



BIRLING
CAPITAL ADVISORS, LLC

Think Strategically

The New Price of Money

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Francisco Rodríguez-Castro, President & CEO

What is the Price of Money?

In finance, each period has a characteristic figure; after the 2008 crisis, that figure was zero. The federal funds rate stayed at its lowest level, and because money was so cheap, governments, companies, and households treated it as permanent rather than a temporary emergency measure. Business models, municipal budgets, and investment strategies were built on this assumption, and few were designed with an end in mind.

This week, the market put a new number on the table: **5.17%**.

The 10-year U.S. Treasury note ended the week at that level on Friday, having reached 5.20% during the week, which is its highest point in almost two decades. The 30-year bond came within touching distance of 5.5%. These figures do not indicate a panicked market. They show a market that has given up on waiting for cheap money to come back and is now pricing the world as it actually is.

What makes this moment revealing is how differently each corner of the market responded:

- **Equity investors keep buying growth companies:** the Nasdaq rose 2.06% for the week, the S&P 500 rose 1.21%, and the Dow gained 0.28%.
- **Puerto Rico's banks held their ground.** The institutions whose business is the price of money sent a clearer signal. The Birling Capital U.S. Bank Index fell 1.49%, while our Birling Capital Puerto Rico Stock Index slipped only 0.69%, less than half the mainland's damage. That is a quiet vote of confidence in balance sheets that Puerto Rico's banks rebuilt the hard way. Year to date, the Puerto Rico index is up 22.73%, more than three times the U.S. bank index's 7.15% gain, and its three banks have done even better, each up between 26% and 31%.
- **Puerto Rico's economy is moving the wrong way.** About a week before the bond market sounded its alarm, the Planning Board cut its growth forecast to 0.3% for fiscal year 2026 and 0.2% for fiscal year 2027. Readers of this column know we have warned for more than a year that the Board's forecasts did not match the Economic Activity Index, which fell 0.6% in fiscal 2025, another 0.4% in fiscal 2026, and has now declined three months in a row. The Board has spent two years walking its numbers down, from 2.8% in 2024 to 0.3% today, and the data suggest it is still catching up to reality. That same week, the OECD raised its U.S. outlook to 2.2% for 2026. Forecasters are revising the mainland up and Puerto Rico down, and both are heading into the same wall of higher rates.

Three markets, three different answers to the same number. Investors are betting that growth can outrun the new cost of capital. Puerto Rico's banks are proving that balance sheets built for hard times can absorb it. Puerto Rico's economy, still leaning on federal reconstruction dollars, has not yet shown it can do either. That is the strategic question at the heart of this column: when the price of money resets higher, who is built to pay it, and who was only standing because money was free?

The answer will separate the investors, the companies and, yes, the governments that thrive in the next decade from those that merely survived the last one.

How much does money cost?

The interest rate is the price of money; it is what a borrower pays to use another person's capital now and what a saver asks for in return for giving up its use. In fact, all the other prices in the economy—such as a mortgage in Guaynabo or the valuation of a technology company—rest on this rate.

Money does not have one price; rather, there are three layers:

- **The short-term rate, determined by the Fed**, is the federal funds rate, the cost of borrowing money overnight between banks; the Fed increased it by 25 basis points in September and has indicated that further increases are forthcoming.
- **In the long term, the market determines the price.** The 10-year Treasury yield, currently 5.17 percent, serves as the benchmark for mortgages, corporate bonds, and municipal debt and is also the discount rate investors use to assess every dollar of future earnings.
- **The amount each borrower actually pays**; this consists of the benchmark rate plus a spread that reflects that borrower's level of risk. Currently, for the Puerto Rican government, as well as companies and households, the spread is added to a benchmark that has recently risen significantly.
- **The long-term rate consists of three parts**: the inflation investors expect, the real return savers require, and a term premium for tying up money for a decade. All three factors are currently rising. Inflation has remained above target for almost six years. AI investments and large deficits are driving up the real return capital demands. At the same time, fiscal and geopolitical uncertainty is widening the term premium for long-term lending.
- **What is the current price of money?** For the U.S. government, it is 5.17% for ten years. The market now expects the Federal Reserve's policy rate to average about 3.8% over the next ten years, up from 3% in January. For everyone else, the figure is those numbers plus their individual risk.

The main difference over the last fifteen years is who sets it. After 2008, emergency policy kept the interest rate at zero. Now, inflation, deficits, and demand for capital determine it. This is the new interest rate, and it won't go back.

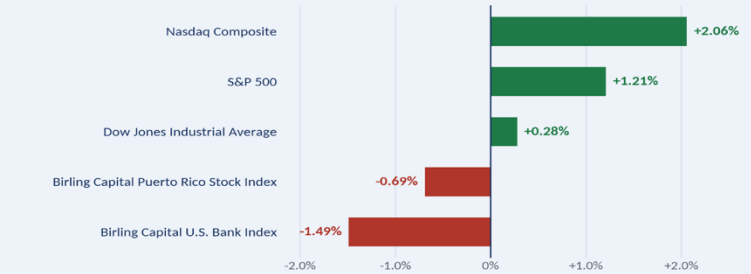
Wall Street Weekly Update

The broad market. The week marked a clear rebound from the prior one, when the Dow slid 1.7%, the S&P 500 slipped 0.1%, and only the Nasdaq gained, rising 0.7%. This week all three advanced. The leadership pattern held: technology first, the broad market second, and the more cyclical, value-heavy Dow a distant third.



Stocks Rallied While Banks Retreated

Weekly change, closes of September 18 vs. September 25, 2026



Source: Bloomberg, CNBC, YCharts — Birling Capital Advisors

birlingcapital.com



Market	Close 9/18/26	Close 9/25/26	Weekly change	% change	YTD return
Dow Jones Industrial Average	51,682.64	51,828.62	+145.98	+0.28%	7.83%
S&P 500	7,650.50	7,743.41	+92.91	+1.21%	13.12%
Nasdaq Composite	26,522.55	27,068.72	+546.17	+2.06%	16.46%
Birling Capital Puerto Rico Stock Index	4,900.18	4,866.56	-33.62	-0.69%	22.73%
Birling Capital U.S. Bank Index	9,955.89	9,807.67	-148.22	-1.49%	7.15%
U.S. Treasury 10-year note	~5.01%	5.17%	~+16 bps		
U.S. Treasury 2-year note	4.76%	4.81%	+5 bps		

The New Price of Money

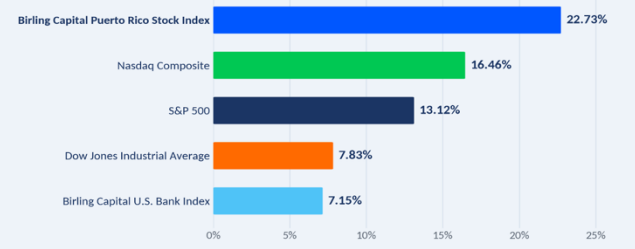
The year to date. The weekly moves matter less than the longer scoreboard. The Birling Capital Puerto Rico Stock Index is up **22.73% year to date**. That leads every benchmark we track:

- The **Nasdaq** is at **16.46%**;
- The **S&P 500** is at **13.12%**;
- The **Dow Jones** is at **7.83%**;
- The **Birling Capital U.S. Bank Index** is at **7.15%**.



Puerto Rico's Banks Lead Every Benchmark in 2026

Year-to-date return as of September 25, 2026



The Puerto Rico index has delivered more than three times the return of the U.S. bank index. It has done so in a year of rising rates, oil above \$100, and a Fed that has resumed hiking.

Inside the Birling Capital Puerto Rico index. The index's four components tell a sharper story. The three banks did the heavy lifting, each outpacing the index itself. EVERTEC, the island's payments processor, was the lone drag:



1. **First BanCorp** led the index with a 30.54% gain, more than four times the 7.15% return of the Birling Capital U.S. Bank Index. It enters the new rate regime with one of the sector's strongest balance sheets: a Tier 1 capital ratio of 17.0% and a net interest margin of 4.87% at the close of the second quarter. That margin is exactly what a higher price of money rewards.
2. **Popular, Inc.**, the island's largest bank, is up 28.88%, four times the U.S. bank index. With a Tier 1 ratio of 16.13%, Popular has the capital to absorb higher funding costs and keep lending. It also completed an orderly leadership transition this summer: Javier D. Ferrer retired on August 31, and Jorge J. García succeeded him as chief executive.
3. **OFG Bancorp** has returned 26.74%, nearly four times the mainland benchmark. Its Tier 1 ratio of 14.07% and deposit base of nearly \$10 billion give it the stable, low-cost funding that has become the most valuable asset in banking this year.
4. **EVERTEC, Inc.**, the payments processor and the index's only non-bank, is down 3.13% for the year. Its shares fell more than 20% in May before a partial recovery. EVERTEC reminds investors the index is not a pure bank play. Strip it out, and Puerto Rico's three banks have averaged a 28.72% gain, beating the index by four to eight percentage points.

Company	Ticker	YTD return
First BanCorp	FBP	+30.54%
Popular, Inc.	BPOP	+28.88%
OFG Bancorp	OFG	+26.74%
EVERTEC, Inc.	EVTC	-3.13%
Birling Capital P. R. Stock Index		+22.73%

The message from investors is consistent: in a higher-rate world, Puerto Rico's bank franchises are being rewarded for capital strength and deposit stability, and this week showed it. Financials bore the brunt of the rate shock. The Birling Capital U.S. Bank Index lost 1.49%, while the Birling Capital Puerto Rico Stock Index fell just 0.69%, less than half the mainland's decline and a 0.8 percentage point outperformance. Even under pressure, Puerto Rico held up better. That relative strength reflects the balance sheets.

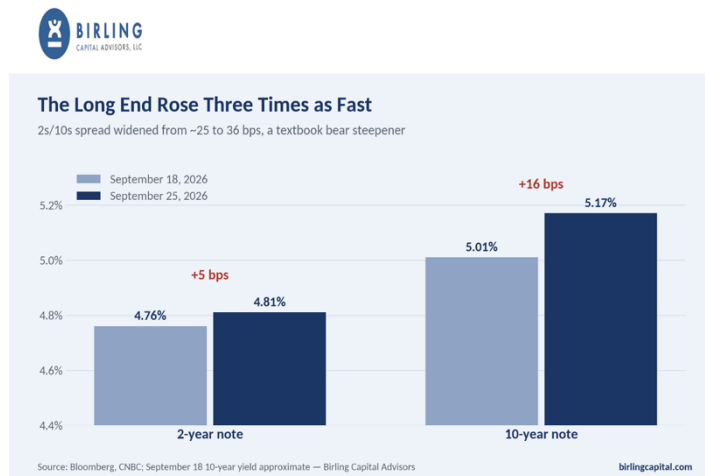
Puerto Rico's banks entered this higher-rate regime with strong capital ratios, stable deposit franchises and asset-sensitive books. Mainland banks face harder questions:

- Funding costs are rising;
- Commercial real estate exposure is under scrutiny;
- Climbing long yields are deepening the unrealized losses in their securities portfolios.

Both indexes recovered part of the week's losses on Friday, as yields eased from their midweek highs. The U.S. bank index rose 1.08% and the Puerto Rico index 0.51%.

The yield curve. The 2-year note rose 5 basis points to 4.81%. The 10-year climbed about 16 basis points to 5.17%, after briefly touching 5.20%. The 2s/10s spread widened from roughly 25 basis points to 36.

Both ends of the curve rose, but the long end rose three times as fast. That is a textbook bear steepener.



The short end reflects the Fed's hike and its signal that more is coming. The long end is pricing something larger: persistent inflation, heavy fiscal deficits and a structurally higher neutral rate.

Geopolitics. The Middle East remains the swing factor. Harsh U.S.–Iran rhetoric at the United Nations early in the week drove crude higher and bonds lower. Reports of a possible phased reopening of the Strait of Hormuz later eased some of that pressure. Until a durable settlement is reached, oil will carry a risk premium, and Treasuries will trade on the headlines.

Sector leadership. Leadership keeps rotating toward quality:

- **Large caps, led by technology**, continue to outperform on the strength of their balance sheets.
- **Small caps**, which are more exposed to floating-rate debt, keep lagging.
- **A firmer dollar** is holding back international equities, reducing returns for U.S.-based investors.

Synthesis. Equities, led by technology, advanced even as long yields approached twenty-year highs. That divergence is this week's key signal: investors are paying up for growth and punishing rate-sensitive balance sheets. Markets are adjusting to a higher cost of money, not rejecting it.

Inflation: a tough nut that will not crack

Core PCE inflation, the Fed's preferred gauge excluding food and energy, runs at 3.34%, a lofty 67% above the 2% target. Part of that pressure should fade:

- **Tariffs** are a one-time shock to the price level, not a permanent inflation engine.
- **Microchip costs** have spiked, lifting prices for a narrow set of consumer electronics.
- **Imputed services prices**, such as financial-services fees, rise mechanically when markets rally.

Excluding those imputed items, core PCE runs closer to 3%. The problem is duration. Inflation has now run above target for nearly six years. After that record, neither the market nor the Fed will accept a promise that inflation is temporary. They will want proof.

Growth: the constructive half of the sell-off

Not every basis point of higher yield is bad news. Part of this move reflects an economy running hotter than expected:

- **Business surveys.** Purchasing managers' indexes jumped in the United States and abroad, pointing to faster activity in manufacturing and services. The PMI is noisy, but it matches the broader evidence.
- **Consumers.** Households are using strong balance sheets to absorb this year's price spike.
- **AI investment.** AI-related capital spending is lifting business investment and looks set to persist.
- **Profits and jobs.** Corporate profits are booming, and the labor market is tightening again.

For the Fed, that is the catch. Strong growth running into sticky inflation is how an economy overheats.

A Fed that has chosen credibility

The Fed raised rates by 25 basis points in September and signaled at least one more increase. We expect another hike before year-end, possibly as soon as October, and one or two more in 2027. This is a tap on the brakes and a credibility statement. Housing and other rate-sensitive sectors will feel it most, but we do not expect it to derail the expansion.

The bigger question is where rates settle once the hiking stops. The 10-year yield now implies an average Fed funds rate of about 3.8% over the next decade. At the start of this year, it implied 3%. That points to a higher neutral rate, or r^* : the policy rate that neither stimulates nor restrains the economy.

No one can observe r^* directly. Still, three forces argue it has moved up:

- **AI investment** is raising the demand for capital.
- **Expected productivity gains** are raising expected returns.
- **Large government deficits** compete for the same pool of savings.

The near-zero world of the 2010s is not coming back.

What the OECD sees ahead

The OECD's September Interim Economic Outlook, from the Paris-based organization of 38 advanced economies whose forecasts serve as a benchmark for governments and investors, was released on September 23 and confirms the picture. The world economy has held up better than feared, but its cushions are wearing thin.

- **Why growth held up**, alternative supply routes, coordinated releases of strategic reserves, extra production outside the Gulf, and lower oil demand, particularly from China, all softened the energy shock.
- **Global growth.** The OECD projects 2.9% in 2026 and 3.0% in 2027.
- **United States.** Growth is projected at 2.2% in 2026, easing to 2.1% in 2027. Strong AI investment is partly offset by slower consumer spending and real income growth.

- **Inflation.** A renewed energy price shock in September is expected to keep inflation higher for longer. G20 headline inflation is projected at 4.1% in 2026, easing to 3.6% in 2027. In March, the OECD projected G20 inflation at just 2.7% in 2027. That nearly one-point upward revision is the higher-for-longer thesis in a single number.
- **Risks.** The downside risks the OECD lists read like this column's checklist:
 - Prolonged Middle East disruption;
 - Weather shocks from a very strong El Niño;
 - Further increases in long-term sovereign bond yields;
 - AI returns that fall short of expectations.
- **The warning.** Secretary-General Mathias Cormann put it plainly: growth has held up better than expected, but the buffers that absorbed the energy shock are being depleted.



Puerto Rico: growing, but barely

The contrast with our own economy is sobering. On September 16, the Puerto Rico Planning Board revised its forecast down. It now projects real gross product growth of 0.3% in fiscal year 2026 and 0.2% in fiscal year 2027. Its previous projections, issued in January 2026, were 0.4% and 0.3%.

The numbers speak for themselves:

- **Against the mainland.** The OECD raised its U.S. forecast. The Planning Board lowered ours. Puerto Rico is now projected to grow at roughly one-seventh the U.S. pace in 2026 and one-tenth in 2027.
- **Against Europe.** Puerto Rico is growing at less than a third of the euro area's rate, and Europe itself is considered a laggard.
- **The trend.** Each fiscal year is expected to be weaker than the last.



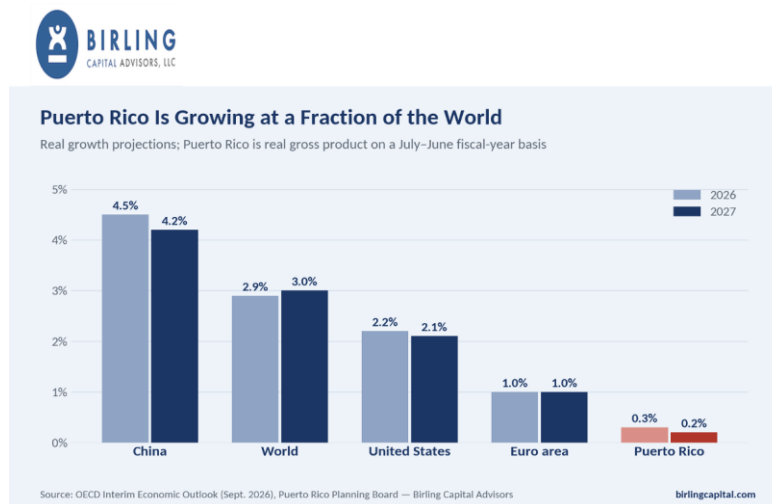
Economy	2026	2027
World (OECD)	2.9%	3.0%
United States (OECD)	2.2%	2.1%
Euro area (OECD)	1.0%	1.0%
China (OECD)	4.5%	4.2%
Puerto Rico (Planning Board Updated Forecast)	0.3%	0.2%

The Puerto Rico Planning Board credits three forces with keeping the economy in positive territory:

- Federally funded reconstruction and infrastructure;
- Tourism,
- The reshoring of manufacturing operations to the island.

Its own economists acknowledge that without the combined effect of reconstruction, tourism, and the manufacturing initiatives, the slowdown would have been deeper. The agency also points to the gradual decline in federal disbursements as a headwind.

That is the uncomfortable truth. Puerto Rico's growth rests on temporary federal money and a handful of policy initiatives. It is not yet the product of a self-sustaining private economy.



Now add a 5% 10-year Treasury to that picture. Every mortgage, car loan, commercial credit line, and public-private project on the island is priced off the same curve that moved against us this week. An economy growing at 0.2% cannot afford a cost of capital designed for one growing at 2%. As reconstruction funds wind down, higher rates will expose whatever structural weakness remains. There is a silver lining. Our banks are well capitalized and positioned to benefit from wider margins, and the market recognized it this week: our local bank index fell less than half as much as the U.S. bank index. A strong banking sector is a necessary condition for growth. It is not a sufficient one.

What Puerto Rico needs is a reform agenda aimed at raising potential growth:

- Legislate Total Economic Freedom;
- Permitting that works;
- Energy that is reliable and affordable;
- A tax and regulatory regime that makes private investment the engine, not federal transfers.

That is precisely what the OECD recommends for the world's economies.

What this means for investors

Fixed income. Bonds have had a painful run since the pandemic, and more volatility is possible. For the first time in a generation, though, they pay investors to hold them:

- Short-term Treasuries offer returns above cash with limited duration risk.
- Long-term investors can lock in Treasury yields above 5%.
- High-yield credit and emerging-market debt offer more income, with more credit risk.

Equities. Higher rates raise discount rates, as 2022 showed. It would take a larger shift in Fed policy than markets expect to derail this cycle, but leadership has changed:

- Favor quality: strong balance sheets, durable cash flows, and large-cap leaders.
- Be selective in small caps and rate-sensitive sectors.
- Account for currency drag on international holdings.

The Final Word: Expensive Money Impacts Everyone

Fifteen years ago, the defining number was zero. Today it is 5.17%. Between those two numbers lies the most important repricing of our financial lives, and much of the world has not yet finished paying for it. The market understood this week's message at once. Money has a price again, and investors will reward only those who can earn more than it costs. Technology companies can rally. Banks that must fund themselves at the new price fell. Puerto Rico's banks, which rebuilt their balance sheets through a decade of crisis, fell the least, and they still lead every benchmark we track in 2026, up 22.73%.

Puerto Rico's banks have already learned that lesson, and Puerto Rico's economy has not. An island projected to grow 0.2% cannot carry a cost of capital set by an economy growing ten times faster. Since Hurricane María, federal reconstruction dollars have filled that gap. By definition, they are temporary. The Planning Board's own economists concede that without them, the slowdown would already be deeper. So the answer to this column's question is not only 5.17%. For Puerto Rico, the price of money is the reform we keep postponing: permits measured in weeks rather than years, power that stays on, and a tax code that invites capital instead of negotiating with it. Every year we delay, that price goes up.

Cheap money forgave everything. Expensive money forgives nothing. The reconstruction dollars are still flowing, and the window to use them to build an economy that can stand on its own is still open. But it is closing, and this week the market told us exactly what time now costs.

"Interest rates are to asset prices what gravity is to the apple". Warren Buffett



Francisco Rodríguez-Castro, President & CEO • frc@birlingcapital.com
PO Box 10817, San Juan, PR 00922 • 787.247.2500 • 787.645.8430

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