

Inflation Rises After Three Readings of Decreases, but CPI Undershoots Forecasts; Markets Turn Cautiously Optimistic as Trade Talks Gain Traction and Wall Street Closed Down.

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The U.S. and European stock markets closed mostly lower as investors took a cautious stance driven by a softer-than-expected inflation report for May and encouraging developments in U.S.–China trade negotiations.

The May Consumer Price Index (CPI) showed a more moderate rise in prices than anticipated, reinforcing hopes that inflationary pressures are subsiding. Headline CPI increased just 0.1% month-over-month and 2.35% year-over-year, 2.08% below the Inflation Nowcasting. Core CPI, which excludes volatile food and energy prices, also rose by only 0.1% on the month and 2.77% annually, also 2.41% below estimates.

A closer look reveals that core services inflation—often a key focus for policymakers—rose by just 0.2% in May, maintaining an annual increase of 3.6%, the lowest since late 2021. Meanwhile, core goods prices remained flat for the month and are up just 0.3% year-over-year, showing minimal evidence that recent tariffs are translating into higher consumer costs. This restraint in price pass-through may reflect firms choosing to absorb near-term tariff-related costs in anticipation of easing trade tensions.

Bond markets responded swiftly, with yields dropping across the curve. The 10-year Treasury yield closed at 4.41%, while the 2-year yield fell to 3.94%, reflecting shifting expectations that the Federal Reserve could begin cutting interest rates later this year. We now expect one to two rate cuts in the second half of 2025, should inflation continue on this trajectory and growth remain steady.

Trade Progress Lifts Sentiment

Adding to the optimism, U.S. and Chinese officials concluded two days of negotiations in London with an agreement in principle aimed at reducing bilateral trade barriers. While the precise terms remain to be formalized, reports indicate the U.S. may ease export controls on high-tech goods in exchange for enhanced access to China's critical rare-earth mineral supplies. The deal is pending approval from President Donald Trump and President Xi Jinping, but its potential has already helped lift global equities.

Overseas markets responded in kind; European indices closed mostly lower, and Asian equities closed higher overnight. This breakthrough follows a broader trend of de-escalating trade tensions, which has restored confidence in risk assets. The S&P 500 is now within 2% of its pre-correction all-time high **from February 19**, signaling resilient investor appetite.

Strategic Outlook: Equity Advantage

With inflation easing, trade frictions softening, and the macroeconomic backdrop holding firm, the outlook for equities remains favorable. While volatility may resurface ahead of key tariff deadlines in July and August, the broader direction of policy appears more constructive. Against this backdrop,

we continue to favor an overweight position in equities versus fixed income, particularly within U.S. markets where earnings momentum and policy clarity are stronger.

Economic Update:

- **U.S. Consumer Price Index YoY:** rose to 2.35%, compared to 2.31% last month.
- **U.S. Core Consumer Price Index YoY:** fell to 2.77%, compared to 2.78% last month.
- **U.S. Inflation Rate:** is at 2.35%, compared to 2.31%.

Eurozone Summary:

- **Stoxx 600:** Closed at 551.64, down 1.48 points or 0.27%.
- **FTSE 100:** Closed at 8,864.35, up 11.27 or 0.13%.
- **DAX Index:** Closed at 23,948.90, down 38.66 or 0.16%.

Wall Street Summary:

- **Dow Jones Industrial Average:** closed at 42,865.77, down 1.10 points or 0.00%.
- **S&P 500:** closed at 6,022.24, down 16.57 points or 0.27%.
- **Nasdaq Composite:** closed at 19,615.88, down 99.11 points or 0.50%.
- **Birling Capital Puerto Rico Stock Index:** closed at 3,962.77, up 31.64 points or 0.80%.
- **Birling Capital U.S. Bank Index:** closed at 6,860.70, down 2.32 points or 0.030%.
- **U.S. Treasury 10-year note:** closed at 4.41%.
- **U.S. Treasury 2-year note:** closed at 3.94%.

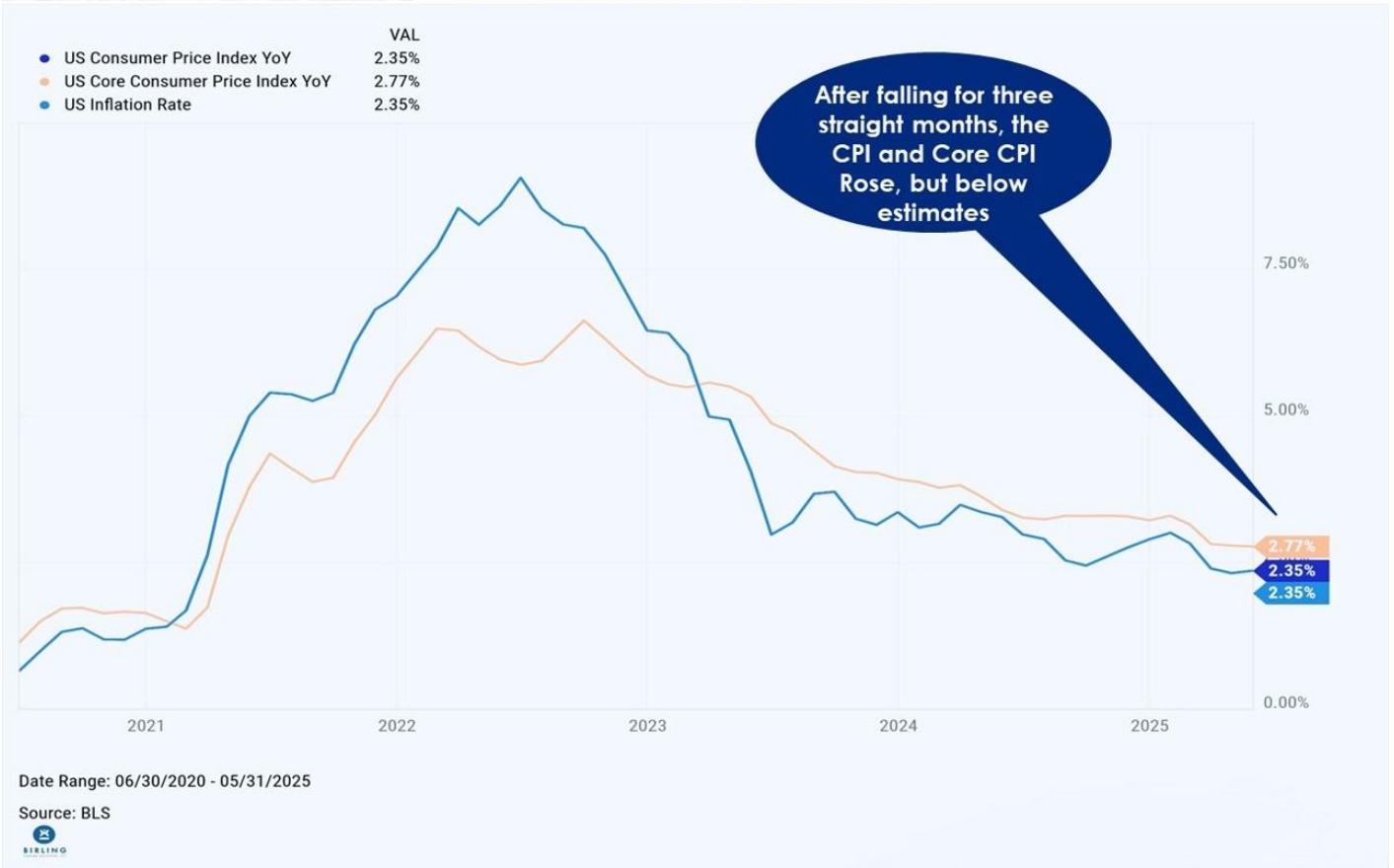


Inflation Nowcasting CPI & Core CPI vs Actual

Inflation Nowcasting	CPI Forecast	CPI Actual	Change	Core CPI Forecast	Core CPI Actual	Change
May	2.40%	2.35%	-2.08%	2.84%	2.77%	-2.46%



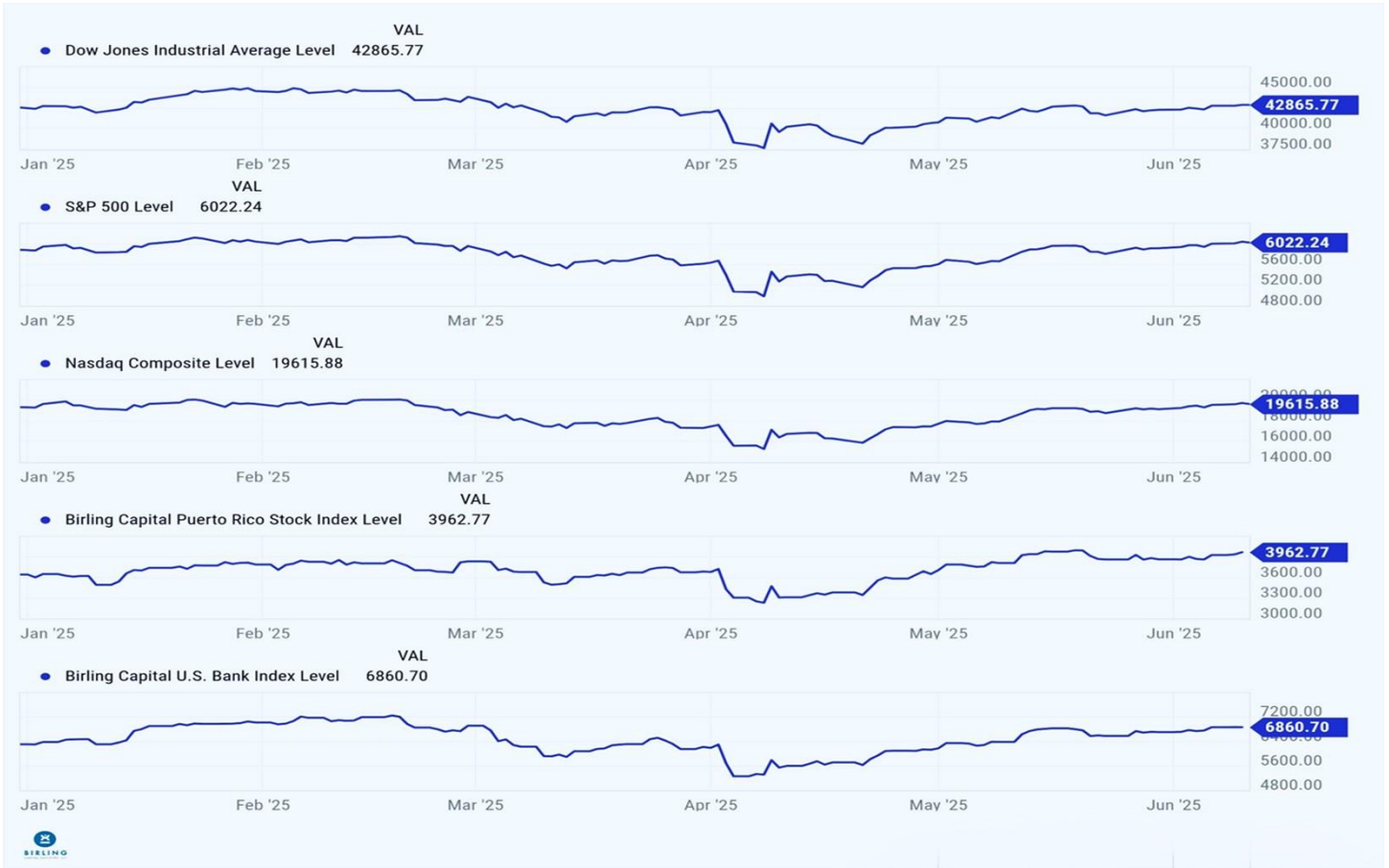
US CPI, US Core CPI, & US Inflation Rate





Wall Street Recap

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