year Treasury yield.** The 5% line.
- **The Birling indexes.** Whether the U.S. Bank Index rebound holds and where the Puerto Rico index finds support.

How we think about portfolios

These are my principles and views and should not be considered personal recommendations; each investor has specific goals, time horizon, and risk tolerance that should drive their individual decisions.

- **Own cash generators.** In this market, investors pay for free cash flow, and they punish its absence. Favor companies that fund their own growth and return capital.
- **Spread the sources of return.** The last three weeks showed what concentration costs. Pair technology exposure with value, health care, energy, and smaller companies.
- **Respect the 5% line.** Keep fixed income duration moderate while the 10-year sits near 5%, and let higher yields rebuild income gradually rather than all at once.
- **Do not forget the Puerto Rico Stocks.** Puerto Rico's banks, Popular, FirstBank and Oriental, along with Evertec, are earning, buying back stock and holding capital, which gives local portfolios a source of return that does not depend on Wall Street's mood.

The Final Word: A Verdict, Not a Panic

October delivered a verdict, not a panic. For a long stretch, the market paid for AI on promise. This week it asked for proof. Amazon, Alphabet and Intel were punished for falling short, and the Nasdaq lost 2.86% on Friday.

The dot-com bust left one lesson that still holds. The technology was real, and the prices and debt behind it were the problem. Fifteen years passed before the Nasdaq reclaimed its 2000 peak, reminding us that overpaying for real technology can cost a decade and a half.
That is why Puerto Rico's banks belong in this letter. They did not ride a story. They earned, held capital, and bought back stock, and the island index is still up 22.78% for the year. In a market that now demands proof, that is the kind of evidence we want to own.

Our advice is plain. Don't abandon AI, and don't pay any price for it. Own companies that can fund their own future, keep your returns coming from more than one source, and judge every spending plan by the cash it earns. Markets reward promises for a season. They reward proof for a decade.
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