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[Posted: February 4, 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 2.5%. Chinese markets remain closed for the Chinese Lunar New Year. US equity index futures are signaling a slightly higher open.

With 187 companies having reported so far, S&P 500 earnings for Q4 are running at \$63.30 per share, compared to estimates of \$64.79, which is up 11.7% from Q4 2023. Of the companies that have reported thus far, 78.6% have exceeded expectations while 16.0% have fallen short of expectations.

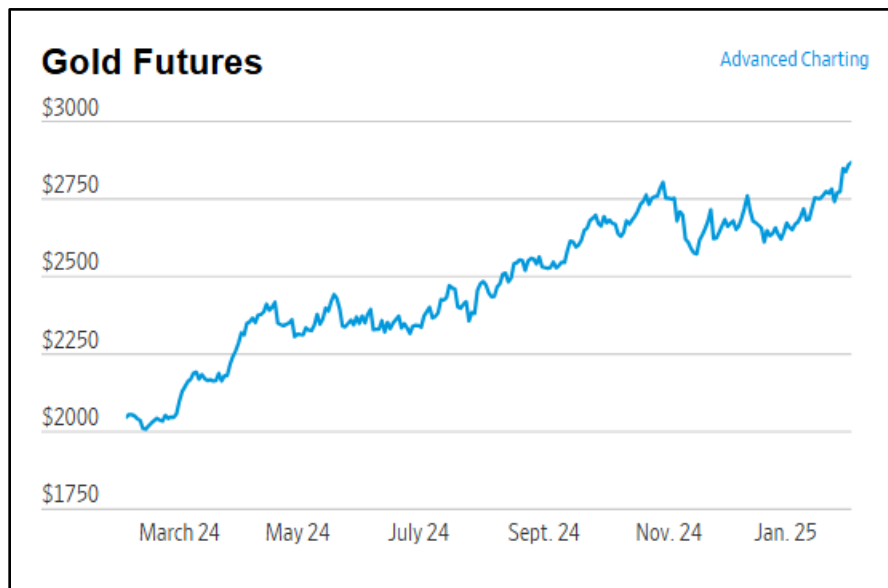
The Confluence macro team publishes a plethora of research reports and multimedia offerings on a weekly and quarterly basis, all available on our [website](#). We highlight recent publications below with new items of the day in bold:

Bi-Weekly Geopolitical Report	Asset Allocation Bi-Weekly	Asset Allocation Quarterly	Of Note
<u><i>Trump and the Political Economy of Alliances</i></u> (1/27/25) + podcast	<u><i>American Exceptionalism and the Markets</i></u> (2/3/25) + podcast	Q1 2025 Report	<u><i>The 2025 Outlook: A Year of Political and Policy Change</i></u>

Our *Comment* today opens with the latest on President Trump’s tariff program, including a one-month delay in the tariffs against Canada and Mexico, while China has launched a series of its own tariffs, export curbs, and other measures against the US. We next review several other international and US developments with the potential to affect the financial markets today, including a plan by the European Union to begin enforcing its new artificial-intelligence regulations and a Trump executive order to set up a US sovereign wealth fund.

US Tariff Policy: Yesterday, President Trump said he had extracted sufficient concessions from the leaders of Canada and Mexico on illegal immigration and drug trafficking that [he would postpone his big import tariffs on the countries until early March](#). For example, Canadian Prime Minister Trudeau and Mexican President Sheinbaum both agreed to deploy about 10,000 troops to their US borders to clamp down on fentanyl trafficking. In contrast, China [retaliated today with a series of tariffs on US products and export curbs on some Chinese goods](#).

- In reality, the Canadian and Mexican concessions are less than meets the eye. For example, Mexico [has previously surged troops to the border to meet US concerns](#), and almost no fentanyl enters the US from Canada.
- Canadian and Mexican officials have also complained that different high-ranking officials in the Trump administration have given them different stories on what Trump is aiming for with his trade policies. The statements suggest Trump is making the decisions largely on his own, perhaps more tactically than strategically. That underscores how US trade policy in the new administration will remain unpredictable and volatile.
- In any case, we continue to believe that Trump’s aggressive, bullying tactics may well yield progress on issues such as illegal immigration, drug trafficking, economic resiliency, and the US balance of trade, but at the risk of unnecessarily alienating important US allies and undermining economic efficiency. Based on China’s greater economic heft and strong rivalry with the US, there is also a possibility that it will be harder for Washington and Beijing to reach a lasting deal.
- In terms of market responses, we note that global equity prices have held up relatively well to the tariff kerfuffle, suggesting that stock investors expect the tariffs to be minimized, temporary, or otherwise not overly economically damaging. However, investors have also bid gold prices up to record levels, suggesting more substantial concerns. So far today, near gold futures are pricing at \$2,866.50/oz, up 0.3% from yesterday and up more than 40% from one year ago.



(Source: The Wall Street Journal)

European Union-United States: The European Commission today [will release its implementing rules for the EU’s 2023 Artificial Intelligence Act](#). The Commission plans to release the regulations despite President Trump’s threat of retaliation for any moves that affect US technology firms, which have become a key part of his governing coalition. The new rules are

the world's most comprehensive set of AI regulations, affecting activities such as model development and data privacy.

United Kingdom: For the first time, a YouGov opinion poll [shows the right-wing populist Reform Party with more public support than either the governing Labour Party or the Conservative Party](#). The poll puts support for Reform at 25%, versus 24% for Labour (within the poll's margin of error) and 21% for the Conservatives. The data illustrates how European politics continue to move toward the right, potentially setting the stage for more tax cuts, deregulation, curbs on immigration, and isolationist foreign policies.

United States-Ukraine: President Trump yesterday [said he was looking for a deal under which Ukraine would provide the US with rare-earth mineral resources in return for continued military aid](#). According to Trump, the Ukrainian government is open to the deal. Nevertheless, it isn't clear whether Kyiv can keep fighting off the Russian invasion force until such a deal is in place. New reports suggest the Ukrainian military could be starting to buckle because of the recent slowdown in Western support and its own manpower shortfalls.

US Rule of Law: In recent days, Secretary of State Rubio has said President Trump named him as acting director of the US Agency for International Development, which by statute is set up to administer foreign aid programs to build goodwill toward the US. Trump, Elon Musk, and Rubio then [largely shuttered the agency](#). Similarly, Trump named Treasury Secretary Bessent as acting chief of the Consumer Financial Protection Bureau, after which Bessent essentially ordered a freeze on the agency's activities.

- The Trump administration's moves with USAID and the CFPB aim to cut what the president sees as wasteful spending and excessive regulation.
- Nevertheless, both agencies are overseen by Congress, so the moves by Trump could well set up a constitutional crisis. If the judicial system allows Trump's moves to stand, Congress could conceivably be neutered, and the president could be left with relatively unfettered power to implement whatever policies he wants.
- Shutting down or severely reducing USAID's foreign aid programs also presents an opening for China and the key member of its geopolitical bloc to step into the breach and replace the US's funding. Doing so would allow Beijing to capture the goodwill previously earned by the US and further enhance Chinese diplomatic power.

US Sovereign Wealth Fund: President Trump yesterday [signed an executive order for the US to create a sovereign wealth fund to facilitate public investments in long-term assets](#). The fund, which would presumably require Congressional approval and appropriations, is to be up and running within one year. Although Trump didn't provide specifics on his goal for the fund, he did suggest that it could be of use in taking over the US operations of Chinese social media app TikTok.

- Countries ranging from Norway to Saudi Arabia have sovereign wealth funds, some of which are enormous.

- Today’s sovereign wealth funds not only operate in arms-length asset purchases, but they are sometimes used to provide strategic, long-term capital to favored sectors or companies. Therefore, the risk is that a US fund could be deployed for uneconomic projects or to support politically favored firms.

US Economic Releases

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

Economic Releases						
ET	Indicator			Expected	Prior	Rating
10:00	JOLTS Job Openings	m/m	Dec	8000k	8098k	**
10:00	Factory Orders	m/m	Dec	-0.8%	-0.4%	***
10:00	Factory Orders Ex Transportation	m/m	Dec		0.2%	*
10:00	Durable Goods Orders	m/m	Dec F	-2.2%	-2.2%	***
10:00	Durable Goods Orders ex Transportation	m/m	Dec F	0.3%	0.3%	**
10:00	Cap Goods Orders Nondef Ex Air	m/m	Dec F	0.5%	0.5%	*
10:00	Cap Goods Ship Nondef Ex Air	m/m	Dec F	0.6%	0.6%	*
Federal Reserve						
ET	Speaker or Event	District or Position				
11:00	Raphael Bostic Speaks in Moderated Conversation on Housing	President of the Federal Reserve Bank of Atlanta				
14:00	Mary Daly Speaks in Moderated Panel	President of the Federal Reserve Bank of San Francisco				
19:30	Philip Jefferson Speaks on Economic Outlook and Monetary Policy	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	Monetary Base	y/y	Jan	-2.5%	-1.0%		**	Equity and bond neutral
	Monetary Base, End of Period	m/m	Jan	¥653.4t	¥660.3t		*	Equity and bond neutral
Australia	Household Spending	m/m	Dec	4.30%	3.20%	3.40%	*	Equity bullish, bond bearish
New Zealand	Building Permits	m/m	Dec	-5.6%	4.9%		**	Equity and bond neutral
EUROPE								
France	Budget Balance YTD	y/y	Dec	-156.3b	-172.5b		***	Equity and bond neutral
Italy	Budget Balance	m/m	Jan	-5.4b	8.0b		*	Equity and bond neutral
	New Car Registrations	y/y	Jan	-5.9%	-4.9%		*	Equity and bond neutral
AMERICAS								
Canada	S&P Global Canada Manufacturing PMI	m/m	Jan	51.6	52.2		***	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)	420	420	0	Down
U.S. Sibor/OIS spread (bps)	431	431	0	Down
U.S. Libor/OIS spread (bps)	433	433	0	Down
10-yr T-note (%)	4.57	4.56	0.01	Up
Euribor/OIS spread (bps)	256	259	-3	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.

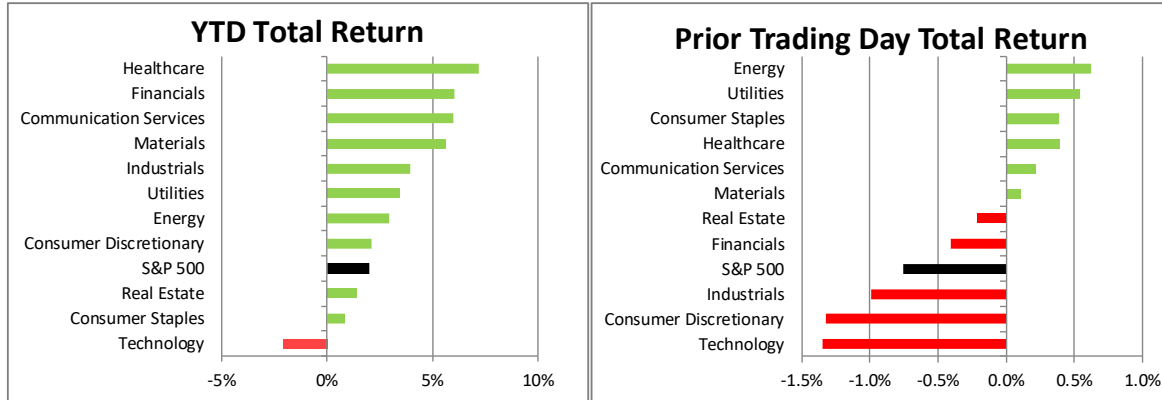
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$74.95	\$75.96	-1.33%	
WTI	\$71.59	\$73.16	-2.15%	
Natural Gas	\$3.20	\$3.35	-4.42%	
Crack Spread	\$19.74	\$19.68	0.35%	
12-mo strip crack	\$21.71	\$21.79	-0.36%	
Ethanol rack	\$1.84	\$1.83	0.24%	
Metals				
Gold	\$2,823.54	\$2,815.21	0.30%	
Silver	\$31.71	\$31.60	0.34%	
Copper contract	\$432.50	\$430.55	0.45%	
Grains				
Corn contract	\$488.75	\$488.75	0.00%	
Wheat contract	\$560.00	\$566.75	-1.19%	
Soybeans contract	\$1,054.25	\$1,058.25	-0.38%	
Shipping				
Baltic Dry Freight	738	735	3	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		2.59		
Gasoline (mb)		-1.18		
Distillates (mb)		-2.15		
Refinery run rates (%)		-0.7%		
Natural gas (bcf)		-313		

Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in the Southeast, with cooler-than-normal temperatures across most of the rest of the country. The forecasts call for wetter-than-normal conditions in the Southeast, Ohio Valley, and Great Plains, with dry conditions in southern California.

Data Section

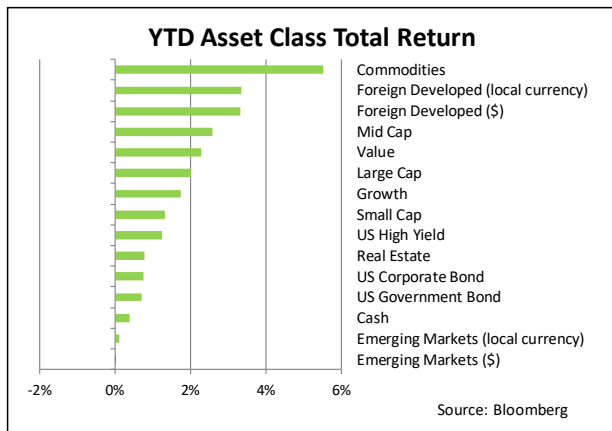
US Equity Markets – (as of 2/3/2025 close)



(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 2/3/2025 close)

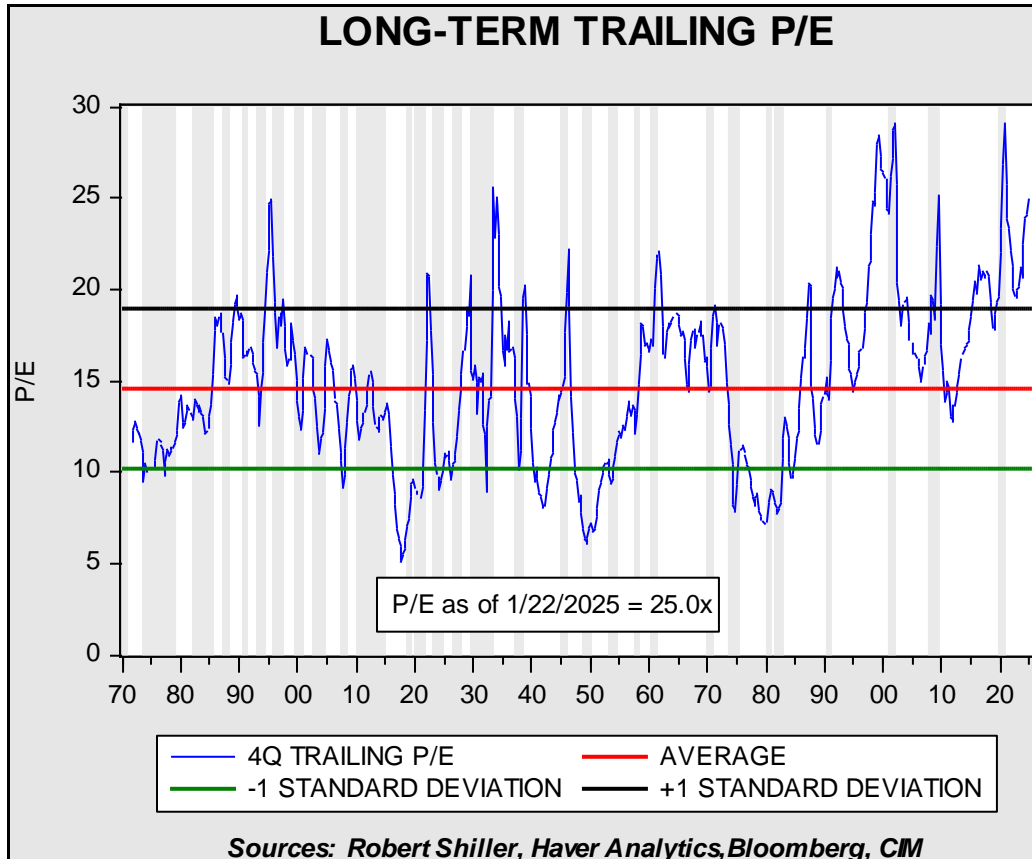


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

January 23, 2025



Based on our methodology,¹ the current P/E is 25.0x, 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.