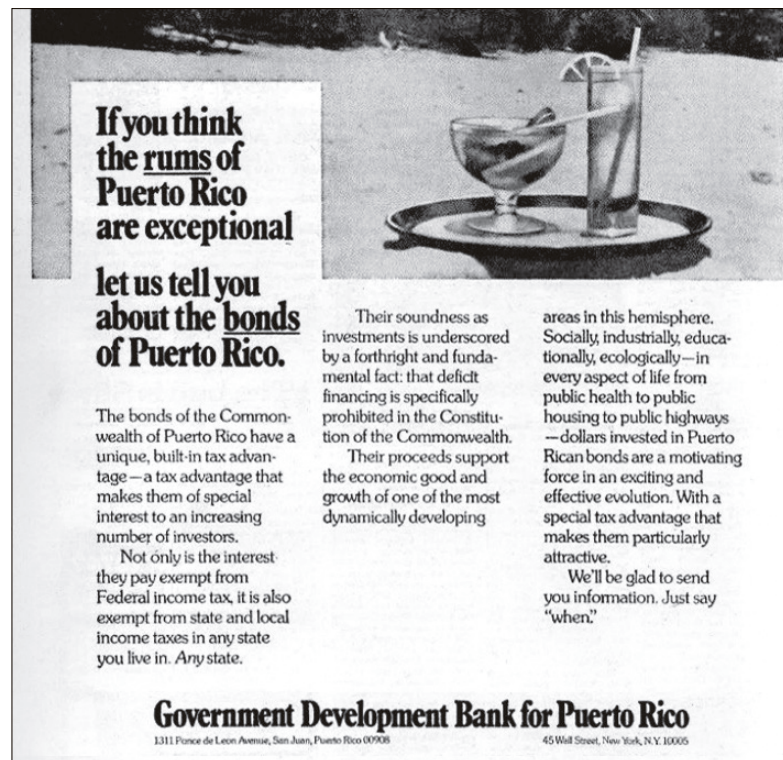


# ECONOMY

Look Into Top  
Financial Stocks

THINK STRATEGICALLY:

## Puerto Rico Celebrates Initiatives Instead of Results



**If you think the rums of Puerto Rico are exceptional let us tell you about the bonds of Puerto Rico.**

The bonds of the Commonwealth of Puerto Rico have a unique, built-in tax advantage—a tax advantage that makes them of special interest to an increasing number of investors.

Not only is the interest they pay exempt from Federal income tax, it is also exempt from state and local income taxes in any state you live in. Any state.

Their soundness as investments is underscored by a forthright and fundamental fact: that deficit financing is specifically prohibited in the Constitution of the Commonwealth. Their proceeds support the economic good and growth of one of the most dynamically developing areas in this hemisphere. Socially, industrially, educationally, ecologically—in every aspect of life from public health to public housing to public highways—dollars invested in Puerto Rican bonds are a motivating force in an exciting and effective evolution. With a special tax advantage that makes them particularly attractive.

We'll be glad to send you information. Just say "when."

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### How the Initiatives Rather Than Results Idea Works

Gov. Pedro Pierluisi declared that Puerto Rico was ushered into a new era, stating, "Today, we closed down one chapter and began our era, the era of Puerto Rico." While it is somewhat true that Puerto Rico began a new chapter, in reality what started was the debt adjustment plan payments that Puerto Rico is obligated to honor. Puerto Rico is technically in bankruptcy and under the mandate of the Financial Oversight and Management Board, or FOMB, and Judge Laura Taylor Swain, depending on the subject matter. As well-intentioned as the governor's declaration was, it is proof of how Puerto Rican politicians love to celebrate initiatives instead of results.

The celebration of initiatives instead of results is a folkloric political miracle that provides voters with thousands of announcements and ribbon-cutting ceremonies. Almost no one follows up on whether the initiative was made, accomplished or ever built. Puerto Rico

politicians love doing it so much as it provides the illusion of making progress. My discovery of the celebration of the "initiatives instead of results" process began to take shape 31 years ago, in 1991, when I was manager of Banco Central Hispano in Ponce. Then-Ponce Mayor Rafael "Churumba" Cordero summoned business leaders to the recently renovated Plaza del Mercado. His project description was compared to projects in the U.S., such as Boston Common or Hudson Yards; following the ribbon-cutting, the months passed and the largest Pitusa ever seen opened at the site; no one complained or asked much.

The other great story, I participated in as then-president of the Economic Development Bank. Someone in 2002 decided the government should build a brand new financial center skyscraper near the Sagrado Corazón Tren Urbano station. The new tower would house all the finance-related agencies under one roof, including the Government Development Bank, the Office of Financial Institutions, the Insurance Commissioner's Office, the Economic Development Bank and others. My argument then was that the Economic

Development Bank had its building and we did not need or want to move to this new location.

Much to my surprise, in late 2003, there was an invitation for a groundbreaking ceremony for the new Government Financial Center Building. The building was never built, and even the mighty anchor tenant, the Government Development Bank, does not exist anymore.

The only proof that I have is the shovel and the fact that we can add to the roster of "celebration of initiatives instead of results" system of government.

All administrations, agencies, mayors and politicians use the "celebration of initiatives instead of results" system.

Some notable "initiatives" come to mind:

- Gasoducto del Sur
  - Via Verde
  - Triangulo Dorado
  - Aguadilla Municipal Hotel
  - Portal of the Future
  - Riviera del Caribe
  - Puerto of Las Americas Cranes
  - Disney in the Caribbean
  - Decreasing the sales and use tax (IVU by its Spanish acronym) to 6.5 percent
- All well-intentioned ideas never saw the light of day, and probably no one thought enough of them to follow up on the initiative instead of the actual result.

In summary, we have to consider that as we celebrate that Puerto Rico saved 51.4 percent, or \$34 billion, in bondholder payments, there is another side of the story.

The other side means that more or less 70,000 bondholders lost all their savings and are receiving zero from their trust in Puerto Rico.

- Some 70,000 bondholders believed that Puerto Rico's Constitution placed bond payments above all else. It was false politicians who put government

payrolls and pensions above all else, and investors lost \$34.1 billion in savings.

- Some 70,000 bondholders trusted that they would be protected, not destroyed.

- Some 70,000 bondholders, for more than 60 years, believed Puerto Rico was a sound investment.

- Some 70,000 bondholders lost their lifetime savings and saw their lives turned upside down.

For those who entrust their savings to others, credibility is paramount, and it will take decades to restore Puerto Rico's credibility in the U.S. capital markets.

Also, Puerto Rico must approve four balanced budgets and gain access to the investment-grade capital markets.

In layman's terms, the Financial Oversight and Management Board will continue to perform its duties for at least eight more years.

While some celebrate a new era, I see the bankruptcy process continuing until we are fully released from the Puerto Rico Oversight, Management and Economic Stability Act (Promesa); then and only then can we celebrate the dawn of a new era.

I hope you now fully understand the concept of "celebrating initiatives instead of results" system of government.

### The Week in Markets: Fed raises rates, markets react positively and deliver the best week since 2020

The U.S. stock market ended the week with solid gains as investors continue to absorb the new interest rate increases from the Federal Reserve, the ongoing war between Russia and Ukraine and the discussions between the U.S. and China. After years of holding rates near zero, the Fed embarked upon the initial step by raising rates to curb inflation. As the Fed increased rates by 25 basis points, it also signaled that it would raise rates in the six subsequent Federal Open Market Committee meetings during 2022, taking rates to at least 1.9 percent or as high as 3 percent.

We suspect rate increases will rise depending on the shape of economic growth.

The Fed outlined its plan as follows:

- The Fed's goal is to curb inflation. With CPI numbers at a 40-year-high, the Fed must act fast and swiftly to take inflation below its 2 percent target rate.

- Provided the large inflation numbers, we expect at least six more rate increases in 2022, north of five in 2023 and one in 2024.

- The Fed continues to forecast a 2022 GDP growth of 2.8 percent, while it falls above the 2 percent average for the last decade below recent estimates.

### The Final Word: Looking for Opportunities

Let's review the top bank holding companies' YTD return and prices, which look interesting in a rising interest rate environment:

Wells Fargo (WFC): has a YTD return of 7.13 percent and the stock is below its high of \$59.06 on Feb. 9.

OFB Bancorp. (OFB): has a YTD return of 4.09 percent and the stock is below its high of \$30.54 on Jan. 4.

Popular, Inc. (BPOP): has a YTD return of 2.99 percent and the stock is below its high of \$98.46 on Feb. 14.

First Bancorp. (FBP): has a YTD return of -2.61 percent and the stock is below its high of \$16.39 on Feb. 14.

Bank of America (BAC): has a YTD return of -3.38 percent, and the stock is below its high of \$49.28 on Feb. 9.

Morgan Stanley (MS): has a YTD return of -3.6 percent and the stock is below its high of \$108.73 on Feb. 10.

Citigroup (C): has a YTD return of -5 percent and the stock is below its high of \$79.49 on June 4, 2021.

Goldman Sachs (GS): has a YTD return of -9.67 percent and the stock is below its high of \$423.85 on Nov. 2, 2021.

JP Morgan Chase (JPM): has a YTD return of -11.54 percent, and the stock is below its high of \$170.22 on Nov. 2, 2021.

While we transition into other investments for our portfolios, it serves you well to look into the top financial stocks which are primed to be snatched up once again.

*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	3/18/2022	3/11/2022	Return	YTD
Dow Jones Industrial Average	34,754.93	32,949.19	5.48%	-4.36%
Standard & Poor's 500	4,463.12	4,204.31	6.16%	-6.36%
Nasdaq Composite	13,893.84	12,843.81	8.18%	-11.19%
Birling Puerto Rico Stock Index	2,817.59	2,676.64	5.27%	-2.14%
U.S. Treasury 10-Year Note	2.14%	1.94%	10.31%	0.60%
U.S. Treasury 2-Year Note	1.97%	1.68%	17.26%	0.60%