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[Posted: January 27, 2025 — 9:30 AM ET] Global equity markets are mostly lower this morning. In Europe, the Euro Stoxx 50 closed down 1.0% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.1% Chinese markets were lower, with the Shanghai Composite down 0.1% from its previous close and the Shenzhen Composite down 1.3%. US equity index futures are signaling a lower open.

With 78 companies having reported so far, S&P 500 earnings for Q4 are running at \$62.40 per share, compared to estimates of \$64.79, which is up 11.7% from Q4 2023. Of the companies that have reported thus far, 80.8% have exceeded expectations while 12.8% 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	Outlook	Of Note
<u><i>Syrian Surprise: Implications of a Sudden Regime Change</i></u> (1/13/25) + <u>podcast</u>	<u><i>Magnificent 7 to the Rescue!</i></u> (1/21/25) + <u>podcast</u>	<u><i>The 2025 Outlook: A Year of Political and Policy Change</i></u>	<u><i>Keller Quarterly January 2025</i></u>

Our *Comment* today opens with a discussion of today’s rout in global technology stocks. We next review several other international and US developments with the potential to affect the financial markets today, including more data pointing to sluggish economic growth in China and President Trump’s short-lived tariff hikes against Colombia over the weekend.

Global Technology Stocks: The West’s recently high-flying technology stocks related to artificial intelligence, such as Nvidia and Google, [are taking a beating today on news that Chinese firm DeepSeek has developed a powerful AI model](#) that calls into question their investments in the space. In an X post on Friday, well-known Silicon Valley venture capitalist Marc Andreessen went so far as to proclaim, “DeepSeek R1 is one of the most amazing and impressive breakthroughs I’ve ever seen.”

- Importantly, DeepSeek was apparently able to produce its model without having access to the most advanced AI chips from US firms such as Nvidia. Washington has banned selling those chips to China to prevent it from surpassing the US in military and technological capabilities. It now appears that the ban has done little to slow China's progress in AI.
- In fact, DeepSeek has apparently been able to develop its powerful model for just a small fraction of the cost to develop major AI models in the West.
- Of course, some of DeepSeek's cost advantage probably reflects subsidies from the Chinese government. Nevertheless, the firm's success suggests that the enormous AI investments made by the likes of Nvidia, Microsoft, Google, and Meta may be misguided or unjustified.

China: The official purchasing managers' index for manufacturing [fell to a seasonally adjusted 49.1 in January, short of expectations and below the 50.1 reading in December](#). Like all major PMIs, the Chinese one is designed so that readings over 50 indicate expanding activity. The reading for January suggests Chinese factory activity is now contracting again after three straight months of modest expansions. The data underscores the continued slowdown in Chinese economic growth due to problems such as excess capacity and high debts.



India-China: In a potential new source of tension over the coming years, the Indian government [has voiced its concerns about a major new hydroelectric dam that China plans to build on the Yarlung Tsangpo River in Tibet](#), upstream from India. The proposed dam would be three times bigger than China's Three Gorges dam, which is currently the world's largest hydroelectric facility. New Delhi fears that the dam will lead to water shortages in India, or even floods if it is ever damaged in an earthquake.

Lithuania-Estonia: Officials in both Lithuania and Estonia [have become the latest to endorse President Trump’s demand that the non-US members of the North Atlantic Treaty Organization hike their defense spending](#) to at least 5% of gross domestic product. At those levels, countries such as Poland, Lithuania, and Estonia would be spending well above the US defense burden of about 3% of GDP. The spending hikes could have a major impact on those countries’ fiscal policies and help validate our positive view on non-US defense stocks.

United States-European Union: US electric-vehicle firm Tesla’s Shanghai subsidiary [has sued the EU over the anti-dumping tariffs the bloc imposed on Chinese-made EVs late last year](#). Since Tesla is controlled by “first buddy” Elon Musk, it’s possible that the US government might ultimately side with Tesla and put pressure on the EU to drop its tariffs. Such a move could further threaten the EU’s domestic auto production and weaken the general EU economy.

United States-Denmark-Greenland: According to European diplomats briefed on the matter, a call last week between President Trump and Danish Prime Minister Frederiksen [went very badly, with Trump insisting that the US should acquire the autonomous Danish island of Greenland and Frederiksen insisting it isn’t for sale](#). The “horrendous” tenor of the call has sparked concern in European capitals that Trump is seeking to forcibly expand US territory at their expense, much as Imperialist Russia did in the 1800s and Nazi Germany did in the 1900s.

- Our analysis suggests that the strategic and economic assets offered by Greenland are minimal compared with the potential fracturing of the US alliance system if Trump and his officials continue to strongarm Denmark for a sale of Greenland.
- Although Greenland has deposits of several important mineral resources, the ability to exploit those resources is constrained by factors such as the island’s harsh climate, limited infrastructure, and tiny available workforce.

United States-Colombia: To retaliate for the Colombian government’s refusal to accept US military deportation flights, President Trump yesterday [announced 25% tariffs on all imports from Colombia and threatened to double them to 50% in one week](#). Trump also ordered financial sanctions on Colombia and imposed a travel ban and revoked the visas of Colombian government officials. By the end of the day, however, the White House [said Colombia had agreed to all of the president’s terms and the tariffs and sanctions would be held in reserve](#).

- After a week in which the financial markets were encouraged by the lack of any new tariffs from the Trump administration, it now seems clear that he was perhaps just waiting for the right chance to make an example of a country, even if it’s a traditional ally such as Colombia. Even though the Colombia tariff hikes were ultimately canceled, they could well rekindle broader tariff concerns and weigh on the markets on Monday.
- Colombia’s top exports to the US include crude oil, coffee, and flowers. Given that flowers have such a short shelf life and are shipped shortly before they’re needed, the Colombia tariffs could have produced big price increases for Valentine’s Day roses in the US if they had not been rescinded.

US Monetary Policy: The Federal Reserve [holds its latest policy meeting this week, with its decision due on Wednesday at 2:00 PM ET](#). The policymakers are widely expected to hold their benchmark fed funds interest rate unchanged at its current range of 4.25% to 4.50%. That would make Fed Chair Powell’s post-meeting news conference even more important, as investors will be looking for more guidance on the future path of rates.

US Immigration Policy: The Justice Department yesterday [said it had begun a multiagency immigration enforcement operation in Chicago, although the number of arrests so far is uncertain](#). Meanwhile, Illinois Gov. JB Pritzker said his state would cooperate with federal authorities in deporting undocumented immigrants convicted of crimes or with pending deportation orders, but he said state law enforcement would not take part in targeted raids or profile people in the state who might be without documents.

- Similar to the situation with import tariffs, the Trump administration’s inaction on illegal immigrants in its first week may have created a false sense of security and complacency among immigrant communities and those who employ them.
- The Chicago crackdown on immigrants therefore may rekindle concerns that Trump’s immigration policies will exacerbate today’s labor shortages, especially in sectors such as construction and hospitality.

US Economic Releases

No major US reports have been released so far today. 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	New Home Sales	m/m	Dec F	672k	664k	***
10:00	New Home Sales MoM	m/m	Dec F	2.4%	5.9%	**
10:30	Dallas Fed Manufacturing Activity	m/m	Jan	-3.0	3.4	**
	Building Permits	m/m	Dec F	-0.7%	-0.7%	*
Federal Reserve						
No Fed speakers or events for the rest of today						

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	Leading Economic Index	m/m	Nov F	107.5	107.0		**	Equity and bond neutral
	Coincident Index	y/y	Nov F	115.4	115.3		**	Equity and bond neutral
China	Industrial Profits	y/y	Dec	11.0%	-7.3%		*	Equity and bond neutral
	Official Composite PMI	m/m	Jan	50.1	52.2		*	Equity and bond neutral
China	Official Manufacturing PMI	m/m	Jan	49.1	50.1	50.1	***	Equity bearish, bond bullish
	Official Services PMI	m/m	Jan	50.2	52.2	52.2	**	Equity bearish, bond bullish
EUROPE								
Germany	IFO Business Climate	m/m	Jan	85.1	84.7	84.8	***	Equity bearish, bond bullish
	IFO Current Assessment	m/m	Jan	86.1	85.1	85.4	**	Equity bullish, bond bearish
	IFO Expectations	m/m	Jan	84.2	84.4	85.0	**	Equity bearish, bond bullish
Switzerland	Domestic Sight Deposits CHF	w/w	24-Jan	433.3b	436.7b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	24-Jan	441.3b	445.3b		*	Equity and bond neutral
AMERICAS								
Mexico	Trade Balance	m/m	Dec	2566.8m	-133.3m		**	Equity and bond neutral
	Exports	m/m	Dec	51687m	52025m		*	Equity and bond neutral
	Imports	m/m	Dec	49120m	52158m		*	Equity and bond neutral
Brazil	FGV Consumer Confidence	y/y	Jan	86.2	91.3		*	Equity and bond neutral
	Total Outstanding Loans	m/m	Dec	6427b	6340b		**	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	421	-1	Down
U.S. Sibor/OIS spread (bps)	428	430	-2	Down
U.S. Libor/OIS spread (bps)	431	432	-1	Down
10-yr T-note (%)	4.52	4.62	-0.10	Down
Euribor/OIS spread (bps)	264	267	-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.

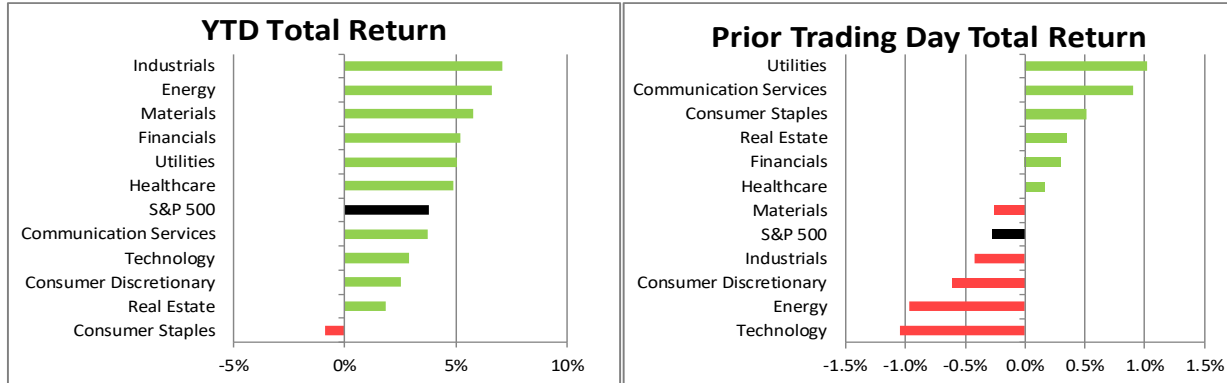
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$77.95	\$78.50	-0.70%	
WTI	\$74.16	\$74.66	-0.67%	
Natural Gas	\$3.81	\$4.03	-5.51%	Supply optimism and reduced demand
Crack Spread	\$17.37	\$17.73	-2.06%	
12-mo strip crack	\$21.01	\$21.14	-0.63%	
Ethanol rack	\$1.80	\$1.81	-0.24%	
Metals				
Gold	\$2,761.29	\$2,770.58	-0.34%	
Silver	\$30.53	\$30.59	-0.20%	
Copper contract	\$428.75	\$432.10	-0.78%	
Grains				
Corn contract	\$480.50	\$486.50	-1.23%	
Wheat contract	\$540.00	\$544.00	-0.74%	
Soybeans contract	\$1,046.25	\$1,055.75	-0.90%	
Shipping				
Baltic Dry Freight	778	824	-46	

Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for cooler-than-normal temperatures along the West Coast, in the northern and central Rocky Mountains, and in the northern and central Great Plains, with warmer-than-normal temperatures in the Southeast. The forecasts call for wetter-than-normal conditions in the entire northern two-thirds of the country, with dry conditions in the Southwest and Florida.

Data Section

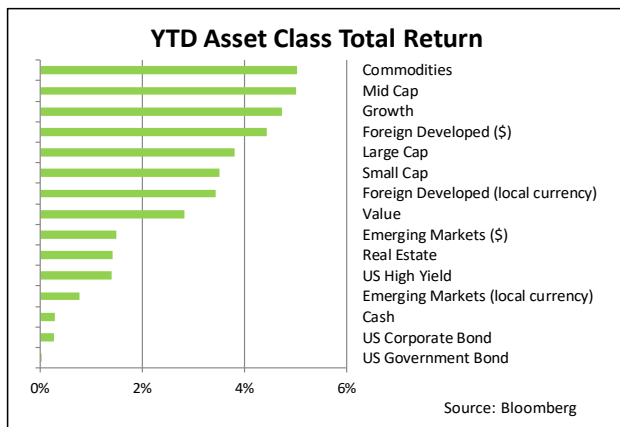
US Equity Markets – (as of 1/24/2025 close)



(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 1/24/2025 close)

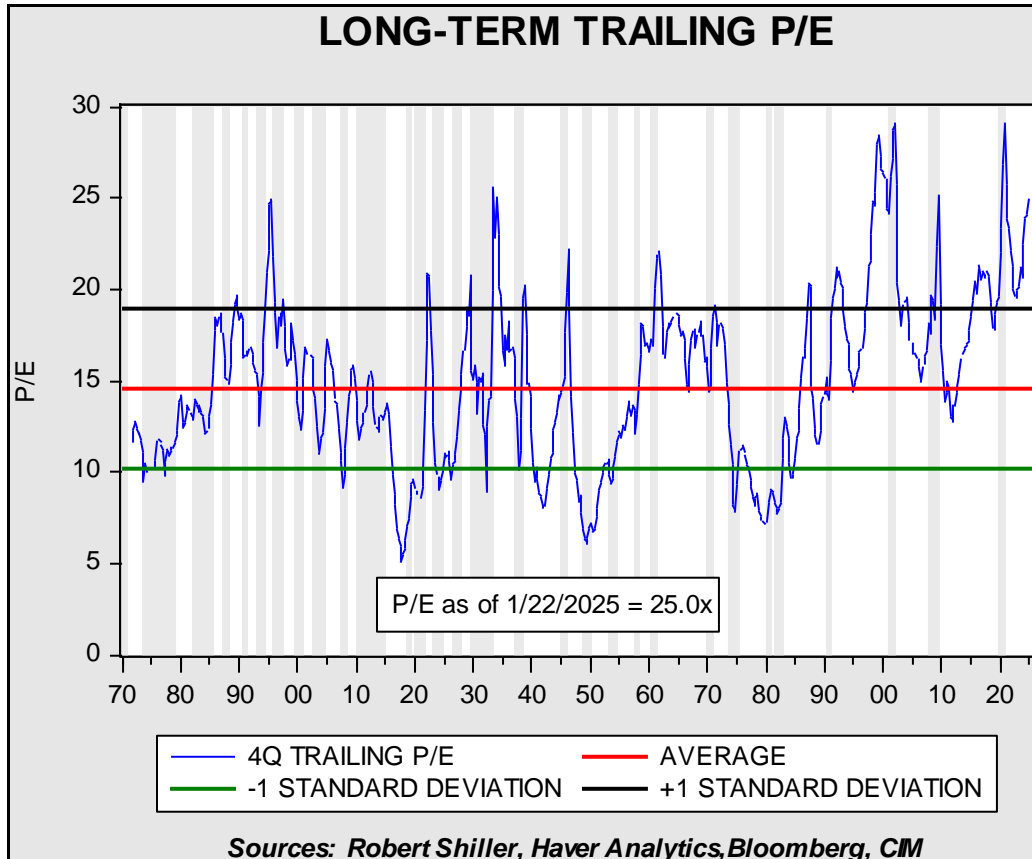


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.