



Puerto Rico Banks Facing Strong Headwinds Even with Solid 3Q24 Performance

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Puerto Rico Economic Update

The Economic Development Bank-Economic Activity Index reached 126.9 points, reflecting a -0.8% contraction compared to last year. The EAI measures Non-Farm Payrolls, Electricity Generation, Gasoline Consumption, and Sales of Bags of Cement. The EIC entered into a contraction in March 2024 and remains in negative territory for six consecutive months:

- March 2024: -0.20%
- April 2024: -1.40%
- May 2024: -1.00%
- June 2024: -0.60%
- July 2024: -0.30%
- August 2024: -0.80%

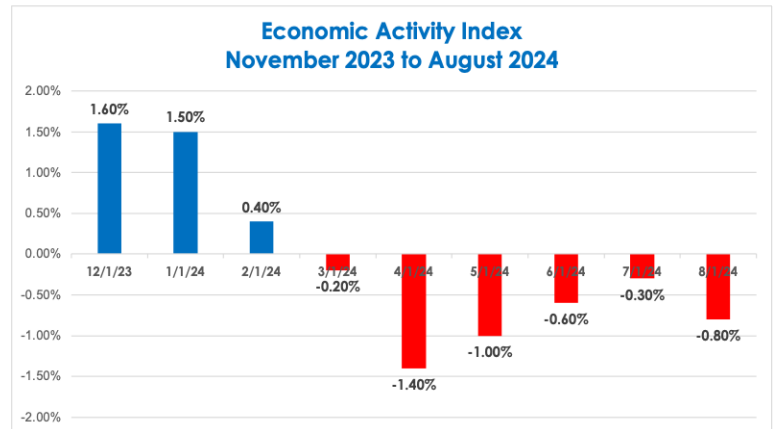
The P.R. Department of Labor and Human Resources released the unemployment rate for August U.S., falling to 5.7%, from 5.80% and the lowest in 50 years. Also, the labor participation rate remains at 43.90%, up from 43.80%.

The Stock Market Update: The Road Ahead

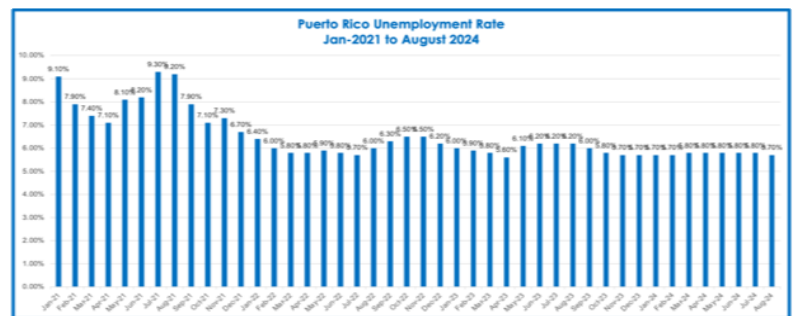
The stock market's six-week rally has been interrupted and faces substantial roadblocks, as seen last week, with rising bond yields catching investors' attention. Just over a month after the Federal Reserve initiated a new easing cycle, cutting its policy rate by a larger-than-usual 0.5 percentage points, the 2- and 10-year Treasury



The PR Economic Activity Index has been falling for 9 months and in contraction for 6 Months



Puerto Rico Unemployment Rate at 5.70% in August 2024



yields have climbed, challenging the prevailing market narrative. The question is whether this yield rally could threaten the stock market's momentum.

To determine the course of action, examining the key factors driving the recent rise in bond yields and assessing the likelihood of further increases are crucial.

What's Driving the Rise in Yields?

1. **Stronger-than-expected economic data:** Recent economic surprises have aligned with the yield uptick. September's job gains were the strongest in six months, with unemployment falling, alleviating concerns about the labor market. Solid retail sales growth has pushed the Atlanta Fed's GDPNow for the Third Quarter of 2024, updated on October 25, 2024, to 3.30% GDP, decreasing 2.94% from 3.40%, indicating two consecutive quarters of above-average growth.
2. **Shifting Fed expectations:** inflation has slightly exceeded expectations, prompting markets to price in a more gradual and limited rate-cutting cycle than initially expected. As a result, bond markets have adjusted future rate expectations. An additional large rate cut is now unlikely, and the odds of a November quarter-point rate cut have dropped from 100% to 90%.
3. **Sustained rise in productivity:** The U.S. economy continues to defy expectations of a slowdown, which is a notable rise in productivity. Innovations like A.I. and new technologies boost productivity growth.
4. **Fiscal concerns and the upcoming election:** The U.S. presidential election is approaching, raising budgetary worries. Campaign proposals from both candidates suggest increased debt levels. The Committee for a Responsible Federal Budget estimates that Vice President Harris's plan could add \$3.5 trillion to the debt by 2035, while former President Trump's plan could increase it by \$7.5 trillion.

Additionally, the election is tight, and as Trump's odds rise in betting markets, investors are considering the potential impact of further trade tariffs.

Puerto Rico Banking Sector Third Quarter 2024 Earnings

- **Dow Jones** has a YTD Return of **11.74%**.
- **S&P 500** has a YTD Return of **21.77%**.
- **Nasdaq Composite** has a YTD Return of **23.36%**.
- **Birling U.S. Bank Index** has a YTD Return of **31.01%**.
- **Birling P.R. Stock Index** has a YTD Return of **3.48%**.

The Three Amigos Quarterly Update

The Birling Puerto Rico Stock Index at 3.48% is lagging all indexes and has fallen from its high of 18.37% on July 26, 2024, a decrease of 81.05% Quarter over Quarter, indicating significant underperformance compared to both U.S. and global market indices. This sharp decline reflects the challenges faced by Puerto Rican companies, particularly in the financial and payment processing sectors, as seen in the third-quarter results of key stocks like **Popular, Inc. (BPOP)**, **First BanCorp (FBP)**, **OFG Bancorp (OFG)**,



Dow Jones, S&P 500, Nasdaq Composite, Birling PR Stock Index & Birling US Bank Index YTD Returns 10.25.24



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and **Evertec, Inc. (EVTC)**. Factors contributing to this drop may include macroeconomic pressures, rising interest rates, and specific market dynamics affecting Puerto Rico's economic recovery. In contrast, the broader U.S. indices, driven by technology and large-cap growth sectors, have sustained stronger momentum throughout the year, leaving the Birling Puerto Rico Stock Index far behind in year-to-date performance. Now, let's delve deeper into the earnings results from the three amigos. Our job here is to evaluate all the fundamentals to determine the path ahead.

1. **Popular, Inc. (BPOP)** reported 3Q24 revenues of \$685,087 million, up 5.61%, net income of \$155.323 million, up 12.05%, and earnings per share of \$2.16, missing estimates. Popular has a stock price objective of \$104.00 and closed on October 25 at \$88.46, down to \$0.51. The Stock opened the year at \$82.07 and rose as high as \$102.63 on July 31.
 - **Market Capitalization:** Fell to \$6.350 billion, down from \$7.546 billion or \$1.196 billion or 15.84%.
 - **Year-to-Date Returns:** fell to 7.79%, down 25.23% on July 31, 2024, decreasing 69.125 QoQ.
 - **Total Assets:** Fell to \$71.323 billion, down 2.08% QoQ.
 - **Total Deposits:** \$63.668 billion, down \$1.8 billion QoQ.
 - **Loan Volume:** \$603 million, up 1.7% QoQ.
 - **Loan Loss Reserves:** \$71.448 million, up 52.69% or \$24,654 million, QoQ.
 - **Tier 1 Capital Ratio:** 16.42%.

2. **First BanCorp (FBP)** reported 3Q24 revenues of \$219,300 million, down 2.8%, net income of \$73.7 million, down 10%, and earnings per share of \$0.45, beating expectations. FirstBank has a stock price objective of \$22.83, which closed at \$18.88, down \$0.44. The Stock opened the year at \$17.54 and rose as high as \$21.83 on July 31.
 - **Market Capitalization:** Fell to \$3.094 billion, down from \$3.549 billion or \$455 million or 12.82%.
 - **Year-to-Date Returns:** fell to 14.77%, down 32.71% on July 31, 2024, decreasing 54.84% QoQ.
 - **Total Assets:** Fell to \$18.859 billion, down 0.11% QoQ.
 - **Total Deposits:** Fell to \$12.7 billion, down \$36.81 million QoQ.
 - **Loan Volume:** rose by \$62.8 million to \$12.5 billion.
 - **Loan Loss Reserves:** \$15.245 million, up 34.85% or \$3,640 million.
 - **Tier 1 Capital Ratio:** 16.20%.

3. **OFG Bancorp (OFG):** reported 3Q24 revenues of \$174,146 million, up 1.35%, net income of \$47,000 million, up 4.74%, and earnings per share of \$1.00. Oriental has a stock price objective of \$48.50, closing at \$38.07, down \$0.84. The Stock opened the year at \$36.81 and rose as high as \$45.50 on July 31.
 - **Market Capitalization:** Fell to \$1.814 Billion, down QoQ from \$2.118 billion or \$304 million or 14.35%.
 - **Year-to-Date Returns:** fell to 3.98%, down 24.07% on July 31, 2024, decreasing 84.46% QoQ.
 - **Total Assets:** Fell to \$11,259 billion, up 12.19% QoQ.
 - **Total Deposits:** rose to \$9.600 billion, up \$1.014 billion QoQ.
 - **Loan Volume:** \$572 million, down 8.781 million QoQ.
 - **Loan Loss Reserves:** \$161.500 million, up 2.45% or \$3,971 million.
 - **Tier 1 Capital Ratio:** 14.37%.

4. **Evertec, Inc. (EVTC):** It is due to report its 3Q 24 revenues on November 6 and has an EPS estimate of \$0.728 with a Stock Price Objective of \$37.40. It closed on October 25 at \$32.66. It achieved a total return of -20.22%, 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 \$2.090 billion, down from its year-high of \$2.763 billion on February 15, 2024.

Lastly, the four Puerto Rican public companies have a **combined market capitalization of \$13,348 billion down** from \$15.426 billion in 2Q24 or 13.34% less, and the three Puerto Rican banks have reported their third-quarter earnings, with **combined revenues of \$1,078,533 billion** down from \$1.137.71 billion in 2Q24 or 5.18% less and **net income of \$276,023 million** down from \$304.769 million or 9.43%.



The Final Word: U.S. Presidential Elections Update

With less than two weeks to go until the U.S. presidential election and millions of Americans having already voted, the latest New York Times/Siena College national poll shows a challenging outlook for Kamala Harris. In this poll, Harris and Donald Trump are tied in the popular vote at 48% each.

In recent elections, Democrats have gained an advantage in the popular vote, although this does not always translate into victory in the Electoral College.

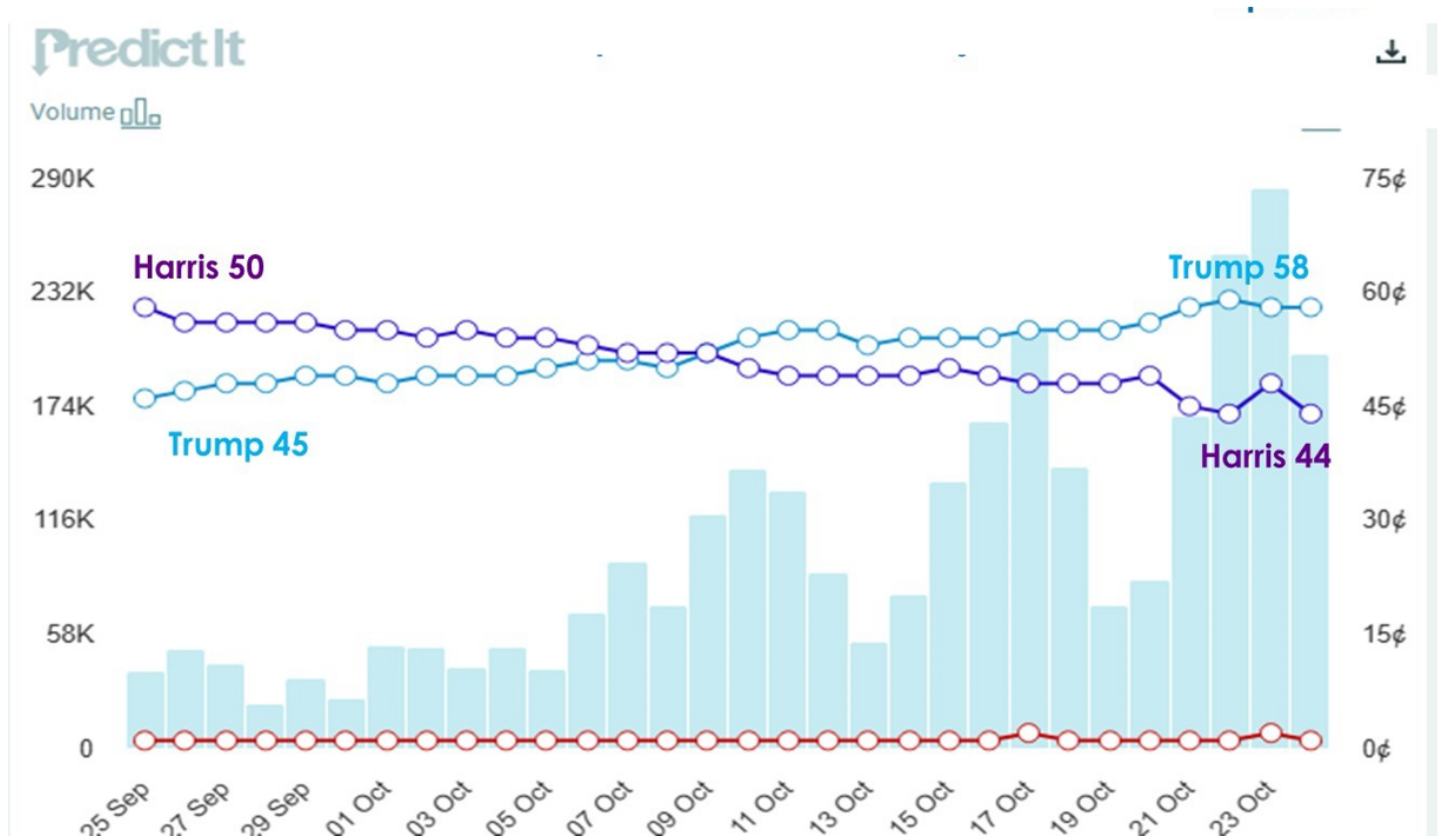
Another tool we use is Predict It, an online prediction marketplace where participants can buy and sell shares on the outcomes of political events, such as the U.S. presidential election.

Founded in 2014 and managed by the Victoria University of Wellington in New Zealand, Predict It was created to analyze how markets behave in the face of political events, using public participation to anticipate election outcomes and other political trends.

The Predict It system predicts Presidential Elections and shows the trends from 9.25.24 to 10.23.24. Ex-President Trump increased from 45 to 58, about 13 points more, while Kamala Harris decreased from 50 to 44.



The Predict it system predicts Presidential Elections in this graph shows the trends from 9.25.24 to 10.23.24



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