



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: February 10, 2025 — 9:30 AM ET] Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 closed up 0.4% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.4%. Chinese markets were higher, with the Shanghai Composite up 0.6% from its previous close and the Shenzhen Composite up 1.1%. US equity index futures are signaling a higher open.

With 308 companies having reported so far, S&P 500 earnings for Q4 are running at \$65.10 per share, compared to estimates of \$64.79, which is up 11.7% from Q4 2023. Of the companies that have reported thus far, 77.6% have exceeded expectations while 16.2% have fallen short of expectations.

The Confluence macro team publishes a plethora of research reports and multimedia offerings on a weekly and quarterly basis, all available on our [website](#). We highlight recent publications below with new items of the day in bold:

Bi-Weekly Geopolitical Report	Asset Allocation Bi-Weekly	Asset Allocation Quarterly	Of Note
<u>Trump and the Political Economy of Alliances</u> (1/27/25) + podcast	<u>American Exceptionalism and the Markets</u> (2/3/25) + podcast	<u>Q1 2025 Report</u> <u>Q1 2025 Rebalance Presentation</u>	<u>The Case for Hard Assets: An Update</u> <u>Value Equities Quarterly Update</u>

Our *Comment* today opens with news that the Russian intelligence services are trying to take advantage of the job buyouts currently being offered to employees of the US intelligence community. The situation highlights the risk that the personnel turnover could affect the US's ability to counter rival countries such as China and Russia. We next review several other international and US developments with the potential to affect the financial markets today, including Chinese preparations to target US tech firms to retaliate for the Trump administration's tariffs and the administration's preparations for a range of new tariffs this week.

Russia-United States: Just days after the Trump administration extended its job buyout offer to workers at the Central Intelligence Agency and other US intelligence organizations, Russia's Foreign Intelligence Service, the main successor to the KGB, [released a video parodying the](#)

[chaos in the US government and inviting US intelligence professionals to sell their secrets to Russia](#). The offer highlights the potential threat to US national security from the administration's aggressive effort to push workers out of the government.

- On a related note, the new leaders at the CIA last week [used an unclassified email to respond to a White House request for the names of all employees hired over the last two years](#). The request from the White House appears to be a part of the administration's effort to shrink the federal workforce and root out any employees at odds with its goals.
- Virtually all unclassified communications with the White House are monitored by the Chinese, Russians, and other US adversaries. For the newly hired employees, the CIA only sent first names and first initial of their last names, but the Chinese and Russians will be able to triangulate that information with other data in their possession and identify the vast majority of the new workers.
- Since the CIA in recent years has rapidly ramped up its intelligence effort against China, many of the compromised workers were probably China-focused. They will now almost certainly be targeted by the Chinese intelligence services. Some will be targeted merely for surveillance; others will be pressured to become double agents. The incident will almost certainly undermine US national security versus China in the coming years.
- Of course, China and Russia also continue to aggressively court US officials outside the intelligence community. For example, a former senior advisor to the Federal Reserve [was recently arrested for selling confidential US financial information to Chinese intelligence](#). China could have used the information to manipulate US markets.

Germany: Friedrich Merz, the center-right CDU party's nominee for chancellor in this month's election and the current leader in polls, [said last night that he is open to easing Germany's strict "debt brake" limits on fiscal deficits](#) to help pay for a higher defense budget. However, he insisted that easing the debt brake would only come after all possible cuts in the government's nonmilitary spending and strong efforts to boost the country's economic growth. The prospect of eased fiscal rules would likely be positive for the German economy and stocks.

France: Ahead of his "AI Action Summit" in Paris this week, President Macron [has announced 109 billion EUR \(\\$112 billion\) in new artificial-intelligence investments in the coming years, most of which will be carried out by private companies](#). The total apparently includes the 50-billion EUR (\$51.5 billion) investment in new data centers that the United Arab Emirates announced last week. The French total is smaller than the Trump administration's \$500-billion "Stargate" AI plan, but it is big enough to show that Europe may finally be ramping up its effort as it tries to catch up with the US and China.

China: In another sign of how rapidly China is building on its success with artificial intelligence, Chinese firms such as Lenovo [are already deploying the low-cost DeepSeek AI model into products such as personal computers, robots, and electric vehicles](#). The development will likely

feed into concerns that AI companies in the US are now lagging, which, if true, could weigh on their stock valuations.

China-United States: According to the *Wall Street Journal* today, Chinese officials [are compiling a list of US technology firms that they could target with antitrust probes and other measures](#) to retaliate for the Trump administration's tariffs and other policies opposed by Beijing. Besides Nvidia and Google, which are already being investigated, the report says the Chinese are preparing to target Apple, Broadcom, Synopsys, and others.

- China's strategy apparently aims to leverage President Trump's political reliance on Silicon Valley technology executives, who have become perhaps the most important members of Trump's governing coalition.
- If Beijing does clamp down on more US tech firms, a key question is whether the tech leaders around Trump could convince him to reverse his tariffs and soften his approach to protect their interests.
- The extent to which Trump's "tech bros" can influence him will likely help determine how exposed US tech firms — and their stocks — are to Chinese pressure.

United States-China: President Trump on Friday [signed an order delaying the application of US tariffs on Chinese imports considered "de minimis," i.e., valued under \\$800](#). The delay will be welcomed by China, but it does not constitute a softening of the Trump administration's general trade policies toward the country. Rather, the delay is strictly to allow the Commerce Department time to develop the procedures and systems needed to apply tariffs to such small shipments.

United States-Japan: Fresh off his summit with President Trump in Washington, Japanese Prime Minister Ishiba yesterday [said Trump didn't press him to either raise Japan's defense spending or cut its auto exports to the US](#).

- Under previous US pressure, the Japanese government already plans to double its military budget to 2% of gross domestic product.
- By declaring his satisfaction with that effort instead of demanding Tokyo reach the defense burden of 5% that he wants for the US's allies in Europe, and by avoiding any sharp demands on trade, Trump may be signaling that he will prioritize the US-Japan relationship.
- If so, it would mean that Japan's political and economic landscape will be spared the disruptions Trump is imposing on other key countries. A relatively hands-off policy by Trump would likely be positive for Japan's economy and stock market.

US Trade Policy: President Trump over the weekend [said he would announce tariffs on additional countries on Tuesday or Wednesday of this week](#). According to Trump, the "reciprocal" tariffs in this batch will aim to match the tariffs that the targeted countries have

imposed on US products. Possible targets for the new tariffs include the European Union, India, Vietnam, and Brazil.

- Trump also [announced that he will impose 25% tariffs on steel and aluminum imports](#).
- The announcements suggest that the administration may keep rolling out new tariff plans for some time. If so, the continued uncertainty could start to weigh more heavily on global stock markets.

US Fiscal Policy: In an interview aired during the Super Bowl’s pregame show yesterday, President Trump said he would soon ask Elon Musk and his Department of Government Efficiency to investigate wasteful and fraudulent spending at the Department of Education and then at the Department of Defense. The statement suggests that those two departments will be the next to face dramatic cutbacks potentially affecting thousands of workers and contractors.

- According to Trump, the Musk effort [will find and end “hundreds of billions” of dollars of waste and fraud at the Defense Department](#). Of course, Musk has already frozen a lot of other government outlays, but because the defense budget is so big and affects the country so broadly, sizable spending cuts there could disrupt and slow economic activity in a much more noticeable way, not to mention that it could also reduce the military’s ability to respond to a national security threat.
- More broadly, government spending is an important source of demand for the economy, so if Musk is able to cut outlays enough, the sudden fiscal contraction could potentially produce a recession and weigh on the financial markets, at least temporarily.

US Economic Releases

There were no economic releases prior to the publication of this report. The table below lists the economic releases and Fed events scheduled for the rest of the day.

Economic Releases		
No economic releases for the rest of today		
Federal Reserve		
EST	Speaker or Event	District or Position
8:50	Beth Hammack Speaks on Economic Outlook	President of the Federal Reserve Bank of Cleveland
10:00	Jerome Powell Testifies to Senate Banking Committee	Chairman of the Board of Governors
15:30	John Williams Gives Keynote Remarks	President of the Federal Reserve Bank of New York
15:30	Michelle Bowman Speaks on Bank Regulation	Member of the Board of Governors

Foreign Economic News

We monitor numerous global economic indicators on a continuous basis. The most significant international news that was released overnight is outlined below. Not all releases are equally significant, thus we have created a star rating to convey to our readers the importance of the various indicators. The rating column below is a three-star scale of importance, with one star

being the least important and three stars being the most important. We note that these ratings do change over time as economic circumstances change. Additionally, for ease of reading, we have also color-coded the market impact section, which indicates the effect on the foreign market. Red indicates a concerning development, yellow indicates an emerging trend that we are following closely for possible complications, and green indicates neutral conditions. We will add a paragraph below if any development merits further explanation.

Country	Indicator			Current	Prior	Expected	Rating	Market Impact
ASIA-PACIFIC								
Japan	BoP Current Account Balance	m/m	Dec	¥1077.3b	¥3352.5b	¥1374.2b	***	Equity and bond neutral
	BoP Trade Balance	m/m	Dec	¥62.3b	¥97.9b	¥227.7b	**	Equity and bond neutral
China	PPI	y/y	Jan	-2.3%	-2.3%	-2.2%	**	Equity and bond neutral
China	CPI	y/y	Jan	0.5%	0.1%	0.4%	**	Equity and bond neutral
EUROPE								
Switzerland	Domestic Sight Deposits CHF	w/w	7-Feb	428.1b	432.9b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	7-Feb	438.1b	441.9b		*	Equity and bond neutral
Russia	Retail Sales Real	m/m	Dec	5.20%	6.00%	6.50%	***	Equity bearish, bond bullish
	Unemployment Rate	m/m	Dec	2.30%	2.30%	2.40%	***	Equity and bond neutral
AMERICAS								
Canada	Net Change in Employment	m/m	Jan	76.0k	91.0k	25.0k	***	Equity and bond neutral
	Participation Rate	m/m	Jan	65.5%	65.4%	65.4%	*	Equity and bond neutral
	Unemployment Rate	m/m	Jan	6.6%	6.7%	6.8%	***	Equity and bond neutral
Mexico	Vehicle Production	y/y	Jan	312257	224913		*	Equity and bond neutral
Brazil	Trade Balance	m/m	Jan	\$2164m	\$4803m	\$3000m	**	Equity and bond neutral
	Exports	m/m	Jan	\$25180m	\$24904m	\$26300m	*	Equity and bond neutral
	Imports	m/m	Jan	\$23016m	\$20101m	\$23400m	*	Equity and bond neutral

Financial Markets

The table below highlights some of the indicators that we follow daily. Again, the color coding is similar to the foreign news description above. We will add a paragraph below if a certain move merits further explanation.

WW	Today	Prior	Change	Trend
3-mo T-bill yield (bps)	423	423	0	Down
U.S. Sibor/OIS spread (bps)	432	432	0	Down
U.S. Libor/OIS spread (bps)	434	434	0	Down
10-yr T-note (%)	4.49	4.50	-0.01	Down
Euribor/OIS spread (bps)	253	254	-1	Down
Currencies	Direction			
Dollar	Up	US		Down
Euro	Down	Euro		Up
Yen	Down	Japan		Up
Pound	Down	UK		Up
Franc	Down	Switzerland		Up

Commodity Markets

The commodity section below shows some of the commodity prices and their change from the prior trading day, with commentary on the cause of the change highlighted in the last column.

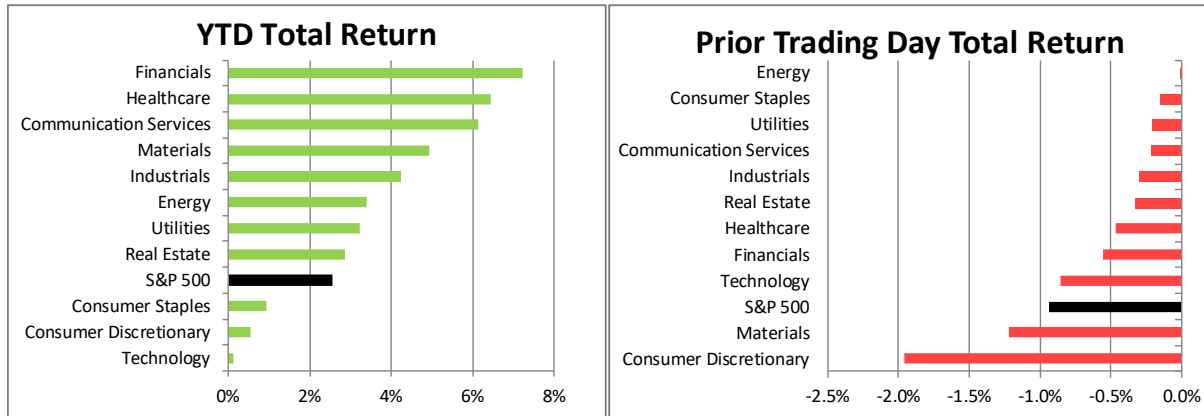
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$75.63	\$74.66	1.30%	
WTI	\$71.93	\$71.00	1.31%	
Natural Gas	\$3.42	\$3.31	3.20%	
Crack Spread	\$21.92	\$22.06	-0.63%	
12-mo strip crack	\$22.67	\$22.66	0.02%	
Ethanol rack	\$1.83	\$1.83	-0.19%	
Metals				
Gold	\$2,904.17	\$2,861.07	1.51%	
Silver	\$32.22	\$31.82	1.28%	
Copper contract	\$462.10	\$458.90	0.70%	
Grains				
Corn contract	\$486.00	\$487.50	-0.31%	
Wheat contract	\$578.75	\$582.75	-0.69%	
Soybeans contract	\$1,048.00	\$1,049.50	-0.14%	
Shipping				
Baltic Dry Freight	815	793	22	

Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for cooler-than-normal temperatures to spread to most of the country, with warm conditions expected in parts of the Southwest and California. The precipitation outlook calls for wetter-than-normal conditions in the Northern Rockies and the Southeast, with dry conditions expected in the Southwest.

Data Section

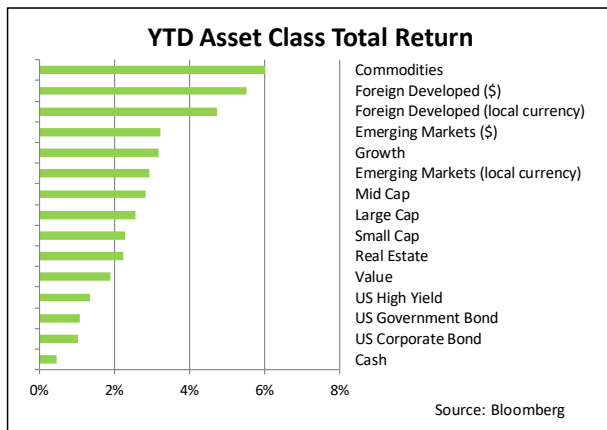
US Equity Markets – (as of 2/7/2025 close)



(Source: Bloomberg)

These S&P 500 and sector return charts are designed to provide the reader with an easy overview of the year-to-date and prior trading day total return. Sectors are ranked by total return; green indicating positive and red indicating negative return, along with the overall S&P 500 in black. These charts represent the new sectors following the 2018 sector reconfiguration.

Asset Class Performance – (as of 2/7/2025 close)

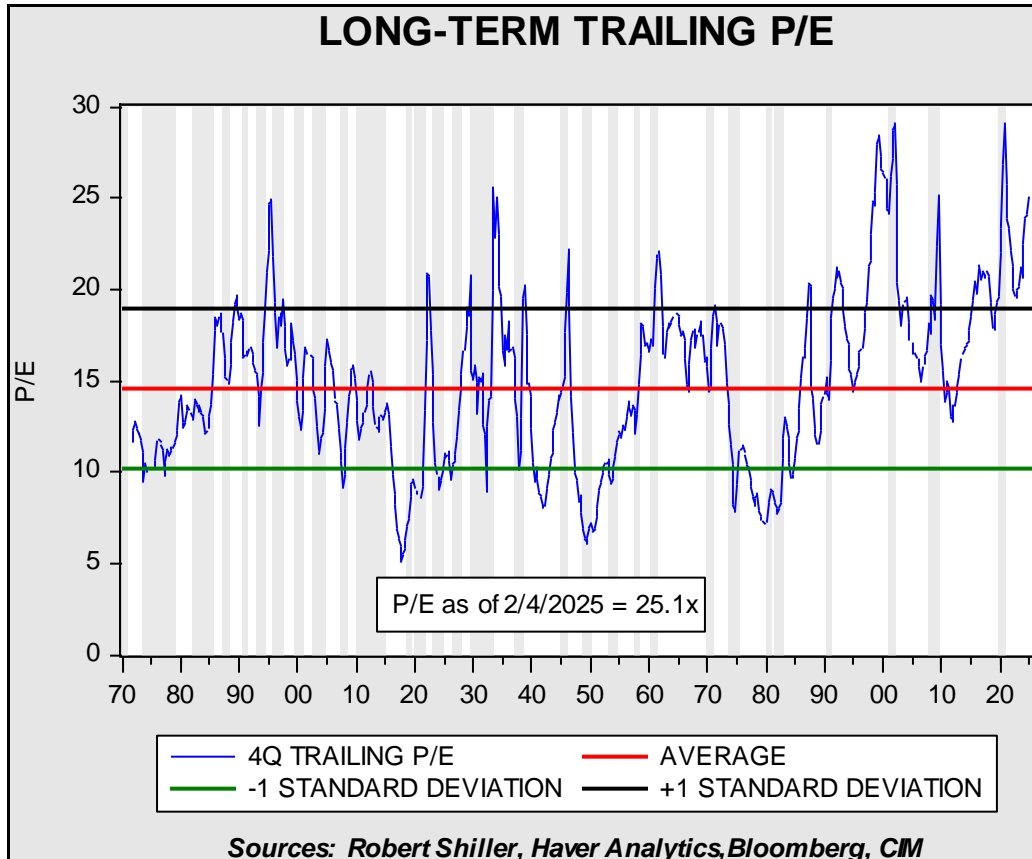


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

Asset classes are defined as follows: Large Cap (S&P 500 Index), Mid Cap (S&P 400 Index), Small Cap (Russell 2000 Index), Foreign Developed (MSCI EAFE (USD and local currency) Index), Real Estate (FTSE NAREIT Index), Emerging Markets (MSCI Emerging Markets (USD and local currency) Index), Cash (iShares Short Treasury Bond ETF), US Corporate Bond (iShares iBoxx \$ Investment Grade Corporate Bond ETF), US Government Bond (iShares 7-10 Year Treasury Bond ETF), US High Yield (iShares iBoxx \$ High Yield Corporate Bond ETF), Commodities (Bloomberg total return Commodity Index), Value (S&P 500 Value), Growth (S&P 500 Growth).

P/E Update

February 5, 2025



Based on our methodology,¹ the current P/E is 25.1x, up 0.1 from our last report. The increase was due to a rise in the stock price index.

This report was prepared by Confluence Investment Management LLC and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward-looking statements expressed are subject to change. This is not a solicitation or an offer to buy or sell any security.

¹ This chart offers a running snapshot of the S&P 500 P/E in a long-term historical context. We are using a specific measurement process, similar to *Value Line*, which combines earnings estimates and actual data. We use an adjusted operating earnings number going back to 1870 (we adjust as-reported earnings to operating earnings through a regression process until 1988), and actual operating earnings after 1988. For the current quarter, we use the Bloomberg estimates which are updated regularly throughout the quarter; currently, the four-quarter earnings sum includes three actual quarters (Q1, Q2 and Q3) and one estimate (Q2). We take the S&P average for the quarter and divide by the rolling four-quarter sum of earnings to calculate the P/E. This methodology isn't perfect (it will tend to inflate the P/E on a trailing basis and deflate it on a forward basis), but it will also smooth the data and avoid P/E volatility caused by unusual market activity (through the average price process). Why this process? Given the constraints of the long-term data series, this is the best way to create a long-term dataset for P/E ratios.