Daily Comment

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[Posted: April 16, 2025 — 9:30 AM ET] Global equity markets are generally lower this morning. In Europe, the Euro Stoxx 50 closed down 0.7% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 1.9%. Chinese markets were mixed, with the Shanghai Composite up 0.3% from its previous close and the Shenzhen Composite down 1.1%. US equity index futures are signaling a lower open.

With 38 companies having reported so far, S&P 500 earnings for Q1 are running at $59.80 per share, compared to estimates of $60.75, which is up 7.3% from Q1 2024. Of the companies that have reported thus far, 76.3% have exceeded expectations while 21.1% have fallen short of expectations.

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	"From Magnificent 7 to European Revival" (4/14/25) + podcast	Q1 2025 Report Q1 2025 Rebalance Presentation	The Confluence of Ideas podcast Business Cycle Report

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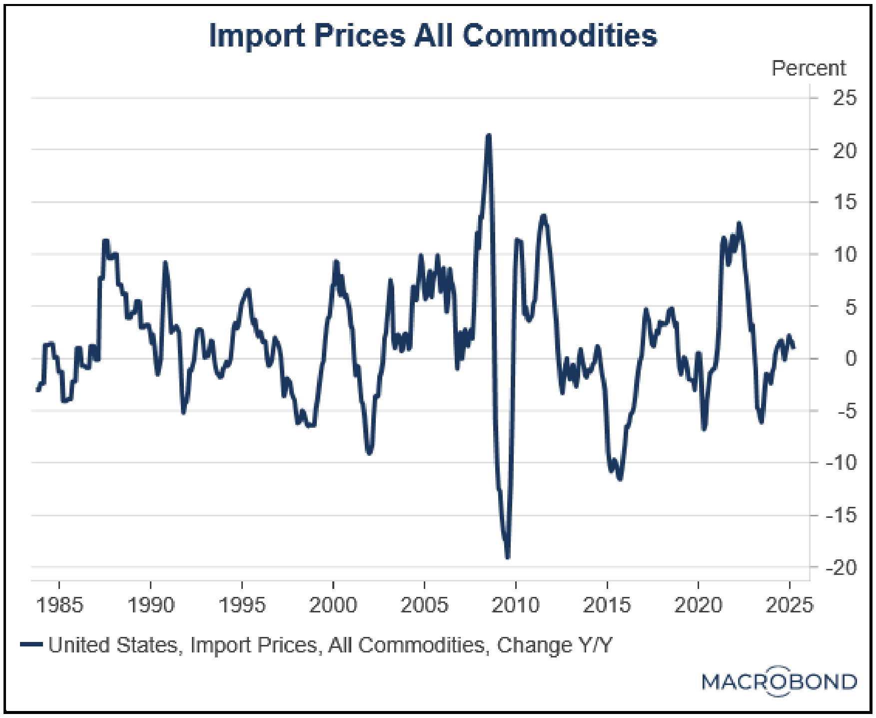
Good morning! The markets are weighing the latest retail sales. In sports, both the Golden State Warriors and Orlando Magic have clinched playoff berths in the NBA. Today's *Comment* will focus on interpreting what import prices indicate about inflation pressures, examine the White House's growing openness to tax increases, and analyze other key market developments. As usual, the report will include a summary of domestic and international economic data releases.

Tariff Update: Recent import price data suggests that tariffs have not yet translated into increased inflation. Nevertheless, trade concerns remain.

- The latest trade price figures revealed a 0.1% decline in import prices during the first complete month following the new tariff implementations. This was the first monthly decrease since September 2024. The downward movement was principally fueled by a significant 2.3% drop in petroleum prices. When excluding petroleum, import prices were unchanged from the previous month. Export prices also showed no meaningful change from the previous month's levels.

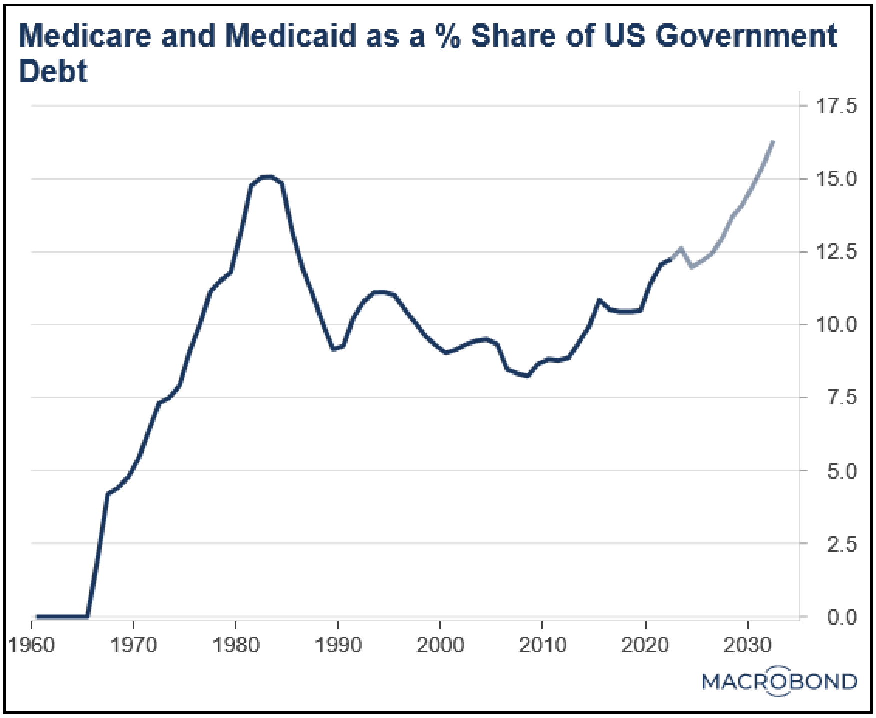
- The muted inflationary impact of recent tariffs has provided temporary relief to policymakers, though uncertainty lingers regarding the Fed's next moves. Boston Fed research shows import prices account for 10% of core PCE, comprising 6% from direct passthrough effects and 4% through secondary channels. This structural relationship has intensified market worries that sustained trade restrictions may keep monetary policy on hold through year-end, potentially delaying anticipated rate cuts.



- Nevertheless, several Fed officials continue to highlight lingering risks. Richmond Fed President Thomas Barkin cautioned that while businesses have managed to maintain inventories thus far, consumers could still face price increases by June. He further warned that ongoing tariff-related uncertainty may delay the timeline for potential rate cuts. Atlanta Fed President Raphael Bostic highlighted that the Federal Reserve would adjust its policy once it has a better understanding of where trade policy is going.
- This month's import price data is significant because it indicates that the impact of trade restrictions on price pressures is currently lagging. This delay could be due to factors like discounts for bulk orders placed before tariffs or absorption of some tariff costs. Consequently, we caution that while tariffs will likely lead to higher costs for consumers and suppliers, the overall effects remain uncertain.

More Taxes: Raising taxes on wealthy individuals and corporations is gaining momentum within the Trump administration as it aims to offset the costs of proposed middle-class tax cuts.

- While no final decision has been made, President Trump is reportedly considering corporate tax rate increases as a potential revenue source to offset proposed payroll tax cuts. Simultaneously, Republican lawmakers are drafting legislation that would introduce a new 40% tax bracket for individuals earning over $1 million annually. These discussions emerge as the administration faces challenges in financing its new tax package.
- The proposal to increase the top marginal tax rate from 37% to 40% reflects growing Republican concerns about the deficit's impact on national debt. While some GOP members worry that the new tax bill could exacerbate fiscal shortfalls, attempts to offset costs through cuts to Medicare, Medicaid, and Social Security face significant political resistance due to potential backlash.



- The GOP's openness to tax increases represents a striking break with party orthodoxy, challenging its decades-long commitment to tax reduction — especially for top earners. This ideological evolution reflects the rising sway of populism in Republican economic policy. The shift coincides with a broader realignment of political coalitions, as affluent suburban districts increasingly favor Democrats while working-class areas trend Republican, a transformation years in the making.
- Proposals to raise taxes on corporations and high earners should be viewed skeptically until formally enacted into law. Even if included, such measures would likely be offset by other tax provisions and may primarily serve as political insulation against Democratic claims that Republicans favor the wealthy. That said, successful passage could establish a precedent for future wealth-focused tax increases, potentially reshaping the party's fiscal approach to align with its evolving populist base.

Tech Concerns: A clouded outlook from ASML as well as new trade restrictions on chips has weighed on the tech sector.

- Dutch semiconductor equipment leader ASML has warned that persistent tariff uncertainty is significantly obscuring its visibility for 2025-2026. The company's disappointing first-quarter net bookings — a critical forward-looking metric — fell short of analyst expectations, suggesting potential headwinds for the global semiconductor sector. Compounding these challenges, management acknowledged difficulty in quantifying the potential earnings impact of escalating trade tensions.
- Nvidia faces intensified regulatory challenges as the Trump administration expands its semiconductor export controls, adding the company's flagship H20 AI processor to the China trade blacklist. The new restrictions, which require special licensing for all future China exports with no defined expiration, could force Nvidia to absorb a significant $5.5 billion Q1 write-down on previously approved shipments. This represents one of the largest financial hits yet from the ongoing US-China tech decoupling.
- One critical consideration throughout this trade war is monitoring companies with substantial foreign revenue exposure. These multinational firms face heightened risks as global markets adapt to escalating tariffs. Consequently, investors may find defensive opportunities in domestically oriented businesses that are less vulnerable to international trade disruptions.

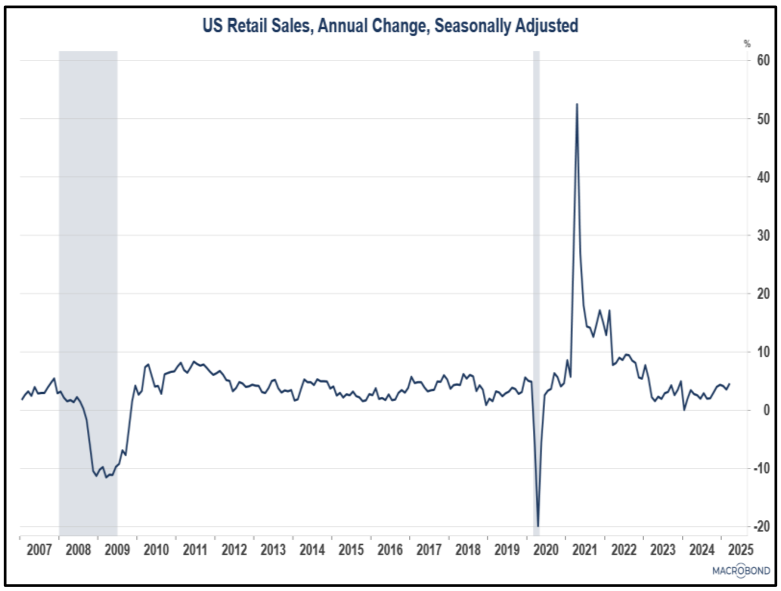
Japan Test Case? The US has prioritized Japan as it seeks to establish a framework for trade negotiations with major global economies.

- Japanese negotiators are scheduled for direct talks with President Trump to address bilateral trade imbalances and ongoing military cooperation. While the Trump administration has indicated that it intends to maintain at least 10% baseline tariffs, Tokyo is reportedly advocating for their complete elimination. These discussions follow the US president's recent push to impose 24% reciprocal tariffs on Japanese goods.
- Trade negotiations between the two will provide a lot of insight into the flexibility of the Trump administration, which has been known to drive a hard bargain. If they are able to show more leniency in response to getting some concessions from trade partners, then the market could regain the optimism that it had at the beginning of the year.
- Notably, the 10% baseline tariffs may be more negotiable than the Trump administration's public position indicates. As we previously reported, President Trump's chief economic advisor Kevin Hassett has suggested that exceptional trade concessions could justify rates falling below the 10% threshold. Should any trading partner successfully secure such terms, it would represent a significant policy shift.
- Market expectations have evolved significantly — where investors once demanded complete tariff elimination, they now view moderated tariffs as an acceptable outcome. This shift suggests cautious optimism that the Trump administration can balance its dual objectives of generating tariff revenue without the market disruption.

US Economic Releases

The Mortgage Bankers Association today said ***mortgage applications*** for the week ended April 11 fell 8.5%, likely in response to the largest weekly increase in mortgage rates since October. Purchase applications fell 4.9%, after rising 9.2% last week. Refinancing applications fell 12.4%, after rising 35.3% last week. The average 30-year fixed-rate mortgage rose 20 basis points to 6.81%, abruptly ending a six-week stretch of increasing home purchase applications.

March ***retail sales*** rose by a seasonally adjusted 1.4%, matching the expectation and accelerating from the 0.2% increase of the prior month. Of course, overall retail sales are often driven by the volatile auto and auto parts sector, which makes up almost one-fifth of the total. March ***retail sales excluding autos and auto parts*** rose a more modest 0.5%, slightly ahead of the expected 0.4% and decelerating from the prior month's 0.7% rise. Overall retail sales in March rose 4.6% from the same month one year earlier, while sales excluding autos and auto parts rose 3.6%. The chart below shows how retail sales have changed since just before the Global Financial Crisis.



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

Economic Releases						
EST	Indicator			Expected	Prior	Rating
10:00	Business Inventories	m/m	Feb	0.2%	0.3%	*
10:00	NAHB Housing Market Index	m/m	Apr	38	39	*
16:00	Net Long-Term TIC Flows	m/m	Feb		-$45.2b	**
16:00	Total Net TIC Flows	m/m	Feb		-$48.8b	**
Federal Reserve						
EST	Speaker or Event	District or Position				
12:00	Beth Hammack Speaks in Moderated Q&A	President of the Federal Reserve Bank of Cleveland				
13:30	Jerome Powell Speaks to Economic Club of Chicago	Chairman of the Board of Governors				
19:00	Jeff Schmid Chats With Fed's Logan on Economy, Banking	President of the Federal Reserve Bank of Kansas City				

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	Core Machine Orders	y/y	Feb	1.5%	4.4%	-0.9%	**	Equity bullish, bond bearish
Australia	Westpac Leading Index	m/m	Mar	-0.11%	0.07%		**	Equity and bond neutral
New Zealand	Non Resident Bond Holdings	m/m	Jan	61.9%	61.8%		*	Equity and bond neutral
South Korea	Export Price Index	y/y	Apr	6.3%	6.3%		*	Equity and bond neutral
	Import Price Index	y/y	Apr	3.4%	4.3%		*	Equity and bond neutral
China	GDP	y/y	1Q	5.4%	5.4%	5.2%	**	Equity and bond neutral
	Retail Sales	y/y	Mar	5.9%	4.3%		**	Equity and bond neutral
	Industrial Production YTD	y/y	Mar	7.7%	5.9%		***	Equity and bond neutral
	Fixed Assets Ex Rural YTD	y/y	Mar	4.2%	4.1%	4.1%	**	Equity and bond neutral
EUROPE								
Eurozone	ECB Current Account SA	m/m	Feb	€34.3b	€40.3b		*	Equity and bond neutral
	CPI	y/y	Mar F	2.2%	2.2%	2.2%	***	Equity and bond neutral
	Core CPI	y/y	Mar F	2.4%	2.4%	2.4%	**	Equity and bond neutral
Italy	CPI, EU Harmonized	y/y	Mar F	2.1%	2.1%	2.1%	***	Equity and bond neutral
	CPI NIC Including Tobacco	y/y	Mar F	1.9%	2.0%	2.0%	**	Equity and bond neutral
	Current Account Balance	m/m	Feb	1604m	-3873m		*	Equity and bond neutral
UK	CPI	y/y	Mar	2.6%	2.8%	2.7%	***	Equity and bond neutral
	CPI Core	y/y	Mar	3.4%	3.5%	3.4%	***	Equity and bond neutral
	Retail Price Index	m/m	Mar	395.3	394.0	395.5	**	Equity and bond neutral
	RPI	y/y	Mar	3.2%	3.4%	3.2%	**	Equity and bond neutral
AMERICAS								
Canada	Housing Starts	m/m	Feb	214.2k	221.4k	238.8k	**	Equity and bond neutral
	Manufacturing Sales	m/m	Feb	0.2%	1.6%	-0.2%	**	Equity and bond neutral
	CPI	y/y	Mar	2.3%	2.6%	2.7%	***	Equity and bond neutral
	Existing Home Sales	m/m	Mar	-4.8%	-9.8%		**	Equity and bond neutral
Mexico	International Reserves Weekly	w/w	11-Apr	$237,983	$237804m		*	Equity and bond neutral

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)	419	420	-1	Up
U.S. Sibor/OIS spread (bps)	427	428	-1	Down
U.S. Libor/OIS spread (bps)	426	427	-1	Down
10-yr T-note (%)	4.33	4.34	-0.01	Down
Euribor/OIS spread (bps)	226	225	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.

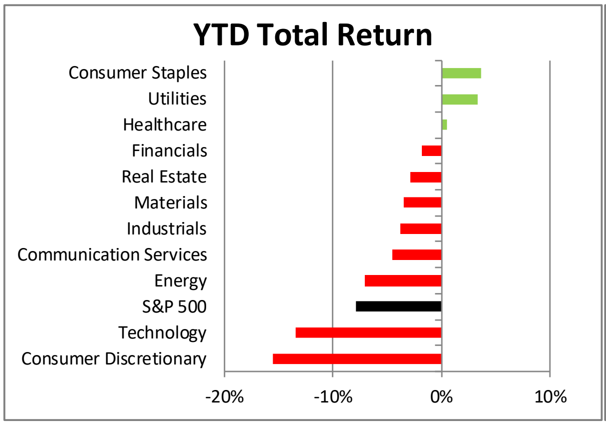
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$65.31	$64.67	0.99%	
WTI	$61.95	$61.33	1.01%	
Natural Gas	$3.30	$3.33	-0.78%	
Crack Spread	$24.78	$24.48	1.20%	
12-mo strip crack	$21.53	$21.40	0.62%	
Ethanol rack	$1.90	$1.90	0.06%	
Metals				
Gold	$3,299.30	$3,230.72	2.12%	
Silver	$32.96	$32.32	1.97%	
Copper contract	$464.85	$467.85	-0.64%	
Grains				
Corn contract	$491.75	$489.50	0.46%	
Wheat contract	$558.50	$556.00	0.45%	
Soybeans contract	$1,045.75	$1,046.50	-0.07%	
Shipping				
Baltic Dry Freight	1,263	1,282	-19	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		0.95		
Gasoline (mb)		-1.71		
Distillates (mb)		-1.14		
Refinery run rates (%)		0.5%		
Natural gas (bcf)		26		

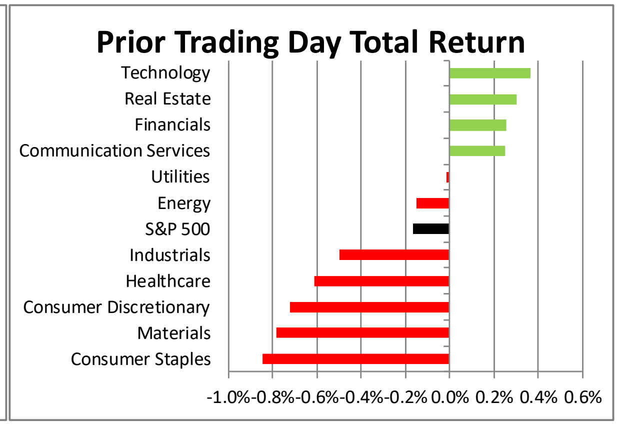
Weather

The 6-to-10 and 8-to-14-day forecasts show warmer-than-normal temperatures for the eastern two thirds of the country, with cooler-than-normal temperatures from Washington to Montana. The precipitation outlook calls for wetter-than-normal conditions for most of the country, with drier-than-normal conditions expected on the northern West Coast.

Data Section

US Equity Markets – (as of 4/15/2025 close)

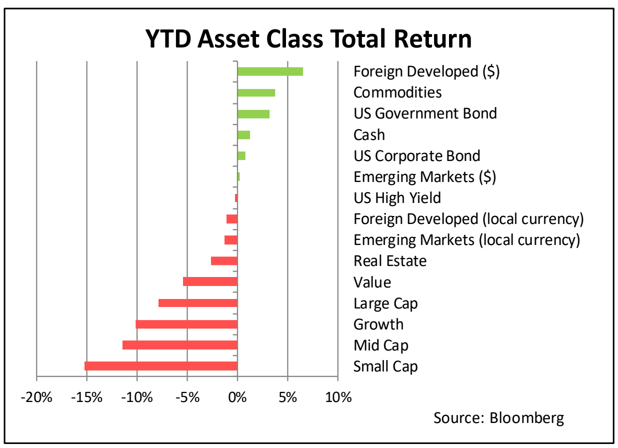




(Source: Bloomberg)

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 4/15/2025 close)

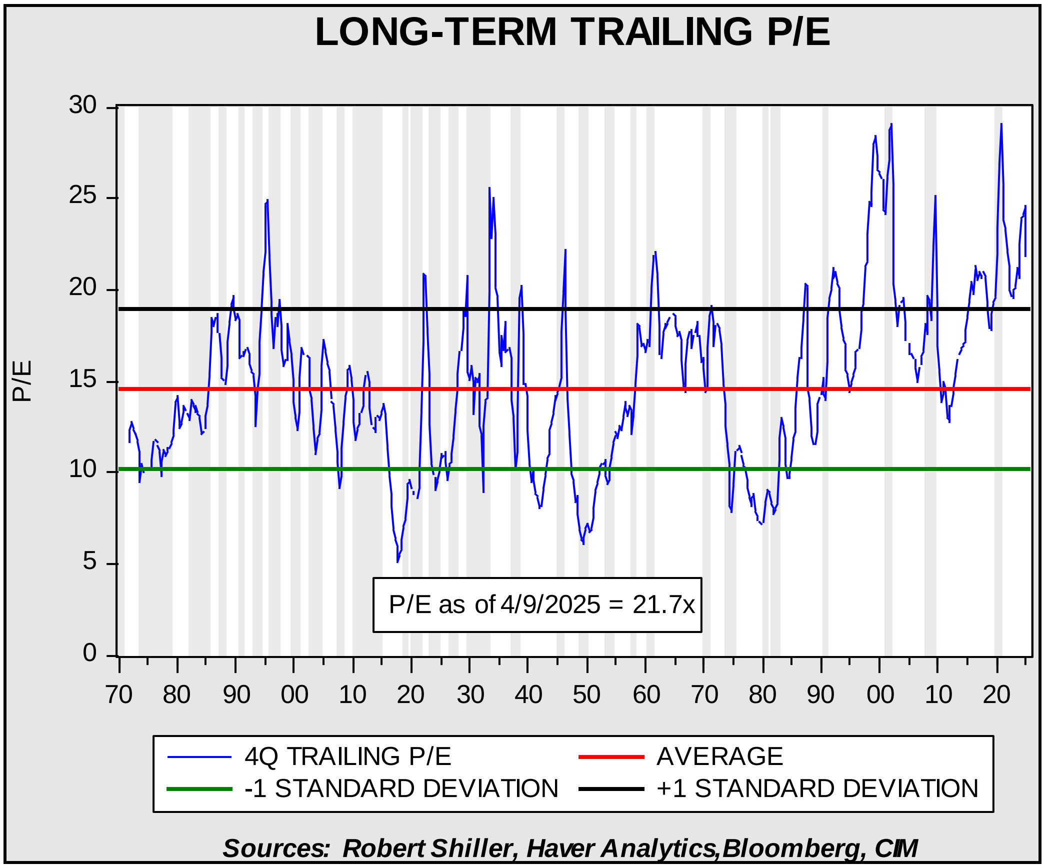


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.