GLOBAL MARKET SQUARE
BIRLING CAPITAL ADVISORS, LLC

# U.S. Markets Dip as Investors Shift to Defensive Positions; Tariffs and Fed Take Center Stage.

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The U.S. and European stock markets closed lower Tuesday, as investors digest Monday's end to the S&P 500's impressive nine-day rally—the index's longest winning streak since 2004.
European markets closed mixed following softer-than-expected producer price data, while Asian markets closed mostly in the green.

Meanwhile, the U.S. trade deficit ballooned to a record $140.5 billion in March, fueled by a sharp rise in imports as firms raced to avoid incoming tariffs. Bond markets opened relatively flat, with the 10-year Treasury yield closing at 4.30%.

First-quarter earnings have delivered strong results so far. Approximately 78% of S&P 500 companies have reported, with 76% posting earnings that exceeded expectations. Aggregate earnings are now on track to grow over 12%—a significant upward revision from the 7% forecast in mid-April. However, the outlook is clouded by rising cost pressures from new trade tariffs. Ford's earnings report last night underscored this uncertainty. Although it surpassed Q1 estimates, the automaker withdrew its 2025 guidance, warning that tariffs could slash $1.5 billion from EBIT. While double-digit growth is unlikely to persist, mid-single-digit earnings growth in 2025 remains feasible, provided the economy skirts a recession. Encouragingly, policymakers have signaled a potential softening in trade tensions, and if formal agreements emerge, they could ease uncertainty and bolster corporate margins.

Eyes on the Fed as Rate Path Takes Shape. Investor attention is turning to the Federal Reserve as Wednesday's May FOMC meeting concludes. Markets widely expect the Fed to hold its benchmark rate steady at 4.25%–4.5%. With no rate move likely, the spotlight will fall on Chair Jerome Powell's remarks. Powell has recently emphasized that tariffs may complicate the Fed's dual mandate by contributing to inflation and rising unemployment. He's also warned that a temporary price jump from tariffs must not be allowed to evolve into persistent inflation—a dynamic that will take time to evaluate. Market indicators suggest inflation expectations remain well-anchored, with the 10-year breakeven rate near the lower end of its three-year range. After last Friday's stronger-than-expected jobs report and a robust ISM Services PMI reading yesterday, we anticipate Powell will advocate patience and caution. While rate cuts remain on the horizon, we believe the Fed will unlikely act until the second half of 2025. Futures markets currently reflect expectations for three rate cuts this year, with the first likely arriving in July.

## Economic Update:

- **US Retail Gas Price:** fell to $3.261, down from $3.268 last week, dropped -0.21%.
- **US Trade Balance on Goods:** is at -163.52 billion, down from -147.04 billion last month.
- **Canada Ivey PMI:** rose to 55.60, up from 51.30 last month, increasing 8.38%.

### Eurozone Summary:

- **Stoxx 600:** Closed at 536.35, down 0.96 points or 0.18%.
- **FTSE 100:** Closed at 8,597.42, up 1.07 or 0.012%.
- **DAX Index:** Closed at 23,249.65, down 94.89 or 0.41%.

### Wall Street Summary:

- **Dow Jones Industrial Average:** closed at 40,829.00, down 389.83 points or 0.95%.
- **S&P 500:** closed at 5,606.91, down 43.47 points or 0.77%.
- **Nasdaq Composite:** closed at 17,689.66, down 154.58 points or 0.87%.
- **Birling Capital Puerto Rico Stock Index:** closed at 3,767.98, down 15.68 points or 0.41%.
- **Birling Capital U.S. Bank Index:** closed at 6,292.62, down 12.27 points or 0.19%.
- **U.S. Treasury 10-year note:** closed at 4.30%.
- **U.S. Treasury 2-year note:** closed at 3.78%.

## Wall Street Recap

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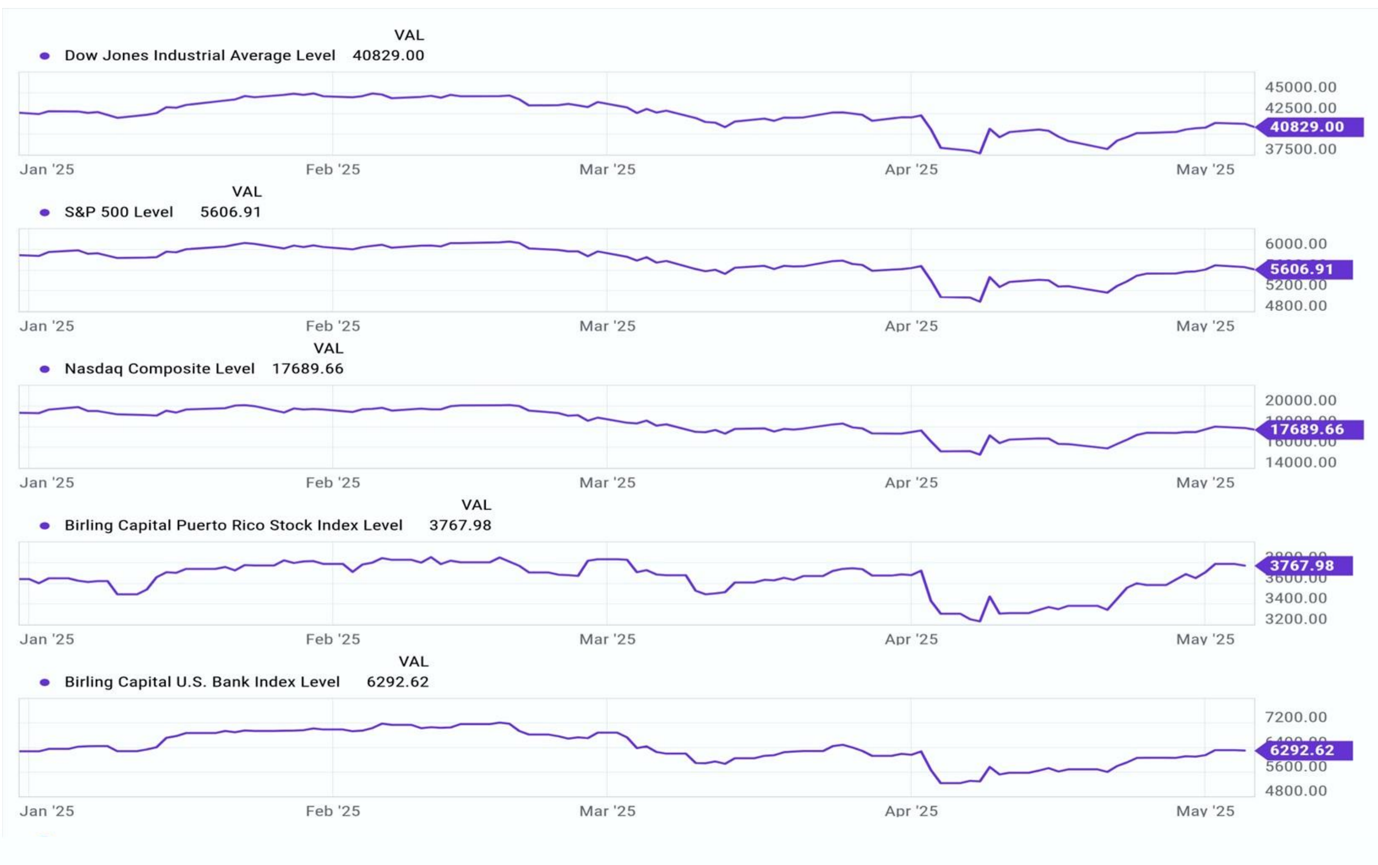


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