



Wall Street Closes Higher to Start a Pivotal Week as TACO Tariff Effect Casts Shadow Over CPI and Earnings.

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by Francisco Rodríguez-Castro
frc@birlingcapital.com

The U.S. and European stock markets opened the week with mixed results, after President Trump announced sweeping 30% tariffs on imports from the European Union and Mexico over the weekend. The tariffs, set to take effect August 1, have reignited concerns over trade friction and their impact on global growth and corporate profitability. The S&P 500 rose 0.14%, the Nasdaq Composite advanced 0.27%, and the Dow Jones Industrial Average rose 0.20%, ending all in the black. Also bond yields are stable, with the 10-year U.S. Treasury yield at 4.43%.

TACO Effect Dampens Enthusiasm, but Not Momentum

Investor sentiment continues to be shaped by what has come to be known as the **TACO Effect**. Stocks are trading water despite President Trump's broader threats to extend high tariffs to additional countries. The relative calm suggests that investors, while cautious, are betting these aggressive trade measures will ultimately be negotiated down or softened. The stance feels more like positioning for leverage than an entrenched policy shift.

Markets are looking through the noise, focusing instead on the strength of the upcoming earnings season and whether companies can maintain margin discipline in a rapidly evolving trade landscape.

Global Markets React to New Trade Tensions

European indices, however, are broadly lower, reacting negatively to the newly announced U.S. tariffs targeting the EU. Asian markets ended mixed overnight, with Chinese equities posting modest gains after June trade data revealed a stronger-than-expected \$115 billion surplus, highlighting ongoing export strength.

Meanwhile, the U.S. dollar is strengthening against major global currencies, supported by its safe-haven appeal and the prospect of inflationary pressure driven by tariff pass-throughs.

The WTI crude oil is retreating as traders weigh the potential for further sanctions on Russia and the broader implications for global energy supply chains.

June CPI Data in Focus

Investors are closely watching Tuesday's release of the June Consumer Price Index (CPI), a key gauge of inflation. The latest **Inflation Nowcasting** for the Consumer Price Index at 2.64% and Core CPI (which excludes food and energy) is expected to rise to 2.94%, both ahead of the Fed's 2% target rate. By tomorrow, we shall have a clearer picture of where the Inflation fight stands.

While tariffs are expected to push prices higher in the near term, most analysts see this as a temporary shock, unlikely to generate a sustained inflation cycle.

Q2 Earnings Season Begins: Slower Growth Expected

Second-quarter earnings season kicks off this week, with major banks leading the slate of corporate results. Analysts expect S&P 500 earnings to rise 3.7% year-over-year, well below the 12.8% pace of the first quarter as companies grapple with policy uncertainty and the ripple effects of evolving trade dynamics.

The communications and technology sectors are projected to post the strongest earnings growth, while energy and consumer discretionary are likely to lag. Looking ahead, consensus forecasts point to an 8.5% increase in S&P 500 earnings for full-year 2025. While this figure may face downward revisions if tariffs begin to erode profit margins, we believe earnings remain supportive of equities over the longer term.

Economic Data Highlights:

- **Canada Wholesale Sales MoM:** is at -0.50%, compared to -4.56% last month.
- **China Trade Balance:** rose to 114.77 billion, up from 103.22 billion last month, increasing 11.19%.
- **China Exports YoY:** rose to 5.80%, compared to 4.74% last month.
- **China Imports YoY:** rose to 0.86%, compared to -3.32% last month.

Eurozone Summary:

- **Stoxx 600:** Closed at 546.99, down 0.35 points or 0.06%.
- **FTSE 100:** Closed at 8,998.66, up 56.94 points or 0.64%.
- **DAX Index:** Closed at 24,160.64, down 94.67 points or 0.39%.

Wall Street Summary:

- **Dow Jones Industrial Average:** closed at 44,459.65, up 88.14 points or 0.20%.
- **S&P 500:** closed at 6,268.56, up 8.81 points or 0.14%.
- **Nasdaq Composite:** closed at 20,640.33, up 54.80 points or 0.27%.
- **Birling Capital Puerto Rico Stock Index:** closed at 4,078.70, down 31.28 points or 0.76%.
- **Birling Capital U.S. Bank Index:** closed at 7,479.96, down 28.58 points or 0.38%.
- **U.S. Treasury 10-year note:** closed at 4.43%.
- **U.S. Treasury 2-year note:** closed at 3.90%.

The Thought of the Week:

- *"The intelligent investor is a realist who sells to optimists and buys from pessimists". Benjamin Graham*

CPI & Core CPI

Inflation Nowcasting

Inflation Nowcasting CPI Forecast Core CPI Forecast Updated

June

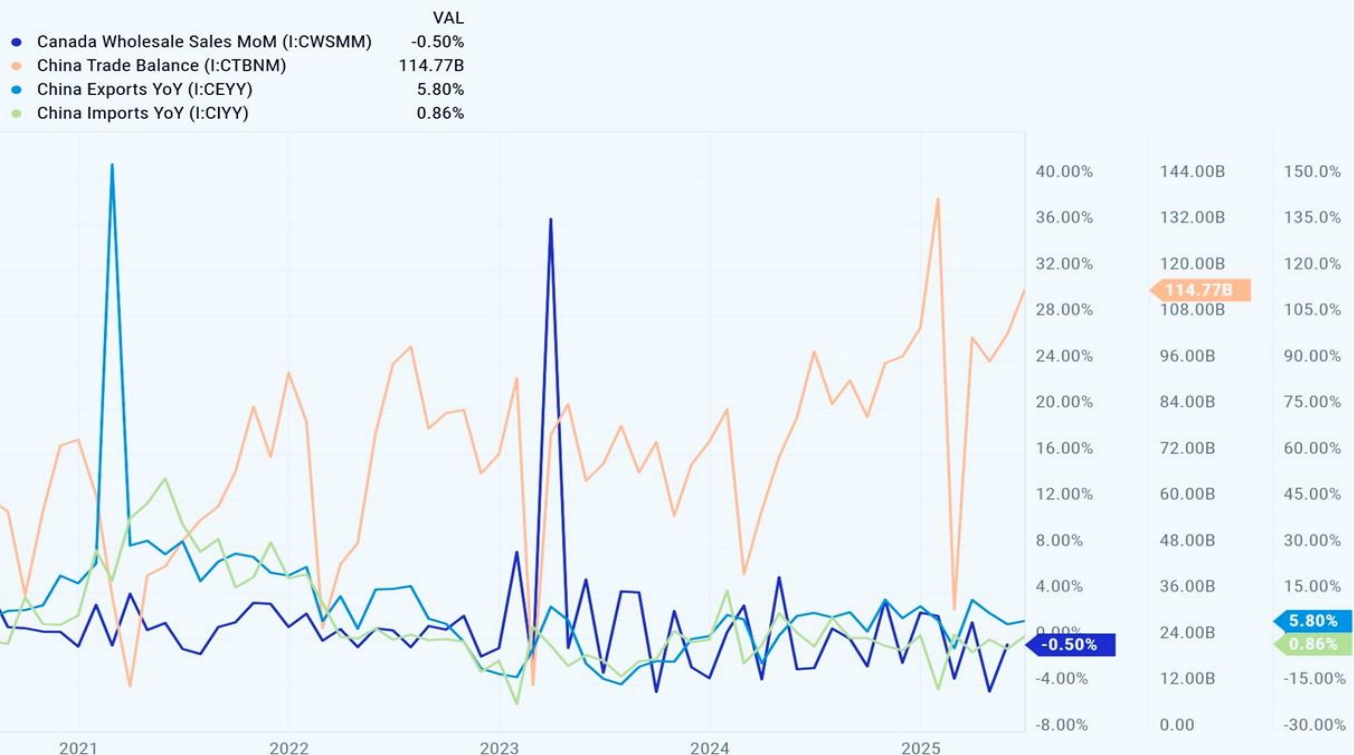
2.64%

2.95%

7.12.25

Canada Wholesale Sales MoM; China Trade Balance; China Exports YoY & China Imports YoY

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