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[Posted: April 2, 2025 – 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 closed down 0.8% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.1%. Chinese markets were higher, with the Shanghai Composite up 0.1% from its previous close and the Shenzhen Composite up 0.1%. 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

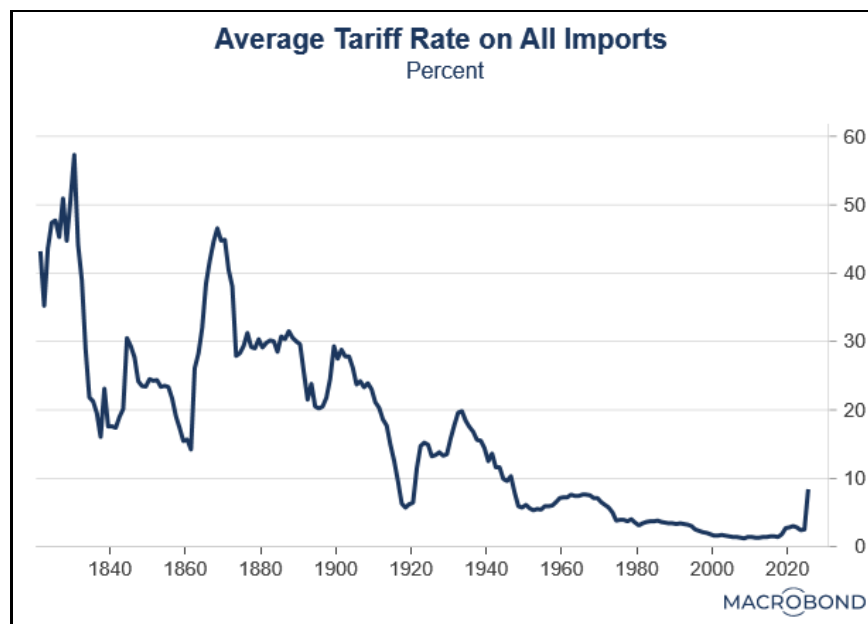
Good morning. The market is currently focused on tariffs and jobs data. In sports, Real Madrid advanced to the Copa del Rey final after a narrow victory over Real Sociedad. Today's *Comment* will analyze the potential impact of Trump's reciprocal tariffs, provide updates on his legislative agenda, and discuss other key market drivers. We'll conclude with a summary of international and domestic data releases.

Tariff Day: The White House is making last-minute adjustments to its reciprocal tariffs in a move that could disrupt the international trading system. Markets are likely to focus closely on the outcome as they assess the potential impact on the global economy.

- President Trump is set to unveil his tariff plan in a Rose Garden announcement after the market closes. While details remain scarce, the plan is expected to feature a tiered system with flat rates for certain countries, though rumors suggest some tariffs could be more customized. Treasury Secretary Scott Bessent has reportedly informed lawmakers that tariffs will begin at their highest levels, with opportunities for countries to take steps to reduce them.
- Countries around the world are waiting with bated breath as they prepare to respond to US trade restrictions, weighing concessions against potential retaliation. Many South

Asian nations, including South Korea and Vietnam, have sought to appease Washington by agreeing to purchase more American imports such as natural gas, while also reducing some of their own tariffs.

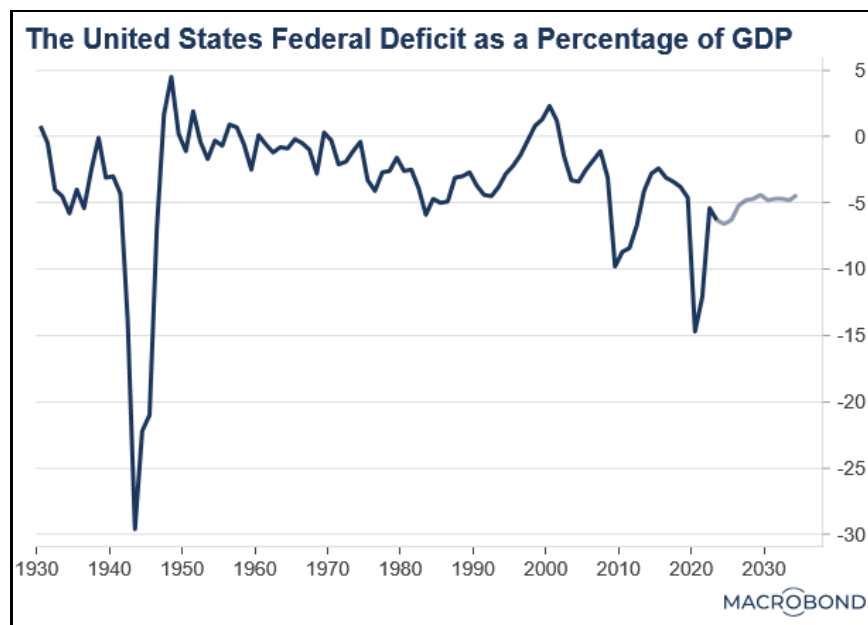
- Meanwhile, other major players — particularly China and the European Union — have adopted a more measured approach, offering limited concessions. Last month, [the EU notably reduced fines against US tech companies](#) for violations of its Digital Services Act. At the same time, China [has sought to emphasize the mutual benefits of its economic relationship with the US](#). Despite these gestures, both powers have it made clear that they stand ready to respond, with the EU and China each vowing strong countermeasures.



- The Trump administration's [“Three R” tariff strategy](#) — *revenue* generation, *retaliation* leverage, and *reciprocity* enforcement — represents a calculated approach that extends beyond conventional protectionism. The emphasis on reciprocal measures reveals a broader ambition to reshape foreign regulatory regimes to benefit US commercial interests. This strategic framework helps explain recent administration actions targeting the EU's nondiscriminatory VAT policies and restrictions on foreign tech firms.
- Early signs suggest nations are adapting to this strategic shift, [with the UK reportedly considering preferential tax rates](#) for US tech giants in exchange for tariff relief. However, this reciprocal dynamic appears set to prolong trade tensions, as trading partners will likely resist unilateral demands. In this evolving landscape, markets face sustained uncertainty as participants attempt to navigate a changing economic environment.

Tax Optimism: Republicans are preparing to push through the highly anticipated “one big, beautiful bill,” which aims to encompass the entirety of the Trump administration’s tax agenda. However, the specifics of the proposal are still being finalized.

- Senate Republicans are developing a [strategy to circumvent the parliamentary](#) in order to permanently extend the Trump-era tax cuts while adding other benefits. This procedural maneuver would allow the legislation to advance without a full assessment of its potential impact on the federal deficit. If successful, they plan to use the budget reconciliation process to pass the bill without the help of Democrats.
- Conservatives are pushing to adopt the “current policy baseline,” a controversial accounting approach that would significantly expand their budgetary flexibility. Essentially, this method would allow them to permanently extend existing tax rates while avoiding recognition of the policies' \$4 trillion fiscal impact (as projected by nonpartisan fiscal watchdogs).
- That said, lawmakers are still negotiating how to fund the bill and secure support from Republican holdouts. The White House is [making the case that strong GDP growth](#) — projected at 3% — could generate sufficient revenue to offset the tax cuts. Meanwhile, there are concerted efforts to include cuts to safety-net spending in the package, and some discussions have even floated the [possibility of raising tax rates on top earners](#).



- Although significant hurdles remain, the tax legislation appears to be gaining momentum. The proposed bill, which would eliminate taxes on tipped income, increase the SALT deduction cap from \$10,000 to \$25,000, and extend the Trump-era tax cuts, could provide sufficient economic stimulus to improve US market sentiment, provided there is no major economic downturn.

Greenland Takeover? The Trump administration is exploring avenues to persuade Greenland to become a US territory, despite growing local resistance to foreign territorial claims.

- US administration [officials are conducting a comprehensive cost-benefit analysis of the potential acquisition](#), evaluating both the upfront expenditures and long-term revenue

opportunities from Greenland's vast natural resources. As part of this assessment, policymakers are weighing an incentive package that would improve upon Greenland's current \$600 million annual subsidy arrangement with Denmark.

- These developments follow strong resistance from both Denmark and Greenland to the US overtures. Greenland's incoming president has [reaffirmed commitments to strengthen ties with Denmark](#) while pursuing eventual sovereignty for the island. Meanwhile, Danish Prime Minister [Mette Frederiksen is planning a visit to the island](#) in a move seen as reinforcing Danish interests following the notably cool reception given to US Vice President JD Vance during his recent trip.
- The Greenland dispute underscores a deepening divide between the US and its NATO allies, with tensions escalating as President Trump maintains his pursuit of the territory while leaving military options on the table. While we don't anticipate armed conflict over the region, this posture signals a marked shift toward a more assertive US foreign policy stance — one that has already begun prompting allies to reassess their dependence on American leadership.

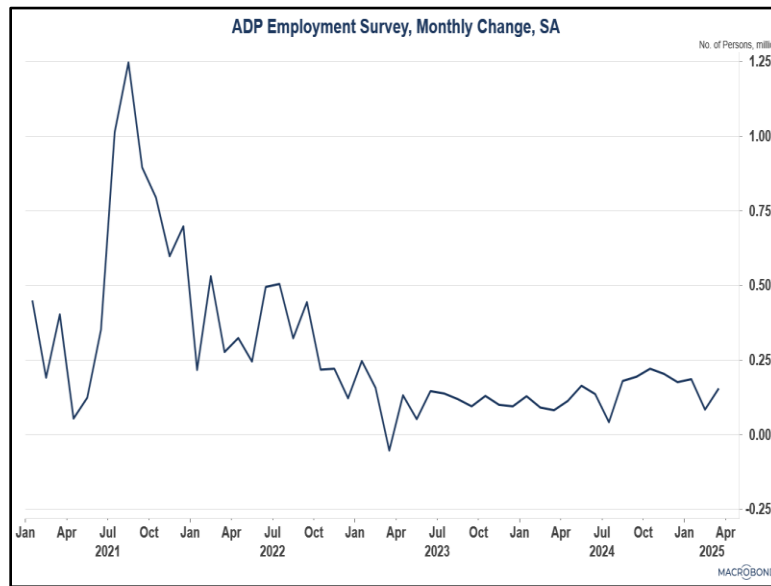
Walmart Takes on Beijing: The retail giant continues demanding that its Chinese suppliers absorb tariff costs despite growing government resistance to this practice.

- Walmart is reportedly [demanding price reductions of up to 10% from vendors](#) with each new round of tariffs, according to sources familiar with the matter. The retail giant is taking this aggressive stance to avoid absorbing the full impact of trade war costs, leveraging its massive purchasing power to extract concessions from suppliers.
- Beijing is likely to respond to Walmart's pricing demands with measured retaliation, though analysts expect any action to be restrained given the retailer's significant support of Chinese suppliers. These tense negotiations exemplify how US tariffs are reverberating through China's export economy, forcing difficult compromises between multinational corporations and their manufacturing partners.

US Economic Releases

The Mortgage Bankers Association today said *mortgage applications* for the week ended March 28 fell 1.6%, extending the prior week's 2.0% drop and marking the third consecutive decline. Purchase applications actually rose 1.5%, extending a streak of increases stretching back into February; however, refinancing applications fell 5.6% on top of the previous week's 5.3% drop and marking the third drop in a row. The average interest rate on a 30-year mortgage fell 1 basis point to 6.7%.

Separately, the ADP Research Institute estimated that *private payroll employment* rose in March by a seasonally adjusted 155,000, exceeding both the expected 120,000 and February's gain of 84,000. ADP's estimate is widely seen as an indicator of what to expect when the Labor Department releases its measure of nonfarm payrolls on Friday. The chart below shows the monthly change in ADP's estimate of private payrolls since the beginning of 2021.



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	Factory Orders	m/m	Feb	0.5%	1.7%	**
10:00	Factory Orders Ex Transportation	m/m	Feb	0.4%	0.2%	**
10:00	Durables Goods Orders	m/m	Feb F	0.9%	0.9%	**
10:00	Durables Ex Transportation	m/m	Feb F	0.7%	0.7%	**
10:00	Cap Goods Orders Nondef Ex Air	m/m	Feb F		-0.3%	*
10:00	Cap Goods Ship Nondef Ex Air	m/m	Feb F		0.9%	*
Federal Reserve						
EST	Speaker or Event	District or Position				
16:30	Adriana Kugler Speaks on Inflation Expectations	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								
Japan	Monetary Base	y/y	Mar	-3.1%	-1.8%		**	Equity and bond neutral
	Monetary Base, End of Period	m/m	Mar	¥653.t	¥655.3t		*	Equity and bond neutral
Australia	Building Approvals	m/m	Feb	-0.3%	6.9%	-1.3%	***	Equity bullish, bond bearish
New Zealand	CoreLogic Home Value	m/m	Mar	0.5	0.4		*	Equity and bond neutral
	Building Permits	m/m	Feb	0.7%	2.6%		**	Equity and bond neutral
South Korea	CPI	m/m	Mar	2.1%	2.0%	1.9%	***	Equity and bond neutral
India	HSBC India PMI Mfg	m/m	Mar F	58.1	57.6		***	Equity and bond neutral
EUROPE								
France	Budget Balance YTD	y/y	Feb	-40.3b	-17.3b		***	Equity and bond neutral
Italy	New Car Registrations	y/y	Mar	6.22%	-6.28%		*	Equity and bond neutral
	Budget Balance	m/m	Mar	-24.4b	-18.7b		*	Equity and bond neutral
Russia	S&P Global Russia Manufacturing PMI	m/m	Mar	48.2	50.2		***	Equity and bond neutral
AMERICAS								
Canada	S&P Global Canada Manufacturing PMI	m/m	Mar	46.3	47.8		***	Equity and bond neutral
Mexico	S&P Global Mexico Manufacturing PMI	m/m	Mar	46.5	47.6		***	Equity and bond neutral
	International Reserves Weekly	w/w	28-Mar	\$237006m	\$236731m		*	Equity and bond neutral
	Remittances Total	m/m	Feb	\$4458.5m	\$4660.2m	\$4557.2m	*	Equity and bond neutral
	IMEF Manufacturing Index SA	m/m	Mar	47.2	47.1	47.0	*	Equity and bond neutral
	IMEF Non-Manufacturing Index SA	m/m	Mar	48.6	49.6	49	*	Equity and bond neutral
	Vehicle Domestic Sales	y/y	Mar	127352	117679		*	Equity and bond neutral
Brazil	Industrial Production	y/y	Feb	1.5%	1.3%	2.1%	***	Equity bearish, bond bullish

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)	429	430	-1	Down
10-yr T-note (%)	4.14	4.17	-0.03	Down
Euribor/OIS spread (bps)	232	234	-2	Down
Currencies	Direction			
Dollar	Up	US		Down
Euro	Down	Euro		Up
Yen	Up	Japan		Up
Pound	Down	UK		Up
Franc	Down	Switzerland		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.

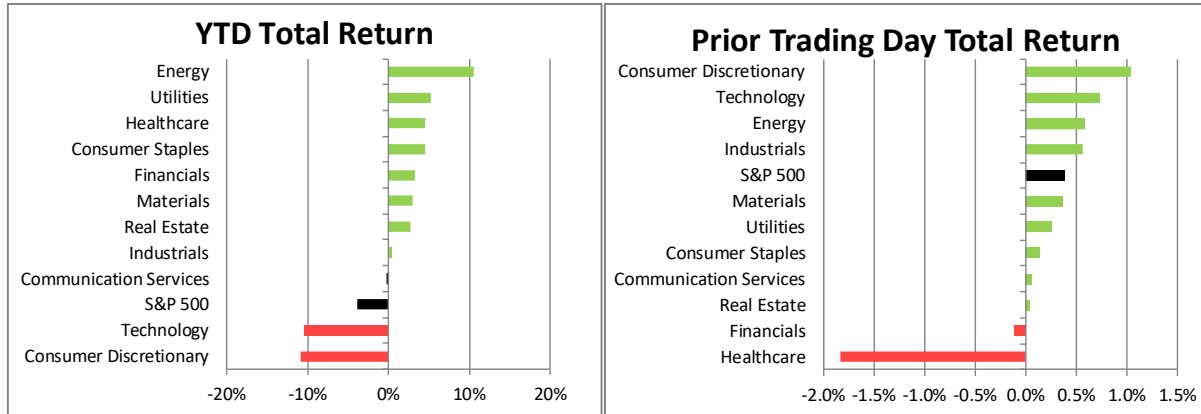
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$74.13	\$74.49	-0.48%	
WTI	\$70.89	\$71.20	-0.44%	
Natural Gas	\$3.98	\$3.95	0.71%	
Crack Spread	\$25.54	\$25.42	0.48%	
12-mo strip crack	\$22.13	\$22.05	0.38%	
Ethanol rack	\$1.89	\$1.88	0.47%	
Metals				
Gold	\$3,120.35	\$3,113.38	0.22%	
Silver	\$33.81	\$33.69	0.33%	
Copper contract	\$507.05	\$503.50	0.71%	
Grains				
Corn contract	\$456.75	\$461.75	-1.08%	
Wheat contract	\$537.00	\$540.50	-0.65%	
Soybeans contract	\$1,029.00	\$1,034.25	-0.51%	
Shipping				
Baltic Dry Freight	1,587	1,598	-11	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-0.50		
Gasoline (mb)		-1.55		
Distillates (mb)		-0.80		
Refinery run rates (%)		0.5%		
Natural gas (bcf)		28		

Weather

The 6-to-10 and 8-to-14-day forecasts show warmer-than-normal temperatures from the Great Plains westward, with cooler-than-normal temperatures across the eastern third of the country. The forecasts show wetter-than-normal conditions in Maine and South Florida, with drier-than-normal conditions for most of the rest of the country.

Data Section

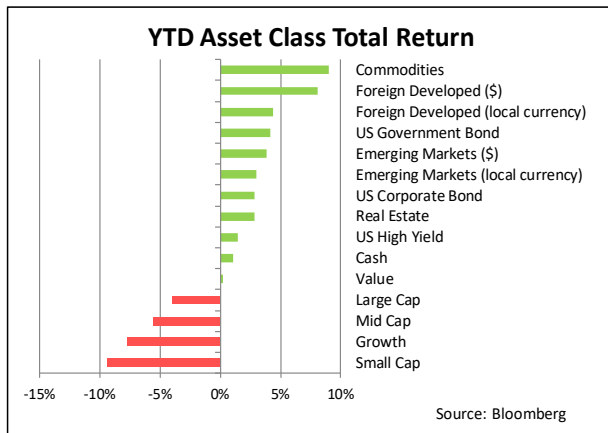
US Equity Markets – (as of 4/1/2025 close)



(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 4/1/2025 close)

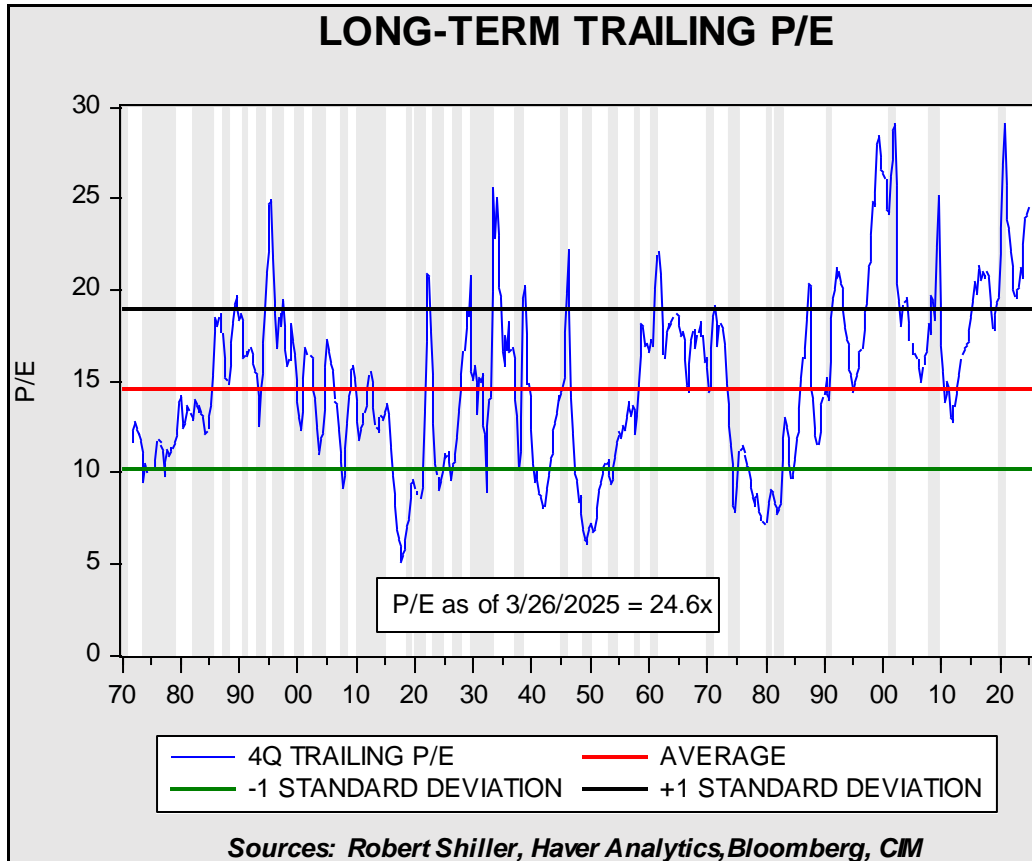


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.

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.