

Birling Capital's Monthly Review: May 2025 Edition

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Introduction: May's Market Momentum Amid Economic Complexity

Released on June 3, 2025, Birling Capital's Global Market Square Monthly Market Review delivers a comprehensive and data-rich analysis of financial market movements, macroeconomic trends, sector rotations, and investor sentiment for May 2025. This month's report emphasizes the contradictory nature of current economic conditions: markets surged even as consumer sentiment cratered, and Puerto Rico's economy showed signs of contraction despite a resilient labor force. With targeted insights across U.S. and Puerto Rican markets, the publication aims to empower investors, policymakers, and analysts with a comprehensive understanding of what drives the economy and capital markets.

Equity Markets Surge: Risk Appetite Returns with Force

May 2025 witnessed a robust recovery in equity markets, fueled by improving macroeconomic indicators and investor confidence in Technology and cyclical stocks. The Nasdaq Composite was the standout performer, rising nearly 10% for the month and securing its place as the best-performing index over the trailing twelve months (TTM). The Dow Jones Industrial Average, S&P 500, and the Birling Capital Puerto Rico Stock Index also advanced, reflecting renewed investor enthusiasm despite geopolitical uncertainty and lingering inflationary concerns.

Growth of stocks, particularly large-cap growth names, continued to outperform their value counterparts. For the second consecutive month, large-cap growth was the top equity style, reflecting market preference for high-earnings-growth companies in a climate of slower inflation and moderating interest rates. All major equity styles delivered positive returns in May, reinforcing the breadth of the market's rebound.

Notably, the small-cap value segment remained laggard on a TTM basis, falling 1.5%, in contrast to the double-digit growth experienced by large-cap sectors.

Consumer Confidence Craters Despite Market Optimism

While equities flourished, consumer sentiment plummeted to its third-lowest level on record. This paradox highlights a growing divide between Wall Street and Main Street. Households continue to be burdened by elevated living costs, housing affordability challenges, and uncertainty about the direction of interest rates.

Despite the Federal Reserve's success in slowing inflation, many Americans are still grappling with the lagging effects of previous price increases on essential goods and services. The sharp drop in sentiment

highlights that while asset prices have recovered, confidence in long-term financial well-being remains fragile.

U.S. Macroeconomic Landscape: Positive Momentum with Cautionary Signs

Macroeconomic data from May continued to show signs of resilience in the U.S. economy. The Federal Reserve Bank of Atlanta's GDPNow model revised its forecast for second-quarter GDP growth from an initial 2.4% on April 30 to 4.6% by June 2, a stunning 91.7% cumulative improvement over one month. This upward trajectory was driven by stronger-than-expected consumer spending, increased business investment, and higher export volumes.

On the inflation front, the Federal Reserve Bank of Cleveland's Nowcasting model showed that both the headline and core Personal Consumption Expenditures (PCE) metrics came in slightly below expectations. Headline PCE for April was 2.15% versus the forecasted 2.23%, and Core PCE came in at 2.52%, narrowly undercutting the 2.60% projection. These readings, although modest, suggest that inflation pressures are easing and may give the Fed room to pause rate hikes.

Employment data remained stable, with continued job creation across multiple industries, especially in services, logistics, and construction. Unemployment remains near historic lows, and wage growth has moderated, helping to alleviate inflationary pressure while sustaining consumer spending.

Sector Rotation: Technology Dominates, Health Care Falters

The domestic sector's performance in May was led unequivocally by Technology, which posted a 10% monthly gain. Investors rotated aggressively into semiconductors, cloud infrastructure, and hardware manufacturers, buoyed by resilient earnings and improved guidance. Healthcare was the only sector to post a negative performance, highlighting ongoing regulatory risks and weaker-than-expected results from major firms.

Top-performing S&P 500 stocks included:

- NRG Energy Inc (NRG): +42.3% in May; +72.8% YTD.
- Constellation Energy Corp (CEG): +37.0% in May; +36.9% YTD.
- Seagate Technology (STX): +29.6% in May; +36.6% YTD.
- Insulet Corp (PODD) and Broadcom Inc (AVGO): +25%+ monthly gains.

By contrast, the bottom performers painted a bleak picture for Health Care:

- UnitedHealth Group (UNH): -26.6% in May; -40.3% YTD.
- Regeneron Pharmaceuticals (REGN): -18.1% in May.
- Eli Lilly (LLY): -17.9% in May.
- Becton Dickinson (BDX): -16.7% in May.

These divergent performances underscore a shifting investor sentiment that favors innovation and capital efficiency over defensive positioning.

Fixed Income: Steepening Yield Curve Signals Long-Term Confidence

In fixed-income markets, Treasury yields moved higher across all maturities, suggesting investor optimism about long-term economic growth. The 2-year yield rose by 29 basis points to 3.89%, while the 10-year increase to 4.41%, up 24 basis points. The 30-year yield hit 4.92%, its highest level in months.

The yield curve steepened in May, which can be interpreted as a sign of normalization in investor expectations. The long end of the curve rising faster than the short end reflects reduced concerns about recession and growing confidence in the Fed's ability to engineer a soft landing.

However, bond fund performance suffered. Long-duration bond ETFs, such as TLT, declined 3.2% in May and turned negative for the trailing 12 months, illustrating the sensitivity of fixed-income assets to rate movements.

Commodities and Digital Assets: Mixed Results

Gold prices paused in May following a four-month rally. While still viewed as a hedge against economic and geopolitical uncertainty, its performance was dampened by rising yields and a stronger dollar.

In contrast, cryptocurrencies rallied sharply. Bitcoin and Ethereum gained momentum amid increased institutional interest, regulatory clarity in key markets, and general risk-on sentiment. The digital asset space appears to be regaining credibility after a prolonged winter, although volatility remains elevated.

Puerto Rico: Slowing Growth, Strong Labor Market

The Puerto Rican economy continues to send mixed signals. According to the Economic Activity Index published in February 2025, the economy remains in contraction, down -0.90% year-over-year. This marked the sixth consecutive month of negative growth, reflecting pressures in consumer spending, government outlays, and manufacturing.

Nevertheless, the labor market in Puerto Rico remains surprisingly resilient. April's unemployment rate came in at 5.5%, the lowest reading in nearly three years. Job creation has been robust in the hospitality, health services, and transportation sectors.

The economic outlook remains debated among three key forecasting institutions:

- Puerto Rico Planning Board: Cautiously optimistic, projecting slow but steady growth.
- FOMB (Financial Oversight and Management Board): Highlights structural weaknesses and fiscal constraints.
- Birling Capital: Offers a nuanced perspective, integrating market behavior, credit conditions, and private-sector investment trends into a more dynamic forecast.

Puerto Rican Public Companies: Navigating Headwinds with Mixed Results

The performance of publicly listed Puerto Rican firms varied significantly through the first five months of 2025:

- Popular Inc (BPOP): +10.58% YTD
- First Bancorp (FBP): +7.21% YTD

- Evertec Inc (EVTX): +4.14% YTD
- OFG Bancorp (OFG): -2.43% YTD

The Birling Capital Puerto Rico Stock Index rose by 6.02% YTD, underlining moderate investor confidence in local equities despite the overall economic contraction.

Financial institutions benefited from higher interest margins and stable credit quality. Meanwhile, Evertec continued to benefit from digitalization trends across the Caribbean and Latin America.

Conclusion: A Market Fueled by Selective Optimism

May 2025 reinforced the idea that we are living in an age of selective optimism. While equity markets show strength and GDP projections improve, consumer sentiment remains low, and Puerto Rico's economy signals deceleration.

Still, opportunities abound for those with the agility to adapt. Technology, semiconductors, and select cyclical sectors offer growth potential, while fixed-income investors must navigate yield curve changes with precision. In Puerto Rico, the challenge remains to convert labor market strength into broader economic acceleration.

At Birling Capital, we remain committed to providing actionable, customized insight rooted in data, economic foresight, and strategic vision. For a personalized review or to explore investment solutions tailored to your goals, we invite you to connect with us directly.

Warren Buffet says, **"All there is to investing is picking good stocks at good times and staying with them as long as they remain good companies—because the stock market is designed to transfer money from the active to the patient"**.



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