GLOBAL MARKET SQUARE

BIRLING CAPITAL ADVISORS, LLC

# Global Markets React as US Implements Broad Tariffs on Major Trading Partners, While US and Mexico Temporarily Delay Tariffs as President Trump Secures Border Commitment from Sheinbaum.

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The US and European stock markets closed down, driven by the new US policy of broad tariffs implementation to its longtime trading partners. As we mentioned last Friday this weekend, President Trump issued an executive order introducing new tariffs: 25% on imports from Canada and Mexico and 10% on Chinese goods, utilizing the International Economic Emergency Powers Act. The new tariffs, which start on Tuesday, include a specific adjustment—Canadian oil imports will face a 10% rate, not 25%. These tariffs affect around 40% of US imports and have implications for roughly 5% of US GDP, hinting at potential economic slowdowns and rising consumer prices if these trade tensions escalate.

In terms of each country, these are the broader numbers exported to the US.

1. **Canada:** $80 billion in Vehicles, $84 billion in Crude Oil, $2 billion in Electricity, $8 billion in Natural gas, $25 billion in Machinery, $20 billion in Minerals, $20 billion in Forestry products, $10 billion in Grains and $15 billion in Consumer Goods **totaling $264 billion.**
2. **Mexico:** $93 billion in Vehicles, $85 billion in Machinery, $10 billion in Oil, $13 billion in Agricultural, and $15 billion in Consumer Goods, **totaling $216 billion**.
3. **China:** $270 billion in Machinery and Equipment, $35 billion in Furniture and Bedding, $27 billion in Toys and Sports Equipment, $40 billion in Footwear and Apparel, $20 billion in Plastics, $15 billion in Vehicles, $17 billion in Optical and Medical Equipment, $12 billion in Chemical Products t**otaling $436 billion**

**The exposure of exports is $916 billion, just shy of $1 trillion.**
During a phone conversation on Monday, U.S. President Donald Trump and Mexico's Claudia Sheinbaum agreed to postpone the imposition of 25% tariffs for one month. The decision came after President Sheinbaum committed to deploying 10,000 National Guard troops along the Mexico-U.S. border to tackle drug trafficking issues. The leaders also agreed to engage in further discussions on trade and security.

The duration and eventual outcome of these tariffs are uncertain, but they may drive critical trade negotiations on key issues.

**US Positioned Strongly Despite Trade Headwinds:**
The US economy is relatively shielded due to its lower trade dependency—total trade constitutes 25% of its GDP compared to 64% for Canada and 74% for Mexico. While the new tariffs and potential countermeasures could stir economic turbulence, the US stands in a robust position to negotiate. Extended tariffs could push domestic prices higher, although this might not translate directly to consumer costs. Factors such as a stronger US dollar and possible absorption of the expenses by foreign exporters and US importers could mitigate impacts. Additionally, importers may seek alternative sources and adapt supply chains, though significant adjustments would require time and investment.

### Inflation and Economic Impact Considerations:

The tariffs could act as a consumer tax, potentially driving a one-time surge in inflation. The Federal Reserve might hold off on rate cuts while evaluating these effects. Although headline CPI has remained below 3% recently, escalating goods prices could push it towards the 3%-4% range, and the latest inflation nowcasting shows the CPI at 2.85%.

However, a significant rate hike seems unlikely as the Fed may not view tariffs as a persistent inflation driver. With services comprising a larger portion of CPI than goods, they will play a crucial role in inflation trends.

### Broader Economic Perspectives and Market Fundamentals:

Despite the trade uncertainties, fundamental economic indicators provide some market stability. The possibility of a worsening trade situation before any improvement adds volatility, reflected in today's equity pullbacks and a robust US dollar. However, historical market reactions to trade news in 2018 and favorable movements in 2019 upon trade truce news suggest market sensitivity to such developments. Investors are advised to maintain long-term strategies rather than reacting to immediate fluctuations. The economic fundamentals, including rising corporate profits and potential for pro-growth policies, support a steady growth outlook.

### GDPNow Update:

- The GDPNow estimate for US GDP growth for the first quarter of 2025 was updated on February 3, rising to 3.9% GDP, up from 2.9%, a 34.48% increase.

### Key Economic Data:

- **US Retail Gas Price:** fell to $3.224, down from $3.229 last week, decreasing -0.15%.
- **US Construction Spending MoM:** rose to 0.54%, compared to 0.17% last month.
- **Eurozone Inflation Rate (Excluding Energy, Food, Alcohol, and Tobacco):** is unchanged at 2.70%, compared to 2.70% last month.

### Eurozone Summary:

- **Stoxx 600:** Closed at 534.85, down 4.68 points or 0.87%.
- **FTSE 100:** Closed at 8,583.56, down 90.40 points or 1.04%.
- **DAX Index:** Closed at 21,428.34, down 303.81 points or 1.40%.

### Wall Street Summary:

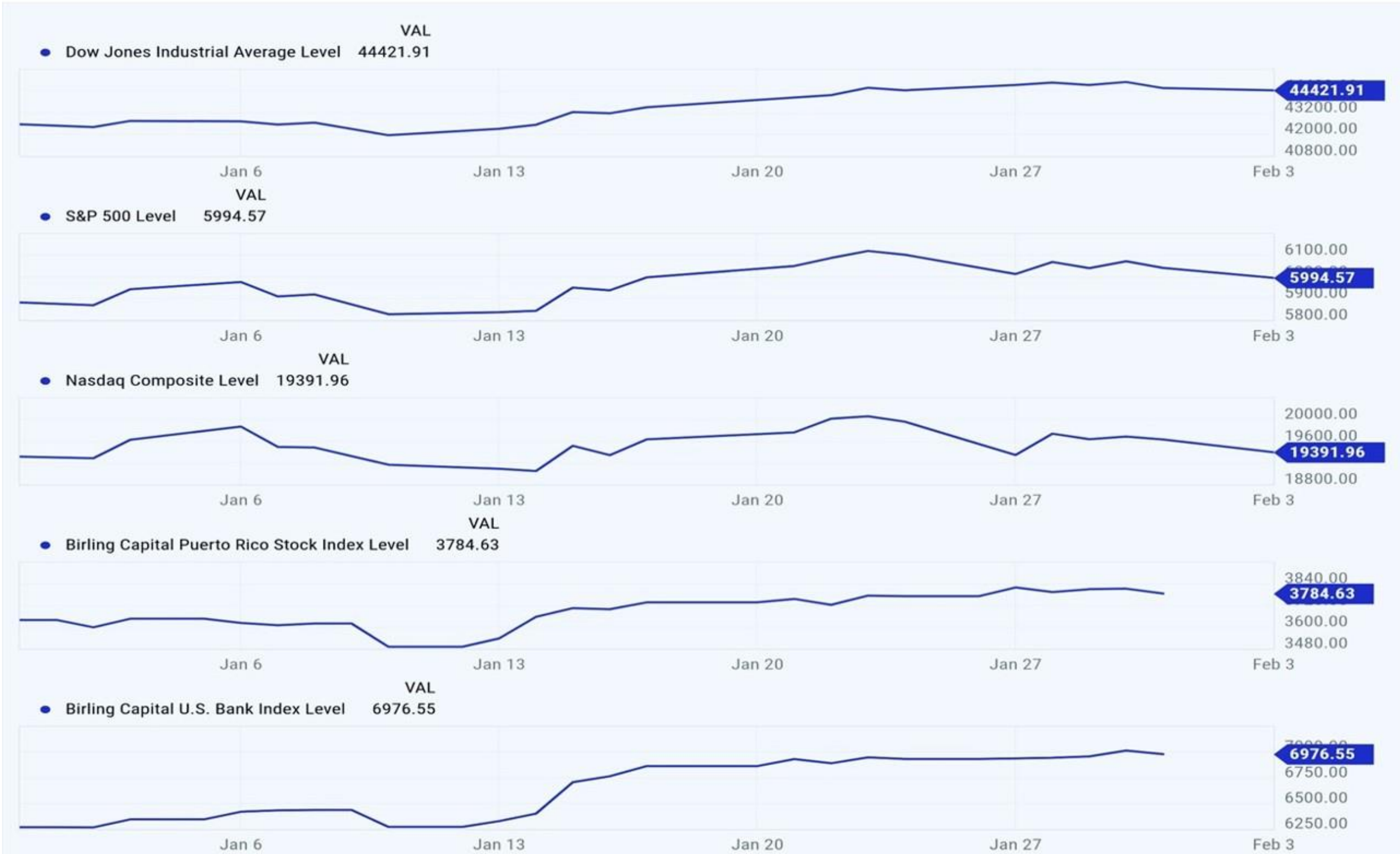
- **Dow Jones Industrial Average:** Closed at 44,421.91, down 122.75 points or 0.28%.
- **S&P 500:** Closed at 5,994.57, down 45.96 points or 0.76%.
- **Nasdaq Composite:** Closed at 19,391.96, down 235.49 points or 1.20%.
- **Birling Capital Puerto Rico Stock Index:** Closed at 3,784.63, down 27.03 points or 0.71%.
- **Birling Capital US Bank Index:** Closed at 6,976.55, down 35.26 points or 0.50%.
- **US Treasury 10-year note:** Closed at 4.54%.
- **US Treasury 2-year note:** Closed at 4.26%.

# GDPNow 1Q25

| Date | GDPNow 1Q25 | Change |
|---|---|---|
| 1/31/2025 | 2.90% | Initial Forecast |
| 2/3/2025 | 3.90% | 34.48% |

## Inflation Nowcasting CPI & Core CPI

| Inflation Nowcasting | CPI Forecast | Core CPI Forecast | Updated |
|---|---|---|---|
| January | 2.85% | 3.13% | 2.3.25 |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Jan 13
Jan 20
Jan 27
Feb 3
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Jan 6
Jan 13
Jan 20
Jan 27
Feb 3
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19391.96
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Jan 6
Jan 13
Jan 20
Jan 27
Feb 3
VAL
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Jan 6
Jan 13
Jan 20
Jan 27
Feb 3
VAL
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6250.00
Jan 6
Jan 13
Jan 20
Jan 27
Feb 3