Regional Banks Rebound as Earnings Ease Credit Fears, AI Momentum Lifts Tech Outlook.

GLOBAL MARKET SQUARE
BIRLING CAPITAL ADVISORS, LLC

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by Francisco Rodríguez-Castro
frc@birlingcapital.com

The **U.S. and European stock markets** closed the week with mixed results on Friday, as Wall Street steadied following a sharp midweek sell-off in regional lenders. After falling as much as 1% in premarket trading, the **major indexes** recovered to finish the session in positive territory, supported by **better-than-expected earnings from Fifth Third Bancorp**, which helped ease concerns over rising credit risk.

Market sentiment also improved after **President Trump** signaled a softer tone on trade with China, calling current tariffs "not sustainable" and confirming plans to meet **President Xi Jinping** in South Korea in the coming weeks. In fixed income, the **10-year Treasury yield** climbed to **4.02%**, while **gold prices** continued their ascent toward record highs amid renewed safe-haven demand.

Credit Concerns Put Regional Banks Under the Microscope

Regional lenders are clawing back some of yesterday's losses after the **KBW Regional Bank Index** plunged 6% amid mounting anxiety over bad loans and potential credit contagion. The sell-off was triggered by **Zions Bancorporation's** $50 million write-off on two commercial credits and **Western Alliance's** disclosure of borrower fraud, adding to jitters after the bankruptcies of **Tricolor Holdings**, a subprime auto lender, and **First Brands Group**, an auto-parts manufacturer entangled in complex private credit exposures.

While these developments echo memories of the 2023 banking crisis that felled Silicon Valley Bank, analysts see limited systemic risk this time. Five of the eight diversified U.S. banks in the **S&P 500** that have reported third-quarter earnings so far have beaten expectations, and default rates remain historically low. Most institutions remain well-capitalized, suggesting recent losses may be isolated rather than symptomatic of broader deterioration.

Birling Capital U.S. Bank Index Leads with 28.41% YTD Gain; Puerto Rico Banks in focus as EVTC Declines.

The Birling Capital **U.S. Bank Index** outperformed all peers year-to-date through mid-October 2025, rising **28.41%**, driven by strong earnings momentum, improving credit conditions, and growing investor confidence in U.S. financials. The **Birling U.S. Super Regional Bank Index** followed with a **7.93%** gain, reflecting modest resilience among larger regionals amid concerns over rising commercial real estate exposure.

In contrast, the **Birling Capital Puerto Rico Stock Index** advanced to a more moderate **4.87%**, highlighting a slower recovery pace in local financial equities. Among individual Puerto Rico banks, **Popular, Inc. (BPOP)** delivered the strongest performance, up **23.10%**, fueled by solid profitability and deposit growth. **First BanCorp (FBP)** gained **10.73%**. In comparison, **OFG Bancorp (OFG)** slipped **2.46%**. Outside banking, **EVERTEC, Inc. (EVTC)** fell sharply by **13.55%**, marking the weakest performer in the group as payment processing volumes softened amid competitive pressures and higher technology costs.

Puerto Rico's financial sector remains in a consolidation phase, awaiting stronger economic growth and loan demand to reignite momentum.

AI Demand Powers Tech Sector

Amid financial sector turbulence, **AI investment** continues to shine as the dominant growth driver this earnings season. Semiconductor and cloud leaders are posting robust results: **ASML** reported surging demand for advanced lithography machines, **TSMC** delivered record profits with upgraded guidance, and **Oracle** projected more substantial margins from AI infrastructure. The sustained capital outlays from mega-cap firms—**Microsoft, Alphabet, Amazon, Meta, and Apple**—underscore AI's central role in reshaping productivity and corporate earnings.

While valuations across tech remain elevated, they are still well below early-2000s bubble levels. With expectations running high, near-term gains may slow. However, Birling Capital maintains a constructive long-term view heading into 2026, supported by **Fed rate cuts**, **rising corporate profits**, and **moderate fiscal tailwinds**.

European Markets Weaken as Bank Stocks Slide

Across Europe, equities fell sharply as credit fears crossed the Atlantic. The **Stoxx 600** ended the day down 0.95%, with the **Stoxx Europe 600 Banks Index** losing about 2.5%. Shares of **UBS** and **Jefferies** were hit after disclosures of potential exposure to the failed **First Brands Group**, with estimated risks of $500 million and $715 million, respectively.

The sell-off underscores investor sensitivity to credit headlines following recent U.S. losses, though European banking regulators have stressed that exposures appear contained.

Market Outlook

Market volatility remains elevated as investors weigh bank credit headlines against strong earnings from key sectors. The next major catalysts will come from upcoming reports by the **Magnificent 7** tech giants, alongside fresh economic readings once the **U.S. government shutdown** ends. With global growth steady, liquidity ample, and monetary policy turning more supportive, Birling Capital expects markets to navigate current turbulence with resilience.

GDPNow Update:

- The GDPNow for the Third Quarter of 2025 was released today, rising to **3.90%**, up from 3.80% to 2.63% increase.

Corporate Earnings Parade:

- **Fifth Third Bancorp (FITB):** reported 3Q25 revenues of $2,306 billion, net income of $608 million, and earnings per share of $0.91, topping estimates. Fifth Third has a stock price objective of $50.60. Check Our Report: https://mcusercontent.com/8a74decb0cc0cdc6eb732b812/files/59f471e4-f33d-7514-45e2-fed8dfa2e91e/FITB.Report.2025.10.17.pdf

Economic Data:

- **Eurozone Monthly Inflation Rate:** Excluding Energy, Food, Alcohol, and Tobacco: fell to 0.10%, compared to 0.30% last month.

Postponed Data Due to Government Shutdown:

- **US Export Prices YoY**
- **US Import Prices YoY**
- **US Building Permits**

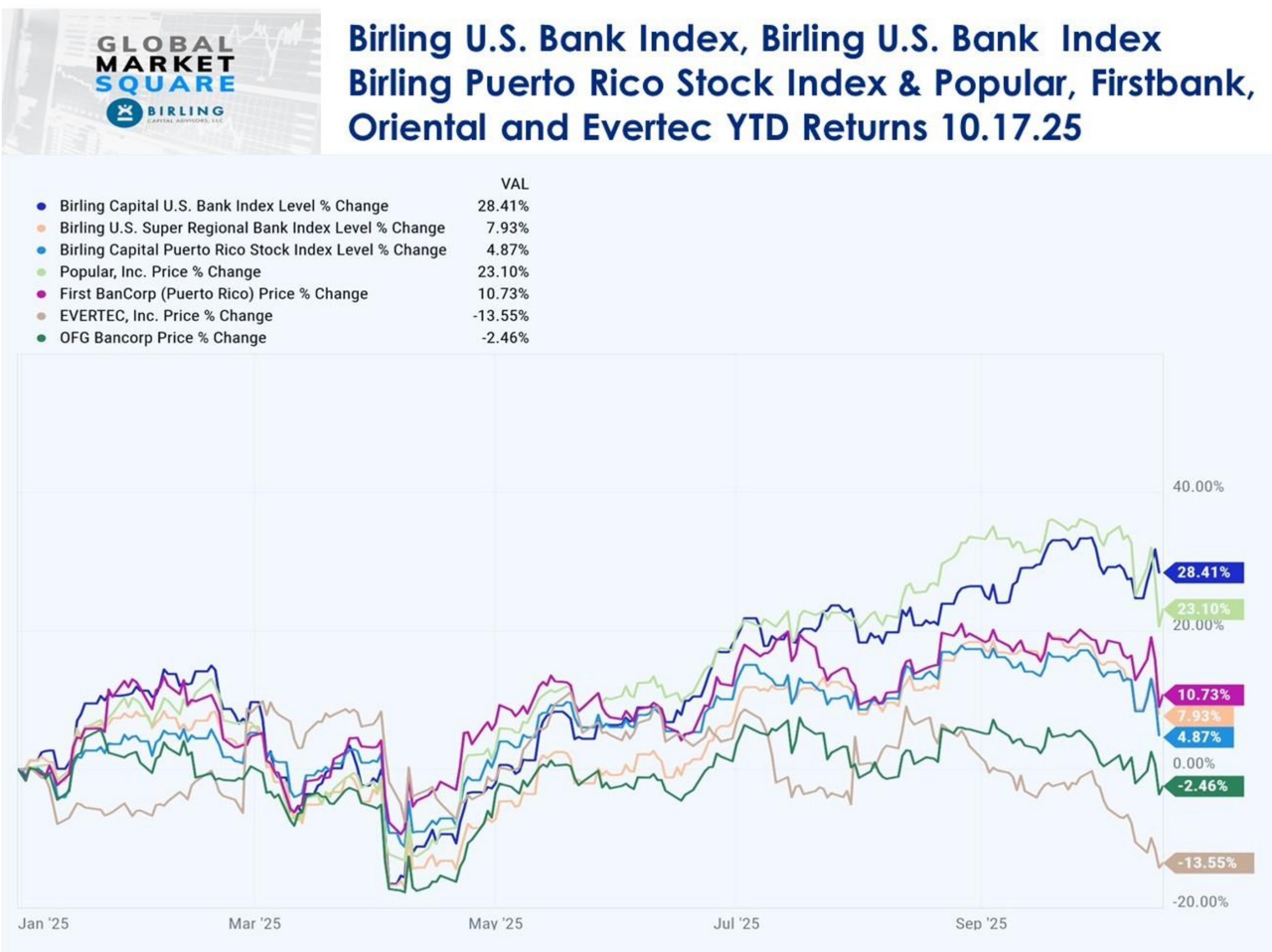
- **US Industrial Production MoM**
- **Overall Net TIC Flows**

Eurozone Summary:

- **Stoxx 600:** Closed at 566.24, down 5.42 points or 0.95%.
- **FTSE 100:** Closed at 9,354.57, down 81.52 points or 0.86%.
- **DAX Index:** Closed at 23,830.99, down 441.20 points or 1.82%.

Wall Street Summary:

- **Dow Jones Industrial Average:** closed at 46,190.61, up 238.37 points or 0.52%.
- **S&P 500:** closed at 6,664.01, up 34.94 points or 0.53%.
- **Nasdaq Composite:** closed at 22,679.97, up 117.43 points or 0.52%.
- **Birling Capital Puerto Rico Stock Index:** closed at 3,815.79, down 193.83 points or 4.83%.
- **Birling Capital U.S. Bank Index:** closed at 8,088.52, down 209.73 points or 2.53%.
- **U.S. Treasury 10-year note:** closed at 4.02%.
- **U.S. Treasury 2-year note:** closed at 3.46%.



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GDPNow

Third Quarter 2025

Date	GDPNow 3Q25	Change
7/31/2025	2.30%	Initial Forecast
8/1/2025	2.10%	-8.70%
8/5/2025	2.50%	19.05%
8/7/2025	2.50%	19.05%
8/15/2025	2.50%	0.00%
8/19/2025	2.30%	-8.00%
8/26/2025	2.20%	-4.35%
8/29/2025	3.50%	59.09%
9/2/2025	3.00%	-14.29%
9/4/2025	3.00%	0.00%
9/10/2025	3.10%	3.33%
9/16/2025	3.40%	9.68%
9/17/2025	3.30%	-2.94%
9/26/2025	3.90%	18.18%
10/1/2025	3.80%	-2.56%
10/7/2025	3.80%	0.00%
10/17/2025	3.90%	2.63%

Historical Government Shutdown Performance