



As the Consumer Price Index Declines, Stocks Surge, Leading to a Boon for Markets and Economic Stability

May 20, 2024

Francisco Rodríguez-Castro, President & CEO

With Inflation declining and equities rising, the question is, Can both trends continue?

The April Consumer Price Index (CPI) report fell more than estimates to 3.36% year-over-year, down from 3.48% and below the Inflation Nowcasting, which had the CPI at 3.50%. The report showed a 3.44% decrease from forecasts, alleviating concerns about any impending inflation surge. Although the inflation rate remains uncomfortably high, the latest figures indicate a gradual easing of consumer price pressures.

The stock market's resounding response to the CPI, sending shares rallying and retreating interest rates, has injected optimism. This reaction supports the possibility of Federal Reserve rate cuts later this year and robust corporate earnings, painting a promising picture for the current and future U.S. economy.

Last week, the stock market hit a record high, signaling the potential for the bull market to persist. Despite expecting further volatility, equities have better zeniths than this, as other issues will bring added volatility. The ongoing economic growth, increasing profits, and a less restrictive Federal Reserve create a favorable environment, instilling a sense of hope for the future.

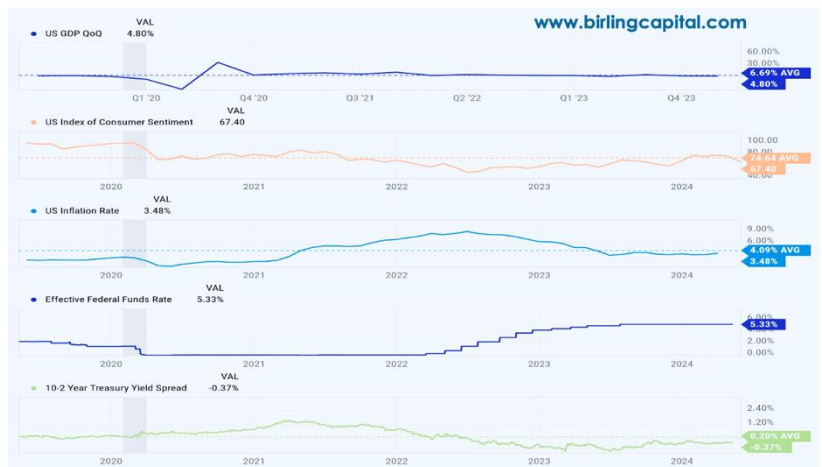
Peaks are multifaceted, representing both ascents and descents and contrasting conditions. For instance, a player from your favorite team peaking during the playoffs is positive, while your blood pressure peaking as your team misses the playoffs is negative. Similarly, the correlation between Inflation and the stock market is complex. Inflation can lead to higher interest rates, reducing corporate profits and stock prices. However, moderate Inflation can also indicate a healthy economy, boosting investor confidence and increasing stock prices.

With Inflation declining and equities rising, the question is, **Can both trends continue?**

As you know, the Dow Jones hit a new high last week, briefly surpassing 40,000, buoyed by a better-than-expected inflation report.



The Economic Cycle: US GDP, US Consumer Sentiment, US Inflation Rate, Federal Funds & 10-2 Year Treasury Yield



As the Consumer Price Index Declines, Stocks Surge, Leading to a Boon for Markets and Economic Stability

The Inflation reports the market was waiting for The peak: Inflation reached its zenith in 2022, with the headline CPI peaking at 9.06% in June 2022 in the summer due to skyrocketing food and energy prices. The core CPI peaked at 6.62% in September 2022 as supply chains started to recover, input prices began to moderate, and the restrictive Fed policy started to take effect. While consumer prices were hitting 40-year highs due to the pandemic's impact, the surge in core inflation was primarily driven by price increases in used cars, leisure and hospitality services, and shelter, including home prices and rents. Inflation has significantly decreased from its peak, but it remains at 3.36% or 40.47% above the Fed's 2% inflation target rate.

The April CPI significantly eased fears of reigniting inflation pressures, keeping the possibility of a Fed rate cut on the table, likely much later in the year.

We're monitoring a few key trends: First, we need more assistance with shelter prices. Current data on rents suggest we'll get that help in the coming months, but it will likely be slower than desired. Also, the disinflation from improving supply chains has largely been realized. Persistent consumer price measures have stabilized, and while goods prices are still falling, they're likely to provide less assistance moving forward.

However, potential risks, such as a drastic rise in energy prices, could affect these trends. A slight slowdown in overall economic growth and consumer demand can be beneficial, as it should allow consumer prices, particularly in the more enduring services segments, to moderate further.

The new bull market that began in October 2022 has had its share of setbacks, mainly due to discomfort around the Fed maintaining high rates for longer. Nonetheless, the Dow Jones has returned 37.27%, the S&P 500 45.62%, and the overall leader, the Nasdaq with 54.96%.

The Path Ahead for the Rest of 2024

There's little doubt in our minds that the stock and bond markets will continue to be influenced by expectations for upcoming Fed policy moves. This should be a pillar of broader support, given our expectation that the next move from the Fed will be a cut. In this regard, the April CPI report was the key to maintaining hope that the Fed could act at some point this year. However, we suspect that upcoming inflation readings won't consistently exceed expectations, which likely introduces some volatility as the market speculates over the exact timing of a potential cut.

Corporate profits will reach a new high this year. Aided by ongoing economic growth and less punitive interest rates, we believe earnings growth—currently expected to rise by double digits in 2024—will set the pace for equities. However, there are potential risks that could affect these trends.

Birling Puerto Rico Stock Index Highlights YTD 2024

1. **Birling Puerto Rico Stock Index** has a YTD return of **4.25%**.

- Began the year at 3,343.32 points and closed at 3,485.40 points, rising 142.08 YTD.
- Total Market Capitalization \$13.678 billion.
- The four companies within the index reported 1Q24 earnings that either met or surpassed consensus estimates with robust revenues, net incomes, and strong capital ratios.
- 1 Year Return 45.77%.
- 3 Year Return 31.60%.
- 5 Year Return 90.98%.
- 10 Year Return 235.5%.

As the Consumer Price Index Declines, Stocks Surge, Leading to a Boon for Markets and Economic Stability

2. Popular Inc (BPOP) has a YTD return of **10.75%**.

- EPS estimate for 2Q24 of \$2.104.
- Price objective of \$104.33.
- The Stock closed at \$90.90, rising by \$8.83.
- Market Capitalization of \$6.569 billion.

3. First BanCorp (FBP) has a YTD return of **8.60%**.

- EPS estimate for 2Q24 of \$0.3975.
- Price objective of \$20.20.
- The Stock Closed at \$17.24, increasing by \$0.79.
- Market Capitalization: \$2.973 billion.

4. OFG Bancorp (OFG) has a YTD return of **-0.61%**.

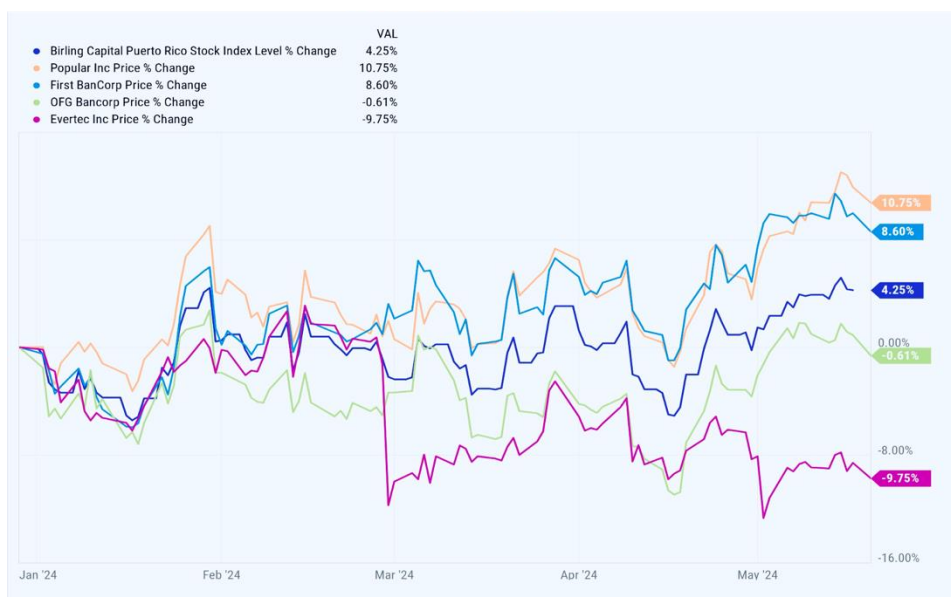
- EPS Estimate for 2Q24 of \$0.96.
- Price objective of \$43.00.
- The Stock Closed at \$37.25, decreasing (\$0.23).
- Market Capitalization: \$1.756 billion.

5. Evertec, Inc. (EVTC) has a YTD return of **-9.75%**.

- EPS Estimate for 2Q24: \$0.7065.
- Price Objective: \$41.40.
- The Stock Closed at \$36.95, decreasing (\$3.99).
- Total Market Capitalization: \$2.380 billion.



Birling PR Stock Index, Popular, Firstbank, Oriental & Evertec Returns YTD 5.20.2022



In conclusion, the Birling Puerto Rico Stock Index has shown a promising start to 2024, with a YTD return of 4.25%. The index has risen by 142.08 points to close at 3,485.40 points. This performance is underpinned by robust revenues, net incomes, and strong capital ratios reported by the four companies within the index for the first quarter of 2024.

Given the index's strong performance in the first quarter and optimistic EPS estimates for the second quarter, the outlook for the remainder of the year appears positive. However, investors should remain aware of the inherent risks associated with stock market investments, as reflected by the index's 5-year annualized standard deviation of monthly returns at 31.19%.

As the Consumer Price Index Declines, Stocks Surge, Leading to a Boon for Markets and Economic Stability

The Birling Puerto Rico Stock Index and its constituents have demonstrated resilience and growth potential in the first quarter of 2024. With careful monitoring and strategic investment decisions, investors can look forward to potentially profitable opportunities in the Puerto Rican stock market.



Francisco Rodriguez-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.

As the Consumer Price Index Declines, Stocks Surge, Leading to a Boon for Markets and Economic Stability