BIRLING CAPITAL ADVISORS, LLC

Think Strategically

Puerto Rico Stocks: The Rotation Is a Repricing of Promises

October 19, 2026

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The Week in Wall Street

Wall Street finished the week split along a clear line. The Dow gained 1.01% to 52,178.28, while the S&P 500 slipped 0.86% to 7,744.11 and the Nasdaq fell 2.39% to 26,713.02. That is a 3.4-point gap between the market's oldest and newest components over five trading days. On the island, the Birling Capital Puerto Rico Stock Index rose 3.31% to 4,998.26, while the Birling Capital US Bank Index fell 2.31% to 9,312.11.

This market didn't simply go down. It changed its mind about what it would pay for. Money left companies that depend on cheap financing and fast growth and moved to those with earnings, capital, and cash flow behind them. The year-to-date scoreboard shows how far that shift has gone. The Puerto Rico index is up 26.05% for the year, ahead of the Nasdaq (+14.93%), the S&P 500 (+13.13%), the Dow (+8.56%), and the US Bank Index (+1.73%). No index we track has done better.

For investors, the lesson of the week is that a rotation is not a collapse, but it is a signal. When leadership changes this sharply, the old winners rarely return on the same terms. We would stay diversified across themes rather than bet on a single one. We would favor balance sheets that can fund themselves, and we would be careful not to chase this week's winners after a run this big.

The sections that follow take the week apart: how the island's banks performed against Wall Street's, what the IMF and the island's own data say about the economy underneath, and what to watch next.

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Weekly Wall Street comparison

Friday, October 9, 2026 vs. Friday, October 16, 2026

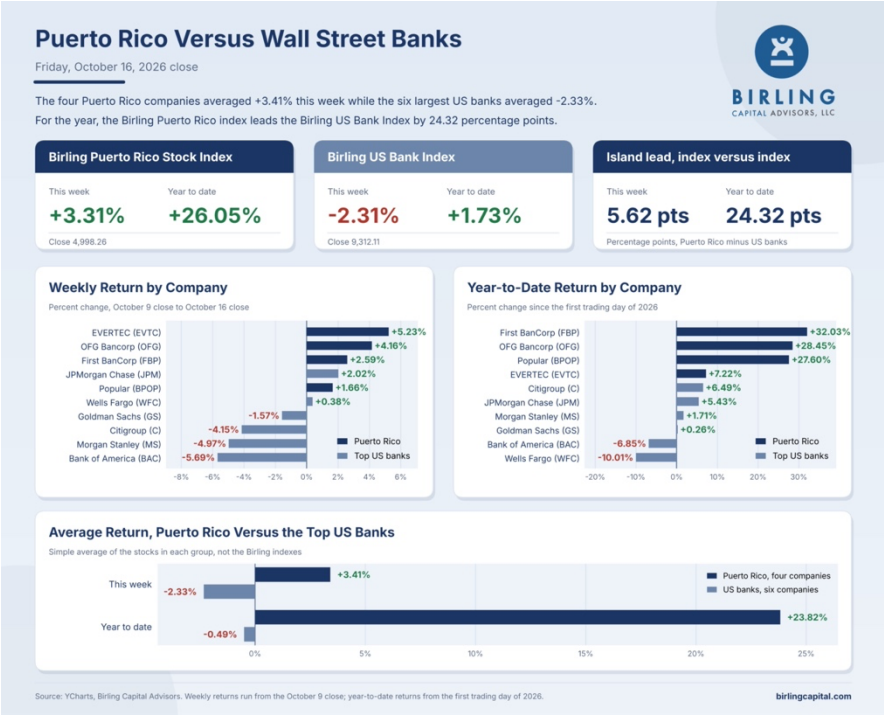
Index	Oct 9 close	Oct 16 close	Point change	Week change	YTD
Dow Jones Industrial Average	51,654.95	52,178.28	+523.33	+1.01%	+8.56%
S&P 500	7,811.54	7,744.11	-67.43	-0.86%	+13.13%
Nasdaq Composite	27,366.17	26,713.02	-653.15	-2.39%	+14.93%
Birling Capital PR Stock Index	4,838.33	4,998.26	+159.93	+3.31%	+26.05%
Birling Capital U.S. Bank Index	9,531.93	9,312.11	-219.82	-2.31%	+1.73%
U.S. Treasury 10-year note	5.24%	5.10%	-0.14 pts	-14 bps	+92 bps
U.S. Treasury 2-year note	4.80%	4.77%	-0.03 pts	-3 bps	+130 bps

Puerto Rico versus the Top 6 US banks

The island's four listed companies outperformed Wall Street's six largest banks this week. Measured from the October 9 close, the four Puerto Rico names averaged +3.41%, while the six US banks averaged -2.33%. The Birling Puerto Rico Stock Index gained 3.31% to close at 4,998.26, and the Birling US Bank Index fell 2.31% to 9,312.11. That is a 5.62-point lead for the week.

The Puerto Rico names, week and year to date

1. **EVERTEC (EVTC):** +5.23% for the week, the best of the ten stocks. It is up only **7.22%** for the year, so the week was a catch-up rather than a breakout.
2. **OFG Bancorp (OFG):** +4.16% for the week and **+28.45%** for the year.
3. **First BanCorp (FBP):** +2.59% for the week and **+32.03%** for the year, the strongest year-to-date return of the group.
4. **Popular (BPOP):** +1.66% for the week and **+27.60%** for the year. It was the laggard of the four this week, and JPMorgan (+2.02%) edged it out.



The Top 6 US banks, Week and Year-to-Date Returns

1. **JPMorgan (JPM):** +2.02% for the week and **+5.43**% for the year.
2. **Wells Fargo (WFC):** +0.38% for the week, but **-10.01% for the year**, the weakest of the ten.
3. **Goldman Sachs (GS):** -1.57% for the week and **+0.26% for the year**.
4. **Citigroup (C):** -4.15% for the week and **+6.49% for the year**.
5. **Morgan Stanley (MS):** -4.97% for the week and **+1.71% for the year**.
6. **Bank of America (BAC):** -5.69% for the week, the worst of the ten, and **-6.85% for the year**.

The year-to-date gap is wider than the weekly one. The Puerto Rico Index is up 26.05% versus 1.73% for the US Bank Index, a 24.32-point lead. The simple average tells the same story: +23.82% for the four island companies and -0.49% for the six US banks. Three of the four Puerto Rico stocks are up more than 27% this year. Only JPMorgan, Citigroup, and Morgan Stanley are positive among the US banks, and none is up more than 6.5%.

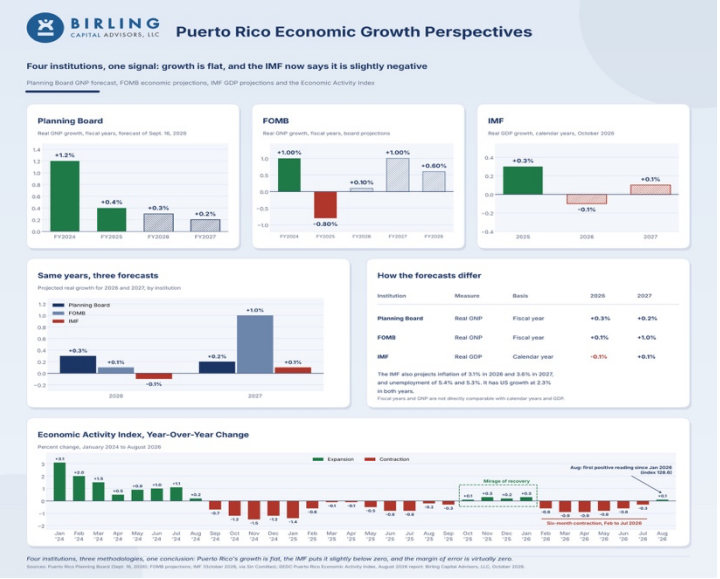
Third-quarter 2026 earnings calendar

The next test for these numbers arrives this week.

- **OFG Bancorp:** Wednesday, October 21, before the market opens, with the call at 10:00 a.m. ET.
- **Popular:** Thursday, October 22, before the market opens, with the call at 11:00 a.m. ET.
- **First BanCorp:** Thursday, October 22, before the market opens, with the call at 10:00 a.m. ET.
- **EVERTEC:** No date announced yet. It typically reports in early November, and we will confirm when the company does.

We will judge three banks with year-to-date gains near 30% on net interest margin, loan growth, and credit quality. The island must show that the rotation toward value is a repricing of earnings, not just sentiment.

The IMF breaks ranks on the Puerto Rico Economy



For more than two years, we have said in these pages, and in every presentation I give, that the Puerto Rico Planning Board's forecasts were overstated. The Economic Activity Index is the reason. It contracted year over year for 13 consecutive months, from September 2024 through September 2025, and it has been negative in 19 of the 24 months since September 2024. Now an outside voice has reached the same conclusion: the October IMF projections add a contrarian voice.

The Fund projects Puerto Rico's economy to contract 0.1% in 2026 and grow just 0.1% in 2027, after +0.3% in 2025. It sees inflation at 3.1% in 2026 and 3.6% in 2027, and unemployment at 5.4% and 5.3%. It has US growth at 2.3% in both years.

The Planning Board's September forecast is only slightly more optimistic: +0.3% for fiscal 2026 and +0.2% for fiscal 2027. The difference isn't large, but it shifts the headline from "flat" to "contracting." The two sets of numbers aren't directly comparable. The IMF uses calendar years and GDP, while the Planning Board uses fiscal years and GNP.

The island's latest monthly data leans toward the IMF. After a brief four-month rebound from October 2025 through January 2026, which we called a mirage, the index fell year over year in every month from February through July 2026. August broke the streak with a 0.1% gain, with the index at 128.6, up 0.8% from July. Even so, the index is down 0.5% from January through August and down 0.4% for fiscal 2026, while the Planning Board forecasts +0.3%. A reading that points the other way from the forecast is exactly the kind of gap the IMF is warning about.

The takeaway for investors is that the island's banks are priced for a stronger economy than any forecaster projects, and the hard data has not yet closed that gap. The stocks are up on rates, credit quality, capital return, and operating leverage, not on growth. That reprices promises and leaves little room for error if inflation stays near 3.5% and the economy stalls.

Rates and the yield curve

Both Treasury yields fell this week. The 10-year dropped 14 basis points to 5.10%, and the 2-year slipped 3 basis points to 4.77%. The spread between them narrowed from 44 to 33 basis points, so the curve flattened by 11—the bigger drop at the long end points to a modest move toward safety. Even so, yields remain near the high end of the year's range, so rates still pressure anything that depends on cheap financing.

Geopolitical risk and energy

Rates are not the only thing keeping investors cautious. Energy prices remain very high, and energy is still one of the year's top-performing sectors. The Iran war began in March and caused the year's only 10% pullback. It has kept oil at a premium ever since, and it keeps a floor of caution under the market. For Puerto Rico, that premium is a direct cost, not a headline.

Earnings and sectors

Against that backdrop, earnings are providing support. Third-quarter reporting is underway, and S&P 500 profit growth is expected to be around 29%. The Nasdaq's 2.39% weekly decline matches the October rotation out of tech and into value and defensive sectors, the theme of this week's column.

The quiet lesson of October

The market is rewarding earnings and stability over debt-funded growth stories. Falling yields, a flatter curve, and a strong week for the island index all point the same way. Markets don't punish a good story. They punish a good story that you haven't funded.

The S&P 500 is still up 13.30% for the year but has been flat since August. Beneath the surface, investors' willingness to pay has changed. Tech, the year-to-date leader at 14.93%, is now the weakest sector this month. Energy has taken the lead. Consumer staples, health care and utilities, the sectors you move into when you want to be paid for patience, have moved up to replace tech.

I don't read that as a fear of growth. I read it as a repricing of promises.

Where the pressure is coming from

The selling hasn't been indiscriminate. It's been most severe for companies funding their AI build-out with borrowed funds and with very thin free cash flow to absorb a shock. CoreWeave and Oracle are the two names that come up most frequently in this regard. Investors are also asking whether revenue is coming in as quickly as capital is going out, and the latest revenue figures from the major AI players have sharpened that question. The semiconductors have felt it too.

Rates make it even worse. With inflation running hotter than expected, energy prices up, and Treasuries at yearly highs, borrowing is no longer a rounding error in the capex story. At 5% (and 5.10% after this week's dip), the 10yr is still well up, and the market is pricing in a debt-funded promise of future profits much more heavily than an equity-funded one. The rotation is the market doing that calculation in the open.

What has not changed

Volatility is part of equity investing, not a bug. In a normal year, you'd expect stocks to have one or two 5-15% pullbacks. This year we've had one significant 10% drop (in March, when the Iran war started), and October's dip is nothing like that—earnings, growth, and spending data all point to the economy not collapsing.

- **Earnings.** S&P 500 profit growth is on track to be well over 30% this year (the best since the 2021 post-pandemic recovery). Q3 growth is expected to be around 29%, with 10 of the 11 sectors in positive territory. It's broad-based, not a one-sector story.
- **Growth.** Manufacturing and services PMIs have remained above 50 all year, indicating expansion. The Atlanta Fed's GDPNow model shows 3.6% annualized growth for the third quarter. That's below the 5%+ readings we've seen over the past few weeks, but still well above the 1.5% to 2.0% trend.
- **The consumer.** September retail sales were up 0.8% vs. a 0.3% forecast, and the big banks all reported strong consumption and strong credit performance. Consumption is around 70% of U.S. GDP, so that's the data point that really counts.

Put those three things together, and they don't describe an economy heading into a recession. They describe an economy being asked to bear a higher cost of money, and so far it has.

Three dates to circle In Your Calendar

- **Oct 28 to Nov 2: Mega-cap tech earnings.** The test is less about profit size than about management's ability to show that AI spend is delivering a return and that the debt level is sustainable.
- **Oct 28: The Fed's FOMC Meeting.** The market's baseline is a pause, with a rate hike in Dec still very much on the table if inflation remains so sticky. The tone of the press conference could matter more than the decision itself.
- **Nov 3rd: The midterm elections.** Divided government has historically not dragged on the markets. Since 1970, equities have risen in the 6 months after the midterms, regardless of the outcome. Elections get the headlines, but earnings move the markets. Our final word focuses on the midterm elections and what they mean for Puerto Rico.

The view from San Juan

From San Juan, this week's market looks like a vote on quality. Investors sold most large US banks and bought island institutions with clean balance sheets, high capital, and steady local franchises.
The underlying economy is far weaker than stock prices suggest. The IMF projects a contraction this year and almost no growth next year, with inflation above 3%. Puerto Rico imports 100% of its fuel, so every energy shock hits household budgets, business costs, and a still-fragile power grid. The US midterm elections are less than two weeks away, and Washington's choices on Medicaid, federal funding, and tax policy will matter more to the island than any quarterly beat.
This market rewards what a bank can control, not what the economy provides.

The final word: Puerto Rico has no vote in the midterms, but it has as much at stake as any state

On November 3, 3,184,835 American citizens in Puerto Rico will watch an election they cannot vote in. Puerto Rico sends no voting member to either chamber, and it has no Electoral College votes in the next presidential election. Yet the next Congress will decide whether the island's hospitals stay funded, its lights stay on, and its recovery money keeps flowing. The island's needs do not appear on any ballot. Congress sets the answers to them.

Five needs the next Congress will decide.

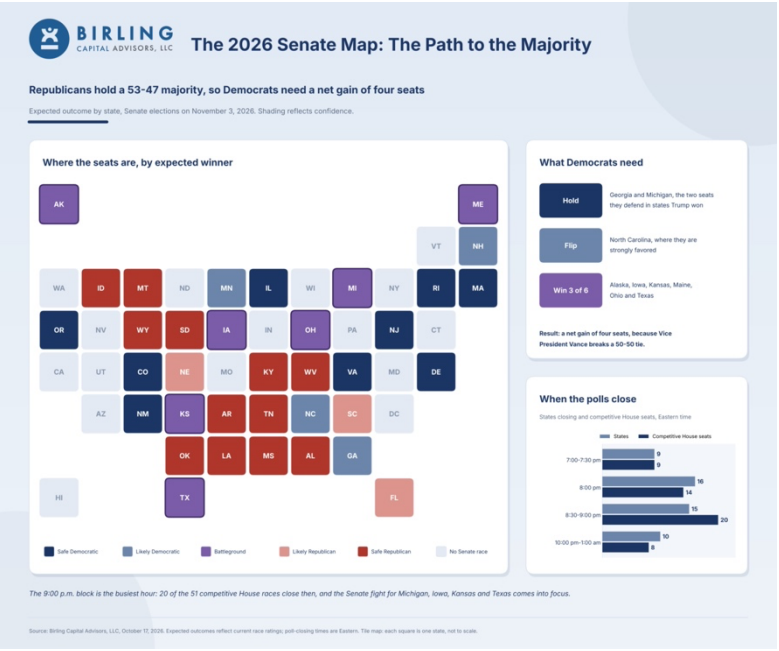
- **Health care funding.** Puerto Rico's Medicaid program runs on a capped federal allotment, unlike the open-ended match the states receive. Every time the temporary funding boost nears expiration, the island faces a cliff. The question for November: does the next Congress treat that

cliff as a routine extension or as a negotiation? A Congress with narrow margins and new leadership has less room to forget about us.

- **Energy.** Puerto Rico imports 100% of its fuel, so the island feels every oil shock directly, and its grid is still fragile. Federal decisions on grid-rebuilding funding, fuel rules, and shipping costs matter more here than almost anywhere else in the United States. If gasoline is the old bellwether for American elections, then for us it is also the bellwether for household budgets and for every business that runs on diesel.
- **Recovery dollars.** Billions in post-hurricane federal funds remain committed but unspent, and every dollar depends on appropriations, agency rules, and congressional oversight. The risk is not a dramatic cancellation. It is slow-walking, new conditions, and delays. New committee chairs change which of those risks is greater.
- **Fiscal oversight.** The federal oversight board created under PROMESA still shapes the island's budgets, and its own projection of +0.1% growth for fiscal 2026 sits close to the IMF's -0.1% for 2026. Congress can modify or end that oversight. A change in House or Senate control changes who sets the agenda for that discussion and how seriously Washington takes the island's fiscal plan.
- **Tax and competitiveness.** Federal tax law decides whether Puerto Rico can compete for investment, from the child tax credit for island families to the rules on corporate income and manufacturing. A divided Congress passes little. A unified one can change the island's tax position in a single bill.

How the outcomes map to the island

The result matters as much as the winner. If Democrats win the House while Republicans keep the Senate, Puerto Rico will likely face gridlock, with extensions at the deadline and oversight hearings in place of major changes. If Democrats win both chambers, the island has its best chance at structural change on health funding, grid money and oversight, though a narrow Senate majority limits how much can pass. If Republicans keep both chambers, we should expect continuity on tax and energy policy, and the risk shifts to a harder fight over spending.



Where the island has a voice

Puerto Ricans on the mainland vote, and they vote in places that matter. Florida and Pennsylvania have two of the country's largest Puerto Rican communities, and both have several tight House races. If 2024 Hispanic voting trends reversed, those two states would show it first. That is the island's most direct influence on this election.

What it means for investors and banks

This week's column showed the island's banks priced for a stronger economy than any forecaster projects. Federal money is the variable that can close that gap. Medicaid funding, recovery dollars, and tax policy are growth sources the local economy does not generate on its own. After November 3, we will watch the size of the House majority, since a narrow one can hold any bill hostage. We will watch whether

Democrats reach four net Senate seats, which would change the committee chairs that handle Puerto Rico. We will also watch which party chairs the committees on health, energy, natural resources, and appropriations.

The first question on November 4

Within weeks, the lame-duck session will set the tone, and the new Congress's leaders will choose their committee chairs. Then comes the new Congress's first budget. Those quiet decisions, not the election-night map, determine whether the island's priorities make it into law or are left to a future deadline. Puerto Rico's Resident Commissioner speaks in the House but cannot vote, so the island's influence depends on how many members of both parties understand what is at stake and decide it matters to them.
That is why we should judge the winners by three tests, not by the party they belong to:

- **Health care:** Does Medicaid funding for the island stop being a recurring cliff and become predictable?
- **Energy:** Does federal support for the grid match the island's dependence on imported fuel?
- **Recovery:** Does the money Congress has already committed reach the projects and families it was promised to?

For investors, these are not political questions. They are the difference between an economy the IMF projects to shrink this year and one with a real path to growth. Federal decisions are what make a better outcome possible or leave it as a promise.
We cannot vote for the people who will write the next federal budget. We can know exactly what we need from them: health care that doesn't expire, power that doesn't fail, and recovery money that arrives. On November 4, the first question isn't who won. It is what the winners owe Puerto Rico.

"Puerto Rico's 3.18 million United States citizens have no vote in this election, so we must have a memory. Our task on November 4 is to make sure the winners remember the fellow citizens whose future they now help decide."
Francisco J. Rodríguez-Castro

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