Daily Comment

Confluence Investment Management

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[Posted: April 21, 2025 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 closed down 0.6% from its prior close. In Asia, the MSCI Asia Apex 50 Index is essentially unchanged. Chinese markets were higher, with the Shanghai Composite up 0.5% from its previous close and the Shenzhen Composite up 1.6%. US equity index futures are signaling a lower open.

With 60 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, 73.3% have exceeded expectations while 23.3% 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

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Our *Comment* today opens with the death of Pope Francis and how it could affect geopolitics and global economics going forward. We next review several other international and US developments with the potential to affect the financial markets today, including another jump in global gold prices to a new record high and signs the Trump administration may soon target its budget-cutting efforts on the National Gallery of Art and other federal cultural institutions.

Global Catholicism: The Vatican this morning announced that Pope Francis has died, less than one day after making a surprise Easter appearance in St. Peter's Square and also meeting US Vice President Vance. Because of the pope's advanced age and recent illnesses, we suspect that the Vatican has already made some plans for his funeral and the conclave to pick his successor. Those processes are now expected to unfold over the coming weeks.

- For geopolitics, global economics, and the financial markets, a key question is whether Francis's successor will maintain his focus on social and economic justice over the Church's traditional moral teaching.
- As demonstrated by Pope John Paul II at the end of the Cold War, any successor to Francis will have a global pulpit either to support or to push back against the growing trends toward populist nationalism, deglobalization, restricted migration, market deregulation, and the like.

Global Gold Prices: The price of gold so far today has jumped 2.6% to a new record high of $3,417.50, up 28.1% from the end of last year. The jump in gold prices reflects continued global concern about the US economy and economic management — including comments last week from President Trump and his officials suggesting they may try to fire Federal Reserve Chair Powell. Investors worry that if the White House controls monetary policy, it would keep interest rates too low to control consumer price inflation.

- Reflecting that concern, the US Dollar Index has fallen about 1.3% so far today and is now down 9.6% for the year-to-date. The 10-year US Treasury note is also selling off, boosting its yield to 4.406%.
- Given that surging Treasury yields spooked President Trump into pausing his "reciprocal" tariffs earlier this month, a continued rise in those yields now probably has the potential to spur new U-turns in the president's trade and economic policies.

European Union: Officials in European nations that normally oppose state subsidies — such as Denmark, Belgium, the Netherlands, and the Czech Republic — are reportedly becoming more supportive of Germany's new plan to dramatically boost its spending on infrastructure and defense. The new support is consistent with our view that Germany's coming fiscal stimulus is likely to help spur faster economic growth throughout the European Union, potentially helping both EU companies and EU stocks.

Russia-Ukraine War: Late last week, the Trump administration reportedly floated a proposed settlement of the Russia-Ukraine war under which the US would recognize Russia's 2014 seizure of Crimea and prohibit any Ukrainian accession to the North Atlantic Treaty Organization. If the proposal is accepted by the Western Europeans and Ukraine in the coming days, it would be presented to Russia as the basis of a ceasefire and the start of negotiations toward a peace deal.

- The US proposal would condone Russia's seizure of Crimea and its illegal 2022 invasion of Ukraine. Going forward, the risk is that the acquiescence to Russia would encourage President Putin to re-launch his invasion of Ukraine in the coming years, after he has used any peace deal to rest, re-arm, and re-build his military forces.
- The interlude would also allow Russia to bulk up its forces to put pressure on an increasingly isolated Western Europe, which now likely can't rely on US backing as it tries to fend off the Russians.
- Russian pressure would put at risk Western Europe's enormous wealth and economic potential, especially since the region is increasingly isolated from the US because of the

Trump administration's draconian tariff policies. For investors, the result is likely to be further economic disruption and reduced trade activity.

US-China Trade War: According to the *Financial Times*, no Chinese entity has accepted delivery of liquified natural gas from the US since early February. All LNG deliveries to China have stopped since February 10, when Beijing imposed a 15% retaliatory tariff on US LNG, which it subsequently hiked to 49%. The reduced imports by China illustrate the potential blowback for US products on account of the administration's tariffs.

US-China Capital War: According to the *Financial Times* today, Chinese state-backed entities have started to pull back from investing in US private equity and debt funds. The news appears to confirm our fears that the current US-China trade war, which is focused on tariffs and export embargoes, could soon spread to a broader clampdown on US-China capital flows (as shown in our "Escalation Ladder" of potential new tensions in last Monday's *Comment*). Obviously, growing capital controls have the potential to directly impact US firms and investors.

South Korea-United States: In a Saturday interview with the *Financial Times*, South Korean Acting President Han Duck-soo said his government "will not fight back" against the Trump administration's tough 25% "reciprocal" tariff on the country. According to Han, South Korea owes a debt of gratitude to the US after its decades of aid following the Korean War, so rather than seeking to end the tariff, he would only seek to modify it and make it more efficient.

- Han's approach is a reminder that many countries are extremely dependent on the US for both their export markets and their defense, giving them little leverage to resist the new tariffs and nearly ensuring that they will remain allied to the US. We explored this idea in detail in our *Bi-Weekly Geopolitical Report* from April 7, 2025.
- All the same, Han's deference to Trump would seem to be risky, given that any sign of weakness or hesitation in fighting back might encourage Trump to reach for more, say by demanding that South Korea pay an exorbitant amount for the US military forces stationed there.
- From the perspective of US businesses and consumers, Han's acceptance of the tariff means imports from South Korea will almost certainly face what is essentially a tax of 25%. That risks pushing down profit margins for companies in the value chain, driving up prices to the end user, or both.

US Fiscal Policy: Officials from Elon Musk's Department of Government Efficiency met with leaders of the National Gallery of Art in Washington late last week, signaling the museum could be the next target for major federal spending cuts. The institution got $210 million of its budget from federal appropriations this year. Importantly, any budget pressure from DOGE could also aim to enforce conservative cultural viewpoints at the National Gallery, as the administration has done at the broader Smithsonian Institution and the Kennedy Center.

US Shipping Industry: Late last week, the Trump administration finalized its new port fees for Chinese ships visiting the US. The hefty new fees apply to ships owned, built, or operated by Chinese entities. Coming into force in October, the fees aim to discourage the use of Chinese ships for US imports and exports. They also aim to incentivize more shipbuilding in the US. In the near term, however, the new fees could raise the cost of US imports and boost consumer price inflation.

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**
10:00	Leading Index	m/m	Mar	-0.5%	-0.3%	***
Federal Reserve						
EST	**Speaker or Event**	**District or Position**				
8:30	Austan Goolsbee Appears on CNBC	President of the Federal Reserve Bank of Chicago				

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	National CPI	y/y	Mar	3.6%	3.7%	3.7%	***	Equity and bond neutral
	National CPI Ex-Fresh Food	y/y	Mar	3.2%	3.0%	3.2%	**	Equity and bond neutral
	National CPI Ex-Fresh Food & Energy	y/y	Mar	2.9%	2.6%	2.9%	*	Equity and bond neutral
	Tokyo Condominiums for Sale	y/y	Mar	-9.8%	-2.4%		*	Equity and bond neutral
South Korea	Exports 20 Days	y/y	Apr	-5.2%	4.5%		*	Equity and bond neutral
	Imports 20 Days	m/m	May	-11.8%	-1.4%		*	Equity and bond neutral
EUROPE								
Italy	Trade Balance Total	m/m	Feb	4466m	-288m		*	Equity and bond neutral
Russia	Gold and Forex Reserves	m/m	18-Apr	$655.8b	$658.0b		***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	18-Apr	18.02t	17.95t		*	Equity and bond neutral
AMERICAS								
Canada	Int'l Securities Transactions	m/m	Feb	-6.46b	4.91b		**	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)	421	422	-1	Up
U.S. Sibor/OIS spread (bps)	428	428	0	Down
U.S. Libor/OIS spread (bps)	427	428	-1	Down
10-yr T-note (%)	4.39	4.33	0.06	Up
Euribor/OIS spread (bps)	218	224	-6	Down
Currencies	**Direction**			
Dollar	Up			Down
Euro	Down			Up
Yen	Up			Up
Pound	Down			Up
Franc	Down			Up
Central Bank Action	**Current**	**Prior**	**Expected**	
PBOC 1-Year Loan Prime Rate	3.10%	3.10%	3.10%	On Forecast
PBOC 5-Year Loan Prime Rate	3.60%	3.60%	3.60%	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.

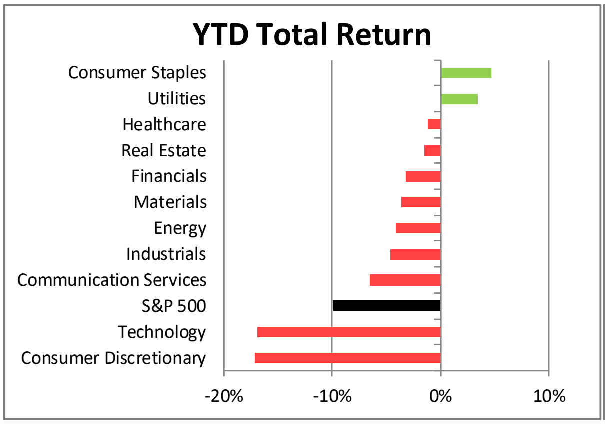
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$66.37	$67.96	-2.34%	
WTI	$63.10	$64.68	-2.44%	
Natural Gas	$3.18	$3.25	-2.00%	
Crack Spread	$24.21	$24.22	-0.04%	
12-mo strip crack	$21.36	$21.51	-0.71%	
Ethanol rack	$1.89	$1.89	-0.02%	
Metals				
Gold	$3,395.69	$3,326.85	2.07%	
Silver	$32.95	$32.56	1.21%	
Copper contract	$484.35	$479.05	1.11%	
Grains				
Corn contract	$493.75	$490.25	0.71%	
Wheat contract	$564.00	$562.25	0.31%	
Soybeans contract	$1,050.75	$1,047.75	0.29%	
Shipping				
Baltic Dry Freight	1,261	1,241	20	

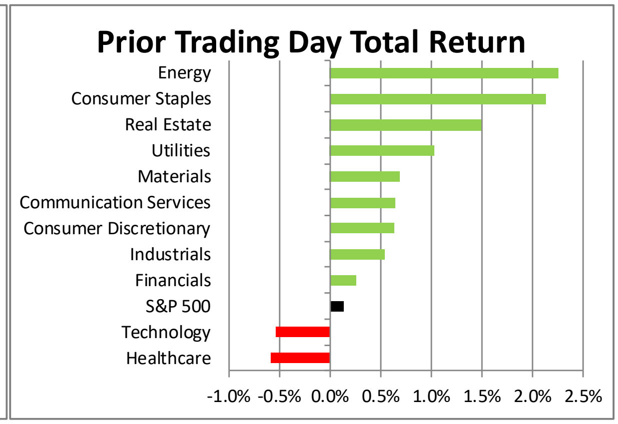
Weather

The 6-to-10 and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for most of the country, with cooler-than-normal temperatures in the lower Southwest region and California. The precipitation outlook calls for wetter-than-normal conditions in most states, with dry conditions expected in Southern California.

Data Section

US Equity Markets – (as of 4/17/2025 close)

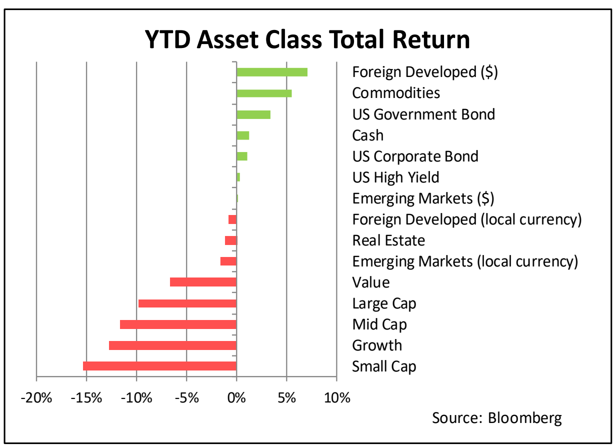




(Source: Bloomberg)

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 4/17/2025 close)

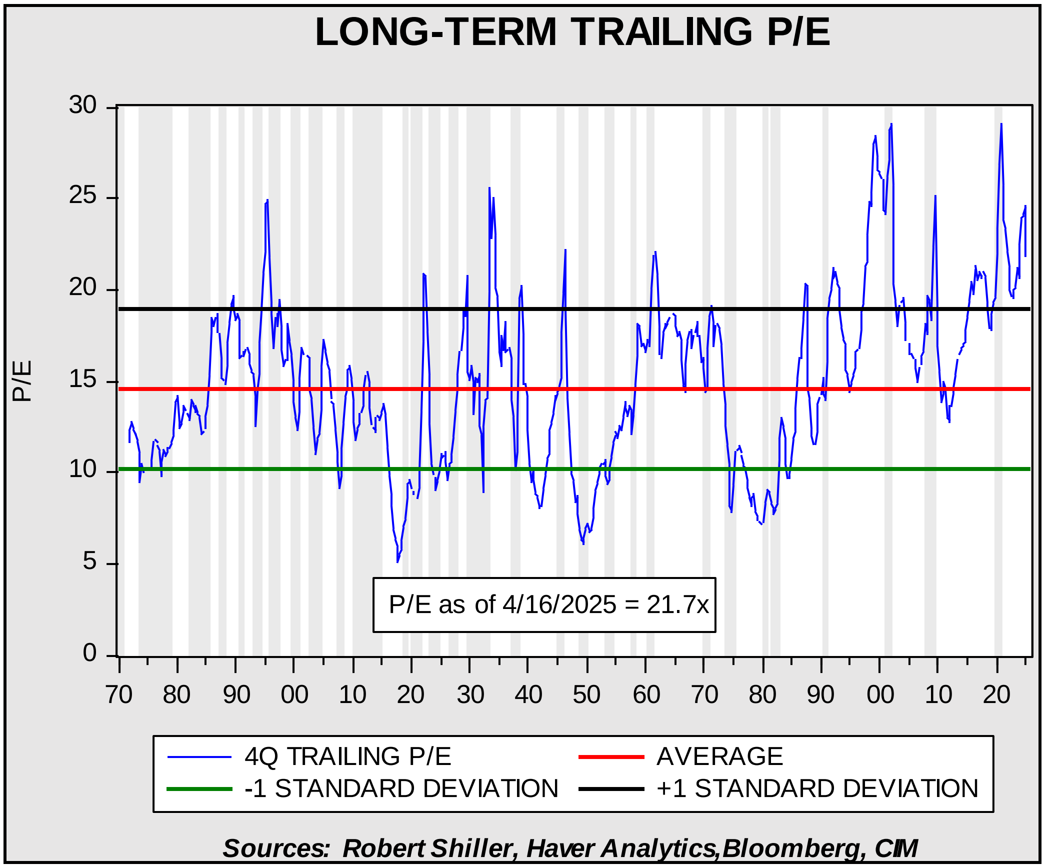


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.