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Birling's Puerto Rico Index Closes at Record High

The Birling Capital Puerto Rico Stock Index (PRSI) began 2021 with so many challenges that the year appeared bleak and an uphill climb in many investors' minds. The index started the year at 2,045.03, with the companies facing significant uncertainty regarding growth. Following the strict COVID-19 executive order imposed in March 2020, which included lockdowns, the average business was closed for 131 days last year. Given that of the five public companies in the index, three are banks with broad exposure to all sectors of the economy, and one is a fintech company with exposure to retail sales and online trends, 2021 was not looking to be a bumper year. If anything, 2021 was looking more like a year of rebuilding. However, as we end the third quarter of 2021, the five companies that make up the index have risen to their best levels in years. All have implemented changes in their strategies, allowing them to regain a much better position following the pandemic. This past week, two of the banks on the index delivered their third-quarter (3Q21) 2021 results—outstanding performance. The Birling Capital Puerto Rico Stock Index returned 47.14 percent from Jan. 1 through Oct. 22. The following are the returns for each of its components for said period.

- Triple S (GTS) returned 65.34 percent
 - First Bancorp. (FBP) returned 52.60 percent
 - Popular Inc. (BPOP) returned 48.26 percent
 - OFG Bancorp. (OFG) returned 43.31 percent
 - Evertec Inc. (EVTC) returned 18.74 percent
- In comparison, let's review the returns of the leading indicators over the same period:
- Dow Jones Industrial Average returned 16.57 percent
 - S&P 500 returned 21 percent
 - Nasdaq Composite Index returned 17.08 percent
- All five Puerto Rico public companies outperformed the principal Wall Street indicators this year. Ahead, we highlight the results of the companies in the Birling Capital Puerto Rico Stock Index that have reported 3Q21 earnings.
- Popular Inc. (BPOP) achieved a 48.26 percent return, exceeding the Birling PRSI and the Dow Jones, S&P 500 and Nasdaq, with a price per share as of Oct. 22 of \$83.50.
- 3Q21: Reported net revenues of \$530.16 million, with net income of \$248.1 million, a return on equity of 15.33 percent, and a market capitalization of nearly \$6.67 billion.
- OFG Bancorp. (OFG) achieved a 43.31 percent yield, slightly below the Birling PRSI, but outperformed the

Dow Jones, S&P 500 and Nasdaq with a price per share as of Oct. 22 of \$26.57. 3Q21: Reported net revenues of \$134.7 million, with net income of \$41.6 million, a return on equity of 13.37 percent, and market capitalization of close to \$1.33 billion. The PRSI has a consolidated market capitalization of about \$15.13 billion. Note that its worst closing, at 941.57 on March 23, 2020, it had a -53.8 percent return. The stocks returned the following that day:

- First Bancorp. (FBP): -64.78 percent
- OFG Bancorp. (OFG): -60.53 percent
- Popular Inc. (BPOP): -54.93 percent
- Triple S (GTS): -45.11 percent
- Evertec Inc. (EVTC): -44.68 percent

Comparatively, the major indices had the following results:

- Dow Jones: -34.88 percent
- S&P 500: -30.75 percent
- Nasdaq: -23.54 percent

The PRSI's rise to 3,009.04 points, a 2,067.47 point increase, is quite an accomplishment. To say that Puerto Rico's public companies had a spectacular recovery would be a mere understatement. Our review demonstrates how management at the companies rose to the challenge successfully during one of the most enduring exogenous shocks in modern history. The results so far speak for themselves as we await the rest of the Birling Capital Puerto Rico Stock Index companies to report their respective 3Q21 earnings.

Week in Markets: The pace of growth has slowed due to global supply chain disruptions and labor shortages, even with 10.44 million job openings.

The U.S. stock market ended the week with significant gains, helped by strong corporate earnings that allowed markets in two instances to reach all-time highs, the S&P 500 and the Birling Capital Puerto Rico Stock Index. In the case of the S&P 500, it recorded seven-day gains, the longest since early July. The corporate earnings season is beginning to gather steam, and while initial readings are enthusiastic, it is still too early to draw specific conclusions. We must wait for broader results that will either help improve investor sentiment or sink it.

In our view, these are and will be the five leading causes for slowing economic growth during the third quarter of 2021:

1. The delta variant's impact on both businesses and consumers.
2. The global supply chain disruptions continue to create havoc, increase inflation and create shortages of all kinds of products.
3. U.S. import disruptions at most export points, and upon arrival at U.S. ports, the backlog is more extensive than anyone had ever expected or seen.
4. The severe lack of labor has hampered the recovery.
5. Persistent inflation, expected initially to be temporary, has been high for the past 10 months.

The Federal Reserve is now predicting that the U.S. gross domestic product will pick up significantly in the first half of 2022; for growth to outpace the current numbers, the economy must address the five issues we have stated. The Fed's Beige Book report, published last week, found that economic activity is growing at a modest to moderate rate in most Federal Reserve Districts. The pace of growth has slowed since the delta's surge; global supply chain disruptions continued, as did labor shortages, even when there are 10.44 million job openings in the United States. While we await the developments of

the current markets, this may be as good a time as any to begin a diversification strategy for your portfolio. Since the Fed has already started to chime in on the possibility of raising interest rates, it is essential to start looking into bonds.

As bonds typically rise when stocks fall and vice versa, it is crucial to allocate a portion of your overall portfolio to fixed-income investments that can help balance and stabilize your portfolio, allowing you to soften the blows of volatility. Diversify, diversify, diversify. It is essential to reduce your exposure to risk and maximize your returns. In contrast, diversification is not bulletproof because of some unavoidable risks, such as systemic risks or exogenous healthcare shocks that are unpredictable.

Wall Street Weekly Review for Oct. 22"

The Dow Jones Industrial Average closed at 35,677.02, up 382.26 points, or 1.08 percent, for a year-to-date (YTD) return of 16.57 percent. The Standard & Poor's 500 closed at 4,544.90, up 73.53 points, or 1.64 percent, for a YTD return of 21 percent. The Nasdaq Composite Index closed at 15,090.20, up 192.86 points, or 1.29 percent, for a YTD return of 17.08 percent.

The Birling Capital Puerto Rico Stock Index closed at 3,009.04, up 77.32 points, or 2.64 percent, for a YTD return of 47.14 percent. The U.S. Treasury 10-year note closed at 1.66 percent. The U.S. Treasury 2-year note closed at 0.48 percent.

Francisco Rodríguez-Castro is president and CEO of Birling Capital LLC. Think Strategically® is a publication by Birling Capital LLC that summarizes recent geopolitical, economic, market and other developments. This report is intended for general information purposes only and does not represent investment, legal, regulatory, or tax advice. Recipients are cautioned to seek appropriate professional counsel regarding any of the matters discussed.

| Weekly Market Close Comparison | 10/22/2021 | 10/15/2021 | Return | YTD |
|---------------------------------|------------|------------|--------|--------|
| Dow Jones Industrial Average | 35,677.02 | 35,294.76 | 1.08% | 16.57% |
| Standard & Poor's 500 | 4,544.90 | 4,471.37 | 1.64% | 21.00% |
| Nasdaq Composite | 15,090.20 | 14,897.34 | 1.29% | 17.08% |
| Birling Puerto Rico Stock Index | 3,009.04 | 2,931.72 | 2.64% | 47.14% |
| U.S. Treasury 10-Year Note | 1.66% | 1.59% | 4.40% | 0.68% |
| U.S. Treasury 2-Year Note | 0.48% | 0.41% | 17.07% | 0.63% |