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Think Strategically

From Rally to Rotation to Reckoning: Markets Climb as Trump Tariffs Head Toward Supreme Court Showdown

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The Summer's Surge and Autumn's Rotation

As the glow of the summer's market rally still lingers in our investment accounts, we must begin to brace for the shifting winds of autumn. The strength of this rally is not just a passing impression — it is written clearly in the numbers. August closed with broad gains across nearly every major benchmark, underscoring both the depth of investor enthusiasm and the resilience of corporate earnings. The results speak for themselves.

The Five Indexes Returns at Month End August 2025 and YTD

At the end of August, the Year to Date returns in the indexes we follow were as follows:

- **Dow Jones Industrial Average** recorded a 4.49% return for August and has a **YTD return of 7.05%.**
- **S&P 500** advanced 3.56% in August, with a **YTD return of 9.84%.**
- **Nasdaq Composite** recorded a 3.90% return for August and has a **YTD return of 11.11%.**
- **Birling Capital Puerto Rico Stock Index** recorded an 8.02% return for August and has a **YTD return of 17.33%.**
- **Birling Capital U.S. Bank Index** recorded a 6.86% return for August and has a **YTD return of 26.40%.** Both Birling Indexes are outperforming the major indices.

The August results leave little doubt the standout performers are Puerto Rico and U.S. banks. With both Birling Capital indices decisively outperforming their U.S. counterparts, the data underscores that opportunities extend well beyond the traditional benchmarks.



Dow Jones Industrial Average, S&P 500, Nasdaq Composite, Birling Puerto Rico Stock Index & Birling US Bank Index YTD Returns 8.29.25



The Month of September is Historically the Weakest

The month of **September is usually the year's weakest** month. Since 1928, the S&P 500 has averaged a return of -1.10%, making it the only month with consistently negative average returns. The Dow Jones and Nasdaq show similar patterns. The **frequency of losses**, as evidenced by **the S&P**, which **has fallen** in September roughly **55% of the time**, is a much higher percentage than in any other month.

Three Reasons Why September Struggles:

- **Investor behavior:** September often coincides with the return of institutional managers from summer, prompting portfolio rebalancing. This involves **harvesting profits from summer winners, rotating into lagging sectors, or positioning ahead of year-end fiscal and tax considerations**. That collective repositioning tends to create selling pressure.
- **Tax planning:** Mutual funds sometimes sell assets to harvest gains ahead of fiscal year-end (often October).
- **Seasonal psychology:** September is associated with a cautious approach to business, and markets tend to reprice risks more critically.

October: The Volatile Turning Point

October occupies a unique place in market history — feared for its spectacular crashes, yet statistically kinder than its reputation suggests. The data reveal why the month feels so unsettling: October's **standard deviation of returns ranks among the highest of any month**, underscoring its history of violent swings. It is the month of legends and scars — the Bank Panic of 1907, the 1929 collapse that marked the onset of the Great Depression, the infamous Black Monday of 1987 when the Dow fell 22% in a single day, and the 2008 unraveling of Lehman Brothers that deepened the Global Financial Crisis. Each of these events etched October into investors' memories as a season of peril.

And yet, averages tell a different story. Since 1928, the S&P 500 has delivered an **average October gain of +0.9%**, positioning it more as a month of transition than destruction. In fact, October often serves as a market clearinghouse — a volatile beginning followed by stabilization, as earnings season provides clarity and pessimism dissipates. Time and again, weakness in September and early October has set the stage for rebounds in the latter half of the month, reminding us that October is less an endpoint and more a turning point in the market's seasonal cycle.

The Seasonal Pattern in Context

September and October can be called the market's **"autumn speed bump."** Returns soften, volatility rises, and stocks seem to stumble just as the year enters its final stretch. Yet history reminds us these setbacks are rarely lasting. More often, they serve as the final shakeout before markets regain their footing and strength returns.

Meanwhile, the broader narrative of 2025 is still dominated by artificial intelligence. The boom in AI infrastructure and applications continues to drive spending and fuel economic growth. But even the brightest stars, such as NVIDIA, now carry the weight of sky-high expectations, where strong results are no longer enough to guarantee investor applause. At the same time, the Federal Reserve is edging closer to a long-awaited policy pivot. Hopes of rate cuts are breathing new life into interest-sensitive corners of the market, creating a backdrop where seasonal turbulence looks less like a breaking point and more like a pause — one shaped by shifting fundamentals as much as historical rhythm.

From November through April — the market's most favorable stretch — equities have historically posted their strongest gains, often aided by the so-called **"Santa Claus Rally."** In that light, the choppiness of autumn is less a warning of decline than a **prelude to recovery**. The lesson for investors is clear: volatility in September and October is temporary, not terminal.

Rate Cut Expectations Awaken Unloved Corners of the Market

The growing expectation of rate cuts is breathing life into long-neglected corners of the market, sparking a rotation that could broaden leadership as summer gives way to autumn.

At the Fed's annual Jackson Hole symposium, Chair Jerome Powell gave his clearest signal yet that the monetary stance is beginning to shift. He did not promise lower rates outright, but his words carried weight. The U.S. labor market, once a pillar of strength, is beginning to show signs of strain. Powell hinted that the Fed stands ready to lean against rising employment risks, as inflation continues to close in on its 2% target. Bond markets reacted immediately, and Futures now imply an **85% probability of a rate cut at the September 17 FOMC meeting**.

The release of the Fed's preferred inflation gauge, the **core PCE index**, ticked up modestly to **2.88% from 2.77%**. The increase was expected, signaling that inflation is no longer the disruptive force it was in 2022 and 2023.

The Economy: Solid Ground Beneath the Market

Rate cuts tend to be most effective when the economy is stable, rather than in a recession,, and that is precisely the case today. Revised second-quarter GDP data confirmed that the U.S. economy grew at a **3.3% annualized pace**, rebounding strongly after a brief contraction in the first quarter. Also the latest **GDPNow** for the third quarter came in at **3.50% GDP** published on August 29, the economy appears well-positioned for continued expansion as monetary policy shifts toward a more accommodative stance.

This alignment **slowing inflation, steady growth, and the prospect of lower rates** is rare and powerful.



US Real GDP, US Unemployment Rate, US PCE Price Index, US Core PCE Price Index, US Job Openings & US Job Seekers



Financial Conditions: The True Compass

To gauge the real impact of Fed easing, investors must look beyond policy statements and focus on the broader landscape of **financial conditions**. These include not only interest rates, but also credit spreads, the strength of the U.S. dollar, and equity valuations — together providing a more complete picture of how easily capital flows through the system.

By that measure, conditions today are already more supportive than they were a year ago, and far looser than when the Fed first began raising rates in 2022. With policymakers expected to continue cutting gradually into 2026, the trajectory points toward even greater accommodation. This shift could provide long-awaited relief to interest-sensitive sectors such as **housing and manufacturing**, which appear poised for recovery.

Opportunities and Risks Ahead

For investors, the implications are twofold. On the opportunity side, rate cuts and easier financial conditions could fuel a broadening rally, rewarding allocations to mid- and small-cap equities, cyclicals, and undervalued segments of the market that have lagged behind the AI-driven surge.

Yet history counsels caution. Periods of abundant liquidity often unleash speculative excess, as witnessed in 2000, 2007, and more recently in 2021. The same forces that fuel rallies can inflate bubbles, leaving markets vulnerable.

But as August's performance made clear, the market is beginning to tell a second story — one of rotation, resilience, and rediscovery. If the Fed follows through on its pivot, the months ahead may witness the return of previously unloved sectors, broadening the market's foundation and offering fresh opportunities for disciplined investors.

The Final Word: The Trump Tariffs Regime Faces a Constitutional Reckoning

On August 29, 2025, after the closing bell, the U.S. Court of Appeals for the Federal Circuit delivered a ruling that struck at the core of presidential trade authority. In a 7–4 decision, the court upheld a lower court's finding that President Trump's sweeping “Liberation Day” tariffs, imposed under the International Emergency Economic Powers Act (IEEPA), exceeded the powers Congress intended to grant the executive.

The controversy began on May 28, when the U.S. Court of International Trade ruled that while IEEPA allows presidents to freeze assets or block transactions in emergencies, it does not authorize the unilateral imposition of tariffs—an authority reserved for Congress. Trump's baseline 10% duties and retaliatory levies, the court concluded, crossed that line.

When the case reached the appellate bench, oral arguments on July 31 drew attention from industry groups, state governments, and constitutional scholars. Less than a month later, the panel issued its decision: the majority rejected the administration's expansive interpretation of IEEPA, while four dissenters warned that limiting presidential authority could hinder the United States' ability to respond to crises. To avoid immediate market disruption, the court delayed enforcement until October 14, leaving tariffs temporarily in place while the administration seeks Supreme Court review.

The implications are sweeping. The ruling draws a constitutional line: presidents may use IEEPA to manage emergencies, but not as a means to indirectly impose tariffs. Other tools—such as Section 232 (national security tariffs) and Section 301 (trade enforcement)—remain intact, but Trump's flagship program now faces judicial and political vulnerability. For companies and states that challenged the duties, the decision could mean billions in refunds if the Supreme Court affirms.

Unsurprisingly, Trump denounced the ruling as a “*total disaster for the country*” and vowed to fight to the nation's highest court. The stage is set for a constitutional showdown that could reshape not only trade policy but the balance of power between Congress and the presidency.

The \$8 Trillion Investments Claim

Amid this legal rebuke, the administration touted “Tariff Successes” on Labor Day. Declaring a “Golden Age” of U.S. industry, officials credited Trump's policies with generating over \$8 trillion in new investment and “hundreds of thousands” of jobs. The timing was striking: just days after a court declared his tariffs unlawful, the White House doubled down on portraying them as the foundation of America's revival.

Yet the numbers tell a more complicated story. According to **the administration's own calculations, the total is closer to \$6.2 trillion, not \$8 trillion.** Roughly \$4.8 trillion (77.3%) stems from post-January 20, 2025 announcements—sovereign pledges from the UAE \$1.4T, Qatar \$1.2T, (including a \$400M presidential plane), Saudi Arabia \$600B, and South Korea \$450B, plus corporate megaprojects like NVIDIA's \$500B, IBM's \$150B, and the \$500B “Project Stargate.”

By contrast, about \$1.4 trillion or 22.7% derives from preexisting commitments such as Apple's \$600B, TSMC's \$165B, and Micron's \$200B, folded into the second-term scoreboard. Japan's oft-cited \$1 trillion target adds ambiguity: first set years ago, but partially reaffirmed in 2025 talks.

The job-creation claim is weaker still. While new projects have generated headlines, Bureau of Labor Statistics data show U.S. manufacturing shed 14,000 jobs in the first half of 2025, underscoring the gulf between announcements and realized employment.

“In the end, America’s economic strength will not be measured by courtroom battles or trillion-dollar pledges, but by whether bold promises translate into lasting jobs and unquestionable sustainable growth.”



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