BIRLING CAPITAL ADVISORS, LLC **Think Strategically**

The Groundhog Day War: Oil, the Fed and a Puerto Rico Banking Sector That Keeps Compounding

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Wall Street Weekly Update: Oil Reasserts Itself as the Market's Central Risk

BIRLING CAPITAL ADVISORS, LLC

Wall Street and Birling Capital Indexes: July 17 vs. July 24 Close

Weekly Comparison of Index Levels and Point/Percentage Change

Index	July 17	Change	July 24	Change	YTD Return
Dow Jones Industrial Average	52,146.42	▼406.55 (-0.77%)	51,947.25	▲235.60 (+0.46%)	▲ +8.08%
S&P 500	7,457.69	▼76.08 (-1.01%)	7,411.98	▲3.68 (+0.05%)	▲ +8.28%
Nasdaq Composite	25,520.24	▼361.70 (-1.40%)	24,975.82	▼161.86 (-0.64%)	▲ +7.46%
Birling Capital Puerto Rico Stock Index	5,064.41	▲109.92 (+2.22%)	5,062.03	▼24.28 (-0.48%)	▲ +28.34%
Birling Capital U.S. Bank Index	10,406.18	▼222.36 (-2.09%)	10,339.31	▼75.23 (-0.72%)	▲ +13.15%

	July 17	July 24
U.S. Treasury 10-Year Note	4.55%	4.69%
U.S. Treasury 2-Year Note	4.18%	4.33%

Source: Bloomberg, Birling Capital Advisors

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In the movie *Groundhog Day*, Bill Murray's Phil Connors wakes up every morning to the same clock radio playing Sonny and Cher's "I Got You Babe," the same weatherman gig in the same small Pennsylvania town, and the same insufferable Ned Ryerson cornering him on the sidewalk — over, and over, and over, no matter what happened the day before. Phil tries everything to break the loop: he seduces, he schemes, he even drives a truck off a cliff with the groundhog in his lap. Nothing sticks. February 2nd resets itself with total indifference to his effort, his despair, or his growing conviction that he has, in fact, figured this whole thing out this time.

Markets are living their own version of that loop this year, and the recurring character isn't a groundhog — it's the Strait of Hormuz. Every few weeks, the same script plays out: a ceasefire is announced, oil drops, traders exhale and start writing "de-escalation" in their notes, and for a moment it looks like the story might finally move forward. Then, right on cue, tensions reignite, tankers get threatened again, and crude marches back toward $100 as if the truce never happened at all. President Trump has now claimed victory in this conflict by our count more than forty times, each one delivered with the same finality Phil Connors brought to every doomed first date — and each time, the calendar quietly resets to day one anyway. Punxsutawney Phil only has to make one prediction a year and occasionally gets it wrong without consequence. This market has had to re-underwrite the same "it's over" headline every few weeks since spring, and the consequence lands squarely in the bond market every time.

The bond market, unlike the news cycle, does not have the luxury of amnesia. Renewed hostilities this past week pushed crude back toward the $100 mark, undoing much of the relief that followed the spring ceasefire, and yields responded immediately. The 10-year Treasury broke above 4.70% for the first time since January 2025, while the 30-year revisited levels last seen in 2007. Financial conditions tightened in real time, and the market's read is unambiguous — this loop is not resolving itself, and it is not free.

Puerto Rico equities maintained their structural advantage amid volatility. Year-to-date, the Birling Capital Puerto Rico Stock Index is up 28.34%, more than double the Birling Capital U.S. Bank Index's 13.15% gain — a spread of roughly fifteen percentage points that has only widened as this earnings season has progressed.

On Wall Street, the Dow Jones Industrial Average is up 8.08% year-to-date, the S&P 500 has gained 8.28%, and the Nasdaq Composite has advanced 7.46%. The two-year Treasury yield, at 4.187%, sits well above the effective policy rate — the widest such gap since 2022 — telling us plainly that the bond market is already pricing meaningful odds of a Fed rate hike before year-end.

The escalation driving all of this has widened beyond the Strait of Hormuz. Houthi attacks on Red Sea shipping routes now threaten one of the few credible alternatives to that chokepoint, which is precisely why this round of tension is proving harder to dismiss than the last one. Inventory drawdowns, softer Chinese demand, and rerouted shipping had kept a lid on prices for months; that cushion is thinning in real time, one repeated news cycle at a time.

We expect the Fed to hold its target range steady at its upcoming meeting, with the possibility of a dissent on the committee. September, however, is shaping up as a genuinely live meeting. Fed funds futures are pricing meaningful odds of a hike by then, and last week's initial jobless claims print — the lowest since 1969 — removes the labor-market argument for patience. A stable labor market paired with a live, recurring energy shock gives hawkish committee members more room to lean on the inflation mandate rather than the growth mandate.

We are widening our expected 10-year range to 4.5%–5.0% for the remainder of the year. We remain neutral on duration and continue to see better relative value at the short end of the curve, where the yield pickup over cash remains compelling without taking on meaningful rate risk.

Away from rates, the more consequential story for equity investors this earnings season is the shifting AI narrative. Alphabet's results were strong — cloud revenue up sharply year-over-year and a growing backlog — but the market's attention shifted immediately to capital expenditure guidance, raised materially for 2026. We don't read this as the AI cycle breaking down; demand remains intact, and adoption is still early. But the market's patience for infrastructure spending without visible monetization is shorter than it was a year ago. That repricing is where the next chapter of the AI trade will be written.

The Birling Puerto Rico Stock Index: Holding — and Extending — Its Structural Lead

Puerto Rico's equity outperformance is not a first-half story that faded into the second — it has widened through a full earnings season and a fresh bout of macro volatility. The Birling Capital Puerto Rico Stock Index's year-to-date return of +28.34% is more than triple the Dow Jones Industrial Average's +8.08%, well ahead of the S&P 500's +8.28% and the Nasdaq's +7.46%, and more than double the Birling Capital U.S. Bank Index's +13.15%. That last comparison is the one that matters most: Puerto Rico's bank-anchored index isn't simply beating the broad U.S. market; it is more than doubling the return of its direct U.S. banking peer group.

The path tells its own story. Through the first quarter, the Puerto Rico index tracked closely with — and at times lagged — the Nasdaq and the broader U.S. bank complex, as tariff uncertainty and a choppy macro backdrop weighed on sentiment across the board. The divergence began in earnest in April, and it has not looked back since: while the Birling U.S. Bank Index spent much of the spring recovering lost ground, the Puerto Rico index broke decisively higher and has stayed there through two consecutive earnings seasons.

This is not a market rewarding a sector tailwind. U.S. bank stocks have had a reasonably strong year, up 13.15%. What Puerto Rico's index is capturing is something more specific: three institutions converting capital discipline, funding-cost management, and credit-quality control into earnings growth that consistently outruns revenue growth. That is not macro. That is execution — and unlike the geopolitical news cycle, it is not repeating the same day over and over.

Second Quarter 2026 Earnings: Execution Across the Board

The second quarter confirmed what the first quarter signaled: Puerto Rico's banks are not riding a macro tailwind; they are compounding through discipline. All three reporting names beat on revenue and net income, and each did so through a different lever — margin expansion, capital return velocity, or sheer earnings acceleration — which is precisely the kind of dispersion that reflects institutional quality rather than a single shared catalyst. The individual stock performance confirms it: First BanCorp leads the group year-to-date at +39.03%, narrowly ahead of Popular at +37.91%, with OFG Bancorp close behind at +27.87%. Evertec, still in the early stages of its platform investment cycle, is up a modest +2.20%.

OFG Bancorp: The Quiet Compounder

OFG Bancorp (OFG) +27.87% YTD • Beat Estimates ✓

$190.3M	+4.45%	$58.8M	+13.46%
2Q26 Revenue	Revenue Growth YoY	Net Income	NI Growth YoY

$1.39	14.07%	$51.00
EPS	Tier 1 Capital	Price Target

OFG Bancorp continued its pattern of understated, consistent execution. The bank reported second-quarter 2026 revenues of $190.3 million, up 4.45% year-over-year, alongside net income of $58.8 million, up 13.46% — a profitability growth rate meaningfully outpacing its top-line growth, and a clear signal of operating leverage rather than volume-driven earnings. Earnings per share came in at $1.39, and OFG's Tier 1 capital ratio of 14.07% remains comfortably above regulatory thresholds, giving management continued flexibility on both organic growth and shareholder returns. We maintain a Stock Price Target of $51.00 on OFG, reflecting confidence that the bank's smaller balance sheet is not a constraint but an advantage — it allows OFG to reprice assets and manage its funding mix with a precision the larger institutions cannot match. The stock's +27.87% year-to-date return — with the strongest acceleration coming in July, right around this earnings release — confirms the market caught up to the story once the numbers were in front of it. Net income growing nearly three times faster than revenue is the tell: this is a bank converting scale efficiency into bottom-line results, not chasing growth for its own sake.

Balance Sheet Scale ·2Q2026

- **Total Loans:** $8.30B vs. $8.24B Q1. 26 | steady growth — commercial and consumer diversification
- **Customer Deposits**: $9.74B vs. $9.66B Q1. 26 | core deposit strength continues
- **Loan-to-Deposit Ratio**: 85%, New loan production of $750M, up ~24% YoY

Core Profitability 2Q2026

- **Net Interest Margin** (NIM) 5.45% Up 9 bps sequentially — best-in-class NIM among PR banks; guidance raised to 5.25%–5.35% for 2H2026
- **Net Interest Income** (NII) $157.3M Growth driven by loan yield expansion and government deposit relocation
- **Core Revenues** $190.3M vs. $185.8M Q1··26 | +4.5% YoY — 21% YoY EPS growth confirms operating leverage

Credit Quality 2Q2026

- **Non-Performing Loans** (NPLs) 0.81% of average loans — improved, stable credit trends
- **Provision for Credit Losses** $13M down $9.5M sequentially — normalization continues.
- **Net Charge-Offs** $28.8M vs. $12.8M Q1··26 — bears monitoring, though management characterizes credit trends as stable

Capital Returns 2Q2026

- **Tier 1 Capital Ratio:** 14.07% vs. 13.99% Q2··25 — +8 bps YoY, continued capital build.
- **Return on Average Tangible Common Equity** ~18% Among the highest ROTCE profiles in regional banking
- **EPS Growth** +20.9% YoY $1.39 vs. $1.15 Q2··25 — tangible book value up to $31.12/share

A note on OFG's credit quality: net charge-offs more than doubled sequentially ($28.8M vs. $12.8M), which is worth flagging honestly in the write-up rather than glossing over — even as NPLs improved and provisioning declined, suggesting the charge-off increase may reflect a specific resolved exposure rather than a broader trend, similar to Popular's one-time item.

First BanCorp: Margin, Capital Return, and Origination Momentum, All at Once

First BanCorp delivered what may be the cleanest quarter of the three, and the market has rewarded it accordingly — FBP's +39.03% year-to-date return is the best-performing stock in the group. Revenues reached $264.9 million, up 7.33% year-over-year, while net income of $96.2 million rose 8.30% sequentially and 19.92% versus the prior year — an acceleration, not a plateau. Diluted earnings per share climbed to $0.62, up from $0.57 in the first quarter and $0.50 a year ago, marking three consecutive quarters of EPS expansion.

The underlying drivers are exactly what we look for in a quality quarter. Net interest margin expanded to 4.87%, among the strongest in the sector. In comparison, return on average assets reached 2.02% — a level that places First BanCorp firmly in the upper tier of regional bank profitability nationally, not just locally. Loan originations totaled $1.7 billion, up 21% year-over-year, confirming that the margin expansion is not coming at the expense of growth; First BanCorp is expanding its book and its profitability simultaneously, which is the hardest combination for a bank to sustain.

Capital discipline was equally evident. First BanCorp maintained a 16.96% Tier 1 capital ratio — the highest among the three Puerto Rico banks — while returning 84% of quarterly earnings to shareholders through dividends and share repurchases. That payout ratio is aggressive by any regional banking standard, and it signals a management team confident enough in its capital generation to prioritize shareholder returns without sacrificing balance sheet strength. We maintain our Stock Price Target of $28.86 on FBP, reflecting a franchise that is now geographically diversified, well-capitalized, and firing on every operating metric at once — and the market's leading year-to-date performer among the group is telling us that story is being heard.

Balance Sheet Scale 2Q2026

- **Total Assets:** $19.24B vs. ~$19.09B Q1. 25 with steady expansion, record levels
- **Total Loans:** $13.3B vs. $12.88B YE2025, a +5% linked-quarter annualized — commercial and construction-led growth in Puerto Rico
- **Total Deposits**: Grew $274M in the quarter to $16.3B — driven by government balances and core customer deposits.

Core Profitability 2Q2026

- **Net Interest Margin (NIM)**: 4.87%, up 12 bps QoQ — record profitability driven by higher asset yields
- **Net Interest Income (NII): $** 229.1 M, up from $221.0M in Q1. 26 — margin expansion and loan growth in tandem
- **Efficiency Ratio:** 48.07%- continued improvement — record pretax, pre-provision income of $138M, +11% YoY

Credit Quality 2Q2026

- **Non-Performing Assets**: 0.59% of total assets — near historic lows
- **Net Charge-Off Ratio**: 0.49% annualized — down from 0.60% Q2··25, improvement from lower consumer/auto losses
- **Return on Average Assets (ROA):** 2.02% — 18th consecutive quarter above 1.5%

Capital Returns ·2Q2026

- **Tier 1 Capital Ratio:** 16.96% vs. 16.61% Q2··25 — +35 bps YoY, highest in the sector
- **Capital Return:** $50M in share repurchases + $0.20/share dividend — 84% of quarterly earnings returned to shareholders
- **EPS Growth:** +24% YoY $0.62 vs. $0.50 Q2··25 — record profitability, three consecutive quarters of expansion

Popular, Inc.: A Standout Quarter Paired With an Orderly Succession

Popular, Inc. (BPOP) +37.91% YTD • Beat Estimates ✓

$808.1M 2Q26 Revenue	**+7.6%** Revenue Growth YoY	**$278.2M** Net Income	**+32.2%** NI Growth YoY
$4.35 EPS	**16.08%** Tier 1 Capital	**$186.20** Price Target	

Popular delivered the standout quarter of the group, and its stock — up 37.91% year-to-date, essentially neck-and-neck with First BanCorp — reflects it. Revenues reached $808.11 million, up 7.6% year-over-year. In comparison, net income surged to $278.2 million, up 32.2% — the fastest net income growth rate among the three Puerto Rico banks this quarter — and reflects Popular's scale advantage translating directly into operating leverage. Diluted earnings per share came in at $4.35, and the bank's 16.13% Tier 1 capital ratio reinforces a balance sheet built to absorb volatility without constraining growth or capital return. We maintain our Stock Price Target of $186.20 on BPOP, and continue to view it as the anchor constituent of the Birling Capital Puerto Rico Stock Index — the institution whose scale and earnings power set the pace for the sector.

The quarter also brought a significant leadership transition. Popular announced that President and CEO Javier D. Ferrer will retire effective August 31, 2026, with Chief Financial Officer Jorge J. García named to succeed him. In the accompanying moves, Lidio V. Soriano transitions from Chief Risk Officer to Chief Financial Officer, and Luis F. Sousa steps up to Chief Risk Officer, both effective September 1, 2026.

We view this as an orderly, board-driven succession rather than a signal of underlying concern. García's ascension from CFO — with more than a decade of senior leadership experience inside the institution — is the kind of internal-promotion transition that markets typically reward for continuity, not one that introduces strategic uncertainty. Notably, the stock's performance shows no sign of hesitation around the announcement; Popular's year-to-date return remained essentially in line with First BanCorp's through the transition news, which is itself a signal that the market is not pricing succession risk into the name. The fact that Popular posted its strongest net income growth of the year in the same quarter it announced a CEO transition speaks to an institution whose performance is not dependent on any single executive, but on the depth of a management bench built over years.

Balance Sheet Scale ·2Q2026

- **Total Assets $78.97B vs. $76.07B Q2.25:** +3.82% YoY — continued balance sheet expansion
- **Total Loans $39.75B vs. $38.19B Q2.25:** +4.1% YoY — broad-based growth across commercial, construction, and mortgage
- **Total Deposits $70.23B vs. $67.22B Q2.25 | +4.5% YoY —** driven by a $3.0B increase in Puerto Rico public deposits

Core Profitability ·2Q2026

- **Net Interest Margin (NIM):** 3.66% Unchanged QoQ; FTE NIM expanded 3 bps to 4.17%
- **Net Interest Income (NII):** $693.4M Up $23M QoQ and +9.8% YoY — investment income and commercial loan growth
- **Operating Expenses:** $484M Up $17M QoQ — higher personnel costs and business promotion

Credit Quality ·2Q2026

- **Non-Performing Loans (NPLs)**: 1.04% $413M — improved from 1.17% Q1··26; up vs. 0.82% Q2··25
- **Net Charge-Off Ratio:** 1.05% $104M — driven by a one-time $71M commercial resolution; ex-item, 0.33%
- **Allowance Coverage (ACL/NPL):** 190% vs. 180% Q1··26 — reserve strength increasing alongside NPL normalization

Capital Returns ·2Q2026

- **Tier 1 Capital Ratio:** 16.08% vs. 15.91% Q2··25 — +17 bps YoY, capacity intact despite $125M in buybacks.
- **Return on Tangible Common Equity** 17.02% vs. 15.46% Q1··26 and 13.26% Q2··25 — a 156 bps sequential improvement.
- **EPS Growth** +41% YoY $4.35 vs. $3.09 Q2··25 — record profitability, dividend raised 20% to $0.90/share

Evertec: The Outlier by Design, With Results Still to Come

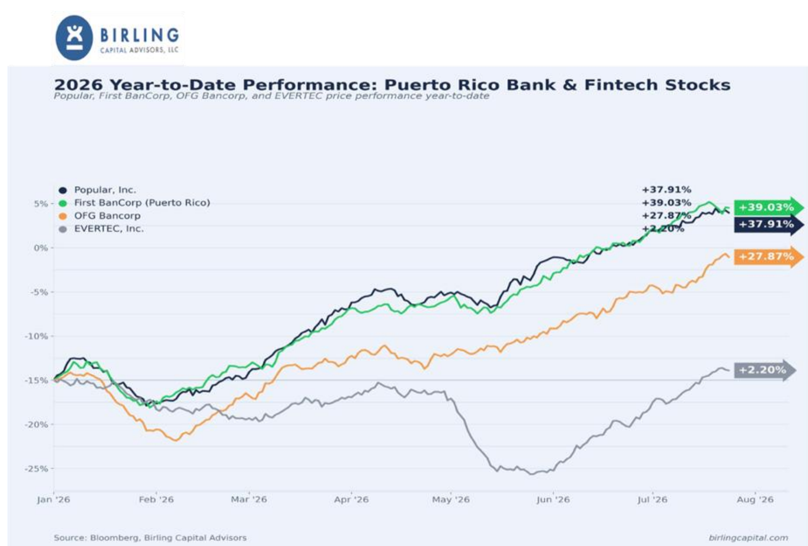
EVERTEC, Inc. (EVTC) +2.20% YTD • Reports Aug 4, 2026

$29.73	+2.20%	$32.00	Aug 4, 2026
Current Close	YTD Return	Price Target	2Q26 Earnings Date

Evertec, Inc. (NYSE: EVTC) closed at $29.73, with a year-to-date return of +2.20% — a performance that stands apart from its three banking peers, and deliberately so. It is not a bank, and its investors are underwriting a different thesis: a five-year, eight-deal acquisition program spanning four countries, built to turn Evertec into a full-stack Latin American fintech platform rather than a single-market processor.
The logic has been sequential and deliberate — BBR (2022) opened Chile and Peru; PlacetoPay (2023) built a Colombian payments gateway; Sinqia and paySmart (2023) established a Brazilian foothold in financial software and issuer processing; Zunify and Grandata (2024) added a Costa Rican QR payment network and AI-driven credit analytics, respectively. Tecnobank, closed in the fourth quarter of 2025, pushed total debt to $1.11 billion to add digital credit and vehicle-finance infrastructure in Brazil — a real balance-sheet commitment, not a bolt-on. And Dimensa, the fourth Brazil deal, has now closed following regulatory approval, opening Insurance as a new vertical alongside Evertec's Banking offerings.
Management has been candid that Dimensa is expected to be neutral to slightly accretive this year, with real synergy capture landing in 2027 — which is exactly why the market's patience with EVTC's stock is a timing gap, not a mispricing. We maintain our Stock Price Target of $32.00 on EVTC, reflecting confidence that as this integration calendar plays out, the platform economics will show up in the numbers.
The wait for the next data point is short. Evertec will host a conference call and webcast on Tuesday, August 4, 2026, at 4:30 p.m. ET to review second-quarter results, with President and CEO Mac Schuessler leading the call; a press release will follow shortly after market close that day. That report will be the first real signal on how Dimensa's early integration is tracking — and it will likely set the tone for whether EVTC begins closing the performance gap with its three Puerto Rico banking peers before year-end.

What the Quarter Confirms

Net income growth of 32.2% at Popular, 19.92% at First BanCorp, and 13.46% at OFG — against revenue growth of 7.6%, 7.33%, and 4.45%, respectively — tells a consistent story across all three institutions: earnings are growing faster than revenue everywhere. That operating leverage is now fully reflected in the stocks: First BanCorp +39.03%, Popular +37.91%, and OFG +27.87% year-to-date, each comfortably outpacing every major U.S. equity benchmark and the U.S. bank index itself. That is the clearest signal that Puerto Rico's banks are not benefiting from a rising-tide environment. They are extracting more profit from every dollar of revenue, quarter after quarter — and the market is pricing it accordingly.



The Alignment Signal: What the Indices Are Telling

The second-quarter results reinforce a pattern we flagged after the first quarter: dispersion within the Puerto Rico banking sector is a feature, not a warning sign. The tight clustering of First BanCorp (+39.03%), Popular (+37.91%), and OFG (+27.87%) — each achieved through a distinct operating strategy — against

Evertec's outlier +2.20% illustrates precisely how capital quality and execution discipline, not sector membership alone, determine equity outcomes.

What continues to stand out is not the dispersion inside Puerto Rico's index, but its coherence relative to U.S. benchmarks. The Birling Capital Puerto Rico Stock Index's +28.34% year-to-date return is not merely ahead of the Dow (+8.08%), the S&P 500 (+8.28%), and the Nasdaq (+7.46%) — it is more than double the return of the Birling Capital U.S. Bank Index (+13.15%), its most directly comparable peer group. Three institutions, three different operating strategies, and all three converging on the same result: net income growing faster than revenue, capital ratios well above regulatory thresholds, and equity returns that have outpaced U.S. financials by a wide and widening margin. That is not a coincidence of timing. It is a signal about institutional quality that has now survived a full earnings cycle and a renewed geopolitical shock.

The Final Word: Does a Higher-for-Longer Fed Change the Puerto Rico Banking Thesis?

It is the right question, and it deserves a direct answer.

A Fed that holds in the near term but leans toward a hike later in the year is not a neutral event for the island's banks. Rising oil prices flow straight into household energy costs at a moment when affordability in Puerto Rico is already stretched — that is a genuine headwind for the island's consumer-facing sectors. And a longer runway before Fed easing means elevated deposit costs persist longer than markets had priced as recently as June.

So does that derail the thesis? No — and both the second-quarter results and the year-to-date stock performance are the evidence, not just the forecast.

The first reason is capital. OFG, First BanCorp, and Popular all enter this environment with Tier 1 capital ratios of 14.07%, 16.96%, and 16.08%, respectively— fortress positions, not defensive minimums, that give each institution room to absorb funding-cost pressure without touching dividends, buybacks, or lending capacity.

The second reason is margin quality. First BanCorp's net interest margin expansion to 4.87%, paired with a return on average assets of 2.02%, is not the product of reaching for yield — it reflects a funding base that has been managed for exactly this kind of rate environment. A higher-for-longer curve is a more favorable backdrop for banks with First BanCorp's asset-liability discipline than for banks still working through legacy deposit pricing.

The third reason is that this quarter's earnings acceleration — and the equity performance behind it — happened during the same window in which oil re-escalated and the 10-year broke above 4.70%. Popular's 32.2% net income growth and First BanCorp's 21% jump in loan originations did not happen despite the macro backdrop — they happened inside it, and the stocks' 37.91% and 39.03% year-to-date returns reflect a market that has already tested and validated the thesis under pressure, not a forecast waiting to be proven.

The fourth reason is capital return discipline. First BanCorp's return of 84% of quarterly earnings to shareholders in a rising-rate environment is not the behavior of a management team worried about funding costs eroding profitability. It is the behavior of a team confident its margin and capital position can absorb the pressure and still generate excess capital.

The more precise question is not whether higher-for-longer derails Puerto Rico's banks. It will not. The more precise question is whether it slows the pace of the compounding. And here the honest answer is: modestly, at the margin, and manageable — exactly the kind of environment where disciplined balance sheets widen their advantage over leveraged ones.

The Birling Capital Puerto Rico Stock Index does not lie. At +28.34% year-to-date — more than triple the Dow, well clear of the S&P 500 and Nasdaq, and more than double the U.S. Bank Index — through an earnings season and a geopolitical shock alike, the market is not pricing euphoria. It is pricing the quality of these balance sheets against a backdrop that would — and has — punished institutions with lesser capital, weaker margins, and less disciplined credit cultures. The Groundhog Day War may keep repeating its own headline. Puerto Rico's banks, unhelpfully for anyone hoping for a dull February, keep compounding anyway.

Puerto Rico is not simply ahead of the pack. It is redefining what the pack looks like.
Invest in Puerto Rico, Invest in You.

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