

ECONOMY

Spectacular Rebounds in Trying Times

THINK STRATEGICALLY:

Gauging Puerto Rico Banks

A Recap of the First Half of the Year Performance Review

BY FRANCISCO RODRÍGUEZ-CASTRO | frc@birlingcapital.com



The Birling Capital Puerto Rico Stock Index began 2021 much more robust than anyone could have anticipated. The five public companies that make up the index have risen to lofty levels with most viewed as being in a much better position as we put the pandemic behind them. This past week, the three banks that are part of the Birling Stock Index delivered their second-quarter (2Q) 2021 results, and their performance was outstanding.

We review each of the banks in that light, analyzing their performance from Jan. 1 to June 30, when the second quarter ended.

—Birling Capital Puerto Rico Stock Index returned 20.28 percent.

—Popular Inc. (BPOP) returned 33.26 percent

—First Bancorp. (FBP) returned 29.28 percent

—OFG Bancorp. (OFG) returned 19.31 percent

In comparison, let's review the returns of the leading indicators:

—The Dow Jones Industrial Average returned 12.73 percent.

—S&P 500 returned 14.41 percent.

—Nasdaq Composite Index returned

12.54 percent.

The three Puerto Rico banks outperformed all of the principal Wall Street indicators during the first half of 2021. For example, when compared to the S&P 500, which had a return of 14.41 percent, the Puerto Rico bank stocks outperformed the index markedly:

— Popular Inc. (BPOP) outperformed the S&P 500 by 130.87 percent.

— First Bancorp. (FBP) outperformed the S&P 500 by 103.31 percent.

— OFG Bancorp. (OFG) outperformed the S&P 500 by 34 percent.

Let's delve into each of the individual companies.

The Birling Capital Puerto Rico Stock Index: Financial Highlights

— Popular Inc. (BPOP) achieved a return of 33.26 percent, exceeding the Birling PRSI, the Dow Jones, S&P 500 and Nasdaq with a price per share on July 23 of \$72.49.

— 2Q Earnings: Revenues of \$529.7 million, net income of \$218.1 million, earnings per share of \$2.67, and a market capitalization of \$5.85 billion.

— First Semester Results: \$72.6 billion in assets, with total loans reaching \$28.3 billion, net revenues of \$1.05 billion, and net income of \$480.7 million.

— First Bancorp. (FBP) achieved a 29.28 percent return, exceeding the Birling PRSI, the Dow Jones, S&P 500 and Nasdaq with a price per share at the close July 23 of \$11.76.

— 2Q Earnings: Net revenues of \$110.6 million and net income of \$70.6 million, earnings per share of \$0.36 and a market capitalization of \$2.54 billion.

— First Semester Results: \$21.3 billion in assets, with total loans reaching \$11.4 billion, net revenues reaching \$199.8 million, and net income of \$131.7 million.

— OFG Bancorp. (OFG) achieved a yield of 19.31 percent, slightly below the Birling PRSI and outperforming the Dow Jones, S&P 500 and Nasdaq, with a price per share July 23 of \$24.18.

— 2Q Earnings: Net revenues of \$133.3 million, net income of \$40.8 million, earnings per share of \$0.78, and market capitalization of \$1.31 billion.

— First Semester Results: Reached \$10.65 billion in assets, with \$6.59 billion in loans, net revenues reaching \$260.9 million, and net income of \$69.9 million.

Totals for Puerto Rico Banks on a Consolidated Basis:

For the first semester of 2021, Puerto Rico banks, which are all public companies trading in either Nasdaq or the New York Stock Exchange, achieved impressive consolidated results, further demonstrating the strength of the island's banking sector.

Let us review the consolidated financial highlights of the first semester of 2021:

— Consolidated Assets: \$104.55 billion

— Consolidated Loans: \$46.29 billion

— Consolidated Revenues: \$1.51 billion

— Consolidated Net Income: \$682.3 million

— Consolidated Market Capitalization: \$9.7 billion

Please take note that at its worst close on March 23, 2020, the Birling Capital Puerto Rico Bank Index had a return of -53.80 percent as follows:

— Popular Inc. (BPOP) -54.93 percent

— First Bancorp. (FBP) -64.78 percent

— OFG Bancorp. (OFG) -60.53 percent

To say that the Puerto Rico banking

sector had a spectacular recovery would be an understatement. In our review, we have demonstrated how the Puerto Rico banks' management has successfully navigated through one of the worst economic exogenous shocks in several generations. It has had a sustained and spectacular recovery.

Week in Markets: The Most Volatile Week in Months; Wall Street Surpasses Records

Last week began with a whopping 700-point drop in the Dow. Under any other circumstances, this development would have caused a massive market sell-off, spurred by panic selling and the power of news headlines.

Much of what investors have learned during the market pullbacks amid the pandemic is not to follow the panicking herd.

In our view, the past week's massive drop is just another part of the stock rotation that continues to rock the markets and creates stronger than usual volatility, which can feel like hell, but you do not need to concern yourself with such developments.

However, what we need to consider are the challenges that lay ahead for the markets:

— Conditions prevalent in the market such as inflation could instigate a Federal Reserve Monetary policy change. Should inflation persist, the Fed may be forced to raise rates, and under this scenario, you must expect substantial market volatility and pullbacks. However, so far the Fed has indicated it will continue to maintain interest rates low until 2023.

— The Delta variant: If the coronavirus variant were to create another massive wave of global contagion, that scenario would prove detrimental to the overall market sentiment and the economic recovery. Depending on the impact, we could experience substantial volatility and changes in overall market values.

— Economic growth stalls: There are some economists concerned that the U.S. economy may have peaked. We do not share that view. On the contrary, we project that the economic expansion will continue and rise above 9 percent

GDP, becoming the best year for the current economic expansion cycle.

— Corporate earnings drive market growth: The much better than expected 2Q21 earnings from much of the Wall Street elite has provided a snapshot of what to expect for the next semester, as most companies have regrouped to operate in an environment that has restrictions, global supply disruptions, lack of personnel and increased health scares.

— Even good chefs have bad days: The same applies to the markets; even good markets have bad days. Not even the best bull market rises and rises like a rocket. All markets have peaks and valleys, and those valleys are the best investment opportunities.

Our advice is to make your portfolio safe for any operating environment. The best solution is always maintaining a well-diversified portfolio that includes the correct mix of stocks, bonds and other instruments consistent with your tolerance levels, financial goals and time horizon. Finally, pullbacks and market volatility always create favorable investment opportunities, and you must be ready to seize those opportunities to grow your portfolio.

Wall Street Weekly summary through July 23:

The Dow Jones Industrial Average closed at 35,061.55, up 373.70 points, or 1.08 percent and a year to date (YTD) return of 14.56 percent

The Standard & Poor's 500 closed at 4,411.79, up 84.63 points, or 1.96 percent, for a YTD return of 17.46 percent

The Nasdaq Composite Index closed at 14,836.99, up 409.75 points, or 2.84 percent, for a YTD return of 15.12 percent

The Birling Capital Puerto Rico Stock Index closed at 2,455.64, up 62.60 points, or 2.62 percent, for a YTD return of 20.08 percent

The U.S. Treasury 10-year note closed at 1.30 percent

The U.S. Treasury 2-year note closed at 0.22 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	7/23/21	7/16/21	Return	YTD
Dow Jones Industrial Average	35,061.55	34,687.85	1.08%	14.56%
Standard & Poor's 500	4,411.79	4,327.16	1.96%	17.46%
Nasdaq Composite	14,836.99	14,427.24	2.84%	15.12%
Birling Puerto Rico Stock Index	2,455.64	2,393.04	2.62%	20.08%
U.S. Treasury 10-Year Note	1.30%	1.31%	-0.76%	0.50%
U.S. Treasury 2-Year Note	0.22%	0.25%	-12.00%	0.55%