



The Federal Reserve Released the Results of the Stress Test—How Did Puerto Rico's Banks Fare?

June 29, 2026

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The Week on Wall Street Ending June 26, 2026

Wall Street finished the week mixed as technology stocks underwent a significant correction. The Dow Jones Industrial Average advanced **0.60%**, demonstrating continued strength in industrials, financials, and defensive sectors. However, the technology-led sell-off pushed the S&P 500 down **1.95%**, while the Nasdaq Composite declined **4.60%**, marking its weakest weekly performance in more than a year as investors locked in profits following an exceptional AI-driven rally.

Puerto Rico's **Birling Capital Puerto Rico Stock Index (PRSI)** rose **4.88%** during the week, reflecting continued resilience in financial shares despite increased market volatility, while the **Birling Capital U.S. Bank Index** fell

-1.11%. Year-to-date, the **Dow Jones** is up **7.93%**, the **S&P 500** has gained **7.43%**, and the **Nasdaq** is ahead **8.84%**. The Birling Puerto Rico Stock Index **BPRSI** continues to outperform the major U.S. indexes with a **19.71%** year-to-date gain. The island's strongest performers remain **Popular, Inc. (BPOP)**, up **+33.14%**; **First BanCorp (FBP)**, up **+27.16%**; and **OFG Bancorp (OFG)**, up **+19.38%**, while **EVERTEC (EVTC)** continues to lag, is down **5.91%** for the year.

The **Birling Capital U.S. Bank Index** remains up **10.14%** year-to-date. Performance continues to favor capital-markets-oriented institutions, led by **Citigroup** with a return of **21.48%**, followed by **Morgan Stanley** with **19.43%**, and **Goldman Sachs** with **16.00%**. The rest of the peer group has **JPMorgan Chase** at **2.12%**, **Bank of America** at **-5.24%**, and **Wells Fargo** with **-10.02%**. The divergence reflects investors' continued preference for firms benefiting from trading, wealth management, and investment banking over those that rely primarily on traditional lending in a still-elevated interest-rate environment. Puerto Rico's banking sector continues to outperform the broader U.S. banking sector, although the performance gap has narrowed as U.S. financial stocks have strengthened in recent weeks. Treasury yields declined modestly during the week as easing inflation concerns and softer energy prices supported the bond market.



The Week on Wall Street

June 19 vs June 26, 2026

Index	Jun 19 Close	Jun 26 Close	Wk Change (pts)	Wk Change (%)	YTD Return
Dow Jones (DJIA)	51,565.69	51,876.11	▲ +310.42	▲ +0.60%	▲ +7.99%
S&P 500	7,500.64	7,354.02	▼ -146.62	▼ -1.96%	▲ +7.43%
Nasdaq Composite	26,517.93	25,297.61	▼ -1,220.32	▼ -4.60%	▲ +8.80%
Birling PR Stock Index	4,525.92	4,746.55	▲ +220.63	▲ +4.87%	▲ +19.72%
Birling US Bank Index	10,194.69	10,081.72	▼ -112.97	▼ -1.11%	▲ +10.12%
U.S. Treasury Yields					
Maturity	Jun 19 Close	Jun 26 Close	Wk Change (bps)	YTD Return	
10-Year Note	4.46%	4.38%	▼ -8 bps	▲ +6.44%	
2-Year Note	4.19%	4.07%	▼ -12 bps	▲ +20.74%	

Source: Birling Capital Advisors, LLC | *Charts | Federal Reserve

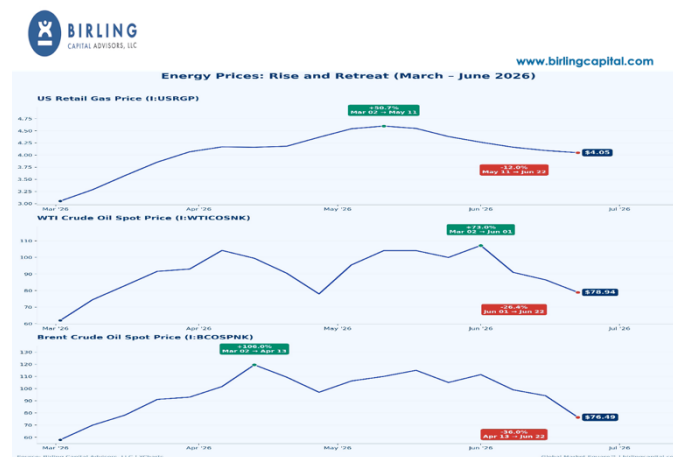
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The **10-year U.S. Treasury yield** finished the week at **4.38%**, while the **2-year Treasury yield** ended at **4.07%**, reinforcing expectations that the Federal Reserve will likely remain on hold over the coming months while continuing to monitor inflation and labor market data. The flatter yield curve continues to reflect expectations for slower—but still positive—economic growth rather than an imminent recession.

The oil story, by the numbers

The interim U.S.-Iran peace arrangement reached earlier this month is holding, and tanker traffic through the Strait of Hormuz has picked up meaningfully as a result, even if volumes remain below pre-conflict norms. The market has done what markets do when fear of supply recedes: it has repriced quickly. West Texas Intermediate is trading below \$70 a barrel, roughly \$25 lighter than a month ago and more than \$40 off its 2026 high. Prices remain above their pre-conflict levels, so the move is a partial unwind rather than a full round trip, but it is large enough to matter for inflation, consumer spending power, and how central banks think about the next several months.

I would caution, as I always do with geopolitically driven moves, that the durability of this relief depends entirely on the peace agreement holding. The Strait of Hormuz has not forgotten how quickly it can become a flashpoint again. With that caveat noted, current levels, if sustained, point to four developments worth positioning around.



Four implications worth tracking

- **A disinflation breeze.** Energy alone added a full 1.5 percentage points to the 4.2% year-over-year headline CPI print in May. With oil down sharply since then, that contribution should fade toward roughly 1 percentage point in July and keep shrinking through the fall. Barring a surprise elsewhere in the basket, the worst of this year's inflation spike is likely behind us.
- **A consumption tailwind.** The national average gasoline price has already eased to \$3.90 a gallon. That matters because households have been absorbing a real income squeeze — real incomes fell at a 1.5% annualized pace from March through May — while still increasing spending at a 2.1% annualized pace over that stretch. They funded the gap by letting the savings rate slide to just 3%. Cheaper energy gives households room to spend without further depleting the cushion, which is constructive for consumption-sensitive sectors heading into the back half of the year. It arrives alongside a U.S. economy that already looks sound on other measures: first-quarter GDP was revised up to 2.1% from 1.6%, and the second quarter is tracking near 2.5%.
- **Less, not no, pressure on central banks.** Futures markets have trimmed rate-hike expectations across developed economies as fears of energy-driven inflation ease. The adjustment has been sharpest for the Bank of Canada and the Bank of England. The Eurozone and Japan have already delivered quarter-point hikes this cycle but are now pricing in less follow-through. The U.S. repricing has been the most conservative of the group — the expected increase in the fed funds rate this year is down only about 12 basis points from its peak — reflecting how hawkish the Fed's own June projections were, with half the committee penciling in a hike. Core PCE inflation, which strips out food and energy, is still running at 3.4% year-over-year, well above target, and that is the number the Fed is watching most closely. My own read is that falling energy prices buy the Fed room to stay on hold rather than license for it to cut, with the bias still tilted toward a hike if core inflation does not cooperate.

- **A dollar that looks stretched, not structurally strong.** The trade-weighted dollar touched a fresh 2026 high last week, a function of that same hawkish Fed stance relative to peers. I am skeptical that this marks the start of a sustained dollar up-cycle. Genuine periods of U.S. exceptionalism have historically been driven by clearly superior domestic growth, inflation, and rate dynamics relative to the rest of the world, and that gap is narrower today. The dollar also remains expensive on long-run valuation measures, and international investors have been quietly diversifying away from dollar exposure for several years now — a headwind that is unlikely to reverse quickly.

The Federal Reserve Annual Bank Stress Test Results

The Federal Reserve released its 2026 annual bank stress test results on June 24, and the message to markets was unambiguous: the U.S. banking system is solidly capitalized. All 32 banks examined by the Fed remained above their minimum capital requirements under a hypothetical scenario that included unemployment surging to 10%, a 39% drop in commercial real estate prices, and a 30% decline in home prices. Despite absorbing more than \$708 billion in total projected loan losses, the industry's common equity tier 1 (CET1) capital ratio declined only 1.6 percentage points in aggregate, staying comfortably above minimum requirements.

The practical consequence: every large U.S. bank tested just received a clean bill of health, clearing the way for higher dividends and larger share buybacks, with the Fed's February 2026 decision to freeze stress capital buffer requirements until 2027 meaning no surprise capital increases are coming before then. Credit card losses drove roughly \$203 billion of the total, commercial loans contributed about \$158 billion, and commercial real estate added another \$77 billion.

For Wall Street, this is reassurance. For Puerto Rico investors following Popular (BPOP), First BanCorp (FBP), and OFG Bancorp (OFG), the more useful exercise is recognizing why this test says almost nothing directly about our banks — and what it implies indirectly.

Why are the Puerto Rico Bank Holding Companies not tested?

The Fed's stress test applies only to bank holding companies, savings and loan holding companies, and intermediate holding companies of foreign banks with \$100 billion or more in total assets. Looking at the participant list this year — JPMorgan Chase, Bank of America, Citigroup, Goldman Sachs, down through regional players like Regions, Citizens, and KeyCorp — the smallest qualifying institution still clears the \$100 billion bar under Category IV rules. None of our three banks is remotely close to that threshold:

- **Popular Inc. (BPOP) — \$76.171 billion** in total assets, the largest of the three.
- **First BanCorp (FBP) — \$19.086 billion** in total assets.
- **OFG Bancorp (OFG) — \$12.138 billion** in total assets.

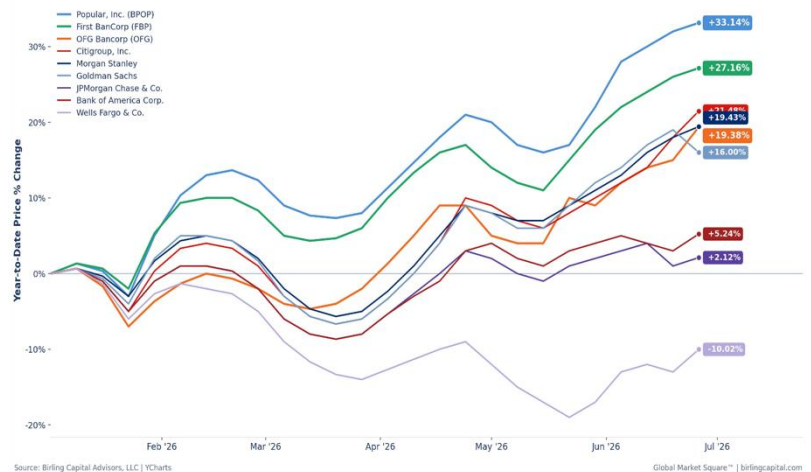
Even combined, the three would sit at roughly **\$107.395 billion** — barely above the floor, and still well short of qualifying as a single institution. This isn't a regulatory gap or oversight; it's simply size. Puerto Rico's



The Year To Date Returns Show a Great Trend

U.S. Global Systemically Important Banks vs. Puerto Rico Banks

Year-to-Date Price Performance (January 2 - June 26, 2026) - Bold lines = Puerto Rico banks



banking sector, however dominant locally, plays in a different weight class from the systemically important institutions the Fed is stress-testing for financial stability.

What that means for investors — and what it doesn't

The absence of BPOP, FBP, and OFG from the DFAST exercise cuts in a specific, useful direction for anyone trying to read across: **Our banks already run materially higher capital buffers than the stressed minimums the Fed just published.** The 32 tested banks fell to an aggregate stressed CET1 minimum of 11.2% under the severely adverse scenario — and that's the post-stress number, after absorbing a hypothetical recession. Compare that to where our three banks sit today, unstressed, in an actual (benign) economic environment:

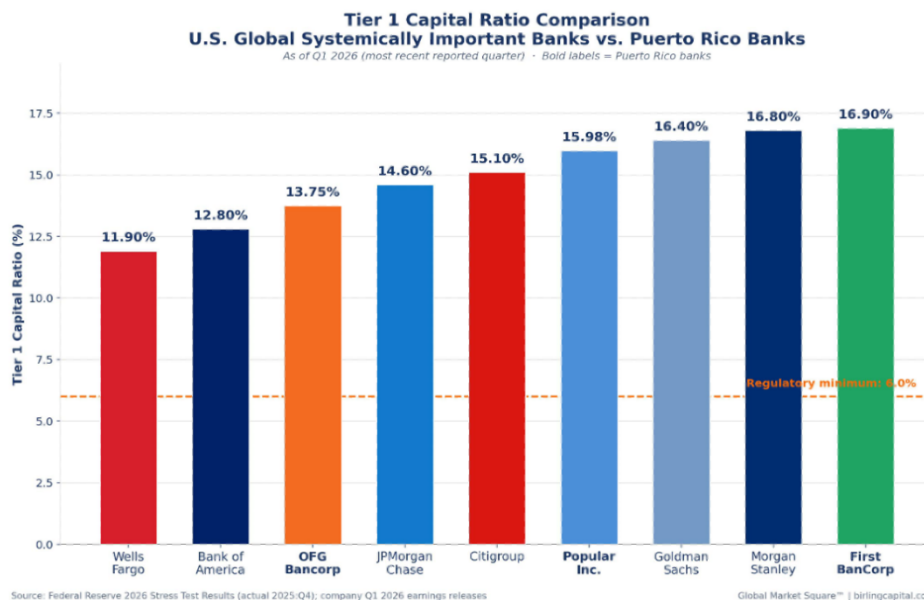
- **Popular:** with total assets of **\$76.171 Billion** had a CET1 of **15.98%** as of March 31, 2026, up from 15.72% at year-end 2025. It has a market capitalization of \$10.73 billion, and its stock closed on June 27, 2026, at \$165.79, with a price target of \$174.22.
- **First BanCorp:** with total assets of **\$19,086 billion**, had a CET1 of **16.90%** as of March 31, 2026, up from 16.76% at year-end 2025. It has a market capitalization of \$4.078 billion, and its stock closed on June 27, 2026, at \$26.36, with a price target of \$26.00, which was surpassed.
- **OFG Bancorp,** with total assets of **\$12,138 Billion**, had a CET1 of **13.75%** as of March 31, 2026, down slightly from 13.97% at year-end 2025 and 14.27% a year earlier, reflecting active share buybacks. It has a market capitalization of \$2.067 billion, and its stock closed on June 27, 2026, at \$48.92, with a price target of \$47.75, which was surpassed.

All three sit above where the most resilient of the 32 tested mainland banks landed *after* a hypothetical severe recession. That's not proof that PR banks would sail through an equivalent Fed-style stress scenario unscathed — the test hasn't been run on them, so we can't say that with certainty — but it does mean the starting capital cushion is thick relative to the kind of stress the Fed just modeled.

1. **Credit quality context matters more than the capital ratio alone.** The Fed's test found credit cards to be the most fragile asset class system-wide, with a 17.1% stressed loss rate. None of the three Puerto Rico banks run meaningful credit card books the way Capital One or Synchrony do; their balance sheets lean toward commercial, commercial real estate, residential mortgage, and consumer installment lending. Current credit metrics across the three remain clean: Popular's non-performing loan ratio stood at 1.17% with reserve coverage of 179.8% of NPLs in Q1 2026; First BanCorp's non-performing assets were just 0.57% of total assets; OFG's net charge-offs ran 1.05% of average loans with delinquency rates continuing to improve. None of that is stress-tested data — it's actual, current performance — but it's the closest analog available since the Fed doesn't model these institutions directly.



Tier 1 Capital Ratio Comparison of US Global Banks vs Puerto Rico Banks



2. **Commercial real estate is the one area where the Fed's tougher 2026 assumptions are worth watching locally.** The severely adverse scenario assumed CRE prices would fall by 39% — up from 30% in last year's test — a meaningfully harsher assumption, even as some other variables moderated. Commercial real estate losses across the 32 tested banks reached roughly \$77 billion. Puerto Rico's own CRE market has been working through its post-pandemic repricing, and while none of the three local banks disclosed CRE-specific stress under a Fed-style scenario, this is the one line item where mainland test assumptions translate most directly as a read on appetite and risk pricing in commercial lending generally — including on the island.
3. **Net interest income is carrying earnings everywhere — and that's a shared, not PR-specific, risk.** The Fed noted that banks' net interest income from lending activities helped offset CRE-driven losses in the stress scenario. That dynamic is even more visible in our three banks' actual 2026 results: Popular's net interest margin expanded to 3.66% (4.14% FTE) in Q1 2026; First BanCorp's NIM reached 4.75%; OFG's NIM hit 5.36%, with management projecting 5.1%-5.2% for the full year assuming no rate cuts. All three have benefited from the higher-for-longer rate environment and falling deposit costs. If the Fed begins cutting more aggressively in 2027, the same NII tailwind that both the mainland banks in the stress test and our three island banks have enjoyed will fade together — this is a shared macro risk, not something the stress test reveals as PR-specific. CNBC
4. **Capital deployment philosophy diverges from the mainland's stress-test-driven capital discipline.** Because BPOP, FBP, and OFG aren't subject to DFAST or its stress capital buffer framework, their capital return decisions are governed by ordinary regulatory capital adequacy rules and board discretion rather than an annual Fed-validated stress number. That's visible in their behavior: Popular returned \$204 million to shareholders in Q1 2026 alone through buybacks and dividends while still building CET1; First BanCorp posted a 92% net payout ratio on net income; OFG raised its dividend 17% and repurchased \$44.5 million in stock. The mainland's stress-tested banks are now freed to do something similar because the Fed gave them the all-clear — Puerto Rico's banks have effectively been operating with that kind of capital flexibility all along, simply because the regulatory framework they sit under doesn't impose stress-test-driven constraints in the first place.

The Birling Read

Markets have rewarded this combination of high capital, clean credit, and aggressive capital return. Year-to-date through mid-June, the Birling Capital Puerto Rico Stock Index has outpaced the broader U.S. equity market, led by Popular and First BanCorp, with OFG also posting solid gains, while Evertec has diverged sharply downward. That outperformance has occurred entirely independent of the Fed's stress test cycle — it reflects company-specific execution (record pre-tax pre-provision income at First BanCorp, expanding margins at OFG, disciplined expense control at Popular) layered on top of a still-favorable Puerto Rico rate and deposit-cost environment.

The absence of a stress test for our three banks isn't a red flag for investors — it's simply a function of scale. But it does shift the burden of diligence. Where mainland bank investors can now point to a uniform, Fed-validated severe-recession buffer as part of their thesis, Puerto Rico bank investors have to build that conviction from the institutions' own quarterly capital, credit quality, and earnings disclosures — which, as of Q1 2026, are telling a notably strong story on their own terms.

The Final Word: Birling Capital's View

Two storylines ran through markets this week, and together they say more about durability than headlines alone ever could.

The first: technology stocks took their sharpest weekly hit in over a year, the Nasdaq shedding 4.60% as an extraordinary AI-driven rally finally met profit-taking. That kind of correction rattles sentiment. It is supposed to. But look at what didn't break. The Dow Jones rose. Industrials held. Defensives held. And on our own

island, the Birling Capital Puerto Rico Stock Index gained 4.88% in the same week that the most crowded trade on Wall Street unwound — not despite the volatility, but indifferent to it. That is not luck. That is what a portfolio of real, capital-rich, earnings-driven institutions looks like when the speculative froth elsewhere comes off.

The second: the Federal Reserve spent the week certifying that the largest banks in America can survive a severe recession. Useful information — for banks with more than \$100 billion in assets. Popular, First BanCorp, and OFG Bancorp were never in that room, and they didn't need to be. Their own numbers did the talking. CET1 ratios above 13.7% across the board — levels that sit above where the most resilient mainland bank landed after the Fed modeled a hypothetical depression. Non-performing loans are near or below 1%. Net interest margins between 3.66% and 5.36%, expanding while mainland margins compress. And capital returned to shareholders not because Washington gave permission, but because the underlying businesses earned the right.

Add it together, and the picture is unambiguous. While the Nasdaq corrects, while oil unwinds a geopolitical risk premium, while the Fed holds steady and waits for core inflation to cooperate — Puerto Rico's banking sector keeps doing the one thing markets ultimately reward above all else: compounding. Popular is up 33.14% year-to-date. First BanCorp up 27.16%. OFG up 19.38%. A regional banking sector with \$107 billion in combined assets outperforms institutions ten times its size, without a stress test, without a federal safety net narrative, and without needing one.

That is not an accident of a favorable rate environment that will eventually fade. It is the result of disciplined balance sheets built over years, management teams that have earned investor trust quarter after quarter, and a Puerto Rico financial sector that has quietly become one of the most compelling stories in U.S. banking — hiding in plain sight, \$100 billion below the threshold anyone in Washington bothered to test.

We've seen this story before, and we'll keep telling it: Puerto Rico's banks don't need Washington's stamp of approval. The market has already given them one.

Thinking Globally, Investing Locally — Invest in Puerto Rico, Invest in Your Future.



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