April 24, 2025

Morning Briefing

Tariffs Hit Energy & Industrials

Check out the accompanying chart collection.

Executive Summary: The US oil and gas industry isn't in the direct line of Trump's tariff fire, but it's affected nonetheless, Jackie explains. Slower global economic growth in a trade-constricted world will dampen energy demand; that prospect is hurting oil and gas prices. Halliburton execs say their oil-drilling customers need oil prices above a critical level in order to warrant the expense of drilling. Moreover, Chinese importers of US propane will be hard pressed to afford it with China's retaliatory tariffs in place. Long term, however, natural gas prices should head higher. … Also: How tariffs are expected to impact two industrials companies, 3M and RTX. … And: A look at how AI is revolutionizing the study of genes.

Trump's Tariffs I: Turmoil in the Energy Patch. Thanks to the advent of fracking, the US is a net exporter of oil and natural gas, so President Trump's tariffs on imports don't directly impact this industry much. However, no industry operates in a vacuum. Trump's Tariff Turmoil (TTT) has increased the chances of an economic slowdown both at home and abroad, which could slow global demand growth for energy products. In addition, China's retaliatory tariffs on imports from the US make it uneconomic for Chinese companies to purchase US energy products.

The International Energy Agency cut its global GDP growth forecast to around 2.4% this year and 2.5% in 2026 from 3.1% for both years. The agency also lowered its oil global demand growth forecast to 727,000 barrels a day this year from 1.03 million barrels a day. Next year, the agency expects growth to decelerate to 692,000 barrels a day.

The prospect of slower global economic growth, and therefore slower demand growth for oil and gas, has hurt the commodities' prices. The spot price of West Texas Intermediate crude oil has fallen 10.8% ytd through Tuesday's close to $64.60 (*Fig. 1*). Likewise, the price of natural gas futures has tumbled 17.1% ytd to $3.01 (*Fig. 2*).

Concerns about demand are so great that they're more than offsetting the positive impact that a falling dollar typically has on commodity prices. Foreigners who purchase oil in dollars can afford to buy more oil if their own currency rises and the dollar falls. But recently, this usual catalyst to demand—and prices—hasn't been doing its thing: The US dollar has fallen 8.8% ytd, oil and gas prices have fallen in tandem (*Fig. 3*).

Regardless of what happens with tariffs, global excess production of oil should continue to contain oil prices as OPEC+ may have lost control over its members and production. Several members are going to suggest the group accelerate output hikes in June despite the current low price of oil as disagreements continue about compliance with production quotas, a Reuters *article* reported on Wednesday. The group next meets on May 5.

Falling oil prices have Haliburton's customers evaluating their "activity scenarios" for 2025, and if they curtail their activity, it could mean there will be "higher than normal" periods during which some of Haliburton's equipment isn't being used, warned Halliburton CEO Jeff Miller, according to an April 22 Reuters *article*. Many companies say they need the price of oil to be $65 or higher to drill profitably. Haliburton shares are down 23.8% ytd and 46.5% over the past year.

Investors in natural gas, however, may be overlooking the growing US demand for natural gas from both US utilities and liquified natural gas (LNG) exporters. If TTT subsides, natural gas prices stand to bounce sharply. Let's look at some of the supply and demand metrics influencing natural gas prices:

(1) *US increases production and exports.* US production of natural gas has increased nicely in recent years, but US consumption and exports of the fuel have grown even faster. US production of natural gas has increased by 1.5 trillion cubic feet (tcf) since 2022, while US consumption of natural gas has jumped by 1.0 trillion tcf and US exports have risen by 0.8 trillion tcf over the same period (*Fig. 4*).

Strong domestic and international demand for US natural gas has left US natural gas stocks about 10% below the five-year average at this time of year (*Fig. 5*). "The EIA estimates that domestic consumption will rise 1.8% this year to 92 billion cubic feet a day, and sees LNG exports up 19% to 14.2 billion cubic feet a day," a March 25 *WSJ* *article* reported. The low storage levels and strong expected demand pushed the spot price for the January 2026 natural gas contract up as high as $5.71 in March before it fell to a recent $4.67.

(2) *Global demand shifts.* With the advent of LNG, natural gas has become a more global commodity that moves around the world based on supply and demand. Chinese imports of US natural gas have been declining since Europe boycotted Russian natural gas following its invasion of Ukraine in 2022. The boycott left Russian gas prices at a discount to natural

gas produced elsewhere in the world. The percentage of China's imported LNG sourced from the US fell to 6% in 2024, down from a peak of 11% in 2021, an April 18 *Financial Times* *article* reported.

More recently, Chinese imports of US natural gas have ground to a halt. China slapped a 15% tariff on imports of US natural gas on February 10 in retaliation for Trump's tariffs. China made up for the lack of US natural gas imports by expanding its imports of natural gas from Russia, according to ship trading data cited in an April 18 *NYT* *article*. The Chinese tariff on US natural gas imports has since increased to 49%, further exacerbating the situation.

While Chinese imports of US natural gas have fallen to zero, that doesn't mean Chinese companies aren't buying US natural gas and shipping it to other countries. Chinese companies have long-term contracts to buy LNG from US terminals, and they've been selling that gas to customers in Europe, where natural gas trades at a premium.

President Trump has suggested that the European Union will have to commit to buying $350 billion of US energy to get a reprieve from US tariffs and eliminate the deficit that the US has with the EU.

Taiwan is pledging to buy more US oil and natural gas as part of its tariff negotiations with the US. Currently, US LNG represents about 10% of Taiwan's LNG imports. Likewise, other Asian nations—including Thailand, South Korea, India, and Indonesia—are considering or offering to buy more US energy products to appease Trump and dodge US tariffs, Oilprice.com *reported* on April 17.

(3) *Learning from Australia.* Natural gas is in such demand in Australia that the government has introduced subsidies on consumers' electricity bills, and eastern coast communities have been warned of blackouts. Australia is producing record levels of natural gas, but most of it is being sold overseas, making it a point of debate among politicians. "We don't have a supply problem. We have an export problem," said an Australian energy finance analyst in an April 22 *FT* *article*. Australia's predicament is something US politicians should bear in mind as they try to boost US natural gas sales internationally just as US utility demand for natural gas is surging to meet the growing AI demand for electricity.

(4) *China needs US propane.* Propane has become one of the US's top-selling products to China. China purchased almost 18% of all US propane exports and uses propane as a key ingredient in plastic, carpets, grocery bags, and socks, an April 18 *WSJ* *article* explained.

The reciprocal tariff that China has placed on imported US goods makes buying US propane uneconomic for Chinese companies. But there's no other supplier large enough to replace US production, and there's no other consumer that's large enough to replace Chinese demand.

The average wholesale price of US propane has fallen to $1.05 a gallon as of March 31, down from almost $1.30 in January, according to Energy Information Administration *data*.

Trump's Tariffs II: Industrials Pinched Too. Several companies in the S&P 500 Industrials sector reported Q1 earnings results this week, and their CEOs took the opportunity to discuss the impacts that tariffs are expected to have on results. The Industrials sector has sold off this year, but it's hardly the worst ytd performer among the S&P 500's 11 sectors: Consumer Staples (6.0%), Utilities (3.0), Real Estate (-0.9), Health Care (-2.0), Financials (-2.5), Materials (-2.8), Energy (-4.5), Industrials (-5.4), S&P 500 (-10.1), Communication Services (-11.2), Information Technology (-18.7) and Consumer Discretionary (-19.5) (*Fig. 6*).

Here's a look at what 3M and RTX had to say about the impacts of Trump's tariffs on their expected second-half results:

(1) *3M.* The maker of Scotch tape reported Q1 earnings per share of $1.88, which beat analysts' expectations of $1.77. Instead of increasing its 2025 EPS target by $0.10, the company maintained its $7.60-$7.90 target, which excludes any impact from tariffs.

3M imports $1.6 billion of goods into the US and exports $4.1 billion of goods. Products from China represent about 10% of 3M's imports and slightly more in exports. After exemptions on certain products, the company expects the full-year impact of tariffs to approximate $850 million before taking mitigating actions. However, because 3M is sitting on inventory, tariffs won't affect the company until the second half of the year, dropping the 2025 impact to $425 million ($0.60 a share) before any mitigating actions. However, the mitigating measures 3M plans—including cost and productivity initiatives, leveraging its US footprint, adjusting its sourcing and logistics, and considering selective price increases—would drop the impact to $0.20-$0.40 a share.

"With the significant footprint we have in the US and the flexibility of our global network, we're identifying a number of ideas to adjust product sourcing and logistics flows to mitigate at least part of the impact, some of which are no-regret moves regardless of where trade policies eventually settle," said CEO Bill Brown on the company's earnings *conference call*.

3M shares rose 8.1% on Tuesday, bringing their ytd gain to 5.6%.

(2) *RTX.* The aerospace and defense company said tariffs will cost it $850 million in 2025—even after cost cutting measures and price increases. This figure doesn't include the reciprocal tariffs that President Trump has paused or an escalation in the trade war. RTX shares fell 9.8% Tuesday, bringing the ytd decline to 1.7%, even though the company reported better-than-expected Q1 EPS of $1.47 versus the analysts' consensus of $1.36.

RTX's industrial base and about 70% of its employees are located in the US. In addition, about 65% of what it spends on products is with US suppliers. The company is a net exporter of goods, with exports exceeding imports by more than $12 billion in 2024.

Excluding the impact of tariffs, the company expects this year's adjusted organic sales to grow 4%-6% to $83 billion-$84 billion, and adjusted earnings to hit $6.00-$6.15, up from $5.73 last year.

Disruptive Technologies: AI Accelerates Evolution. Scientists at Stanford University have developed a generative AI tool that has absorbed huge quantities of information about the genes in living organisms and uses that information to develop new genes and identify which genes cause illnesses. The development in what's called "generative genomics" is expected to accelerate advancements in bioengineering and medicine, allowing labs to run standard experiments in minutes or hours instead of years, explains a February 19 *article* in the Stanford Report.

Dubbed "Evo 2," the open-source AI program was trained on the genes of all living things, including humans, plants, bacteria, amoebas, and a few extinct species. To ensure safety, the genomes of viruses were left out. Using its massive database, Evo 2 can predict the next nucleotide in a DNA strand. It can also write new genetic code that can be inserted into a cell using CRISPR technology, to evaluate how the new genetic code can be used.

Evo 2 can evaluate the interaction of genes on a DNA strand that has a million nucleotides, much more than previously possible. As a result, scientists can now spot connections between genes that exist far from each other on a long DNA strand. Evo 2 can also predict the impact of gene mutations, forecasting which mutations may cause cancer, for example.

Evo 2's dataset of 9 trillion nucleotides was much larger than Evo 1's 300 billion. Stanford worked with Nvidia, which makes the computer chips and software on which the program is run, and Arc Institute, a biomedical research nonprofit and collaboration among Stanford, the University of California Berkley, and the University of California San Francisco. Evo 2 is publicly available on Nvidia's BioNeMo platform.

Calendars

US: Thurs: Headline & Core Durable Goods Orders 1.5% & 0.2%; Nondefense Capital Goods Orders ex Air 0.2%; Initial Claims; Atlanta Fed GDPNow -2.2%; Existing Home Sales 4.14mu; Kansas City Manufacturing Survey; Kashkari. **Fri:** University of Michigan Consumer Sentiment, Current Conditions & Expectations 50.8, 56.5 & 47.2; Michigan One-Year & Five-Year Inflation Expectations 6.7% & 4.4%; IMF Meetings. (FXStreet estimates)

Global: Thurs: Germany Ifo Business Climate Index, Headline, Current Assessment & Expectations 85.2, 85.4 & 85.0; German Buba Monthly Report; France Consumer Confidence 91; UK CBI Industrial Trends -36; UK Gfk Consumer Confidence -21; Lane; Nagel. **Fri:** UK France Business Survey 95; Headline & Core Retail Sales -0.4% & 0.0%; Japan Leading & Coincident Indicators -0.3% & 0.8%; Schlegel. (FXStreet estimates)

Strategy Indicators

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): During the April 17 week, the S&P 500's forward revenues and earnings continued to drop from its record highs during the April 4 week. The forward profit margin joined the club too, falling 0.1ppt w/w to 13.5% from a record high of 13.6% during the prior six weeks. It is now 3.2ppts above its seven-year low of 10.3% during April 2020. The consensus expectations for forward revenues growth fell 0.2ppt w/w to 5.2%, just 0.6ppt below its 23-month high of 5.8% during the August 1 week. It has gained 2.9ppts 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 tumbled 0.5ppt w/w to a 12-month low of 11.5%. From a longer-term perspective, it remains above its 20-year average of 11.4% and 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 4.7% in 2025 (down 0.2ppt w/w) and 6.1% in 2026 (down 0.1ppt w/w), compared to a 4.9% rise in 2024. They expect an earnings gain of 10.0% in 2025 (down 0.7ppt w/w) and a 14.2% rise in 2025 (down 0.1ppt w/w) compared to 2024's earnings gain of 11.4%. Analysts expect the profit margin to rise 0.6ppt y/y to 13.1% in 2025 (down 0.1ppt w/w) and 1.0ppt y/y in 2026 to 14.1% (down 0.2ppt w/w), compared to 2024's 12.5%. Looking at valuation data as of April 17, the S&P 500's weekly forward P/E dropped 0.5pts w/w to a 16-month low of 19.2, and is now down 3.2pts from its four-year high of 22.4 during the February 20 week. It's still 3.9pts above its 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 fell 0.09pt w/w to a 12-month low of 2.59, and is now down 0.44pt 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 Revenues, Earnings, & Margins (*link*): During the April 17 week, forward revenues fell for 10 of the 11 S&P 500 sectors, and forward earnings was down for all 11. The forward profit margin rose for one sector w/w and fell for nine. Heath Care was the only sector with record-high forward revenues this week. These five are less than 0.5% from their recent record highs: Communication Services, Consumer Staples, Financials, Information Technology, and Utilities. Among the remaining five sectors, Consumer Discretionary and Real Estate have dropped 1.7% and 0.8%, respectively, from their mid-March record-high forward revenues, Industrials' is 2.9% below its early September record, and both Materials and Energy are the biggest laggards, seeming to find bottoms now at 7.4% and 15.5% below, respectively. None of the 11 sectors had forward earnings at a record high this week. These eight sectors are less than 3.1% from their record highs: Communication Services, Consumer Discretionary, Consumer Staples, Financials, Health Care, Industrials, Information Technology, and Utilities. Real Estate's is stalling at 4.9% below its record high in August 2022. Forward earnings remains depressed for the last two sectors, Energy and Materials, which are 38.1% and 26.7% below their respective highs during 2022. Looking at the forward profit margin, none of the sectors was at a record high this week. Financials had dropped out of that club a week earlier and was joined in the latest week by Communication Services and Consumer Discretionary. During late 2024, the Industrials and Information Technology sectors were also in that club, and they remain close. 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 addition to the index, which lowered the margin 1.3ppts then to 26.3%), Financials (20.1, down from a 20.2 record high), Communication

Services (18.6, down 0.1ppt w/w from a record high 18.7), Real Estate (16.4, down from its 19.2 record high in 2016), Utilities (14.5, down from its 14.8 record high in April 2021), S&P 500 (13.5, down 0.1ppt w/w from a record high 13.6), Materials (10.7, just 0.2ppt above a four-year low 10.5 in March and down from a 20-month high of 11.6 in July 2023 and a 13.6 record high in June 2022), Energy (8.8, down 0.3ppt w/w to a 41-month low and down from its 12.8 record high in November 2022), Industrials (11.0, 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 a record high 9.4), 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 its 20-month low 6.7 in late March and down from its 7.7 record high in June 2020).

US Economic Indicators

New Home Sales (*link*): New home sales (counted at the signing of a contract) blew past forecasts in March. *New home sales* surged 7.4% to 724,000 units (saar), considerably above the consensus forecast of 684,000 units. *Compared to a year ago*, sales were up 6.0%. The estimate of new homes for sale was 503,000 units in March, representing an 8.3 months' supply at the current sales pace, down from 8.9 months in February. Regionally, the South (13.6% m/m to 483,000 units, saar) posted the biggest gain in March, while the Northeast (-22.2 to 28,000) posted the biggest decline; the Midwest's (3.0 to 69,000) gain was in single digits, as was the West's (-1.4 to 144,000) decline. Of the 724,000 *homes sold* during March, 378,000 were completed, 263,000 were under construction, while 83,000 weren't started. Of the 503,000 *homes for sale* during March, 119,000 had been completed, 272,000 were under construction, and 112,000 hadn't yet broken ground.

Global Economic Indicators

US PMI Flash Estimates (*link*): "Output growth hits 16-month lows as confidence slumps and selling prices rise at increased rate" was the headline of this month's report. April's *C-PMI* (to 51.2 from 53.5) shows activity continued to expand, though at a slower pace, following March's three-month high. The *NM-PMI* (to 51.4 from 54.4) shows activity in the service sector recorded its second-weakest expansion recorded over the past year, as orders growth slowed, while new business inflows posted the second-smallest gain posted over the past 11 months. Meanwhile, manufacturing activity improved a bit in April, with both the *M-PMI* (50.7 from 50.2) and *M-PMI Output* (50.2 from 48.6) measures both posting two-month highs, moving slightly above the breakeven point of 50.0, though is being depressed by economic uncertainty, supply-chain concerns, and falling exports. *Turning to prices*, *input costs* in *manufacturing* rose at the fastest pace since August 2022, as suppliers pushed through price hikes linked to tariffs, supply concerns, and a weakened exchange rate. *Service-sector* costs rose at a slower pace than in March, though April's increase was the second-largest recorded over the past six months, as higher raw material prices were accompanied by upward price pressures.

Eurozone PMI Flash Estimates (*link*): Business activity in the Eurozone was broadly stable in April, though was held back by a faster reduction in new orders and waning confidence in the year-ahead outlook. The *Eurozone's C-PMI* fell to a four-month low of 50.1, from 50.9 in March, according to the flash estimate, as the *NM-PMI* (to 49.7 from 51.0) fell to a five-month low, while the *M-PMI* (48.7 from 47.6) remained below the breakeven point of 50.0, though was at a 27-month high. The *M-PMI Output* (51.2 from 50.5) measure climbed to a 35-month high, as it moved further into expansion territory. Turning to the *Eurozone's two largest economies*, *Germany's* private sector slipped back into contraction as tariff concerns impacted confidence. Germany's *C-PMI* (to 49.7 from 51.3) fell to a four-month low, with both the *M-PMI* (48.0 from 48.3) and the *M-PMI Output* (51.6 from 52.1) measures slipping to two-month lows, with the former moving further below 50.0. Meanwhile, *France's* economic downturn continued, as activity contracted for the eighth straight month, while *business confidence* was the most downbeat in close to five years. France's *C-PMI* (to 47.3 from 48.0) dipped to a two-month low as both the *NM-PMI* (46.8 from 47.9) and *M-PMI* (48.2 from 48.5) were also at two-month lows. Meanwhile, the *M-PMI Output* (50.3 from 48.6) measure moved above 50.0, to its highest level in 35 months. The report noted that excluding Germany and France, the *rest of the Eurozone* "continued record solid growth of output, albeit with the pace of expansion easing slightly for that seen in March."

Japan PMI Flash Estimates (*link*): "Japan's private sector returns to growth in April" was the headline of Japan's April report, "with firms signaling an increase in business activity for the fifth time in six months," though optimism regarding the year ahead fell to the lowest level since January 2021. The *C-PMI* (to 51.1 from 48.9) flash estimate moved from contraction to expansion in April, led by the NM-PMI (52.2 from 50.0), which climbed further into expansion territory, while the M-PMI Output (48.9 from 46.6) measure moved closer to the 50.0 breakeven point. *As for pricing*, the report notes that inflationary pressures remain acute across both sectors, with *input* costs accelerating at the fastest pace in two years, as firms raised their *selling* prices at a solid pace to protect profit margins.

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