



The Fed's Preferred Inflation Metrics, the PCE Rises Below Estimates, Brisk Consumer Spending, Targeted Tariffs, and Markets Close Higher.

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The U.S. and European stock markets closed with gains, after the Federal Reserve's preferred inflation measure delivered no surprises. Investors entered the session with a constructive mood, as the August reading of the Personal Consumption Expenditures (PCE) price index confirmed that inflation is progressing along a gradual and predictable path. The **PCE** rose to **2.74%**, **below the 2.79% Inflation Nowcasting**, while the **Core PCE** rose to **2.91%**, **below the 2.99% Inflation Nowcasting**. Treasury yields rose and oil prices climbed, while the U.S. dollar weakened against its major peers, signaling a risk-on tilt.

Wall Street and Eurozone Markets

Equity markets in the United States closed higher across all major indexes, with significant activity concentrated in growth and consumer discretionary names. The optimistic tone was supported by data showing that price pressures remain contained, giving the Federal Reserve room to stay on its expected easing trajectory.

European Stocks Gain as U.S. and EU Tariff Headlines Stir Global Trade Debate

European equities climbed steadily on Friday as investors looked past a new wave of trade-policy announcements from Washington and Brussels. The **Stoxx Europe 600** closed up **0.78%**, the **FTSE** rose **0.77%**, and the **DAX Index** rose **0.87%**.

The early lift came despite turbulence in the healthcare sector. **Zealand Pharma** lost **2.9%**, **Novo Nordisk** **1.6%**, and **Orion** **1.9%** after **President Trump unveiled 100% tariffs on pharmaceutical imports starting October 1**. Drugmakers can avoid the duties if they begin **U.S. manufacturing projects**, a shift from his earlier threat of 200% tariffs. The drugmakers could easily circumvent these tariffs by **establishing new domestic manufacturing capacity**, a move that could significantly reshape supply chains over the coming quarters.

Adding to the day's trade drama, **Trump also announced a 25% tariff on heavy trucks**, while **Handelsblatt reported that the EU plans tariffs of up to 50% on Chinese steel**. Markets largely shrugged off the headlines, signaling confidence that the measures will be **selective rather than destabilizing**.

In Asia, most benchmarks closed lower. Pharmaceutical stocks led the decline after **President Trump unveiled 100% tariffs on branded pharmaceuticals**, a sweeping measure aimed at bringing production back to U.S. soil.

US Bond Markets

The bond market reflected a modest recalibration of interest-rate expectations. The **10-year U.S. Treasury yield rose to 4.20%**, climbing from its September 11 low of 4.01%. Currency markets also shifted: the **U.S. dollar weakened broadly**, lending support to export-sensitive sectors and commodities. **WTI crude oil advanced** after Russia curtailed fuel exports, citing Ukrainian attacks on its energy infrastructure—an additional supply disruption in an already tight market.

Economic Policy

The August inflation report offered the Federal Reserve a steady read on price trends. **Core PCE inflation, which strips out volatile food and energy costs, held at 2.91% Y-o-Y**, below consensus expectations. Headline PCE inflation ticked up to **2.74%**, below forecasts.

A closer look reveals that **goods prices increased by just 0.9%**, while **services inflation remained higher at 3.6%**, primarily driven by **shelter costs, which rose to 3.9%**.

For policymakers, the data supports a patient but still accommodating stance. Inflation remains above the **2% target**; however, the disinflationary trend and a cooling labor market provide the Fed with room to **deliver at least two more rate cuts before the end of the year**.

Economic Data Analysis

The broader economic backdrop indicates an economy that is still growing, albeit at a slower pace. **Unemployment stands at 4.3%**, and **job openings total 7.181 million**, only slightly below the 6.804 million people counted as unemployed job seekers. This suggests that the labor market is **easing rather than weakening outright**, reducing upward wage pressures without triggering significant job losses.

Household finances remain a critical support. **Personal income rose 0.4% month-over-month**, beating expectations of 0.3%. **Personal consumption expenditure climbed 0.6%**, outpacing forecasts of 0.45%. Wage growth continues to outpace inflation, leaving households with sufficient spending room and helping to stabilize overall demand.

Birling Capital's Final Word

The August PCE report strengthens the case for a **measured, data-driven Fed rate cut later this year**. The balance of forces is precise: core inflation is easing gradually, the labor market is cooling without collapsing, and wage growth is still sufficient to fuel consumption.

We view near-term price increases—especially those linked to higher import costs and potential tariff effects—as **temporary bumps rather than a lasting threat to price stability**. For investors, this environment favors a **selectively pro-risk stance**, focusing on sectors that benefit from stable consumer demand and lower real interest rates as the Fed continues its careful pivot toward accommodation.

GDPNow Update:

- The GDPNow for the third quarter was updated today, rising to **3.90%**, up from 3.30%, a 18.18% increase.

Economic Data:

- **U.S. PCE Price Index YoY:** rose to 2.74%, compared to 2.60% last month.
- **U.S. Core PCE Price Index YoY:** rose to 2.91%, compared to 2.85% last month.
- **U.S. Index of Consumer Sentiment:** fell to 55.10, down from 58.20 last month, and fell to 5.33%.
- **U.S. Personal Income MoM:** fell to 0.37%, compared to 0.40% last month.
- **U.S. Personal Spending MoM:** rose to 0.62%, compared to 0.55% last month.
- **Canada Real GDP MoM:** rose to 0.24%, compared to -0.06% last month.

Eurozone Summary:

- **Stoxx 600:** Closed at 554.52, up 4.30 points or 0.78%.
- **FTSE 100:** Closed at 9,284.83, up 70.85 or 0.77%.
- **DAX Index:** Closed at 23,739.47, up 204.64 points or 0.87%.

Wall Street Summary:

- **Dow Jones Industrial Average:** closed at 46,247.29, up 299.97 points or 0.65%.
- **S&P 500:** closed at 6,643.70, up 38.98 points or 0.59%.
- **Nasdaq Composite:** closed at 22,484.07, up 99.371 points or 0.44%.
- **Birling Capital Puerto Rico Stock Index:** closed at 4,235.63, up 7.13 points or 0.17%.
- **Birling Capital U.S. Bank Index:** closed at 8,324.77, up 27.37 points or 0.33%.
- **U.S. Treasury 10-year note:** closed at 4.20%.
- **U.S. Treasury 2-year note:** closed at 3.63%.



GDPNow

Third Quarter 2025

Date	GDPNow 3Q25	Change
7/31/2025	2.30%	Initial Forecast
8/1/2025	2.10%	-8.70%
8/5/2025	2.50%	19.05%
8/7/2025	2.50%	19.05%
8/15/2025	2.50%	0.00%
8/19/2025	2.30%	-8.00%
8/26/2025	2.20%	-4.35%
8/29/2025	3.50%	59.09%
9/2/2025	3.00%	-14.29%
9/4/2025	3.00%	0.00%
9/10/2025	3.10%	3.33%
9/16/2025	3.40%	9.68%
9/17/2025	3.30%	-2.94%
9/26/2025	3.90%	18.18%

Inflation Nowcasting

PCE & Core PCE

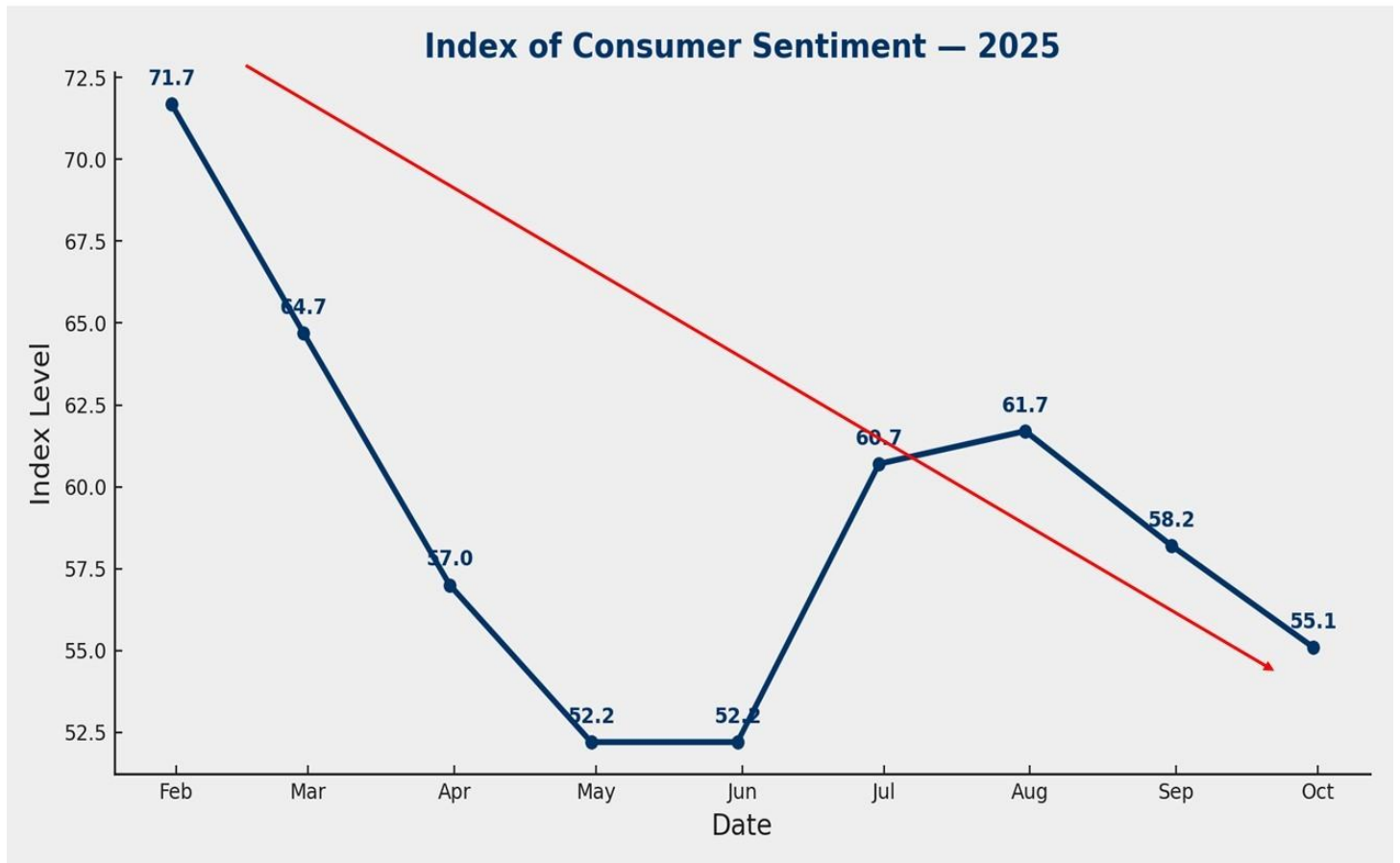
Inflation Nowcasting	PCE Forecast	PCE Actual	Change	Core PCE Forecast	Core PCE Actual	Change
August	2.79%	2.74%	-1.79%	2.99%	2.91%	-2.68%

US PCE Index, US Core PCE Index, US Index of Consumer Sentiment, US Personal Income & US Personal Spending





U.S. Index of Consumer Sentiment YTD 2025





Wall Street Recap

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