BIRLING CAPITAL ADVISORS, LLC

Think Strategically

Wall Street entered a correction, cheap capital left with it, and Diversification is the only defense left

November 23, 2026

Francisco Rodríguez-Castro, President & CEO

When the AI buildout was funded with cash, the market priced the story. This week it was funded with debt at more than 8%, and the market priced the repayment.

The Week in Wall Street ending November 20, 2026



Wall Street went into correction this week. For three years, the AI story has asked investors to believe it. This week, it's asking them to lend, and the market responded with its worst week in over 18 months; all three indices are in correction territory (a drop of 10% or more from a record high). The S&P 500 is down 8.6% to 6,910.54 on its 7th consecutive losing day (the longest such streak in 5 years) and is now around 10% below its record. The Dow Jones Industrial Average is down 8.0% to 48,147.33 and is also around 10% below its record. The Nasdaq Composite is down 10.0% to 22,617.73 (its steepest weekly fall since 2020), now over 15% below its October high and down for 2026. The small caps (the only sector still in the green for the year) are down 7.5%. YTD, the S&P 500 is up just 0.9%, the Dow is up 0.2%, the Nasdaq is down 2.7%, and the Russell 2000 is up 4.0%.

Friday was the capitulation session. The VIX closed above 35. The semiconductor index fell about 11% in a single day, and technology was the worst sector by far, down more than 7%, while consumer staples were the only group to rise. Active managers cut their equity exposure from 72.9 to 51.2 on the weekly survey, a 21-point drop that is the sharpest since April 2025. The selling also spread beyond stocks. Gold fell 4.6% on Friday to about $3,515 and 9.5% for the week, its lowest level since September 2025. Silver lost roughly 16% for the week, and Bitcoin slid below $60,000 for a seventh straight weekly decline while the dollar index climbed to a 19-month high near 104. When gold falls together with stocks, the market is raising cash, not changing its mind.

Our own indexes took the full brunt of the week. The Birling Capital Puerto Rico Stock Index fell 8.42% to 4,544.77, in line with the S&P 500's 8.61% drop and slightly worse than the Dow's 8.02%. The Birling Capital U.S. Bank Index was down 10.73% at 8,524.18, a steeper fall than the Nasdaq, and now down 6.87% for the year, after being up 3.29% on the 11th. The Puerto Rico index is up 14.62% for the year (a lead of over 21 points) on the U.S. bank index. Nine days earlier, it was up 25.53% for the year, so roughly 11 of those points have been erased in the correction. It's down to 4,544.77, roughly 14% below its August high.

How Puerto Rico Public Companies in the Birling Capital P.R. Stock Index Fared



All four of the Puerto Rico public companies were down between 7.4% and 9.0% that week. OFG Bancorp was the best of the group, down 7.43% to $47.85 and is the year's leader (up 16.76%). Popular was down 8.84% to $143.93 and is up 15.59% for the year. First BanCorp fell 8.98% (the biggest drop of the four) to $23.81 but is up 14.86% for the year. EVERTEC was down 8.42% to $29.80 and is up 2.44% for the year (a modest gain, but a significant recovery for a stock that traded over 20% below its January level in the latter half of the spring). Each company is still ahead of the S&P 500 (up 0.95%), the Dow (up 0.17%) and the Nasdaq (down 2.69%) for the year. All three banks are up between 15% and 17% for the year despite giving back much of the gains they had in August.
Bonds rallied as investors fled to safety, not because of any easing from the Fed. The 10-year was at 4.92% (down 23bps in the week, its biggest weekly fall since April 2025), the 2-year at 4.63% (leaving the curve just 29bps apart), and the 30-year back at around 5.3%. The Fed's own statement was unchanged, though. The policy rate remains at 3.75%-4.00% after the September increase (the first in three years). CPI for October was up 0.4%, core up 0.3% for the third month in a row, and producer prices are up 6.5% year on year (the fastest pace in annual terms since late 2022). Futures are pricing in a 25bps hike on Dec 9 as almost certain.

Washington moved to center stage. Subpoenas reached Nvidia over chip sales to China, the administration is weighing limits on exports of Chinese data center equipment, and a report that securities regulators are examining the company's accounting sent its shares down 14% on Friday to $125.53. That was its seventh straight decline, about 23% on the week and nearly half off its October 6 high of $243.37. Founder and CEO Jensen Huang resigned on November 12, five days before the earnings report, leaving the CFO to run the company on an interim basis. Oil told a different story. WTI settled at $83.98 and Brent at $92.57, each down for a third straight week despite attacks on Riyadh and disruptions to tanker traffic near the Strait of Hormuz, which says demand worries are outweighing supply risk.

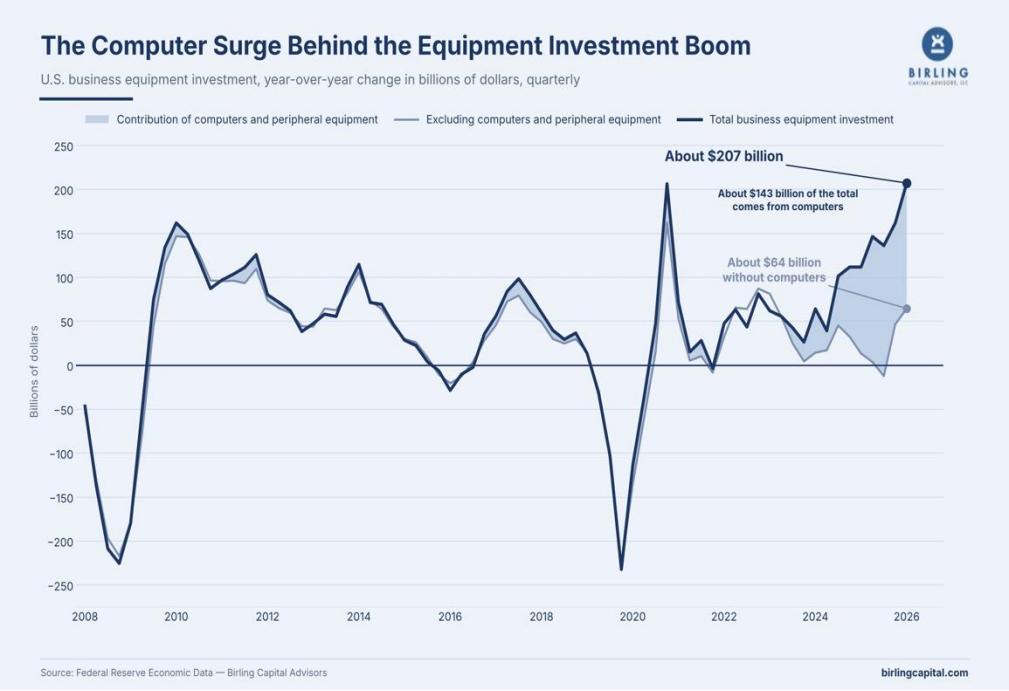
The earnings weren't the issue. Nvidia reported $115.8bn in revenue (up 103% on the year) and $2.68 per share on earnings, versus $2.47 expected. Guidance was for $130bn in the next quarter. The Anthropic IPO raised $81.3bn, the largest in history, with 980m shares priced at $83 (well above the $70-$78 range) and a

$26bn private placement. The stock opened at $111.50, hit $115 and closed Friday at $88.91 (just 7% above offer). The market wasn't rejecting AI. The market was rejecting the price of financing it.
Europe followed. The Stoxx 600 fell 1.89% on Friday to 626.34, the FTSE 100 lost 1.02% to 10,346.34, and Germany's DAX dropped 2.45% to 24,839.65, with all three closing lower for a fifth straight session.
The correction is real and it's wide ranging. The S&P 500, the Dow and the Nasdaq are all in it and the Birling Capital indexes are no exception. It is a repricing of the AI trade rather than a panic about the economy. It's happening whilst the Fed is still in tightening mode, financing for AI is more expensive and the leading company in the sector is under regulatory scrutiny and without its founder.

Nvidia's Q4 results explained the problem.

The best quarter in Nvidia's history didn't stop the stock on the back of where the growth is coming from. Of the $107.6 bn in data center revenue, sales to the big hyperscalers up 71% to $60.1 bn, sales to the AI cloud providers, industrial customers and enterprises up 195% to $47.5 bn. That second group is the financed customer (the smaller cloud operators that are borrowing to buy the chips). It's the fastest growing part of the business and it's where the credit risk is. The $130 bn outlook assumes no data center revenue from China so the entire outlook now rests on the buildout continuing.
The funding is also becoming circular. Nvidia has put $20bn into Anthropic and its suppliers and customers (Nvidia, Microsoft, Google, Broadcom, Micron, AMD and TSMC) have all joined the $26bn private placement alongside the IPO. Anthropic is growing at a phenomenal rate with $33.2bn in revenue for the first 9 months of 2026 compared to around $2.5bn a year earlier and a run rate of nearly $81bn. Its valuation of around $1.5tn is about 18x that run rate. That's quite impressive. Those are numbers investors simply can't separate from the companies selling the chips and funding the buyers.

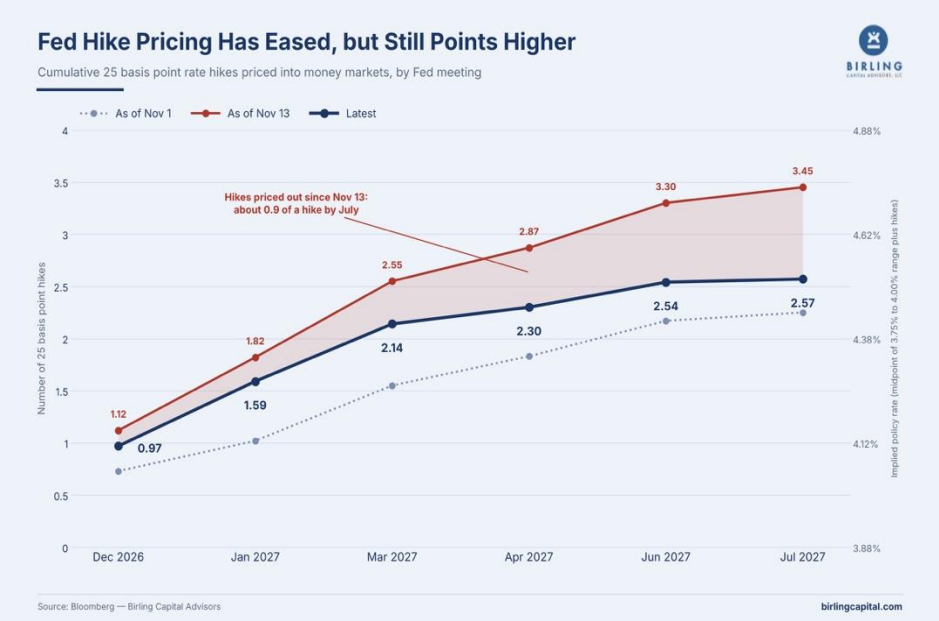
The boom now has a bill.



Combined hyperscaler spending is on track to exceed $730bn this year, with six of the big spenders alone projected to spend around $1.3tn in 2027 (only one of whom is expected to generate positive free cash flow that year). Over two years, total spending is around $3tn, and over four years it's $6.5tn, which is about 8% of all investment-grade corporate debt outstanding. The funding gap has moved from retained cash to the bond market. Hyperscaler issuance has gone from about 2% of all US investment-grade supply to 9%. Direct debt sales are expected to double to $400bn next year; Meta is raising up to $95bn in equity, and this week SpaceX paid yields above 8% to finance $32bn of Nvidia chips, following an earlier $40bn Apollo-backed leasing arrangement.
When borrowers are paying 8%, the market is no longer lending against a story. It's lending against a repayment schedule. That's a completely different asset class to the one the equity investors thought they were holding.

Wall Street entered a correction, cheap capital left with it, and Diversification is the only defense left

A Fed that sees the same leverage and cannot act on it



The Oct minutes show the central bank looking at exactly what the market is looking at. Everyone expected further hikes, and two voted against the hold in favor of one. A number of the officials referred to the AI buildout itself as a material inflation risk (demand is straining supply and pushing up the price of tech goods). Almost all of them mentioned the risk of disappointing AI returns, and most pointed to the rapid growth of AI-related debt through a complex, opaque set of structures. The central bank can't cut. The policy rate is currently only half a point above core consumer inflation (3.3% as of September). The government didn't release an annual October reading due to last year's shutdown, and the November reading is due on Dec. 10 (the day after the decision). This week, Anna Paulson of Philadelphia says she's up for two back-to-back hikes, Governor Lisa Cook warns that waiting is a recipe for falling behind, and Austan Goolsbee of Chicago says a bigger move is still possible. Christopher Waller has already suggested a half-point hike. Consumer sentiment (up to 51.5 in November) remains quite low, though the one-year inflation expectation has come down to 3.7% from 4.7% in October.

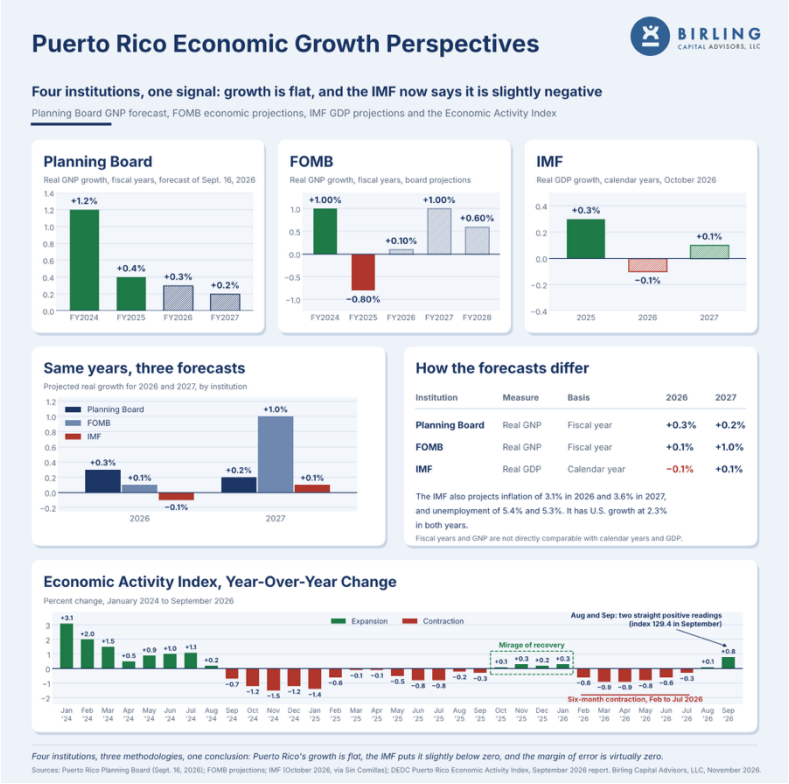
The old rescue play was that stocks could fall as inflation cooled. This time, the bubble and inflation share a common cause, so the normal cushion is gone.

What the correction does not say

A correction of 10% or more from a record high is a normal part of owning equities and, in itself, doesn't constitute a bear market. The S&P 500 and the Dow have both experienced one this week; the Nasdaq is already well into its correction, and this is the second correction of the year following the one that kicked off with the Iran war. The ground is still very solid. S&P 500 earnings are on track for over a 30% increase this year and around 16% in 2027. Job growth has picked up, layoffs are still very low, and manufacturing has been in expansion all year. The forward multiple has compressed to about 18x (down from the ten-year average of just under 19), and the forward multiples of both the S&P 500 and the Nasdaq are down over 15% this year. Capital spending growth is expected to fall from 80-90% this year to 30-40% next, but a fall from that level is still growth.

The risk is that the slowdown will be faster than planned. The IMF reckons a sharp unwinding of AI investment could take half a point off global growth, and falling portfolios could drag on household spending. We acknowledge that risk. We don't see it as a certainty.

What it means for Puerto Rico



Puerto Rico enters this correction with a strong banking sector and an economy that forecasters expect to barely grow. The three banks earned their gains. Popular earned $266.3 million in the third quarter, or $4.21 per share against $3.14 a year ago, with a 15.8% return on tangible common equity, a 3.63% net interest margin and $40.0 billion in loans. It repurchased $179 million of stock and raised its dividend 20%. FirstBank earned $96.1 million with a 4.73% margin, announced a new $350 million buyback through 2027 and raised its dividend 25%. OFG earned $56.6 million, up 9.2%, with nonperforming loans at only 0.74%. The one number to watch is Popular's deposits, which fell 2% in the quarter as rates rose. Those results explain why the three stocks are still up 15% to 17% for the year. They do not tell us where the next dollar of growth comes from.

The island's own forecasters say it will not come from the island economy. In September, the Planning Board trimmed its estimates by 10 basis points and now projects that Gross National Product will grow by just 0.3% in fiscal 2026 and 0.2% in fiscal 2027, which the board's own president calls virtually flat. The earlier base case was 0.4% and 0.3%. The range around that base case is wide. The board's optimistic scenario is growth of up to 2.3% in 2026 and 1.0% in 2027, driven by reshoring, reconstruction, and stronger tourism, and its pessimistic case is a 1.6% contraction. The base case sits closer to stagnation than to either extreme, and that is the starting point for any local investor.

The International Monetary Fund is less generous. Its October 2026 outlook shows real GDP growth of -0.1% for Puerto Rico this year, using statistical inputs supplied by the Puerto Rico Statistics Institute. The April edition had the same 2026 figure, along with a 0.8% contraction in 2025 and 1.0% growth in 2027. That puts the two views side by side: the island's planners expect a flat year followed by a flatter one, while the IMF sees a small contraction now and a modest recovery next year. Neither forecast leaves much room for error, and both depend on reconstruction spending reaching the economy.

Prices are the other half of the story. Island inflation was 2.0% in January, then jumped to 4% in April from 2.5% in March, the highest reading since March 2023, and has stayed near 4% since, with the August reading at 3.8%, down from 4.0%. The consumer price index has risen about 3.7% since December, from 139.47 to 144.67 in September, so households are paying more for a flat economy. The Oversight Board's economists describe the result as stable but flat, and it is why real incomes, not headline growth, are the better measure of how local investors are doing this year.

Reconstruction funding is the main reason the outlook is not worse, and also the main source of uncertainty. Puerto Rico's recovery office reports that nearly $43 billion in federal funds have been allocated, nearly $40 billion obligated, and $12.7 billion disbursed, so less than a third has reached the economy. On the grid alone, only about 25% of the roughly $14 billion federal agencies obligated has actually been disbursed. That backlog is why construction rose 9.55% in fiscal 2026, driven by a 22% jump

in recovery works while housing grew only 1%. It also means the support runs for years, with billions of dollars available for reconstruction through 2035, but only as fast as the paperwork and the contractors allow.

The risks sit on the other side of the ledger. The Oversight Board warns of a Medicaid "fiscal cliff" that could materialize starting in 2028 if current federal funding is not extended, and the current funding is set to end in September 2027. The board also said it anticipates tax collections in Puerto Rico to decline from the previous year. The labor force compounds the problem. The New York Fed's November presentation to the Oversight Board points to out-migration of young adults, which is compounding population decline and eroding economic dynamism. The board's own symposium put it simply: the outlook is not one of decline but of a slowdown that warrants close attention.

For an investor on the island, the picture is demanding. After years of restructuring, most local investors reduced their exposure to Puerto Rico debt and moved into U.S. funds and equities, which leaves the public companies, Popular, First BanCorp, OFG and EVERTEC, as the main way to hold the island in a portfolio. That shift was understandable, but it changed what the portfolio contains. The U.S. funds and equities carry the mainland's AI repricing, and the local stocks carry an economy expected to grow about 0.2% and facing a federal funding cliff in 2028. Both fell this week. Diversification is your best bet, and this week showed why.

The Final Word: Diversification is the only edge that survives a correction

This week was a real lesson in what diversification actually is and what it isn't. Owning a lot of tickers isn't diversification. The S&P 500 is so heavily weighted in the same small group of AI companies that an index fund went down 8.6% over five sessions, and an investor who also owns a tech fund, a growth fund, and a target date fund is effectively exposed to the same trade four times. The bond market is no longer a clean haven either. Hyperscaler borrowing is now at about 9% of new investment-grade issuance (up from about 2%), so the AI buildout is now creeping into the portfolios of those who think of themselves as conservative. When gold fell 9.5% in the week, Bitcoin dropped below $60k, and the dollar rose, the market was telling us that in a liquidation scenario, assets that normally don't move together start to move in tandem. True diversification is built across the drivers of returns (growth, inflation, rates, credit, geography), not across the names that happen to be driven by the same thing.

The Birling indexes show the point on our own turf. The Puerto Rico index is still up 14.62% for the year, and Popular, First BanCorp and OFG are each up roughly 15% to 17%, while the Nasdaq is down 2.7% and the S&P 500 is up less than 1%. That is a lead earned by owning something different from the crowd. The same week also took 8.42% from that index and 10.73% from the U.S. Bank Index. Diversification does not mean you avoid losses. It means no single loss decides the outcome, and it gives you something sound to sell or buy when the market punishes everything at once.

The second half of the trade is far more important than most people realize. The AI trade is now being funded with debt, and borrowers are paying well over 8% to buy the chips. The Fed is still in rate-hike mode, so relief is still out of sight. Liquidity is no longer a luxury. It's the asset that lets you rebalance on your schedule, meet your obligations without selling at the bottom, and buy quality when everyone else has to sell. The 2-year Treasury (paying around 75bps more than the effective Fed funds rate) is one of the very few places where you actually get paid to be patient.

None of this suggests the boom is over. Nvidia more than doubled its revenue, the earnings base is still growing, and a slowdown in spending growth is still growth. It's simply that the cost of being wrong about one theme, one sector, one island has risen as the cost of capital has risen. The investors who finish this

cycle in front will have made fewer bets that needed to be right, kept enough cash to act, and let the time horizon do the work that conviction simply can't.

'Diversification is the only free lunch in investing'. Harry Markowitz, Nobel Prize for the Mathematics of Diversification.

It's very hard to argue with that.

BIRLING CAPITAL ADVISORS, LLC

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

Think Strategically © is a publication prepared by Birling Capital LLC and is a summary of certain recent geopolitical, economic, market, and other developments that may be of interest to clients of Birling Capital LLC. This report is intended for general information purposes only, is not a complete summary of the matters referred to, and does not represent investment, legal, regulatory, or tax advice. Recipients of this report are cautioned to seek appropriate professional advice regarding any of the matters discussed in this report, considering the recipients' own situation. Birling Capital does not undertake to keep the recipients of this report advised of future developments or of changes in any of the matters discussed in this report. Birling Capital. The man and log symbol and Birling Capital are among the registered trademarks of Birling Capital. All rights reserved.