We are pleased to announce that we launched our finance, investment, economic, and public policy app developed by Birling Capital’s software development company LeadPivot Technologies. The content, which the firm creates for our clients and other readers includes Birling Capital’s daily “Global Market Square” market analysis in Spanish and English, its newsletter “The Spyglass Advisor,” “Think Strategically,” and other publications.

“Birling Capital is committed to eliminating the financial literacy gap that often occurs with a significant percentage of our population.”

Birling Capital’s goal is to provide you with expert opinions and commentaries from all over the world to our readers with a detailed view of the economy, markets, and geopolitics. We also offer you our outlook for Puerto Rico’s economic progress and the United States to allow you to plan with a 3 to 5-year window.
We invite you to examine this month's insights to help you stay ahead of the curve.

We thank you for your continued support.

Francisco Rodríguez-Castro
President & CEO
Birling Capital Advisors, LLC.

“Perpetual optimism, believing in yourself, believing in your purpose, believing you will prevail, and demonstrating passion and confidence is a force multiplier. If you believe and have prepared your followers, the followers will believe.”

General Colin Powell
As we publish this special January 2022 edition of The Zenith Investor, we note that 2022 arrived amid the Omicron COVID-19 variant surge as a nasty surprise for the world. The global economy has entered its third consecutive year of fighting a pandemic with various situations and challenges. Both businesses and governments have been forced to use every weapon at their disposal to confront the pandemic, protect human lives, continue to operate and create an environment that prevents further contagions.

In the U.S. and Puerto Rico, the degrees of success vary by one key fact. In the U.S., the COVID-19 pandemic, mask mandates, social distancing, vaccinations, and other measures were made into a political issue rather than a scientific one. In Puerto Rico, COVID-19 has been treated as a scientific issue, with broad mask mandates, outsize vaccination efforts, the implementation of a Vaccine Passport, and broad efforts to contain the pandemic in all areas of the business and government operating environment. It should not be a surprise that Puerto Rico has a total of 80.8% of its population fully vaccinated, the highest rate of any U.S. State or territory. Meanwhile, the U.S. has a 62.5% of its population fully vaccinated, which is an impressive 18.3% difference between the U.S. and Puerto Rico. Before December 11, 2021, at least here in Puerto Rico, everyone thought that COVID-19 was under control until Omicron arrived and the Super Spreader Bad Bunny Concert changed our Christmas and crude reality. Just before Omicron and the Bad Bunny concert from January 1, 2021, to December 11, 2021, we had 79,346 COVID-19 cases. However from December 12, 2021, to January 11, 2022, we reached 67,543 or 85.12% of the total new cases in just a month. That means from the 314 days from January 1, 2021, to December 11, 2021, Puerto Rico had an average of 252 cases per day; following December 12, 2021, to January 11, 2022, our case average rose to 2,252 per day. If that rate were to continue at that same rate, we could see 200,000 new cases in the next few months.

Having established the COVID-19 exogenous shock event that continues, we decided to look at the year ahead 2022 by responding to 6 critical issues in everyone's mind.

In the spirit of fighting the COVID-19 war and ushering in the new year, We offer our responses to these issues.

**Issue 1: Where are we in the economic cycle, and what comes next?**

The answer largely depends on where we live, so we shall focus our response on the U.S. and Puerto Rico.

The world's economy is in the latter part of the economic cycle in broader terms.

However, as we look at the U.S., we note that due to the aggressiveness of the federal fiscal stimulus, the faster than the expected reopening of the economy this combination boosted economic growth well ahead of projections, and the U.S. is expected to continue growing in the longer term.

We have seen significant increases in corporate earnings investments and consumption during 2021 and continuing into 2022. While supply disruptions and labor shortages have impacted overall growth, we believe that during 2022 these factors will resolve themselves. Notably on the agenda is the Federal Reserve Bank changes to its monetary policy, an issue we will address later.

In Puerto Rico, the economy went from a -4.40% contraction to a rise economic activity of 2.60% GDP, representing a 269.23% improvement. Also, the Economic Activity Index grew from -3.20% to 2.80%, a 214.29% increase in twelve months. The Jobs Growth and Unemployment Reduction saw improvements in unemployment with a decrease of -15.22 percent over the past twelve months, falling from 9.2% to 7.80%. In addition, the labor participation rate increased 8.77% during the same period rising from 39.9% to 43.40%

**Issue 2: When will the Federal Reserve Bank begin to raise interest rates?**

We predict that the Federal Reserve will begin to raise rates once it ends the tapering process that it is currently undertaking; we estimate that the first-rate increase may occur in July 2022, if not sooner. However, the timing depends mainly on how inflation shifts, the jobs market is reaching full employment and the Fed's key economic projections.

The Fed's usual inflation target is 2%, and it did not act as it insisted that inflation was temporary. With the U.S. unemployment rate at 4.2% and more than 10 million job openings, we believe full employment will be met as the Fed's projection of full employment is below 4%.

### Economic Growth Forecast

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<tr>
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<th>2022</th>
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<tbody>
<tr>
<td>USA</td>
<td>4.00%</td>
<td>2.40%</td>
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<tr>
<td>Puerto Rico</td>
<td>2.50%</td>
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Issue 3: When will inflation subside?

While some aspects of the current inflation increase, such as energy prices, transportation costs, and global supply chain disruption, may fade over time. However, the salary increases to attract workers, rent, and housing costs may create a more persistent inflation pressure.

Our expectation is for inflation in the U.S. to fall during the year to 3%, with core inflation closer to the 2% Fed target. However, this morning the U.S. Consumer Price Index rose to 7.04%, the most significant increase since 1982 with no signs of abatement.

Issue 4: Will the Global Supply Chains disruptions end?

Supply chain disruptions have created havoc during 2021, creating significant price increases for both companies and consumers. Most companies worldwide were unprepared to meet the more substantial than expected demand,

and the world economies rose from the pandemic, creating a mismatch between demand and supply that continues to be unmet. The most considerable computer chip shortages have hampered the Auto industry more than any other.

We see signs of supply chains becoming normalized, and many manufactures have made announcements that they will meet their demands. Toyota recently stated that during December 2021, its factories were meeting all their current need for products; we hope this is true as we have seen SUV’s selling for $66,000 more than $25,000 markup.

Issue 5: What are the drivers of corporate earnings in the wake of disruptions, COVID, and increased costs?

The corporate earnings season happens four times, specifically January, April, July & October, bringing about crucial information about all economic sectors. After a string of solid earnings reports throughout 2021, the first results of 2022 may be a bellwether for the year ahead. As such, earnings season requires increased market monitoring, due diligence, and attention to detail than other times of the year.

In the coming weeks, we will begin to examine these results.

As you have already seen, during the first week of trading of 2022, Equity markets will become more volatile as investors absorb the broader economic outlook. But in general terms, the markets follow the yellow brick road of earnings, specifically meeting or surpassing them. In our view, most companies’ net margins have expanded, improved costs, and became more efficient, protecting and enhancing most of the earnings power allowing companies to expand their earnings during 2022.

Issue 6: How should investors position their portfolios?

The best advice is always to maintain a well-diversified portfolio of stock, bonds, and other instruments that meet your financial goals, risks tolerance, investment horizon, among other criteria. However, we continue to favor opportunities in the value and cyclical sectors of the U.S. equity market, which is full of exciting investment opportunities with adequate risk-reward price levels.

Also, we have been looking at asset classes in the market that perform well in a low-growth economic theater, specifically large-cap technology and defensive/quality stocks. In broader terms, we prefer a balanced approach to investing in equity-market exposure in 2022. We expect the overall returns to be positive with a hefty dose of volatility for 2022.

Focus on the U.S. & Puerto Rico Banking Sector:

One of the sectors that will significantly benefit from the current setting of projected interest rate increases is the Banking Sector. Mainly we have selected to evaluate the U.S. and Puerto Rico Banking Sector. For that reason, we begin our analysis by examining the top 7 U.S. Bank holding companies, part of the Birling Capital U.S. Bank Index. The Birling U.S. Bank Index is a market value-weighted index composed of the top (7) Bank holding companies headquartered and/or with their principal place of business in the United States. All companies trade on NYSE, AMEX, or NASDAQ national stock markets. This report examines how each bank holding companies’ stock has fared during 2021 compared to the Dow Jones, S&P 500, Nasdaq and how they have managed against the Birling Capital U.S. Bank Stock Index.
The returns of these four indices for 2021 were as follows:
1. Dow Jones Industrial Average 18.73%
2. S&P 500 26.89%
3. Nasdaq Composite 21.39%
4. Birling Capital U.S. Bank Index 38.43%

The Birling U.S. Bank Index achieved in 2021 a return of 38.43%, and when pegged against the other indexes, the Birling U.S. Bank index beats them all. Let see how each of the constituents companies in the Birling U.S. Bank Index has performed individually and against the major indexes.

1. **Wells Fargo & Co** (WFC), Achieved a total return of 58.98% that beats the Dow, S&P, Nasdaq & Birling U.S. Bank Index handsomely.
2. **Bank of America Corporation** (BAC), Achieved a total return of 46.78% that beats the Dow, S&P, Nasdaq & Birling U.S. Bank Index handsomely.
3. **Goldman Sachs Group** (G.S.), Achieved a total return of 45.06% that beats the Dow, S&P, Nasdaq & Birling U.S. Bank Index handsomely.
4. **Morgan Stanley** (M.S.), Achieved a total return of 43.24% that beats the Dow, S&P, Nasdaq & Birling U.S. Bank Index handsomely.
5. **JP Morgan Chase & Co.** (JPM), Achieved a total return of 24.62% that lags both the Birling U.S. Bank Index and the S&P 500 but beats the Dow Jones and Nasdaq, Dow Jones Industrial Average.
6. **U.S. Bancorp.** (USB), Achieved a total return of 20.56% that underperformed the Birling U.S. Bank Index, S&P, and Nasdaq.
7. **Citigroup Inc.** (C), Achieved a total return of -2.06% that underperformed the Birling U.S. Bank Index, Dow Jones, S&P, and Nasdaq.

**Focusing on the Birling Capital Puerto Rico Bank Index**, the year 2021 began much more robust than anyone anticipated. The three bank holding companies that make up the index have risen to lofty levels as most are viewed as in a much better position as we put the pandemic behind them.

We review each of the banks in that light, analyzing their performance for 2021.

**Birling Capital Puerto Rico Stock Index achieved a return of 48.56%**, which, compared to the other indexes, beat them all. The Dow Jones has 18.73%, S&P 500 26.89%, Nasdaq Composite 21.39%, and Birling Capital U.S. Bank Index 38.43%

The 48.56% year-to-date return translates into 159.26% more than the Dow Jones, 80.58% more than the S&P 500, 127.02% more than the Nasdaq, and 26.35% more than the Birling U.S. Bank Index.

Now let's take a look at each stock and its returns.

1. **Firstbank Corp.** (FBP), Achieved a total return of 49.46% that beats the Dow, S&P, Nasdaq & Birling U.S. Bank Index handsomely.
2. **Popular, Inc.** (BPOP), Achieved a total return of 45.67% that beats the Dow, S&P, Nasdaq & Birling U.S. Bank Index and lags the Birling P.R. Stock Index.
3. **OFG Bancorp.** (OFG), Achieved a total return of 43.26% that beats the Dow, S&P, Nasdaq & Birling U.S.

Our review demonstrated how both the U.S. & Puerto Rico banks' management have successfully navigated through one of the worst economic exogenous shock periods in several generations. It has had a sustained and spectacular recovery.

In line with the recent 2021 performance, the U.S. and Puerto Rico banks should deliver faster growth and rising profitability during 2022. Moreover, according to Deloitte, a recent bank CEO survey showed that 88% expect top-line revenues to increase during 2022.

Warren Buffet, The Oracle of Okama, cleverly stated some words that will live forever "Despite some severe interruptions, our country's economic progress has been breathtaking. Our unwavering conclusion: Never bet against America."

With this thought in mind, you should take a look at the Top U.S. & Puerto Rico Public Bank holding companies during 2022.

This book, penned by Walter Isaacson, Former Editor of Time Magazine, Chairman & CEO of CNN, President of the Aspen Institute, and author of Steve Jobs and Leonardo Davinci, has written The Code Breakers: Jennifer Doudna, Gene Editing and the Future of the Human Race. The book depicts how Dr. Jennifer Doudna and Dr. Emmanuelle Charpentier both Nobel Price in Chemistry laureates. We able to develop the earth-shaking research that brought Doudna and Charpentier to the pinnacle of global acclaim can control future pandemics — either by outwitting the next viral plague through better screening and treatment or by engineering human beings with better disease resistance programmed into their cells. The gene-editing technique that they patented, which goes by the unwieldy acronym of CRISPR-Cas9, makes it possible to snip and alter bits of DNA selectively. A fascinating book that to properly understand the COVID-19 pandemic is a must-read.

We hope that you have enjoyed this issue of The Zenith Investor ©, and we very much welcome your comments, thoughts, and ideas; you may reach us at frc@birlingcapital.com or 787-247-2500.

Francisco Rodríguez-Castro
President & CEO

About Birling Capital

Birling Capital is a corporate advisory & consulting firm that offers broad corporate finance & advisory services. We focus on identifying and resolving organizational finance-related issues. We use a holistic approach to both assets and liabilities sides with integrated Business, family needs, and objectives.

It is not about proposing solutions; It's about executing them seamlessly