

Investors Eye PCE Inflation Data as Global Equities Diverge, Europe Retreats, U.S. Markets Flat.

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The U.S. and European equity markets ended the day with mixed results, consolidating recent gains amid a continued easing of geopolitical tensions in the Middle East. The de-escalation has bolstered investor confidence across risk assets, though trading was subdued ahead of key inflation data due later this week.

With a relatively light economic calendar, investor attention turned to May's new home sales, the day's primary data release. Meanwhile, in the bond market, the yield on the 10-year U.S. Treasury declined modestly, settling at 4.29%.

Eyes on PCE Inflation Report Later This Week

Investor focus will shift toward inflation data later in the week, with May's Personal Consumption Expenditures (PCE) index considered the Federal Reserve's preferred inflation measure set for release on Friday. The Inflation Nowcasting shows market expectations are for headline PCE to post a modest 0.1% m-o-m gain and 2.25% on a y-o-y basis. Core PCE, which excludes volatile food and energy prices, is also projected to rise 0.1% for the month and 2.58% y-o-y.

Earlier in June, the Consumer Price Index (CPI) surprised to the downside, with core CPI climbing just 0.1% on the month and subdued 1.7% on a three-month annualized basis—the lowest since July 2023. Notably, despite concerns that recently imposed tariffs might stoke inflationary pressures, May's CPI report showed minimal impact, with core goods prices flat and up just 0.3% year-over-year.

While we anticipate that tariffs may eventually lead to a one-time increase in price levels, we continue to view long-term inflation expectations as well anchored. Consequently, we maintain our outlook for one to two interest rate cuts by the Federal Reserve in the second half of 2025, consistent with its easing trajectory.

Global Stocks Lead in 1H 2025, But U.S. Equities Still Favored

As the first half of 2025 draws to a close, internationally developed markets have delivered a standout performance. The MSCI EAFE Index has returned nearly 18%, including dividends year-to-date through Tuesday, outperforming the S&P 500 by an impressive 13.5%—the widest margin of international outperformance since 1993.

This surge has been supported by fiscal stimulus measures announced in Germany and a weakening U.S. dollar, both of which have bolstered foreign earnings and valuations. While these results reaffirm the value of global diversification, our medium-term outlook remains favorably inclined toward U.S. equities. Given superior earnings growth potential and stronger fundamentals, we recommend a modest underweight to internationally developed markets and a tactical tilt toward U.S. stocks in strategic asset allocation over the next one to three years.

Economic Data Highlights:

- **U.S. Crude Oil Stocks WoW:** is at -5.836M, up from -11.47M last week.
- **U.S. New Single-Family Houses Sold:** fell to 623,000, down from 722,000 last month, decreasing -13.71%.
- **Japan Business Conditions Composite Coincident Index:** rose to 116.00, up from 115.80 last month.

Eurozone Summary:

- **Stoxx 600:** Closed at 536.98, down 4.00 points or 0.74%.
- **FTSE 100:** Closed at 8,718.75, down 40.24 points or 0.46%.
- **DAX Index:** Closed at 23,498.33, down 143.25 points or 0.61%.

Wall Street Summary:

- **Dow Jones Industrial Average:** closed at 42,982.43, down 106.59 points or 0.25%
- **S&P 500:** closed at 6,092.16, down 0.02 points or 0.00%.
- **Nasdaq Composite:** closed at 19,973.55, up 61.02 points or 0.31%.
- **Birling Capital Puerto Rico Stock Index:** closed at 3,957.15, up 23.04 points or 0.59%.
- **Birling Capital U.S. Bank Index:** closed at 7,163.49, up 109.52 points or 1.55%.
- **U.S. Treasury 10-year note:** closed at 4.29%.
- **U.S. Treasury 2-year note:** closed at 3.74%.



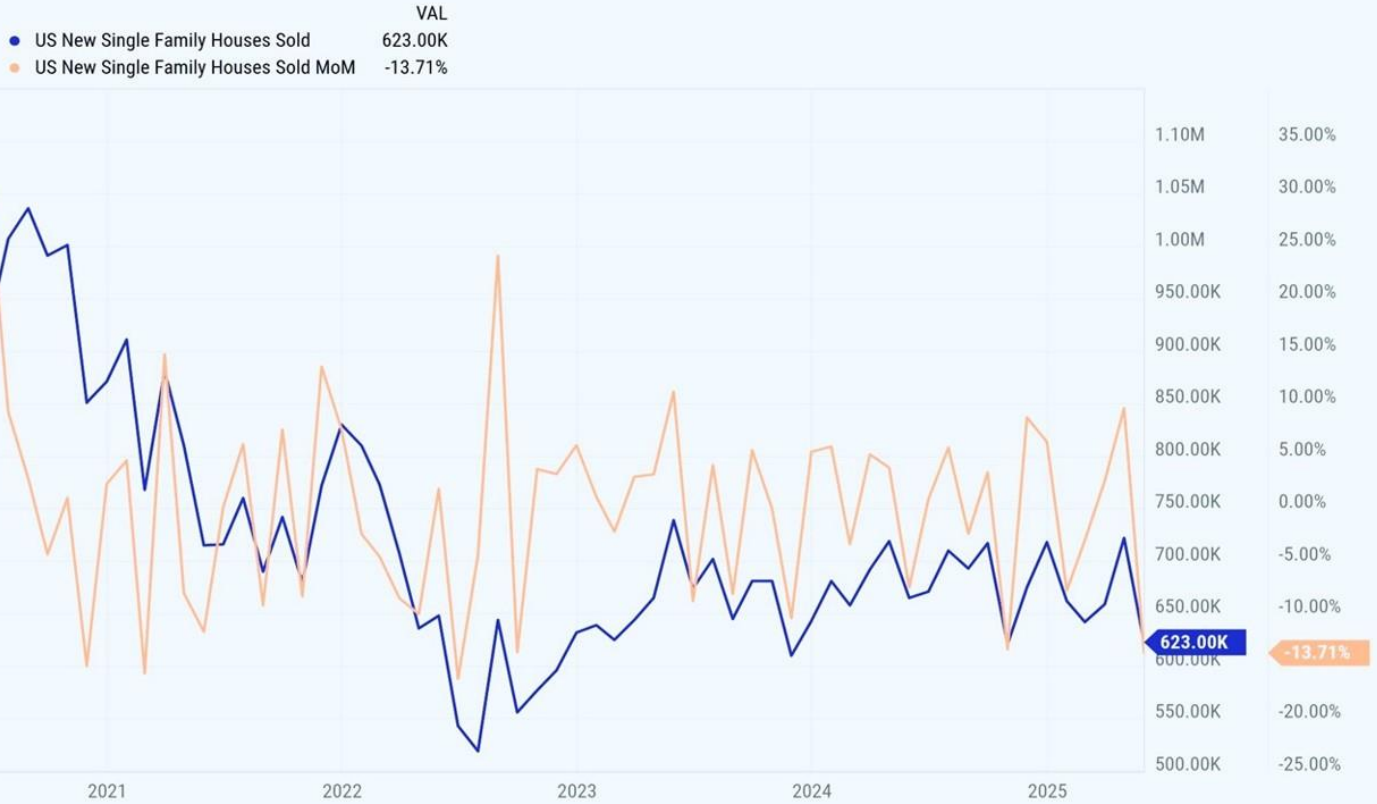
Inflation Nowcasting PCE & Core PCE

Inflation Nowcasting	PCE Forecast	Core PCE Forecast	Updated
May	2.25%	2.58%	25-Jun



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U.S. New Single-Family Houses Sold & US New Single-Family Houses Sold MoM



6/1/2025

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