Puerto Rico Banks Beating Expectations, the Markets, and Political Rotations and its Significance to Investors

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The Birling Capital Puerto Rico Stock Index has a return of 18.36% year to date in 2024.

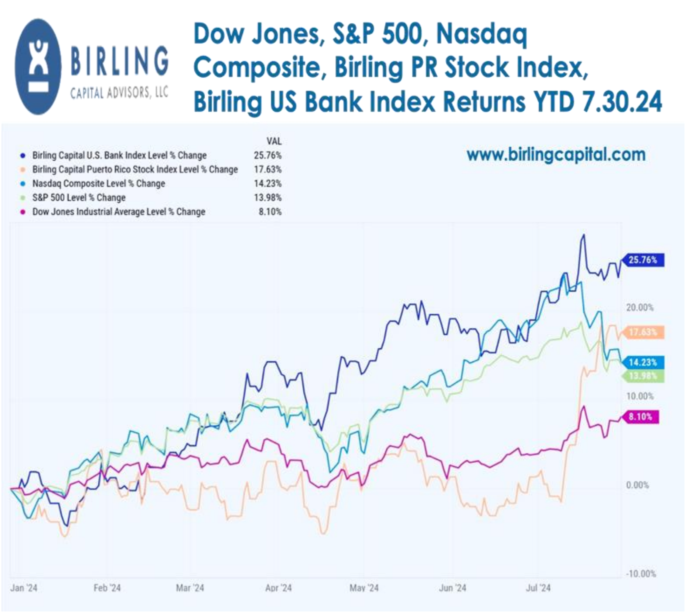
The Puerto Rico Banking Sector remains solid, producing great returns with stable revenues and net income. Banco Popular, FirstBank, and Oriental Bank have solid, stable capital positions and twice the required tier 1 capital, as does Evertec, Inc., a software infrastructure company and not a bank but a constituent of the Birling Capital Puerto Rico Stock Index.

We review each bank in that light, analyzing their performance from 1/1/24 to 7/30/24. The Birling Capital Puerto Rico Stock Index has a return of 18.36%, beating the Dow Jones, S&P 500, and the Nasdaq Composite and only lagging behind the Birling U.S. Bank Index.

Comparing the Five Indices we follow and their YTD Returns:

- **Dow Jones** has a YTD Return of **8.10%.**
- **S&P 500** has a YTD Return of **13.98%.**
- **Nasdaq Composite** has a YTD Return of **14.23%.**
- **Birling U.S. Bank Index** has a YTD Return of **25.76%.**
- **Birling P.R. Stock Index** has a YTD Return of **17.63%.**

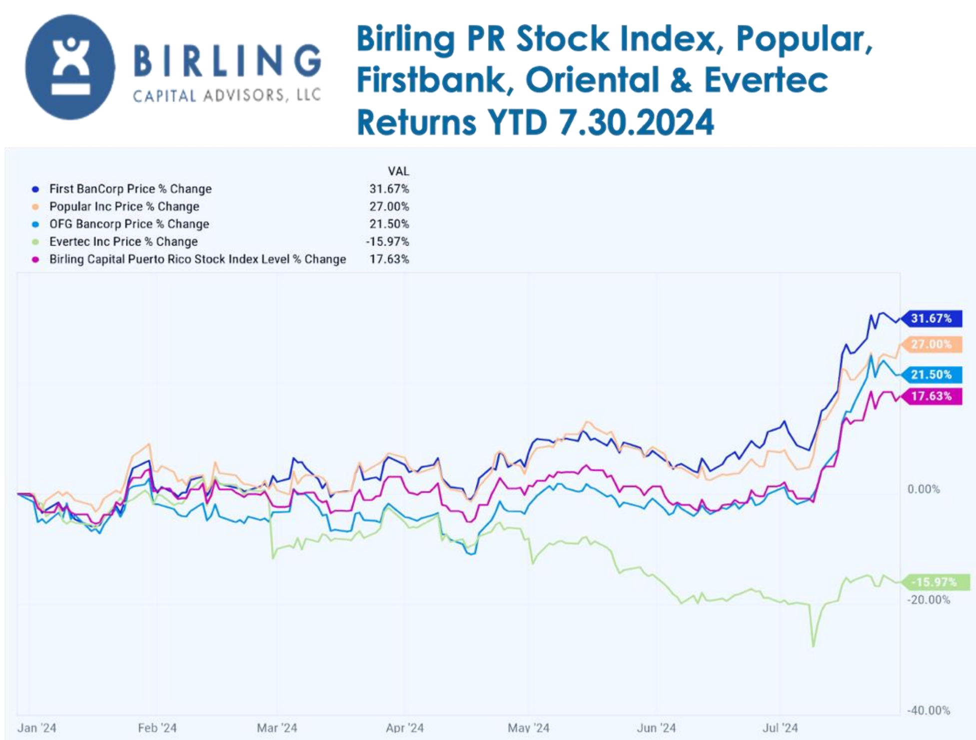
The Birling Puerto Rico Stock Index at 17.63% is beating the Dow Jones by 117.65%, the S&P 500 by 26.10%, the Nasdaq Composite by 23.89%, and lags the Birling U.S. Bank Index by -46.11%.



Now let's take a look at each of the Puerto Rico Public company's Second-Quarter Earnings, EPS, Price Objective, YTD Returns, and Market Capitalization:

1. **Firstbank Corp.(FBP):** It reported 2Q24 revenues of $231.7 million, down 1.86%, net income of $75.838 million, up 7.23%, and earnings per share of $0.46, beating expectations. The Stock has a price objective of $23.00 and closed on 7.30.24 at $21.66. Additionally, it achieved a **total return of 31.67%**, beating the Dow Jones, S&P, Nasdaq, Birling PR Stock Index, and Birling U.S. Bank Index. FirstBank has a Total Market Capitalization of $3.577 billion.
2. **Popular, Inc. (BPOP):** It reported 2Q24 revenues of $734.6 million, up 7.69%, net income of $177.8 million, up 72.12%, and earnings per share of $2.46, beating expectations. The Stock has a price objective of $111.00 and closed on 7.30.24 at $104.27. Additionally, it achieved a **total return of 27.00%**, Beating the Dow Jones, S&P, Nasdaq, and Birling PR Stock Index and only lagging the Birling U.S. Bank Index. Popular has a Total Market Capitalization of $7.435 billion.
3. **OFG Bancorp. (OFG):** It reported 2Q24 revenues of $171.410 million, increasing 5.22%, net income of $51.131 million, rising 15.75%, and earnings per share of $1.08, beating expectations. The Stock has a price objective of $49.00 and closed on 7.30.24 at $45.54. Additionally, it achieved a **total return of 21.80%**, Beating the Dow Jones, S&P, Nasdaq, and Birling PR Stock Index and only lagging the Birling U.S. Bank Index. Oriental has a Total Market Capitalization of $2.165 billion.
4. **Evertec, Inc. (EVTC):** It is due to report its 2Q 24 revenues on July 31 and has an EPS estimate of $0.693 with a Stock Price Objective of $40.40. It closed on 7.30.24 at $34.40. It achieved a **total return of -15.17%**, lagging the Dow Jones, S&P, Nasdaq, Birling PR Stock Index, and the Birling U.S. Bank Index. Evertec has a Total Market Capitalization of $2.249 billion.

Lastly, the four Puerto Rican public companies have a **combined market capitalization of $15.426 billion**, and the three Puerto Rican banks have reported their second-quarter earnings, which have **combined revenues of $1.137.71 billion** and **net income of $304.769 million**.



Stock Market Shifts: Can the Rotation Last?

US Gross Domestic Product & GDPNow Third Quarter Forecast Compared to the PCE and Core PCE

Date	2Q24 GDP Actual	GDPNow 3Q24
7/25/24	2.80%	2.80%
Date	PCE	Core PCE
7/26/24	2.51%	2.63%

Before considering our topic for this week, the Market and Political Rotations and their significance, we must discuss two vital economic developments. On one hand, the U.S. economy exhibited robust growth in the second quarter, expanding by 2.8% and surpassing the GDPNow estimate of 2.70%. The growth was driven by increased household consumption and a notable rise in investment spending, particularly equipment. Meanwhile, the Federal Reserve's preferred inflation gauges provided mixed signals. The Core PCE price index, which excludes food and energy prices, rose by 2.63% annually through June, exceeding the 2.39% Inflation Nowcasting estimate but remaining unchanged from the previous month. Conversely, the headline PCE fell to 2.51% year-over-year, ahead of the 2.40% estimate but down from 2.60% in the last month.

The equity markets continue to experience a significant rotation, with small-cap stocks and value-oriented sectors outperforming the mega-cap technology and growth sectors that led the market for the past 18 months.

Several factors have driven this change. Firstly, inflation has moderated more than expected, with the consumer price index (CPI) showing a second consecutive month of cooling, bringing headline inflation down to 3.0% year-over-year. This trend suggests a continued decrease in inflation, aided by lower shelter and rent prices and softer wage gains. Market expectations for Federal Reserve rate cuts have strengthened, with the CME FedWatch tool predicting three cuts by year-end, likely supporting the shift in market leadership.

Secondly, the current earnings season shows a broadening of growth. With 41% of S&P 500 companies having reported, earnings are up 9.7% year-over-year, exceeding the 9% growth expected at the end of Q1. Unlike the tech and growth sectors, financials, energy, and healthcare drive these positive surprises.

Looking ahead to Q4, earnings growth is expected to exceed 16%, with value and cyclical sectors contributing more than the A.I. and tech sectors, further supporting the rotation.

Lastly, valuation differentials have prompted investors to seek opportunities beyond the overvalued tech sector. At the start of July, the Nasdaq's forward P/E ratio was 35, compared to 16.5 for the S&P 500 equal-weight index. As investors look for undervalued opportunities with room for growth, this valuation rotation supports broader market participation.

Despite the rotation, the U.S. economy is not in an early expansion stage, typically favoring small-caps and cyclicals. Economic growth is expected to soften over the next few quarters, but the initial GDPNow for the Third Quarter of 2024, reported on July 26, opened at 2.80% GDP. With inflation cooling and potential rate cuts ahead, markets may anticipate a rebound in consumption and growth. If economic growth remains positive as the GDPNow suggests, the "soft landing" narrative holds, supporting the broadening of market leadership.

With their strong earnings and balance sheets, large-cap tech companies could still attract investors, leading to proper diversification in market leadership. This underscores the importance of portfolio diversification going forward.

Political Rotations: Lots of Noise, Limited Implications for Portfolios

In a historic move, President Biden recently withdrew from the presidential race, endorsing Vice President Kamala Harris. This political shift has narrowed the race between Harris and former President Trump, as shown by betting odds and early polling.

The Latest NY Times/Siena College Polls have the following results:

- **President Donald Trump**, Republican **48%**
- **Vice President Kamala Harris**, Democrat **46%**
- Undecided **6%**

Another widely used tool is the PredictI.org, which had **President Trump at 60%** on July 22 versus **Vice President Harris at 40%.** By July 26, the gap had narrowed to **President Trump at 53%** and **Vice President Harris at 50%**. The Democratic National Convention and selecting Harris's running mate will be critical events influencing the race.

While these political changes have not altered the macroeconomic landscape, they have introduced new uncertainties with lots of noise, which could lead to increased market volatility. Historically, market volatility rises before elections and subsides afterward, regardless of the election outcome, as markets adjust to new realities.

Four Presidents and Their Results Measured with the S&P 500 Returns

Comparing the Presidents since President Bush to President Biden, it's clear that economic matters influence markets more than politics. Only one of the four examples reported a negative S&P 500 during his term.

George W. Bush 2001-2009

- S&P 500 Performance: -39.0%
- Key Events: 9/11 attacks, Iraq War, Financial crisis 2008.

Barack Obama 2009-2017

- S&P 500 Performance: +182.9%
- Key Events: Recovery from the Great Recession, Affordable Care Act, End of Iraq War.

Donald Trump 2017-2021

- S&P 500 Performance: +67.8%
- Key Events: Tax cuts, Deregulation, Trade wars, COVID-19 pandemic.

Joe Biden 2021-Present

- S&P 500 Performance: 41.73% Data as of July 26, 2024
- Key Events: COVID-19 recovery, Infrastructure bill, Inflation concerns, Russia-Ukraine conflict.

While political uncertainty can cause short-term market volatility, it's important to remember that market fundamentals such as economic growth, interest rates, and corporate earnings are the primary drivers of long-term performance.

The Final Word: Stock Rotations Happen As Market Fundamentals Remain Strong

Despite recent market and political volatility, economic fundamentals remain strong. Second-quarter GDP growth exceeded expectations, driven by healthy consumption. While economic growth is expected to cool, it should remain positive. This environment of easing inflation and potential Fed rate cuts supports equity markets.

Investors should use upcoming volatility to diversify, rebalance, and invest in quality assets at attractive prices. We continue to favor large-cap and mid-cap U.S. equities, with sectors like industrials and utilities playing a more significant role in market leadership. Investors should also be cautious about overexposure to cash-like instruments, as lower interest rates are anticipated. The coming months offer opportunities to strategically allocate investments in equities and bonds, aligning with individual risk and reward preferences, always maitaining a well diversified portfolio that helps achieve your long-term financial goals.

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