BIRLING CAPITAL ADVISORS, LLC

Think Strategically

Year Five of the Bull Market: The Rally That Kept Climbing the Wall of Worry

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The Weekly Wall Street Recap

U.S. stocks finished higher across the board last week. The S&P 500 gained 1.15% to 7,811.54, the Dow Jones Industrial Average rose 0.93% to 51,654.55, and the Nasdaq Composite advanced 0.64% to 27,366.17, leaving the Nasdaq the strongest of the three so far this year at +17.74%.

Puerto Rico did better still. The Birling Capital PR Stock Index rose 1.41% to 4,832.92 and is now up 22.02% for the year, roughly 7.9 points ahead of the S&P 500. The Birling Capital U.S. Bank Index lagged, adding just 0.16% to 9,411.26 and trailing the broad market at +4.14%. Treasury yields eased slightly, with the 10-year note down 4 basis points to 5.24% and the 2-year down 3 basis points to 4.80%, though both remain well above where they began the year.

That puts the S&P 500 just below the 7,818.93 it reached last Tuesday, when it closed above 7,800 for the first time, and it arrives at a milestone. On October 12, 2022, the index sat roughly 25% below its peak, inflation was above 8%, and the Federal Reserve was hiking at the fastest pace in a generation. Almost nobody was calling a bottom. Four years later, the index has more than doubled and has recorded its 124th all-time high.

The anniversary invites a victory lap. It deserves a closer look, though, because the bull market entering its fifth year looks very different from the one that began it. The Fed is now raising rates, not cutting them. The 10-year Treasury yield has touched about 5.3%, its highest level since 2002. Brent crude is hovering near $100. Yet earnings are growing faster than at any point in decades outside post-recession rebounds.

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Weekly Wall Street comparison
Friday, October 2, 2026 vs. Friday, October 9, 2026

Index	Oct 2 close	Oct 9 close	Point change	Week change	YTD
Dow Jones Industrial Average	51,176.95	51,654.55	+477.60	+0.93%	+7.47%
S&P 500	7,722.72	7,811.54	+88.82	+1.15%	+14.11%
Nasdaq Composite	27,190.86	27,366.17	+175.31	+0.64%	+17.74%
Birling Capital PR Stock Index	4,765.83	4,832.92	+67.09	+1.41%	+22.02%
Birling Capital U.S. Bank Index	9,396.52	9,411.26	+14.74	+0.16%	+4.14%
U.S. Treasury 10-year note	5.28%	5.24%	-0.04 pts	-4 bps	+106 bps
U.S. Treasury 2-year note	4.83%	4.80%	-0.03 pts	-3 bps	+133 bps

A solid run, not a record-setter

Measured from the October 2022 low, the S&P 500 has gained about 117% in price, or roughly 130% with dividends. That is impressive but ordinary by historical standards. The eleven bull markets since the late 1950s averaged price gains near 150% and lasted about five years, and six of the eleven ran past the four-year mark. The longest, from 2009 to 2020, lasted almost eleven years.

So age alone is not a warning sign. What sets this cycle apart is the terrain it has crossed: the 2023 regional bank failures, the 2024 yen carry trade unwind, the 2025 tariff correction, and in 2026 a war involving Iran, an oil price shock, and the S&P 500's slide to a closing low of 6,344 on March 30. From that low, the index has rallied about 23%.

Four forces that define this cycle

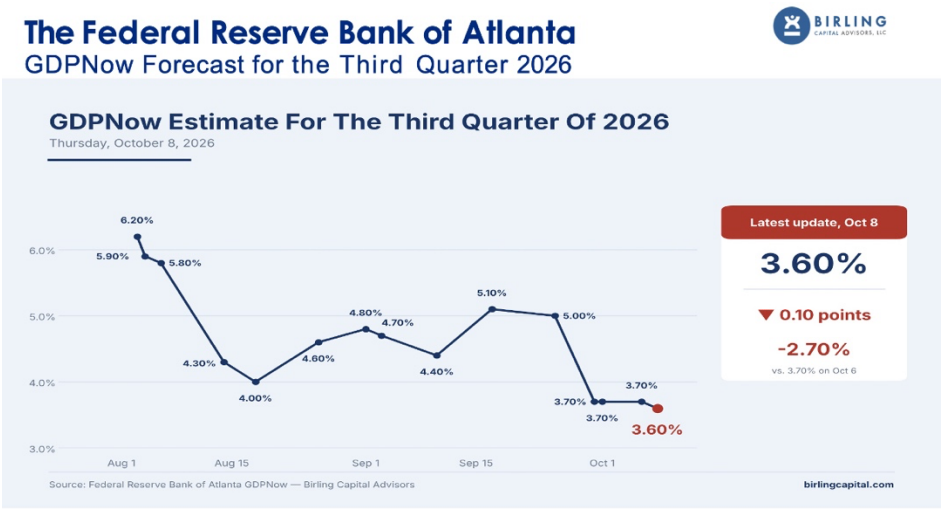
1. **Skepticism never left.** Bull markets usually end in euphoria. Recession calls have shadowed this one since its first week. The inverted yield curve, normally a reliable alarm, stayed negative through most of 2022 to 2024, and the recession never came. Growth ran above trend, consumers kept spending, and AI-related investment grew large enough to rival the entire housing sector's fixed investment. The wall of worry is still standing, which is historically more comforting than a market with no doubters.
2. **Higher rates are the price of strong growth, and now the main risk.** Many investors spent four years waiting for rates to return to 2010s levels. The better question is whether that decade was the anomaly. Government borrowing is heavy, capital spending needs are large, and the Fed's own estimate of the long-run neutral rate has climbed to 3.25%, the highest since 2016.
   This is where the story has moved furthest from the original script. In September the Fed raised its target range by a quarter point to 3.75%–4.00%, its first hike since 2023. The updated projections showed 16 of 18 officials expecting at least one more increase this year, with the median year-end rate at about 4.1%. Median 2026 inflation (PCE) is projected at 3.7%, with unemployment at 4.1%. A Fed expected to "tap the brakes" is, by its own projections, still pressing on.
3. **AI built the earnings, and the leadership is narrow.** Roughly 40 cents of every dollar in the S&P 500 sits in its ten largest companies, and NVIDIA alone accounts for about 8 cents. This concentration has been earned: the biggest names are producing the biggest profit gains. But concentration cuts both ways. It means the index's fate depends heavily on a handful of capital-spending decisions and earnings reports.
4. **Earnings have taken over from valuation.** About 70% of the gain since 2022 came from higher earnings and 30% from a higher multiple. This year the balance tipped further as multiples eased while profits surged. Analysts expect third-quarter S&P 500 earnings to grow about 29.5% from a year ago, the third straight quarter above 25%. Revenue growth near 12% suggests this is not merely cost cutting. Estimates rose during the quarter, which is unusual, since analysts normally trim them. Fourth-quarter growth is projected near 28%, and full-year 2026 growth is close to 32%

The headwinds worth taking seriously: Three pressures are converging at once.

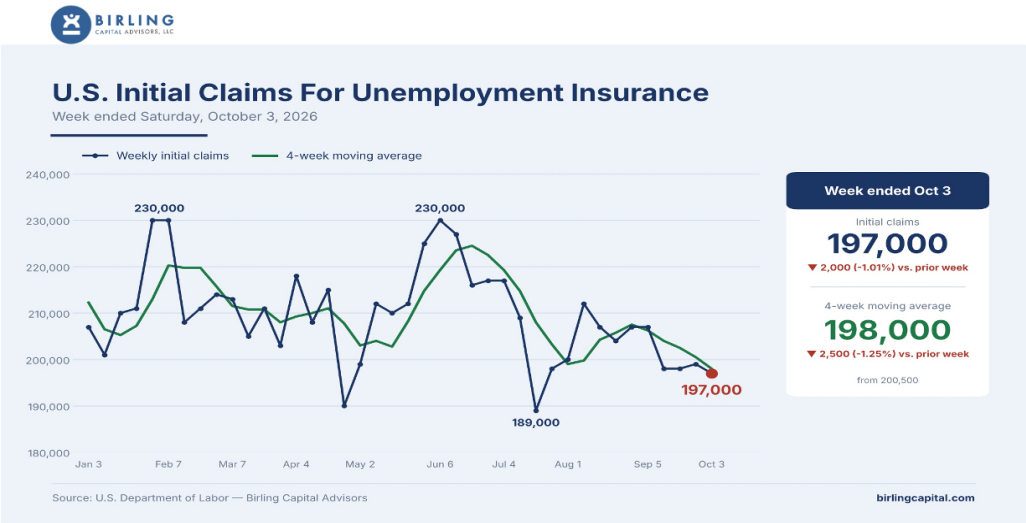
- **The bond market is competing for capital.** A 10-year yield above 5% gives investors a credible alternative to equities for the first time in a generation. Stocks have absorbed it so far because earnings are rising, but each new yield high narrows the margin for error.
- **The earnings comparison gets harder**. Consensus calls for growth to slow to roughly 15% in 2027, with a nearly flat quarter along the way. Markets can handle deceleration, but not disappointment relative to a very high bar.
- **The market is overdue for a pause.** The S&P 500 has gone close to a year without a 10% pullback. Corrections are routine, and the longer the gap, the less shocking they are.

What the latest U.S. data say: growth cooling, jobs holding

GDPNow shows that the Atlanta Fed's estimate of third-quarter growth fell to an annualized rate of 3.60% in its October 8 update, down from 3.70% on October 6. This is the lowest figure for the quarter, being 2.6 points below the initial estimate of 6.20% given on August 3. The trajectory has been irregular: it fell to 4.00% by August 18, rose to 5.10% on September 17, and then dropped 1.3 points to 3.70% on September 30. It stayed there until October 6, then fell again. Nevertheless, 3.60% is still well above the 2% long-term trend. The economy is still growing strongly, but the model's inputs have been softer than they appeared in early August. GDPNow is a model estimate, not an official forecast, and the estimate will continue to change as new data arrives.



Initial jobless claims. Initial jobless claims fell to 197,000 during the week ending October 3, down 2,000 (1.01%) from 199,000 the previous week. The four-week moving average also fell to 198,000 from 200,500, down 2,500 (1.25%). Claims are now near the year's low. They peaked at 230,000 in early February and again in early June, and hit a low of 189,000 in July. The most recent figure is therefore 33,000 below the peak levels. Employers are still retaining workers, with little evidence of the layoffs that usually occur as the economy slows.



What it means. This means growth is slowing to 3.60%, but the labor market isn't slowing, as shown by the 197,000 figure for initial claims. This is one reason the Federal Reserve has been able to continue tightening. Strong labor market data supports further interest rate hikes rather than fewer; continue tightening.

What to watch between now and year-end

Date	Event	Why it matters
October 14	September Consumer Price Index	Tests whether the oil shock is spreading into core inflation
October 13 & 14	Third-quarter earnings season opens	10/13: JPMorgan Chase, Goldman Sachs, Wells Fargo, Citigroup 10/14: Bank of America, Morgan Stanley
October 27–28	Federal Reserve meeting	Futures were roughly split on a second hike; the decision comes a week before the midterms
November 3	U.S. midterm elections	Fiscal policy and deficit expectations feed directly into Treasury yields

Where this could go: three illustrative scenarios

Year-end targets on Wall Street generally fall between 7,950 and 8,000, representing only about a 2% increase from current levels. Rather than relying on any single forecast, it's worth looking at the underlying figures. Price is roughly equal to earnings multiplied by the multiple investors are willing to pay, and the S&P 500 is currently trading at about 19 times expected earnings. The scenarios below are my own simplified examples covering twelve months, starting with the index near 7,800.

Scenario	Earnings growth	Multiple	Implied index	Change
Earnings carry it	15%	19x (steady)	about 8,970	up about 15%
Rates take a toll	12%	18x	about 8,280	up about 6%
Higher rates and an earnings stumble	5%	16x	about 6,900	down about 12%

The second case is the most instructive. Even with strong profit growth, a modest loss of one multiple point leaves returns well below the double digits of the past four years. In this phase of the cycle, the multiple matters as much as earnings, and the 10-year Treasury yield largely sets the multiple.

The takeaway

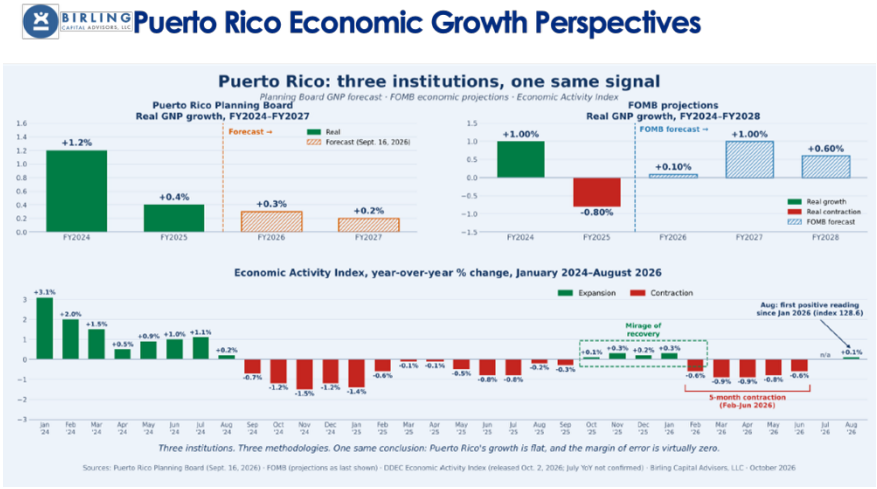
Bull markets rarely die of old age. They end when the Fed tightens too hard, when the economy rolls over, or when earnings fall short of a price that has already assumed perfection. Today, the Fed is tightening, though not yet at a level that is restrictive by historical standards, and earnings still beat expectations. That is a tension, not a verdict.

We believe the onus of proof is changing. During the first three years, investors had to be convinced that the rally was genuine. By the fifth year, the rally itself will have to show it can endure yields above 5% and a Federal Reserve that hasn't finished its work yet. The most likely scenario is a market that keeps rising, but more slowly and with greater turbulence, with returns closer to earnings growth minus some multiple compression rather than the double-digit rates seen in recent years.

The practical implications are that you should anticipate a pullback rather than be surprised by it, regard the concentration among a small number of AI leaders as a risk to be assessed rather than as a trend to be pursued, and keep a close eye on the 10-year yield just as you do on any earnings report.

Puerto Rico Economic Update

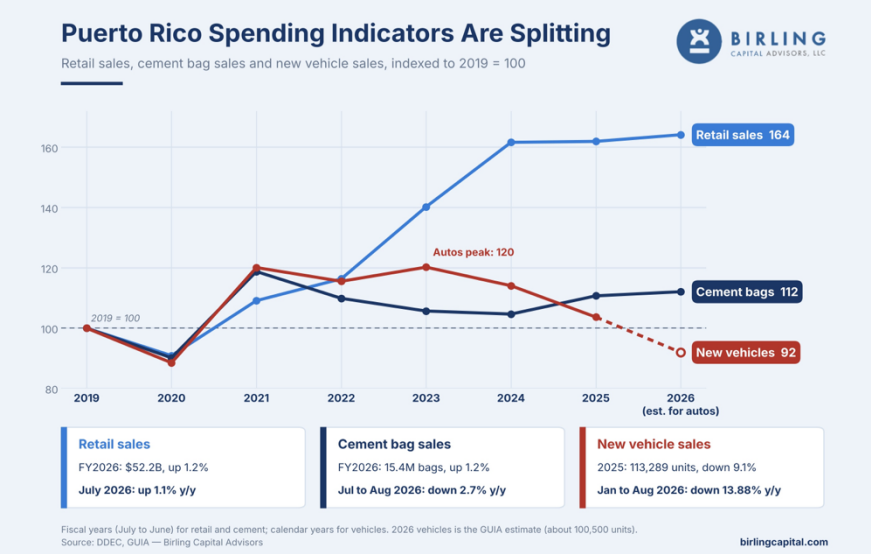
Puerto Rico's economy is flat, and the latest figures indicate problems beneath the surface. Growth predictions are near zero, unemployment is at its highest level in the period we have data for, and consumer spending remains weak in motor vehicles, retail, and construction. The only exception is publicly traded companies: the Birling Capital Puerto Rico Stock Index has increased 22.02% this year.



- **GDP Growth Stagnant:** On the growth forecast, only one of three institutions is signaling growth. According to the forecast issued by the Puerto Rico Planning Board on September 16, real GNP will grow by 0.3% in fiscal 2026 and by 0.2% in fiscal 2027, following growth of 1.2% in fiscal 2024 and 0.4% in fiscal 2025. The Financial Oversight and Management Board, by contrast, predicts 0.10% for fiscal 2026, 1.00% for fiscal 2027, and 0.60% for fiscal 2028; it forecasts a 0.80% contraction in fiscal 2025, whereas the Planning Board forecasts growth. Although the methods used differ, all three sources agree that the margin for error is virtually zero.
- **The Economic Activity Index rose 0.1% year on year in August:** this marks the first positive figure since January 2026. After contracting for five months from February through June, the index is followed by an unconfirmed July reading. We treat this single-month improvement with caution. The small rises in the index from October 2025 to January 2026 were also nothing but a mirage of recovery.
- **Labor Market**: The unemployment rate rose to 6.1 percent in August from 6.0 percent in July; it was 5.4 percent in January 2025 and 5.7 percent in January 2026, a 0.7-point rise over a little more than a

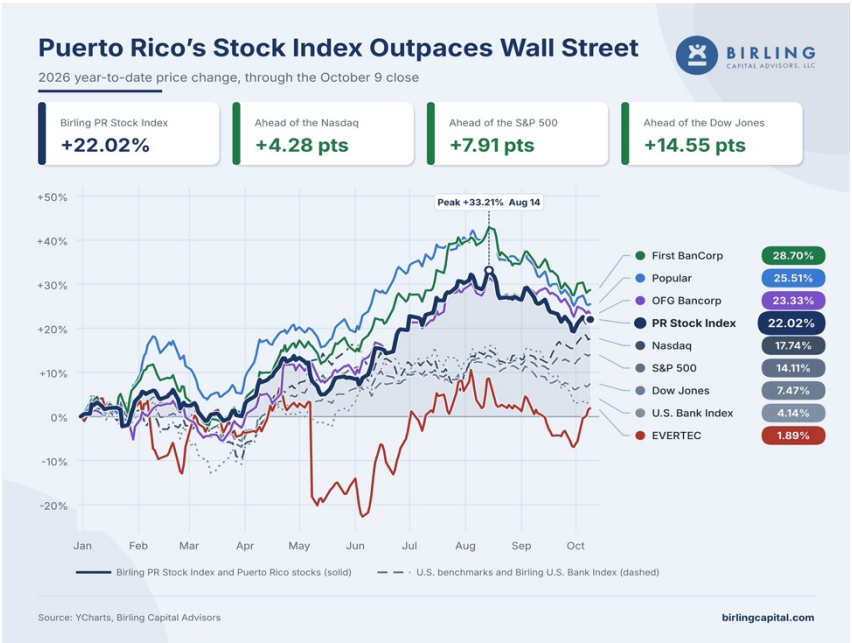
year. Labor force participation stood at 45.9 percent in August, down from 46 percent in July. This figure is well above the 44.3 percent seen in May and the series average of 44.8 percent. Despite the rise in unemployment, more people are joining the labor force, and the economy has not yet absorbed them.

Consumer and construction demand.



- **Sales of Bags of Cement:** In fiscal 2026, production reached 15.37 million bags, up 1.2% and therefore nearly unchanged. Fiscal 2027 started off weakly, with July and August falling by 2.7% to 2.64 million bags and August alone declining by 5.3%. The figure for the period from calendar 2026 through August is 2.5% lower, which confirms that the reconstruction cycle has matured.
- **Retail Sales:** In the retail sector, retail sales in fiscal 2026 amounted to $52.2 billion, a nominal peak and a 1.2 percent increase; the growth trend has now slowed. Sales in July rose 1.1 percent to $4.41 billion, while the January to July total of $30.0 billion was unchanged from the same period last year.
- **Auto Sales:** Motor vehicle sales in August were 7,485, down 7.9 percent from 8,127 in the previous year, ending the gains made in June and July after 13 months of losses. In the first half of the year, total sales were 64,129, compared with 74,463 in the same period last year, a decline of 13.88 percent. The industry body GUIA now expects sales in 2026 to be about 100,500, which is roughly 11 percent less than in 2025. The reasons cited are geopolitical tensions, inflation, tariffs, interest rates, and the excise tax, which can reach 34 percent. Electric vehicles are the bright spot, up 37 percent this year, with hybrids up 48 percent.

Birling Capital Puerto Rico Stock Index and its YTD Return



As of October 9, the index was up 22.02% so far this year, roughly 11 points below its peak of 33.21% on August 14. It continues to outperform all the other indices we monitor: the Nasdaq Composite is up 17.74%, the S&P 500 is up 14.11%, the Dow Jones is up 7.47%, and the Birling Capital U.S. Bank Index is up 4.14%. First BanCorp (FBP) leads the island's stocks, up 28.70%, followed by Popular (BPOP) at 25.51% and OFG Bancorp at 23.33%. Evertec (EVTC) has turned positive, up 1.89%. The

island's banks are performing strongly compared with their U.S. counterparts, although local economic activity remains flat. The main tension in this month's data is the gap between listed companies' performance and local economic activity.

The Final Word

Benjamin Graham, the Columbia Business School professor widely called the father of value investing, spent a career separating what markets pay from what companies are worth. He wrote *Security Analysis* (1934, with David Dodd) and *The Intelligent Investor* (1949), and was a teacher of Warren Buffett. He gave investors the most useful sentence ever written about markets: **"In the short run, the market is a voting machine, but in the long run, it is a weighing machine."**

Wall Street enters year five of this bull market with earnings growing nearly 30% and the Fed still raising rates. Profits are backing its votes. Puerto Rico's are being cast on hope. Growth forecasts sit near zero, unemployment has climbed to 6.1%, and cement, retail and auto sales are all losing momentum. Yet the island's banks are up 23% to 29% this year, and the Birling Capital PR Stock Index is up 22%. Investors are paying today for a recovery the economy has not yet delivered.

The weighing begins now. The big banks report this week, September inflation arrives on Wednesday, the Fed decides on October 28, and the November 3 midterms follow. Then come the next Economic Activity Index readings, the unemployment rate and the Fed's December projections. Each one adds weight to one side of the scale. Either local demand catches up with prices, or prices come down to meet demand. Both cannot keep rising and falling apart for long.

The gap closes in one of two ways, and we can clearly see which signals to watch. Rising employment, firmer sales and stabilizing yields would justify the rally. A further slide in jobs and spending, with the 10-year Treasury yield stuck above 5%, would not.

Do not mistake the scoreboard for the game. Puerto Rico's stock market tells you what investors hope. Its labor market, sales, and cement bags tell you what is happening. In the end, the weighing machine wins.



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