



**2 FORECASTS,
2 THEMES &
2 REACTIONS**

Puerto Rico Investments Beyond the Pandemic

Birling Capitals' goal is to provide you with expert opinions and commentaries from all over the world to our readers with a detailed view of the economy, markets, and geopolitics. We also offer you our outlook for Puerto Rico's economic progress and the United States to allow you to plan with to 5-year window.

We invite you to examine this month's insights to help you stay ahead of the curve.

We thank you for your continued support.

*Francisco Rodríguez-Castro
President & CEO
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“Puerto Rico is facing its biggest economic growth opportunity in its history.”

As we publish the May 2021 edition of The Zenith Investor, Our opening discussion is the fact Puerto Rico is facing its biggest economic growth opportunity in its history.

Puerto Rico's great economic experiment began taking shape last year, marked by three extraordinary events:

- The earthquakes in the southern part of the Island that continue.
- The start of the COVID-19 pandemic that began on March 2020.
- The changing of Administrations from Trump to Biden appears to highly benefit Puerto Rico.

The widespread impact from the earthquakes and the pandemic of COVID-19 placed Puerto Rico into lockdown, suspending most commercial and forcing 43% of all business to close 100 days or more during 2020. The granting of federal funding and the ensuing recovery under the Trump administration had been slow, and in most instances, it blocked the very help Congress had approved.

Puerto Rico's Economic progress continues to lag with all the chaos and uncertainty of COVID-19 as it spread thru the Island. The final result is that all the federal funding has been on implementation from early 2021 continuing to 2022.

The \$15 billion capital infusion to the Puerto Rican economy is the largest funding allocation in history. Its impact on the local economy becomes a great economic experiment in its own right.

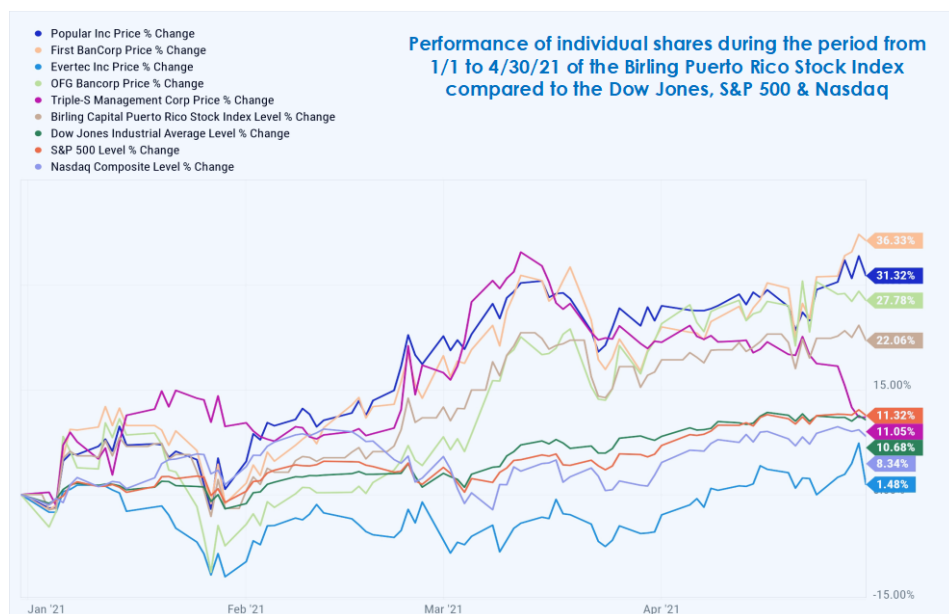
As we revise the \$15 billion already in our economy, we note the main categories include,

Income Support 38.7%, Loan Programs 21.3%, State & Local Funding 27.3% and Other Uses 12.7%.



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Also, Puerto Rico has received additional funding from the \$1.9 trillion stimulus package, when added all told, Puerto Rico is facing the most significant economic experiment in its history.

As the experiment is impacting the Puerto Rico economy the best reflection of these federal inflows have its way into Puerto Rico's five public corporations, which we have group as the Birling Capital Puerto Rico Stock Index.

What is the Birling Capital Puerto Rico Stock Index?

The Birling Capital Puerto Rico Stock Index is a market value-weighted index composed of five (5) companies with headquarters and / or primary domicile in Puerto Rico. All companies are listed on the national NYSE, AMEX, or NASDAQ exchanges.

The Birling Capital Puerto Rico Stock Index began 2021 with a bang, with the five companies that make up the index rising to lofty levels as most are viewed as in a much better position as we wrap up the pandemic. To highlight each of the stocks, we make a collective and

individual comparison of each Birling Capital Puerto Rico Stock Index component versus the Dow Jones Industrial Average, the S&P 500, and the Nasdaq Composite from 01/1/21 to 4/30/21.

- Birling Capital Puerto Rico Stock Index has a return of **22.06%**.
- The Dow Jones Industrial Average has a return of **10.68%**.
- The S&P 500 has a return of **11.32%**.
- The Nasdaq Composite has a return of **8.34%**.

The Birling Capital Puerto Rico Stock index return of **22.06%** is **106.55%** higher than the Dow Jones, **94.87%** higher than the S&P 500, and **164.50%** higher than the Nasdaq Composite.

The Birling Capital Puerto Rico Stock Index: Individual returns and prices per share:

1. **First Bancorp. (FBP):** achieved a return of **36.33%** exceeding the Birling PRSI and the Dow Jones, S&P 500, and Nasdaq, with a price per share at the close of 4/30/21 of \$12.57.

First Quarter 2021 Earnings: First Bancorp (FBP) reported results for the quarter ended March 2021. Net revenues of \$207.22 mm and Net Income of \$61.15mm which surpassed expectations.

2. Popular, Inc.

(BPOP): achieved a return of **31.32%** exceeding the Birling PRSI and the Dow Jones, S&P 500, and Nasdaq, with a price per share as of 4/30/21 of \$73.96.

First Quarter 2021 Earnings:

Popular (BPOP) delivered net revenues of \$632.77 mm and Net Income of \$263mm beating the consensus estimates by 48%.

3. OFG Bancorp(OFG): achieved a yield of **27.78%** exceeding the Birling PRSI and the Dow Jones, S&P 500, and Nasdaq, with a price per share as of 4/30/21 of \$23.69.

First Quarter 2021 Earnings: OFG reported on April 21 Total revenues were \$127.7 million compared to \$132.8 million in 4Q20. Total Income was \$29.1 million.

4. Triple S Management

(GTS): achieved a yield of **11.05%** that lags the Birling PRSI, Dow Jones, S&P 500, and just above Nasdaq, with a price per share at the close of 4/30/21 of \$23.71.

First Quarter 2021 Earnings: The expectation from Wall Street is that Triple S Management reports results for 1Q21 on May 6.

5. Evertec, Inc.

(EVTC): achieved a yield of **1.48%** below the Birling PRSI, the Dow Jones, S&P 500, and Nasdaq, with a price per share at the close of 4/30/21 of \$39.90.

First Quarter 2021

Earnings: achieved revenues of \$139.5 mm a 14% rise, and Net Income of \$45 mm a 34% increase.

Forecast 1: Will the market rally continue?

Our projection model signals that economic and corporate fundamentals will continue to improve during the year until the economic growth rate slows as we reach closer to the pre-pandemic levels. As the market transitioned from the exogenous shock to economic recovery, and now we enter the expansion phase, it signifies we are on the positive side of the cycle. However, investors must be mindful that most equity year-to-date returns will likely begin to hover to their moderate growth. We shall also expect increased volatility as the stock rotation will cause strong pullbacks; these market pullbacks are expected to become more recurring.

As watched the Dow Jones surpass the 34,000 thresholds for the first time in history, we must wonder, now what?

The stimulus money is rising consumer spending at a healthy rate, jobs growth, reduction in initial unemployment claims at 25% less, increased corporate earnings at higher than expected levels, and some degree of inflation introducing

itself. These are all the signals of accelerating recovery. Improving consumer spending and corporate earnings will be critical factors in extending the durability of the new economic expansion and bull market. At the same time, inflation pressures can be problematic if they persist.

Let's revise the economic data:

- **U.S. Real GDP QoQ rose to 6.40%:** compared to 4.30% last quarter, driven by a 10.1% increase in consumer spending. We must note that the GDP growth has been the largest since 2003 and positioned just slightly below the pre-pandemic levels.
- **U.S. Initial Claims for Unemployment Insurance:** fell to 553,000, down from 566,000 last week, a -2.30% decrease.
- **U.S. Personal Savings Rate:** rose to 21.00%, compared to 13.00% last quarter.
- **Housing Prices Year-over-Year:** which show that price increases



U.S. Benchmarks as of 4/30/21

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accelerated, with annual gains topping 12%.

- **U.S. home values** are 40% above their historical peak, reached in April 2007 during the housing bubble, and are 78% above the low point reached in May 2011.
- **U.S. Personal Income:** rose to \$24.21 trillion, up from \$19.99 trillion last month, an increase of 21.07% from last month.
- **U.S. Personal Consumption Expenditures:** rose to \$15.04 trillion, up from \$14.54 trillion last quarter, or an increase of 3.47% from the previous quarter.
- **U.S. Real Personal Consumption Expenditures MoM:** rose 3.60%, compared to -1.20% last month.

The significant rise in sales across the board is the strongest signal, **yet** the easing of restrictions and quantum leap massive vaccinations allows citizens to resume their usual spending patterns

Forecast 2: Is this growth pattern sustainable?

While it is prudent and expectable to assume that some of the sales growth may be stimulus spending, most sales growth are recurring sales as the consumers return to more normalized spending patterns.

However, as you consider the large amounts of stimulus funding, we note that the U.S. Personal savings rate is at an all-time high; as consumers spend part of those savings in the U.S. economy and it has increased the Corporate earnings of most corporations the overall boost will be significant.

We expect the economy to ride to normalization and achieve an even

loftier GDP growth than the 6.40% registered.

Theme 1: Reviewing The Top Seven U.S. Banks Impressive Come Back: the banks that are part of the Birling Capital U.S. Bank index, have a collective year to date has a return of **22.68% as of 4/30/21**, which surpasses the S&P 500 that has a return of 11.32% by 100.35%.

Lets revise the individual banks as of 4/30/21:

1. **Wells Fargo & Co (WFC)** reported first-quarter 2021 revenue of \$18.06 billion and 1Q2021 Net Income of \$4.7 billion. The stock closed at \$45.05, with a year-to-date return of **49.27%**.
2. **Bank of America (BAC)** reported first-quarter 2021 net revenues of \$22.8 billion, flat compared to 1Q2020, record quarterly net earnings of \$8.1 billion. The stock closed at \$40.53, with a year-to-date return of **33.72%**.
3. **GoldmanSachs(GS):** reported first-quarter 2021. net revenues of \$17.70 billion, more than twice the number in 1Q2020, record quarterly net earnings of \$6.84 billion. The stock closed at \$348.45, with a year-to-date return of **32.13%**.
4. **U.S.Bancorp(USB):** reported first-quarter 2021 net revenues of \$5.5 billion, 5.2% less than in 1Q2020, record quarterly net earnings of \$2.3 billion. The stock closed at \$59.35 with a year-to-date return of **27.39%**.
5. **JPMorgan Chase (JPM)** reported first-quarter 2021 revenue of \$32.3 billion, managed revenue of \$33.1 billion, and Net income of \$14.3 billion. The stock closed at \$153.81, with a year-to-date return of **21.04%**.

6. **MorganStanley(MS):** reported first-quarter 2021 Net Revenues of \$15.7 billion, with a Net income of \$4.1 billion, a 60.20% increase from 1Q20. The stock closed at \$82.55 and has a year-to-date return of **20.16%**.

7. **Citigroup (C):** reported first-quarter 2021 net revenues of \$19.30 billion, 7% less than in 1Q2020, record quarterly net earnings of \$7.9 billion. The stock closed at \$71.24, with a year-to-date return of **15.54%**.

The banking sector has largely expected to return to increased profitability; however, what was not expected was the fact that actual earnings were 36% better than the consensus s the U.S. economy rebounded stronger than expected. However, the impressive earnings results did not translate as of closing time Friday on any significant stock price increases for any of the banks, a development of which we are pretty surprised.

Our expectation for the rest of the S&P 500 company's earnings is an overall growth will surpass the 20% to 25% range, which would be the most robust growth rate since 2018.

Theme 2: Wall Street at a volatile record breaking pace :

The month of april turned out to be a game-changer for the stock markets as the investor sentiment began to change,

As the market fundamentals continue to improve, one does not need to be a savant to see why the market is doing so well. However, with improving markets, investors begin to raise their expectation level, and often the metronome swings towards excessive optimism. To maintain our perspective in line with expectations, lets us review four pillars of market development.

- **Robust Economic Growth:** as the economy has delivered back-to-back quarters of 4.3% and 6.4% GDP growth, the economy is solid. We must also add that the Bazooka stimulus funding, the surge in Consumer spending of 10.7%, combined with the massive vaccination distribution and our economy, is solid ground.
- **Corporate Earnings Rising and Beating Estimates:** with more or less 50% of all S&P 500 reporting in the earnings season as of 4/30, more than 85% have beat their consensus estimates. So far, earnings are on route to growing 30% during the calendar year 2021. Last week's outsize results from Microsoft, Apple, Amazon, Facebook, and Alphabet are any indication we are in from an earnings extravaganza.
- **Low-Interest Rates and Federal Reserve Bank support:** the Fed Chair is keeping the low-interest-rate environment until the U.S. reaches full employment; in Fed speak, that could mean 18 months, that is good news for the economy.
- **Fiscal Stimulus and Continued federal support:**

The U.S. Government has just finished a \$1.9 trillion stimulus round. It follows up with a \$2 trillion infrastructure bill and a \$1.8 trillion program focused on child care, education, and paid-leave programs.



What is the downside? Growth Rates will not be able to keep up after 2021, and we then shall see where the markets will take us.

These are situations in which having a diversified portfolio of stocks and bonds and other instruments will surely payoff with peace of mind.

Monthly Wall Street Summary April 30, 2021:

- **The Dow Jones Industrial Average**, closed at 33,874.85, up 893.30 points or 2.71% and a YTD return of 10.68%.
- **The Standard & Poor's 500**, closed at 4,181.17 up, 253.28 points, or 6.45% and a YTD return of 11.32%.

- **The Nasdaq Composite Index**, closed at 13,962.68, up 715.81 points, or 5.40% and a YTD return of 8.34%.
 - **The Birling Capital Puerto Rico Stock Index**, closed at 2,495.15, up 92.75 points, or 3.96% and a YTD return of 22.06%.
 - **The U.S. Treasury 10-year note**, closed at 1.65% down 5.77% and YTD return of 0.75%.
 - **The U.S. Treasury 2-year note**, closed at 0.16%, flat and YTD return of 0.75%.
- Much more volatility to come!**

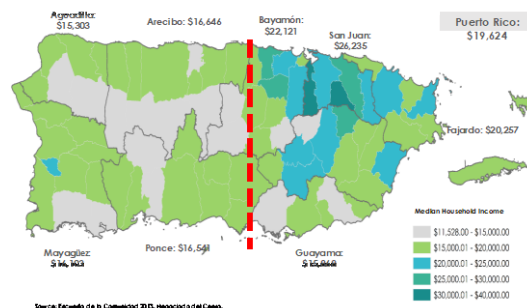
Monthly Market Close Comparison	4/30/21	3/31/21	Return	YTD Return
Dow Jones Industrial Average	33,874.85	32,981.55	2.71%	10.68%
Standard & Poor's 500	4,181.17	3,927.89	6.45%	11.32%
Nasdaq Composite	13,962.68	13,246.87	5.40%	8.34%
Birling Puerto Rico Stock Index	2,496.15	2,403.40	3.86%	22.06%
U.S. Treasury 10-Year Note	1.65%	1.74%	-5.17%	0.75%
U.S. Treasury 2-Year Note	0.16%	0.16%	0.00%	0.75%



The Final Word: The Tale of Palm Island

People will always look for leaders to guide them during any crisis. Simultaneously, Coronavirus Pandemic placed most political and business leaders in positions with one of the most significant challenges the world has faced and obligated us to navigate uncharted waters. However, not all journeys for Puerto Ricans have never been the same since the aftermaths of Hurricane María, the earthquake's and now the pandemic; during 2017 and 2018, we have lost more than 215,000 citizens, a trend that continues although at a lesser rate. The migration pattern was evident in the 2020 Census, which showed that our population went from 3,726,157 mm in 2010 to 3,193,694 in 2020, a 14.30% reduction or 532,463 fewer Puerto Ricans living here. We only have to look at this map of Puerto Rico below with an imaginary line in red draws the stark differences in per capita income, showing that there are two different Puerto Ricans. The lowest median household income is Aguadilla with \$15,303.00 or \$7.97 per hour and the highest in the San Juan region with \$26,235.00 or \$13.66 an hour; simply no one can make a decent living at \$7.97 per hour or \$13.66 per hour. We must create a long-term plan to develop a path to create a higher density of new higher-paying jobs with an extensive array of industries. This map and its made me remember a book my grandfather gave me about Palm Island, which is 8 kilometers off Townsville, Queensland, Australia, and was named by Captain Cook in 1770 and established in 1918 to replace a mission destroyed by a hurricane

Median Household Income by Municipality & Region



Palm Island is particularly disadvantaged. Its unemployment rate is said to be as high as 95%. It has high levels of alcoholism, domestic violence, and child abuse. An average of 17 people living in dilapidated housing. There are also high youth suicide rates and murders. Why do we compare Puerto Rico with Palm Island? Simply because Puerto Ricans continue to suffer from the dramatic effects that lack of employment, lack of adequate high paying job, lack of a bright future, and most citizens have stopped dreaming of a better life here to find it elsewhere. Take, for example, the enhanced PUA benefits a person making \$8.50 an hour working in a store; his gross take-home pay would be \$1,473.33 per month or \$17,680 per year. The pandemic hit that person who lost the job it had, and it began receiving the enhanced unemployment of \$3,640 per month or \$43,680 annualized, which represents a 147% pay increase and its the equivalent to getting paid \$21.00 an hour. Our leaders must decide to use Puerto Rico's the \$15 billion infusions of Federal Funding to provoke an economic transformation that will propel the Island towards sustainable economic growth for years to come. The ultimate goal is to achieve pay levels and job growth to stop our fellow citizens from migrating elsewhere. We hope that you have enjoyed this issue of The Zenith Investor ©, and we very much welcome your comments, thoughts, and ideas; you may reach us at frc@birlingcapital.com or 787-247-2500.

Francisco Rodríguez-Castro
President & CEO

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