Yardeni Research

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Morning Briefing

On Asia, India
& US Earnings

Check out the accompanying chart collection.

Executive Summary: Today, we look at how Trump 2.0's trade negotiations are impacting Asian nations' economic policy decisions. From his seat in Japan, William describes the collective sigh of relief when President Trump slashed tariffs on China Monday and what the news means to Asia's central banks and financial markets. … Melissa reports that India's economic policymakers no longer trust their eggs in the global trade basket but aspire to become the world's third largest economy by boosting domestic demand. Their strategy: stimulate consumer spending and grow India's creative economy. … Also: Last quarter was another strong one for S&P 500 earnings; Joe shares takeaways from the data.

Asia: Trump's Tariff Retreat Could Make Asia's Year. Virtually everything Asian governments thought they knew about the rest of 2025 seemed to change in an instant on Monday. News that Donald Trump is slashing China tariffs to 30% from 145% is being heralded as the game-changer the region needs.

Caveats abound, of course. President Trump granted this 90-day pause with few headline-grabbing concessions from Xi Jinping's China in weekend talks in Geneva. Trump will also be sensitive to headlines about his having "caved." And frustration that Beijing isn't exactly bowing to his will in the weeks and months ahead might bring back out Trump's inner "Tariff Man."

Still, Asian policymakers are counting the ways the economic road ahead appears clearer than it did just a couple of days ago. Consider the following:

(1) *China breathes easier*. This climbdown takes considerable pressure off Asia's biggest economy. Though a 30% import tax is formidable, a 79% reduction in Trumpian headwinds should return trade to some semblance of normalcy. It increases the odds that exporters, importers, and consumers can share the burden of absorbing tariff impacts. China stepping back from the brink helps, too. Xi cut levies on US imports to 10% from 125%. He also

eased curbs on access to rare earth minerals—including speeding up permitting—and cleared the way for Boeing to deliver planes. All told, China's odds of pulling off its 5% annual GDP growth target just rose considerably.

(2) *Less Fed intrigue*. Trump's about-face on tariffs should take the white-hot spotlight off the Fed. This suits its central bank peers around Asia, who've been waiting to see whether Fed Chair Jerome Powell might ease US monetary policy before they act locally.

Also, reduced risks of a tariff-driven economic slowdown might give Trump fewer excuses to fire Powell. To be sure, Fed Governor Adriana Kugler *says* a 30% tariff is still "pretty high" and could lead to "an increase in prices and a slowdown."

Yet for Asian financial markets, the less need to obsess about Fed dramas, the better. Investors in Asian markets at times are more keyed into the Fed than their local central banks. If the Fed isn't (a) doing surprising things and (b) getting meddled with by the White House, it creates an element of calm for central banks in Asia.

(3) *Stable dollar.* The only thing Asia fears more than a plunging dollar is one so strong that it lures massive waves of capital out of the region. Trump's climbdown has some traders reversing long yen positions that were a response to his reciprocal tariffs. The same goes for some betting on a stronger euro. And if the Bond Vigilantes give Treasuries a break, keeping US 10-year yields *below 4.5%*, Asian capital markets could be looking at a far less chaotic second half of 2025.

(4) *Central bank relief.* Suddenly, the Bank of Japan (BOJ), Bank of Korea (BOK), and other top monetary authorities have greater scope to go their own way. Global recession fears had BOJ Governor Kazuo Ueda pausing a two-year tightening cycle that boosted *rates to 0.5%*. BOK head Rhee Chang-yong was *delaying rate cuts* for fear that Korea might import tariff-driven inflation via a weaker won. People's Bank of China chief Pan Gongsheng's job might become easier as Trump lightens up on Xi's economy.

Again, who knows what headwinds Washington might be generating in two months? For now, though, Asia is sensing a little light at the end of the Trumpian tunnel.

India I: Reviving Bollywood. India's policymakers are flipping the script—turning to Bollywood and the broader creative sector to reignite the country's growth story. With fiscal and monetary levers in motion, Prime Minister Narendra Modi is betting that India's cultural economy can do more than entertain—it can grow the broader economy. "This isn't just culture," Modi *said* at India's inaugural 2025 Creative Economy Summit, "it's capital."

Backing up the rhetoric, New Delhi unveiled a $1 billion stimulus fund aimed squarely at boosting investment in media, arts, and entertainment. The move isn't merely nostalgic. It's a strategic pivot inward, as external growth engines remain uncertain.

India's policymakers are refocusing efforts on the domestic demand story. Domestic consumption has softened in 2025, while exports have held up, buoyed by partial US–China decoupling. But amid the global trade uncertainties, officials don't want to rely on exporting for economic growth. They want growth levers they can control.

Accordingly, investing in India may require a mindset shift: It's less about India replacing China as exporter to the world and more about the earnings growth that India's companies may reap from domestic markets as policymakers support domestic consumption and leverage India's cultural capital.

Here's more about two major structural economic challenges that India's policymakers confront:

(1) *Catch me if you can: The folly of chasing China's export lead*. Pandemic-era hopes that India could replace China in global supply chains lack wings: As of 2023, China accounted for roughly 30% of global manufacturing output; India, just 3%, *according* to UN data. Moreover, global firms remain heavily entrenched in China's logistics and labor infrastructure. And recent improvement in US-China trade relations could limit India's appeal as an alternative.

(2) *Inequality: Can stimulus bridge the Great Divide?* India's income and wealth disparities are at multi-decade highs. The top 1% of earners controlled over 40% of total national wealth in 2023, the highest share in more than 60 years, per World Equality Lab *data*. Their slice of national income rose to a record 22.6%.

That concentration is more than a social issue; it's an economic risk. With weak middle-class consumption, stimulus may not travel far without meaningful redistribution.

Fiscal policymakers are rolling out tax relief for lower-income households, aimed at boosting disposable income and consumption. The Reserve Bank of India (RBI) joined the stimulus push earlier this year, cutting its rates for the first time in five years two times in a row by a total of 50bps to 6.0% (*Fig. 1*).

With inflation under control, the RBI has room to stay accommodative. India's CPI inflation eased to 3.3% y/y in March, below the RBI's 4.0% target for a second consecutive month—freeing up policy space (*Fig. 2*). India's CPI softened further in early April, to 3.16% y/y.

India II: The Great Indian Showdown. If India's policy mix succeeds in directing capital flows into the right sectors, India's next act could be as compelling as any Bollywood blockbuster. Modi's ambition to make India the world's third-largest economy by 2030 is running into unfortunate plot twists, however. The star players in India's domestic growth story—households—seem to be buckling under high inequality and limited real income gains.

Here's more:

(1) *Production delays: Output slowdown*. Real GDP growth popped 9.1% on a quarter-over-quarter basis in Q4-2024, but year-over-year growth slowed to 6.4% from nearly 11.0% at year-end 2023 (*Fig. 3*).

(2) *Third act drag: Key sectors soften*. Private and capital investment both weakened throughout 2024, undercutting momentum. Exports are still propping up headline numbers, but their pace has cooled since the early post-pandemic surge.

(3) *Box office flop: The consumer sours*. Consumer sentiment and car sales turned sharply negative in recent months. India's consumer sentiment index plummeted from a March 2024 peak of 72.2 to 57.8 in April (*Fig. 4*). Reflecting the soured sentiment, the 12-month moving average of car sales decreased to 148,800 in November 2024 from above 175,000 during January 2023 (*Fig. 5*).

India III: The Market Strikes Back. India's once frothy financial markets have simmered down. Equity valuations have corrected sharply in recent weeks amid doubts over export resilience and rising domestic headwinds.

Recent geopolitical risks—like India's recent military response to Pakistan—barely registered in the markets. But Washington's patience may be waning: Trump has warned that future trade expansion with India and Pakistan hinges on lasting peace.

Looking ahead, India's markets are likely to be shaped by the evolving forces of geopolitics, global trade dynamics, and most crucially domestic growth. Market activity over the near term might be uneventful, however, if global trade becomes a headwind (as India's "China alternative" theme fades) while consumer spending (benefiting from domestic stimulus) becomes a tailwind.

It's time for the popcorn:

(1) *Equity markets: Back to the future*. India's MSCI index fell below its 200-day moving average in April following President Trump's surprise tariff announcement. Though the index bounced after a partial rollback, the damage was done—market euphoria has cooled (*Fig. 6*).

Valuations followed suit. The forward P/E multiple fell from a 24-year high of 25.2 in fall 2024 to 20.0 in early April, before rebounding to 22.2 by mid-May (*Fig. 7*).

(2) *Earnings: Slow burn*. The India MSCI's forward EPS growth flattened in mid-2024 after a strong run from 2022 to early 2024. It increased over 105.0% during the earlier period versus 12.4% from January 2024 until now (*Fig. 8*). Analysts' net estimate revisions have been negative since November.

Strategy: S&P 500 Q1 EPS—Robust, Though Short of Q4's Record High. With 90% of the S&P 500 companies having reported March-quarter results through Friday's close, their aggregate "blended" quarterly EPS—a mix of actual EPS for companies that have reported and consensus estimates for those that haven't—is $62.91 (*Fig. 9*). That's down 3.2% q/q from a record-high $65.00 in Q4-2024 (see our *web pub* "S&P 500 Quarterly Metrics").

But while Q1 EPS were down on a quarter-to-quarter basis, the degree to which Q1 earnings beat analysts' expectations was up. The 7.1% earnings surprise from the consensus Q1 mean at the time of each company's report represents an acceleration from Q4's 6.4% beat (*Fig. 10*).

Also up: Q1's blended EPS relative to analysts' expectations at the end of March before reporting season began; at that point, their consensus estimates implied EPS of $60.11 (*Fig. 11*).

As for Q1's year-over-year growth, that's in the double digits. With 10% of the companies left to report, the S&P 500's blended y/y earnings growth rate for Q1 is 11.2%, marking the seventh straight quarter of positive y/y earnings growth for the S&P 500 and the lengthiest such streak since the eight quarters through Q3-2022 (*Fig. 12*).

However, Q1's y/y growth rate is down from Q4's rate, when growth peaked at 12-quarter high of 13.7% y/y (*Fig. 13*). On a proforma same-company basis, S&P 500 earnings rose 14.1% y/y in Q1, which also marked its seventh quarter of growth and a slight deceleration from a 12-quarter high of 17.1% in Q4-2024 (*Fig. 14*).

How did the S&P 500's 11 sectors, the Magnificient-7 stocks, and the remaining S&P 493 do last quarter? Below, Joe puts their aggregate Q1 earnings results under his analytical lens:

(1) *Few sectors outperform S&P 500's Q1 earnings growth.* Eight of the 11 S&P 500 sectors delivered rising earnings y/y in Q1, but Communication Services posted the only record-high EPS. Just three sectors recorded stronger y/y growth than the S&P 500 (*Fig. 15*). That compares to 10 sectors rising y/y in Q4, when four sectors grew faster than the overall index and two posted record high EPS (Communication Services and Information Technology).

Just four sectors recorded positive and double-digit percentage y/y earnings growth in Q1, a big downshift from seven sectors in Q4. Among Q1's laggards, Energy's earnings fell at a double-digit percentage rate for the fifth time in six quarters, and Consumer Staples' fell y/y for the first time in eight quarters. On a positive note, Materials' earnings growth turned positive for the first time in 10 quarters.

Here's how the sectors have stacked up so far on a proforma basis: Health Care (46.2%), Communication Services (31.0), Information Technology (19.1), S&P 500 (14.1), Consumer Discretionary (9.5), Financials (7.0), Utilities (4.6), Real Estate (1.3), Consumer Staples (-5.6), Industrials (-5.7), Materials (-7.2), and Energy (-25.9).

(2) *Magnificent-7.* Through Friday's close, six of the Magnificent-7, all but Nvidia, have reported results so far. The "Magnificent-6's" aggregate Q1 earnings surprise was 9.7%, and its y/y earnings growth of 22.0% was nearly double the consensus' 11.2% forecast—all well above the S&P 500's measures (*Fig. 16*).

Three of the six had double-digit percentage earnings surprises, and four had double-digit y/y earnings growth. Here are the Q1 earnings surprises and y/y earnings growth rates for the Magnificent-6: Amazon (16.7% earnings surprise, 62.2% y/y earnings growth), Tesla (-31.0, -40.0), Alphabet (12.8, 20.1), Meta (21.8, 36.5), Microsoft (7.4, 17.7), and Apple (1.4, 7.8).

(3) *Decent Q1 for S&P 493*. The S&P 493 delivered double-digit percentage earnings growth in Q1 and did so for a second straight quarter. Earnings growth has slowed to 11.0% y/y from a 12-quarter high of 13.2% in Q4-2024. For now, the group's total Q1 earnings is down 1% q/q from its record high in Q4. Its aggregate Q1 earnings results beat consensus forecasts by 6.3% but was behind the Magnificent-7's also-less-than-stellar earnings beat of 9.7%.

Calendars

US: **Tues:** Headline & Core CPI 0.3%m/m/2.4%y/y & 0.3%m/m/2.8%y/y; NFIB Small Business Optimism Index 94.9. **Wed:** MBA Mortgage Applications; OPEC Monthly Market Report; Daly; Waller; Jefferson. (FXStreet estimates)

Global: **Tues:** Germany ZEW Economic Sentiment 10.7; UK Average Hourly Earnings Index Plus Bonus 5.2%; UK Claimant Count 22.3k; UK Unemployment Rate 4.5%; Japan PPI 0.2%m/m, 4.0%y/y; Pill; ECOFIN Meetings; Balz; Bailey. **Wed:** Germany CPI 0.4%m/m, 2.1%y/y; Spain CPI 0.6%m/m, 2.2%y/y; Cipollone; Nagel; Escriva; Breeden. (FXStreet estimates)

US Economic Indicators

Consumer Price Index (*link*): Inflation eased in April, despite tariff-related price pressures. Both the headline and core CPI measures were weaker than expected in April, rising 0.2%, below consensus estimates of 0.3%. The *headline CPI* climbed 2.3% y/y, a tick below consensus estimates of 2.4%—posting the lowest yearly rate since February 2021; it was at 9.1% in June 2022. The *core rate* rose 2.8% y/y last month, in line with expectations, and matching the March rate, which was the lowest since March 2021. It peaked at 6.6% in September 2022. In March, *shelter costs* rose 0.3%, accounting for more than half of the all-items increase last month, with energy prices also contributing to the rise—led by the natural gas and electricity indexes. Meanwhile, food prices dipped 0.1%, as the food at home index fell during the month. Contributing to the increase in core prices during March were household furnishings & operations, medical care, motor vehicle insurance, education, and personal care, which were partially offset by declines prices for air fares, used cars & trucks, communication, and apparel.

NFIB Small Business Optimism Index (*link*): "Uncertainty continues to be a major impediment for small business owners in operating their business in April, affecting everything from hiring plans to investment decisions" noted Bill Dunkelberg, NFIB's chief economist. The *Small Business Optimism Index (SBOI)* fell for the fourth month, dropping 1.6 points in April and 9.3 points over the four-month period to 95.8—down from December's recent high of 105.1. Meanwhile, the *Uncertainty Index* fell 12 points during the two months through April to 92, easing from February's reading of 104—which was the second highest on record. It's down 18 points from October 2024's record high of 110, though remains well above its historical average of 68. In April, six of the 10 *components of the SBOI* fell, while three rose, and now is a good time to expand was flat at 9%. Expect the economy to improve (-6ppts to 15%) and current job openings (-6 to 34) were the two biggest drags on the index, followed by sales expectations (-4 to -1), capital outlay plans (-3 to 18), plans to increase inventories (-3 to -4), and expected credit conditions (-3 to -7). Meanwhile, earnings trends (+7 to -21) posted the largest increase in April, with plans to increase employment (+1 to 13) and current inventory too low (+1 to -6) posting small upticks. Quality of labor (19%) was again the *single most important problem for small business owners* in April, with taxes (16), inflation (14), insurance costs (10), poor sales (9), and government regulation (9) rounding out the top six. The net percentage of owners *raising selling prices* slipped for the second month to 25% in April, after increasing from 22% in January to 32% in February—which was the highest percentage since May 2023—while a net 28% plan price hikes in the next three months, down from 30% in March (the highest since last March). Turning to *compensation*, a net 33% reported raising compensation in April, down from 38% in March, while a net 17% plan to raise compensation in the next three months, down from 19% in March; it peaked recently at 28% in November.

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