Yardeni Research

March 20, 2025

Morning Briefing

China, War & AI

Check out the accompanying chart collection.

Executive Summary: The Chinese government has unveiled a wide-ranging plan to lift its economic growth, this time by propping up consumption instead of trade. Jackie summarizes the many diverse initiatives to put more power in the pockets of Chinese consumers. … Also: When the US quietly reversed its official position on the independence of Taiwan, an enraged China reacted with a show of military might. Melissa explores the disconcerting notion of a World War III triggered by these tensions. … And: In which industries and professions might AI displace jobs?

China I: Finally Focused on the Consumer. Chinese consumer spending has been sluggish in recent years, dragged down by the sharp correction in home property values and stock market declines. The country initially tried to spur the economy by supporting its exporters, which only served to create gluts in the global markets. On Sunday, however, the country announced a plan squarely focused on supporting the consumer.

China's General Office of the Communist Party of China Central Committee and the General office of the State Council issued a "special action plan for boosting consumption." The wide-ranging plan has 30 points but is light on details, including how it will be funded. Here are some of the highlights based on a *transcription* by the folks at Sinocism:

(1) *Promote income growth & boost benefits.* The government will implement employment support programs to boost wage growth. They'll be focused on key sectors, industries, grassroots urban and rural areas, and small and micro enterprise. Special training will be launched for targeted sectors and populations. The minimum wage will be raised, and the government will support farmers.

Unemployment insurance benefits will be disbursed to those eligible. The basic pension will be raised, and flexible employees will be allowed to enroll in pension and medical insurance programs. The government will strictly enforce rest and paid annual leave policies.

Assistance programs to low-income populations will be strengthened. Disabled elderly individuals will receive additional support. Elevators will be added to multi-story residential buildings, and meal services will be developed for seniors. Industries related to “anti-aging and silver economy tourism” will be promoted.

Trade unions will be encouraged to fund employee-related consumption, including holiday welfare benefits, fitness activities, and cultural and sports expenditures.

(2) *Support families.* The government will research the establishment of a childcare subsidy system and encourage the development of community-based childcare services, workplace childcare facilities, and integrated childcare and early education services. Local governments are directed to cover more employees with maternity insurance coverage and a year of pediatric services. More education resources will be given to towns with a net inflow of school-aged children, and the government will increase student financial aid subsidies.

(3) *Stocks & lending.* Measures will be taken to stabilize the stock market, strengthen strategic reserve forces, and improve market stabilization mechanisms. The removal of obstacles preventing firms (such as insurance companies and pension funds) from investing long-term capital in financial markets will be accelerated. The government will crack down on financial fraud, and more stable bond-related investments will be made available to individual investors.

Financial institutions will be encouraged to expand consumer lending within controlled risk parameters. Consumer loan limits, terms, and interest rates will be reasonably set to accommodate varying needs. And by 2025, financial subsidies will be provided for qualified personal consumer loans and loans extended to businesses in the consumer service sector.

(4) *Repair the housing market.* Local governments will accelerate efforts to repay outstanding debts owed to enterprises. Presumably, that refers to the payments owed to suppliers by developers that have struggled during the multi-year collapse of the property market.

To boost the property market, the redevelopment of urban villages and the renovation of dilapidated and hazardous housing will be accelerated. Local governments can use special-purpose bonds to acquire existing commercial housing and convert it into affordable housing. Interest rates on housing loans may be reduced, and buyers will receive more financial support.

(5) *Encourage spending.* The government will provide subsidies to encourage spending, including incentives to replace old cars with electric bicycles and to purchase smartphones, tablets, and smartwatches. Pilot programs will be launched to facilitate a market for used goods.

A newly launched AI+ initiative will boost the tech market by driving adoption of new AI technologies like autonomous driving, smart wearables, ultra-high-definition video, brain-computer interfaces, robotics, and additive manufacturing. The government will improve regulations for the "low-altitude economy" (activities that occur in the sky), to encourage low-altitude tourism, aerial sports and consumer-grade drones.

The government plans to boost cultural, sports, and tourism offerings; extend business hours; and increase visitor capacity. It hopes to attract more foreign visitors by offering visa-free entry, more duty-free stores, and more international exhibitions and conventions. Cruise routes will be expanded, and yacht registration and reporting procedures will be streamlined.

The government would also like to see a used car market develop. And it's encouraging companies that sell their products overseas to sell more domestically and to develop their own brands.

(6) *Recent positive data.* Even before China's consumer program has taken hold, economic data have begun turning up: China's industrial production rose 5.9% in the first two months of 2025 compared to a year ago. That was down from a 6.2% y/y increase in December, but above expectations for a 5.3% increase (*Fig. 1*). Retail sales also improved, rising 4.0% y/y in January and February, up from 3.7% in December (*Fig. 2*).

The Chinese financial markets reflected these new signs of optimism. The country's 10-year government bond yield has risen to 1.96% from a low of 1.61% in early January (*Fig. 3*). The China MSCI has soared 23.4% ytd, and the CSI 300 has gained 1.9% (*Fig. 4*). More than government policies, DeepSeek's arrival and BYD's new five-minute charging and battery system have bolstered Chinese confidence in the nation's abilities.

Yet to be determined is how President Trump's 20% tariffs on Chinese goods exported to the US will affect China. So far, the Chinese equity market is shrugging off the threat. The Organisation for Economic Co-operation and Development estimates that Chinese real GDP will grow by 4.8% this year and 4.4% in 2026, partially due to the increase in tariffs, a March 18 *South China Morning Post* article reported. That would be below China's projected growth of around 5.0%.

China II: What If China Invades Taiwan? The question of whether rising tensions between China and Taiwan could spark an invasion of the island that sets off a World War III is undoubtedly a provocative one—yet it's hardly a new concern. China's ongoing ire toward the US over its support of Taiwan has long simmered beneath the surface. But a recent tweak to a routine US *fact sheet* on US/Taiwan relations has stoked fresh flames. For nearly half a century, Washington's position has been clear: It doesn't support Taiwan's independence (*archive*). That language, however, was removed last week, drawing a sharp response from Beijing.

In retaliation, China *conducted* military drills in the air and water near Taiwan in a not-so-subtle show of strength. Meanwhile, President Trump, ever vocal on global security, has repeatedly warned that World War III is nearer than many realize. This sense of impending conflict gives context to his broader economic agenda—an agenda that includes aggressive protectionist policies and strong-arm tactics aimed at bolstering defense spending, especially in Europe, and bringing the manufacturing of key items back to US shores.

Is a global war, potentially triggered by Taiwan, a "when, not if" inevitability? The jury is still out, but the scenario is worth watching closely. One element that warrants particular attention is how the US has strategically aligned itself with Taiwan in semiconductor manufacturing.

It's no coincidence that Washington has been ramping up efforts to secure its place in the chip race. Early March saw the Trump administration broker a *deal* with Taiwan Semiconductor, the island's largest tech powerhouse, to establish chip manufacturing facilities in Arizona. For the US, the semiconductor race is a crucial front in its competition with China—one that will play a pivotal role in shaping future geopolitical dynamics. Taiwan is a *key partner* to the US in this race.

Economic interests are likely to trump moralistic or precedential boundaries in Trump 2.0. That is on display with the rare earths/critical minerals land-lease deal that the US asked for from Ukraine. Considering the business linkages between Taiwan and the US, we believe the status quo is likely to continue in the Taiwan Strait.

Disruptive Technologies: AI Hits & Misses. Companies are exploring how artificial intelligence (AI) can and cannot be used in their operations. Here are some examples of cases where AI solutions are big wins and others where humans' jobs are probably safe.

(1) *AI in the oil patch.* Oil and gas companies are using AI to drill more efficiently. BP uses AI to steer drill bits and predict problems before they happen, a March 13 Reuters *article* reported. It's allowing the company to drill more wells per year.

Chevron uses AI-powered drones that fly over its operations and report back on emissions leaks so workers can be alerted. AI has allowed Chevron to reduce the time that production was shut for repair and maintenance. And AI programs can take the reams of data on what's beneath the ocean's floor and create three-dimensional visualizations far faster than humans can.

(2) *AI in finance.* Moody's has developed 35 AI agents that can work independently or in conjunction with each other. The agents are given specific instructions, personalities, and access to data and research. They can each come to different conclusions.

(3) *AI in health care.* Nurses' workloads are lightening: Doctors' offices are using AI agents to make appointment confirmation calls, and hospitals are using AI programs to monitor patients' vital signs, alert staff to emergency situations, and generate care plans, a March 16 AP *article* reported. Hospitals like that AI frees up nurses for other work; the fact that Hippocratic AI charges $9 an hour versus nurses' $40 probably doesn't hurt either. Nurses complain that the AI systems create false alarms.

(4) *What can't AI do?* Certain jobs appear safe from AI replacement, according to a September 24 TechTarget *article*. Ballerinas and singers can breathe easy, for example.

Jobs dependent on human interaction are likely safe; for example, social workers rely on empathy and emotional intelligence to connect with clients. Doctors and nurses may find some of their duties replaced by AI, but not all. Teachers are using AI to help develop lesson plans, but they're still needed in the classroom to engage kids in learning.

Executives in the corner office are probably safe, as they're making high-level decisions. Politicians, too (AI can't kiss a baby!). And trade folks—e.g., plumbers, electricians, and craftsmen—can consider their positions safe as well.

Surprisingly, McDonald's order takers may be safe for now. The company dropped its AI order taking system because it had challenges understanding accents and dialects, and that affected accuracy, a June 17 CNBC *article*. But then again, maybe the AI program just needed to be better. Yum Brands—owner of Taco Bell, KFC and Pizza Hut—announced this week that it's partnering with Nvidia to roll out AI order taking, among other things, a

March 18 CNBC *article* reported.

Calendars

US: Thurs: Leading Indicators -0.2%; Initial Jobless Claims 225k; Philadelphia Fed Manufacturing Index 9; Existing Home Sales 3.95mu. **Fri:** Baker-Hughes Rig Count; Williams. (FXStreet estimates)

Global: Thurs: EU Leaders Summit; Australia Unemployment & Participation Rates 4.1% & 67.3%. **Fri:** Eurozone Consumer Confidence Flash -13; France Business Confidence 97; UK Gfk Consumer Confidence -21; EU Leaders Summit; Mauderer. (FXStreet estimates)

Strategy Indicators

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): The S&P 500's forward revenues edged down a hair during the March 13 week from its record high a week earlier. Forward earnings ticked down less than 0.1% w/w from its record high a week earlier as well. 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. The consensus expectations for forward revenues growth was steady w/w at 5.6%, down just 0.2ppt from its 23-month high of 5.8% during the August 1 week. It has gained 3.3ppts 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 fell 0.1ppt w/w to 12.3%, and is now only 0.2ppt above its 43-week low of 12.1% during the February 27 week, but remains near its 38-month high of 14.3% during the December 12 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 5.2% in 2025 (unchanged w/w) and 6.3% in 2026 (unchanged w/w), an acceleration from 4.9% in 2024 (unchanged w/w). They expect an earnings gain of 11.5% in 2025 (down 0.1ppt w/w) and a 14.3% rise in 2025 (unchanged w/w) compared to 2024's earnings gain of 11.3% (unchanged w/w). Analysts expect the profit margin to rise 0.8ppt y/y to 13.3% in 2025 (unchanged w/w) and 1.0ppt y/y in 2026 to 14.3% (unchanged w/w), compared to 2024's 12.5% (unchanged w/w). The S&P 500's weekly reading of its forward P/E tumbled 0.9pt w/w to a 31-week low of 20.2, down 2.2pts from a four-year high of 22.4 during the February 20 week. It's just 0.5pt above its 14-week low of 19.7 during the August 8 week and 4.9pts 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 tumbled 0.12pt w/w to a 31-week low of 2.75, down 0.28pt from a record high 3.03 during the February 20 week. 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 March 13 week, forward revenues rose for five of the 11 S&P 500 sectors and forward earnings rose for four. This led to rising forward profit margins for four of the 11 sectors too. These two sectors posted record-high forward revenues this week: Health Care and Information Technology. These six are less than 0.1% from their record highs: Communication Services, Consumer Discretionary, Consumer Staples, Financials, Real Estate, and Utilities. Among the remaining three sectors, Industrials' has improved to 2.9% below its early September record, but Materials and Energy are struggling and remain the biggest laggards at 5.8% and 15.1% below, respectively. Looking at forward earnings, Information Technology was the only sector at a record-high this week, but these seven sectors are less than 1.4% from their record highs: Communication Services, Consumer Discretionary, Consumer Staples, Financials, Health Care, Industrials, and Utilities. Real Estate is stalled 2.7% below its record high in August 2022. Among the remaining two sectors, forward earnings remains depressed for Energy and Materials, which are 34.2% and 26.2% below their respective highs during 2022. Looking at the forward profit margin, five of the 11 sectors are at or near record highs. Communication Services and Consumer Discretionary are the sole members of the record-high forward profit margin club this week, after Financials' ticked out after spending eight week at the top for the first time since August 2021. In recent months, the Industrials and Information Technology sectors were in that club. These four sectors are struggling, with their forward profit margins at or barely above cyclical lows: Consumer Staples, Energy, Health Care, and Materials. 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 (27.2%, 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 (20.1, down 0.1ppt w/w from a record high 20.2), Communication Services (18.7, a record high), Real Estate (16.7, down from its 19.2 record high in 2016), Utilities (14.5, up 0.1ppt w/w and down from its 14.8 record high in April 2021), S&P 500 (13.6, a record high), Materials (10.6, only 0.1ppt above a four-year low on February 27, and down from a 20-month high of 11.6 in July 2023 and a 13.6 record high in June 2022), Energy (9.3, down 0.1ppt w/w to a 36-month low and down from its 12.8 record high in November 2022), Industrials (11.2, down from its 11.3 record high in early January), Consumer Discretionary (9.4, a record high), Health Care (8.6, only 0.1ppt 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, only 0.1ppt above a seven-year in March 2023 and down from its 7.7 record high in June 2020).

Global Economic Indicators

Eurozone CPI (*link*): The *Eurozone CPI* slowed to 2.3% y/y in February, after accelerating from 1.7% last September—which was the lowest yearly rate since April 2021—to a six-month high of 2.5% by January. Meanwhile, the *core CPI* ticked down to 2.6% last month, the lowest since January 2022, after a string of 2.7% increases the prior five months. The headline and core CPIs are down sharply from their recent peaks of 10.6% in October 2022 and 5.7% in March 2023. Looking at the components, the *services* rate eased for the second month in February, to 3.7%, after fluctuating in a narrow band from 3.9% to 4.0% for several months. The rate for *energy* prices slowed to 0.2% y/y in February, after climbing from a recent low -6.1% in September to 1.9% in January. Meanwhile, the rate for *food, alcohol & tobacco* accelerated to 2.7% in February, after easing from 2.9% in October to 2.3% at the start of this year. The rate for *non-energy industrial goods* ticked up to 0.6% from 0.5% the previous two months, fluctuating in a narrow band between 0.5% and 0.6% since October. Among the four *largest Eurozone countries*, February's yearly inflation rate eased sharply in France (to 0.9% from 1.8% in January), while Germany's (2.6 from 2.8) showed a modest slowing. Meanwhile, yearly rates were unchanged at 1.7% in Italy and 2.9% in Spain last month.

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