

Markets Pause as Fed Bets Rise and Trade Tensions Return; Wall Street Retreats, Global Optimism Holds.

August 5, 2025

by Francisco Rodríguez-Castro
frc@birlingcapital.com

The U.S. and European stock markets closed with mixed results following yesterday's rally. Wall Street closed lower Tuesday as investors weighed a mix of downbeat economic data and fresh tariff signals from **President Trump**, sparking renewed anxiety over the health of the economy.

The **S&P 500** slipped **0.49%**, while the **Nasdaq Composite** lost **0.65%** and the **Dow Jones Industrial Average** edged down **0.14%**.

The retreat comes after a volatile stretch for markets: on Friday, the Dow plunged over 500 points following a jobs report that highlighted persistent labor market softness. However, the blue-chip index recouped those losses on Monday with a nearly **600-point rally**, driven by optimism around potential rate cuts and strong earnings. Tuesday's pullback underscores the continued jittery sentiment, with every new data point and policy comment acting as a market catalyst.

European and Asian markets closed broadly higher, reflecting global optimism and improving risk appetite. Meanwhile, in fixed income, the **10-year U.S. Treasury yield** closed unchanged at 4.22%, still hovers near its lowest level in three months, following last week's sharp decline after a surprisingly weak July jobs report. The **U.S. dollar** is holding steady against major currencies, while **oil prices continue to retreat** as traders digest mixed OPEC supply signals and softening U.S. growth expectations.

Monetary Policy in Focus: September Rate Cut Odds Surge

The Federal Reserve remains at the forefront. Last week's disappointing payroll report catalyzed a dramatic shift in interest rate expectations. Markets now price in **60 basis points of cuts** by year-end—double the forecast immediately following the July FOMC meeting. The probability of a **25-basis-point cut in September has surged to 90%**, according to futures markets.

However, Fed officials remain divided. **New York Fed President Williams**, **Atlanta's Bostic**, and **Governor Hammack** have downplayed July's softness, suggesting it may be a transitory phenomenon. But **San Francisco Fed President Mary Daly** broke ranks, warning that "more than two cuts" may be necessary to sustain growth amid labor market cooling. With another jobs report and **two CPI prints** ahead of the September meeting, the data-dependent Fed still has ample time to recalibrate. For now, the bond market is leaning toward a more accommodative stance—and equities are cheering the shift.

Digest Mode: From Tariffs to Trade Data

After last week's flood of economic headlines—ranging from aggressive tariff announcements to central bank updates—this week is expected to be more subdued. That said, today's **U.S. trade data** confirmed a sharp narrowing of the June trade deficit, driven by a notable drop in imports. This reversal follows a front-loading pattern earlier this year, as firms rushed to meet tariff deadlines. **Canada's June trade report** also showed a widening deficit, in part due to weaker U.S.-bound exports—highlighting how deeply integrated trade dynamics remain across North America.

On the policy front, **President Trump** indicated overnight that a **new trade truce with China** could be announced before the August 12 deadline. However, he also signaled that **tariffs targeting semiconductors and pharmaceuticals** could be introduced "within days," keeping markets on alert. Separately, the president confirmed that **Treasury Secretary Bessent** does not wish to be nominated as Fed Chair, and that he plans to delay that decision "for the foreseeable future."

Markets are stabilizing as expectations for Fed rate cuts and strong AI-driven earnings fuel optimism. But with another jobs report and critical inflation data ahead, investors remain cautious, knowing every datapoint between now and then will likely shape the September Fed decision.

GDPNow Third Quarter:

- The latest GDPNow for 3Q25, reported on August 5, rose to 2.50%, up from 2.10%, a 19.05% increase.

Economic Update:

- **U.S. ISM Services PMI:** fell to 50.10, down from 50.80 last month, down -1.38% f
- **U.S. ISM Services New Orders Index:** fell 50.30, down from 51.30 last month.
- **U.S. ISM Services Employment Index:** fell 46.40, down from 47.20 last month.
- **U.S. Trade Balance on Goods:** is at -85.88B, up from -97.30B last month.
- **U.S. Retail Gas Price:** fell \$3.247, up from \$3.246 last week.

Eurozone Summary:

- **Stoxx 600:** Closed at 541.40, up 0.80 points or 0.15%.
- **FTSE 100:** Closed at 9,142.73, up 14.43 points or 0.16%.
- **DAX Index:** Closed at 23,846.07, up 88.38 points or 0.37%.

Wall Street Summary:

- **Dow Jones Industrial Average:** closed at 44,111.74, down 61.90 points or 0.14%.
- **S&P 500:** closed at 6,299.19, down 30.75 points or 0.49%.
- **Nasdaq Composite:** closed at 20,916.55, down 137.03 points or 0.65%.
- **Birling Capital Puerto Rico Stock Index:** closed at 3,988.84, up 36.75 points or 0.93%.
- **Birling Capital U.S. Bank Index:** closed at 7,534.69, up 83.89 points or 1.13%.
- **U.S. Treasury 10-year note:** closed at 4.22%.
- **U.S. Treasury 2-year note:** closed at 3.72%.

Third Quarter 2025

Date	GDPNow 3Q25	Change
7/31/2025	2.30%	Initial Forecast
8/1/2025	2.10%	-8.70%
8/5/2025	2.50%	19.05%

US ISM Services PMI; US ISM Services New Orders Index;
US ISM Services Employment Index; US ISM Services
Prices Paid Index; US Retail Gas Price & US Trade
Balance on Goods



Wall Street Recap

August 5, 2025



Global Market Square® es una publicación preparada por Birling Capital LLC y resume los recientes desarrollos geopolíticos, económicos, de mercado y otros que pueden ser de interés para los clientes de Birling Capital LLC. Este informe está destinado únicamente a fines de información general, no es un resumen completo de los asuntos a los que se hace referencia y no representa asesoramiento de inversión, legal, regulatorio o fiscal. Se advierte a los destinatarios de este informe que busquen un abogado profesional adecuado con respecto a cualquiera de los asuntos discutidos en este informe teniendo en cuenta la situación de los destinatarios. Birling Capital no se compromete a mantener a los destinatarios de este informe informados sobre la evolución futura o los cambios en cualquiera de los asuntos discutidos en este informe. Birling Capital. El símbolo de registro y Birling Capital se encuentran entre las marcas registradas de Birling Capital. Todos los derechos reservados.