BIRLING CAPITAL ADVISORS, LLC

Think Strategically

Summer 2025: Repricing, Reallocation, and Vision with a Plan

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From Recovery to Rotation: A Three-Year Market Snapshot of Resilience, Realignment, and Strength

As we reach the halfway point of 2025, investors find themselves navigating a financial landscape defined not by crisis or euphoria—but by rotation, normalization, and recalibrated expectations. After three years of volatility, adaptation, and resilience, capital markets have matured into a more selective, fundamentally driven environment. And the numbers tell the story.

Let's examine the three-year trajectory across major global and regional benchmarks:

June 28, 2023 – The rebound year, fueled by artificial intelligence, falling inflation, and renewed investor optimism:

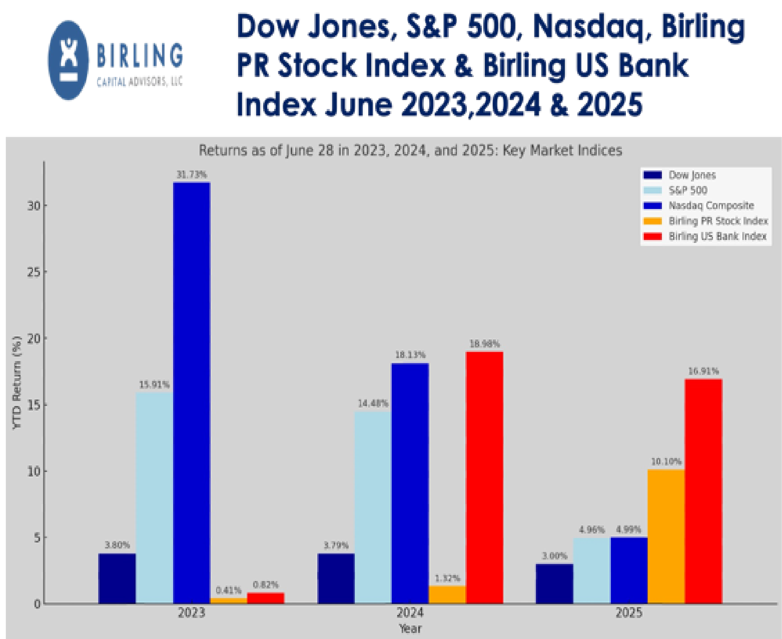
- Dow Jones: +3.80%
- S&P 500: +15.91%
- Nasdaq Composite: +31.73%
- Birling Puerto Rico Stock Index: +0.41%
- Birling U.S. Bank Index: +0.82%

June 28, 2024 – The rotation year, as gains broadened into banks, financials, and Puerto Rican equities:

- Dow Jones: +3.79%
- S&P 500: +14.48%
- Nasdaq Composite: +18.13%
- Birling Puerto Rico Stock Index: +1.32%
- Birling U.S. Bank Index: +18.98%

June 28, 2025 – The year of realignment, with returns more balanced across sectors and geographies:

- Dow Jones: +3.00%
- S&P 500: +4.96%
- Nasdaq Composite: +4.99%
- Birling Puerto Rico Stock Index: +10.10%
- Birling U.S. Bank Index: +16.91%



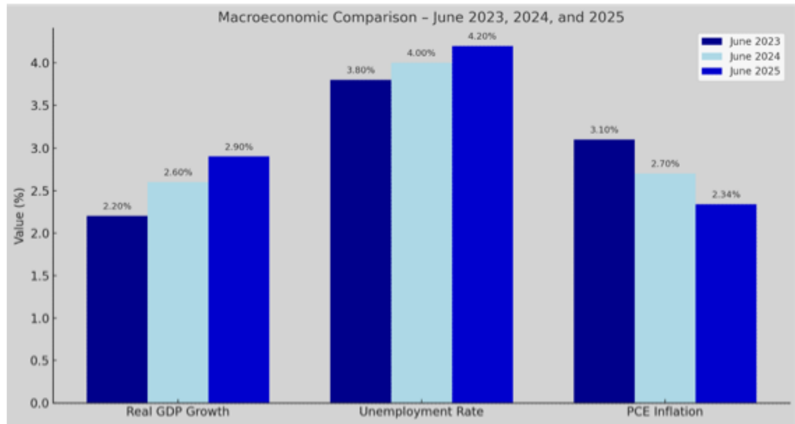
This progression illustrates a clear leadership transition: from high-octane growth and mega-cap dominance in 2023 to more cyclical and regional resilience in 2025. Notably, Puerto Rican equities and U.S. financials—long considered second-tier performers—are now at the forefront of the YTD leaderboard, benefiting from improving fundamentals, rising capital formation, and a more favorable credit environment.

But beyond markets, the macroeconomic picture also offers critical context.

As of June 28, 2025:

- **The Fed's GDPNow** is tracking at a healthy 2.90% for the 2Q25, signaling ongoing economic resilience.
- **The unemployment rate** stands at 4.20%, inching higher but still consistent with a stable labor market and moderate wage pressures.
- **The Personal Consumption Expenditures (PCE) Price Index**, the Federal Reserve's preferred inflation gauge, came in at 2.34% year-over-year, suggesting that disinflation is progressing, albeit unevenly.

Macroeconomic Comparison: US Real GDP, Unemployment Rate & PCE Price Index 2023, 2024 & 2025



This combination—solid growth, modest inflation, and a labor market returning to equilibrium—forms a rare backdrop: a "Goldilocks" macro setting where monetary policy can be eased cautiously without destabilizing demand.

It's within this environment that equity markets have achieved record highs—but with more measured momentum, tighter breadth, and increasing sector rotation. In other words, this is not a speculative rally—it's a selective one.

The question now is not simply whether markets can rise further but whether investors are aligned with the right sectors, regions, and risk-adjusted opportunities for the road ahead. With that lens, we explore the three drivers powering the current rally—and the key inflection points that will shape the remainder of 2025.

Three Drivers Behind the Summer Rally

1. Geopolitical Calm Lowers Oil Prices, Eases Inflation Risks

The sharp escalation in Middle East tensions earlier this June—catalyzed by U.S. strikes on Iran's nuclear facilities—initially jolted markets. But the crisis quickly de-escalated: Iran's response was limited and, crucially, did not disrupt oil production or shipping through the Strait of Hormuz, a vital artery for global energy flows.

Strategic Impact: The price of U.S. WTI crude dropped from $75 to around $65 per barrel, a sharp 13% weekly decline. For consumers, this spells relief at the pump during peak driving season. For markets, it's a tailwind for taming inflation expectations, easing pressure on the Fed, and improving corporate margin outlooks.

2. A Fed Still on a Glide Path to Lower Rates

The Federal Reserve's June policy meeting reinforced its stance: two rate cuts are still likely in 2025 despite rising global uncertainty. The updated dot plot indicated a longer-term policy rate of 3.00%, notably lower than the current range of 4.25%–4.50%.

Key indicators support this view:

- PCE inflation held at 2.34% annually in May; core PCE edged up to 2.68% but remains well-anchored.
- Retail sales and personal consumption data suggest some consumer fatigue, a trend that could accelerate if tariffs continue to weigh on sentiment.

Market Reflection: The bond market is already ahead of the Fed. Futures now price in 2–3 rate cuts before the end of the year. Yields on the 2- and 10-year Treasuries have dropped substantially, reflecting rising expectations for easing. Lower rates improve equity valuations and reduce borrowing costs—a dual boost for households and businesses alike.

3. Tech and AI Reignite Market Leadership

Mega-cap technology firms have reclaimed the spotlight. Following a short-lived April pullback tied to tariff concerns, the tech sector has rebounded impressively, fueled by:

- AI-driven capital spending which continues to outpace prior estimates.
- Strong earnings beat across key players despite global headwinds.

Since April 8, technology, communication services, and consumer discretionary have outperformed the broader index. While valuations in tech are once again rich, the fundamental momentum is intact, and investor appetite remains robust.

Strategic View: We maintain an equal-weight stance on technology while also recommending increased exposure to healthcare and financials, which offer attractive relative value and cyclical catch-up potential.

Outlook for the Second Half of 2025: Navigating a Policy-Driven Market

While equity momentum is powerful, the rest of 2025 will likely be defined by volatility, political recalibration, and changes in global trade dynamics.

Four Watchpoints for the Second Half of 2025:

1. **Trade Policy Volatility**: The sudden breakdown of U.S.-Canada talks over digital services taxation reminds investors that tariff and trade policy remains a flashpoint. With over 18 trade deals in motion, the direction of global commerce—and corporate confidence—hangs in the balance.
2. **U.S. Tax Bill and Fiscal Policy Shifts**: The administration's proposed tax package, which includes revisions to capital gains treatment, R&D expensing, and corporate rate adjustments, will be closely watched. The timing and scale of fiscal adjustments may impact investor expectations for 2026 and beyond.
3. **Policy Crossroads: From Campaign Rhetoric to Executive Action**: Now well into 2025, the focus in Washington has decisively shifted from campaign promises to policy execution. Markets are no longer reacting to electoral uncertainty—they are absorbing the actual economic impact of the policies being implemented. The administration's early agenda includes:
    - **Trade Realignment**: A more assertive tariff framework has been introduced, particularly targeting strategic sectors with China and digital services in Europe.
    - **Tax Policy Overhaul**: A sweeping proposal for corporate and individual tax reform is under negotiation in Congress.
    - **Regulatory Recalibration**: Agencies are increasing oversight of fintech, crypto-assets, and AI platforms while reexamining systemic risk in non-bank institutions.
4. **Midterm Election Dynamics for 2026**: As political parties recalibrate strategies, markets will begin to price in the potential for changes in congressional control. As political parties recalibrate their strategies, markets will start to price in the **potential for changes in congressional control**, which could either accelerate or stall key components of the administration's agenda.

At the same time, the growing spotlight on **federal deficits and fiscal sustainability**—with the national debt once again surpassing 125% of GDP—will raise questions about the future trajectory of U.S. creditworthiness, spending priorities, and the stability of the bond market. Discussions around **entitlement reform, defense spending, and industrial policy** will likely dominate the fiscal conversation heading into 2026.

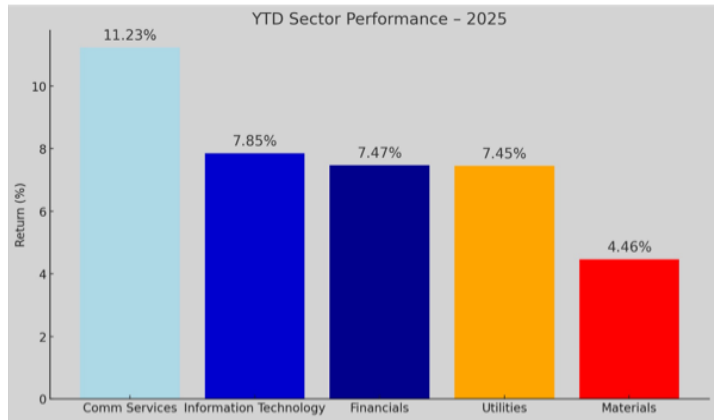
In short, **2025 is not a year of expectation but of execution**—a pivotal transition period where results replace rhetoric, and policy outcomes begin to reshape the economic and investment environment. Markets are responding accordingly, rewarding **companies with earnings clarity, exposure to domestic policy tailwinds, and the ability to adapt to a more regulated, multi-polar world economy**.

Portfolio Strategic Positioning Recommendations

As we approach a critical midyear juncture, portfolios should be proactively positioned for opportunity amid uncertainty:

- **U.S. Equities**: Overweight large- and mid-cap stocks with exposure to both growth (tech/AI) and value (financials/healthcare) sectors.
- **International Equities**: Maintain a modest underweight position relative to U.S. markets while retaining select exposure to emerging Asia and Europe, excluding the UK.
- **Fixed Income**: Favor intermediate-term U.S. Treasuries and high-quality corporates in the 7–10-year range.
- **Cash & Alternatives**: Maintain cash discipline and consider alternative assets or structured products for hedging and income.

2025 YTD Sector Performance: Communication Services, Information Technology, Financials, Utilities and Materials



The Final Word: A Time for Strategic Review

With equity markets at all-time highs and the macro environment stabilizing—but not without structural shifts—Summer 2025 presents a defining moment for strategic investors. This is no longer a market fueled by stimulus or excess liquidity. Execution, quality, and visibility now matter more than ever.

GDP growth at 2.90%, PCE inflation at 2.34%, and unemployment at 4.20% from a rare macroeconomic window—stable but requiring selectivity.

Strategic investors should:

- Reassess portfolio resilience under multiple scenarios
- Evaluate sector and geographic exposures
- Rebalance based on conviction, not emotion
- Focus on quality, earnings visibility, and policy alignment

At Birling Capital, we believe that in times like these, the most critical asset is not just capital—but clarity of purpose. Our mission is to provide that clarity through disciplined strategy, deep research, and long-term value creation.

We monitor policy from Washington to San Juan and Brussels to Beijing. We translate macro trends into local opportunities. And we deliver insights that are anticipatory, actionable, and aligned with your goals.

Now is not the time to wait and see. It is the time to think strategically, act decisively, and align capital with conviction. We stand ready to help you do precisely that—with purpose, precision, and foresight.

In times of transformation, the greatest advantage is clarity—because while markets react, strategy endures, Francisco Rodríguez-Castro.

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