Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: April 10, 2025 — 9:30 AM ET] Global equity markets are generally higher this morning. In Europe, the Euro Stoxx 50 closed up 5.5% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 4.7%. Chinese markets were higher, with the Shanghai Composite up 1.2% from its previous close and the Shenzhen Composite up 2.5%. Conversely, US equity index futures are signaling a lower open.

The Confluence macro team publishes a plethora of research reports and multimedia offerings on a weekly and quarterly basis, all available on our website. We highlight recent publications below with new items of the day in bold:

Bi-Weekly Geopolitical Report	Asset Allocation Bi-Weekly	Asset Allocation Quarterly	Of Note
"Growing Fragility in the US Bloc" (4/7/25) + podcast	"Managing an Economic Slowdown" (3/31/25) + podcast	Q1 2025 Report Q1 2025 Rebalance Presentation	The Confluence of Ideas podcast Business Cycle Report

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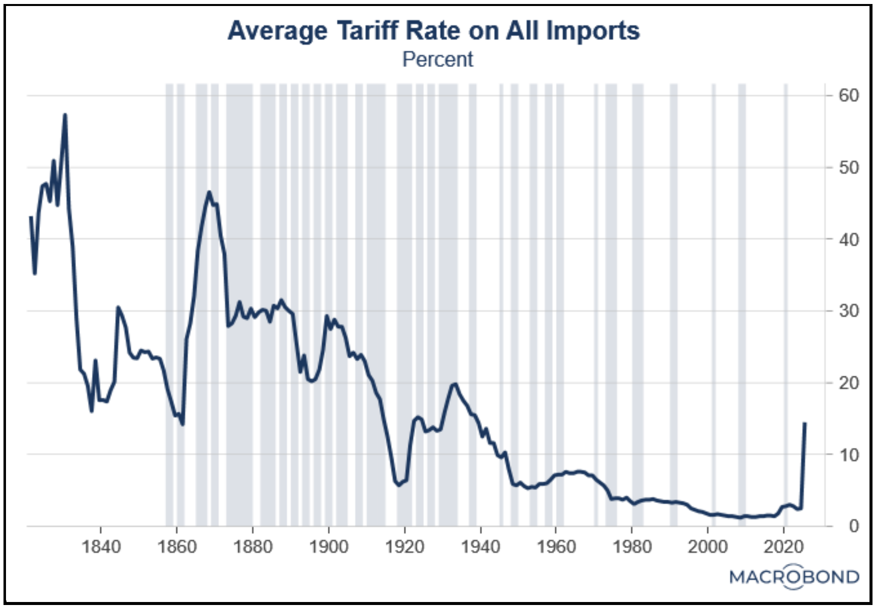
Good morning! Markets are digesting the latest inflation figures while Lionel Messi's double-strike propelled Inter Miami past LAFC into the CONCACAF semifinals. Today's *Comment* will focus on President Trump's decision to roll back tariffs, insights from the latest Fed minutes, and other major market-moving news. As always, we'll include comprehensive summaries of today's domestic and international economic releases.

Trump Reversal: US stocks experienced a rally following the administration's tariff reductions on most nations, excluding China, which saw an increase to 125%. Despite the market's positive initial response, persistent uncertainty remains.

- The US agreed to postpone new tariffs for 90 days while pursuing trade negotiations with partner nations. Markets responded positively to the decision, where the average tariff rate would fall from 23% to 10% — a development that alleviated concerns about supply chain instability and potential economic contraction. The policy shift triggered a significant market rally, sending the S&P 500 up 9.5% and propelling each "Magnificent 7" stock to gains exceeding 10%.
- While markets welcomed the policy reversal, uncertainty persists over the trade war's trajectory. The president's baseline tariffs remain in effect, pushing the average import

tax rate for non-China trade partners to 15.7%. This includes the 25% tariffs still applied to Canadian and Mexican goods not covered by USMCA provisions. According to White House data, only 38% of Canadian imports and 50% of Mexican imports currently comply with the agreement's standards.



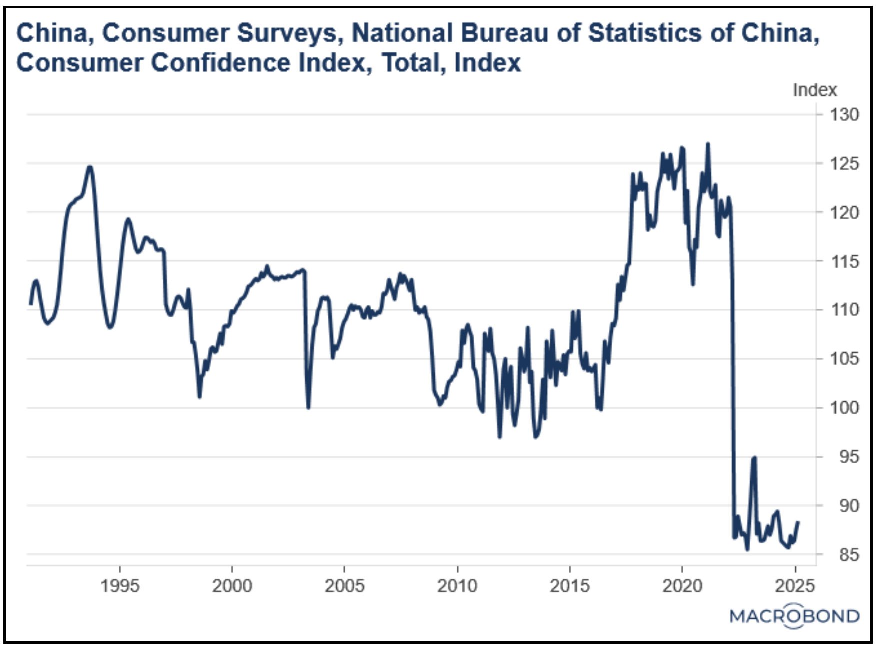
- It seems that the administration is seeking to condition markets to become less reactive to tariff announcements. The current pause may serve two key purposes by demonstrating presidential flexibility while also normalizing the recently imposed 10% tariffs as a sustainable baseline. This calculated approach should help stabilize markets as the price impact of these import taxes gradually filters through the economy. A major unknown is how consumers will respond to the eventual price shock.

Trade Friends Not Enemies: While the White House has shown limited interest in bringing down newly implemented tariff rates, it does seek to use trade tensions to form an alliance against China.

- The US decision to pause the increase in tariffs has been widely viewed as a step in the right direction, though questions remain about how far the White House is willing to go in implementing reciprocal tariffs. Kevin Hassett, one of the White House's economic advisors, suggested potential tariff rates below 10% might be possible, though he cautioned this would require an "extraordinary" trade deal to justify such reductions.
- While this decision has provided some market reassurance, uncertainty persists regarding whether other nations will refrain from retaliatory measures. The EU has agreed to delay its metal tariffs by 90 days, and while Canadian Prime Minister Mark Carney welcomed the announcement, Canada has not yet committed to any tariff relief.
- China is bracing for tariff fallout, with leaders meeting today to discuss stimulus measures. The package will target housing, consumer spending, and tech innovation to protect growth. Since growth has slowed in China, speculation has swirled about Beijing

deploying its "stimulus bazooka," large-scale measures to revive an economy facing prolonged sluggish growth.

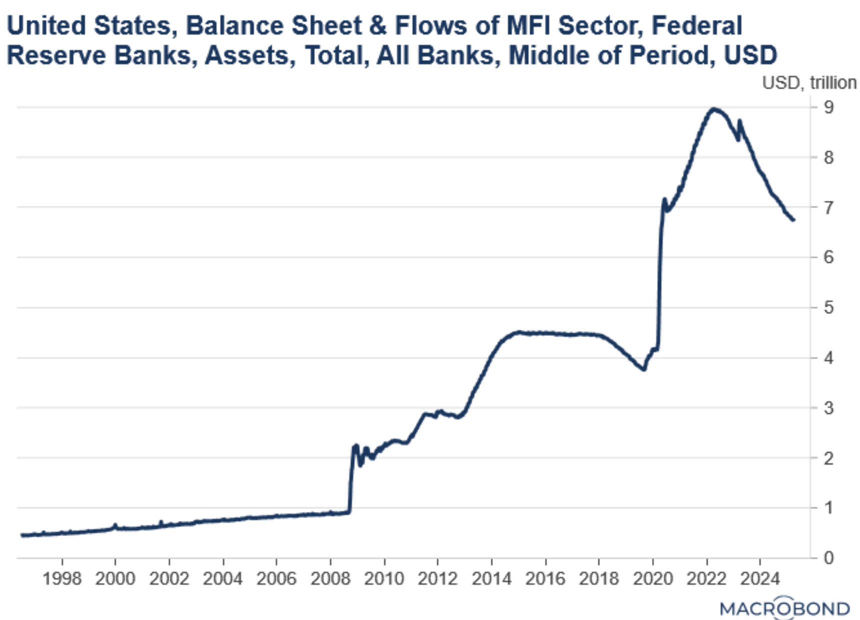
- Treasury Secretary Scott Bessent hinted that the White House may pursue a collective approach with allies to coordinate their approach toward China. His remarks seem to reflect a long history of the US trying to coalesce its allies into joining its efforts to isolate China. It also comes as Spain has been urging the EU to deepen economic ties with Beijing, aiming to reduce reliance on the United States.
- Markets may be underestimating the psychological strategy at play. By first imposing 10% tariffs and then escalating to far higher levels, the initial increase appears modest by comparison. The use of "reciprocal tariffs" was designed to encourage global tariff reductions in exchange for US concessions. Yet, America's traditionally low tariffs offered little bargaining power.



- The updated tariff framework strengthens Washington's leverage, pressuring allies to align their trade policies with its China strategy. Notably, US tariffs on Chinese goods are now so high that they will likely redirect Chinese exports away from the US and toward Europe — further fueling protectionist sentiment on the Continent. Ultimately, this policy may reinforce Europe's perception that it must collaborate with the US to counter China.
- The key unknown is the size and scope of China's stimulus measures. A substantial spending package could help restore consumer confidence, which has remained weak since the pandemic. It could also boost domestic demand, reducing the economy's reliance on foreign consumption of its goods.

Fed Stagflation Worries: Fed minutes showed officials' fears about stagflation, while balance sheet reduction faced strong opposition despite broad support.

- Nearly all FOMC members expressed concerns that inflation risks remain skewed to the upside, while employment risks also appear elevated. This outlook will likely compel policymakers to adopt a cautious, wait-and-see approach when adjusting monetary policy. These concerns arise as central bankers wrestle with the potential economic fallout from the Trump administration's trade war.
- Despite the Fed's reluctance to commit to rate cuts amid ongoing uncertainty, markets are still pricing in three potential rate cuts this year, exceeding the two projected in the Fed's latest economic outlook. This divergence suggests investors see elevated recession risks due to the ongoing trade war, which therefore keeps expectations for further monetary easing alive.
- Regarding the balance sheet, policymakers appear divided on whether the reduced pace of unwinding was appropriate. The decision stemmed from concerns about preserving sufficient reserve buffers after Congress suspended the debt ceiling. Since January, Treasury's drawdown of its General Account (TGA) to fund government operations — while Congress negotiated the debt limit — has created distortions in reserve markets, as these flows directly impact liquidity in the commercial banking sector.



- While Fed Governor Christopher Waller was the only dissent, several others pushed to maintain the original pace of balance sheet unwinding. Their reluctance was due to concerns that it could compromise the Fed's balance sheet normalization efforts. They believed alternative tools would have been sufficient to address reserve concerns. Specifically, an adjustment to the reverse repo facility rate could have provided an effective alternative, injecting needed liquidity to prevent a problem.
- Thus far, market impacts appear contained despite elevated uncertainty. While recent bond market volatility reflects trade war concerns, Cleveland Fed President Beth Hammack noted that while financial markets are under strain, they continue to function

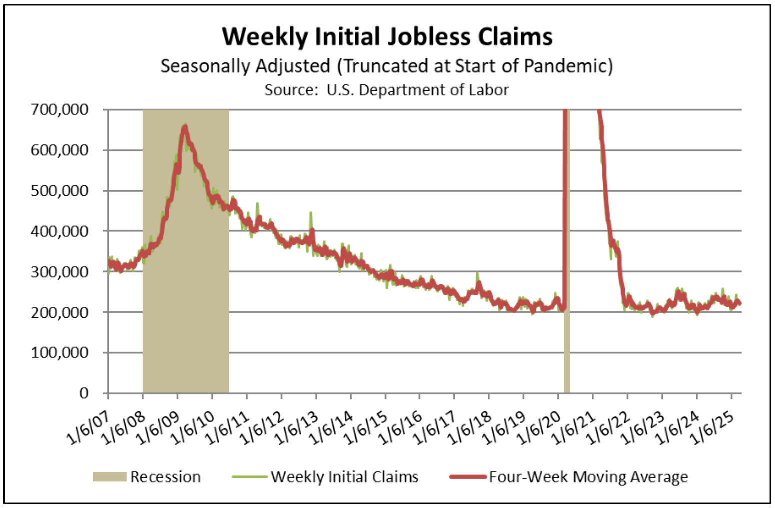
effectively. That said, we should emphasize that the Fed stands ready to intervene if necessary — either through balance sheet expansion to address liquidity shortages or by cutting the federal funds rate to mitigate solvency risks.

Chinese Troops in Ukraine: Two Chinese nationals were caught fighting for the Russian army, in a sign that the war may be broadening.

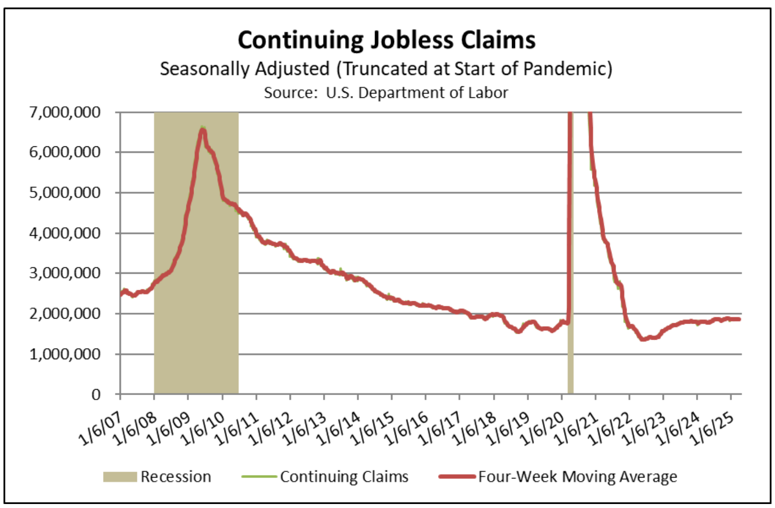
- Ukrainian officials have accused China of not taking sufficient measures to stop its citizens from enlisting in the Russian military, with estimates suggesting up to 150 Chinese fighters may be involved. If confirmed, this would represent the strongest indication yet of Chinese support for Russia's invasion and will likely call into question the country's claim of being neutral in the war. Following the allegation, the White House threatened to take action.
- The discovery of Chinese military involvement is poised to significantly escalate US-China tensions, particularly as Washington seeks to broker an end to the war in Ukraine. This support could substantially strengthen Russia's negotiating position by demonstrating its capacity to prolong the conflict with Beijing's backing. Moreover, it serves as stark evidence that American attempts to isolate Moscow and draw it away from Chinese influence may ultimately prove unsuccessful.
- A critical unknown remains how the EU will respond to these developments. Over the last few years, the bloc has repeatedly urged China to intervene and restrain Russia's aggression in Ukraine. European leaders have even cautioned that Beijing's support for Moscow risks triggering a fundamental divergence in their bilateral relations.

US Economic Releases

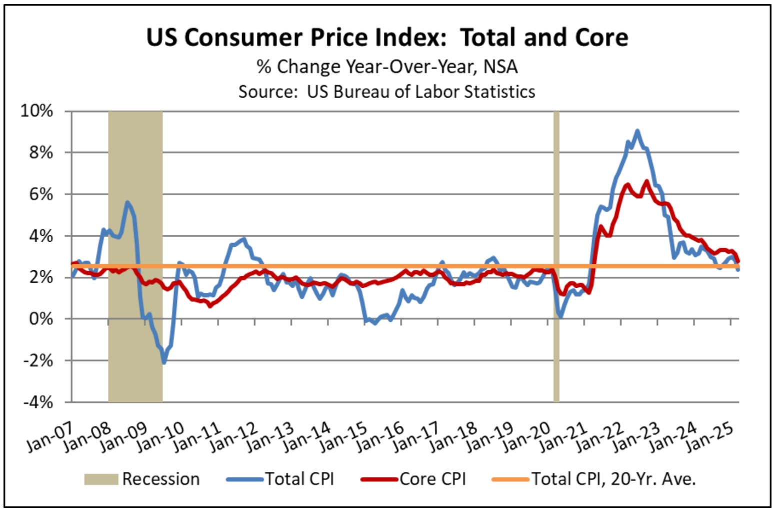
In the week ended April 5, ***initial claims for unemployment benefits*** rose to a seasonally adjusted 223,000, matching expectations and increasing from 219,000 in the prior week. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, was unchanged at 223,000. The chart below shows how initial jobless claims have fluctuated since just before the Great Financial Crisis. The chart is truncated through much of the pandemic period because of the extremely high level of claims at that time.



In the week ended March 29, the number of ***continuing claims for unemployment benefits*** (people continuing to draw benefits) fell to a seasonally adjusted 1.850 million, below both the anticipated level of 1.886 million and the previous week's revised level of 1.893 million. The four-week moving average of continuing claims fell to 1,867,750. The chart below shows how continuing claims have fluctuated since the GFC. It is also truncated during the pandemic period because of the high level of claims at the time.



Separately, the March ***consumer price index (CPI)*** fell by a seasonally adjusted 0.1%, coming in better than the expected rise of 0.1% and reversing about half the 0.2% increase in February. Excluding the volatile food and energy components, the ***"core" CPI*** rose 0.1%, well short of the anticipated increase of 0.3% and the February gain of 0.2%. The overall CPI in March was up 2.4% from the same month one year earlier, while the core CPI was up 2.8%. The chart below shows the year-over-year change in the CPI and the core CPI since just before the GFC.



The following table lists the releases and/or Fed events scheduled for the rest of the day.

Economic Releases						
EST	**Indicator**			**Expected**	**Prior**	**Rating**
14:00	Federal Budget Balance	m/m	Mar	-$130.0b	-$236.6b	**
Federal Reserve						
EST	**Speaker or Event**	**District or Position**				
9:30	Lorie Logan Gives Welcoming Remarks at Dallas Fed Event	President of the Federal Reserve Bank of Dallas				
10:00	Senate Nomination Hearing for Fed's Michelle Bowman	Member of the Board of Governors				
10:00	Jeff Schmid Speaks on Economic Outlook and Monetary Policy	President of the Federal Reserve Bank of Kansas City				
12:00	Austan Goolsbee Speaks at Economic Club of NY	President of the Federal Reserve Bank of Chicago				
12:00	Patrick Harker Speaks on Fintech	President of the Federal Reserve Bank of Philadelphia				

Foreign Economic News

We monitor numerous global economic indicators on a continuous basis. The most significant international news that was released overnight is outlined below. Not all releases are equally significant, thus we have created a star rating to convey to our readers the importance of the various indicators. The rating column below is a three-star scale of importance, with one star being the least important and three stars being the most important. We note that these ratings do change over time as economic circumstances change. Additionally, for ease of reading, we have also color-coded the market impact section, which indicates the effect on the foreign market. Red indicates a concerning development, yellow indicates an emerging trend that we are following closely for possible complications, and green indicates neutral conditions. We will add a paragraph below if any development merits further explanation.

Country	Indicator			Current	Prior	Expected	Rating	Market Impact
ASIA-PACIFIC								
Japan	PPI	y/y	Mar	4.2%	4.1%	3.9%	***	Equity bearish, bond bullish
	Japan Buying Foreign Bonds	w/w	4-Apr	-¥2569.8b	-¥5.9b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	4-Apr	¥1796.1b	¥583.2b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	4-Apr	-¥2789.1b	-¥484.88b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	4-Apr	¥1808.4b	-¥449.8b		*	Equity and bond neutral
Australia	Consumer Inflation Expectations	m/m	Apr	4.2%	3.6%		*	Equity and bond neutral
China	PPI	y/y	Mar	-2.5%	-2.2%	-2.3%	**	Equity bearish, bond bullish
	CPI	y/y	Mar	-0.1%	-0.7%	0.1%	**	Equity bearish, bond bullish
EUROPE								
Italy	Industrial Production WDA	y/y	Feb	-2.7%	-0.8%	-1.5%	***	Equity bearish, bond bullish
UK	RICS House Price Balance	y/y	Mar	2	8	11	**	Equity bearish, bond bullish
AMERICAS								
Brazil	IBGE Services Volume	y/y	Feb	4.2%	1.1%	3.4%	*	Equity bullish, bond bearish

Financial Markets

The table below highlights some of the indicators that we follow daily. Again, the color coding is similar to the foreign news description above. We will add a paragraph below if a certain move merits further explanation.

Fixed Income	Today	Prior	Change	Trend
3-mo T-bill yield (bps)	420	423	-3	Up
U.S. Sibor/OIS spread (bps)	428	430	-2	Down
U.S. Libor/OIS spread (bps)	427	428	-1	Down
10-yr T-note (%)	4.30	4.34	-0.04	Up
Euribor/OIS spread (bps)	230	229	1	Down
Currencies	**Direction**			
Dollar	Up			Down
Euro	Down			Up
Yen	Up			Up
Pound	Down			Up
Franc	Down			Up

Commodity Markets

The commodity section below shows some of the commodity prices and their change from the prior trading day, with commentary on the cause of the change highlighted in the last column.

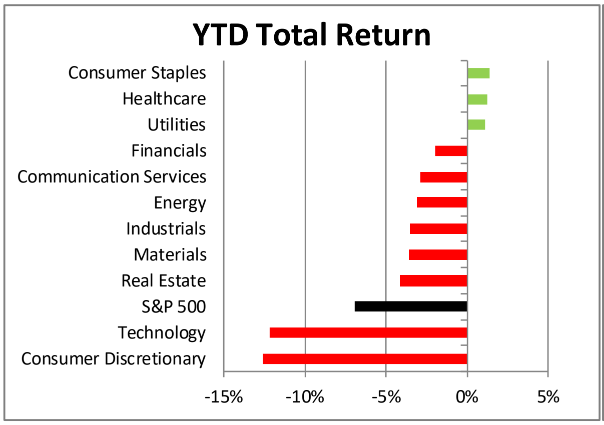
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$63.84	$65.48	-2.50%	
WTI	$60.71	$62.35	-2.63%	
Natural Gas	$3.70	$3.82	-3.04%	
Crack Spread	$23.97	$24.33	-1.50%	
12-mo strip crack	$20.98	$21.49	-2.37%	
Ethanol rack	$1.88	$1.88	0.00%	
Metals				
Gold	$3,121.95	$3,082.70	1.27%	
Silver	$30.89	$31.04	-0.49%	
Copper contract	$436.55	$419.25	4.13%	
Grains				
Corn contract	$483.50	$480.50	0.62%	
Wheat contract	$544.50	$542.25	0.41%	
Soybeans contract	$1,018.75	$1,012.75	0.59%	
Shipping				
Baltic Dry Freight	1,259	1,342	-83	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	2.55	2.60	-0.05	
Gasoline (mb)	-1.60	-1.42	-0.18	
Distillates (mb)	-3.54	0.10	-3.64	
Refinery run rates (%)	0.7%	0.5%	0.2%	
Natural gas (bcf)		58		

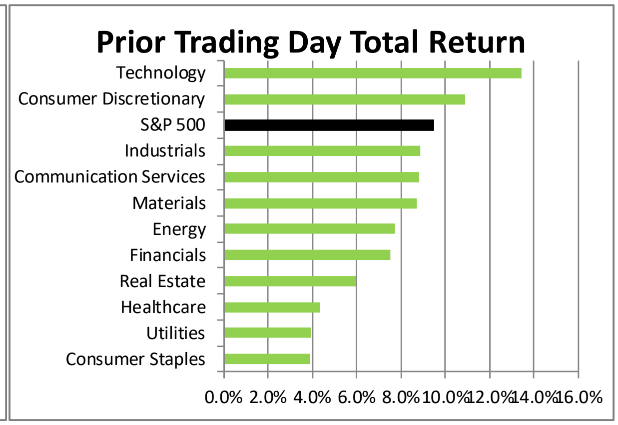
Weather

The 6-to-10 and 8-to-14-day forecasts show warmer-than-normal temperatures from the West Coast through the Great Plains and in southern Florida, with cooler-than-normal temperatures in the Midwest and Northeast. The forecasts call for wetter-than-normal conditions in the southern Great Plains, the Mississippi Valley, and the Midwest, with dry conditions in the Far West.

Data Section

US Equity Markets – (as of 4/9/2025 close)

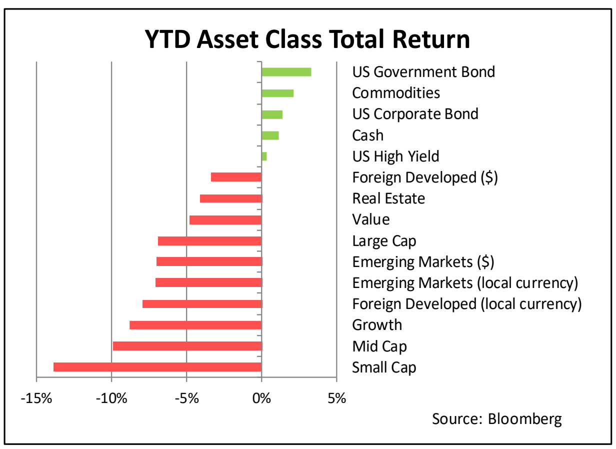




(Source: Bloomberg)

These S&P 500 and sector return charts are designed to provide the reader with an easy overview of the year-to-date and prior trading day total return. Sectors are ranked by total return; green indicating positive and red indicating negative return, along with the overall S&P 500 in black. These charts represent the new sectors following the 2018 sector reconfiguration.

Asset Class Performance – (as of 4/9/2025 close)

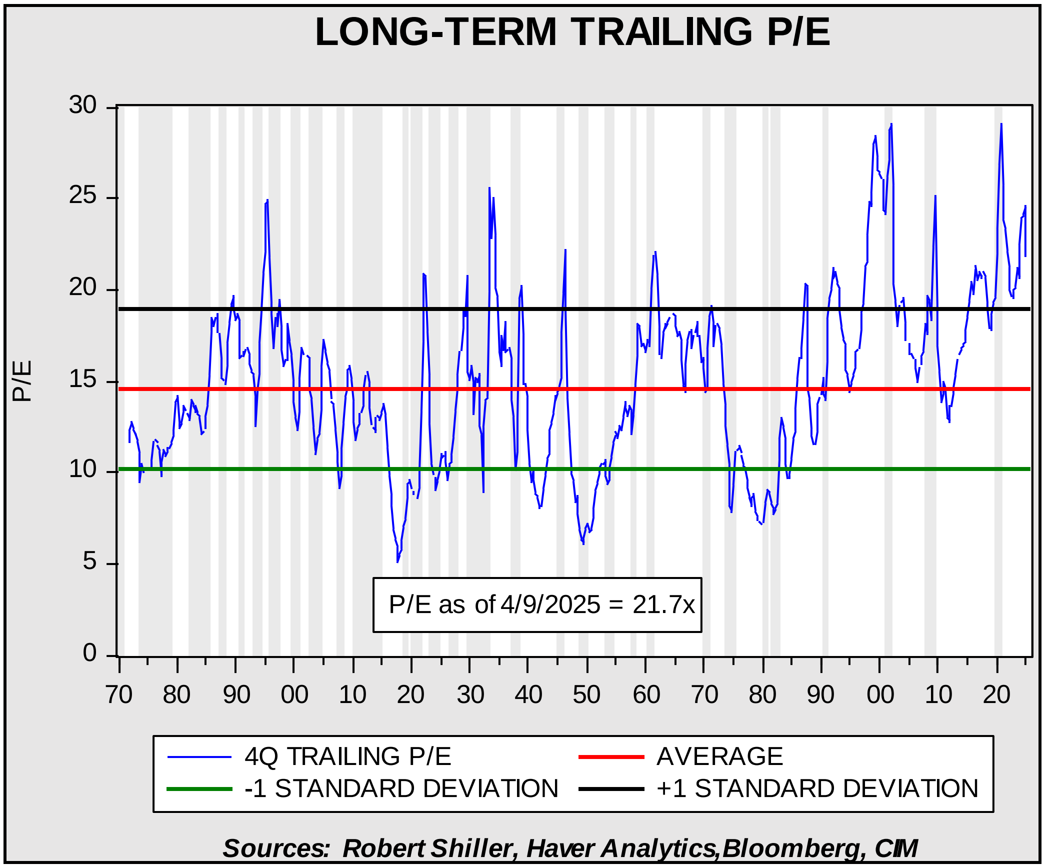


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

Asset classes are defined as follows: Large Cap (S&P 500 Index), Mid Cap (S&P 400 Index), Small Cap (Russell 2000 Index), Foreign Developed (MSCI EAFE (USD and local currency) Index), Real Estate (FTSE NAREIT Index), Emerging Markets (MSCI Emerging Markets (USD and local currency) Index), Cash (iShares Short Treasury Bond ETF), US Corporate Bond (iShares iBoxx $ Investment Grade Corporate Bond ETF), US Government Bond (iShares 7-10 Year Treasury Bond ETF), US High Yield (iShares iBoxx $ High Yield Corporate Bond ETF), Commodities (Bloomberg total return Commodity Index), Value (S&P 500 Value), Growth (S&P 500 Growth).

P/E Update

April 10, 2025



Based on our methodology,[1] the current P/E is 21.7x, down 2.3 from our last report. The drop in the multiple resulted primarily from a sharp decrease in the stock price index, which offset the decline in Q1 earnings.

This report was prepared by Confluence Investment Management LLC and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward-looking statements expressed are subject to change. This is not a solicitation or an offer to buy or sell any security.

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[1] This chart offers a running snapshot of the S&P 500 P/E in a long-term historical context. We are using a specific measurement process, similar to *Value Line*, which combines earnings estimates and actual data. We use an adjusted operating earnings number going back to 1870 (we adjust as-reported earnings to operating earnings through a regression process until 1988), and actual operating earnings after 1988. For the current quarter, we use the Bloomberg estimates which are updated regularly throughout the quarter; currently, the four-quarter earnings sum includes three actual quarters (Q2, Q3, and Q4) and one estimate (Q1). We take the S&P average for the quarter and divide by the rolling four-quarter sum of earnings to calculate the P/E. This methodology isn't perfect (it will tend to inflate the P/E on a trailing basis and deflate it on a forward basis), but it will also smooth the data and avoid P/E volatility caused by unusual market activity (through the average price process). Why this process? Given the constraints of the long-term data series, this is the best way to create a long-term dataset for P/E ratios.