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[Posted: April 22, 2025 – 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 closed down 0.5% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.6%. Chinese markets were mixed, with the Shanghai Composite up 0.3% from its previous close and the Shenzhen Composite down 0.11%. US equity index futures are signaling a higher open.

With 61 companies having reported so far, S&P 500 earnings for Q1 are running at \$59.70 per share compared to estimates of \$60.75, which is up 7.3% from Q1 2024. Of the companies that have reported thus far, 73.8% have exceeded expectations, while 23.0% 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

Our *Comment* today opens with the latest bout of apparent capital flight from the US financial markets, which drove stocks sharply lower yesterday. We next review several other international and US developments with the potential to affect the financial markets today, including an ominous statement from China suggesting it will not accede to the demands underlying the US trade war against it and a new scandal involving US Secretary of Defense Hegseth.

US Capital Flight: As global investors continue to unload Treasury obligations and other US assets, data yesterday showed that foreigners in March [posted a record \\$15.5 billion in net purchases of Japanese government bonds with maturities of 10 years or more](#). Along with the appreciation of the yen this year, the figures suggest that lower-risk Japanese assets have become

an important safe haven now that investors are becoming increasingly negative on US economic growth and economic management.

- In a post on X yesterday, President Trump [again pressured Federal Reserve Chair Powell to cut interest rates](#), arguing that, “There is virtually no [price] inflation.”
- Investors continue to fret that Trump could try to replace Powell with a Fed chair who would keep interest rates too low and fuel inflation. Those concerns are weighing heavily on US bond values and driving up yields. The result, [as shown in the markets yesterday](#), has been weakening US stock prices, a falling dollar, and surging gold prices. In fact, gold prices are currently up another 1.2%, [having earlier reached a new intraday record](#) above \$3,500 per ounce.



China-United States: The Chinese Ministry of Commerce yesterday [released a statement saying that appeasement to the US in the face of the Trump administration’s tariff war would never be an option](#). The statement underlines China’s likely strong resistance to Trump’s demand for trade concessions, given the Chinese Communist Party’s decades-long commitment to burying the “Century of Humiliation” and achieving the “Great Rejuvenation of the Chinese People.” The statement suggests a very high risk that US-China tensions will continue to escalate.

- Beijing also signaled that it would retaliate against third countries that boost their tariffs or other trade barriers against China to mollify Washington.
- This suggests that Chinese leaders are sensitive to the risk that China could be isolated by coordinated Western trade barriers against it, even though Trump’s attacks on traditional US allies suggest that such a coordinated strategy would be hard to achieve.

China-South Korea: A new report in the *Financial Times* says China [is building massive new fish farming facilities in the Yellow Sea between the Chinese mainland and South Korea](#). Officials in Seoul have become alarmed that the structures could be a new example of Chinese

“gray zone” tactics to gradually seize control over South Korea’s territorial waters. If so, it would further heighten Chinese-South Korean tensions, likely pushing Seoul to be more amenable to the US’s new tariff policy to stay on the Trump administration’s good side.

United States-China-Southeast Asia: The US Commerce Department yesterday [slapped massive new import tariffs on solar cells from Chinese-owned factories in Vietnam, Malaysia, Thailand, and Cambodia](#). Added to the Biden administration’s continuing broad tariffs of up to 300% on those countries, the total duty on the targeted facilities will exceed 3,500% (not a typo). The new duties are based on an analysis showing that heavily subsidized Chinese firms have been using their Southeast Asia facilities to export to the US at reduced tariff rates.

United States-India: Vice President Vance has been in India early this week, where he [met with Prime Minister Modi to discuss ways to increase US exports to the country](#). Any trade deal would likely help India avoid the “reciprocal” tariff of 26% that the US imposed on it earlier this month before pausing it for 90 days. The discussions address not only Indian tariffs, but also a range of non-tariff barriers to US exports.

Spain: Prime Minister Sanchez today announced a new defense plan under which the country [will boost its military budget to 2% of gross domestic product this year](#), up from just 1.4% last year. However, Sanchez warned that much of the new spending won’t be traditional defense investment in weapons, equipment, and troops. Rather, much of it would be quasi-civilian, such as upgrades to the Spanish telecommunications network to improve its resilience to cyberattacks.

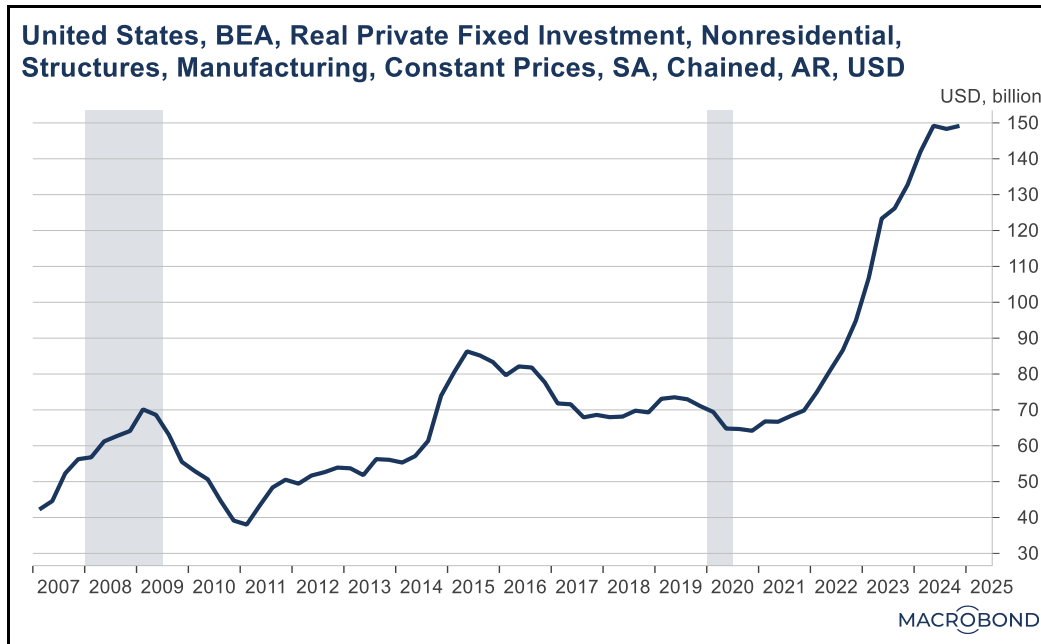
- Given that the Soviet Union, China, and other heavily militarized countries long used a range of tactics to hide defense spending in ostensibly civilian budget accounts and off budget, we have often thought that the non-US members of the North Atlantic Treaty Organization could do the same in reverse, simply to counter US demands that they spend more on their own defense.
- For example, they could deem billions of euros of health, education, or other outlays as “defense related” and roll them into their defense budget, easily hitting the 2% defense burden demanded by President Trump.
- Nevertheless, the new Spanish defense plan will likely produce some real increases in traditional defense spending. As we have noted before, this is consistent with our view that European defense firms are likely to see continued new business, bigger profits, and higher stock prices as their countries rebuild their defenses against the increasing threat from Russia.

US Defense Policy: Adding to investor concerns about the Trump administration, Defense Secretary Hegseth is now embroiled in a new scandal on top of the one in which he discussed sensitive military operations on an unclassified Signal chat. It now appears that he [also discussed those operations in a private chat involving his wife and personal lawyer](#). President Trump yesterday expressed his continued confidence in Hegseth, but Axios reports that the White House is already looking for a replacement.

US Pharmaceutical Industry: Swiss drug giant Roche yesterday [said it will invest \\$50 billion in building new US factories over the next five years](#), including a new plant for weight-loss

drugs and a facility to make glucose-monitoring devices. Separately, Regeneron said it will spend \$3 billion to double its US manufacturing capacity.

- As with other similar announcements recently, it isn't clear whether the investments have been spurred by the Trump administration's tariff policies or whether they had been planned internally all along.
- In any case, the announcements confirm that new investment in US manufacturing facilities is currently very strong, even if it has plateaued a bit in recent quarters.



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	Richmond Fed Manufact. Index	m/m	Apr	-4.0	-7.0	**
Federal Reserve						
EST	Speaker or Event	District or Position				
9:00	Philip Jefferson Speaks at Economic Mobility Summit	Member of the Board of Governors				
9:30	Patrick Harker Speaks at Economic Mobility Summit	President of the Federal Reserve Bank of Philadelphia				
13:40	Neel Kashkari Speaks in Moderated Discussion	President of the Federal Reserve Bank of Minneapolis				
14:30	Thomas Barkin Speaks in Fireside Chat	President of the Federal Reserve Bank of Richmond				
18:00	Adriana Kugler Speaks on Monetary Policy Transmission	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								
New Zealand	Trade Balance NZD	m/m	Mar	970m	392m		**	Equity and bond neutral
	Exports NZD	m/m	Mar	7.59b	6.61b		**	Equity and bond neutral
	Imports NZD	m/m	Mar	6.62b	6.22b		**	Equity and bond neutral
South Korea	PPI	y/y	Mar	1.3%	1.5%		**	Equity and bond neutral
EUROPE								
Switzerland	M3 Money Supply	y/y	Mar	2.8%	2.5%		**	Equity and bond neutral
	Domestic Sight Deposits CHF	w/w	18-Apr	439.7b	438.4b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	18-Apr	448.3b	446.9b		*	Equity and bond neutral
AMERICAS								
Mexico	ANTAD Same-Store Sales	y/y	Mar	1.0%	-1.7%		*	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)	420	420	0	Up
U.S. Sibor/OIS spread (bps)	428	428	0	Down
U.S. Libor/OIS spread (bps)	426	426	0	Down
10-yr T-note (%)	4.40	4.41	-0.01	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

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.

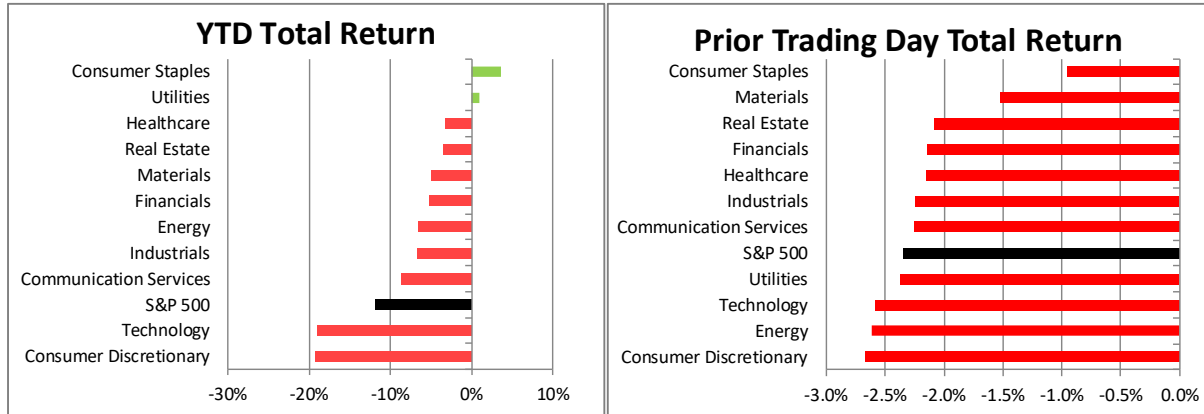
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$67.08	\$66.26	1.24%	
WTI	\$64.14	\$63.08	1.68%	
Natural Gas	\$3.03	\$3.02	0.60%	
Crack Spread	\$24.57	\$24.27	1.23%	
12-mo strip crack	\$21.57	\$21.41	0.77%	
Ethanol rack	\$1.88	\$1.88	-0.04%	
Metals				
Gold	\$3,456.51	\$3,423.98	0.95%	
Silver	\$32.66	\$32.70	-0.10%	
Copper contract	\$481.25	\$478.00	0.68%	
Grains				
Corn contract	\$490.25	\$490.00	0.05%	
Wheat contract	\$551.75	\$552.25	-0.09%	
Soybeans contract	\$1,048.00	\$1,041.50	0.62%	
Shipping				
Baltic Dry Freight	1,261	1,241	20	
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)		24		

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. The precipitation outlook calls for wetter-than-normal conditions in most central states east of the Rocky Mountains, with dry conditions expected in Southern California and on the East Coast.

Data Section

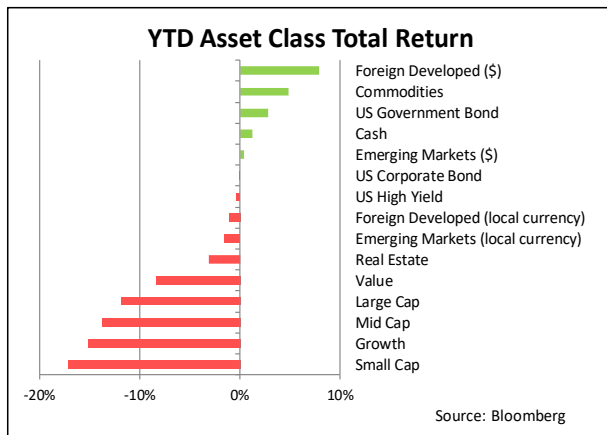
US Equity Markets – (as of 4/21/2025 close)



(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 4/21/2025 close)

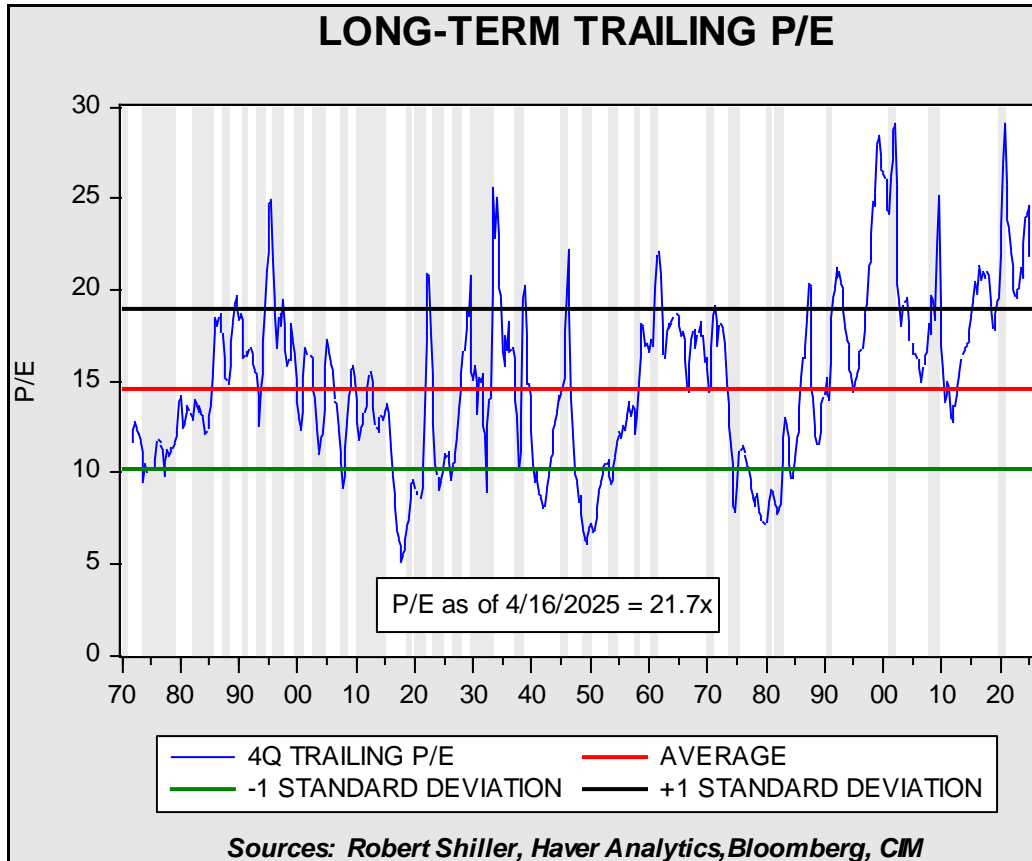


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.

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.