WEEKLY BULLETIN February 2025: Issue #1

Quote of the Week.

"The wise adapt themselves to circumstances, as water molds itself to the pitcher" – Chinese Proverb

As the U.S. market wrapped up the first week of February, it is insightful to review the latest corporate earnings data compiled by FactSet for the S&P 500. The Q4 2024 earnings season has been robust, with 77% of the 291 companies that have reported so far delivering positive EPS surprises, while 63% exceeded revenue expectations. The blended earnings growth rate for the S&P 500 currently stands at 16.4%, the highest since Q4 2021 (31.4%), marking the sixth consecutive quarter of year-over-year earnings growth despite macroeconomic uncertainties.

Looking ahead, analysts expect S&P 500 earnings growth of 8.7% in Q1 2025 and 10.2% in Q2 2025. However, corporate guidance appears mixed—while FactSet does not provide explicit guidance figures in its earnings report, early reports indicate that more companies are issuing cautious forecasts. This suggests that while Q4 earnings were strong, corporates are bracing for potential headwinds, possibly due to higher borrowing costs, margin pressures, or shifting consumer demand.

Valuations and Market Sentiment

The forward 12-month P/E ratio for the S&P 500 currently sits at 22.1, which is above the 5-year average (19.8) and the 10-year average (18.2). This elevated valuation reflects market optimism but also raises questions about sustainability. Investors must assess whether earnings growth can justify these higher multiples or if the market is primed for a correction should earnings momentum weaken. Despite strong earnings, some tech stocks have seen sideways trading, possibly due to valuation concerns.

The Tariff Factor: A Double-Edged Sword

One emerging theme this earnings season is the sharp increase in references to tariffs during earnings calls. According to earnings transcript data, 146 companies have cited 'tariffs' so far—if this pace continues, mentions could surpass the record 185 in Q2 2018, a period marked by heightened U.S.-China trade tensions. This trend suggests that tariffs are once again a growing concern for corporate America, potentially impacting supply chains, cost structures, and earnings visibility. Historically, tariffs have been a double-edged sword—while they can protect domestic industries, they also raise costs for businesses and consumers. If tariff discussions continue to escalate, this could have broader market implications, influencing inflationary pressures, corporate margins, and sector-specific performance, particularly in manufacturing, technology, and consumer goods.

With earnings growth at a three-year high, investors should recognize that markets have priced in much of the optimism, as reflected in above-average valuation multiples. However, forward guidance trends, cost pressures, and tariff uncertainties could introduce market volatility. A selective approach—favoring companies with resilient margins, strong cash flows, and stable growth outlooks—may offer the best risk-reward balance in the months ahead.

Last Week 's Notable Events.

US Economy/Politics

- Trump says Canada and Mexico's responses to his tariff threats are 'not good enough' – 10th Feb
- Canada call Trump metals tariffs 'totally unjustified' – 11th Feb
- Trump says he will consider tariff exemption for Australia – 11th Feb

Europe Economy/Politics

- European companies warn of uncertainty from Trump's tariff threats – 9th Feb
- UK plays down threat of Trump's steel and aluminium tariffs – 10th Feb
- EU vows to respond firmly to unjustified tariffs imposed by the US – 11th Feb

Asia Pacific Economy/Equity

- Vietnam braces for fallout from US tariffs on Chinese goods – 7th Feb
- India central bank to cut rates to boost economy as inflation slows – 7th Feb
- Hong Kong to file complaint with WTO on US tariffs, official says – 11th Feb
- Asian economies scramble to appease Trump as US President ratchets up tariff threats – 11th Feb

Weekly Data Monitor

Weekly chart:

- US equities consolidates while Asia Pacific equities recovers
- Gold traded to new high on Trump's new tariffs
- US dollar index falls as Trump's tariffs may target all countries with surplus trade with US.

Note: The chart shows normalised weekly highs and lows for the Indicator, BLUE being the LATEST.

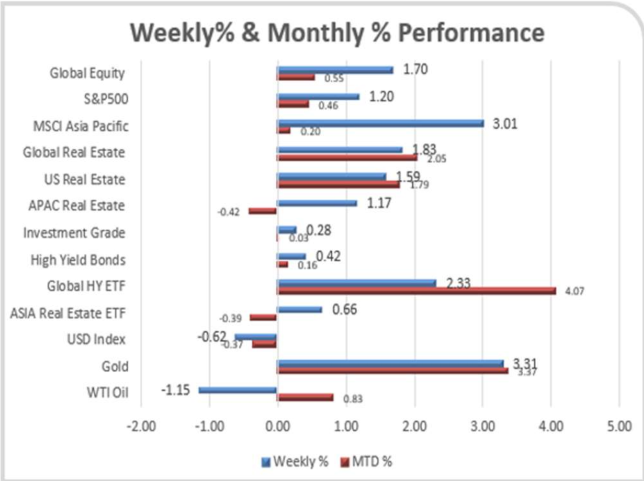
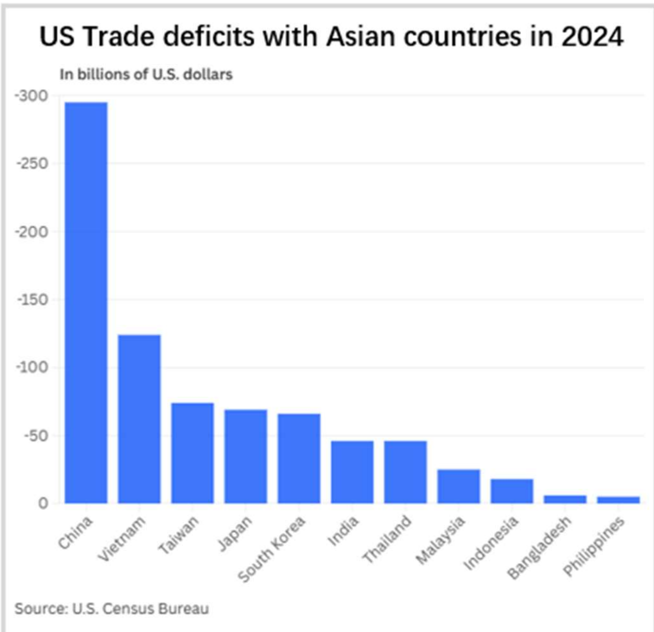


Chart of the Week.

As of February 2025, the U.S. faces significant trade deficits, with China leading at $295.4 billion. Other major countries include Mexico ($171.8 billion), Vietnam ($123.5 billion), and Germany ($84.8 billion). This ongoing trade imbalance raises the potential for further tariff actions from the U.S. government.

Countries at Risk for Tariffs Vietnam, India, and Thailand face heightened risks due to trade surpluses and specific policies:

- Vietnam: Strong ties with China and a growing surplus with the U.S. make it a potential target.
- India: Oil deals with Russia, tariff on US products and a large surplus could draw U.S. attention.
- Thailand: High tariffs on U.S. goods make it vulnerable to retaliatory actions.



Implications for Investors Tariffs could disrupt key sectors like manufacturing, tech, and consumer goods. Potential risks include:

- Increased costs and supply chain delays.
- Margin compression for companies relying on imports.
- Market volatility as companies adapt to new policies.

Actionable Advice:
With new tariffs possible in the first 100 days of the Trump administration, investors should:

- Reconsider exposure to companies heavily dependent on 'high-risk' countries.
- Shift focus to sectors with strong domestic supply chains.
- Monitor policy changes closely to adjust portfolios ahead of potential disruptions.