Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: April 1, 2025 — 9:30 AM ET] Global equity markets are mostly higher this morning. In Europe, the Euro Stoxx 50 closed up 0.7% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 1.2%. Chinese markets were higher, with the Shanghai Composite up 0.4% from its previous close and the Shenzhen Composite also up 0.4%. 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
"The Bessent Gambit" (3/24/25) + 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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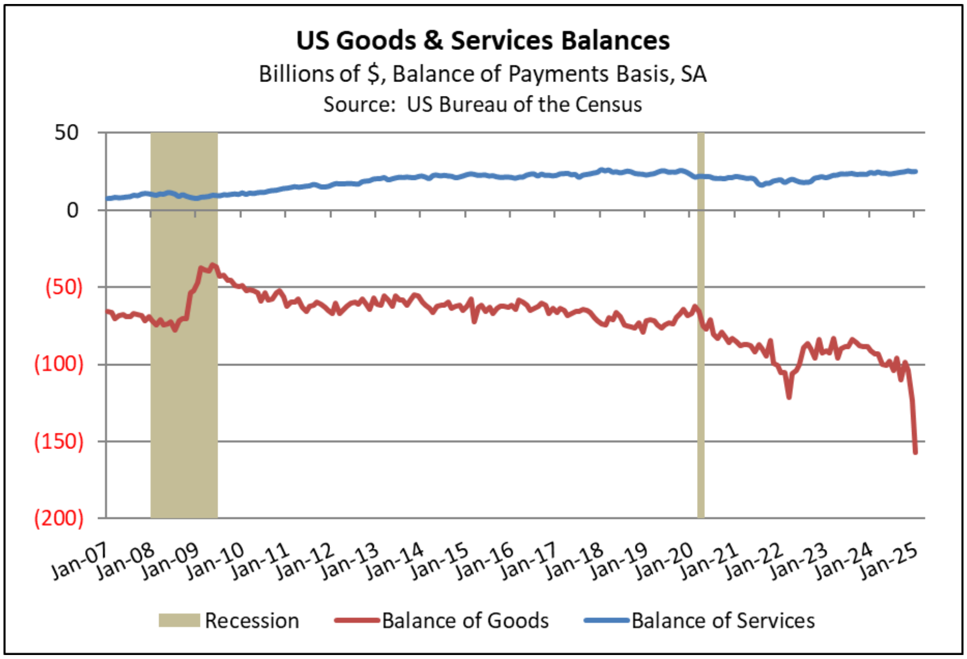
Our *Comment* today opens with the latest on President Trump's new tariffs, where it now appears that he will announce 20% duties tomorrow on virtually all US trading partners. We next review several other international and US developments with the potential to affect the financial markets today, including signs that the European Union may be stepping back from its stringent environmental regulations and a new Trump administration review of funding for a major research university.

US Tariff Policy: Bloomberg is reporting today that President Trump has decided to impose 20% tariffs against virtually all US trading partners at his "liberation day" announcement tomorrow. If true, it would mean that the president has decided to adopt a much more aggressive tariff approach than he had indicated last week. It would, of course, be no surprise if Trump quickly reverses course or modifies the tariffs, but the news has driven US stock futures sharply lower so far this morning.

- Separately, European Commission President von der Leyen today said EU executives have prepared a plan to retaliate against the US by imposing their own tariffs or other trade barriers on US services, including financial services and digital services provided by big US technology firms. The measures against US services are separate from the tariffs on almost $30 billion of US goods exports that the EU is also considering.

- Any EU strike against services would hit the US in the one area where it consistently runs modest trade surpluses, as shown in the chart below. The EU's action would therefore probably prompt President Trump to impose more trade barriers against the EU, worsening the trade war and likely undermining stock prices.



China-Japan-South Korea-United States: Citing Chinese state media, a report by Reuters yesterday asserted that China, Japan, and South Korea have agreed to "jointly respond" to any new US tariffs on their exports. However, such an agreement is not mentioned in Beijing's official readout of the three countries' recent trilateral summit.

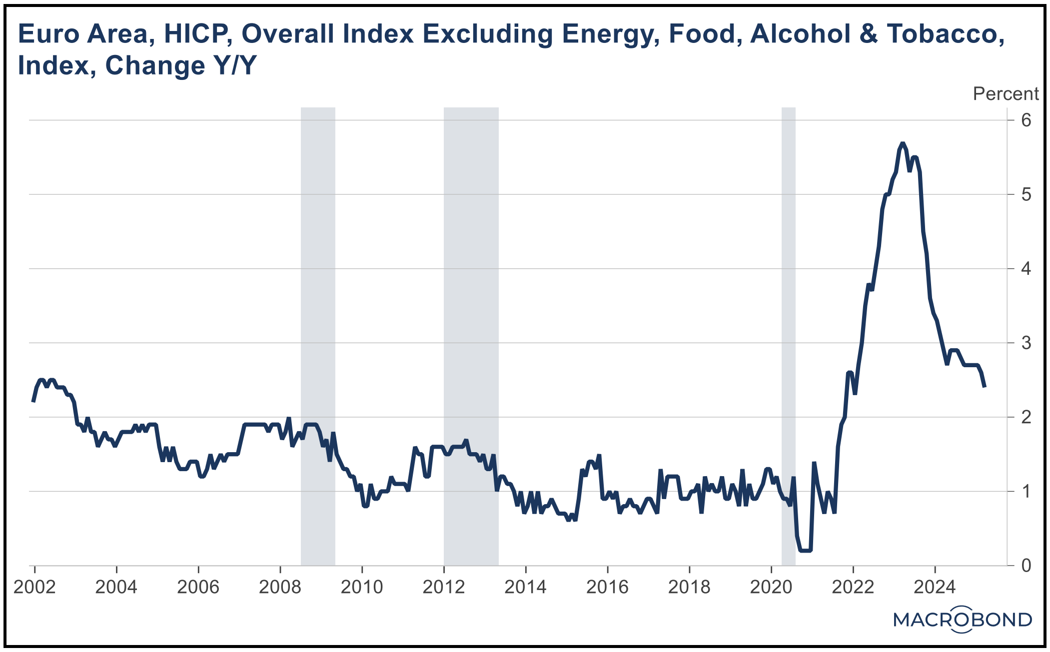
- In other words, there is a possibility that the reporters misinterpreted the three countries' simple commitment to seek closer economic cooperation.
- All the same, the trilateral summit and the positive language about economic cooperation show that Tokyo and Seoul seem to be hedging their bets with China as they face pressure from President Trump on trade and other issues.

European Union: According to a *Politico* report yesterday, Climate Commissioner Hoekstra is mulling ways to protect industry and agriculture from the burdens of the EU's 2040 greenhouse emissions goals. For example, Hoekstra is considering provisions that would let EU countries defer steeper cuts to the future or count the impact of reforestation and technology investments that remove emissions from the air.

- Hoekstra's effort reflects the rising pushback against green policies across Europe and beyond.

For investors, a broad softening of the EU's stringent environmental regulations could potentially support stronger economic growth and better investment returns across the region. However, softer green rules could hurt the prospects of green technology firms.

Eurozone: In an initial estimate, the March consumer price index was up just 2.2% from the same month one year earlier, matching expectations and marking a modest deceleration from the 2.3% increase in the year to February. Excluding the volatile food and energy components, the March core CPI was up 2.4% on the year, versus 2.6% in the year to February. While the data show that eurozone inflation is falling closer to the European Central Bank's target of 2.0%, it also reflects weak economic growth in the region.



United Kingdom: The government today launched an independent review of the leadership, culture, and operations of the Office for National Statistics, which has come under criticism for errors in data sets and publication delays. As in the US, one problem has been declining response rates on the surveys that underpin important statistics. That problem has rendered US and UK data more volatile and subject to bigger revisions, undermining the ability of officials and investors to gauge what is really going on in the economy.

Canada-United States: According to data provider OAG, advance bookings for Canada-US flights from April through September are down some 70% from this time one year ago, forcing airlines to scale back Canada-US capacity. OAG's analysis suggests that many Canadians are boycotting travel to the US because of President Trump's tariff policies, his demand that Canada become the 51st state, and/or concerns about being detained by US customs officers.

- Along with signs of reduced tourism from other countries, the figures suggest US firms dependent on foreign visitors will soon see reduced demand.

- According to analysis by airline analyst The Points Guy, just a 10% drop in Canadian visitors could cost US businesses as much as $2.1 billion in revenue.

US Fiscal Policy: The Trump administration yesterday said it has launched a review of almost $9 billion in contracts and grants awarded to Harvard University to punish the institution for antisemitism. The probe is the latest in the administration's effort to curb diversity, equity, inclusion, and other policies at top universities. Since the targeted institutions play a key role in basic research and innovation, the risk is that any resulting cuts to funding could slow developments in US information technology, medicine, and other areas.

US Investing: According to new data from the National Association of College and University Business Officers, the average endowment at US colleges and universities produced a total return of 11.2% in 2024, slightly trailing a passively invested 70%/30% portfolio of global stocks and bonds. The endowments also slightly trailed a global 70%/30% passive portfolio over the last decade.

- The lackluster endowment returns come despite their reputation for sophisticated investment strategies and heavy reliance on alternative investments such as private equity.

US Economic Releases

There were no economic releases prior to the publication of this report. The following table lists the releases and/or Fed events scheduled for the rest of the day.

Economic Releases						
EST	**Indicator**			**Expected**	**Prior**	**Rating**
9:45	S&P Global US Manufacturing PMI	m/m	Mar F	49.8	49.8	***
10:00	Construction Spending	m/m	Feb	0.3%	-0.2%	**
10:00	JOLTS Job Openings	m/m	Feb	7655k	7740k	*
10:00	ISM Manufacturing	m/m	Mar	49.5	50.3	**
10:00	ISM Prices Paid	m/m	Mar	64.6	62.4	**
10:00	ISM New Orders	m/m	Mar	48.4	48.6	**
10:00	ISM Employment	m/m	Mar	47.2%	47.6	*
10:30	Dallas Fed Services Activity	m/m	Mar		4.6	*
	Wards Total Vehicle Sales	m/m	Mar	16.20m	16.00m	***

Federal Reserve		
EST	**Speaker or Event**	**District or Position**
9:00	Thomas Barkin Discusses Policy, Economic Outlook	President of the Federal Reserve Bank of Richmond

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	Jobless Rate	m/m	Feb	2.4%	2.5%	2.5%	***	Equity and bond neutral
	Job-To-Applicant Ratio	m/m	Feb	1.24	1.26	1.26	***	Equity and bond neutral
	Tankan Large Mfg Index	y/y	1Q	12	14	12	***	Equity and bond neutral
	Tankan Large Non-Mfg Index	y/y	1Q	35	33	33	*	Equity and bond neutral
	Tankan Large Mfg Outlook	y/y	1Q	12	13	9	**	Equity bullish, bond bearish
	Tankan Large Non-Mfg Outlook	y/y	1Q	28	28	29	***	Equity and bond neutral
	Tankan Large All Industry Capex	y/y	1Q	3.1%	11.3%	3.2%	*	Equity and bond neutral
	Jibun Bank Manufacturing PMI	m/m	Mar F	48.4	48.3		***	Equity and bond neutral
Australia	S&P Global Australia Manufacturing PMI	m/m	Mar F	52.1	52.6		***	Equity and bond neutral
	Retail Sales	m/m	Feb	0.2%	0.3%	0.3%	***	Equity and bond neutral
South Korea	Trade Balance	m/m	Mar	$4985m	$4152m	$6008m	*	Equity and bond neutral
	Exports	y/y	Mar	3.1%	0.7%	5.0%	***	Equity and bond neutral
	Imports	y/y	Mar	2.3%	0.2%	2.2%	**	Equity and bond neutral
China	Caixin Manufacturing PMI	m/m	Mar	51.2	50.8	50.6	***	Equity bullish, bond bearish
EUROPE								
Eurozone	HCOB Eurozone Manufacturing PMI	m/m	Mar F	48.6	48.7	48.7	***	Equity and bond neutral
	CPI	y/y	Mar P	2.2%	2.3%	2.2%	***	Equity and bond neutral
	Core CPI	y/y	Mar P	2.4%	2.6%	2.5%	**	Equity and bond neutral
Germany	HCOB Germany Manufacturing PMI	m/m	Mar F	48.3	48.3	48.3	***	Equity and bond neutral
France	HCOB France Manufacturing PMI	m/m	Mar F	48.5	48.9	48.9	***	Equity and bond neutral
Italy	HCOB Italy Manufacturing PMI	m/m	Mar	46.6	47.4	48.0	***	Equity and bond neutral
	Unemployment Rate	m/m	Feb	5.9%	6.2%	6.3%	**	Equity bullish, bond bearish
UK	Nationwide House Price Index	y/y	Mar	3.9%	3.9%	4.2%	***	Equity and bond neutral
	S&P Global UK Manufacturing PMI	m/m	Mar F	44.9	44.6	44.6	***	Equity and bond neutral
Switzerland	Real Retail Sales	y/y	Feb	1.6%	2.9%		**	Equity and bond neutral
	PMI Manufacturing	m/m	Mar	48.9	49.6	50.5	***	Equity bearish, bond bullish
	PMI Services	m/m	Mar	50.6	56.8		*	Equity and bond neutral
Russia	S&P Global Russia Manufacturing PMI	m/m	Mar	48.2	50.2		***	Equity and bond neutral
AMERICAS								
Mexico	Net Outstanding Loas	m/m	Feb	6866b	6852b		***	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)	418	419	-1	Up
U.S. Sibor/OIS spread (bps)	428	429	-1	Down
U.S. Libor/OIS spread (bps)	430	430	0	Down
10-yr T-note (%)	4.16	4.21	-0.05	Down
Euribor/OIS spread (bps)	234	233	1	Down
Currencies	**Direction**			
Dollar	Up	US		Down
Euro	Down	Euro		Up
Yen	Up	Japan		Up
Pound	Down	UK		Up
Franc	Down	Switzerland		Up
Central Bank Action	**Current**	**Prior**	**Expected**	
RBA Cash Rate Target	4.10%	4.10%	4.10%	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.

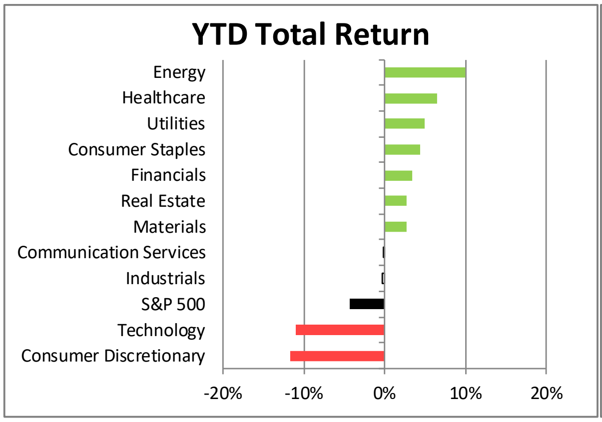
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$74.92	$74.77	0.20%	
WTI	$71.65	$71.48	0.24%	
Natural Gas	$4.08	$4.12	-0.90%	
Crack Spread	$24.56	$24.61	-0.17%	
12-mo strip crack	$21.70	$21.75	-0.26%	
Ethanol rack	$1.87	$1.86	0.49%	
Metals				
Gold	$3,131.79	$3,123.57	0.26%	
Silver	$33.95	$34.09	-0.41%	
Copper contract	$504.70	$503.40	0.26%	
Grains				
Corn contract	$461.50	$457.25	0.93%	
Wheat contract	$542.00	$537.00	0.93%	
Soybeans contract	$1,018.75	$1,014.75	0.39%	
Shipping				
Baltic Dry Freight	1,598	1,602	-4	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		1.98		
Gasoline (mb)		-1.50		
Distillates (mb)		-1.00		
Refinery run rates (%)		-0.5%		
Natural gas (bcf)		34		

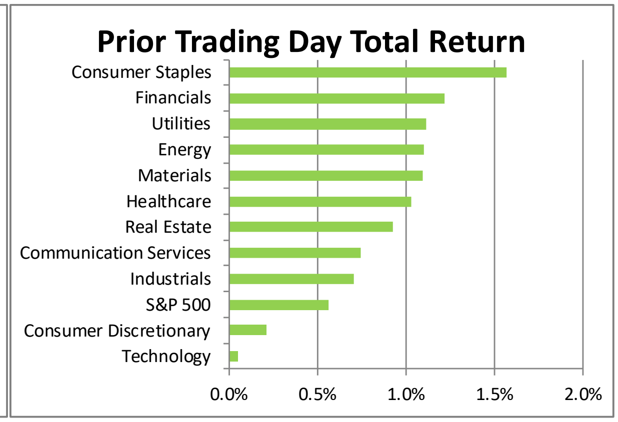
Weather

The 6-to-10 and 8-to-14-day forecasts show warmer-than-normal temperatures for the western part of the country from Montana to California, with cooler-than-normal temperatures across most of the rest of the country. The forecasts show wetter-than-normal conditions in Florida, with drier-than-normal conditions from the Great Lakes and Ohio Valley to the West Coast.

Data Section

US Equity Markets – (as of 3/31/2025 close)

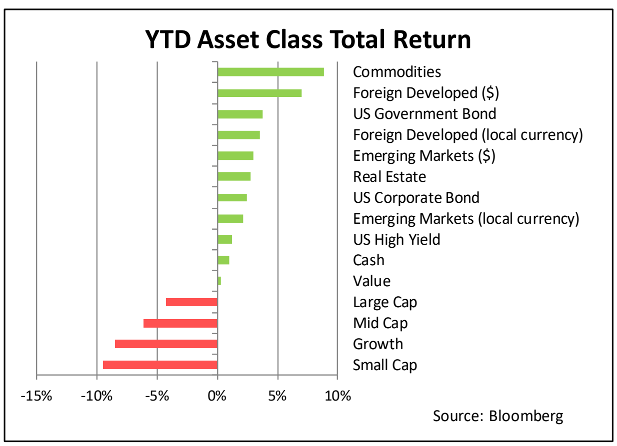




(Source: Bloomberg)

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 3/31/2025 close)

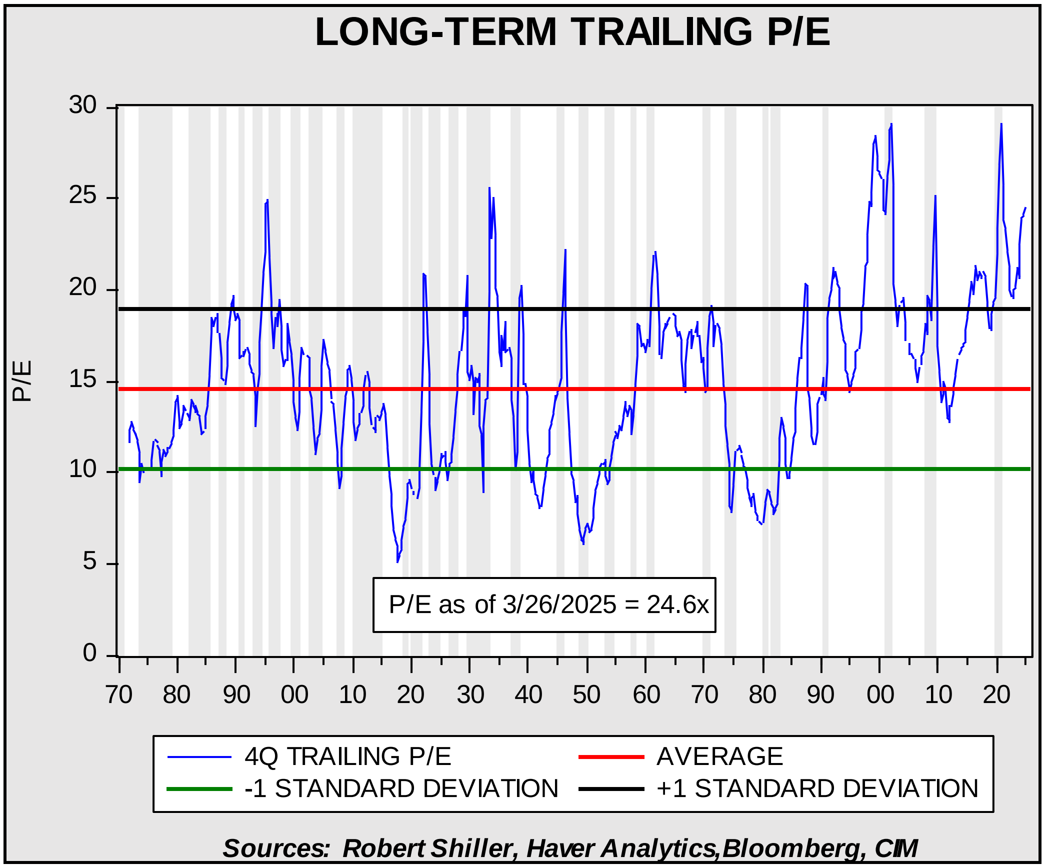


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

March 27, 2025



Based on our methodology,[1] the current P/E is 24.6x, down 0.1 from our last report. The drop in multiple was driven primarily by a decline in the stock price index.

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 (Q1, Q2, and Q3) and one estimate (Q4). 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.