Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: April 25, 2025 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 0.4% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 1.0%. Chinese markets were mixed, with the Shanghai Composite down 0.1% from its previous close and the Shenzhen Composite up 0.3%. US equity index futures are signaling a lower open.

With 170 companies having reported so far, S&P 500 earnings for Q1 are running at $61.60 per share compared to estimates of $60.75, which is up 7.3% from Q1 2024. Of the companies that have reported thus far, 74.7% have exceeded expectations, while 20.0% 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

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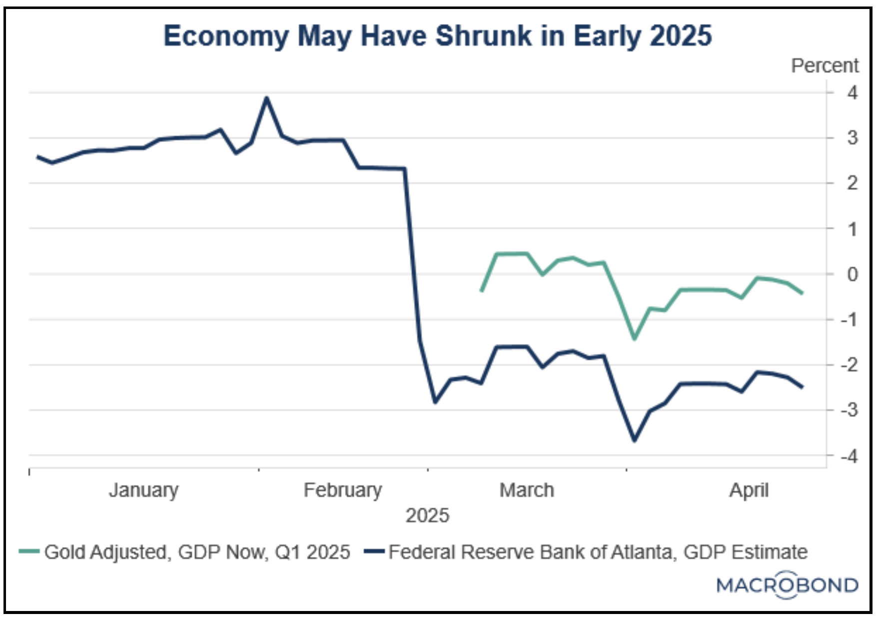
Good morning! The market is still analyzing the latest earnings reports while adjusting to other developments. In sports news, the Tennessee Titans made Cam Ward their number one draft pick. Today's *Comment* will focus on growing speculation about a potential June Fed rate cut, discuss the easing of trade tensions between the US and China, and review other notable market-moving stories. As always, we'll conclude with a comprehensive summary of domestic and international economic data releases.

Rate Cut Hopes Alive? While Fed officials have been adamant about being patient about the pace of rate cuts, they have not ruled it out completely.

- While the Fed is expected to hold rates steady in May, momentum appears to be building for a potential rate cut in June. Cleveland Fed President Elizabeth Hammack suggested that officials could act in June if there is "clear and convincing" evidence about the economy's trajectory. Her remarks hint at the Fed's willingness to respond to signs of an impending recession. On the same day, Fed Governor Christopher Waller noted that evidence of job losses due to tariffs could also influence policy decisions.

- The decision to delay action by a month stems from the central bank's desire to assess the economic impact of recent tariffs. Survey data indicates growing pessimism among consumers and businesses, which is likely to dampen spending and investment. However, real-time indicators, including weekly jobless claims, have yet to signal an imminent economic crisis.
- A shift toward rate cuts would likely appease the president, who has repeatedly argued that the Fed should take stronger action to support economic stability. Despite limited concrete evidence, recession risks remain elevated. Just one week ahead of the official report, the Atlanta Fed's GDPNow model has signaled that there may have been an economic contraction in the first quarter of the year.



- The Fed is likely to remain patient for the foreseeable future, ensuring that inflation and unemployment trends align with its mandate. Its cautious approach reinforces market confidence in its data-dependent stance, avoiding perceptions of discretionary or politically influenced decisions. By maintaining this credibility, the Fed enhances the effectiveness of its policy tools, ensuring that future rate cuts transmit more efficiently to intermediate and long-term rates.

US-China: The world's two largest economies are carefully decoupling and reducing mutual dependence while striving to avoid severe market disruptions.

- On Friday, Chinese officials unveiled emergency contingency plans designed to buffer the economy against potential external shocks from escalating trade tensions. While emphasizing that these measures remain precautionary for now, policymakers have rolled out a comprehensive stimulus package featuring monetary easing tools and targeted financing mechanisms. This move follows Beijing's recent commitment to a record-high budget deficit.

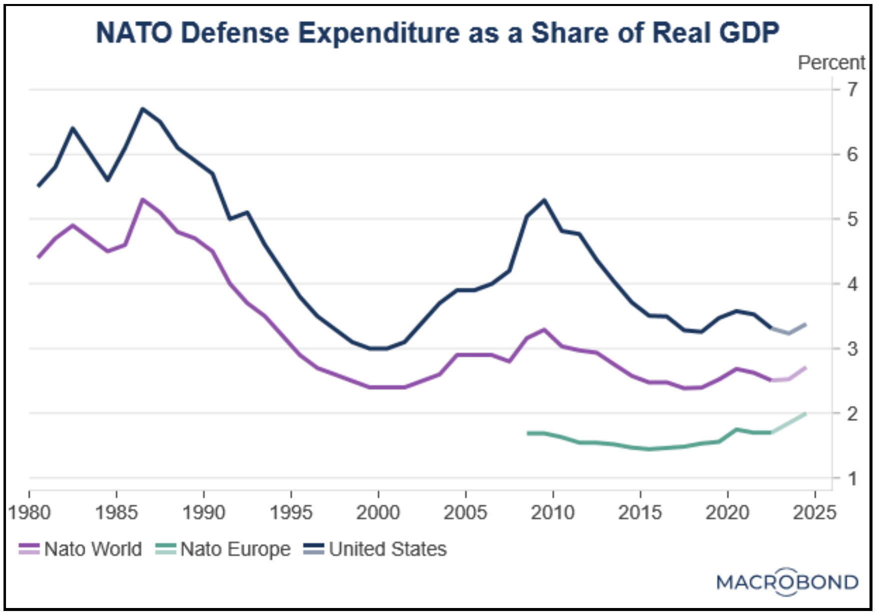
- Additionally, China appears to be taking steps to address US concerns about its historical overreliance on export-driven growth, as highlighted by Treasury Secretary Scott Bessent earlier this week. In response to these remarks, China's Commerce Ministry has prioritized moves to better integrate domestic and foreign trade development. Supporting this initiative, Walmart has launched a program to help Chinese suppliers shift their sales focus from the US market to domestic channels.
- US companies are increasingly demonstrating their willingness to diversify supply chains beyond China. Apple has announced plans to shift the majority of its iPhone production to India as early as next year. This strategic move aligns with deepening US-India trade relations and helps Apple circumvent the punishing 145% US tariffs on Chinese imports.

- As tensions ease and both sides adapt to the new economic landscape, this progress may encourage discussions about targeted tariff exemptions to alleviate bilateral economic pressures. The constructive shift could establish a foundation for productive negotiations toward a mutually beneficial agreement. While these developments appear favorable for risk assets, the true economic impact will only become clear once existing tariffs fully work their way through the system.

EU Defense Spending: An increasing number of EU member states are boosting defense expenditures to counter external security threats, aligning with the bloc's plans to establish a dedicated European defense fund.

- Several EU member states have already begun increasing their military expenditures in response to growing security concerns. Poland and Portugal are both expected to formally request exemptions from EU deficit rules to accommodate higher defense spending, while Spanish Prime Minister Pedro Sánchez confirmed that his country expects to reach NATO's 2% GDP defense target this year.

- European leaders are accelerating defense spending initiatives as the EU prepares to introduce jointly backed bonds to fund military modernization. This financing mechanism would support both EU member states and allied nations, with Brussels recently announcing that non-EU countries may access these funds through new Security Action for Europe (SAFE) agreements, which are subject to participation fees and bilateral security commitments.



- Defense spending has emerged as a key catalyst for European equities, with the EU's decision to permit deficit-funded military investments expected to provide fiscal stimulus to the region. This development comes amid ongoing trade tensions with the United States, creating a potential counterbalance that should continue to support European markets. The structural shift toward increased defense expenditures is likely to deliver sustained tailwinds for equities across the continent.

Canada Elections: Canadian Prime Minister Mark Carney is entering the final stretch of the campaign as the apparent frontrunner, though late shifts in voter sentiment could still change the outcome.

- Recent polls show that Liberal leader Mark Carney is holding a narrow four-point lead over Conservative rival Pierre Poilievre. Carney's edge was bolstered by backlash to President Trump's controversial trade actions against Canada and his inflammatory comment likening the country to a "51st state." However, the gap appears to be tightening as Conservatives gain ground, fueled by rising voter anxiety over the cost of living — an issue that traditionally plays to Conservative strengths.
- The election's outcome may prove decisive in shaping the future of US-Canada trade relations. This development follows President Trump's recent remarks challenging

Canada's role in the US automotive industry, including threats of escalated tariffs on Canadian vehicle exports. In response, Carney has proposed economic stimulus measures to reduce Canada's dependence on US trade, while Poilievre has focused on [deregulation as his preferred solution] to boost competitiveness.

- Next Tuesday's election will likely determine Canada's approach in upcoming trade negotiations with the United States, talks that could significantly impact Canada's automotive sector. Whichever candidate prevails will face the immediate challenge of convincing automakers to maintain their Canadian operations despite growing pressure from US tariffs, particularly for access to one of the world's largest consumer markets.

US Economic Releases

No major US economic reports have been released so far today. 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	U. of Michigan Consumer Sentiment	m/m	Apr F	50.5	50.8	***
10:00	U. of Michigan Current Conditions	m/m	Apr F	56.0	56.5	**
10:00	U. of Michigan Future Expectations	m/m	Apr F	46.3	47.2	**
10:00	U. of Michigan 1-Year Inflation Expectation	m/m	Apr F	6.8%	6.7%	*
10:00	U. of Michigan 5-10 Year Inflation Expectation	m/m	Apr F	4.4%	4.4%	*
11:00	Kansas City Fed Services Activity	m/m	Apr		0	*
Federal Reserve						
No Fed speakers or events for the rest of today						

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	Tokyo CPI	y/y	Apr	3.5%	2.9%	3.3%	**	Equity and bond neutral
	Tokyo CPI Ex-Fresh Food	y/y	Apr	3.4%	2.4%	3.2%	***	Equity and bond neutral
	Tokyo CPI Ex-Fresh Food & Energy	y/y	Apr	3.1%	2.2%	2.8%	*	Equity and bond neutral
	Depart. Store & Supermarket Sales	y/y	Mar	-2.8%	-1.5%		*	Equity and bond neutral
EUROPE								
France	Business Confidence	m/m	Apr	96	97	96	**	Equity and bond neutral
	Manufacturing Confidence	m/m	Apr	99	96	95	*	Equity and bond neutral
UK	Retail Sales	y/y	Mar	3.3%	1.8%	2.0%	***	Equity bullish, bond bearish
	Retail Sales Ex-Auto Fuel	y/y	Mar	2.6%	1.8%	1.8%	**	Equity bullish, bond bearish
UK	GfK Consumer Confidence	m/m	Apr	-23	-19	-21	***	Equity and bond neutral
Russia	Gold and Forex Reserves	m/m	18-Apr	$681.3b	$655.8b		***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	18-Apr	18.07t	18.02t		*	Equity and bond neutral
AMERICAS								
Mexico	Economic Activity IGAE	y/y	Feb	-0.72%	-0.04%	-1.05%	**	Equity and bond neutral
Brazil	FGV Construction Costs	m/m	Apr	0.59%	0.38%	0.48%	**	Equity bearish, bond bullish
	IBGE Inflation IPCA-15	m/m	Apr	5.49%	5.26%	5.48%	***	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	420	-1	Up
U.S. Sibor/OIS spread (bps)	428	428	0	Down
U.S. Libor/OIS spread (bps)	427	427	0	Down
10-yr T-note (%)	4.29	4.32	-0.03	Down
Euribor/OIS spread (bps)	216	216	0	Down
Currencies	**Direction**			
Dollar	Up			Down
Euro	Down			Up
Yen	Up			Up
Pound	Down			Up
Franc	Down			Up
Central Bank Action	**Current**	**Prior**	**Expected**	
Bank of Russia Key Rate	21.00%	21.00%	21.00%	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.

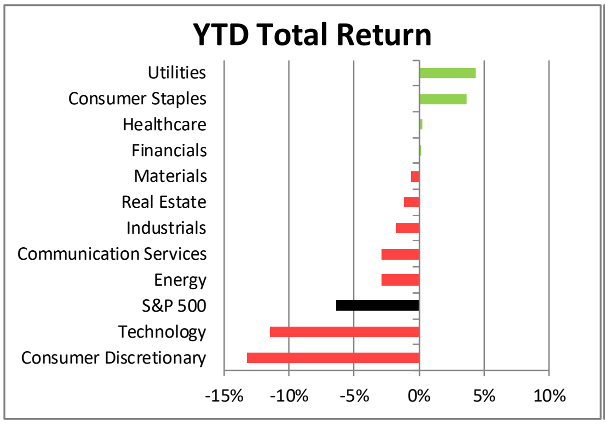
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$65.62	$66.55	-1.40%	
WTI	$61.89	$62.79	-1.43%	
Natural Gas	$2.90	$2.93	-0.92%	
Crack Spread	$25.54	$25.37	0.67%	
12-mo strip crack	$22.13	$22.20	-0.34%	
Ethanol rack	$1.89	$1.88	0.25%	
Metals				
Gold	$3,300.81	$3,349.43	-1.45%	
Silver	$33.42	$33.58	-0.48%	
Copper contract	$482.10	$491.05	-1.82%	
Grains				
Corn contract	$486.75	$484.00	0.57%	
Wheat contract	$549.00	$544.50	0.83%	
Soybeans contract	$1,065.00	$1,062.00	0.28%	
Shipping				
Baltic Dry Freight	1,353	1,300	53	
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)	88	75	13	

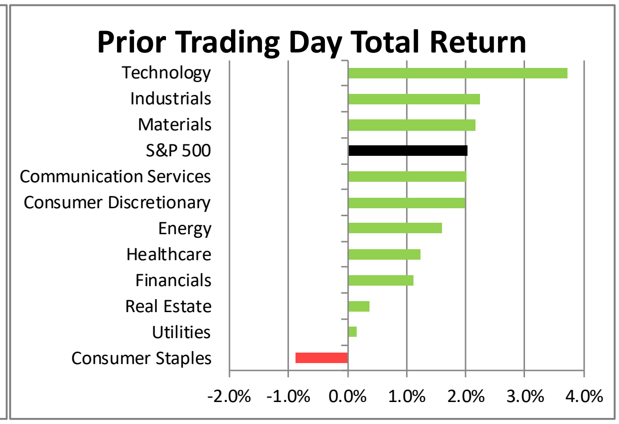
Weather

The 6-to-10 and 8-to-14-day forecasts currently call for warmer-than-normal temperatures throughout the entire country except for Michigan and western Texas, where temperatures will be cooler than normal. The forecasts are calling for wetter-than-normal conditions in the southern half of the country, with dry conditions in the Upper Midwest.

Data Section

US Equity Markets – (as of 4/24/2025 close)

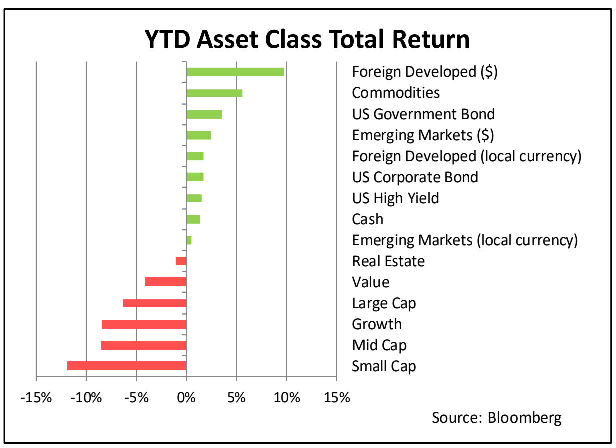




(Source: Bloomberg)

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 4/24/2025 close)

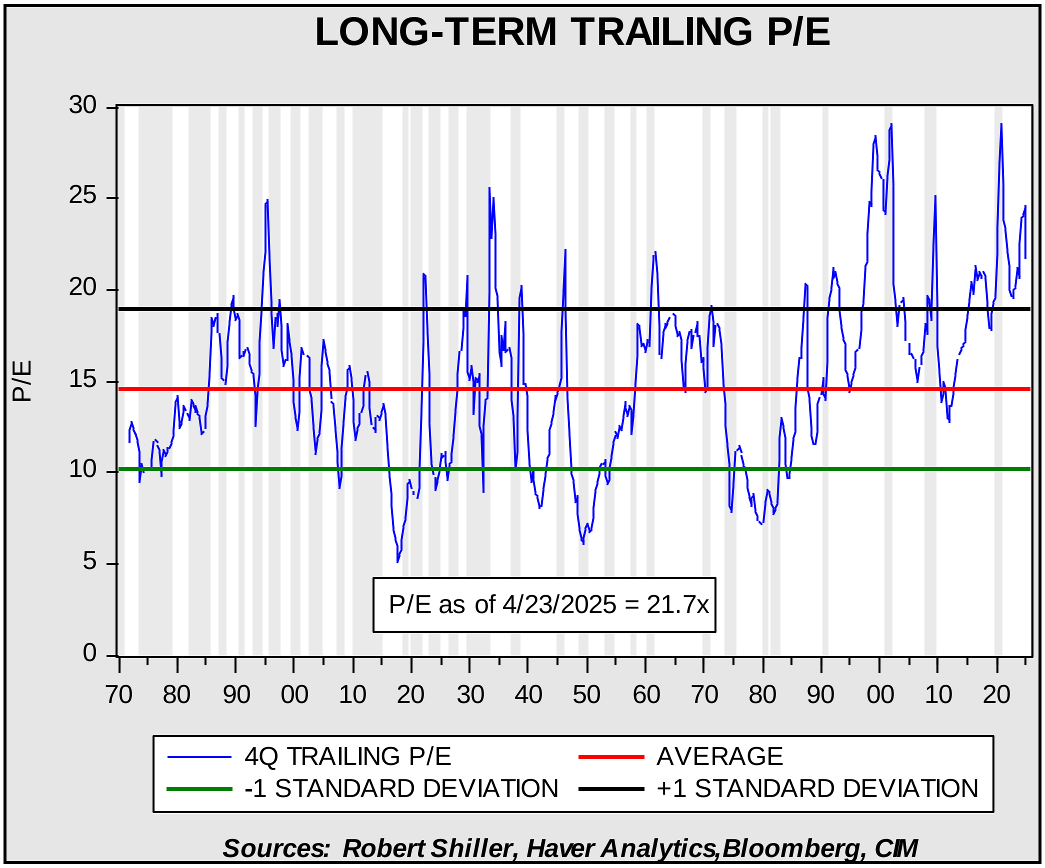


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.