

GLOBAL MARKET SQUARE



Markets Rebound as Inflation Cools with the CPI at 2.82%, US Budget Deficit Surpasses \$1 Trillion and Trade Uncertainty Keeps Investors on Edge.

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by Francisco Rodríguez-Castro
frc@birlingcapital.com

The US and European stock markets closed mainly with gains following a hectic start to the week, except for the Dow Jones, which closed with losses. Most stocks came back, driven by an encouraging inflation report and a surge in technology shares. The latest consumer price index (CPI) data revealed that core inflation rose at its slowest pace since April 2021, when inflationary pressures started accelerating. This fact has reassured investors that inflation remains downward, even as markets await further details on the administration's tariff strategy. Reflecting the upbeat sentiment, growth and cyclical sectors are outpacing defensives, while small-cap stocks lead the charge. Meanwhile, government bond yields have inched higher.

Investors are keenly watching tomorrow's producer price index (PPI) release, which will provide insight into inflationary pressures at the production level. Additionally, attention remains on government funding developments.

The Congressional Budgetary Stalemate: A Systemic Crisis

Last night, the House passed a continuing resolution securing funding through the end of the fiscal year on September 30—an essential step in averting a shutdown as the March 14 deadline approaches.

For 17 consecutive years, Congress has failed to pass budgets on time, relying on short-term fixes that sidestep deeper fiscal issues. This dysfunction stems from extreme polarization, where self-serving politicians prioritize personal branding over governance, and structural instability, marked by six House leadership changes since 2007.

The consequences are severe. As of March 5, 2025, US debt has surged to \$36.22 trillion—a 312.52% increase since 2007—driven by short-term politics over fiscal responsibility.

Also, the US fiscal crisis deepened further in President Donald Trump's first month back in office, with the federal deficit surpassing \$1 trillion by February—well before the fiscal year's midpoint.

Inflation Data Offers Relief, but Uncertainty Remains

Markets breathed a sigh of relief as inflation came in softer than expected. Headline CPI climbed just 0.2% in February, slowing from January's 0.5% increase and undershooting forecasts of 0.3%. On an annual basis, the CPI fell to 2.82% from 3.0%, while core CPI—excluding food and energy—slowed to 3.14% from 3.3%.

Shelter costs remained the dominant driver of inflation, accounting for half of the monthly increase, but at 4.2%, its annual rise was the smallest since December 2021. Other areas, including airfares, new vehicles, and gasoline, saw price declines. Service-sector inflation, a key component of about 70% of core CPI, continued its downward trend, while goods inflation remained steady.

This data challenges recent stagflation fears and could lift market sentiment. However, the report comes before any potential escalation in tariffs, which could drive up goods prices. While trade policy uncertainty persists, the ongoing cooling of services inflation may help offset price increases in goods. Given the current backdrop, the Federal Reserve is expected to hold interest rates steady at next week's meeting. We still anticipate the central bank will begin cutting rates in the second half of the year, potentially lowering its policy rate to a range of 3.5%-4.0%.

Trade Uncertainty Looms as Tariffs Take Center Stage

Trade policy remains a wild card for markets. After briefly considering a sharp increase in metal tariffs on Canada—later rescinded—the administration moved forward with 25% tariffs on steel and aluminum imports from all countries, effective immediately. The European Union wasted no time announcing retaliatory measures, targeting US imports worth up to €26 billion. While other nations have yet to respond, the risk of further escalation remains high.

This renewed trade uncertainty and signs of economic softening in the first quarter have added market volatility. The S&P 500 is hovering near correction territory, marking a potential 10% pullback from its recent highs—the first such decline since October 2023.

Market Corrections: A Historical Perspective

Market corrections, while unsettling, are a normal part of investing. Since 1971, there have been 19 instances where stocks declined significantly without slipping into a full bear market, with an average peak-to-trough drop of 14% over a span of 4.3 months. Historically, such pullbacks within an ongoing bull market have often presented buying opportunities—six months later, stocks have risen by an average of 18%, and a year later, by 23%.

Economic Data Update:

- **US Consumer Price Index YoY:** fell to 2.82%, compared to 3.00% last month.
- **US Core Consumer Price Index YoY:** fell to 3.14%, compared to 3.29% last month.
- **US Inflation Rate:** fell to 2.82%, compared to 3.00% last month.

Eurozone Summary:

- **Stoxx 600:** Closed at 541.25, up 4.36 points or 0.81%.
- **FTSE 100:** Closed at 8,540.97, up 44.98 points or 0.53%.
- **DAX Index:** Closed at 22,676.41, up 347.64 points or 1.56%.

Wall Street Summary:

- **Dow Jones Industrial Average:** closed at 41,350.93, down 82.55 points or 0.20%.
- **S&P 500:** closed at 5,599.30, up 27.23 points or 0.49%.
- **Nasdaq Composite:** closed at 17,648.45, up 212.36 points or 1.22%.
- **Birling Capital Puerto Rico Stock Index:** closed at 3,491.32, down 33.91 points or 0.95%.
- **Birling Capital US Bank Index:** closed at 5,877.57, down 7.64 points or 0.13%.
- **US Treasury 10-year note:** closed at 4.32%.
- **US Treasury 2-year note:** closed at 4.01%.



CPI & Core CPI Inflation Nowcasting

Inflation Nowcasting	CPI Forecast	CPI Actual	Core CPI Forecast	Core CPI Actual	Updated
February	2.83%	2.82%	3.16%	3.14%	3.12.24



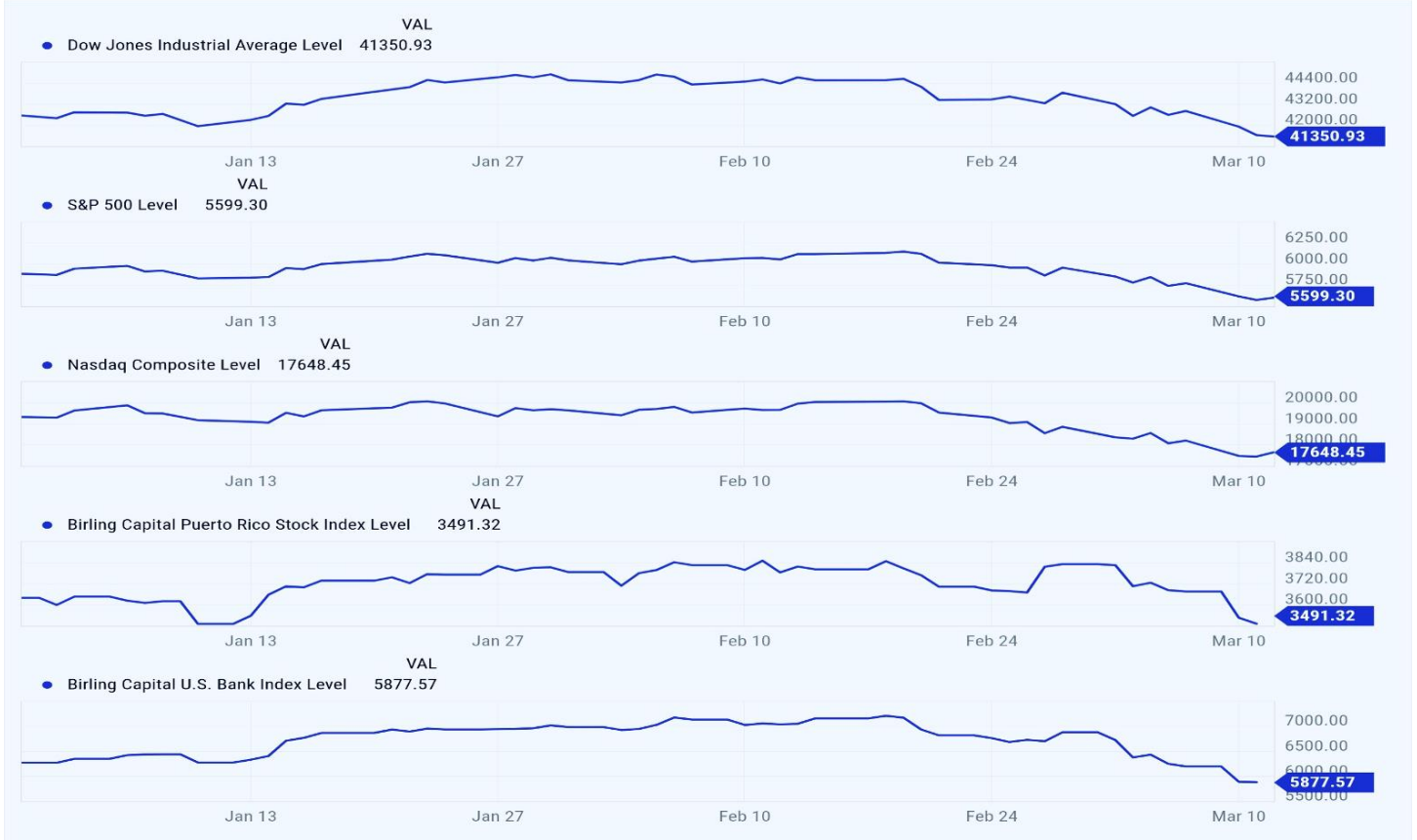
Dow Jones, S&P 500, Nasdaq Composite, Birling Puerto Rico Stock Index & Birling US Bank Index YTD Returns 3.12.25





Wall Street Update

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