

ECONOMY

Island Indicators
on the Rise

THINK STRATEGICALLY:

Why are P.R.'s Public Companies Beating Key Indices?

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The Birling Capital Puerto Rico Stock Index has had a -0.83 percent return year to date.

This year has become much more volatile than many anticipated. While the four Puerto Rico public companies that make up the Birling Capital Puerto Rico Stock Index have also suffered, having closed on May 20 with a -7.03 percent return YTD makes last week's comeback nothing short of remarkable. The four Puerto Rico public companies that make up the index have stood up well—better than those stateside and are in a much better position.

We will review each stock in that light, analyzing their performance from Jan. 1 to May 27. The Birling index has yielded -0.83 percent, which beats all other indices. The Dow Jones Industrial Average has -8.6 percent return, the S&P 500 saw a -12.76 percent return, and the Nasdaq composite was down to -22.46 percent.

Now let's take a look at each stock and its returns:

– Firstbank Corp.(FBP): Achieved a total return YTD of 10.09 percent, beating the Dow Jones, S&P 500, Nasdaq and the Birling index handsomely. The stock price on May 27 was \$15.17 and had a price target of \$17.88. First-Bank earned \$81.2 million in profit, up 36.2 percent from the first quarter last year (1Q21).

– OFG Bancorp. (OFG): Achieved a

total return YTD of 7.19 percent, beating the Dow Jones, S&P 500, Nasdaq, and the Birling index. The stock price on May 27 was \$28.47 and had a price target of \$33.53. Oriental reported net income of \$37.1 million, up 28.1 percent from 1Q21.

– Popular, Inc. (BPOP): Achieved a total return YTD of -0.55 percent, beating the Dow Jones, S&P 500, Nasdaq and the Birling index. The stock price on May 27 was \$81.59 and had a price target of \$110.92. Popular reported a net income of \$176 million in the first quarter, down 16.6 percent from 1Q21.

– Evertec, Inc. (EVTC): Achieved a total return YTD of -23.31 percent, lagging compared with the Dow Jones, S&P 500, Nasdaq and the Birling index. The stock price on May 27 was \$38.33 and had a price target of \$43.33. Evertec reported net income of \$38.5 million, up 8.83 percent versus 1Q21.

The Birling index has a total market capitalization of \$3.32 billion. It has a return of -0.83 percent, beating the Dow Jones by 936.14 percent, the S&P 500 by 1,527 percent and the Nasdaq by 2,606 percent. Also, the four Puerto Rico public companies reported a first-quarter total net income of \$332.77 million, better than expected.

It is worth looking at Puerto Rico's listed companies as part of a well-diversified portfolio of stocks, bonds and other securities that are part of your long-term financial goals.

Week in Markets: Retailer Earnings, Price Index Drop Raise Investor Sentiment

We have been saying since early April that investors should prepare for a bumpy ride as the changes in monetary policy bring along great uncertainty. Our view of the U.S. economy is quite favorable; hence, we conclude that inflation has peaked from the data we have analyzed. It should reflect a marked downward trend with business and consumer incomes and spending at robust levels over the next two quarters.

The U.S. stock market ended the week breaking a seven-week losing streak as the Fed's preferred inflation benchmark, the Core PCE Price Index, fell to 4.91 percent, falling from 5.2 percent last month. The decrease is the first since March 31, 2021, representing an overall -5.57 percent monthly reduction, clearly signaling that inflation has peaked.

On the news, Wall Street continued

a rally that began last Thursday, ending the week with gains and snapping a seven-week-long losing streak that started as some retailers beat expectations and continued with the Core PCE report. The week's market results show many emotional reactions of fear and panic among investors, further worsening the trading environment. Conditions like the ones we have seen this year call for the need for well-determined financial goals, a diversified portfolio of stocks, bonds and other instruments that take your time horizon and risk tolerance level into consideration.

We are closely watching two parameters: auto sales and mortgage loan originations. U.S. Auto and Other Motor Vehicle Sales rose to \$122.03 billion, up from \$119.42 billion last month, an increase of 2.19 percent, with supply chain issues improving and allowing global auto production to increase output and sales. Meanwhile, mortgage loan originations fell to \$892.66 billion, down from \$954 billion last quarter, a -6.43 percent decrease due to rising interest rates.

Additionally, we continue to see robust U.S. personal spending, at 0.9 percent, although it grew less than the 1.38 percent last month. Overall demand remains resilient despite macroeconomic headwinds. Some retailers' earnings disappointments were due to cost pressures rather than weakness in consumer spending.

As we dig down deeper and adjust for inflation, consumption rose in April, mainly propped up

by strong jobs creation. However, as a counterbalance, several retailers delivered results that beat estimates. Driving markets up were Nordstrom, Macy's and Dollar General, among others:

– Nordstrom, Inc. (JWN) reported its 1Q22 earnings with revenues of \$3.47 billion, up 18.7 percent, and net income of \$20 million, up 930 percent, beating estimates and taking the stock for a ride up 22.13 percent. The company also affirmed its 2022 guidance of retail sales and credit card revenues of 6 to 8 percent above fiscal 2021.

– Macy's, Inc. (M) reported its 1Q22 earnings with revenues of \$5.35 billion,

up 12.8 percent, and net income of \$286 million, up 63.9 percent, beating estimates and taking the stock up 19.31 percent. The company also affirmed its 2022 sales guidance of \$24.46 billion.

– Dollar General (DG) reported its 1Q22 earnings with revenues of \$8.8 billion, up 4.2 percent, and net income of \$746.2 million, down 17.9 percent, beating estimates and driving the stock up 13.7 percent.

What a difference a week makes!

This week, the four key indices delivered solid gainsw:

- Dow Jones gained a total of 1,951.06 points, or 6.24 percent
- S&P 500 gained 256.88 points, or 6.58 percent
- Nasdaq gained 776.51 points, or 6.84 percent
- Birling Puerto Rico Stock Index gained 195.56 points, or 7.35 percent

The Final Word: Why Are the Puerto Rico Public Companies Beating their Stateside Counterparts?

– Puerto Rico's Economic Engine: Gross domestic product went from contraction to an increase of 2.6 percent.

– Economic Activity Index: Rose to 3.9 percent from 2.8 percent, a 28.21 percent increase.

– Unemployment Decline: The unemployment rate dropped to 6.5 percent, a -16.67 percent decrease from January's 7.8 percent.

– Puerto Rico's Manufacturing PMI: Grew last month from 63.60 to 57.90, a significant 8.96 percent increase.

– Implementation of the Plan of Debt Adjustment: Reducing Puerto Rico's debt load from \$70 billion to \$34 billion, a discount of 51.42 percent.

– One of the government administration's greatest successes is its response to COVID-19 and the focus on vaccination without politicizing the process.

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	5/27/2022	5/20/2022	Return	YTD
Dow Jones Industrial Average	33,212.96	31,261.90	6.24%	-8.60%
Standard & Poor's 500	4,158.24	3,901.36	6.58%	-12.76%
Nasdaq Composite	12,131.13	11,354.62	6.84%	-22.46%
Birling Puerto Rico Stock Index	2,855.14	2,659.58	7.35%	-0.83%
U.S. Treasury 10-Year Note	2.75%	3.12%	-11.86%	1.20%
U.S. Treasury 2-Year Note	2.46%	2.72%	-9.56%	1.20%