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Morning Briefing

Trump Makes His Mark
& China's AI Players

Check out the accompanying chart collection.

Executive Summary: Trump's flurry of executive orders on his first day in office upended the playing fields for various industries in a bunch of fell swoops. Jackie reports on the winners and losers and discusses what the changes will mean for corporate America as regulatory roadblocks disappear, trade policy is overhauled, and federal agencies operate under new rules. Energy policy will now favor oil and gas over green fuels, and government efficiency efforts will benefit high-tech players. … In our Disruptive Technologies segment, a look at China's AI ambitions and the Chinese competitors that US players are up against.

Strategy: Washington Whipsaws Industries. President Trump swept into the Oval Office and immediately swept out many of former President Biden's executive orders, replacing them with new ones of his own. The policies Trump changed on the first day of his second term were wide-ranging, touching on energy, immigration, technology, and tariffs. The overarching themes include his desire to reduce government bureaucracy, increase American oil and gas production, and boost American competitiveness via tariffs.

Here's a look at the new policies and the industries that should benefit:

(1) *EV coddling is out.* Unleashing American Energy is the Trump executive order that aims to level the "regulatory playing field" between EVs and gasoline-powered cars. The order wants the government to consider eliminating unfair subsidies and other "ill-conceived government-imposed market distortions that favor EVs." It pauses the disbursement of funds through the Biden administration's Inflation Reduction Act of 2022 and the Infrastructure and Investment and Jobs Act until they are reviewed by agency heads. In response, shares of Tesla were basically flat (down 0.5%) on Tuesday, while GM shares jumped 5.7% and Ford shares added 2.5%, outpacing the S&P 500's 0.9% gain.

Conversely, the order tells agencies to slash the red tape in the energy industry. They should identify all regulations, orders, and other policies that would impose an undue burden on the identification, development, or use of domestic energy resources, including oil, natural gas, coal, hydropower, biofuels, critical minerals, and nuclear energy resources. It tells agencies to eliminate all delays in the permitting process.

That sent shares of Vistra, Cameco, and Constellation Energy up 8.5%, 3.7%, and 2.3%, respectively, on Tuesday. Vistra produces nuclear, coal, natural gas, and solar power, while Constellation has a large nuclear power fleet and Cameco is a uranium miner.

(2) *Drill, Baby, drill.* The Unleashing American Energy order also encourages the exploration and production of energy on federal lands and water. It restarts reviews of applications to build liquified natural gas (LNG) export projects. The Biden administration had put those reviews on hold to assess the environmental impact of LNG plants. The order also eliminates obstacles for mining and the processing of minerals.

The Trump administration wants to open Alaska up to oil and gas exploration and production through the *Unleashing Alaska's Extraordinary Resource Potential* executive order. It's prioritizing the *Alaska LNG project*, which aims to deliver 3.5 billion cubic feet of natural gas a day through an 800-mile pipeline from Alaska's North Slope, where the gas is produced, to the state's South Central shoreline, where it will be condensed into LNG for export. The executive order has directed government officials to prioritize the permitting for all necessary pipeline and export infrastructure related to the project.

Trump's *Declaring a National Energy Emergency* order allows the government to cut permitting requirements for energy projects, fast-track power plant construction, and loosen curbs on fossil-fuel exports. Projects to supply, refine, and transport energy throughout the West Coast and the Northeast US were highlighted. The WTI crude oil price has dropped 3.8% this week through Wednesday, and the natural gas futures price has dipped 1.7% (*Fig. 1* and *Fig. 2*).

If Trump's orders achieve their goals, the US may be swimming in oil, which could depress the price of "black gold" and the stocks of oil companies. Conversely, the Trump orders could jumpstart new oil and gas projects, benefitting companies selling the necessary picks, shovels, and services.

This helps explain why the S&P 500 Oil & Gas Exploration & Production stock price index has gained only 8.5% since September 10 (the date of the debate between former Vice President Harris and President Trump, after which stock market valuations started reflecting expectations of a Trump win), while the Oil & Gas Storage & Transportation stock price index has jumped 35.2%, and the Oil & Gas Equipment & Services index has added 18.2% (*Fig. 3*, *Fig. 4*, and *Fig. 5*). The S&P 500 and the S&P 500 Energy sector have gained 10.1% and 9.5% over the same period (*Table 1*).

(3) *Wind energy is out.* Another Trump *executive order* halts the issuance of any new federal leases or permits for offshore and onshore windfarms, pending a review that includes examining the impact on wildlife. While the order stops the construction of offshore wind turbines, it does not impede the construction of offshore oil and gas drilling rigs. A future report will assess the economic costs of intermittent energy generation and the effects of subsidies on the viability of the wind industry.

The Trump order also suspended the development of the Lava Ridge Wind Project, which was to include up to 400 wind turbines in Idaho. The Secretary of the Interior was tasked with reviewing the project and, if appropriate, conducting a new analysis of it.

(4) *Shaking up trade.* The *America Trade First Policy* executive order will evaluate the impact of the duty-free de minimis rule, which allows packages worth less than $800 to be imported without duties. Agency heads should consider the loss of revenue from the rule as well as the risk of importing counterfeit products and illegal drugs. Some believe the rule gives Chinese online retailers selling into the US, like Shein and Temu, an advantage over US retailers. About three million de minimis shipments enter the US every day, and about half are textile and apparel, a November 4, 2023 *NYT* *article* reported.

Other trade agreements are also to be reviewed, particularly those with China, Mexico, and Canada. Unfair trade practices will be identified, and countries that keep their currencies low relative to the dollar to gain an unfair trade advantage will be evaluated.

Trump has threatened to place a 25% tariff on goods imported from Mexico and Canada as soon as February 1. He's reportedly unhappy about the number of US auto companies' plants in Mexico and would like to see them moved to US soil, a January 21 *WSJ* *article* reported. The tariff threat is reportedly part of Trump's plan to start negotiations on the US–Mexico–Canada trade agreement before it is up for review in 2026. Cars and car parts are the US's largest imports from Mexico, followed by agricultural products, like fruits and veggies, and beer. Oil and gas are the US's largest imports from Canada, a January 22 CNN *article* reported. Meanwhile, Canadian officials are considering their own tariffs on US bourbon, Florida orange juice, and oil.

(5) *Tech is in.* The CEOs of some of the largest technology companies attended the inauguration—including Sam Altman (Open AI), Jeff Bezos (Amazon), Elon Musk (Tesla), Sundararajan Pichai (Alphabet), and Mark Zuckerberg (Meta). And no wonder: Tech companies stand to make millions as the new president pushes the government into the 21st century.

As part of establishing the US DOGE Service (USDS), an *executive order* requests the USDS administrator to begin a Software Modernization Initiative to "improve the quality and efficiency of government-wide software, network infrastructure and information technology systems." Inter-operability between agency networks and systems will be promoted along with ensuring data integrity, responsible data collection, and synchronization. Sounds like the perfect job for Elon Musk, who holds the position along with Vivek Ramaswamy, though he's reportedly considering vacating the post to run for Ohio governor.

Unrelated to the executive orders, Trump announced in a press conference on Tuesday night that tech CEOs had committed to spend up to $500 billion over the next four years to build AI infrastructure in a joint venture dubbed "Stargate." Stargate's investors include Chat GPT, SoftBank, Oracle, and MGX, and its technology partners include Microsoft, Arm Holdings, and Nvidia. While the project was initiated under the Biden administration, Trump reintroduced it at his press conference, and Altman, SoftBank CEO Masayoshi Son, and Oracle Chairman Larry Ellison were in attendance. Shares of Oracle jumped 7.2% on Tuesday, with shares of Arm and Nvidia climbing 4.0% and 2.3%. Microsoft shares dipped 0.1%.

(6) *Shrink government.* Trump ordered a hiring freeze among federal civilian employees throughout the executive branch, with the exception of the military, immigration enforcement, national security, and public safety. He requested a report be produced within three months that details how to downsize the federal workforce through efficiency improvements and attrition—another policy that should benefit technology companies.

Trump also ordered all federal employees back to their offices—no more working from home.

Last but not least, no agencies are allowed to issue any new rules until they're headed by a new presidential appointee.

(7) *Odds 'n ends.* The President also suspended the US Refugee Admissions Program. There are already lawsuits from Democratic-led states challenging Trump's order to

eliminate birthright citizenship—the right to be a US citizen if you were born in the US to parents who are not legal US citizens. And he withdrew the US from the United Nations' Paris Agreement on climate change.

Lastly, another *executive order* aims to lower prices. One item targeted is the price of housing; to that end, agencies are tasked with increasing housing supply, though no details were given on how to achieve that goal.

Disruptive Technologies: China's AI Ambitions. America's AI and tech giants were on full display at President Trump's inauguration. Less well known in America are the AI wizards in China. Despite US tech export restrictions, China has a growing cadre of startups and established tech companies just as focused on dominating the artificial intelligence (AI) market as their US competitors. Here's a look at some of the players US AI companies are up against:

(1) *Introducing Ernie.* Ernie is a large language model (LLM) developed by Baidu, China's largest search engine, according to *Quartz*. Ernie Bot is a chatbot service released in 2023 that's based on the Ernie LLM. It's considered China's version of ChatGPT, which is not available in China.

Baidu believes that more than half of China's state-owned enterprises use Baidu services for AI innovation. And Ernie's LLM enterprise facing platform, Qianfan, has helped 150,000 clients develop 55 applications, an August 22, 2024 *South China Morning Post* (*SCMP*) *article* reported. IDC found that Baidu AI Cloud generates $49 million in annual revenue—giving it a 19.9% share of China's industry-facing LLM market. At its heels is SenseTime, with a 16% share, followed by ZhipuAI, Baichuan, and 4Paradigm, the *SCMP* article stated.

(2) *Other LLMs owned by big tech players.* Qwen 2 is a LLM developed by Alibaba Group's Cloud subsidiary and trained in 29 languages. Alibaba also has an image-generating model called "Tongyi Wanxiang." Doubao is a LLM and an AI-powered chatbot developed by ByteDance, the parent of TikTok. And Hunyuan is Tencent's LLM that can both generate images and text.

(3) *The government is in the mix too.* Partially state-owned iFlytek has developed the iFlytek Spawrk Big Model V4.0, which it claims has surpassed GPT-4.0 in language comprehension, logical reasoning, and mathematical ability.

Likewise, SenseTime is a partly state-owned but publicly traded company that focuses on using AI for image recognition, autonomous driving, and remote sensing. The company has been sanctioned numerous times by the US government for using its facial recognition technology in the surveillance and internment of the Uyghurs, a persecuted ethnic minority in China. The company's generative AI model, SenseNova 5.0, introduced last spring, focuses on knowledge, mathematics, reasoning, and coding, an April 24, 2024 CNBC *article* reported.

(4) *China's Tigers make inroads.* Four AI startups, each valued at more than $1 billion, together are known as the "four new AI Tigers," an April 24, 2024 *SCMP* *article* reported.

Moonshot AI has developed a LLM and a popular chatbox, both called "Kimi." Baichuan develops LLMs that rival OpenAI's GPT-4 in Chinese language capability; its investors include Tencent, Xiaomi, and Alibaba Group Holding. Zhipu AI has a chatbot and a visual language foundation model; its backers include state-affiliated investors, Alibaba, Tencent, and Saudi Arabia's Prosperity 7 Ventures. And MiniMax is an Alibaba- and Tencent-backed startup that has raised about $850 million in venture capital and is valued at more than $2.5 billion, a January 15 TechCrunch *article* reported. Its AI models focus on text, images, or speech. It's in the US market with an AI character chatbot called "Talkie."

(5) *Introducing DeepSeek.* The latest startup capturing headlines is DeepSeek. The company shocked the tech industry when it reportedly spent only $5.6 million over two months to develop its latest LLM, which outperformed rival US LLMs from Meta and ChatGPT, a January 21 *SCMP* *article* reported. The company kept costs down by using less powerful Nvidia H800 chips. DeepSeek was spun out of High-Flyer Quant, a Chinese quantitative hedge fund. High-Flyer was developing AI to help it research stocks, and both firms are headed by Liang Wenfeng.

Calendars

US: Thurs: Jobless Claims 218k; EIA Natural Gas Storage & Gasoline Production; Fed Balance Sheet. **Fri:** University of Michigan Consumer Sentiment Headline, Current Conditions, and Expectations 73.2/77.9/70.2; Existing Home Sales 4.19mu; S&P Global M-PM & NM-PMI Flash Estimates 49.6/56.5; Kansas City Fed Manufacturing Index; Baker Hughes Rig Count. (FXStreet estimates)

Global: Thurs: Eurozone Consumer Confidence Flash -14.2; France Business Confidence 96; UK CBI Business Optimism Index; UK Gfk Consumer Confidence -18; Japan Core

Inflation Rate 3.0%y/y; BoJ Interest Rate Decision 0.50%. **Fri:** Eurozone, Germany, and France C-PMI Flash Estimates 49.7/48.2/47.7; Eurozone, Germany, and France M-PMI Flash Estimates 45.3/42.0/49.4/; Eurozone, Germany, and France NM-PMI Flash Estimates 51.6/51.0/49.4; UK Gfk Consumer Confidence -18; Japan M-PMI Flash Estimate 49.7; Lagarde; Cipollone. (FXStreet estimates)

Strategy Indicators

Stock Market Sentiment Indicators (*link*): The *Bull-Bear Ratio* rose to 1.48 this week after dropping to 1.32 last week, which was the lowest in a year. *Bullish sentiment* climbed to 45.2% this week after a five-week tumble from 62.9% (the most bulls since late July 2024) to 42.4%. *Bearish sentiment* slipped to 30.6% this week after a five-week climb from 16.1% to 32.2%, while the correction count fell for the second week to 24.2% after increasing three of the prior four weeks from 21.0% to 27.9%. In the *AAII Sentiment Survey* (as of January 16), bullish sentiment about the short-term outlook for stocks fell, while bearish and neutral sentiment rose. *Bullish sentiment* sank 9.2ppts to 25.4%, the lowest percentage since November 2023 (24.3%) and below the measure's historical average of 37.5% for the third time in seven weeks. Meanwhile, *bearish sentiment* climbed 3.2ppts to 40.6%, an unusually high reading and above its historical average of 31.0% for the eighth time in nine weeks, while *neutral sentiment* climbed 6.0ppts to 34.0%—above its historical average of 31.5% for the first time in 12 weeks.

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): The S&P 500's forward earnings rose to a record high during the January 16 week, but forward revenues ticked down from its record a week earlier. As a result, the forward profit margin remained steady w/w at a record high of 13.6%. It is now 3.3ppts above its seven-year low of 10.3% during April 2020. Forward revenues and earnings both rose w/w to new record highs too. The consensus expectations for forward revenues growth was unchanged w/w at 5.7%, and is just 0.1ppt below its 23-month high of 5.8% during the August 1 week. It has gained 3.4ppts from its 33-month low of 2.3% during the February 23, 2023 week. That's down from a record high of 9.6% growth at the end of May 2021 and compares to 0.2% forward revenues growth during April 2020, which was the lowest reading since June 2009. The forward earnings growth forecast dropped 0.2ppt w/w to 14.0%, just 0.3ppt below its 38-month high of 14.3% during the December 12 week. It's now 10.7ppts above its 31-month low of 3.3% during the February 16, 2023 week. That's down from its 23.9% reading at the end of April 2021, which was boosted by the recovery from the pandemic to its highest reading since June 2010 and up substantially from its record low of -5.6% at the end of April

2020. Analysts expect revenues to rise 5.5% in 2025 (unchanged w/w) and 6.4% in 2026 (up 0.1ppt w/w), an acceleration from 2024's forecasted 4.7% (up 0.1ppt w/w). They expect an earnings gain of 14.0% in 2025 (down 0.2ppt w/w) and a 13.8% rise in 2025 (down 0.1ppt w/w) compared to 2024's forecasted earnings gain of 10.2% (up 0.3ppt w/w). Analysts expect the profit margin to rise 1.0ppt y/y to 13.4% in 2025 (unchanged w/w) and another 1.0ppt y/y in 2026 to 14.4% (unchanged w/w), compared to 2024's forecasted 12.4% (up 0.3ppt w/w). The S&P 500's weekly reading of its forward P/E edged up 0.1pt w/w to 21.7 and is now 0.7pt below its 43-month high of 22.4 during the December 12 week. It's up 2.0pts from a 14-week low of 19.7 during the August 8 week and 6.4pts from a 30-month low of 15.3 in October of 2022. It also compares to 23.1 in early September 2020, which was the highest level since July 2000, and to a 77-month low of 14.0 in March 2020. The S&P 500 weekly price-to-sales ratio rose 0.01pt w/w to 2.94 and is now 0.08pt below its December 12 record high. That's up from a six-month low of 2.22 during the October 26, 2023 week and compares to a 49-month low of 1.65 in March 2020.

S&P 500 Sectors Earnings, Revenues, Valuation & Margins (*link*): During the January 16 week, forward revenues rose for three of the 11 S&P 500 sectors and forward earnings rose for three. This led to rising forward profit margins for six of the 11 sectors too. These three sectors posted record-high forward revenues this week: Consumer Staples, Financials, and Health Care. These five sectors are just a hair below their record-high forward revenues of recent weeks: Communication Services, Consumer Discretionary, Information Technology, Real Estate, and Utilities. Industrials' forward revenues remains 2.9% below its early September record. Improvement for Materials and Energy has stalled again, and they remain the biggest laggards at 6.5% and 16.2% below, respectively. These three sectors had record-high forward earnings this week: Consumer Discretionary, Financials, and Utilities. These six sectors are close behind at less than 0.6% below their recent record-high forward earnings: Communication Services, Consumer Staples, Health Care, Industrials, Information Technology, and Real Estate. Among the remaining two sectors, forward earnings remain depressed for Energy and Materials and are heading lower again in recent weeks at 33.4% and 22.8% below their respective post-pandemic highs. Looking at the record-high forward profit margin club, Financials' rose another 0.1ppt this week to 19.9%, after entering the club last week, joining the Communication Services and Industrials sectors. In recent weeks, the Consumer Discretionary and Information Technology sectors were in that club. Among the laggards, Energy's forward margin was up 0.1ppt w/w to 9.5%, up 0.2pt from a 34-month low of 9.3% several weeks before that and down 1.4ppts since its six-month high of 10.9% in mid-June; Consumer Staples' fell 0.1ppt w/w to 6.8% and is just 0.1ppt above its seven-year low in March 2023; Health Care's 8.7% is only 0.2ppt above its record low in April; and Real Estate's 17.2% is up from a low of

12.4% in December 2020. Here's how the S&P 500 and its 11 sectors rank based on their current forward profit margin forecasts along with their record highs: Information Technology (26.9%, down from its 27.6% record high in September prior to low-margin Dell's index addition which lowered the margin 1.3ppts then to 26.3%), Financials (19.9, up 0.1ppt w/w to its first record high since August 2021), Communication Services (18.6, a record high this week), Real Estate (17.2, down from its 19.2 record high in 2016), Utilities (14.4, down from its 14.8 record high in April 2021), S&P 500 (13.6, a record high this week and in 19 of the past 20 weeks), Materials (11.1, down from a 20-month high of 11.6 in July and a 13.6 record high in June 2022), Energy (9.6, up 0.2ppt w/w and 0.3ppt from a 34-month low of 9.3 in late December and down from its 12.8 record high in November 2022), Industrials (11.3, a record high this week), Consumer Discretionary (9.4, up 0.1ppt w/w to match its record high in early December), Health Care (8.7, 0.2ppt above its 8.5 record low at the end of April and down from its 11.5 record high in February 2022), and Consumer Staples (6.8, down 0.1ppt w/w and from its 7.7 record high in June 2020).

US Economic Indicators

Leading Indicators (*link*): The latest report by the Conference Board notes the Index of Leading Economic Indicators (LEI) is no longer signaling a risk of recession. The LEI dipped 0.1% during the final month of 2024, following an upwardly revised 0.4% gain in November (first reported up 0.3%), which was the first increase since February. The LEI has plunged 15.5% since December 2021's record high. The LEI dropped 1.3% over the second half of 2024, slightly below the 1.7% fall over the first six months of the year. During December, five of the 10 components of the LEI contributed negatively, while five contributed positively. The biggest drags on the LEI were consumer expectations (-0.07 ppts) and manufacturing hours worked (-0.06), followed by initial claims (-0.03), building permits (-0.02) and the interest-rate spread (-0.01). Partially offsetting these declines were the leading credit index (+0.07), stock prices (+0.06), and manufacturing hours worked (+0.06), with the manufacturer new orders (+0.01) and consumer goods orders (+0.01) components showing slight upticks.

Coincident Indicators (*link*): The Coincident Economic Indicators (CEI) index reached a new record high in December. The CEI rose 0.4% in December, following a 0.2% gain in November. The CEI expanded 0.9% during the six-month period ended December 2024, above its 0.7% growth rate over the previous six-month period. All four components of December's CEI contributed positively to December's CEI, with the largest contribution coming from industrial production, followed by personal income less transfer payments, payroll employment, and manufacturing and trade sales.

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