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Morning Briefing

Onshoring, Hidden Bulls & AI In Fintech

Check out the accompanying [chart collection](#).

Executive Summary: The onshoring trend that began under Trump 1.0 and was spurred on by Biden legislation is bound to accelerate with Trump 2.0's tariffs. Several big corporations have announced new US factories in the blueprint stage already. ... Also: Most stocks aren't as woebegone as market index performance stats suggest. Jackie highlights the S&P 500 sectors and industries that have been chugging on upward so far this year, bucking the market's trend. ... Also: A look at innovative ways that fintech is using AI.

Strategy: Onshoring Set To Accelerate? As we write on Liberation Day, the details about President Trump's tariff policies are being disclosed. In general, his plan will place a 10% tariff on all imports, and the rate will rise based upon countries' treatment of US exports. The new levies are bound to make companies with international manufacturing and US sales think hard about moving some of their manufacturing operations to the US to escape the tariffs. As we discuss below, a number of companies have already announced their intentions to do so.

We've followed the slowly growing onshoring trend that's been years in the making (see the *Morning Briefings* dated [April 11, 2024](#) and [December 7, 2023](#)). Lowering the corporate tax rate to 21% under Trump 1.0 certainly caught the eye of CEOs. But the roughly \$500 billion of funding and tax incentives created by President Biden's Chips and Science Act, Infrastructure Investment and Jobs Act, and Inflation Reduction Act seemed to get the ball rolling, with semiconductor companies and others setting up shop in Arizona, New York, and elsewhere. Given some of the large announcements already made this year, it looks like Trump's tariffs will further accelerate the trend.

Building new factories has pushed spending on nonresidential construction to new records; it has risen 55% over the past three to four years to \$575.4 billion ([Fig. 1](#)). Likewise, the number of folks employed in heavy construction and civil engineering continues to hit new

records, most recently at 1.2 million people in February, up 14% over the same time span. And those employed by nonresidential building and nonresidential specialty trade contractors jumped to 3.8 million in February, up 15% over the same period ([Fig. 2](#)).

The number of workers employed in manufacturing has also rebounded from the sharp pandemic decline, but it remains far below the peak levels of the 1980s ([Fig. 3](#)). Given the advent of sophisticated automation in manufacturing, factory headcounts may never return to heyday levels. But if the onshoring trend continues as we expect, US manufacturing jobs should continue to increase.

Here's a look at some of the companies that have been in the headlines just this year for opting to build new plants in the US:

(1) *Onshoring steel*. Hyundai announced last week its plans to build a \$5.8 billion steel plant in Louisiana as part of the \$21 billion it plans to invest in the US. The plant will hire more than 1,400 employees, and its steel will be used by the company's two US auto plants. The South Korean conglomerate also plans to build a third auto plant in Georgia.

The "best way for [Hyundai] to navigate tariffs is to increase localization," said Hyundai Motor CEO Jose Munoz in a January 15 Axios [article](#).

TYC Americas, a Taiwanese supplier of auto lighting products for two- and four-wheeled vehicles, also announced that it would move its manufacturing operations from Taiwan and China to Michigan. The company's facility is expected to create 109 jobs and invest \$19 million in the state.

(2) *Onshoring tech*. Taiwan Semiconductor Manufacturing Co. and Apple both announced plans to spend big bucks in the USA. Taiwan Semi announced in early March plans to invest \$100 billion to build three chip fabs in Arizona. This news follows the company's plans to build one fab, announced during Trump 1.0, and two additional plants during the Biden administration, with the three requiring a \$65 billion investment, a March 3 *FT* [article](#) reported. The company also plans to open a research and development facility in the US.

Apple has earmarked more than \$500 billion for US projects over the next four years. The company and its partners plan to open an advanced manufacturing facility in Houston to produce servers to support Apple Intelligence, a company [press release](#) stated. The funds will also be used to increase Apple's US-based research and development and to help its suppliers develop advanced manufacturing domestically and train employees.

(3) *Onshoring pharma.* Eli Lilly plans to open four new manufacturing “mega sites” in the next five years to reduce its reliance on overseas suppliers and increase its control over its supply chain, a February 26 Axios [article](#) reported. Three plants will create pharmaceutical ingredients, and the fourth will make injectable therapies. Lilly hasn’t chosen a location yet, but the expansion is expected to create 3,000 jobs at the company—and 10,000 construction jobs as they are built.

Strategy: Looking Beyond the Gloom. It has been a rocky start to 2025 for equities investors; but the average stock’s ytd performance isn’t quite as bad as the headlines referencing index performances suggest. While the S&P 500 has fallen 4.2% ytd through Tuesday’s close, the equal weighted S&P 500 is down just 1.0% ([Fig. 4](#)).

Likewise, more of the S&P 500’s sectors have gained ground so far this year than have lost ground. Here’s the performance derby for the S&P 500 and its 11 sectors ytd through Tuesday’s close: Energy (9.9%), Consumer Staples (4.9), Utilities (4.4), Health Care (4.2), Financials (2.9), Real Estate (2.8), Materials (2.6), Industrials (0.1), S&P 500 (-4.2), Communication Services (-5.5), Information Technology (-12.0) and Consumer Discretionary (-13.0) ([Fig. 5](#)).

This positivity isn’t reflected in the S&P 500’s returns because the sectors that are doing well have smaller market-capitalization shares of the S&P 500 than the sectors that have negative performances. Here are the market-cap shares of the S&P 500 sectors: Information Technology (30.5%), Financials (14.4), Health Care (11.1), Consumer Discretionary (10.0), Communication Services (9.3), Industrials (8.5), Consumer Staples (5.8), Energy (3.5), Utilities (2.5), Real Estate (2.2), and Materials (2.0) ([Table 1](#)).

Nonetheless, there are nuggets of sunshine amid the market’s gloom. Roughly 20% (24) of the 125 S&P 500’s industries we track rose by more than 10% over the course of Q1, and more than half of the S&P 500’s industries (67) are in positive territory ytd ([Table 2](#)).

Let’s take a look at some of the industries that have been bucking the market’s trend and rising this year.

(1) *Gold proves its mettle.* The S&P 500 Gold industry stock price index’s ytd rise of 29.7% indicates just how nervous investors are about the impact of President Trump’s tariffs ([Fig. 6](#)). To be fair, the price of the underlying gold metal started its bull run before Trump entered office, breaking out of a three-year trading range. The metal has rallied strongly since November 2023, gaining 61% and setting new record highs. The gold price rose 27%

last year and 19% so far this year ([Fig. 7](#)).

The only company in the S&P 500 Gold industry index is Newmont; its share price declined 10.7% in 2024 and rose 29.7% ytd but has a ways yet to go before hitting a new high.

(2) *Defense wins the day.* The S&P 500 Health Care sector is living up to its defensive reputation. Several of its industries top the leaderboard, including Health Care Services (up 26.1% ytd), Health Care Distributors (18.2), Biotechnology (14.2%), and Health Care Facilities (13.5%).

Industries that have utility-like qualities—with steady cash flows and dividends—also have performed well this year. The inability to sell US goods internationally as easily as before Trump 2.0 doesn't matter to this industry. Wireless Telecommunication Services (20.8%), Integrated Telecommunication Services (18.7), and Water Utilities (18.5) are among the S&P 500's top industry performers.

And finally, the steady-eddy insurance industry has performed well. Premiums continue to climb, and people continue to pay them. So far this year, Insurance Brokers has risen 15.3%, followed by Multi-line Insurance (14.3%) and Property & Casualty Insurance (14.3%).

(3) *One surprise.* The Automotive Retail industry stock price index has performed surprisingly well, up 17.7% ytd, while the Automobile Manufacturers stock price index has tanked, falling 33.5%. Granted, much of this decline reflects the 33.5% drop in Tesla's share price; but General Motors shares, down 11.3% ytd, haven't fared well either. Ford Motor's share-price performance so far this year is flat.

Automotive Retail shares may reflect the surge of consumers snapping up vehicles because they fear that prices will increase after President Trump's 25% tariffs go into effect on imported vehicles today and on auto parts on May 3. US sales during March climbed for Ford (19% y/y), Subaru (17.0%), Hyundai Motor North America (13%), and BMW (4%), an April 1 *NYT* article reported. GM did not report its March sales, but Q1 sales jumped 17% y/y.

The excitement has left the Automotive Retail stock price index at a record high ([Fig. 8](#)). Earnings are expected to grow 5.8% this year and 14.1% in 2026 and the industry's forward PE—at a lofty 26.7—also is at a record high ([Fig. 9](#) and [Fig. 10](#)). The hangover from this buying binge may be painful.

Disruptive Technologies: AI Helps Fintech Regain Its Groove. It has been a tough three years for the fintech community. As interest rates rose and free money disappeared, the amount of venture capital invested in fintech deals shrank sharply. Last year, fintech venture capital funding dropped 13% y/y to \$29.5 billion, the third consecutive year of decline, according to a PitchBook [report](#).

This year may mark a bottom, if not a turnaround, for the industry. A successful IPO by ServiceTitan in December left investors open to additional deals. ServiceTitan provides software to trade professionals, like electricians and builders. Among its many offerings, ServiceTitan's software provides financial services like checking, credit card processing, and consumer finance. Priced at \$71, the shares closed Tuesday at \$95. IPOs from Klarna, Chime, and GCash, a Mynt subsidiary, are in the pipeline, likely waiting for the stock market's recent volatility to decline.

Investors are also excited about the deployment of artificial intelligence (AI) throughout the fintech and financial community. AI is being used in customer service, investing, and lending, among other areas.

Here are some of the ways the hottest fintech companies have been deploying AI:

(1) *AI in credit scoring.* Zest AI provides lenders with software that uses AI to help improve credit underwriting and reduce fraud. The company raised \$200 million from Insight Partners late last year.

Zest isn't alone in the space. Martini.ai introduced last month Financials Agent, a program that lets users upload financial documents, like annual reports, and uses AI to instantly generate a financial risk report. The program identifies key financial data—like income, debt, and cash flow—and generates risk reports that flag problems, such as with liquidity, debt, or other areas, explained a March 27 [article](#) in Fintech Finance.

(2) *AI in research.* FinTech Studios uses AI to help Wall Street analysts and regulators do their jobs. Its program can search through unstructured data from millions of online sources, including stories from global and regional news outlets; regulatory laws, rules, and other information from the government; and financial market data. Last month, the company [announced](#) it is integrating 11 large language models, including Open AI, Anthropic, and Cohere, into its platform.

(3) *AI in investing.* Robinhood plans to offer customers Robinhood Cortex, an AI investment

research and trading assistant. “The tool can offer explanations for a particular stock’s rise or fall and suggest options trades based on a user’s expectations for a stock price,” a March 26 *WSJ* [article](#) reported.

The firm has lured customers with cool technology and low costs. Last year, Robinhood began offering a 1% match on contributions to traditional Roth and individual retirement accounts, with the match growing to 3% for customers with a “Gold” subscription. Robinhood Strategies offers clients the ability to invest with its team of wealth managers, but clients can’t contact the investment team or a financial advisor. Customers pay a 0.25% annual management fee, capped at \$250 a year for Gold members.

Calendars

US: Thurs: Merchandise Trade Balance -\$123.0b; Initial Claims 225k; ISM NM-PMI 52.0; S&P Global C-PMI & NM-PMI 53.5 & 54.3; Cook; Jefferson. **Fri:** Nonfarm Payroll Employment 128k; Private Nonfarm Private Payroll Employment 110k; Average Hourly Earnings 0.3%*m/m*, 3.9%*y/y*; Average Weekly Hours 34.2; Unemployment Rate 4.2%; Powell; Waller; Barr. (FXStreet estimates)

Global: Thurs: Eurozone, Germany & France C-PMIs 50.4, 50.9 & 47.0; Eurozone, Germany & France NM-PMIs 50.4, 50.2 & 46.6; UK C-PMI & NM-PMI 52.0 & 53.2; Eurozone PPI 0.1%; ECB Monetary Policy Meeting Accounts; Japan Household Spending 0.5%*m/m*, -1.7%*y/y*; Schnabel. **Fri:** Germany Factory Orders 3.5%; France Industrial Production 0.3%; De Guindos. (FXStreet estimates)

Strategy Indicators

S&P 500 Earnings, Revenues, Valuation & Margins ([link](#)): The S&P 500’s forward revenues edged down for a third straight week during the March 27 week to 0.1% from its record high during the March 6 week. Forward earnings fell for a third straight week too, dropping 0.5% *w/w* to 0.7% below from its March 6 record high. The forward profit margin remained steady at a record high of 13.6% for a fourth week. It is now 3.3ppts above its seven-year low of 10.3% during April 2020. The consensus expectations for forward revenues growth dropped 0.1ppt *w/w* to 5.5%, down just 0.3ppt from its 23-month high of 5.8% during the August 1 week. It has gained 3.2ppts 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 was steady w/w at 12.2%, only 0.1ppt above its 43-week low of 12.1% during the February 27 week. From a longer-term perspective, it 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 5.1% in 2025 (down 0.1ppt w/w) and 6.3% in 2026 (unchanged w/w), an acceleration from 4.9% in 2024. They expect an earnings gain of 11.4% in 2025 and a 14.4% rise in 2025 (both unchanged w/w) compared to 2024's earnings gain of 11.3%. Analysts expect the profit margin to rise 0.8ppt y/y to 13.2% in 2025 (down 0.1ppt w/w) and 1.1ppt y/y in 2026 to 14.3% (unchanged w/w), compared to 2024's 12.5%. The S&P 500's weekly reading of its forward P/E rose 0.2pt w/w to 20.7, up from a 31-week low of 20.2 during the March 13 week, and is now 1.7pts below its four-year high of 22.4 during the February 20 week. It's just 1.0pt above its 14-week low of 19.7 during the August 8 week and 5.4pts 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 0.02pt w/w to 2.81, up from a 31-week low of 2.75 during the March 13 week, and is down 0.22pt 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 27 week, forward revenues rose for five of the 11 S&P 500 sectors, but forward earnings fell for all 11. This led to forward profit margins edging lower for most of the 11 sectors. These three sectors posted post-pandemic or record-high forward revenues this week: Communication Services, Financials, and Health Care. These three are less than 0.2% from their record highs: Consumer Staples, Information Technology, and Utilities. Among the remaining five sectors, Consumer Discretionary and Real Estate have dropped less than 2% from their mid-March record high forward revenues, Industrials' has stalled at 2.7% below its early September record, and both Materials and Energy remain the biggest laggards at 7.8% and 14.7% below, respectively. Looking at forward earnings, these six sectors are less than 1.1% from their record highs: Communication Services, Financials, Health Care, Industrials, Information Technology, and Utilities. A little further behind is Consumer Discretionary at 2.4% below its mid-March record, Consumer Staples at 1.8% below its January 2 record, and Real Estate weakening to 5.5% below its record high in August 2022. Forward earnings remains depressed for the last two sectors, Energy and

Materials, which are 34.7% and 28.1% below their respective highs during 2022. Looking at the forward profit margin, the S&P 500 was at a record high despite none of the 11 sectors doing so. Dropping out of the record high club w/w were three sectors: Communication Services, Consumer Discretionary, and Financials. In recent months, the Industrials and Information Technology sectors were also 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 (27.1%, 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 its 20.2 record high), Communication Services (18.6, down 0.1ppt w/w from its 18.7 record high), Real Estate (16.5, 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 (10.5, down to a four-year low from a 20-month high of 11.6 in July 2023 and a 13.6 record high in June 2022), Energy (9.2, down 0.1ppt w/w to a 38-month low and down from its 12.8 record high in November 2022), Industrials (11.1, down 0.1ppt w/w and from its 11.3 record high in early January), Consumer Discretionary (9.3, down 0.1ppt w/w from its 9.4 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 (6.7, down to a 20-month low and from its 7.7 record high in June 2020).

US Economic Indicators

ADP Employment ([link](#)): "Despite policy uncertainty and downbeat consumers, the bottom line is this: The March topline number was a good one for the economy and employers of all sizes, if not necessarily all sectors," noted Nela Richardson, chief economist of ADP.

Private payroll employment surpassed forecasts in March, jumping 155,000, not only beating the 120,000 consensus estimate but nearly double February's upwardly revised 84,000 gain. The service sector added 132,000 jobs last month, on widespread increases: Professional & business services (57,000) and financial activities (38,000) posted the largest gains last month, followed by leisure & hospitality (17,000), education/health services (12,000), other services (11,000), and information services (3,000), with only employment in trade, transportation, and utilities (-6,000) posting a small decline. Goods-producing employment rose 24,000 during March—nearly all manufacturing (21,000)—with construction (6,000) posting a small gain and natural resources/mining (-3,000) a small decline. By size, large establishments (59,000) added the most to payrolls, followed closely by small establishments (52,000), with medium-sized companies adding 43,00 to payrolls.

According to the report, the yearly pay increase for job-changers slowed slightly to 6.5% in March and eased to 4.6% for job-stayers—with the pay premium for job-changers at 1.9%—matching a series low last seen in September.

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