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[Posted: January 21, 2025 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 closed down 0.1% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.1%. Chinese markets were mixed, with the Shanghai Composite down 0.1% from its previous close and the Shenzhen Composite up 0.3%. US equity index futures are signaling a higher open.

With 42 companies having reported so far, S&P 500 earnings for Q4 are running at \$62.30 per share, compared to estimates of \$64.79, which is up 11.7% from Q4 2023. Of the companies that have reported thus far, 83.3% have exceeded expectations while 16.7% 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
Syrian Surprise: Implications of a Sudden Regime Change (1/13/25) + podcast	Magnificent 7 to the Rescue! (1/21/25) + podcast	Q4 2024 Report Q4 2024 Rebalance Presentation	The 2025 Outlook: A Year of Political and Policy Change

Our *Comment* today opens with a sampling of the key executive orders President Trump issued immediately after being inaugurated to his new term in office yesterday. We next review several other international and US developments with the potential to affect the financial markets today, including a potential decision by Indonesia to cut nickel output amid slumping global prices and new data showing surging foreign investment in the US.

US Politics: President Trump [was inaugurated to his new term in office yesterday](#), dominating the news media around the world. Importantly, he also [hit the ground running, signing multiple executive orders aimed at putting into place his agenda](#) regarding international relations, the economy, and other areas. Of course, many of the actions will be challenged in court, but for now, we think it's useful to highlight a sampling of the ones that could be important for the economy and financial markets. Key orders:

- Directed federal agencies to begin an investigation into international trade practices, including persistent trade deficits and unfair currency practices, and to examine the flows of migrants and drugs from Canada, China, and Mexico to the US. (Even though Trump's orders didn't include new tariffs, such investigations could help set the stage for tariffs in the coming weeks or months.)
- Launched a full review of the US industrial and manufacturing base to assess whether further national security-related tariffs are warranted.
- Declared a national energy emergency (the first in US history), which could unlock new powers to suspend certain environmental rules or expedite permitting of certain mining projects.
- Rolled back energy-efficiency regulations for dishwashers, shower heads, and gas stoves.
- Froze federal hiring, except for members of the military or "positions related to immigration enforcement, national security, or public safety."
- Restored a category of federal workers known as Schedule F, which would lack the same job protections enjoyed by career civil servants.
- Ended the federal government's remote work policies and ordered workers back to their offices full time.
- Barred asylum for migrants newly arriving at the southern border.
- Prohibited federal employees from issuing citizenship documents to the children of illegal immigrants, despite the birthright citizenship provisions of the 14th Amendment.
- Withdrew the US from the Paris Agreement on climate change, eliminating the country's obligations to take action against global warming.

Global Politics: Whether by coincidence or not, the World Economic Forum's annual conference in Davos, Switzerland, [kicked off yesterday](#). As usual, the list of attendees included a who's who of global elites, including powerful politicians, business leaders, economists, and commentators. President Trump is due to address the forum via video on Thursday.

Global Pharmaceutical Industry: Researchers following 215,000 US military veterans who have diabetes and use the popular new GLP-1 weight-loss drugs [found they were significantly less likely to develop Alzheimer's and about 40 other diseases, compared with those taking other diabetes medicines](#). The data could be a new shot in the arm (sorry for the pun) for firms such as Novo Nordisk, maker of Ozempic, and Eli Lilly, maker of Mounjaro, since investors have recently begun to worry about future growth and government support for those drugs.

Indonesia: The government [is reportedly mulling a cap on nickel ore production to boost prices](#) amid a global slump. Even though the government has taken strong steps to boost the country's nickel industry in recent years, global demand has been falling as the demand for electric vehicles falters. Global nickel prices have declined some 40% over the last two years.

Taiwan: The opposition-controlled legislature today [froze large portions of the country's defense budget, throwing a wrench into President Lai's effort to strengthen the island's defenses](#) amid concerns about a potential Chinese takeover attempt. According to the China-friendly Kuomintang opposition party, the defense spending is “wasteful,” even though it only amounts to less than 2.5% of Taiwan's gross domestic product. The funding freeze is likely to draw anger from the new US administration, which wants other countries to boost their military spending.

United States-China: The US law aiming to force Chinese-owned social media app TikTok to either sell itself or shut down [went into effect over the weekend, but only temporarily](#). By Sunday, the app was back in service after President Trump promised to issue an executive order giving the firm more time to separate from its Chinese owner. The reprieve is likely to be taken positively by Beijing.

US Investment Environment: New research by the *Financial Times* shows the US [has become the world's biggest recipient of foreign direct investment, accounting for 14.4% of the world's total in the year to November](#). The research shows that the US is now drawing in several times more investment than China. The US economic industries luring the most investment include real estate, software and information technology services, and industrial equipment. As we've noted before, strong capital flows into the US go far toward explaining the strong dollar.

US Semiconductor Industry: Taiwan Semiconductor Manufacturing Corp. late last week [said it has begun commercial production of advanced semiconductors at its new, multibillion-dollar campus in Phoenix](#). That marks the first time 4-nanometer chips (the kind used in smartphones and other popular electronics) have been manufactured on US soil. Importantly, the firm also said that yields at the Phoenix fab are already comparable to those at its famous plants in Taiwan.

- As a reminder, the Biden administration strong-armed TSMC into developing its new \$65-billion campus in Phoenix to help secure the US's access to cutting-edge computer chips. Some 10% of the facility's cost was subsidized by the CHIPS and Science Act of 2022.
- However, officials close to President Trump have criticized the CHIPS and Science Act, making unclear whether the government will continue to subsidize advanced chip manufacturing in the US going forward.

US Energy Industry: The *Wall Street Journal* today carries an interesting article showing that major oil and gas companies [are considering getting into the power-generation business](#). The firms reportedly want to take advantage of the surging demand for electricity, especially for data centers running artificial-intelligence models. The energy firms are considered well-placed to build off-grid, gas-fired generating plants to supply those data facilities.

US Economic Releases

There were no economic releases prior to publication time today. There are no economic releases or Fed events scheduled for the rest of the day.

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	Core Machine Orders	y/y	Nov	10.30%	5.60%	4.20%	**	Equity bullish, bond bearish
	Industrial Production	y/y	Nov F	-2.70%	-2.80%		***	Equity and bond neutral
	Capacity Utilization	y/y	Nov	-1.90%	2.60%		**	Equity and bond neutral
	Tertiary Industry Index	m/m	Nov	-0.30%	0.10%	0.10%	***	Equity and bond neutral
South Korea	PPI	y/y	Dec	1.7%	1.4%		**	Equity and bond neutral
EUROPE								
Eurozone	EU27 New Car Registrations	y/y	Dec	5.1%	-1.9%		***	Equity and bond neutral
	ZEW Survey Expectations	m/m	Jan	18.0	17.0		**	Equity and bond neutral
Germany	PPI	y/y	Dec	0.8%	0.1%	1.1%	**	Equity and bond neutral
	ZEW Survey Expectations	m/m	Jan	10.3	15.7	15.1	**	Equity bearish, bond bullish
	ZEW Survey Current Situation	m/m	Jan	-90.4	-93.1	-93.1	**	Equity bearish, bond bullish
UK	Average Weekly Earnings 3M/YoY	m/m	Nov	5.60%	5.20%	5.70%	**	Equity and bond neutral
	ILO Unemployment Rate 3Mths	m/m	Nov	4.40%	4.30%	4.40%	**	Equity and bond neutral
	Claimant Count Rate	m/m	Dec	4.60%	4.60%		**	Equity and bond neutral
	Jobless Claims Change	m/m	Dec	0.7k	-25.1k		**	Equity and bond neutral
Switzerland	Producer & Import Prices	y/y	Dec	-0.9%	-0.6%		**	Equity and bond neutral
	Domestic Sight Deposits CHF	w/w	17-Jan	436.7b	437.1b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	17-Jan	445.3b	445.1b		*	Equity and bond neutral
	M3 Money Supply	y/y	Dec	1.9%	1.8%		**	Equity and bond neutral
Russia	Trade Balance	m/m	Nov	6.0b	8.8b	25.1b	**	Equity and bond neutral
	Exports	m/m	Nov	32.0b	36.4b	50.7b	*	Equity and bond neutral
	Imports	m/m	Nov	25.9b	27.6b	25.6b	*	Equity and bond neutral
Russia	Current Account Balance	q/q	4QP	4800m	7758m		**	Equity and bond neutral
AMERICAS								
Mexico	Retail Sales	y/y	Nov	-1.9%	-1.2%	-1.4%	***	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)	419	420	-1	Down
U.S. Sibor/OIS spread (bps)	429	429	0	Down
U.S. Libor/OIS spread (bps)	432	432	0	Down
10-yr T-note (%)	4.58	4.63	-0.05	Down
Euribor/OIS spread (bps)	268	270	-2	Down
Currencies	Direction			
Dollar	Up	US		Down
Euro	Down	Euro		Up
Yen	Down	Japan		Up
Pound	Down	UK		Up
Franc	Down	Switzerland		Up
Central Bank Action	Current	Prior	Expected	
PBOC 1-Year Loan Prime Rate	3.100%	3.100%	3.100%	On Forecast
PBOC 5-Year Loan Prime Rate	3.600%	3.600%	3.600%	On Forecast

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.

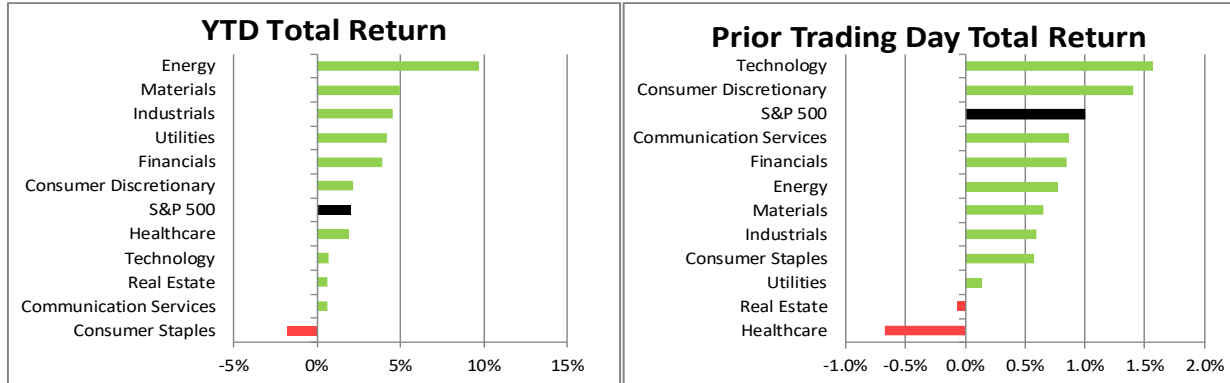
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$78.94	\$80.15	-1.51%	
WTI	\$76.13	\$77.88	-2.25%	
Natural Gas	\$3.87	\$3.95	-2.00%	
Crack Spread	\$18.41	\$18.56	-0.78%	
12-mo strip crack	\$21.53	\$21.72	-0.87%	
Ethanol rack	\$1.81	\$1.81	0.01%	
Metals				
Gold	\$2,725.85	\$2,708.21	0.65%	
Silver	\$30.50	\$30.54	-0.14%	
Copper contract	\$429.30	\$436.85	-1.73%	
Grains				
Corn contract	\$486.00	\$484.25	0.36%	
Wheat contract	\$544.50	\$538.75	1.07%	
Soybeans contract	\$1,049.50	\$1,034.00	1.50%	
Shipping				
Baltic Dry Freight	957	987	-30	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-0.85		
Gasoline (mb)		2.60		
Distillates (mb)		1.34		
Refinery run rates (%)		-0.9%		
Natural gas (bcf)		-260		

Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in Texas and Louisiana, with cooler-than-normal temperatures in the Rocky Mountains, Southern California, and the Pacific Northwest. The forecasts call for wetter-than-normal conditions in the southern half of the country from Texas to the East Coast, with dry conditions in California, Oregon, and Nevada.

Data Section

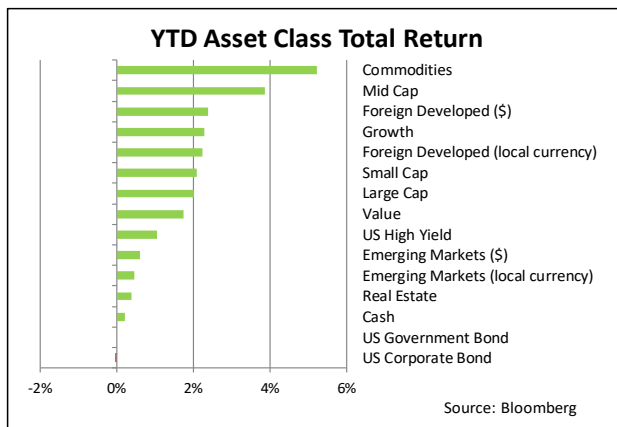
US Equity Markets – (as of 1/17/2025 close)



(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 1/17/2025 close)

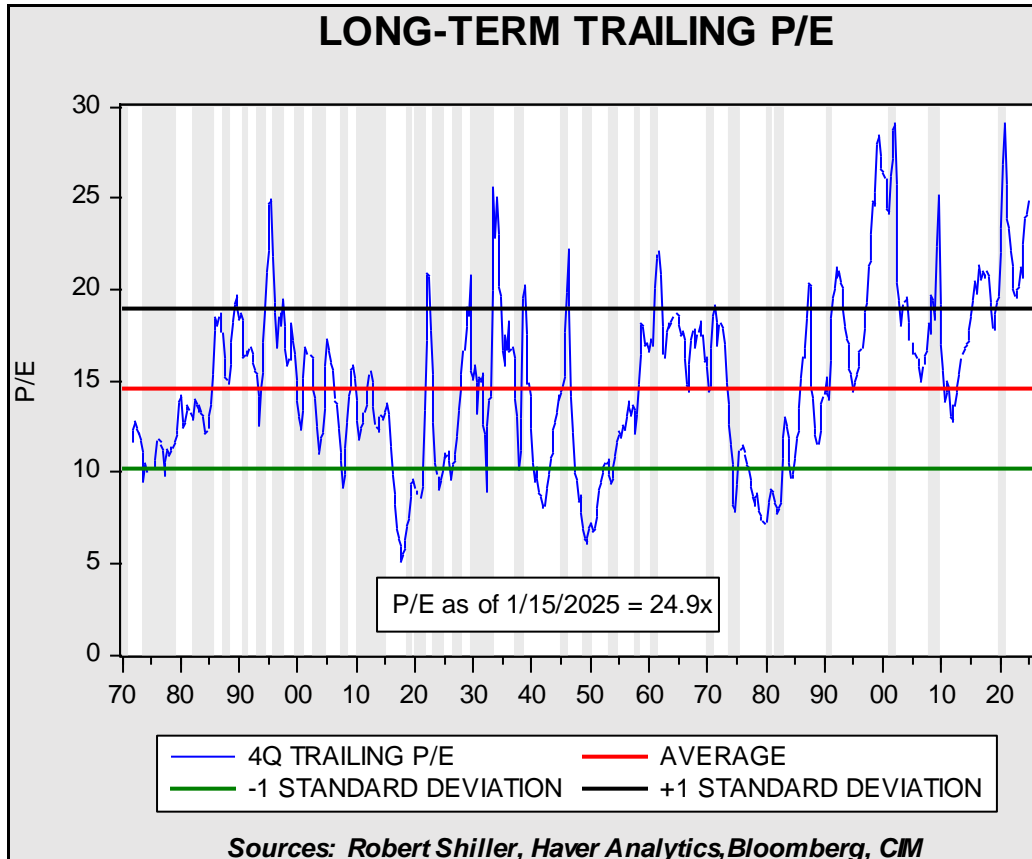


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 16, 2025



Based on our methodology,¹ the current P/E is 24.9x, down 0.1 from our last report. The decrease was due to a decline 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.