

GLOBAL MARKET SQUARE



Markets pull back as investors rotate into defensive positions. Dollar weakness and tech capex are key macro themes, but Wall Street is to deliver double-digit returns for 2025.

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The U.S. and European stock markets closed with mixed results to start the new week, as investors rotated toward defensive positions following last week's strong equity gains. Wall Street closed broadly lower, with the S&P 500, Nasdaq, and Dow Jones Industrial Average all retreating after climbing more than 1% last week. Sector leadership shifted, with utilities, consumer staples, and energy stocks outperforming amid a renewed spike in oil prices. Growth-oriented sectors such as technology and consumer discretionary lagged, reflecting profit-taking after recent strength.

As we approach the close of 2025, equity markets continue to demonstrate remarkable resilience and breadth, with all five of the indices we track firmly on pace to deliver double-digit annual returns. U.S. large-cap benchmarks have been led by growth and technology, with the Nasdaq Composite up 21.56% year-to-date and the S&P 500 advancing 17.41%, reflecting strong earnings momentum and sustained investment in innovation. The Dow Jones Industrial Average, more cyclically oriented, has also delivered a solid 13.91% gain, underscoring the durability of the broader economic expansion.

Notably, performance leadership has extended beyond traditional benchmarks. The Birling U.S. Bank Index stands out with a powerful 48.95% year-to-date return, driven by improved net interest margins, capital strength, and renewed investor confidence in the financial sector. Meanwhile, the Birling Capital Puerto Rico Stock Index is up 10.67% year-to-date, reinforcing the steady progress of locally listed companies and highlighting Puerto Rico's improving corporate and economic fundamentals. Collectively, these results point to a year defined by broad participation, sector rotation, and stained investor confidence as markets head into year-end.



Dow Jones, S&P 500, Nasdaq Composite, Birling Puerto Rico Stock Index & Birling US Bank Index YTD Returns 12.29.25



Asian equity markets finished mostly lower overnight with notable underlying divergence. Bond markets acted as a modest stabilizer, with U.S. Treasury yields edging lower and the 10-year note at 4.12%. Gold prices pulled back by over 3% but remain on track for a more than 60% yearly gain, underscoring longer-term strength despite short-term consolidation.

Dollar weakness remains a tailwind for global assets. The ICE U.S. Dollar Index has fallen over 9% year-to-date, set for its largest annual decline since 2017, as U.S. political and fiscal uncertainty and a narrowing yield advantage weigh on the currency. This has amplified international equity returns, with the MSCI EAFE Index up roughly 21% in local currency terms and about 32% in U.S. dollars. Additional Federal Reserve rate cuts in 2026 may further compress U.S. yield differentials, supporting a strategic case for maintaining global equity diversification.

Technology investment continues to drive U.S. growth. Last week's GDP report showed real GDP expanding at a 4.3% annualized rate in the third quarter, well above expectations. Consumer spending grew at 3.5%, exports surged 8.8%, and nonresidential investment rose 2.8% for the quarter, averaging 6.5% growth in 2025. Information processing equipment and software investment sustained capital spending, a trend expected to extend into 2026 as a key pillar of economic momentum.

Europe closes mixed as defense stocks lag on Ukraine peace talk optimism

European equities finished Monday's session mixed, with headline indices masking notable sector-level divergence. The pan-European Stoxx 600 closed marginally higher, up 0.11% at 589.35, after touching a fresh intraday record of 589.61 earlier in the session. National benchmarks were similarly range-bound: the U.K.'s FTSE 100 slipped 0.04%, France's CAC 40 edged up 0.10%, Germany's DAX rose 0.11%, while Italy's FTSE MIB underperformed, down 0.27%.

Defense stocks remained under pressure following weekend peace talks between President Donald Trump and Ukrainian President Volodymyr Zelenskyy, fueling investor reassessment of near-term defense spending momentum. Shares of Leonardo fell 1.96%, Rheinmetall declined about 1%, and Renk, Kongsberg, and Saab also closed lower. The Stoxx Europe Aerospace & Defense Index ended the day down 1.6%. Losses were more pronounced earlier in the session, though stocks pared declines into the close.

Despite the short-term pullback, market participants cautioned against overinterpreting near-term headlines. Sydbank analyst Jacob Pedersen noted that while peace prospects could weigh on defense stocks in the short run, Europe's longer-term defense investment trajectory remains firmly intact and likely to accelerate over the coming years. Pedersen added that any credible progress toward peace would, on balance, be supportive for European equities more broadly.

Bottom line: Markets are consolidating and rotating defensively amid solid growth, dollar weakness, and strong technology investment—favoring diversified global portfolios.

Birling Capital's Outlook for 2026

For a more detailed view, read our reports *9 Issues & 9 Answers: Ending 2025 with a Sturdy Global Backdrop and a Constructive Setup for 2026*, and *Power, Capital, and Political Control: 2025 The Structural Shifts That Reshaped the Global Economy* by clicking the links below:

- <https://birlingcapital.com/publications/TS.9Issues9Answers.Ending2025withaSturdyGlobalBackdrop.pdf>
- <https://birlingcapital.com/publications/TS.PowerCapitalandPoliticalControl.2025TheStructuralShifts.pdf>

Economic Data:

- **U.S. Pending Home Sales YoY:** rose to 2.59%, compared to 0.13% last month.
- **US Pending Home Sales MoM:** rose to 3.26%, compared to 2.40% last month.
- **Natural Gas Storage Change:** is at -167.00B, up from -177.00B last week.

Eurozone Summary:

- **Stoxx 600:** closed at 589.35, up 0.65 points or 0.11%.
- **FTSE 100:** closed at 9,866.53, down 4.15 or 0.04%.
- **DAX Index:** closed at 24,364.92, up 24.86 or 0.10%

Wall Street Summary:

- **Dow Jones Industrial Average:** closed at 48,461.93, down 249.04 points or 0.51%.
- **S&P 500:** closed at 6,905.75, down 24.19 points or 0.35%.
- **Nasdaq Composite:** closed at 23,474.34, down 118.74 points or 0.50%.
- **Birling Capital Puerto Rico Stock Index:** closed at 4,026.68, down 5.33 points or 0.13%.
- **Birling Capital U.S. Bank Index:** closed at 9,382.32, down 29.02 points or 0.31%.
- **U.S. Treasury 10-year note:** closed at 4.12%.
- **U.S. Treasury 2-year note:** closed at 3.45%.



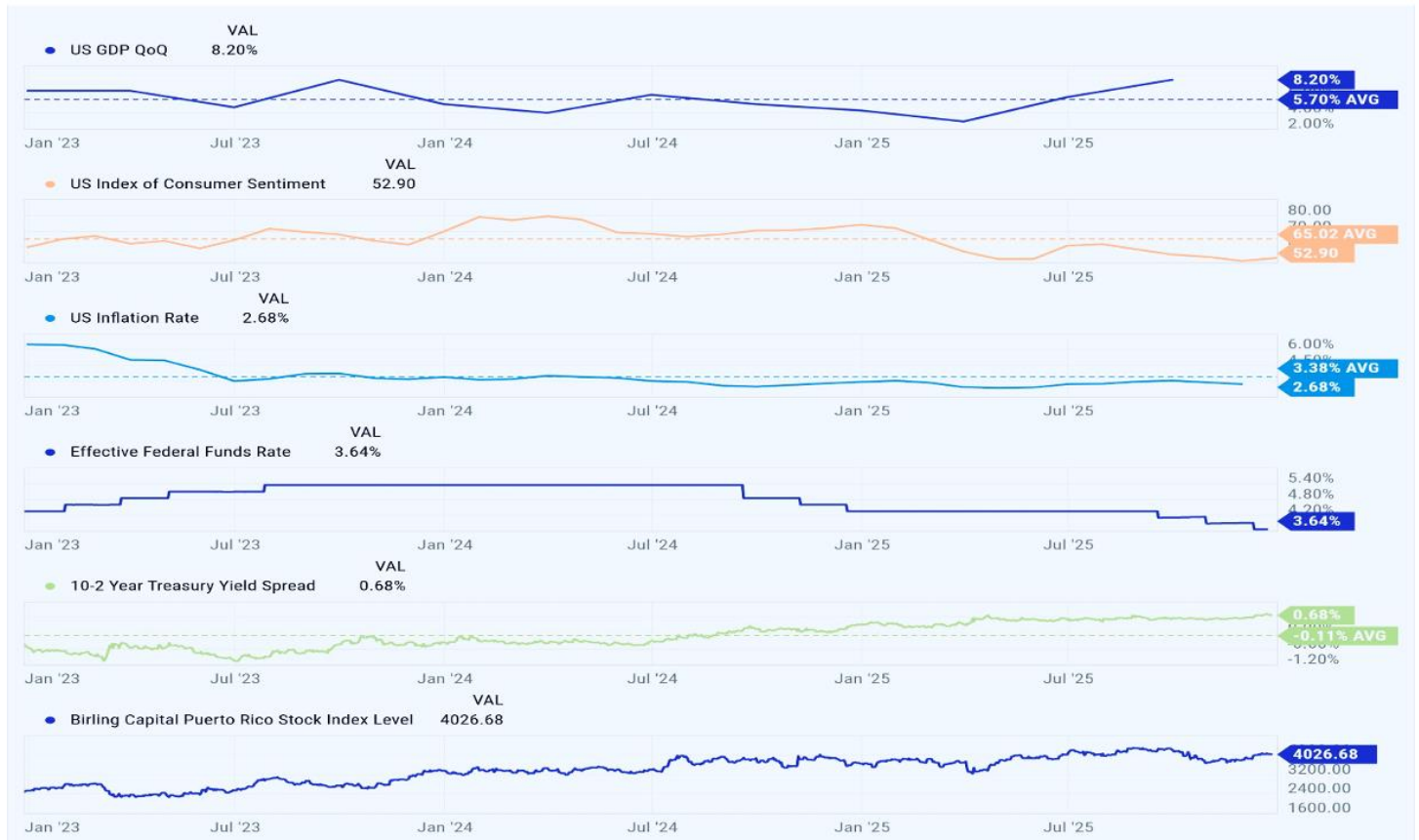
US Pending Home Sales YoY & US Pending Home Sales MoM





The Economic Cycle

Jan 2023-Dec 29, 2025



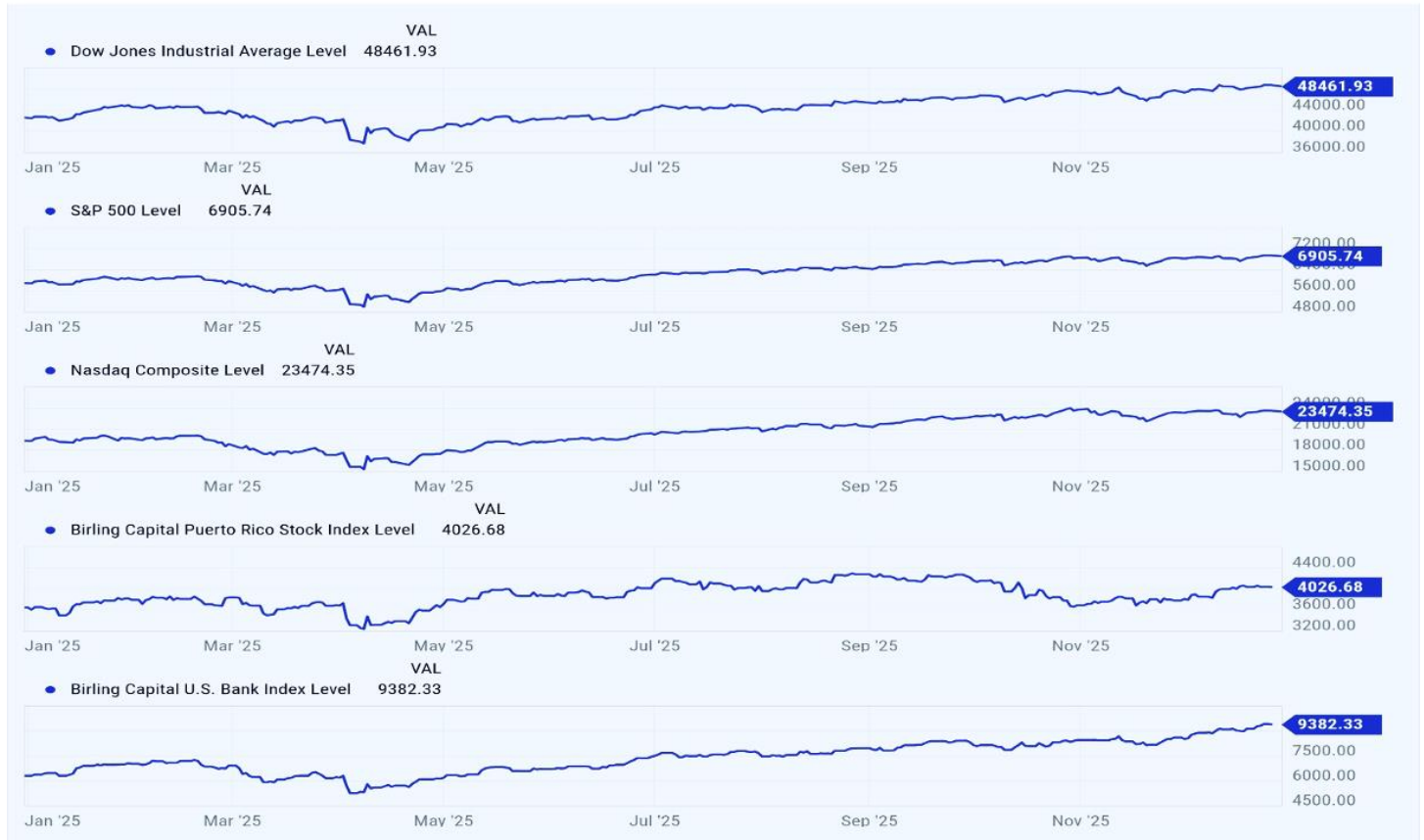


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