



## Markets Soar as Powell Signals Policy Shift at Jackson Hole; Dow Jumps 846 points as Bond Yields Slip and Dollar Weakens. A special Puerto Rico Economic Update with Charts is included.

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by Francisco Rodríguez-Castro  
[frc@birlingcapital.com](mailto:frc@birlingcapital.com)

The U.S. and European stock markets surged to fresh highs Friday after Fed Chair Jerome Powell used his Jackson Hole address to hint at a possible rate cut as early as September. While Powell reiterated the Fed's data-dependent stance, his acknowledgment of cooling labor-market conditions fueled investor expectations for a shift toward easing. The **Dow Jones** jumped **846.24 points**, while the **S&P 500** gained **96.75 points**, and the **Nasdaq Composite** advanced **396.22 points**.

The result was a broad-based rally, with the consumer discretionary sector surging 3.05%, followed by the energy sector with a 2.03% increase and the materials sector with a 1.95% increase. Bond yields slipped, and the dollar weakened as traders priced in a higher likelihood of monetary accommodation.

### Fed Lays Groundwork for Policy Shift

The Jackson Hole symposium once again proved a stage for pivotal Fed signaling. Powell noted that "the shifting balance of risks may warrant adjusting our policy stance," underscoring two key points: policy remains restrictive, and downside risks to employment are rising. Markets responded by increasing the probability of a September rate cut to nearly 90%, up from 70% the previous week. Still, one more CPI print and a jobs report stand between now and the September 17 FOMC meeting, leaving the Fed optionality intact.

From an investment perspective, potential winners of a Fed pivot include homebuilders, real estate, and regional banks. We maintain a preference for the consumer discretionary and financial sectors, which are expected to benefit from improving credit conditions and a pickup in household spending.

### Spotlight Turns to AI and NVIDIA

With policy expectations largely set, the next catalyst for markets arrives at midweek when NVIDIA reports quarterly results on Wednesday after the bell. At a \$4.2 trillion market cap—nearly 8% of the S&P 500—the chipmaker has become a market bellwether. Demand for AI infrastructure remains strong, but skepticism about stretched valuations is growing. The Nasdaq retreated this week, partly due to renewed caution following an MIT study that showed 95% of surveyed firms have yet to realize meaningful returns from generative AI projects.

Even so, we see continued AI adoption as a durable growth driver for mega-cap tech. However, the market may increasingly scrutinize margins and profitability, rather than just focusing on top-line growth. Investors should expect heightened volatility around NVIDIA's release, with implications for the broader tech complex.

### Puerto Rico Economic Update:

We are pleased to provide you with an update on Puerto Rico's economy through a set of key slides that highlight the most relevant trends and indicators. This overview covers GDP perspectives, labor

markets, tourism performance, consumer and construction activity, and the findings of the most recent tax study.

- Puerto Rico's economic outlook is being pulled in two very different directions depending on who you ask. The Planning Board anticipates modest yet positive growth, with GDP projected to expand by 2.1% in 2024, 1.1% in 2025, and 0.5% in 2026. By contrast, the Financial Oversight and Management Board (FOMB) projects a far gloomier scenario: 1.0% growth in 2024, followed by a contraction of -0.8% in 2025, and barely positive growth of 0.1% in 2026. This divergence underscores not only a clash of assumptions but also a more profound uncertainty over how structural reforms, federal aid, and investment will shape Puerto Rico's near-term trajectory.
- The Economic Activity Index paints a more troubling picture. After reaching growth early in 2024, the index slipped into contraction in September 2024 and has remained negative for seven straight months through March 2025, standing at -1.0%. The persistent decline is a clear signal of a slowdown, highlighting the growing disconnect between GDP forecasts and real-time economic momentum.
- Labor markets, however, tell a different story. Puerto Rico's unemployment rate has remained steady, at 5.5% as of July 2025. This resilience suggests that while broader activity is slowing, the job market continues to provide stability, pointing to a still-strong services sector and sustained employment in tourism, healthcare, and government.
- Tourism remains a bright spot. Year-to-date 2025 indicators show strong growth, with air passengers up 8%, lodging revenue rising 8%, and lodging demand increasing 7%. These gains confirm that Puerto Rico's visitor economy remains one of its most reliable engines of growth, supported by both international arrivals and the island's increasing cultural appeal.
- The hospitality sector is poised for another boost with the Bad Bunny residency, which is expected to bring between 400,000 and 600,000 additional visitors from June through September 2025. Hotel occupancy rates, which stabilized at around 70% from 2022 to 2024, are expected to increase to 75% for fiscal year 2025, positioning Puerto Rico as one of the strongest tourism markets in the region.
- Other consumer-driven sectors are showing less optimism. The auto industry, which has historically been volatile, is again under pressure. After a series of swings marked by a 50% surge in 2021 and contractions in 2022 and 2023, sales have dipped by 4.6% year-to-date in 2025. This suggests either tightening credit conditions or weaker household demand for durable goods.
- Construction, however, is stabilizing. After three consecutive years of contraction, sales of cement bags rebounded in 2025 with a 5.77% increase, reaching 15.18 million units. This improvement signals renewed activity in construction and infrastructure and could serve as a foundation for growth if sustained.

The challenge for Puerto Rico lies in bridging these contrasts—leveraging its clear strengths while addressing the structural weaknesses that continue to weigh on growth.

At the heart of those structural weaknesses is Puerto Rico's tax burden. The recently published tax study makes clear that Puerto Ricans pay the highest share of state and municipal taxes in the United States, with 26 cents of every dollar of economic activity consumed by the government. This outsized load discourages investment, limits household consumption, and reduces the competitiveness of key industries, such as the automotive and construction sectors. The result is a cycle where even growth drivers, such as tourism, struggle to lift the broader economy fully. Breaking this cycle will require a determined focus on tax reform, simplification, and execution—turning fiscal policy from a brake into an engine of growth.

Puerto Rico's barrier is not capacity—it is the chronic failure of execution and the political unwillingness to act.

#### Economic Data:

- Germany Real GDP QoQ: fell to -0.30%, compared to 0.30% last quarter.

#### Eurozone Summary:

- Stoxx 600: Closed at 561.30, up 2.23 points or 0.40%.
- FTSE 100: Closed at 9,321.40, up 12.20 points or 0.13%.
- DAX Index: Closed at 24,363.09, up 69.75 points or 0.29%.

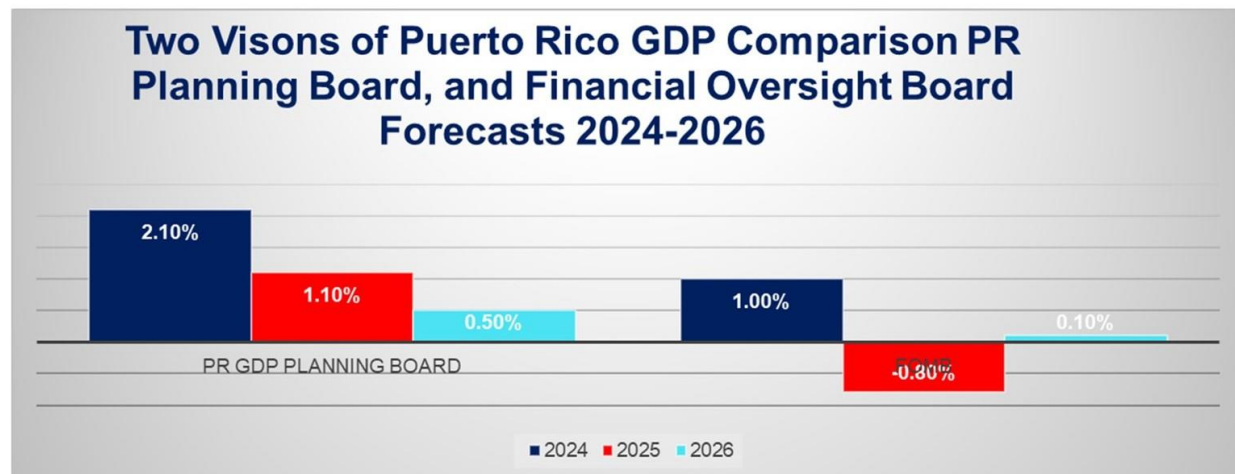
#### Wall Street Summary:

- Dow Jones Industrial Average: closed at 45,631.74, up 846.24 points or 1.89%.
- S&P 500: closed at 6,466.92, up 96.75 points or 1.52%.
- Nasdaq Composite: closed at 21,496.53, up 396.22 points or 1.88%.
- Birling Capital Puerto Rico Stock Index: closed at 4,112.65, down 16.44 points or 0.40%.
- Birling Capital U.S. Bank Index: closed at 7,639.93, up 15.51 points or 0.20%.
- U.S. Treasury 10-year note: closed at 4.26%.
- U.S. Treasury 2-year note: closed at 3.68%.



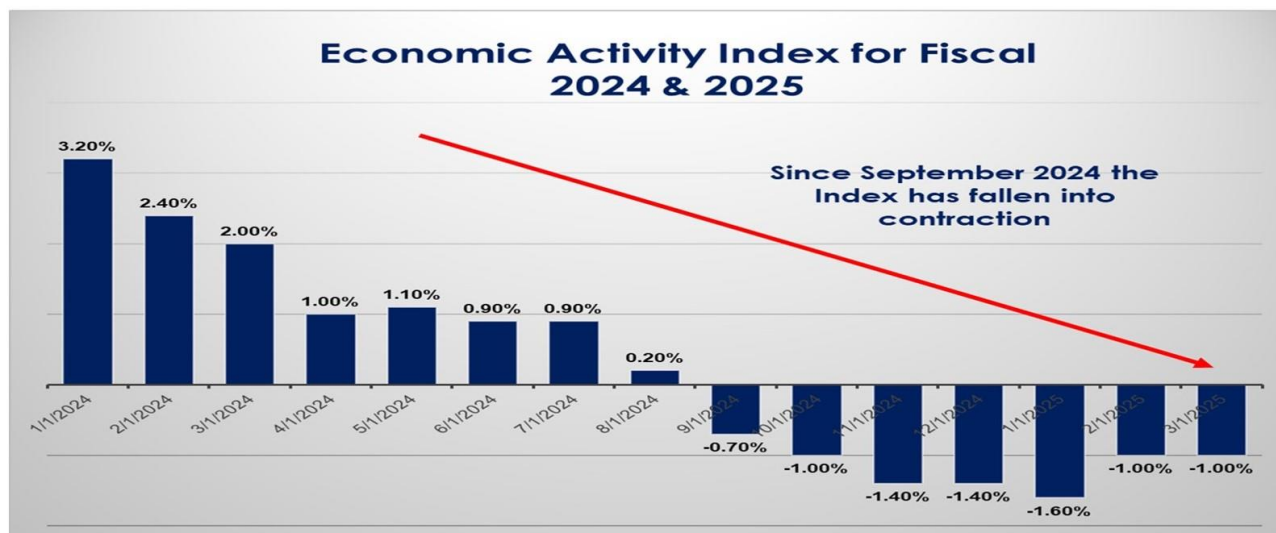
## Two Economic Growth Perspectives of Puerto Rico

PR Planning Board, and the FOMB 2024-2026



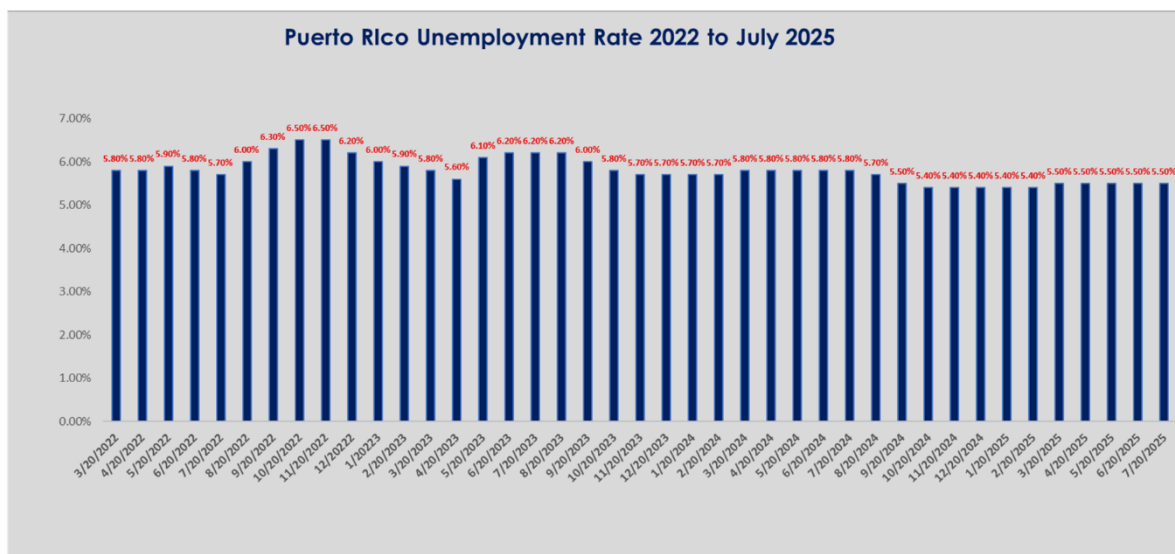
## Economic Activity Hitting the Breaks

The March 2025 Economic Activity Index remains in contraction at -1.00% for the seventh straight month, a clear sign of an economic slowdown



## Puerto Rico Labor Markets is robust

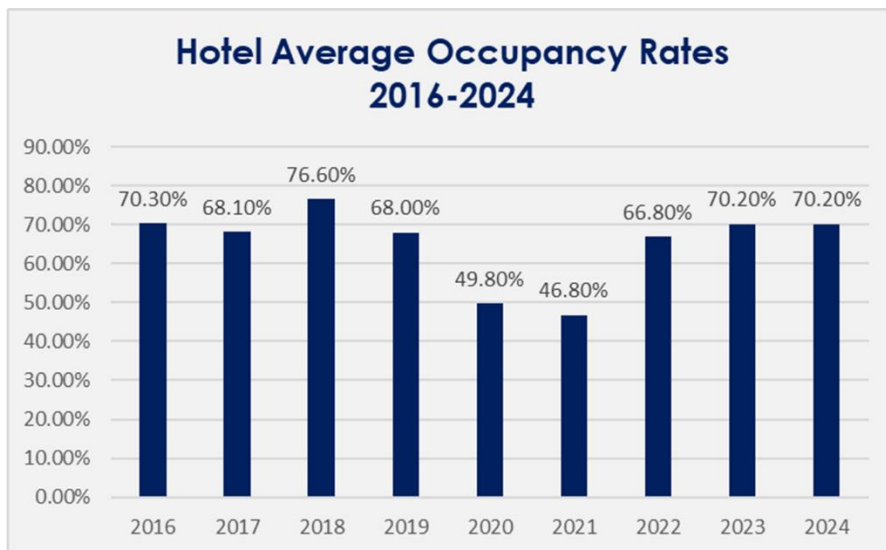
The Unemployment rate is at 5.50% in July 2025



# Puerto Rico Tourism YTD Industry Metrics



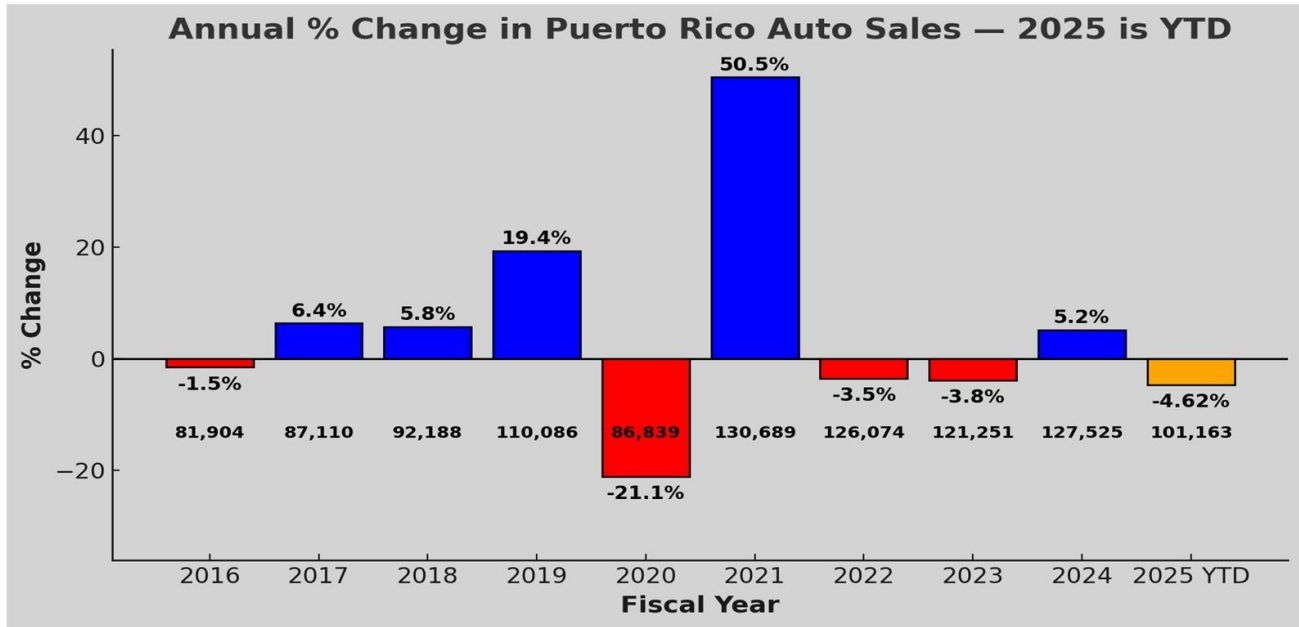
## Puerto Rico Tourism Average Occupancy Rates



### Impact of the Bad Bunny Residency

- The residency adds 400K–600K visitors from June to September.
- The average occupancy rate for FY 2025 could rise to **75%**

## Puerto Rico Auto Industry Historical & YTD Metrics



## Puerto Rico Sales of Bags of Cement 2021-2025

After contraction in 2022, 2023, and 2024, sales finally stabilized in 2025, posting a solid rebound of 5.77% growth.

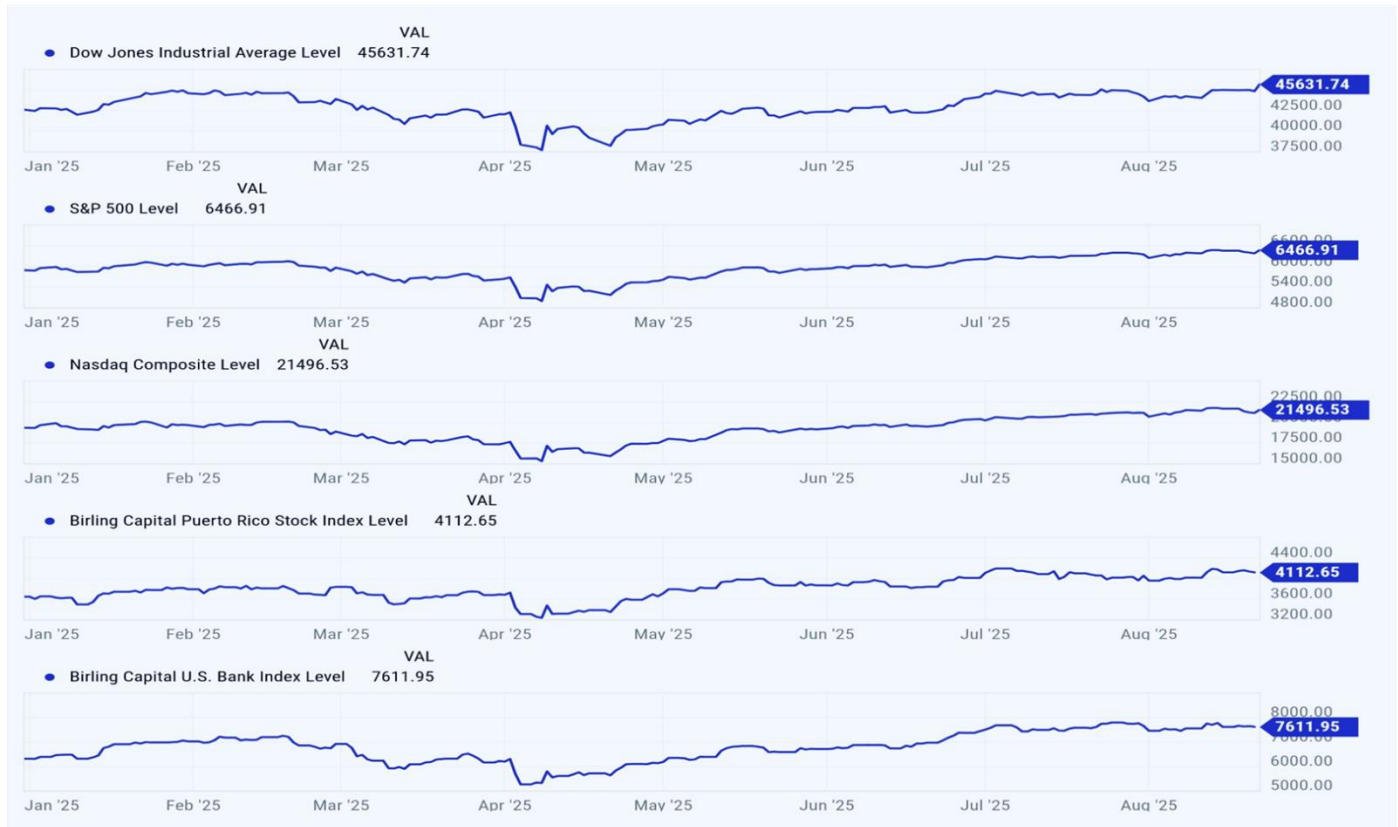




# Wall Street Recap

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