Daily Comment

Confluence INVESTMENT MANAGEMENT

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: April 17, 2025 — 9:30 AM ET] Global equity markets are mostly higher 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 up 1.1%. Chinese markets were higher, with both the Shanghai and Shenzhen Composites up 0.1% from their previous close. US equity index futures are signaling a higher open.

With 46 companies having reported so far, S&P 500 earnings for Q1 are running at $59.90 per share, compared to estimates of $60.75, which is up 7.3% from Q1 2024. Of the companies that have reported thus far, 73.9% have exceeded expectations while 23.9% 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. **Note: the next *Bi-Weekly Geopolitical Report* will be published on 4/28/25.**

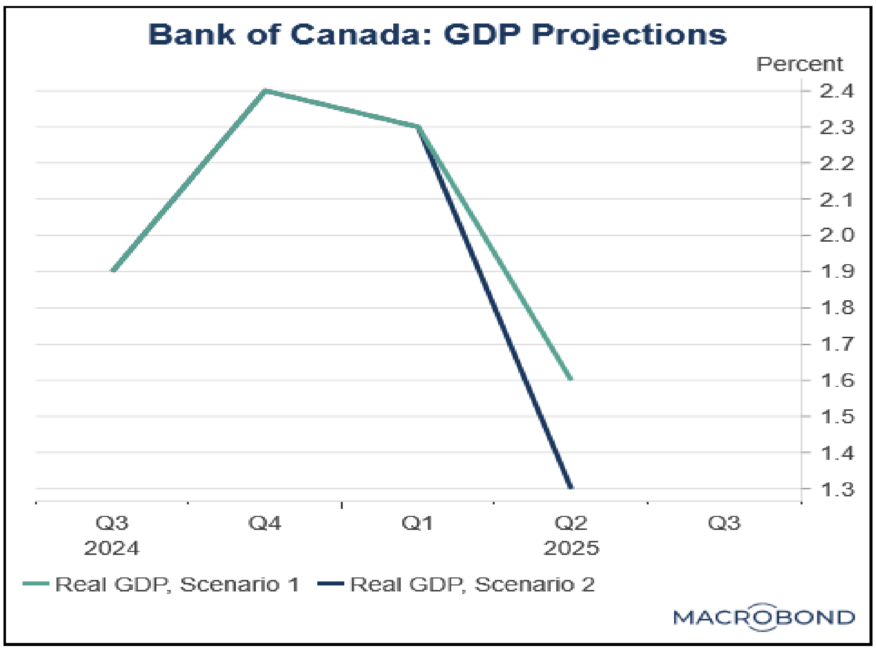
Bi-Weekly Geopolitical Report	Asset Allocation Bi-Weekly	Asset Allocation Quarterly	Of Note
"Growing Fragility in the US Bloc" (4/7/25) + podcast	"From Magnificent 7 to European Revival" (4/14/25) + podcast	**Q2 2025 Report**	**Keller Quarterly**

Note: There will be no Daily Comment *published tomorrow due to the holiday.*

Good morning. Global monetary policy concerns are currently a key focus for the market. In sports, reigning Champions League titleholders Real Madrid were eliminated by Arsenal. Today's *Comment* will address recession fears in Canada, the Federal Reserve's policy stance amid tariff uncertainty, and other market-moving developments. As always, this report will include domestic and international data releases.

Trouble Up North? The Bank of Canada became the first G-7 central bank to flag a trade war as a potential recession trigger.

- BOC Governor Tiff Macklem delivered a sobering warning about Canada facing a potential once-in-a-generation economic crisis. While the economy showed resilience through late 2024, recent developments have revealed a dramatic deterioration fueled by growing trade policy uncertainty, particularly from aggressive US tariff measures. Macklem expressed concerns that escalating trade tensions could push Canada into a prolonged recession, potentially creating rising inflation and increasing unemployment.
- The grim economic outlook reflects growing concerns that Canada may struggle to maintain growth amid escalating trade tensions with its southern neighbor. The auto sector (a key pillar of the economy) has already shown signs of strain: Stellantis has temporarily idled a factory, General Motors is planning months-long plant shutdowns, and Honda is rumored to be considering a relocation of 90% of its Canadian and Mexican production to the US to prioritize local sales.
- Economic anxieties have surged to the forefront of Canada's election campaign, now just 11 days away. Prime Minister Mark Carney, leading the Liberals, and Conservative challenger Pierre Poilievre are locked in a high-stakes battle to prove their ability to navigate relations with US President Donald Trump. Wednesday's inaugural televised debate revealed stark contrasts as Carney positioned himself as the steady crisis manager, while Poilievre embraced the mantle of radical change.

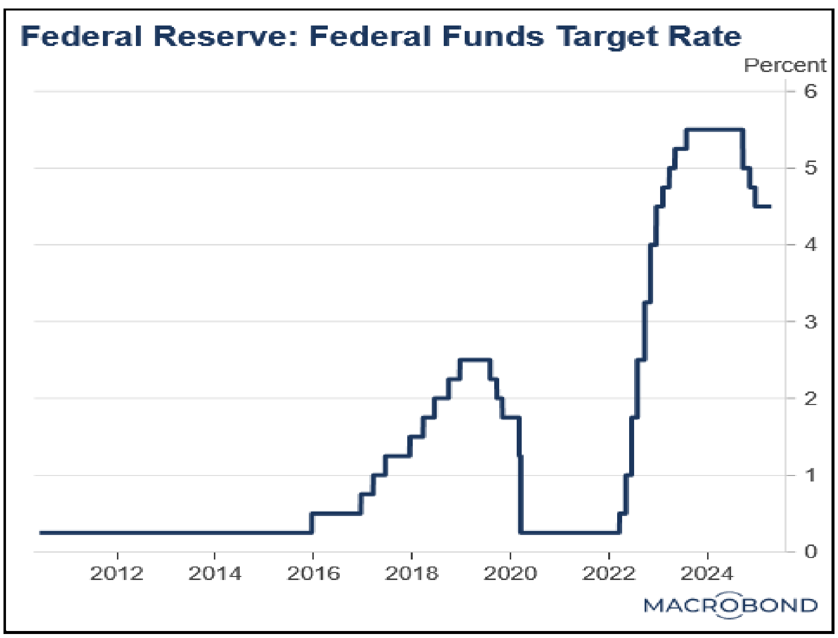


- Canada's economic vulnerability and heavy reliance on US trade have elevated this election to historic importance, with the outcome likely shaping how the nation weathers a potential trade conflict with its southern neighbor. The Conservative candidate previously enjoyed what seemed to be an insurmountable advantage just months ago, but the political landscape has shifted decisively as voters perceive PM Mark Carney as being best equipped to counter President Trump's assertive approach toward trade talks.

- As the global order fragments into economic blocs, stronger US-Canada alignment could foster coordinated policy responses to address shared concerns about China's economic and geopolitical ambitions. We believe that Carney's pragmatic stance positions him favorably for negotiations with the Trump administration. His recognition of Canada's limited retaliatory capacity in trade disputes underscores his unwillingness for an out all out back and forth between the two countries.

Fed Concerns? Federal Reserve Chair Jerome Powell hinted that tariff uncertainty may lead the Fed to hold rates unchanged for the rest of the year.

- During a speech at the Economic Club of Chicago, Powell warned that trade uncertainty has complicated the Federal Reserve's efforts to fulfill its dual mandate of maximum employment and price stability. He noted that the current tariff levels far exceed the Fed's worst-case projections, potentially forcing the central bank to adopt a more cautious, wait-and-see approach to interest rate policy. With Fed officials still uncertain about whether to prioritize inflation control or unemployment, the path forward remains unclear.
- Powell's lack of explicit guidance has raised market concerns that the Fed may deliver fewer rate cuts than anticipated. According to the CME FedWatch Tool, investors currently assign a 64% probability to three or four rate cuts this year. This uncertainty triggered a mild equities sell-off, as traders grew skeptical that the central bank would intervene to cushion a sharp market downturn — a phenomenon known as the *Fed put*.



- While the Fed and the market are concerned about rising inflation and slowing GDP growth (aka stagflation), it's important to note that true stagflation is exceptionally rare. The last significant occurrence in the US was in the 1970s and was driven by the Arab oil embargo. Given that oil prices have declined and broader economic data remains relatively stable, we believe it's too early to determine the economy's true trajectory.

- Despite concerns over trade policy, we believe the Fed is likely to keep its policy tools available to address economic risks. While Chair Powell has signaled hesitation about easing policy amid elevated inflation risks, we expect the central bank's stance could shift swiftly in the event of a severe disruption, such as a sudden spike in defaults or emerging liquidity strains. Barring such shocks, however, the Fed will probably remain on hold and allow developments to unfold.

Trade Talks Progress: Giorgia Meloni, Italy's Prime Minister, aims to strengthen US-EU ties, while Japan and the US maintain ongoing discussions.

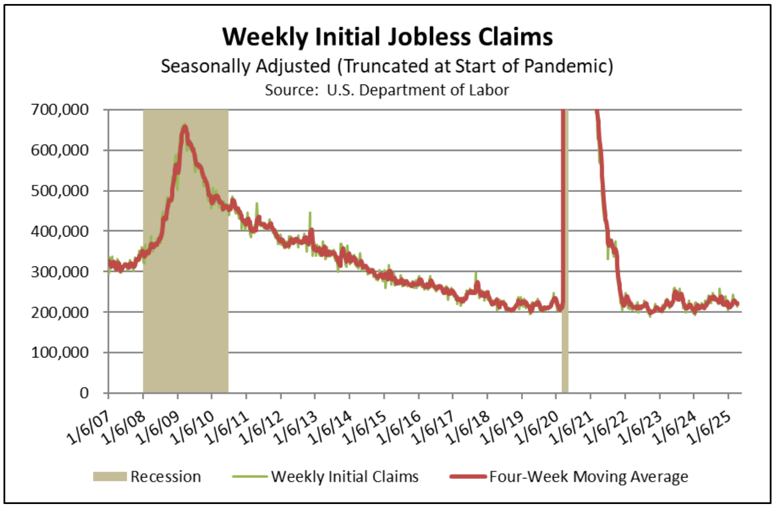
- Prime Minister Meloni is scheduled to meet with President Trump on Thursday, following the breakdown of recent EU-US trade negotiations. Her shared populist background with the US president has positioned her as a potential mediator. The visit occurs amidst EU accusations that the US failed to articulate its specific demands for a trade agreement. During those negotiations, the EU offered to eliminate all tariffs if the US reciprocated. The White House rejected this proposal, insisting on a 10% baseline tariff.
- Despite the lack of progress in EU negotiations, the Trump administration has made headway in discussions with Japan. While specific details remain undisclosed, a second round of negotiations is anticipated later this month. It is expected that both sides will seek agreements on trade and defense.
- US discussions with the EU and Japan are expected to be intense as they aim to establish a framework for an agreement before the 90-day exemption period expires. Given that the deadline is anticipated to near the Fourth of July holiday, we believe an arrangement will likely be finalized in time for the president to potentially use it as a marketing tool.

US-Iran Talks: The two sides have agreed to hold talks in Rome about Iran's nuclear program this weekend.

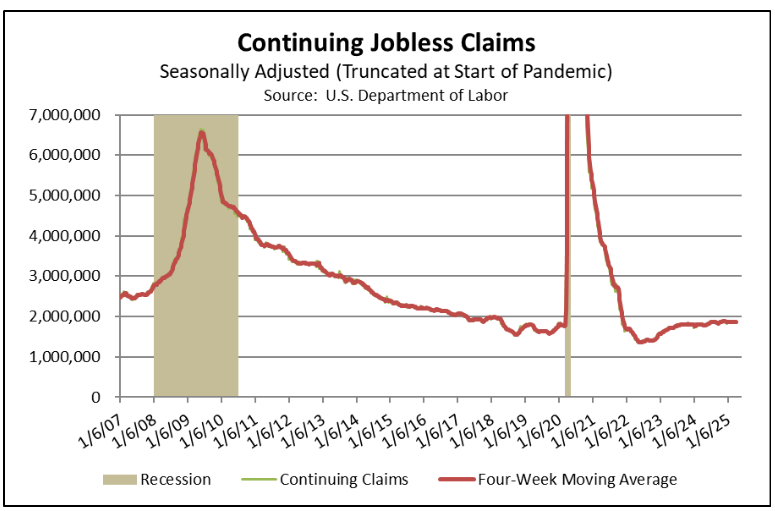
- US officials met with their Iranian counterparts last Saturday in Oman for the first round of discussions. The two sides are currently working to define their ultimate objectives regarding Iran's nuclear capabilities. Complicating matters, Iran has accused the US of moving the goal post from first aiming to limit its nuclear capability to now wanting to shut it down completely.
- The disagreement over what the US aims to achieve in talks with Iran appears to be driven by internal divisions within his inner circle. President Trump has made it clear that he would like to prevent Iran from weaponizing its program and creating a nuclear bomb. This comes after he refused to support Israel's desire to strike Iran's nuclear sites as soon as next month.
- Ongoing discussions are likely a positive for the market as they reduce the likelihood of conflict. Trump appears unwilling to pursue military action if a deal can be reached, potentially paving the way for an agreement between the two sides in the coming months.

US Economic Releases

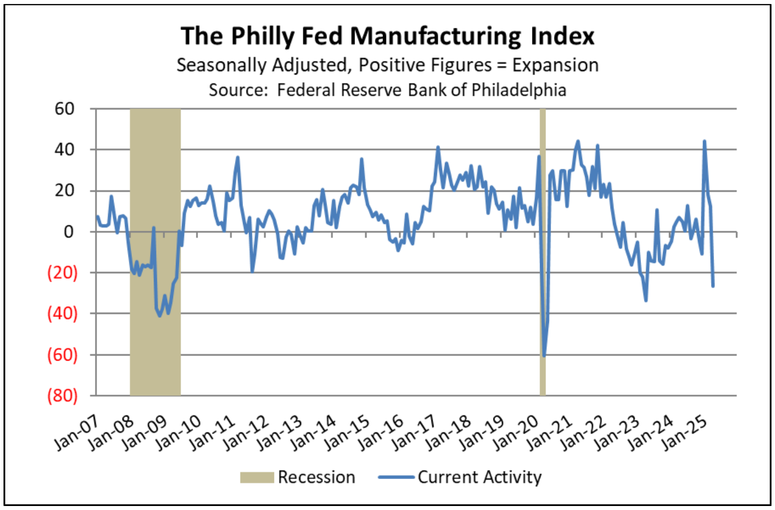
In the week ended April 12, ***initial claims for unemployment benefits*** fell to a seasonally adjusted 215,000, well below both the expected level of 225,000 and the previous week's revised level of 224,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, fell to a modest 220,750. 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.



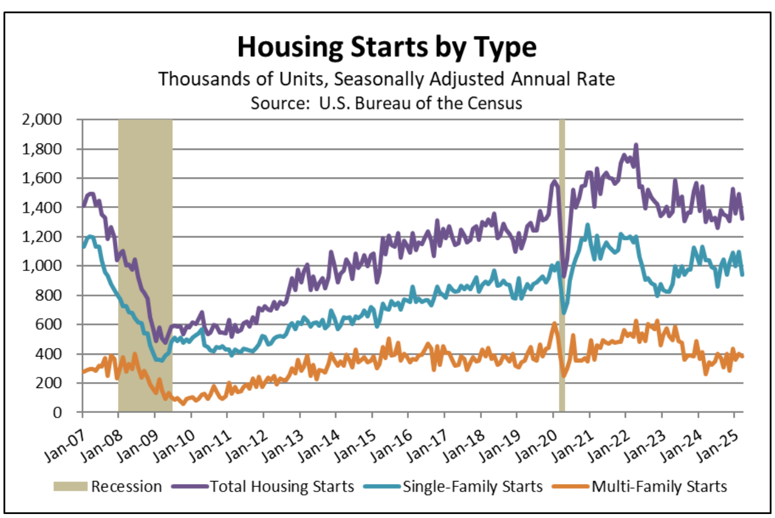
In the week ended April 5, the number of ***continuing claims for unemployment benefits*** (people continuing to draw benefits) rose to a seasonally adjusted 1.885 million, above both the anticipated reading of 1.870 million and the prior week's revised reading of 1.844 million. The four-week moving average of continuing claims rose to 1,867,250. 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 Philadelphia FRB said its April ***Philly Fed Index*** plunged to a seasonally adjusted -26.4, well below both the expected level of 2.2 and the March level of 12.5. The index, officially designated as the Philadelphia FRB Manufacturing Activity Index, is designed so that positive readings point to expanding factory activity in the mid-Atlantic region. At its current level, the index suggests mid-Atlantic manufacturing has suddenly started to contract again. The chart below shows how the index has fluctuated since just before the GFC.



Finally, March ***housing starts*** dropped to a seasonally adjusted, annualized rate of 1.324 million units, short of the expected rate of 1.420 million and the revised February rate of 1.494 million. The rate of housing starts in March was down 11.4% from the previous month, mostly because of reduced groundbreaking for single-family homes. However, in a sign that homebuilding could soon rebound, March ***housing permits*** rose to a rate of 1.482 million units, beating their anticipated rate of 1.450 million and their February rate of 1.459 million. Permits issued for new housing units in March were up 1.6% from the previous month. Compared with the same month one year earlier, housing starts in March were up 0.8%, while permits were up 1.0%. The chart below shows the growth in new home starts by type of property since just before the GFC.



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

Economic Releases		
No economic releases for the rest of today		
Federal Reserve		
EST	**Speaker or Event**	**District or Position**
11:45	Michael Barr Speaks in Fireside Chat	Member of the Board of Governors

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	Trade Balance	y/y	Mar	¥544.1b	¥590.5b	¥464.9b	**	Equity and bond neutral
	Exports	y/y	Mar	3.9%	11.4%	4.4%	*	Equity and bond neutral
	Imports	y/y	Mar	2.0%	-0.7%	3.1%	*	Equity bearish, bond bullish
	Japan Buying Foreign Bonds	w/w	11-Apr	-¥512.0b	-¥2569.9b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	11-Apr	¥258.1b	¥1793.4b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	11-Apr	¥2298.8b	¥2798.8b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	11-Apr	¥1043.7b	¥1783.5b		*	Equity and bond neutral
Australia	Employment Change	m/m	Mar	32.2k	-57.5k	40.0k	***	Equity and bond neutral
	Unemployment Rate	m/m	Mar	4.1%	4.0%	4.2%	***	Equity and bond neutral
	Participation Rate	m/m	Mar	66.8%	66.7%	66.9%	**	Equity and bond neutral
New Zealand	CPI	y/y	Q1	2.5%	2.2%	2.4%	**	Equity and bond neutral
EUROPE								
Germany	PPI	y/y	Mar	-0.2%	0.7%	0.4%	**	Equity and bond neutral
Switzerland	Real Exports	m/m	Mar	3.2%	3.9%		*	Equity and bond neutral
	Real Imports	m/m	Mar	4.5%	3.7%		*	Equity and bond neutral
Russia	PPI	y/y	Mar	5.9%	9.8%		***	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	421	-2	Up
U.S. Sibor/OIS spread (bps)	427	427	0	Down
U.S. Libor/OIS spread (bps)	426	427	-1	Down
10-yr T-note (%)	4.29	4.28	0.01	Down
Euribor/OIS spread (bps)	224	226	-2	Down
Currencies	**Direction**			
Dollar	Up			Down
Euro	Down			Up
Yen	Up			Up
Pound	Down			Up
Franc	Down			Up
Central Bank Action	**Current**	**Prior**	**Expected**	
ECB Deposit Facility Rate	2.25%	2.50%	2.25%	On Forecast
ECB Main Refinancing Rate	2.40%	2.65%	2.40%	On Forecast
ECB Marginal Lending Facility	2.65%	2.90%	2.65%	On Forecast
Bank of Korea Base Rate	2.75%	2.75%	2.75%	On Forecast
Bank of Canada Rate Decision	2.75%	2.75%	2.75%	On Forecast

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.

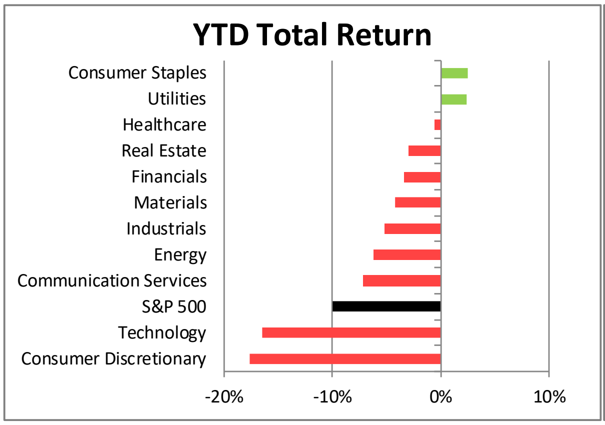
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$66.53	$65.85	1.03%	
WTI	$63.25	$62.47	1.25%	
Natural Gas	$3.27	$3.25	0.62%	
Crack Spread	$24.16	$24.23	-0.27%	
12-mo strip crack	$21.38	$21.40	-0.10%	
Ethanol rack	$1.89	$1.89	-0.17%	
Metals				
Gold	$3,331.08	$3,343.12	-0.36%	
Silver	$32.38	$32.77	-1.18%	
Copper contract	$464.70	$473.60	-1.88%	
Grains				
Corn contract	$491.25	$491.75	-0.10%	
Wheat contract	$563.75	$561.00	0.49%	
Soybeans contract	$1,052.75	$1,050.25	0.24%	
Shipping				
Baltic Dry Freight	1,241	1,263	-22	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	0.52	0.95	-0.43	
Gasoline (mb)	-1.96	-1.71	-0.25	
Distillates (mb)	-1.85	-1.14	-0.71	
Refinery run rates (%)	-0.4%	0.5%	-0.9%	
Natural gas (bcf)		25		

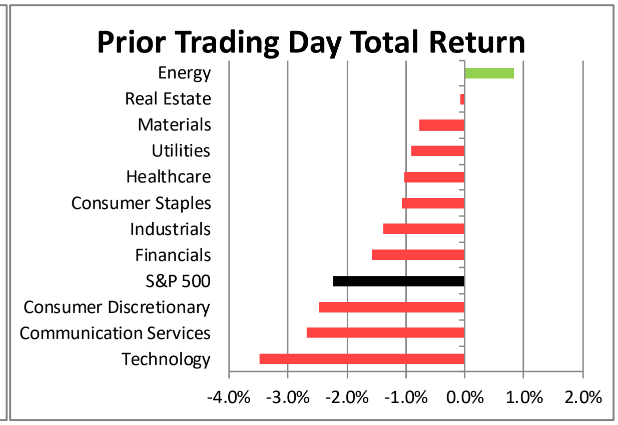
Weather

The 6-to-10 and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in virtually the entire country other than California, where temperatures will be near normal. The forecasts call for wetter-than-normal conditions in the Rocky Mountains, Great Plains, Midwest, and Southeast, with dry conditions in the Pacific Northwest.

Data Section

US Equity Markets – (as of 4/16/2025 close)

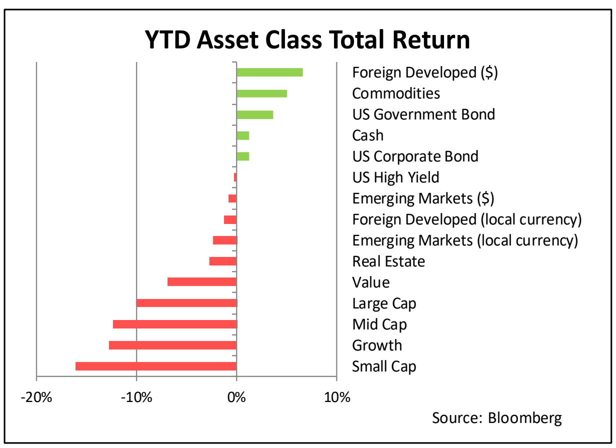




(Source: Bloomberg)

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 4/16/2025 close)

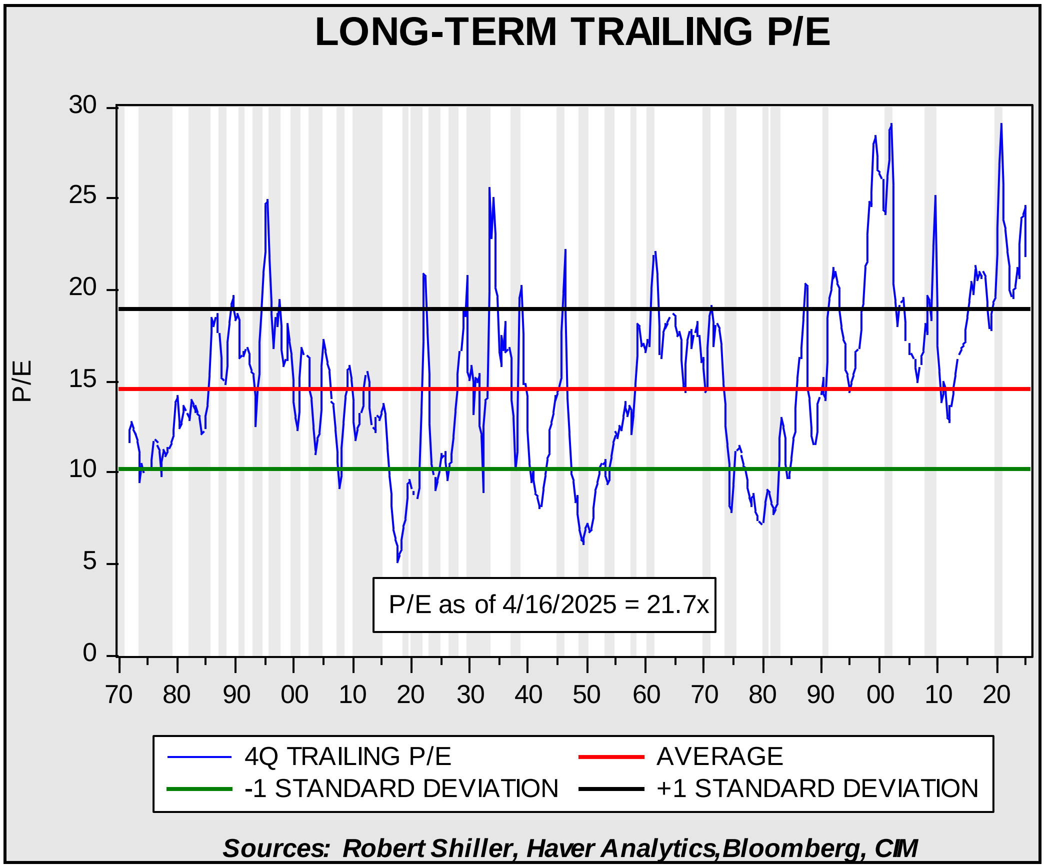


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 17, 2025



Based on our methodology,[1] the current P/E is 21.7x, unchanged from our last report. The stock price index and earnings were little changed from the previous week.

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.