BIRLING CAPITAL ADVISORS, LLC
Global Market Square

Monthly Market Review June 2025 Strategic Clarity at Halftime a Transforming Global Economy

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A Transformational Inflection Point

As we present the Global Market Square Monthly Market Review for June 2025, we have crossed the midpoint of 2025. The global economy and capital markets are navigating a challenging yet dynamic environment. The June 2025 edition of the Birling Capital *Global Market Square Monthly Market Review* captures a moment of transition, as the economic momentum of the first half of the year is being tested by evolving inflation expectations, volatile geopolitical conditions, and monetary recalibration. Yet, within these crosscurrents, strategic clarity emerges as a decisive advantage.

While inflation, interest rates, and global tensions continue to pose risks, the U.S. economy remains remarkably resilient. The GDPNow forecast for Q2 2025 was revised upward, equity markets surged to new highs, and the labor market, although cooling, still shows strong fundamentals. Globally, capital flows have begun to shift toward emerging and developed international markets, hinting at a potential structural reallocation in investor positioning.

Key Themes for the Second Half of 2025

1. **Moderating Growth with Enduring Expansion**

   The first half of 2025 was defined by policy uncertainty, particularly around trade. In early April, sweeping U.S. tariff announcements pushed the effective trade rate as high as 46%, sparking concerns of recession. However, de-escalation efforts have since eased tensions. Notably, the U.S. and Vietnam reached an agreement in late June that dropped tariffs on Vietnamese goods to 20% (and 40% on transshipped goods) down from the April highs.

   Despite the reduced tensions, tariff levels remain elevated compared to previous years, and their effects are expected to filter into consumer prices and corporate margins in the second half as inventory buffers thin out. This could erode household purchasing power and dampen business profitability.

   Still, resilience in the labor market has been a defining feature. June's nonfarm payrolls rose by 147,000 exceeding expectations and the unemployment rate dipped to 4.1%. Initial jobless claims also fell to a six-week low. These results confirm that while growth is moderating, the economy is not stalling.

   Portfolio Implication: We continue to favor U.S. large-cap and mid-cap stocks, especially in sectors with pricing power such as financials, healthcare, and consumer discretionary. We maintain underweights in U.S. high-yield and international bonds.

2. **International Stocks Surge Ahead and U.S. Attempts to Catch Up**
   International equities outperformed U.S. stocks in the first half of 2025, buoyed by expansionary fiscal policy in Europe and more aggressive rate cuts by the ECB. European equity markets surged as a result, especially in Germany. Meanwhile, U.S. corporate earnings were temporarily pressured by trade uncertainties.
   That said, we anticipate a reversal of this trend. U.S. firms are expected to regain earnings leadership, supported by AI innovation, improved productivity, and the passage of the One Big Beautiful Bill, which extends the 2017 tax cuts and introduces new tax breaks.
   Portfolio Implication: Maintain strategic allocations to international equities for diversification, but tilt exposure back toward U.S. markets, particularly in prominent and mid-cap names.
3. **Treasury Yields Hover as the Fed Eyes a Cautious Easing Path**
   Despite a mild inflation surprise and hawkish Fed rhetoric, markets still expect the Fed to resume its easing cycle in September. Futures imply two cuts in the second half. However, long-term yields may stay elevated due to fiscal concerns, especially as OBBA could expand the federal deficit by $4.1 trillion.
   We expect 10-year Treasury yields to remain in the 4–4.5% range, with volatility driven by inflation surprises and supply dynamics.
   Portfolio Implication: We see the best value in U.S. investment-grade bonds with 7–10 year maturities. These offer a sweet spot between yield and interest rate risk. We advise underweighting international fixed income and long-duration Treasuries.

Macroeconomic Outlook: Strength With Nuance

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GDPNow

Second Quarter 2025

Date	GDPNow 2Q25	Change
4/30/2025	2.40%	Initial Forecast
5/1/2025	1.10%	-54.17%
5/6/2025	2.20%	100.00%
5/8/2025	2.30%	4.55%
5/15/2025	2.50%	8.70%
5/16/2025	2.40%	-4.00%
5/27/2025	2.20%	-8.33%
5/30/2025	3.80%	72.73%
6/2/2025	4.60%	21.05%
6/5/2025	3.80%	-17.39%
6/9/2025	3.80%	0.00%
6/17/2025	3.50%	-7.89%
6/18/2025	3.40%	-2.86%
6/27/2025	2.90%	-14.71%
7/1/2025	2.50%	-13.79%
7/3/2025	2.60%	4.00%

1. **GDPNow Points to Momentum**
   According to the Atlanta Fed's GDPNow model, U.S. GDP for the second quarter of 2025 is now forecasted to grow by 2.6%, up from a previous estimate of 2.5%. This 4% upward revision signals stronger-than-anticipated consumer spending and continued growth in the services sector, despite the underlying concern that inflation is proving more persistent than policymakers had hoped.
2. **Labor Market: Resilient but Cooling**
   The June 2025 jobs report showed a gain of 147,000 nonfarm payrolls, with an additional 16,000 added through revisions. While this is lower than the monthly average earlier in the year, it reflects a still-healthy labor market. The U.S. unemployment rate remains low, and job openings continue to outpace job seekers, albeit at a narrowing margin.
3. **Inflation: A Stubborn Adversary**
   The Federal Reserve Bank of Cleveland's Inflation Nowcast suggests that services inflation remains sticky. Combined with renewed upward pressure on energy prices, the inflation narrative has evolved from "transitory" to "entrenched," leading the market to reduce expectations for Fed rate cuts in 2025 from 65 basis points to 51 basis points.

Equity Markets: A Robust Rebound, New Highs

June marked a dramatic comeback for equitie as the U.S. stock indices surged:

- **S&P 500** with a YTD return of **6.76%** and Nasdaq with a YTD return of **6.68%** reached new all-time highs.
- **Dow Jones Industrial Average** has shown gains with a YTD return of **5.37%.**
- **Birling Capital Puerto Rico Stock Inde**x leads with a **15.06%**
- **Birling Capital U.S. Bank Index** showed signs of renewed confidence in the financial sector with a **21.79%** YTD return

Dow Jones, S&P 500, Nasdaq Composite, Birling Puerto Rico Stock Index & Birling US Bank Index YTD Returns 7.3.25

Style Leadership: Growth Dominates Again

1. Large-cap growth stocks outperformed for the third consecutive month. The trailing 12-month performance now shows:
   - Large-Cap Growth: +17%
   - Value Stocks: Modest gains, with large-cap value showing resilience
   - Small Caps: Still trailing, impacted by higher borrowing costs and uneven earnings
2. **Sector Leadership and Laggards**
   - Leading Sector in June: Technology, up nearly 10%
   - Trailing Sector (TTM): Healthcare and Energy
   - Financials: Best-performing sector over the trailing 12 months, with a 29.3% gain
3. **S&P 500 Highlights**
   - Top gainers included mega-cap tech and consumer discretionary names
   - Laggards were primarily in utilities, energy, and select industrials
4. **Fixed Income: Gains Return Amid Yield Curve Inversion**
   - Bond Market Dynamics
   - Long-duration bonds rebounded in June. The yield curve remains inverted, reflecting expectations of slowing long-term growth.
   - TLT (20+ Year Treasury ETF) rose 2.7% in June
   - High-Yield Corporate Bonds delivered a 9.4% return over the trailing 12 months

Policy Implications

The Fed remains cautious. Markets have recalibrated, now expecting only two rate cuts for the rest of 2025. Fixed income investors should remain defensive, focusing on credit quality and duration management.

Key Macro Developments

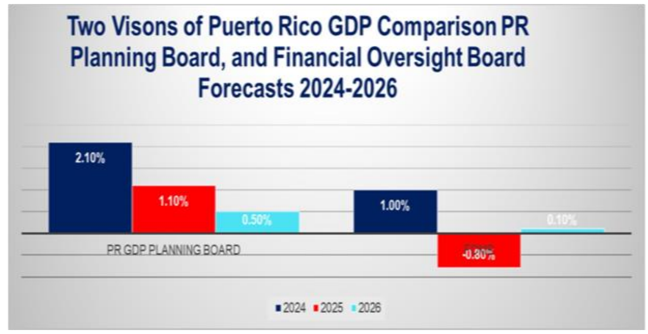
1. **Services Sector Contraction:** The U.S. services sector PMI fell below 50, signaling contraction for the first time in two years. This reflects a softening in consumer demand and hiring for services, particularly in the leisure and hospitality sectors.
2. **Housing: Pressured by Rates:** With 30-year mortgage rates nearing 7%, housing affordability continues to deteriorate. Yet home prices remain stable due to limited supply, particularly in key urban and suburban markets.
3. **Oil Markets and Geopolitical Risks** Instability in the Middle East has driven oil prices sharply higher. WTI crude exceeded $85 per barrel, adding complexity to the Fed's efforts to combat inflation.

Puerto Rico: A Bifurcated Economic Outlook

Puerto Rico presents a complex economic picture marked by divergence between forecasting entities:

- **Puerto Rico Planning Board** remains cautiously optimistic with a 2025 GDP growth of **1.10**%
- **The Fiscal Oversight and Management Board (FOMB)** projects structural budgetary constraints and limited growth, forecasting a contraction of **- 0.80%.**
- Who is right? Only Time will tell

Puerto Rico Economic Forecasts 2024-2026



Economic Activity Index

The Puerto Rico Economic Activity Index (EAI) contracted by -0.90% in February 2025, the sixth consecutive month in negative territory.

Labor Market Stability

Unemployment was at 5.5% in May 2025. Sectors such as retail, logistics, and financial services demonstrate resilience, although construction and public sector jobs are starting to soften.

Birling Puerto Rico Stock Index Performance

The **Birling Capital Puerto Rico Stock Index's** gain of **15.06% YTD** highlights a clear rebound in investor confidence toward Puerto Rico's public companies. Despite a broader economic contraction, Puerto Rico's Economic Activity Index has been down for six consecutive months by around 0.9%. The stock market is signaling optimism that future earnings and macroeconomic conditions will improve.

Name	Ticker	YTD Price Returns	Industry	Sector
Popular, Inc.	BPOP	▲ 21.45%	Banks Regional	Financial Services
First Bancorp.	FBP	▲ 17.86%	Banks Regional	Financial Services
Evertec	EVTC	▲ 8.66%	Software-Infrastructure	Technology
OFG Bancorp.	OFG	▲ 6.31%	Software-Infrastructure	Financial Services
Birling PR Stock Index	P:296524	▲ 13.95%	Index Regional	Puerto Rico Stocks

Bank Stocks Leading the Surge

1. **Popular, Inc. (BPOP): +21.45% YTD, with strong earnings trajectory**: Q1 revenue grew 6.1% YoY to $757.7 million, with non-GAAP EPS 17.3% above expectations.
   Market leadership: Outpacing peers, BPOP's performance suggests investors are bullish on its growing loan book, fee income, and dividend strength.
2. **First Bancorp (FBP): +17.86% YTD, technical breakout in sight**: Its Relative Strength Rating rose from 66 to 74, nearing the bullish benchmark of 80, **Improving profitability**: Earnings are up ~7% YoY, with revenue growth accelerating to 8% evidence of successful business recovery.
3. **OFG Bancorp (OFG): +6.31% YTD,** While more modest, OFG's performance reflects steady balance sheet strength and prudent lending, signaling resilience but lower appetitiveness compared to larger peers.
4. **Evertec (EVTC): +8.66% YTD,stable, tech-driven revenue**: As a leading local payments processor, Evertec contributes to fintech growth independent of banking sector cycles. Strong **Diversification benefits**: Including EVTC in the top performers signals that Puerto Rico's capital market now reflects structural, non-bank economic strength

What It Means for Puerto Rico's Economy?

Despite shrinking GDP, investors are betting on corporate earnings—especially in finance and fintech—mirroring optimism in loan growth, fee income, and balance sheet resilience.

Banks as bellwethers for local lending and growth

- **Popular, First Bancorp and Oriental**: All show strong momentum expanding commercial mortgage and consumer credit all showing strong loan pipelines and expanding margins.
- **Evertec** is in acquisition mode creating a true lat am tech powerhouse and with its eyes of going global. Its presence among top performers suggests that local digital infrastructure is holding up, bolstered by exports, remittances, and government usage, even amid broader economic weakness.

Market divergence: paper value vs real economy

While equities soar, underlying economic activity (EAI) remains in contraction, reflecting a temporary disconnect driven by forward-looking optimism.

Strategic Outlook for Puerto Rico

- **Monitor macroeconomic reconciliation**: Watch for signs that the broader economy—employment, consumer spending, and tourism—supports stock market enthusiasm.
- **Policy catalysts**: Fiscal improvements, tax incentives, and capital flow initiatives could further boost financial sector valuations and fintech adoption.
- The **+15.06% YTD rally** reflects market belief in Puerto Rico's economic turnaround, driven by:
- Resilient **banking sector leadership**
- Structural **fintech growth** and **Confidence that easing macro conditions** will soon follow corporate strength

While real-time GDP data lags, financial markets are flashing green, suggesting the economy may be on the verge of a sustainable upswing. Companies with U.S. revenue exposure and strong balance sheets are outperforming their peers.

The Final Word: Strategic Outlook Goes From Reaction to Resolution

Markets have shifted from reacting to central bank guidance to focusing on the real economy. Strategic clarity is paramount. The coming months will test investor discipline as macro headwinds persist, but opportunities are forming:

- Equities: Favor large-cap growth and financials; remain selective in small caps
- Fixed Income: Stay high in credit quality, manage duration actively
- Puerto Rico: Monitor fiscal policy and infrastructure execution closely

At Birling Capital, the second half of 2025 will reward those who can strike a balance between adaptability and conviction. We continue to support our clients with bespoke solutions that align strategy with opportunity.

In times of transformation, the greatest advantage is clarity—because while markets react, strategy endures, Francisco Rodriguez-Castro

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