Think Strategically

A patient Fed lifts Wall Street — but cracks in Puerto Rico's own system tells a different story

August 17, 2026

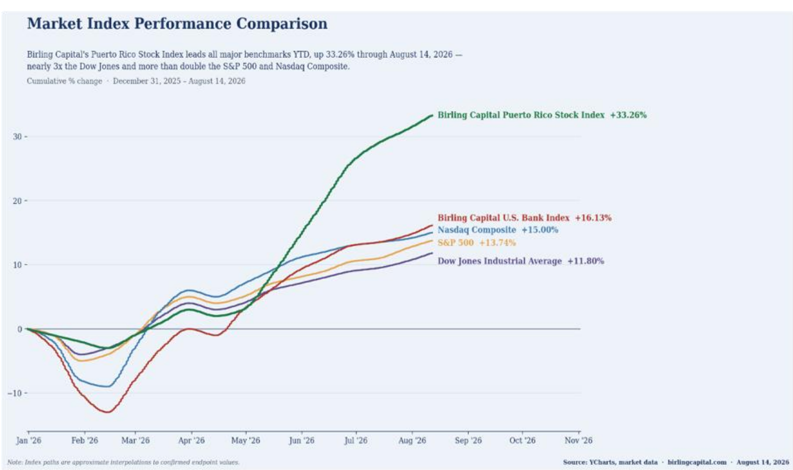
Francisco Rodríguez-Castro, President & CEO

Wall Street Between the US and Puerto Rico Economies

Wall Street Weekly Update	8/14/26	8/7/26	Change	YTD Return
Dow Jones Industrial Average	53,732.41	54,036.93	-0.56%	11.80%
S&P 500	7,785.76	7,757.64	0.36%	13.73%
Nasdaq Composite	26,729.16	26,690.52	0.14%	15.01%
Birling Puerto Rico Stock Index	5,266.04	5,103.49	3.19%	32.81%
Birling U.S. Bank Index	10,611.64	10,471.84	1.34%	15.93%
U.S. Treasury 10-Year	4.68%	4.65%	0.65%	11.69%
U.S. Treasury 2-Year	4.17%	4.19%	-0.48%	20.17%

Markets caught their breath last week after a stretch dominated by economic releases, central bank decisions, and a heavy slate of quarterly earnings. With the calendar noticeably lighter, that calm showed up directly in market behavior: the CBOE Volatility Index — Wall Street's benchmark gauge of expected turbulence — drifted back toward its 2026 lows, even as diplomatic developments in the Middle East continued to generate headlines.

The broad market indexes posted modest gains for the week, with the S&P 500 up 0.36% to close at 7,785.76 and the Nasdaq Composite edging higher by 0.14% to 26,729.16 — both index levels setting the stage for their all-time highs noted above.



The Dow Jones Industrial Average was the lone decliner among the majors, slipping 0.56% to 53,732.41, weighed down by its heavier concentration in industrial and cyclical names that didn't benefit as directly from the inflation-driven rally in growth and small-cap stocks. Year-to-date, all three indexes remain firmly positive, with the Nasdaq leading the pack at 15.01%, followed by the S&P 500 at 13.73% and the Dow at 11.80%.

Puerto Rico's own benchmarks told an even stronger story. The Birling Capital Puerto Rico Stock Index surged 3.19% on the week to 5,266.04, pushing its year-to-date return to 32.81% — nearly three times the Dow's YTD gain, and more than double the return of every mainland index in the table. The Birling Capital U.S. Bank Index also outpaced the broader market, adding 1.34% to close at 10,611.64, bringing its YTD return to 15.93%, ahead of the Dow, S&P 500, and Nasdaq alike. The divergence underscores just how dominant Puerto Rico's bank and fintech names have been this year, even as the island's underlying economy contracts. Treasuries moved in opposite directions across the curve. The 10-year yield rose to 4.68% from 4.65%, a 0.65% increase that nudged prices modestly lower, while the 2-year yield eased to 4.17% from 4.19%, down 0.48%, as short-term rates continued to reflect expectations that the Fed will remain patient rather than resume rate hikes. That modest steepening — long-end yields ticking up while the short end eases — is consistent with a market pricing in cooling inflation without yet fully pricing out the possibility of a rate move later this year. Year-to-date, the total-return story in fixed income remains compelling: the 2-year note has returned 20.17% and the 10-year 11.69%, both reflecting the sharp rally in Treasury prices as yields have fallen from their year-start levels.

Inflation data still managed to steal the spotlight, and for once the surprise favored investors. The softer-than-expected readings gave both the S&P 500 and small-cap benchmarks the room to push to fresh all-time highs.

But zoom out, and two economies are sending two very different signals right now — and both matter to Puerto Rico investors in equal measure. On the mainland, inflation is cooling, the Federal Reserve looks increasingly likely to stay patient, and Wall Street just pushed the S&P 500 and small-cap indexes to new all-time highs. On the island, the real economy just posted its fifth straight month of contraction, and a water and power crisis is taxing households and businesses by the tens of millions of dollars a day. Yet our own stock index is outrunning the Dow by nearly three to one. Understanding both halves of that picture — and where they connect — is the job of this column.

The mainland backdrop: inflation cooling gives the Fed room to wait

Markets got a rare gift last week: a quiet calendar. After a stretch dominated by earnings, a Fed meeting, and a wave of economic data, the news flow thinned out, and the CBOE Volatility Index — Wall Street's fear gauge — drifted back toward its 2026 lows even as diplomatic headlines out of the Middle East continued to move through the news cycle. The real headliner was inflation, and for once it cooperated.

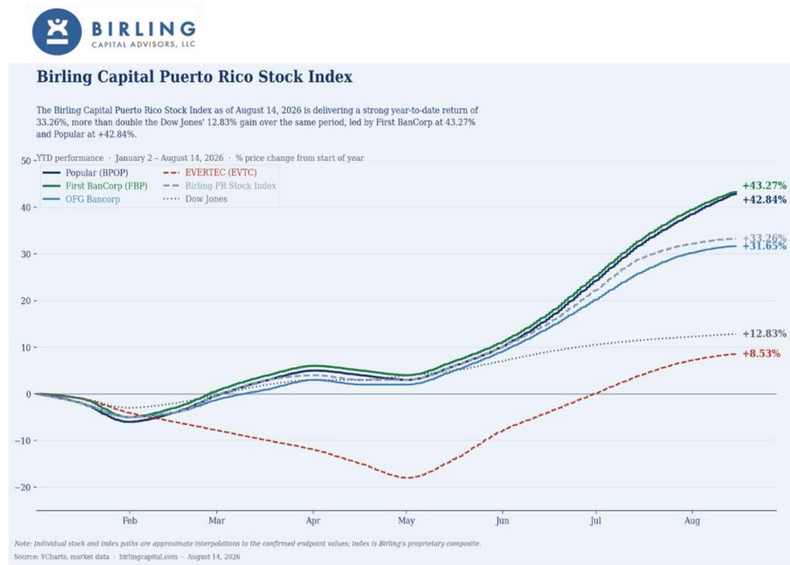
Three separate gauges confirmed the same trend. Headline CPI eased to 3.4% year over year from 3.5%, with core CPI down to 2.5% from 2.6% and services inflation — nearly 60% of the CPI basket — cooling to 3% from 3.2%. Wholesale prices moved in the same direction: headline PPI fell to 4.7% from 5.5%, core PPI to 4.2% from 4.7%. And forward-looking market expectations, priced off 10-year Treasury Inflation-Protected Securities, imply CPI averaging around 2.2% over the next decade — near the low end of its 2026 range, a signal that bond markets do not see today's price pressures as structural.

At its July meeting, nine of the Fed's twelve voting policymakers chose to hold rates steady rather than tighten. With the next meeting not until mid-September, and labor and inflation data both trending in a cooperative direction, futures markets have scaled back rate-hike expectations to just one hike over the next twelve months — a far calmer outlook than earlier in the year. Underneath that patience sits a genuinely solid economy: real GDP grew 2.1% in the first quarter and 1.5% in the second, with the Atlanta Fed's GDPNow model now tracking third-quarter growth closer to 4%, consumer spending still running 4.7%

above year-ago levels, and 2026 S&P 500 earnings growth estimates exceeding 30% for the full year, with every sector expected to post gains.

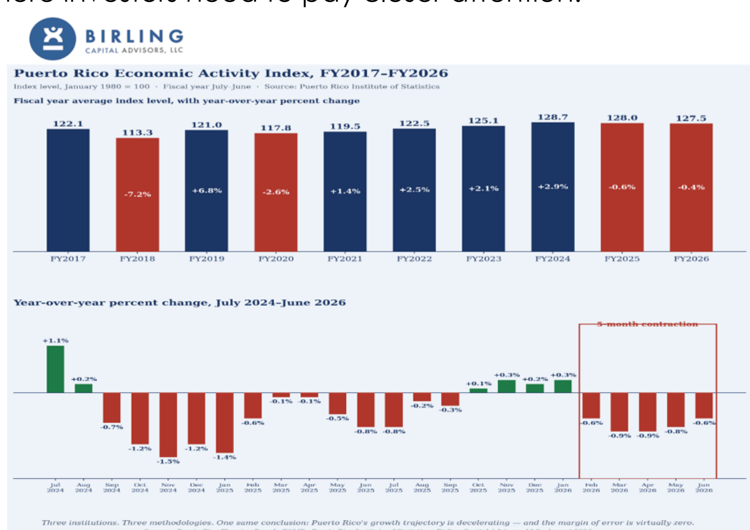
That combination — moderating inflation, a patient Fed, resilient spending, and broad earnings growth — is the backdrop that has historically rewarded investors who stay diversified rather than trying to time a single inflation outcome.

Why that matters directly for Puerto Rico's banks



This is not just a mainland story. The Birling Capital Puerto Rico Stock Index — anchored by Popular (BPOP), First BanCorp (FBP), OFG Bancorp (OFG), and EVERTEC (EVTC) — is up 33.26% year to date through August 14, more than double the Dow Jones' 12.83% gain over the same period, led by First BanCorp at 43.27% and Popular at +42.84%. OFG Bancorp has a strong 31.65% return, and Evertec has an 8.53% YTD return. A meaningful share of that run has been built on net interest margin expansion, funded by a rate environment that stayed higher for longer than most expected. A Fed that holds steady rather than cuts aggressively is, on balance, good news for that trade: it lets Puerto Rico's banks keep earning on elevated loan yields. At the same time, deposit costs remain contained, removing the tail risk of the Fed being forced back into hiking mode on top of an island economy already struggling for its own reasons. That last part is where the two stories connect — and where investors need to pay closer attention.

Puerto Rico's economy is contracting — and only aggressive management can fix it



Three separate institutions, using three separate methodologies, are now converging on the same conclusion about the island's real economy. The Planning Board's real GNP forecast has been revised downward from 1.2% growth to 0.4%, then to 0.3%, over the next two fiscal years. The Fiscal Oversight Board's own projections show FY2025 landing in outright contraction, at -0.8%. And the Puerto Rico Institute of Statistics' Economic Activity Index — our highest-frequency read on the real economy — has confirmed what the other two are only forecasting: Puerto Rico is contracting today, not just decelerating on paper.

The EAI has now posted five consecutive months of year-over-year contraction, from February through June 2026, at -0.6%, -0.9%, -0.9%, -0.8%, and -0.6%, bringing the index down to 127.5 after closing FY2024 at a record 128.7. That contraction followed what our data flagged in real time as a "mirage of recovery" — four months of fractional, sub-1% gains that looked like stabilization before the trend rolled back into negative territory. It is the single most important number in this update, because nearly every other indicator either confirms it or helps explain why it is happening.

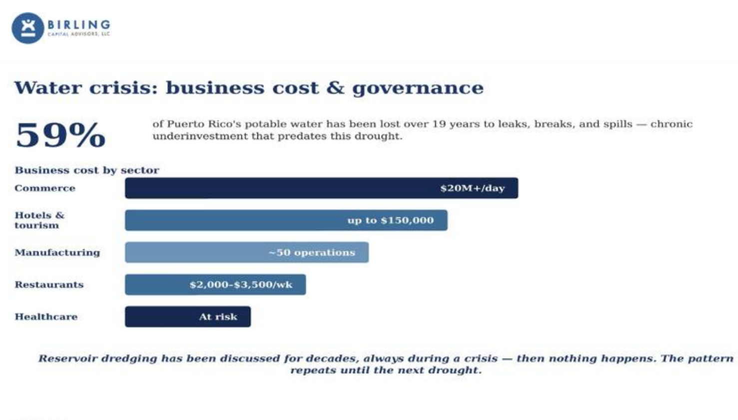
Unemployment jumped to 5.8% in June, its highest reading in the current series after months in a tight 5.4%–5.7% band. Retail sales, which closed 2025 at a nominal record of $52.4 billion, have reversed into a

1.4% year-to-date decline through April, with that month alone down 2.2%. Auto sales closed 2025 down 9.1% and opened 2026 down 21.9% through April, though June broke a thirteen-month losing streak with a 2.46% gain, and GUIA now projects a milder 3% full-year pullback. Not everything is contracting — external trade is running 6–7% ahead of last year, and cement bag sales just posted their strongest fiscal year since the FY2021 post-reconstruction peak — but the consumer and labor-market signals are moving in the wrong direction at the same time the broader index confirms it.

The infrastructure bill is coming due at the same time

The EAI contraction is not happening in a vacuum. It is unfolding alongside a water and power crisis now taxing the same businesses and households the index measures. Roughly 59% of all treated water on the island is lost before reaching a customer — a chronic infrastructure failure nearly two decades in the making, not primarily a drought problem. AAA has placed more than 180,000 customers on rotating 48-hour rationing since August 7, and small and medium businesses alone are absorbing an estimated $20 million a day in added cost, with some hotels reporting spending up to $150,000 to secure water during the crisis. The 2019 ASCE assessment that gave the island's drinking-water infrastructure a D grade put the cost of repairs at $3.9 billion.
On power, the System Average Interruption Duration Index has climbed to 1,706 minutes as of July, up 20.65% from January 2025 and roughly 1,321.7% above the mainland U.S. average — deteriorating despite continued capital deployment, with 90 megawatts of new generation online and another 700 megawatts targeted by year-end, alongside roughly 385 megawatts of battery storage in the pipeline. The build-out is real. The reliability improvement has not arrived yet.

The Final Word: The strategic takeaway



A patient Fed is a genuine tailwind for Puerto Rico's bank stocks, and the mainland's cooling inflation and steady growth backdrop gives investors real reason to be constructive through year-end. But that tailwind is doing its work atop an island economy that is contracting for reasons no Fed decision can fix — a five-month EAI decline, a softening labor market, and an infrastructure crisis with a multibillion-dollar repair bill still unpaid after nearly two decades of underinvestment.
Here is the number that should keep policymakers up at night: Puerto Rico's bank stocks are up 33.26% this year, more than double the Dow's 12.83%. That gap is not a sign of a healthy economy — it is a sign of financial strength and robust management carrying the load while the underlying physical infrastructure deteriorates. Banks can post record margins in a system where the water shuts off every other day, and the lights flicker 1,706 minutes a year. None of that shows up on a balance sheet until it does. In deposit flight, in population loss, in the next credit downgrade nobody saw coming because everyone was busy watching the stock ticker instead of the SAIDI chart.

Elected officials do not inherit problems. They are supposed to know about them beforehand — that is precisely why they seek election, to correct those problems. Blaming predecessors is an easy, mediocre way out. Puerto Rico's banks are strong today because of their own balance sheets and management, not because the island's infrastructure is sound. Investors should credit the banks for that performance — and stay clear-eyed that it is not a proxy for the health of the economy in which they operate.

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