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[Posted: February 11, 2025 – 9:30 AM ET] Global equity markets are mostly lower this morning. In Europe, the Euro Stoxx 50 closed up 0.1% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.4%. Chinese markets were lower, with the Shanghai Composite down 0.1% from its previous close and the Shenzhen Composite down 0.5%. US equity index futures are signaling a lower open.

With 313 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, 76.9% have exceeded expectations while 17.0% 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>Middle Eastern Stock Markets: An Overview</u> (2/10/25) + <u>podcast</u>	<u>American Exceptionalism and the Markets</u> (2/3/25) + <u>podcast</u>	<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 the latest vague promise by the Chinese government to boost consumer spending and spur economic growth. We next review several other international and US developments with the potential to affect the financial markets today, including a planned move by the European Union to make its fiscal policy more flexible and supportive of growth and the latest US import tariffs announced by the White House.

China: At a meeting yesterday, the State Council [again said it would prioritize raising consumers' income and consumption spending to spur economic growth](#). However, as in the past, the officials gave no details, which suggests the government remains ideologically opposed to a major new stimulus program. Some new spending programs are likely to be unveiled at the

March legislative meetings, but we don't expect them to be aggressive enough to overcome China's increasingly difficult structural barriers to growth.

European Union: The European Commission [is reportedly planning a major revamp of its next multi-year common budget, which begins in 2028](#). The plan would consolidate the dozens of different spending programs in the current budget to just three funds. The first would operate similar to a block grant, giving recipient countries wide flexibility in how to use the funds. The second would provide money for competitiveness and investment, while the third would provide funding for administration, foreign policy, and defense.

- The proposed structure is apparently how the Commission plans to get around the member countries' disagreements over new challenges, such as common debt financing and increased defense spending.
- However, the plan is not yet set in stone, and it is still not certain if it will ultimately be approved.

France: Illustrating how trade tensions can crimp exports, industry association data shows that French wine and spirit shipments abroad [fell approximately 4% in 2024 to 15.56 billion EUR](#) (\$16.04 billion). Exports to the US grew, especially for wine, but the overall total was held down by weak shipments to other countries. Importantly, shipments to China were down because of an antidumping probe that Beijing launched to retaliate for the EU's dumping probe into Chinese electric vehicles.

US Monetary Policy: Federal Reserve Chair Powell [starts his semi-annual testimony to Congress today with an appearance before the Senate Committee on Banking, Housing, and Urban Affairs](#) at 10:00 AM ET. Naturally, investors will be looking for any clues on the future path of interest rates and how many rate cuts there might be in 2025. We will also be looking for how the Fed is thinking about the new administration's tariffs and other economic policies. Powell will also appear at the House Committee on Financial Services tomorrow.

US Fiscal Policy: The federal judge who issued the January 31 restraining order against the Trump administration's effort to freeze federal spending on diversity and other programs yesterday [issued a new order demanding that the administration implement the first order](#). The new order responds to a suit by 22 states and the District of Columbia alleging that the administration has not yet unfrozen the affected funds.

- Another report by the *Washington Post* yesterday [said some farmers are not receiving funds promised under the Biden administration's Inflation Reduction Act](#), despite Trump's assurances that his spending freezes would not affect individuals.
- The developments provide further evidence that the Trump administration intends to be aggressive about withholding even outlays approved by Congress. That increases the risk of an eventual constitutional crisis over presidential and Congressional powers.

- In addition, if the administration impounds large amounts of the federal budget, the sudden fiscal contraction could spark an economic slowdown or even recession. If government contractors, employees, or other firms or individuals sense that federal payments can no longer be taken for granted, they are likely to slow their spending. In turn, that could weigh on economic activity, boost bond values, and hurt stocks.

US Trade Policy: As expected, President Trump [last night ordered tariffs on all US imports of steel and aluminum, including finished metal products](#), to be effective in early March. The new duties will be on top of the 25% levies on Canada and Mexico that are currently paused, the new 10% tariffs on goods from China, and the president's upcoming reciprocal duties on other nations. As we noted in our *Comment* yesterday, the blanket nature of the steel and aluminum tariffs suggests the administration may not be inclined to offer exemptions to them.

- In response, the European Union today [said it would respond to the new US tariffs with "firm and proportionate countermeasures."](#)
- EU member states have already approved retaliatory tariffs of up to 50% on 4.8 billion EUR (\$4.96 billion) of US imports and could quickly take a final vote to impose them. The products affected could include bourbon whiskey, Harley-Davidson motorcycles, motorboats, and some US-produced steel and aluminum.

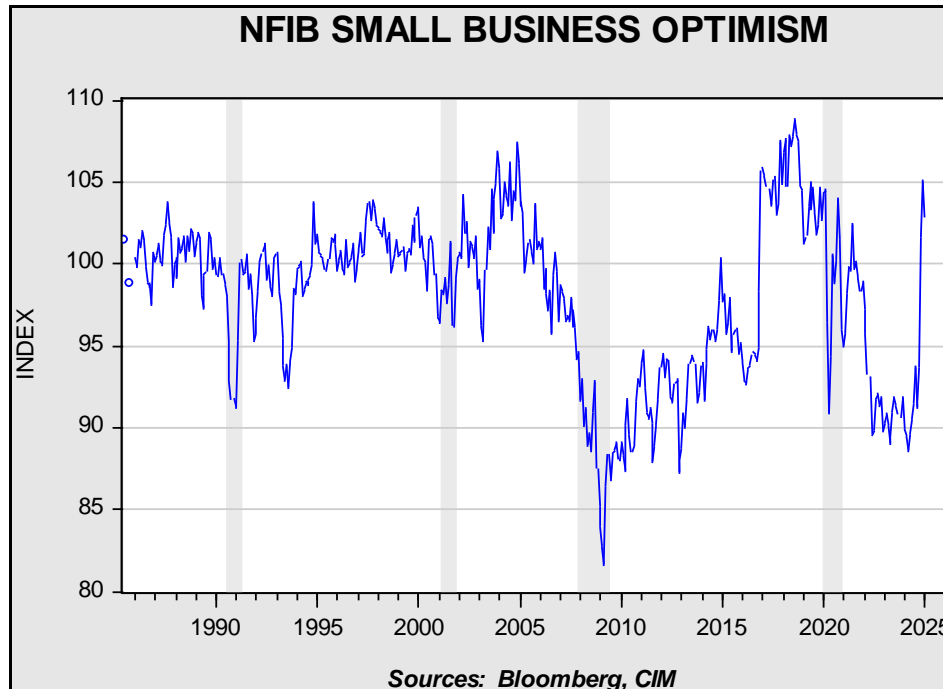
US Labor Market: In its March cover story, *The Atlantic* magazine [highlights how high housing prices, mortgage rates, and other factors have sharply reduced many US residents' ability to move](#) to other locations to take advantage of better job opportunities. The article calls the fall in labor mobility the US's "single most important social change of the past half century." It also claims that only the affluent and well-educated seem exempt from the phenomenon.

- If affluence and a good education really have become the requirement for labor mobility, the phenomenon would probably help explain the rise of populism in the US over the last couple of decades.
- If the situation is not improved, it would also suggest that many stagnating states and communities could continue to struggle, holding back economic growth and fueling even more resentment toward elites, politicians, and government in general.

US Economic Releases

The National Federation of Independent Business' *Small Business Optimism Index* for January fell to 102.8 from 105.1 the prior month, also falling short of the expected 104.7. The December reading marked a six-year high for the index, so this slight pullback by itself is not of particular concern; however, one of the index's components, the uncertainty factor, jumped 14 points. This is the largest one-month increase in this factor since 1986 and matches the third highest on record. This may suggest growing caution toward investment in light of a likely reduced pace of

Fed rate cuts and the prospect of new tariffs. The chart below shows the course of the index through time.



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								
Australia	Westpac Consumer Conf SA	m/m	Feb	0.1%	-0.7%		**	Equity and bond neutral
	Westpac Consumer Conf Index	m/m	Feb	92.2	92.1		**	Equity and bond neutral
	NAB Business Confidence	m/m	Jan	4	-2		***	Equity and bond neutral
	NAB Business Conditions	m/m	Jan	3	6		***	Equity and bond neutral
EUROPE								
France	ILO Unemployment Rate	q/q	4Q	7.3%	7.4%	7.5%	*	Equity and bond neutral
AMERICAS								
Mexico	Industrial Production	y/y	Dec	-2.7%	-1.4%	-1.2%	***	Equity bearish, bond bullish
	Manufacturing Production	y/y	Dec	-0.6%	-0.1%	0.7%	*	Equity and bond neutral
Brazil	IBGE Inflation IPCA	y/y	Jan	4.56%	4.83%	4.58%	***	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.

Fixed Income	Today	Prior	Change	Trend
3-mo T-bill yield (bps)	422	422	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 (%)	4.53	4.50	0.03	Up
Euribor/OIS spread (bps)	253	253	0	Down
Currencies	Direction			
Dollar	Flat			Up
Euro	Up			Down
Yen	Down			Up
Pound	Flat			Down
Franc	Down			Down

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.

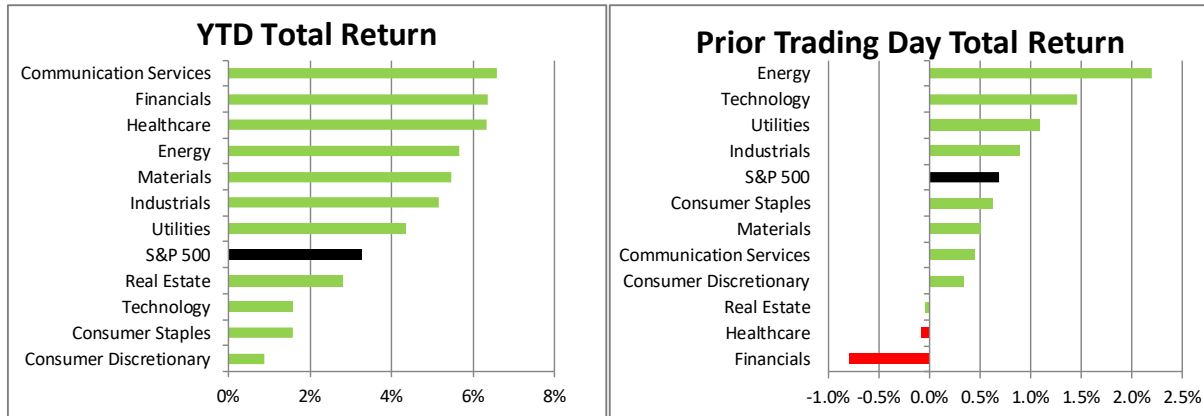
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$76.99	\$75.87	1.48%	
WTI	\$73.38	\$72.32	1.47%	
Natural Gas	\$3.52	\$3.44	2.32%	
Crack Spread	\$21.14	\$20.87	1.28%	
12-mo strip crack	\$22.60	\$22.42	0.81%	
Ethanol rack	\$1.84	\$1.83	0.24%	
Metals				
Gold	\$2,899.49	\$2,908.26	-0.30%	
Silver	\$31.69	\$32.05	-1.15%	
Copper contract	\$459.55	\$470.70	-2.37%	
Grains				
Corn contract	\$505.50	\$504.50	0.20%	
Wheat contract	\$584.25	\$579.50	0.82%	
Soybeans contract	\$1,053.00	\$1,049.50	0.33%	
Shipping				
Baltic Dry Freight	809	815	-6	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		2.31		
Gasoline (mb)		1.21		
Distillates (mb)		-2.25		
Refinery run rates (%)		0.2%		
Natural gas (bcf)		-171		

Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for cooler-than-normal temperatures from the Great Plains to the East Coast, with warmer-than-normal conditions expected in the Desert Southwest. The precipitation outlook calls for wetter-than-normal conditions in the eastern third and northwestern quadrant of the country, with dry conditions expected in the Southwest.

Data Section

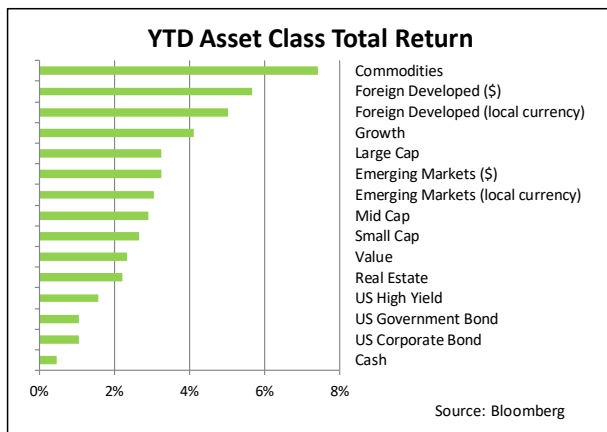
US Equity Markets – (as of 2/10/2025 close)



(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 2/10/2025 close)

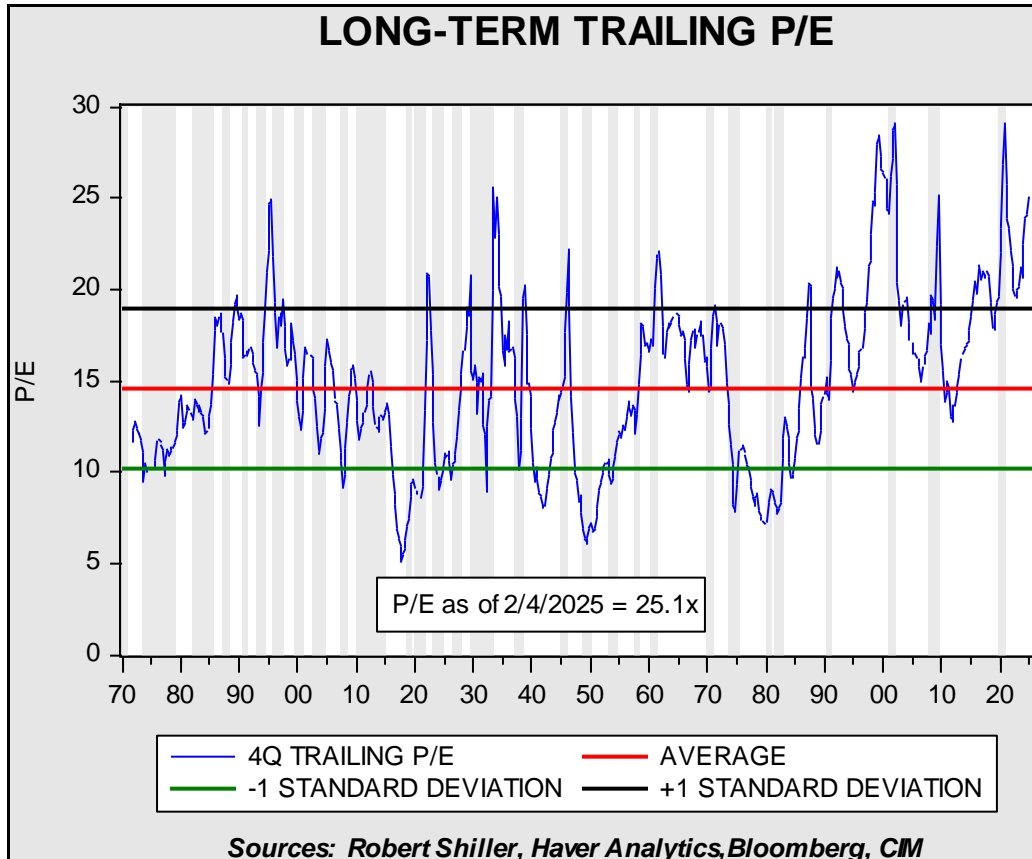


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.