Global Markets Tumbled as Fresh Tariffs Ignited Trade Tensions, and the US Economy is Forecasted to Contract in 1Q25 to -2.80%.

GLOBAL MARKET SQUARE
BIRLING CAPITAL ADVISORS, LLC

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by Francisco Rodríguez-Castro
frc@birlingcapital.com

The US and European stock markets ended the session adding more losses as investors reacted to implementing fresh tariffs. Financial and consumer discretionary sectors led the downturn, while industrials and automakers faced additional pressure. In Asia, markets followed suit, slipping further as trade tensions escalated. The US dollar weakened against major currencies, while commodity markets saw a decline in WTI crude prices, primarily driven by OPEC's ongoing plan to increase output starting in April.

New tariffs trigger global response: As of today, the U.S. has implemented 25% tariffs on a range of imports from Canada and Mexico, with a reduced 10% levy on Canadian oil and gas. Additionally, a 10% tariff on Chinese goods has taken effect. In retaliation, Canada has imposed immediate 25% tariffs on $30 billion worth of U.S. exports, with additional measures covering $125 billion in imports set to begin in three weeks. China followed suit, enacting duties between 10%-15% on key U.S. agricultural exports, while Mexico is expected to announce its countermeasures by the weekend. Despite heightened trade tensions, the overall economic impact is expected to be limited, as the new Canadian tariffs account for less than 0.5% of US GDP. Currency movements could also help mitigate inflationary pressures, as a stronger dollar would make imports more affordable. Meanwhile, manufacturers may absorb some added costs, compressing profit margins rather than entirely passing expenses onto consumers. Additionally, broader economic policies, including tax incentives and deregulation, could cushion potential growth slowdowns linked to trade disruptions.

Bond yields move higher despite rate-cut expectations: Treasury yields increased, with the 10-year yield rising to 4.17%. However, the broader trend remains downward, with the benchmark yield more than 60 basis points below its peak earlier this year. Investors continue to flock to bonds amid concerns over slowing economic growth, pushing US investment-grade bonds up nearly 3% YTD, as measured by the Bloomberg U.S. Aggregate Bond Index. Market sentiment has also shifted toward expecting two or three Federal Reserve rate cuts this year, potentially bringing the Fed funds rate to 3.5%-4.0%. The Fed'as preferred inflation gauge, personal consumption expenditure (PCE) inflation, which stood at an annualized 2.5% in January, is expected to continue its descent toward the 2% target. With inflation moderation, the Fed may find room to gradually unwind restrictive monetary policy, aligning with a more neutral stance in the months ahead.

Economic Data Update:

- **Eurozone Unemployment Rate:** is unchanged at 6.20%, compared to 6.20%.

Eurozone Summary:

- **Stoxx 600:** Closed at 551.07, down 12.06 points or 2.14 %.
- **FTSE 100:** Closed at 8,759.00, down 112.31 points or 1.27%.
- **DAX Index:** Closed at 22,326.81, down 820.21 points or 3.54%.

Wall Street Summary:

- **Dow Jones Industrial Average:** closed at 42,529.99, down 670.25 points or 1.55%.
- **S&P 500:** closed at 5,778.15, down 71.57 points or 1.22%.
- **Nasdaq Composite:** closed at 18,285.16, down 65.03 points or 0.35%.
- **Birling Capital Puerto Rico Stock Index:** closed at 3,829.45, up 14.64 points or 0.38%.
- **Birling Capital US Bank Index:** closed at 6,873.43, up 178.72 points or 2.67%.
- **US Treasury 10-year note:** closed at 4.22%.
- **US Treasury 2-year note:** closed at 3.96%.

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