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Think Strategically

The Stress Test: Fundamentals, Fed Strategy, Global Risks and Economic Growth Shaping Markets

June 9, 2025

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Pre-Summer Market Checkpoint

As the calendar turns to summer, markets balance on the strength of economic fundamentals, a pause in trade friction, and evolving policy dynamics. The week of June 2–6, 2025, brought several pivotal signals:

- **Labor Market Strength:** May's 139,000 payroll gain exceeded expectations, reinforcing cautious confidence and supporting the view of a gradual labor normalization.
- **The GDPNow for the second quarter of 2025** was updated on June 5 to 3.80%, down from 4.60%, representing a -17.39% decrease.



GDPNow

Second Quarter 2025

Date	GDPNow 2Q25	Change
4/30/2025	2.40%	Initial Forecast
5/1/2025	1.10%	-54.17%
5/6/2025	2.20%	100.00%
5/8/2025	2.30%	4.55%
5/15/2025	2.50%	8.70%
5/16/2025	2.40%	-4.00%
5/27/2025	2.20%	-8.33%
5/30/2025	3.80%	72.73%
6/2/2025	4.60%	21.05%
6/5/2025	3.80%	-17.39%

Trade Relief: Tariff hikes on EU imports were postponed until July 9, offering a reprieve for exporters and lifting global risk assets.

- **Fiscal Developments:** The House's passage of the "Big Beautiful Bill" provided debt ceiling relief and fiscal stimulus, though Senate timing remained uncertain.
- **Treasury Yields & Fed Strategy:** The 10-year yield softened to ~4.5%, while the 2-year (~3.8%) reflected Fed pause expectations, even as CPI hovered near 2.3%.
- **Corporate Fundamentals:** Q1 earnings remained robust, and 2025 earnings forecasts hovered in the 9–9.5% range—buoyed by tech and consumer strength.

Labor Market: A Key Anchor in a Shifting Landscape

May's labor report continues to defy doomsday scenarios:

- 139,000 jobs added, surpassing consensus expectations.
- The unemployment rate remains at 4.2%, a level seen in only the lowest decile of historical data.

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- Wages grew 0.4% MoM (3.9% YoY), outpacing inflation (~2.3% CPI).
- Job creation was driven by health care +62k, leisure & hospitality +48k, and social assistance +16k, while manufacturing, a key focus of the Trump Administration, shed 8k, and federal employment fell 22k.
- A decline in labor force participation—down 0.2 pp to 62.4%—and a 625,000-worker exit pose questions about supply-side dynamics and immigration constraints.

Nonfarm payrolls increased by 139,000 in May, topping consensus forecasts of 130,000. The unemployment rate held firm at 4.2% for the third consecutive month. While May's headline jobs figure surprised to the upside, downward revisions to the March and April numbers totaling 95,000 moderated the overall picture. Still, the report suggests that while labor market momentum is easing, it remains fundamentally solid.

The stronger employment data has tempered expectations for immediate rate cuts but supports the view that the Federal Reserve is likely to stay on hold in the near term. We continue to anticipate that rate reductions may resume in the latter half of 2025, contingent on incoming economic data and inflation trends.



US Total Nonfarm Payrolls & Unemployment Rate from Jan 2023 to May 2025



Despite recent downward revisions, job gains have remained above the 100–150k monthly threshold needed to stabilize unemployment—a testament to the labor market's underlying resilience.

Markets: Rebound with Real Underpinnings as Equity markets have staged a notable recovery:

- The S&P 500 and MSCI ACWI are up ~20% since April lows.
- U.S. equities jumped 6.1% in May, offsetting April's 0.76% dip; international equities gained 4.9% in May and are up 15.6% YTD.
- Equity gains are supported by easing trade fears, strong earnings, and growing anticipation of accommodative fiscal and monetary policy.

However, elevated valuations signal diminishing buffers for error, especially as leadership begins to broaden beyond mega-cap tech.

Earnings: Tech in Command, but Breadth Emerging Q1 earnings have been impressive:

- S&P 500 profit growth hit 12.5% YoY, the third double-digit quarter in four.
- Sector breakdown:
 - Technology: +20%
 - Communication Services: +33%
 - Consumer Discretionary: +8%

These three sectors now make up over 50% of the index. Though 2025 earnings estimates have been revised lower to 8.5–9.5%, 2026 projections remain solid, with forward 12-month earnings reaching fresh highs. AI investment, particularly by NVIDIA, continues to drive tech leadership.

Earnings Season Closes Strong, Despite Softer Outlook Ahead

The first-quarter earnings season is drawing to a close with solid contributions from Broadcom and Lululemon, both of which reported modest beats on revenue and profits yesterday—their results cap what has been a robust quarter for U.S. corporates.

Approximately 78% of S&P 500 constituents outperformed analyst earnings forecasts, delivering an average upside surprise of 8.3%. With aggregate earnings growth approaching 13% for the quarter, this marks the third time in the past year that the index has posted double-digit profit expansion.

Looking ahead, analysts have trimmed earnings forecasts for the coming quarters, yet expectations for the full year remain positive. Current projections suggest around 9% earnings growth for 2025. Given a resilient economy and easing inflation pressures, we believe this target is within reach—even amid policy uncertainty.

Global Growth: IMF Outlook and Balance of Risks June 2025 forecast:

- Global growth is forecast at 2.8% in 2025, down from 3.3% in 2024 and below the 2000–2019 average of 3.7%.
- U.S. GDP growth is revised down to 1.8%, reflecting tariff-related disruptions.
- China and India are critical engines of global growth, with China forecasted to grow around 4.0%, highlighting a pivot toward Asia's emerging economies.
- Advanced markets outside the U.S. remain sluggish, with the Euro Area at ~1%, Japan at ~0.6%, and Latin America at ~2%.
- Global trade growth is forecast at 1.7%, reflecting the strain on trade.

Regional Growth Comparison:

Region	IMF Forecast
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- | | |
|----------------------|------|
| • Global Aggregate | 2.8% |
| • U.S. | 1.8% |
| • Euro Area | 1.0% |
| • China | 4.0% |
| • India | 6.5% |
| • Emerging Economies | 3.2% |

This divergence underscores the U.S.'s relative strength but also highlights trade headwinds and regional vulnerabilities.

What's Ahead: Summer Watchpoints

- Tariff pause expires on July 9 and August 12, with Risks to trade flow and industrial output.
- The debt ceiling hit in mid-July, which could unsettle credit markets.
- Fed rate pivot: Late 2025, with two cuts likely by year-end as inflation cools.
- The Q2 earnings season, from July onward, will test corporate resilience outside of the tech sector.

Strategic Positioning: Grounded but Guarded

We maintain a moderate equity overweight, with:

- Growth-tilted allocation, anchored by AI-driven mega-tech.
- Selective value exposure contributes to diversification.
- Fixed income exposure remains prudent as yields stabilize near 4.5%, but yield curve expectations suggest limited upside without a deterioration in economic conditions.

Musk–Trump Fallout: From Alliance to Adversaries

What was once described as a "strategic alliance" between two of the most influential figures in business and politics—Elon Musk and President Donald Trump—has unraveled spectacularly.

The rift erupted into public view on Thursday when Tesla CEO Elon Musk launched a barrage of posts on X, denouncing the administration's proposed tax legislation. Musk criticized the bill as "financially reckless", targeting its proposed rollback of electric vehicle (EV) tax credits—a direct threat to Tesla's long-term growth trajectory. Notably, Musk had previously referred to himself as "The First Buddy", underscoring the depth of their earlier collaboration.

The dispute quickly escalated into a national spectacle. Speaking from the Oval Office later that afternoon, President Trump acknowledged the fallout. "Elon and I had a strong relationship", he remarked before pointedly adding, "I'm not sure that's still the case", Trump suggested that Musk had prior knowledge of the legislation's structure, implying the CEO's outrage was politically opportunistic.

Musk responded swiftly and sharply, labeling the proposal as the "Big Beautiful Bill" in a biting tone and accusing it of being bloated with "wasteful spending" that undermines U.S. innovation. The result was more than just a political spat—it was a high-stakes rupture between Wall Street and Washington.



Tesla Market Capitalization & Stock Price November 2024 to June 6, 2025



Markets responded immediately. Tesla's stock closed down \$46.92, or 14.13%, ending the session at \$285.13. The selloff erased approximately \$149.2 billion in market capitalization—making it one of the most severe single-day declines in the company's history. However, Tesla stock has fallen from its high of \$1.42 trillion to \$950.63 billion, down \$469.37 billion, or 33%.

The Musk–Trump clash now injects fresh uncertainty into the policy outlook for clean energy, electric vehicle (EV) incentives, and tech-sector regulation. For investors, the implications are twofold: potential headwinds for Tesla and a more fragmented corporate-policy relationship heading into the latter half of 2025.

The Final Word: Weathering the Markets Stress Test

Markets have embarked upon summer with sturdy underlying conditions—healthy labor markets, moderating inflation, corporate resilience, and policy relief. But the path forward is not without hazards. Trade policy, fiscal cliff risks, and Fed strategy will determine whether momentum carries through the summer or gives way to headline-driven volatility.

The IMF's global outlook warns of slower growth, trade drag, and divergence between regions—yet also highlights the resilience driven by emerging economies and the relative strength of the United States. As market Fundamentals remain supportive, but caution is justified. Now more than ever, staying invested with a balanced portfolio is essential.

A balanced investment approach, combining exposure to equities, fixed income, and alternative assets, offers key advantages in uncertain times:

1. Smoother returns through market cycles: Diversification helps mitigate drawdowns by offsetting losses in one area with gains or stability in another.
2. Participation in recovery: Historically, markets recover sharply after downturns. A balanced portfolio allows investors to benefit from rebounds while limiting downside risk.
3. Avoiding the cost of market timing: Attempting to time exits and reentries can be costly. Missing even a few of the best-performing days can drastically lower long-term returns.
4. Income generation and capital appreciation: Fixed income can provide a cushion of income, while equities continue to offer long-term growth.
5. Resilience against macroeconomic shocks: Broad-based exposure across sectors, geographies, and asset classes enables portfolios to weather geopolitical or economic disruptions more effectively.

Patience and discipline are critical in today's environment. Instead of reacting to every headline, investors should rely on a strategic asset allocation that aligns with their goals and risk tolerance. As markets digest evolving policy and macroeconomic signals, a balanced portfolio serves as both a shock absorber and a launchpad.

The bottom line is the fact that fundamentals support long-term growth. However, navigating the volatility ahead requires a steady hand, a diversified strategy, and a clear focus on the long-term view. Staying invested wisely and intentionally—is the best test of resilience.

As The Oracle of Omaha, Warren Buffet, says, **"The stock market is designed to transfer money from the active to the patient. That's why our favorite holding period is forever — you should only buy something that you'd be perfectly happy to hold if the market shut down for 10 years"**.



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