Global Macro News & Views

- *The Wall Street Journal* editorial (Weekend Edition, FEB 1-2) calls it 'The Dumbest Trade War in History.' The Trump administration fired the first salvo in a trade war against its biggest trading partners by slapping Canada and Mexico with 25% tariffs (later delayed by 30 days for Mexico), and 10% on Chinese imports. Canadians, stunned by the high level of tariffs introduced this week without prior negotiations, have long considered the United States their best ally. Canada is also proud to boast of the mostly undefended and longest geographical border in the world. That border extends 4,860 miles coast to coast or 7,821 kilometers;
- Canadian oil and gas will see a 10% tariff. According to the WSJ: *'Leaving China aside, Mr. Trump's justification for this economic assault on the neighbors makes no sense. White House press secretary Karoline Leavitt says they've "enabled illegal drugs to pour into America." But drugs have flowed into the U.S. for decades and will continue to do so as long as Americans keep using them. Neither country can stop it.'*
- *The Wall Street Journal*, a conservative financial publication, concludes *'None of this is supposed to happen under the U.S.-Mexico-Canada trade agreement that Mr. Trump negotiated and signed in his first term. The U.S. willingness to ignore its treaty obligations, even with friends, won't make other countries eager to do deals. Maybe Mr. Trump will claim victory and pull back if he wins some token concessions. But if a North American trade war persists, it will qualify as one of the dumbest in history;'*
- Why trade tariffs now will hurt everyone. According to our friend David Rosenberg in Toronto (*Rosenberg Research*): *'What makes this different than Trump 1.0 is that back then, the tax relief came first, and the tariffs (which were more targeted — solar panels, steel, and washing machines — and far less radical in terms of size) came second. This time, the order has been reversed. And that is a problem for the U.S. economy, not just Canada and Mexico. Cost-push inflation is coming our way, the only question is how much and for how long, and layoffs in the industrial sector are sure to mount as North American supply chains confront a major and unnecessary disruption;*
- Canada has a bilateral trade surplus with the United States, but only in energy as it sends stateside cheap dirty oil that America cannot readily access elsewhere (unless it wants to tap Venezuela). Canada is a solution, not an impediment, to U.S. national security but the administration clearly does not see it that way. In 2024, Canada's ex-energy trade deficit with the U.S. was a grand total of $32 billion or a microscopic 0.1% of U.S. GDP. Hardly worth the trouble of slapping tariffs;
- President Trump trades in: Stargate, AI and Tech. Out: Renewables, EVs, wind. 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;
- The Trump administration inherits a federal debt exceeding $36.1 trillion – more than $16 trillion higher than when he last entered the White House in 2017. As of Q3, debt held by the public – total public debt minus intragovernmental holding – was 97% of GDP, up from 75% in the same quarter of 2016, according to *The Wall Street Journal*. Covid spending and tax cuts sharply raised debt in Trump's first term and continued during Biden's, who overstimulated the economy;

- **DeepSeek** is a Chinese AI lab that has rocked the world of artificial intelligence by developing a competitive Large Language Model, or LLM, that reportedly outperforms ChatGPT but was developed at a fraction of the cost with much less time required to "teach" the program. It also functions with cheaper and less powerful Nvidia GPU chips;
- European banks continue to boost buybacks and dividends. European banks are set to return close to €123 billion or $127 billion to shareholders for the second straight year as lenders lift dividends above their pre-financial crisis peak and buybacks surge, according to *The Financial Times*. The largest listed European and UK banks are expected to unveil €74.4 billion ($77 billion) in dividends and €49 billion ($50.5 billion) in dividends when they report earnings in the coming weeks, according to Zurich-based **UBS**. On Friday, Germany's **Commerzbank AG** said the profit was a record. It also announced a share buyback of €400 million ($412 million) and a dividend increase of 86% or 65 cents per share, up from 35 cents a year earlier. **HSBC**, **BNP Paribas** and **UniCredit** of Italy are expected to return the largest amounts of capital to shareholders following strong 2024 results, according to UBS. The Swiss bank forecasts payouts totaling €39.7 billion ($41 billion) for all three banks;
- Spain is planning to introduce a 100% tax on real estate for buyers from non-EU countries, including the UK, to improve housing affordability by deterring international buyers. The policy initiative comes as prices from Madrid to Mallorca are boosted by a new wave of wealthy foreigners from the United States, Mexico and Venezuela. The largest foreign non-residents living in Spain are the British. The new law, if passed, will deter new buyers from the UK. Britain exited the EU in 2020;

- British 10-year borrowing costs rose to the highest level since the 2008 financial crisis as the British pound sank following a steep gilt (bond market) sell-off in early January. The UK is struggling to meet its self-imposed budget rules. British borrowing costs have risen much faster than other major economies this year as investors worry about the government's heavy borrowing schedule and the growing threat of stagflation. The yield on the 30-year UK gilt hit 5.37% in January – its highest since 1998. Other benchmark intermediate rates topped their highest levels since 2008. Rates have since declined but the market remains nervous;
- Private equity-backed companies are hit by bankruptcies. Higher rates and lower consumer spending are squeezing debt-plagued companies backed by private equity groups, forcing them either to restructure through bankruptcy or buy time to recover from out-of-court settlements with creditors. According to *S&P*

Global Market Intelligence, 110 private equity and VC companies filed for bankruptcy last year. Most failures occurred in health care and consumer sectors.

Global Equities & Real Estate

- Global equities finished a volatile month of January with a net gain, rising 3.5% with European equities especially strong. The S&P 500 rose 2.7%. Non-U.S. stocks as measured by the MSCI EAFE Index rallied 5.2% and the MSCI Emerging Markets Index gained 1.6%;
- Corporate insiders in the United States dumped stocks at a record pace through January 22. A gauge of insider sentiment that tallies the number of buyers versus sellers shows there were just 98 companies where at least one insider purchased the company's shares last month through Jan. 22 compared with 447 at which at least one insider sold, according to the *Washington Service*. The buy-sell ratio, at 0.22, is the lowest in data going back to 1988;
- U.S. buybacks surge to highest levels since 1999. According to *Birinyi Associates*, stock buybacks in January hit the strongest level since 1999. Major U.S. companies like General Electric Co, Citigroup and Netflix announced major share repurchases last month;

- German economy in a funk, but DAX disagrees. "Companies continue to be pessimistic," notes Ifo President Clemens Fuest. German business confidence edged up to 85.1 in January, beating the consensus estimate of 84.7, though the index remains near its lowest levels since May 2022 when the country was struggling with an energy crisis. However, European stocks logged one of their best month in a long time in January with the Frankfurt DAX soaring over 9%. Germany lacks American Big Tech powerhouses but does have some heavyweights outside the important auto sector: **SAP AG**, **Rheinmetall AG**, **Commerzbank AG**, **Allianz SE**, **Munich RE**, **Adidas**, **Henkel AG & Co**. and others are world-class companies with strong corporate earnings. Also, a weak EUR helps to boost euro-zone revenues;
- Most euro-zone country indices trade between 10x to 15x forward earnings compared to the MSCI USA's 22.5x forward P/E. Valuations are partially depressed due to the sector composition of the benchmarks. European indices are heavy on low multiples because of industries in autos and banks with only a handful of technology

stocks. Meanwhile, a boost for stocks is a dovish ECB, which cut its key interest rate last week to 2.75% from 3%.

Fixed-Income

- The equity risk premium is flashing red. The last time it was this negative was back in early 2000. Defined as the gap between the S&P 500's earnings yield and that of 10-year Treasurys, turned negative in late December for the first time since 2002. The metric is calculated based on how much stocks yield, which is derived by dividend the stock market's expected earnings by its price. The earnings yield is then compared with the yield on government debt. In December, investors put a record $62.5 billion into U.S. equity mutual funds and ETFs. For bond investors, inflation might accelerate if Trump raises the federal deficit or pushes through tariffs;
- Dalio warns of a Debt Loop. Ray Dalio, the founder of the largest hedge fund, *Bridgewater Associates*, published the first part of his analysis of historical debt crisis in January. He said he was "deeply concerned" that America will "go broke" and warns that a multi-decade debt cycle could soon implode. Dalio, whose book, *The Changing World Order* I read three years ago (fantastic read), believes the debt loop can be avoided, if radical reforms make the debt burden more sustainable. This could include cutting rates to 1%, letting inflation rise to 4.5%, increasing tax revenue by 11%, slashing discretionary spending by 47% or some combination.

Currencies

- Bank of Canada Cuts Again, Bank of Japan Hikes. With Canada at the gates of recession and U.S. tariffs looming, the Bank of Canada cut interest rates for the sixth straight time last week to 3%. The central bank is also trying to buffer the economy from 25% U.S. tariffs starting in January. The Loonie hit a 5-year low this week. Canada will have to stimulate GDP this spring with fiscal spending. In Tokyo, the Bank of Japan hiked rates to 0.50% last week to their highest in 17 years. The yen is finally gaining traction in 2025, up 1.76% -- the first year the currency is up vs. the dollar since 2020;

- The **ENR Global Currency Sandwich**, investing equally in gold, the Japanese yen, Singapore dollar, and the British pound, is up 2% in 2025 compared to a 0.25% decline for the USD Index. Gold is the major driver again this year for the basket, up 7% and its best single month in years.

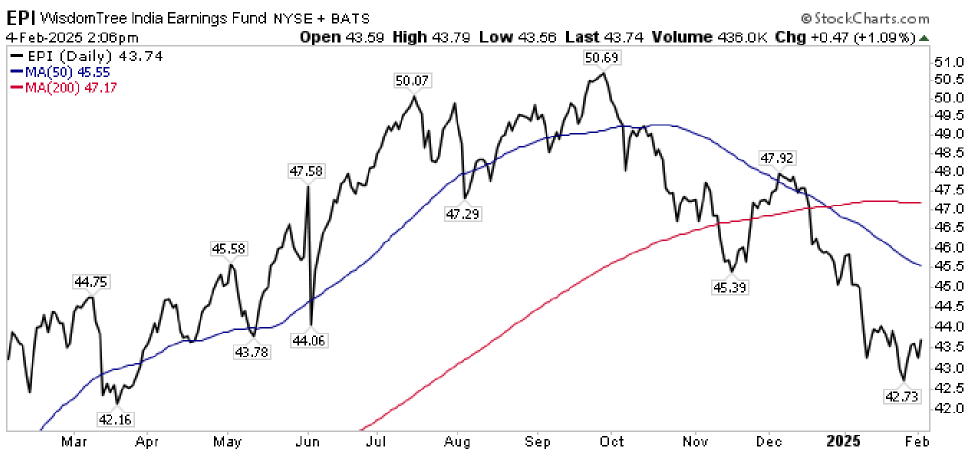
Commodities

- Gold prices are hitting fresh highs, nearing $2,900 an ounce. The move in gold this time is rooted in things that are much more fundamental. This latest leg in the secular bull market has occurred with the U.S. dollar on an upward path on its own and real interest rates having risen in short order from 1.5% in mid-September to 2.2%. Gold prices typically move inversely to the dollar and to real rates. And compared to Bitcoin, which correlates more to the daily price level of the NASDAQ Composite, gold is truly an asset independent of other markets;

- The Reuters/Jefferies CRB Index is up 2.77% this year with gold and silver, palladium, platinum, coffee and the grains providing most of the positive performance. Natural gas started the year strong as demand surged amid frigid temperatures in the northern hemisphere; but prices have consolidated recently. Crude oil has also declined and is struggling to hold above $75;
- In January, **Rio Tinto** and **BHP Group**, two of the largest natural resource producers in the world, claimed commodity demand in China has shifted towards manufacturing, renewable energy and electric vehicles. Both groups recently stated they're seeing signs of stabilization in the Chinese real estate market after weak demand hit the price of iron ore in 2024;
- To play commodities in the late 2020s, China remains the big demand factor. Her needs have changed. Investors should focus on copper, cobalt and lithium investments to ride the long-term trend; My favorite resource companies are **Rio Tinto Group** (NYSE-RIO), **ConocoPhillips** (NYSE-COP), **Albemarle Corp**. (NYSE-ALB), **Cameco Corp**. (NYSE-CCJ) and **Freeport McMoRan** (NYSE-FCX);

ENR Model Portfolio

- January was a good month for global equities and the **ENR Market Outlook Portfolio** generally posted gains. From a universe of 27 open positions last month, 19 posted gains;
- Most of my BUYS in January remain unchanged, except for palladium and Freeport McMoRan. I'm also upgrading India to a BUY this month following a 25% market decline. India is seeking to revive the economy in 2025 through tax cuts and interest rate cuts. This will stimulate demand growth. The Nifty Fifty Index has even outpaced the S&P 500 over the last ten years. Stocks in Mumbai are at fair value at this point after trading at lofty valuations for the past five years and beyond. India will continue to draw FDI away from China in a widening Sino-U.S. trade war. BUY the Wisdom Tree India Earnings ETF, up 33% since my first plug in March 2023;



- Other strong BUYS now are Uber Technologies, Lazard Inc., Rio Tinto Group, Nike, Inc., ConocoPhillips, and Cameco Corporation. I'm downgrading **Freeport-McMoRan Inc.** after another poor quarter of results. If you own the stock -- hold.

Eric Naimer Roseman
Montreal, Canada
February 4, 2025

Market Outlook Portfolio:

Security	Listed	Symbol	Entry Price	Date	Current Yield	Current Price	Gain/ Loss	Advice
Lazard, Inc.	NYSE	LAZ	$50.05	Jan 8/25	3.68%	$52.36	4.62%	BUY
iShares MSCI Hong Kong ETF	NYSE	EWH	$18.35	Nov 5/24	4.22%	$16.32	-9.16%	BUY
Uber Technologies, Inc.	NYSE	UBER	$74.03	Nov 5/24	0.00%	$66.81	-9.75%	BUY
NIKE, Inc.	NYSE	NKE	$73.71	Jul 29/24	1.96%	$74.14	1.63%	BUY
Rio Tinto Group	NYSE	RIO	$64.71	Apr 2/24	7.20%	$59.45	-5.39%	BUY
Cameco Corporation	NYSE	CCJ	$38.55	Sep 5/24	0.23%	$47.95	24.67%	BUY
WisdomTree India Earnings Fund	NYSE	EPI	$32.42	Mar 3/23	0.27%	$43.10	33.50%	BUY
Energy Select Sector SPDR	NYSE	XLE	$86.74	Feb 7/23	3.28%	$87.24	7.33%	BUY
ConocoPhillips*	NYSE	COP	$67.56	Sep 29/21	3.16%	$97.87	58.38%	BUY
Albemarle Corporation	NYSE	ALB	$61.01	Sep 4/19	1.91%	$81.37	47.51%	BUY
Nestlé SA*	VTX	NESN	CHF 65.15	Dec 7/16	3.87%	CHF 77.52	54.11%	BUY
Apple Inc*	NASDAQ	AAPL	$23.20	May 9/16	0.42%	$230.67	923.24%	HOLD
Newmont Corporation*	NYSE	NEM	$17.99	Dec 31/15	2.34%	$42.77	195.64%	HOLD
Wheaton Precious Metals	NYSE	WPM	$22.78	Jun 5/19	0.99%	$63.02	189.16%	HOLD
Berkshire Hathaway*	NYSE	BRK.B	$197.73	Aug 5/19	0.00%	$458.81	132.04%	HOLD
HSBC Holdings plc	LSE	HSBA	£4.74	Nov 9/22	5.87%	£8.18	115.94%	HOLD
Alphabet Inc.	NASDAQ	GOOGL	$104.65	May 5/23	0.29%	$201.54	93.16%	HOLD
iShares Russell Top 200 Value Index	NYSE	IWX	$52.46	Jan 2/18	1.87%	$82.13	76.21%	HOLD
Microsoft Corporation	NYSE	MSFT	$256.72	Jul 5/22	0.74%	$412.88	63.62%	HOLD
Zurich Insurance Group	VTX	ZURN	CHF 411.20	Oct 4/22	4.72%	CHF 551.00	57.25%	HOLD
The Southern Company	NYSE	SO	$66.47	Dec 7/21	3.41%	$83.14	37.63%	HOLD
AbbVie Inc	NYSE	ABBV	$140.24	Nov 30/23	3.42%	$188.49	40.00%	HOLD
Vanguard Small Cap Value Index Fund	NYSE	VBR	$157.50	Oct 2/23	1.91%	$200.80	30.72%	HOLD
Lazard Global Listed Infrastructure Portfolio	NASDAQ	GLIFX	$14.04	Aug 4/20	3.22%	$15.98	26.73%	HOLD
abrdn Physical Palladium Shares ETF	NYSE	PALL	$89.81	Jun 28/24	0.00%	$92.28	2.75%	HOLD
Research Affiliates Deletions ETF	NASDAQ	NIXT	$25.83	Oct 2/24	1.40%	$25.80	1.28%	HOLD
Freeport-McMoRan Inc.	NYSE	FCX	$39.26	Mar 29/23	1.67%	$35.28	-7.08%	HOLD

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