



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: January 6, 2025 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 closed up 1.9% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 1.7%. Chinese markets were lower, with the Shanghai Composite down 0.1% from its previous close and the Shenzhen Composite down 0.4%. US equity index futures are signaling a higher open.

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
The 2025 Geopolitical Outlook (12/16/24) + podcast	Household Cash Levels and the S&P 500 (12/9/24) + podcast	Q4 2024 Report Q4 2024 Rebalance Presentation	The 2025 Outlook: A Year of Political and Policy Change

Our first *Comment* of the New Year opens with the same old geopolitical tensions in Asia, this time with reports touching China, Taiwan, and Japan. We next review several other international and US developments with the potential to affect the financial markets today, including the new French government’s decision to ease its deficit-cutting target and news that President-elect Trump will try to pass all of his major policy initiatives in a single bill once the new Congress is in place.

China-Taiwan: Beijing has reportedly launched a new program under which Taiwanese visiting the mainland [are being urged to sign up for local resident cards, bank accounts, and mobile-phone numbers, which in total allow them to apply for the identity cards](#) used by Chinese citizens. The program appears to be another effort by Beijing to undermine Taipei’s jurisdiction over Taiwan. In a worst-case scenario, it could also be used as an excuse for Beijing to intervene in the island’s domestic affairs or even to invade.

Japan: New reports say Tokyo [will release its first-ever arms export plan sometime this year](#). Developed with Japanese industrial firms, the plan will lay out medium- and long-term targets for defense equipment exports. Its goal will be to strengthen Japan’s arms makers so they can

better support the country's defense buildup ahead of a potential conflict with China. Development of the plan illustrates how defense is becoming a growth industry worldwide, but especially in Asia and Europe.

- According to the authoritative Stockholm International Peace Research Institute, the world's 100 largest defense firms [boosted their total domestic and foreign arms revenues to \\$632 billion in 2023, for an inflation-adjusted increase of 4.2%](#) from 2022.
- The five Japan-based companies in that total — Mitsubishi Heavy Industries, Kawasaki Heavy Industries, Fujitsu, NEC, and Mitsubishi Electric — increased their total defense revenues to \$10 billion, up 35% on the year.
- As in many other countries, the Japanese budget for reconnaissance and strike drones [is rising especially fast](#), reflecting both their critical role in the Ukraine war and troop recruiting challenges related to Japan's low birthrate.

France: The new minority government of Prime Minister Bayrou today [said it would only try to cut the budget deficit from an estimated 6.1% of gross domestic product in 2024 to a range of 5.0% to 5.5% in 2025](#). Ostensibly to help protect economic growth, the target would be a bit easier to achieve than the 5.0% planned by the previous prime minister before he lost power in a no-confidence vote. Since it would also require smaller tax hikes and spending cuts, the new target also has a better chance of being passed by parliament and averting a fiscal crisis.

US International Trade Policy: We noticed a headline on Bloomberg television today [saying the enormous tariffs that President-elect Trump has threatened to impose on foreign imports will only apply to "critical" inputs](#). However, we still have not seen the details behind the report. In any case, the news appears to have pushed the US dollar sharply lower against most major foreign currencies so far today. As of this writing, the US Dollar Index is down 0.9% to 107.95.

US Fiscal and Regulatory Policy: President-elect Trump and House Speaker Johnson [have reportedly decided to pursue a single mega-bill encompassing all the Republicans' major policy priorities](#) once the new Congress is in session later this month, rather than the two-bill strategy considered previously. The single bill would include everything from extending and expanding the 2017 tax cuts and cutting spending to cracking down on immigration and deregulating the energy industry.

- Because of the Republican party's very narrow majorities in Congress, both the strategies have political risks. A single bill covering such a large number of issues may also take much longer to be passed. Observers currently think such a bill couldn't be signed into law until at least late April or May.
- In any case, the policies covered by the bill [would be in sync with a recent research paper by Steve Miran, the incoming chair of Trump's Council of Economic Advisors](#). In his paper, Miran argues that boosting growth would best be achieved by slashing regulation to incentivize more investment related to artificial intelligence and other technologies required for military modernization.

US Monetary Policy: In a speech Friday, Richmond FRB President Barkin [said the continued strength in the labor market and waning price pressures mean there are more upside risks than downside risks to economic growth in 2025](#). However, he warned that such a scenario means there are also more upside than downside risks to inflation. Barkin's statement is consistent with our view that the Federal Reserve may cut interest rates less than expected this year.

US Critical Minerals Mining Industry: The US Forest Service late Friday [granted a permit for Perpetua Resources' "Stibnite" gold and antimony mine in Idaho](#). When it starts producing in 2028, the mine is expected to supply some 35% of the nation's demand for antimony, a rare mineral used in armor-piercing ammunition, solar panels, and other high-technology goods. In response to the news, Perpetua's stock price surged 9.1% in after-market trading.

- Antimony is not currently produced in the US, and Beijing has recently restricted its exports to retaliate for Washington restricting the sale of advanced semiconductor technology to China. Approval of the mine illustrates how US-China tensions and global fracturing have spurred re-industrialization in the US, especially regarding goods critical to national security and advanced technologies.
- Although US industrial firms are often constrained by stringent environmental and other regulations, we think the US's new prioritization of defense and economic growth could lead to those rules being watered down. If so, we could see many more examples of new mining and other industrial investments related to defense and technology.
- Indeed, the US defense budget and industrial-development programs could provide much of the funding for these investments. In fact, the \$1.3-billion Stibnite project has been partly funded by the US Export-Import Bank and the Defense Department.

US Commercial Real Estate Industry: The *Wall Street Journal* today [has an interesting article on the shortage of space at open-air shopping centers](#) and the resulting strong performance of real estate investment trusts (REITs) focused on retail properties. The article notes that the sector has benefitted from reduced construction after the Great Financial Crisis and work-from-home rules that allow people to shop throughout the week. The article illustrates why investors may not want to avoid REITs entirely, despite the current challenges facing the office sector.

US Economic Releases

There were no domestic 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						
ET	Indicator			Expected	Prior	Rating
9:45	S&P Global US Services PMI	m/m	Dec F	58.5	58.5	***
9:45	S&P Global US Composite PMI	m/m	Dec F		56.6	***
10:00	Factory Orders	m/m	Nov	-0.4%	0.2%	***
10:00	Factory Orders Ex Transportation	m/m	Nov		0.1%	*
10:00	Durable Goods Orders	m/m	Nov F	-0.4%	-1.1%	***
10:00	Durable Goods Orders ex Transportation	m/m	Nov F	0.3%	-0.1%	**
10:00	Cap Goods Orders Nondef Ex Air	m/m	Nov F	0.1%	0.7%	*
10:00	Cap Goods Ship Nondef Ex Air	m/m	Nov F	0.3%	0.5%	*
Federal Reserve						
ET	Speaker or Event	District or Position				
9:15	Lisa Cook Speaks on Economic Outlook and Financial Stability	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	Jibun bank Composite PMI	m/m	Dec F	50.5	50.8		*	Equity and bond neutral
	Jibun Bank Services PMI	m/m	Dec F	50.9	51.4		**	Equity and bond neutral
Australia	S&P Global Australia Composite PMI	m/m	Dec F	50.2	49.9		*	Equity and bond neutral
	S&P Global Australia Services PMI	m/m	Dec F	50.8	50.4		**	Equity and bond neutral
South Korea	Foreign Reserves	m/m	Dec	415.6	\$415.39b		**	Equity and bond neutral
China	Caixin Composite PMI	m/m	Dec	51.4	52.3		**	Equity and bond neutral
	Caixin Services PMI	m/m	Dec	52.2	51.5	51.4	**	Equity bullish, bond bearish
India	HSBC India PMI Composite	m/m	Dec F	59.2	60.7		**	Equity and bond neutral
	HSBC India PMI Services	m/m	Dec F	59.3	60.8		**	Equity and bond neutral
EUROPE								
Eurozone	HCOB Eurozone Composite PMI	m/m	Dec F	49.6	49.5	49.5	*	Equity and bond neutral
	HCOB Eurozone Services PMI	m/m	Dec F	51.9	51.4	51.4	**	Equity and bond neutral
Germany	HCOB Germany Services PMI	m/m	Dec F	51.2	51.0	51.0	**	Equity and bond neutral
	HCOB Germany Composite PMI	m/m	Dec F	48.0	47.8	47.8	**	Equity and bond neutral
	CPI	y/y	Dec P	2.6%	2.2%	2.4%	***	Equity and bond neutral
France	CPI, EU Harmonized	y/y	Dec P	2.9%	2.4%	2.6%	**	Equity and bond neutral
	HCOB France Services PMI	m/m	Dec F	49.3	48.2	48.2	**	Equity bullish, bond bearish
Italy	HCOB France Composite PMI	m/m	Dec F	47.5	46.7	46.7	**	Equity bullish, bond bearish
	HCOB Italy Composite PMI	m/m	Dec	49.7	47.7	50.0	**	Equity and bond neutral
UK	HCOB Italy Services PMI	m/m	Dec	50.7	49.2	50.0	**	Equity bullish, bond bearish
	New Car Registrations	m/m	Dec	-0.20%	-1.90%		*	Equity and bond neutral
Switzerland	Official Reserves Changes	m/m	Dec	-\$1262m	-\$979m		*	Equity and bond neutral
	S&P Global UK Services PMI	m/m	Dec F	5.1	51.4	51.4	**	Equity and bond neutral
	S&P Global UK Composite PMI	m/m	Dec F	50.4	50.5	50.5	**	Equity and bond neutral
Switzerland	Real Retail Sales	y/y	Dec	0.8%	1.4%	1.5%	**	Equity bearish, bond bullish
	Domestic Sight Deposits CHF	w/w	3-Jan	426.6b	436.4b		*	Equity and bond neutral
Switzerland	Total Sight Deposits CHF	w/w	3-Jan	439.6b	445.7b		*	Equity and bond neutral
	AMERICAS							
Mexico	Vehicle Domestic Sales	y/y	Dec	146365	147971		***	Equity and bond neutral
Mexico	Unemployment Rate NSA	m/m	Nov	2.64%	2.50%	2.55%	***	Equity and bond neutral
Brazil	S&P Global Brazil Composite PMI	m/m	Dec	51.5	53.5		***	Equity and bond neutral
	S&P Global Brazil Services PMI	m/m	Dec	51.6	53.6		***	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 Libor yield (bps)	485	485	0	Down
3-mo T-bill yield (bps)	419	420	-1	Down
U.S. Sibor/OIS spread (bps)	428	429	-1	Down
U.S. Libor/OIS spread (bps)	431	431	0	Down
10-yr T-note (%)	4.58	4.60	-0.02	Up
Euribor/OIS spread (bps)	273	274	-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.

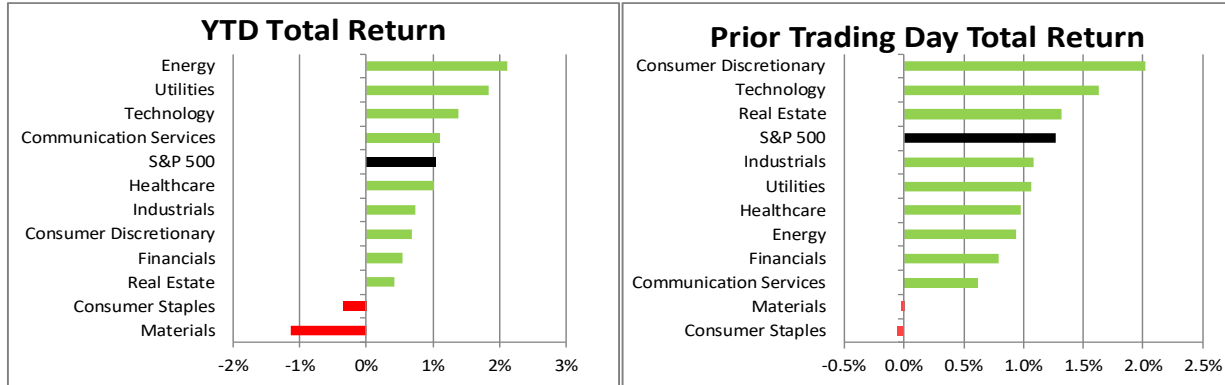
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$76.97	\$76.51	0.60%	
WTI	\$74.46	\$73.96	0.68%	
Natural Gas	\$3.62	\$3.35	7.99%	
Crack Spread	\$16.53	\$16.48	0.32%	
12-mo strip crack	\$19.82	\$19.71	0.56%	
Ethanol rack	\$1.77	\$1.78	-0.31%	
Metals				
Gold	\$2,642.92	\$2,640.22	0.10%	
Silver	\$30.25	\$29.62	2.13%	
Copper contract	\$416.60	\$407.35	2.27%	
Grains				
Corn contract	\$455.50	\$450.75	1.05%	
Wheat contract	\$535.00	\$529.25	1.09%	
Soybeans contract	\$1,005.75	\$991.75	1.41%	
Shipping				
Baltic Dry Freight	1,072	1,029	43	

Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for cooler-than-normal temperatures for most of the country, with warmer conditions in the North Central states. The precipitation outlook calls for wetter-than-normal conditions throughout the Great Plains region and the East Coast, with dry conditions expected in the Pacific and Midwest regions.

Data Section

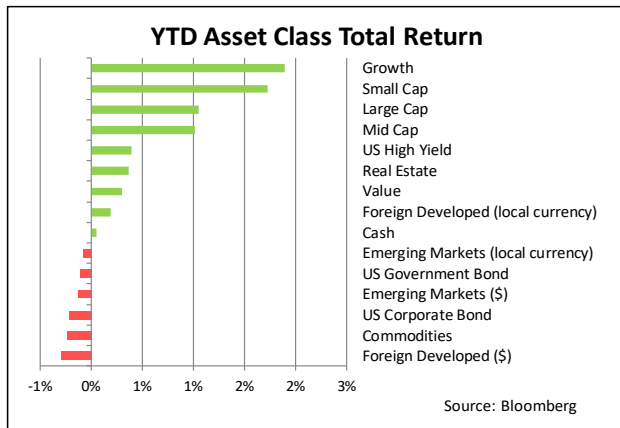
US Equity Markets – (as of 1/3/2025 close)



(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 1/3/2025 close)

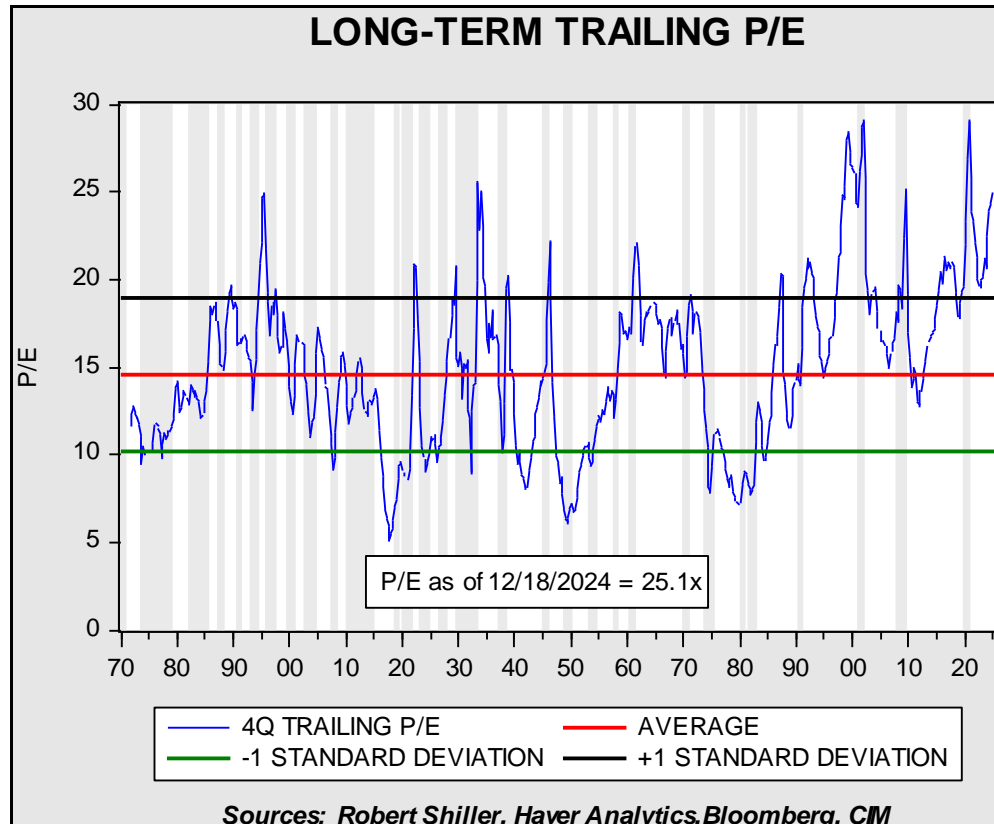


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

December 19, 2024



Based on our methodology,¹ the current P/E is 25.1x, up 0.3 from our last report. The increase in the multiple was due to downward revisions to Q3 earnings and 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.