Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: April 24, 2025 — 9:30 AM ET] Global equity markets are mostly lower this morning. In Europe, the Euro Stoxx 50 is down 0.3% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 1.05%. Chinese markets were generally lower, with the Shanghai Composite relatively unchanged from its previous close and the Shenzhen Composite down 0.7%. US equity index futures are signaling a lower open.

With 91 companies having reported so far, S&P 500 earnings for Q1 are running at $60.10 per share compared to estimates of $60.75, which is up 7.3% from Q1 2024. Of the companies that have reported thus far, 76.9% have exceeded expectations, while 19.8% 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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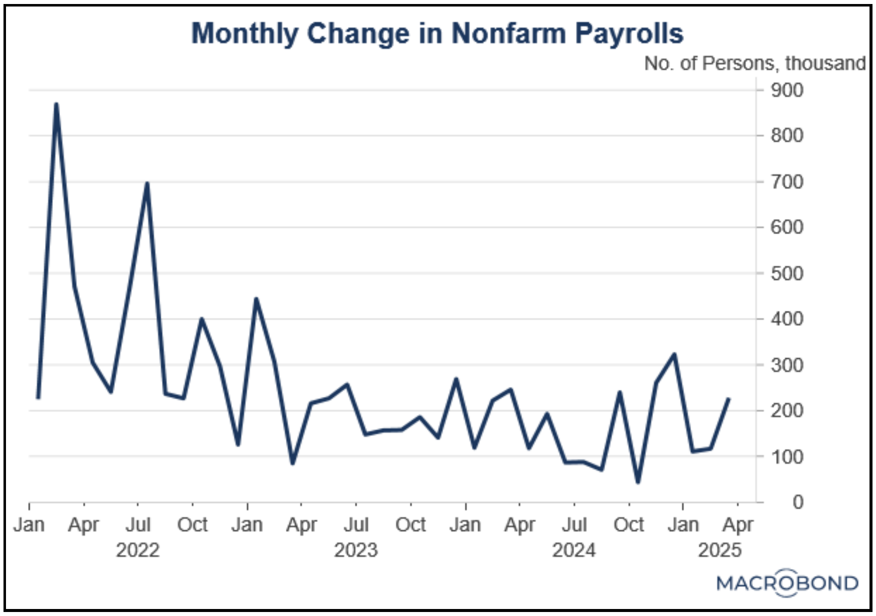
Good morning! Markets are keenly focused on the latest economic data. In sports, the Washington Capitals hold a strong 2-0 series lead over the Canadiens. Today's *Comment* will examine resilient economic growth despite the headwinds and analyze the White House's new trade exemptions. We'll also highlight other key market movers. As always, we'll provide a detailed roundup of domestic and international data releases.

Down But Not Out: While survey data points to a sustained deceleration in US economic activity, no clear signs of a recession have yet to emerge.

- The latest Beige Book indicated that most Federal Reserve districts are experiencing sluggish growth, with respondents expressing heightened uncertainty surrounding tariffs. Of the 12 districts, five reported modest growth, three remained flat, and four saw moderate contractions. Several regions also adopted a more cautious stance on hiring and investment due to shifting trade policies. Additionally, many districts raised concerns about rising input costs squeezing profit margins and pushing consumer prices higher.

- The weakness highlighted in the Beige Book was also reflected in recent business sentiment surveys, which pointed to a marked slowdown in the services sector. The latest S&P Global Purchasing Managers Index (PMI) remained above the growth threshold of 50 but moderated from the previous month, falling from 53.5 to 51.7. While manufacturing activity unexpectedly improved, rising from 50.7 to 51.2, this was offset by a sharp deceleration in the services sector, where the index dropped from 54.4 to 51.4.

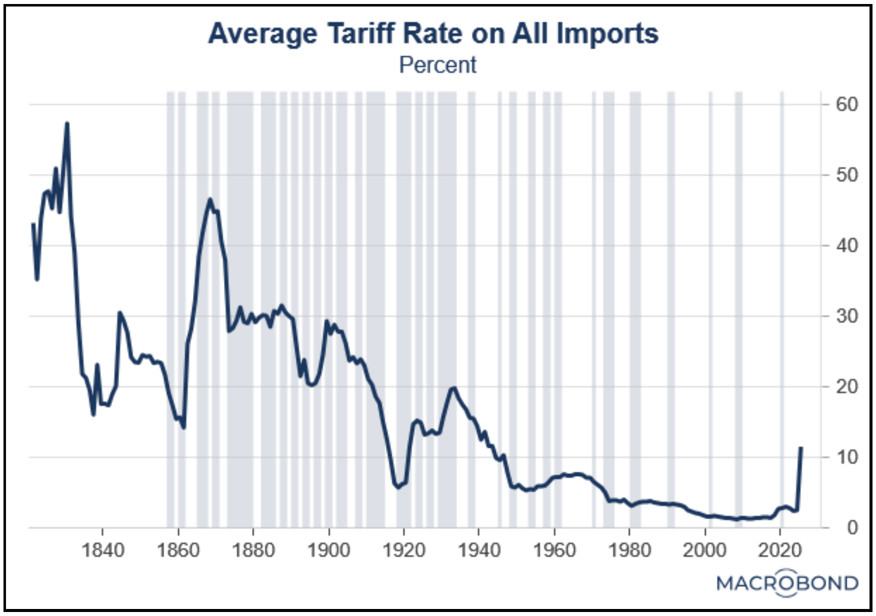


- While survey data suggests economic softening, these concerns have yet to manifest in hard data. The March payroll report showed resilient job growth of 228,000, with unemployment remaining at a relatively low 4.2%. This labor market strength underscores that current caution among businesses doesn't necessarily reflect fundamental weakness. Consequently, the economy appears likely to maintain its momentum in the near term, with significant tariff-related impacts still on the horizon rather than immediately threatening growth.

New Exemptions: Under pressure from lobbyists and state officials to scale back recent import tariffs, President Trump is mulling new exemptions.

- The Trump administration is considering tariff relief for automakers that are dependent on foreign-made parts. The expected exemptions are likely to cover tariffs initially imposed to curb fentanyl production, as well as those on steel and aluminum imports. However, fully assembled foreign vehicles would remain subject to the 25% duty, and automakers would still face separate 25% tariffs on auto parts set to take effect May 3.

- The decision to scale back tariffs appears to be another concession to business leaders and states, many of whom have expressed skepticism about recent trade restrictions. Prior to signaling potential reductions in Chinese tariffs, the president reportedly held discussions with US executives about the economic impact. One business leader warned that the current tariffs could trigger significant supply chain disruptions within weeks, potentially leading to product shortages and empty store shelves.

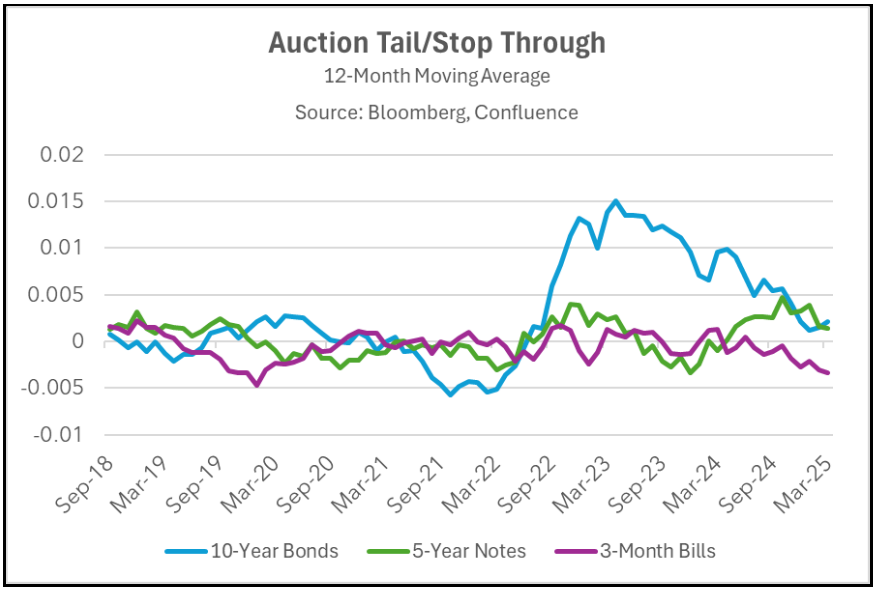


- Trump's policy shift suggests a strategic move toward compromise amid rising trade tensions, which were sparked by the April 2 imposition of reciprocal tariffs. Even after levying tariffs as high as 145% on Chinese imports, the US has been unable to coax Beijing back to the negotiating table. Although Chinese officials have signaled a willingness to engage in talks, they are demanding that Washington first roll back its unilateral tariffs, while also calling for relief from US sanctions and concessions on Taiwan.
- While the easing of tariffs offers some market relief, it creates new uncertainty for businesses deciding whether to expand or retrench. These concessions could be reversed — or additional firms might secure further exemptions — making the policy trajectory difficult to predict. This unpredictability risks dampening economic activity and could foster increased market rigidity in the weeks ahead.

Good Auction, Lingering Questions: While the latest government bond auctions demonstrated solid overall demand, concerns persist about weakening foreign appetite for US Treasurys.

- Wednesday's Treasury auctions demonstrated continued strong demand for US government debt, particularly in the closely watched five-year note sale, which closed with a modest tail. The auction cleared at a yield of 3.995%, slightly below the 4.005% yield indicated before issuance. This robust performance helped alleviate concerns that trade tensions might be weakening primary market appetite for US debt.
- While the auction results appeared strong at first glance, underlying data suggests a potential shift in market dynamics. The five-year note, typically favored by foreign

investors, showed a marked change in buyer composition as domestic participants accounted for 24.8% of allocations, significantly above the 17.7% average, while foreign buyers took just 64.0%, below their typical 70.0% share. The remaining allocations went to primary dealers.



- This single auction's allocation shift likely warrants little concern in isolation. However, should this pattern persist, it could pose significant challenges. Reduced participation from international buyers — typically less sensitive to interest rate fluctuations — may weaken a crucial stabilizing force in Treasury markets. With government debt supply continuing to grow, such a trend could ultimately complicate efforts to maintain stability in 10-year Treasury yields.
- While we acknowledge that interest rates remain susceptible to shifting global forces, we retain a favorable bias toward bonds, especially in the intermediate-to-long duration space. Our outlook reflects anticipated demand from investors likely to use Treasurys as a hedge against mounting economic uncertainty. Should macroeconomic conditions deteriorate further, these securities would likely see additional upside.

Iran Talks: Nuclear talks between the US and Iran continue to make progress as both sides look to make a deal to avoid a military conflict.

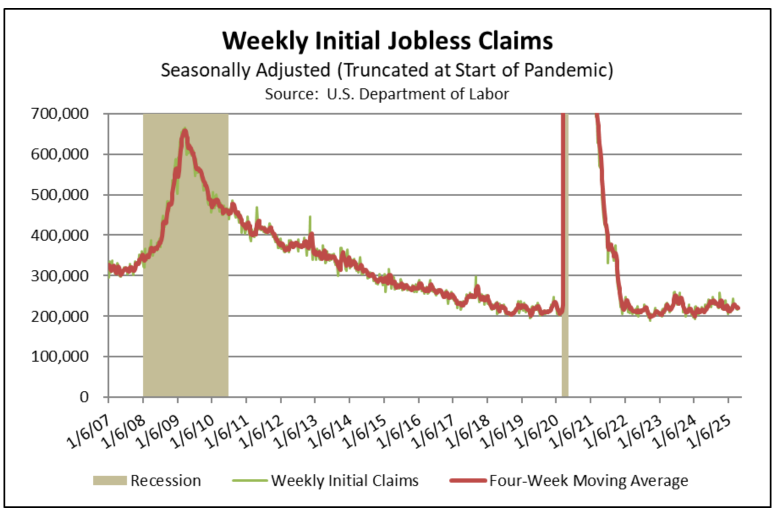
- Secretary of State Marco Rubio has signaled Washington's openness to permitting Iran's civilian nuclear program to continue, provided Tehran ceases all domestic uranium enrichment. Under such an arrangement, Iran would need to rely on imported uranium to offset its restricted production capacity. This proposal comes as Iran currently possesses uranium enriched to 60% purity — just one technical step below the 90% threshold that is considered weapons-grade.
- To date, Iran has demonstrated no readiness to curtail its uranium enrichment program, asserting its right to civilian nuclear development under the Non-Proliferation Treaty.

Tehran has further insisted that negotiations be strictly limited to nuclear matters, explicitly excluding discussions about its support for regional militant groups or ballistic missile program.

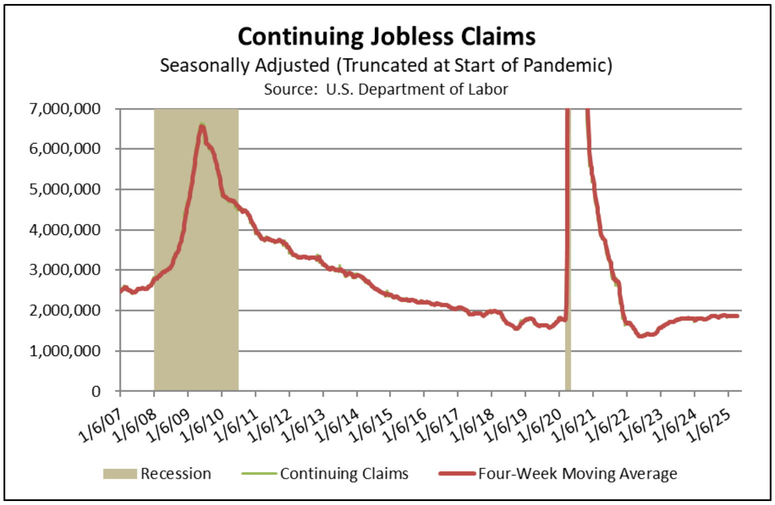
- While the two sides remain unlikely to reach an agreement in the near term, negotiations are expected to continue, with the next round scheduled for Saturday. Continued dialogue reduces the immediate risk of military confrontation — a positive development for risk assets. However, should talks collapse, the US or Israel may consider military action to prevent Iran from acquiring nuclear weapons capability.

US Economic Releases

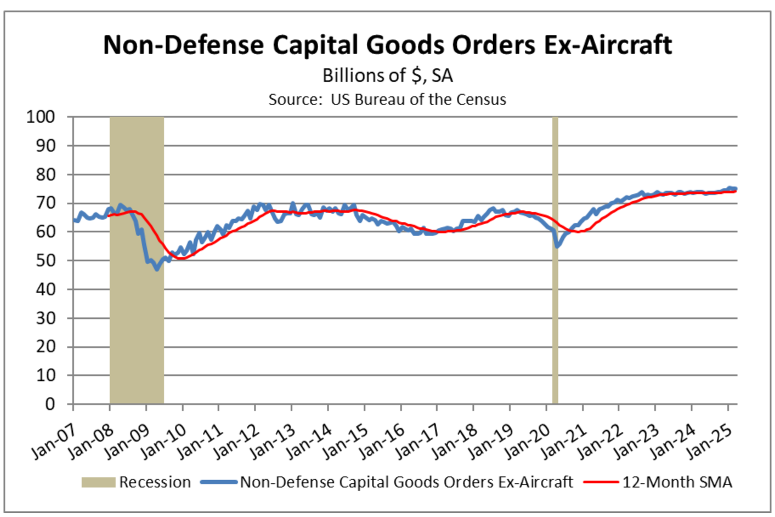
In the week ended April 19, ***initial claims for unemployment benefits*** rose to a seasonally adjusted 222,000, matching expectations and increasing from the previous week's revised level of 216,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, fell to a modest 220,250. 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.



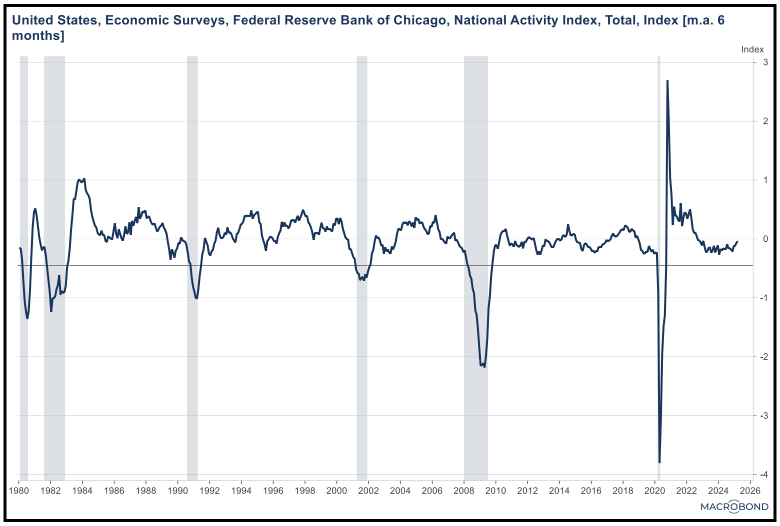
In the week ended April 12, the number of ***continuing claims for unemployment benefits*** (people continuing to draw benefits) fell to a seasonally adjusted 1.841 million, lower than both the anticipated reading of 1.869 million and the prior week's revised reading of 1.878 million. The four-week moving average of continuing claims fell to 1.864 million but remained higher than what was common right before the coronavirus pandemic. 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, March ***durable goods orders*** jumped by a seasonally adjusted 9.2%, smashing the expected increase of 2.0% and the revised February gain of 0.9%. However, durable goods orders are often driven by transportation equipment, where just a few airliner orders can have a big impact, and it certainly seems like the Trump administration's tariffs led to that dynamic last month. March ***durable goods orders excluding transportation*** were unchanged, versus an expected rise of 0.3% and the February increase of 0.7%. Finally, the durable goods report also includes a key proxy for corporate capital investment. In March, nondefense capital goods orders ex-aircraft rose a meager 0.1%, matching expectations but reversing only a portion of the revised decline of 0.3% in the previous month. Compared with the same month one year earlier, overall durable goods orders in March were up 10.9%, while durable orders ex-transport were up 2.3%. Nondefense capital goods orders ex-aircraft were up just 1.8%. The chart below shows the progression of nondefense capital goods orders ex-aircraft since just before the previous recession.



Finally, the Chicago Fed said its March ***National Activity Index (CFNAI)*** plunged to -0.03, far short of both the expected reading of 0.12 and the revised February reading of 0.24. The CFNAI, which encompasses dozens of separate indicators to capture all aspects of current economic activity, is designed so that readings above 0.00 reflect the economy growing at trend. Our analysis shows that when the six-month moving average of the CFNAI falls below approximately -0.45, it suggests the economy is in recession. With the latest reading, the index suggests the economy is now growing slightly slower than average, but it is not yet contracting. The chart below shows how the CFNAI has fluctuated over the last several decades.



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	Existing Home Sales	m/m	Mar	4.13m	4.26m	**
10:00	Existing Home Sales MoM	m/m	Mar	-3.1%	4.2%	**
11:00	Kansas City Fed Manfacturing Index	m/m	Apr	-6	-2	*
Federal Reserve						
EST	**Speaker or Event**	**District or Position**				
17:00	Neel Kashkari Speaks in Moderated Discussion	President of the Federal Reserve Bank of Minneapolis				

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	PPI Services	y/y	Mar	3.1%	3.2%	3.0%	*	Equity and bond neutral
	Japan Buying Foreign Bonds	w/w	18-Apr	¥233.7b	-¥511.9b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	18-Apr	¥610.4b	¥235.8b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	18-Apr	¥1000.7b	¥2310.7b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	18-Apr	¥705.6b	¥1044.9b		*	Equity and bond neutral
	Machine tool orders	y/y	Mar F	11.4%	11.4%		**	Equity and bond neutral
New Zealand	ANZ Consumer Confidence Index	m/m	Apr	98.3	93.2		*	Equity and bond neutral
South Korea	GDP	q/q	1Q P	-0.1%	1.2%	0.0%	**	Equity and bond neutral
EUROPE								
Eurozone	EU27 New Car Registrations	y/y	Mar	-0.2%	-3.4%		*	Equity and bond neutral
Germany	IFO Business Climate	m/m	Apr	86.9	86.7	85.2	***	Equity and bond neutral
	IFO Current Assessment	m/m	Apr	86.4	85.7	85.4	**	Equity and bond neutral
	IFO Expectations	m/m	Apr	87.4	87.7	85.0	**	Equity and bond neutral
France	Consumer Confidence	m/m	Apr	92	92	91	***	Equity and bond neutral
Russia	Industrial Production	y/y	Mar	0.8%	0.2%		***	Equity and bond neutral
AMERICAS								
Brazil	FGV Consumer Confidence	m/m	Apr	84.8	84.3		*	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	421	-1	Up
U.S. Sibor/OIS spread (bps)	429	429	0	Down
U.S. Libor/OIS spread (bps)	428	428	0	Down
10-yr T-note (%)	4.35	4.38	-0.03	Up
Euribor/OIS spread (bps)	216	219	-3	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.

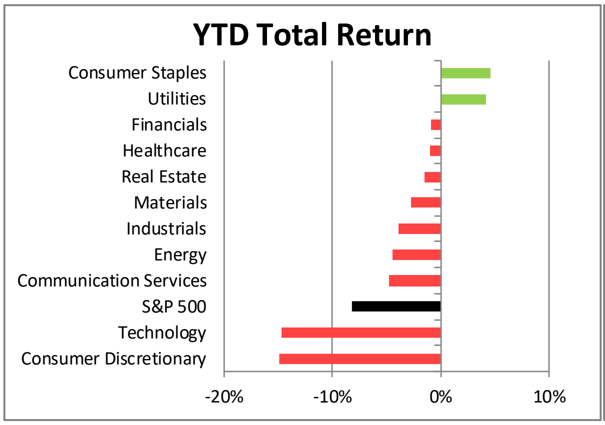
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$66.77	$66.12	0.98%	
WTI	$62.98	$62.27	1.14%	
Natural Gas	$2.97	$3.02	-1.69%	
Crack Spread	$24.87	$24.96	-0.37%	
12-mo strip crack	$21.85	$21.90	-0.19%	
Ethanol rack	$1.87	$1.87	-0.01%	
Metals				
Gold	$3,341.19	$3,288.34	1.61%	
Silver	$33.47	$33.58	-0.32%	
Copper contract	$493.10	$489.50	0.74%	
Grains				
Corn contract	$481.50	$479.25	0.47%	
Wheat contract	$543.50	$543.50	0.00%	
Soybeans contract	$1,056.25	$1,050.25	0.57%	
Shipping				
Baltic Dry Freight	1,300	1,261	39	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	0.24	1.55	-1.31	
Gasoline (mb)	-4.48	-1.40	-3.08	
Distillates (mb)	-2.35	-0.65	-1.70	
Refinery run rates (%)	1.8%	0.8%	1.0%	
Natural gas (bcf)		75		

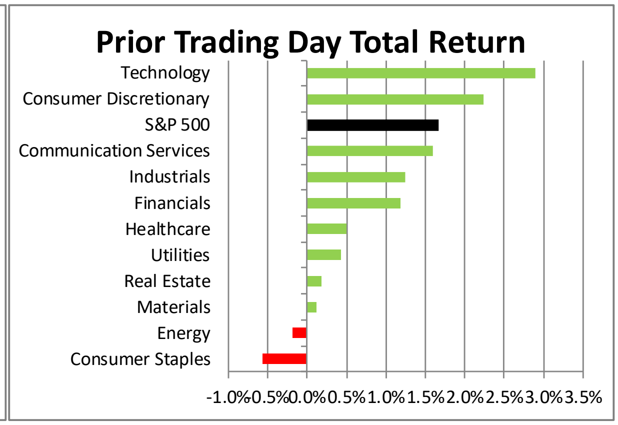
Weather

The 6-to-10 and 8-to-14-day forecasts currently call for warmer-than-normal temperatures throughout the entire country except for the border regions of New Mexico and West Texas, where temperatures will be cooler than normal. The forecasts are calling for wetter-than-normal conditions in the southern Rocky Mountains, the lower Mississippi Valley, and the East Coast, with dry conditions in northern California and the Upper Midwest.

Data Section

US Equity Markets – (as of 4/23/2025 close)

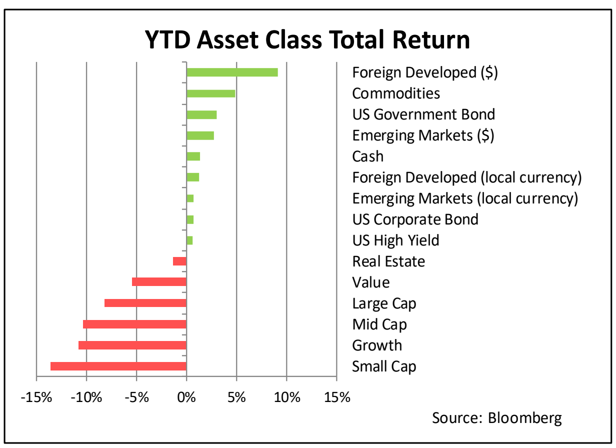




(Source: Bloomberg)

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 4/23/2025 close)

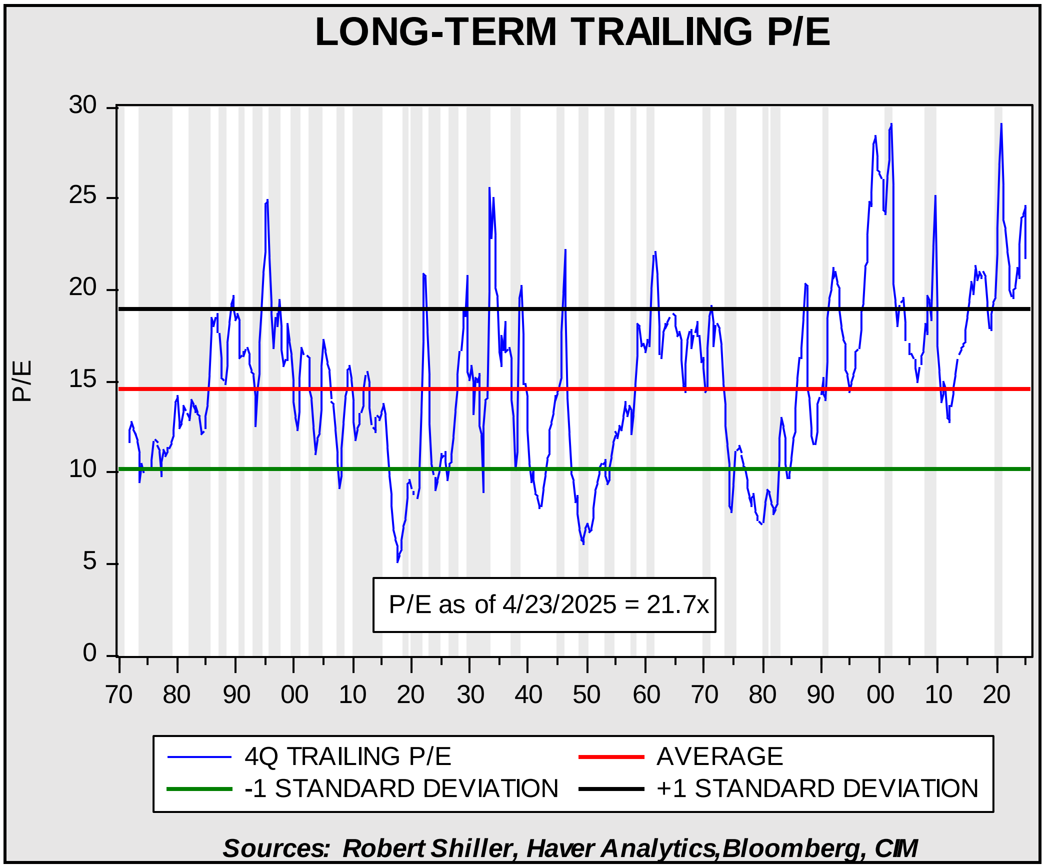


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 24, 2025



Based on our methodology,[1] the current P/E is 21.6x, down 0.1 from our last report. The stock price was little changed while earnings were revised upwards 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.