

# ECONOMY

Most companies  
beat estimates

THINK STRATEGICALLY:

## Puerto Rico's Banks Defy the Odds

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### Fed Doubles Down on Rate Hikes

The Federal Reserve concluded its July Federal Open Market Committee meeting and decided to increase interest rates by 75 basis points, the second month in a row and the fourth time it has raised rates this year, taking rates to a range of 2.25 percent to 2.5 percent. Both markets and investors largely expected the increase; however, the market did not expect the clue that Chair Jerome Powell gave that the Fed could slow down the pace of its hiking campaign at some point.

### Great Transformation

The shift to 100 percent digital onboarding for accounts, credit cards and auto loans, among other products, has been so high that more than 40 percent of retail bank customers only use digital services. As digital channels increase, the need for brick-and-mortar branches has fallen dramatically. Since 2017, more than 7,500 bank branches have closed, 4,000 of which [closed] as recently as since 2020. The closure rate of branches doubled from 99 a month during the 10 years before the pandemic to 201 per month. In 1984, there were 18,000 banks in the U.S., but by the end of 2021, there were only 5,000 left. Locally, there were at least 20 banks in Puerto Rico in 1984, and by 2021 the number had dwindled to four.

### Puerto Rico Banks

We examine the top three Puerto Rico financial holding companies, part of the Birling Capital Puerto Rico Stock Index. We reviewed each company's second-quarter (2Q22) results and stock performance from Jan. 1 to July 29 and compared them to the Dow Jones Industrial Average, S&P 500, Nasdaq composite, and the Birling Puerto Rico Stock Index.

The year-to-date (YTD) returns of these four indices ranked by performance follow:

- Birling Puerto Rico Stock Index: -2.48 percent.
- Dow: -9.61 percent
- S&P 500: -13.34 percent
- Nasdaq: -20.8 percent



(Screen capture of [www.aippuertorico.com](http://www.aippuertorico.com))

### Three Puerto Rico Banks Beat Forecasts:

1. Firstbank Corp. (FBP) reported 2Q22 earnings with revenues of \$227.1 million, up 5.46 percent, and net income of \$74.7 million, up 5.53 percent; Oriental's provision for loan losses increased to \$10 million. The company has a price target of \$17.20, and the stock closed at \$15.09, up 2.37 percent. It achieved a 9.51 percent return, beating the Dow, S&P, Nasdaq and Birling Index handsomely.

Aurelio Alemán, president and chief executive officer of First BanCorp., commented: "We continue to record loan growth with portfolio balances growing \$144.2 million when compared to 1Q22, driven by \$130.7 million in consumer loans and \$58.8 million in construction and commercial loans, with a decrease of \$45.3 million in mortgages."

#### Key Stats

- Total assets: \$20.8 billion
- Total deposits: \$17.8 billion

2. OFG Bancorp. (OFG) reported 2Q22 earnings with revenues of \$146.3 million, up 6.8 percent, and net income of \$40.43 million, up 7.07 percent; Oriental's provision for loan losses increased to \$6.6 million, or up \$5.1 million.

The company has a price target of \$35, and the stock closed at \$27.47, up 1.67 percent. YTD, it has a 3.43 percent

return, beating the Dow, S&P, Nasdaq and Birling Index.

CEO José Rafael Fernández said: "We had another strong quarterly performance in all our core businesses. Loans and deposits grew, and banking and wealth management income rebounded. This quarter we increased our number of self-service banking kiosks and introduced digital commercial account opening. On a macro level, despite global headwinds, the Puerto Rico economic environment continues to trend positively."

#### Key Stats

- Total assets: \$10.2 billion
- Total deposits: \$9 billion

3. Popular, Inc. (BPOP) reported 2Q22 earnings with revenues of \$571.61 million, up 7.35 percent, and net income of \$211.4 million, which fell 0.12 percent; the provision for loan losses fell to 2.24 percent versus

2.29 percent. The company has a price target of \$107 and the stock closed at \$77.67, up 1.25 percent.

It achieved a -5.33 percent return, beating the Dow, S&P, Nasdaq but behind the Birling Index. Popular experienced loan growth in all categories, except mortgages. Popular Inc. CEO Ignacio Álvarez stated: "While we are vigilant regarding the possible negative impacts of record inflation, higher interest rates and the war in Ukraine, we are still seeing growth in the U.S. and Puerto Rico with a historically strong employment market and healthy consumer deposit and spending levels."

### Key Stats

- Total assets: \$71.5 billion
  - Total deposits: \$65.33 billion
- Collectively, Outstanding 2Q Stock Results:
- Total assets: \$102.5 billion
  - Total deposits: \$92.13 billion
  - Total revenues: \$945 million
  - Total net Income: \$326.43 million

### Birling Index Beating all Indices

The Birling Puerto Rico Stock Index, at -2.48 percent, is beating the Dow, S&P 500 and Nasdaq. We think local stocks are worth looking into as part of a well-diversified portfolio of stocks, bonds and other securities that are part of your long-term financial goals.

### The Week in Markets: Nasdaq Rises 10.85%, S&P 8.16%, Birling Index 7.45% and Dow 5.85%— Best Month Since 2020

Recently, the stock markets faced a series of economic hurdles that would have rattled most investors, but the contrary occurred. With the July Fed meeting, there was an absolute consensus that the rate would increase by at least 75 basis points. The rate increase was followed by a report that the U.S. economy fell into a technical recession in the second quarter as gross domestic product fell to -0.9 percent. Lastly, the corporate earnings parade continued to provide added fuel for the markets as most companies beat estimates by outsize margins.

Weekly Market Close Comparison	7/29/22	7/22/22	Return	YTD
Dow Jones Industrial Average	32,845.13	31,889.29	3.00%	-12.22%
Standard & Poor's 500	4,130.29	3,961.63	4.26%	-16.89%
Nasdaq Composite	12,390.69	11,834.11	4.70%	-24.36%
Birling Puerto Rico Stock Index	2,807.61	2,751.40	2.04%	-4.44%
U.S. Treasury 10-Year Note	2.67%	2.77%	-3.61%	1.10%
U.S. Treasury 2-Year Note	2.89%	2.98%	-3.02%	1.20%

While economic data were quite soft, investors' reaction was largely positive as most feared even worse results.

1) Inflation has affected the U.S. economy, as shown in the GDP numbers and the Fed's discussion.

2) The Fed will now see how the rate increases have worked and will begin to increase rates at a gradual rate.

3) The asset rotation that ensued before this past week allowed markets to regroup and rebalance.

4) July was epic: the Dow rose 1,815.82 points, the S&P 500 increased 311.46 points, the Nasdaq climbed 1,212.80 points, and the Birling Puerto Rico Stock Index moved up 194.78 points.

The Federal Reserve Bank of Atlanta and its GDPNow model had been forecasting a negative GDP reading, at -2.1 percent since July 1, which continued into July 27 at -1.2 percent.

The U.S. GDP fell to -0.9 percent versus the GDPNow estimate of -1.2 percent, much closer than the estimated 0.8 percent GDP.

### The Main Drivers of the Contraction:

Annualized growth	Q1	Q2	Change
Personal Consumption Exp.	1.8%	1%	44%
Business Investment	10%	-10%	200%
Residential Investment	0.4%	-14%	3600%
Gov't Expenditure	-2.9%	-1.9%	34%

Areas susceptible to interest rate increases, such as housing and mortgages, weakened dramatically. With 55 percent of all S&P 500 companies having reported earnings, we have seen some high-profile earnings misses, but 72 percent of the companies have exceeded forecasts.

*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.*