Daily Comment

Confluence INVESTMENT MANAGEMENT

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[Posted: April 3, 2025 — 9:30 AM ET] Global equity markets are lower this morning. In Europe, the Euro Stoxx 50 closed down 2.9% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 1.0%. Chinese markets were lower, with the Shanghai Composite down 0.2% from its previous close and the Shenzhen Composite down 1.1%. 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

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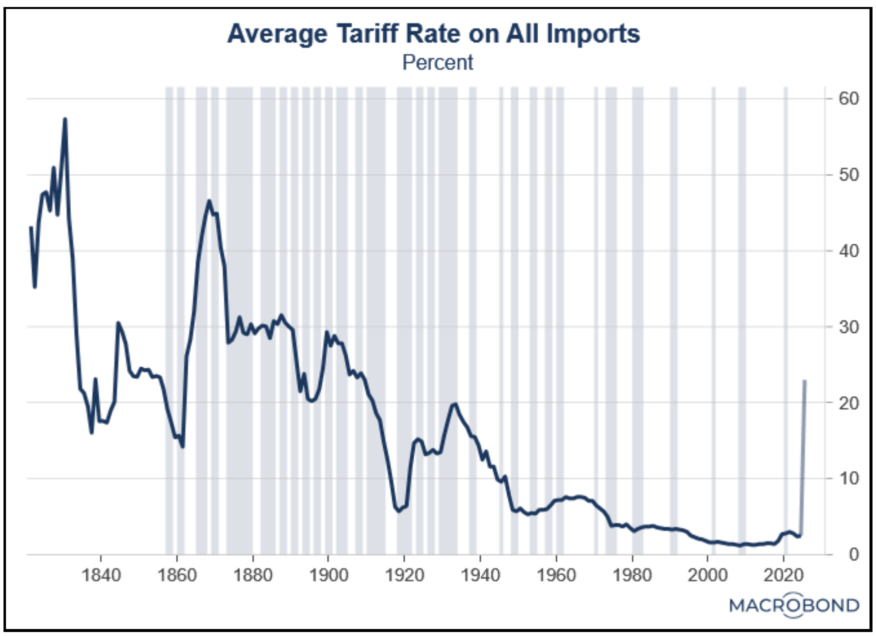
Good morning! Markets are analyzing the implications of the latest tariff measures, while in sports news, Shohei Ohtani's powerful home run last night propelled the LA Dodgers to their eighth consecutive victory. Today's *Comment* will focus on the economic impact of the newly announced tariffs, the EU's cautious approach toward including US suppliers in its military procurement strategy, and other market-moving events. As always, we'll also provide a roundup of today's international economic data releases and indicators.

Liberation Day: The president's unveiling of targeted tariff measures triggered a market sell-off. The dollar and equity markets declined sharply, and US Treasurys rose.

- On Wednesday, President Trump announced reciprocal tariffs targeting nations he accused of unfair trade practices. To substantiate his position, he presented a chart comparing existing foreign tariff rates on US imports to his proposed reciprocal rates, demonstrating that current charges were approximately double his recommended levels. The new tariffs would be added on top of previously announced taxes on US imports.
- Under the new tariff structure, China faces the highest rate at 54%, while several Southeast Asian nations — particularly Vietnam — confront steep increases exceeding

45%. The EU received a 20% tariff, while countries maintaining trade deficits with the US were subject to a comparatively lower 10% rate. Key takeaways:

- ***The Good***: The administration would like these tariffs to be the worst of it. Treasury Secretary Scott Bessent has stated that if other nations refrain from retaliation, the tariffs will be capped at their current rates, with the possibility of future negotiations to reduce them. Additionally, the US spared its largest trading partners, Mexico and Canada, from additional tariffs. Similar exemptions were granted for commodities such as oil, gold, copper, and products affected by Section 232 tariffs, including steel, aluminum, and lumber.
- ***The Bad***: The tariffs were significantly higher than market expectations. According to Bloomberg, the effective tax rate on imports (projected to be around 23%) now rivals levels seen during the protectionist 1930s. Meanwhile, signs of retaliation are emerging as Canada is set to announce countermeasures on Thursday, and the EU has vowed a unified response to the new tariffs.



- ***The Ugly***: The apparent calculation methodology behind these reciprocal tariffs raises significant concerns about how the administration defines unfair trade practices. The formula divides a country's trade surplus with the US by the value of its exports to America. While not perfect (for example, the EU's 37% rate falls slightly below the administration's 39% benchmark), the calculation aligns with projections for Japan (46%) and produces similarly elevated figures for China (67%) and Indonesia (64%).

- The administration appears to have adopted a de facto stance that any country running a trade surplus with the US is engaging in unfair tariff practices. Given this position, these reciprocal tariffs are likely to remain in effect and may even be adjusted in coming months, particularly if affected nations implement retaliatory measures. We will be paying close attention to the dollar as a persistent drop could have spill-over effects.

Political Fractions Emerging: A rare bipartisan coalition opposed the president's trade war immediately before he announced new tariffs.

- On Wednesday, Senate Democrats introduced a bill to repeal tariffs on select Canadian imports. The measure passed 51-48, with four Republican senators joining Democrats to advance the legislation. While the bill is unlikely to clear the House, the vote served as both a rebuke of the president's aggressive tariff policies and a broader test of congressional sentiment on executive trade authority.
- While Democratic support for the bill was expected, the Republican backing represents an unwelcome surprise for a president who prizes loyalty above all. This rare defiance signals growing congressional unease with how the president has used his ability to impose tariffs unilaterally. Should the administration's trade levies not achieve their intended goals, lawmakers may consider reasserting their constitutional authority over tariff policy, which would address the perceived expansion of executive power.
- Although the US's economic dominance is often cited as its key advantage in a trade war, public sentiment remains a decisive factor. Recent special elections in Florida, Wisconsin, and Pennsylvania suggest growing opposition to Trump's agenda, although much of it may have to do with his government spending cuts. Should this trend continue, lawmakers may be forced into a politically difficult reversal.
- We still believe the president's core base will largely support his trade policy shift — after all, his tough stance on trade helped get him elected. Once the tax bill passes, it should generate enough goodwill to offset some backlash. The key challenge now is minimizing the economic pain from tariffs to avoid a financial crisis. Difficult, but possible.

Europe Defense Build Up: NATO allies continue to prepare to operate independently of the US. However, American officials have requested that Europe still buy American weapons.

- Secretary of State Marco Rubio cautioned Baltic EU leaders that excluding the US from defense procurement initiatives would trigger a strong backlash from Washington. He is set to reiterate this stance later this week at the NATO Foreign Ministers' meeting. His remarks come amid a broader EU push to bolster its domestic defense industry and reduce reliance on American military supplies.
- The move comes as European countries begin developing a joint plan to fund military purchases. The UK has expressed interest in joining the EU-led initiative, which aims to establish a collective fund for stockpiling weapons amid growing concerns over Russian aggression. There has been notable support — particularly from France — for restricting the fund to purchases of weapons manufactured within the EU.

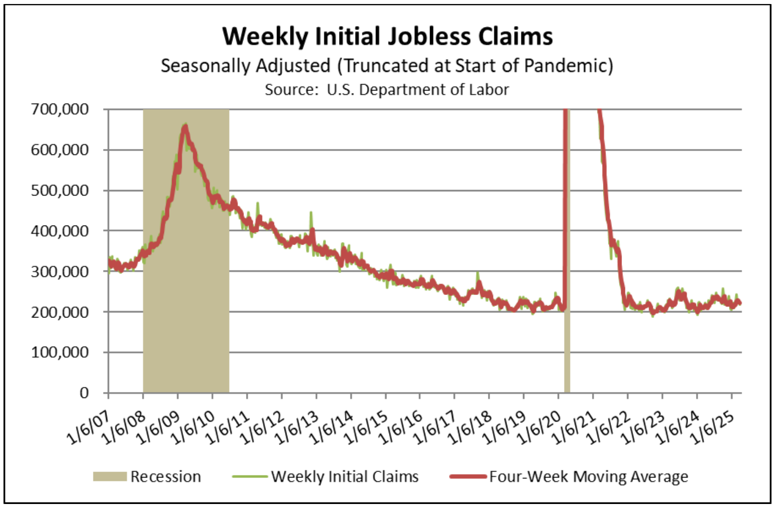
- Europe would like to change how it buys weapons for two main reasons: trade disputes with the US and a fading trust in American security promises. While Europe can't yet match US weapons technology in terms of scale or sophistication, it would like to invest heavily in its own arms industry. The goal is to rely less on American suppliers and eventually compete in the global weapons market. These moves could seriously change how Europe and the US work together on defense.

Musk Exit? There are conflicting reports that the Tesla CEO and leader of the DOGE taskforce is rumored to be stepping down from his position within the Trump administration.

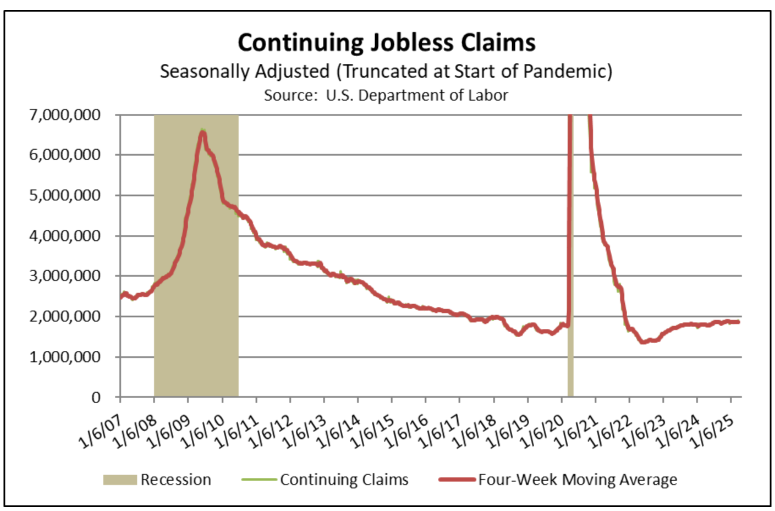
- According to *Politico*, President Trump informed cabinet members that Elon Musk would step down from his advisory role in the administration. While White House spokesperson Karoline Leavitt and other officials later denied the report, it suggests Musk's temporary position — which by statute lasts only 130 days — will not be extended beyond its original term.
- Elon Musk's expanding influence has made him an increasingly polarizing figure, raising concerns among observers. Recent reports suggest he may now be marginalized within Trump's core advisors, signaling a potential decline in his political sway.
- Musk's departure could mean many of the proposed spending cuts may not be as deep as initially hoped. Without him, the administration will need to either find another leader capable of driving the mission or develop alternative strategies — such as efficiency-based deficit reduction — to avoid politically risky spending cuts while maintaining fiscal discipline.

US Economic Releases

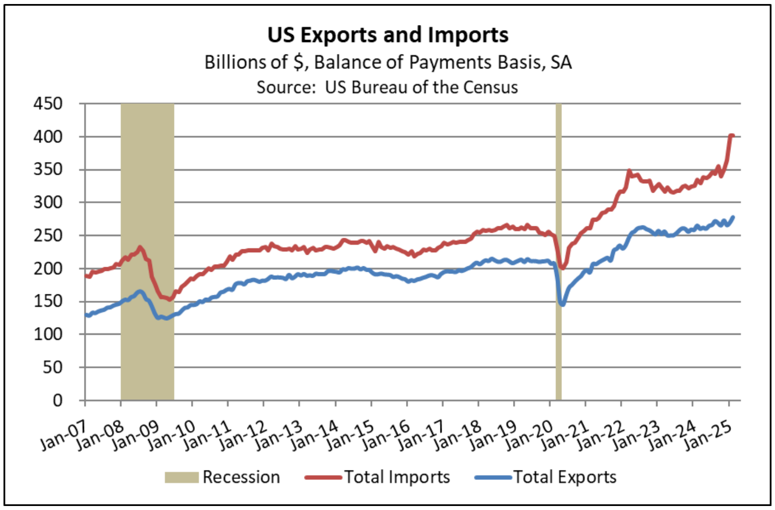
In the week ended March 29, ***initial claims for unemployment benefits*** fell to a seasonally adjusted 219,000, versus expectations that they would be unchanged from their revised level of 225,000 in the previous week. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, fell to a low 223,000. 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 March 22, the number of ***continuing claims for unemployment benefits*** (people continuing to draw benefits) rose to a seasonally adjusted 1.903 million, above both the anticipated reading of 1.870 million and the prior week's revised reading of 1.847 million. The four-week moving average of continuing claims rose to 1,870,500. 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.



In a separate report today, the February ***trade balance*** showed a seasonally adjusted deficit of $122.7 billion, modestly better than both the expected shortfall of $123.5 billion and the revised January deficit of $130.7 billion. According to the data, total ***exports*** rose 2.9%, while ***imports*** were unchanged from the previous month. Compared with the same month one year earlier, exports in February were up 4.8%, but imports were up a whopping 19.7% as firms rushed to take delivery of foreign goods before the Trump administration imposed its extensive tariffs. The chart below shows the monthly value of US exports and imports since just before the GFC.



The following table lists the releases and/or Fed events scheduled for the rest of the day.

Economic Releases						
EST	**Indicator**			**Expected**	**Prior**	**Rating**
9:45	S&P Global US Services PMI	m/m	Mar F	54.2	54.3	***
9:45	S&P Global US Composite PMI	m/m	Mar F	53.5	53.5	***
10:00	ISM Services Index	m/m	Mar	52.9	53.5	**
10:00	ISM Services Prices Paid	m/m	Mar	63.1	62.6	*
10:00	ISM Services New Orders	m/m	Mar	51.9	52.2	*
10:00	ISM Services Employment	m/m	Mar	53.0	53.9	*
Federal Reserve						
EST	**Speaker or Event**	**District or Position**				
12:30	Philip Jefferson Gives Keynote on Communication	Vice Chair of the Board of Governors				
14:30	Lisa Cook Speaks on Economic Outlook	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	Expected
ASIA-PACIFIC								
Japan	Japan Buying Foreign Bonds	w/w	28-Mar	-¥5.9b	-¥233.7b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	28-Mar	¥583.2	¥175.4b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	28-Mar	-¥1797.4b	-¥489.7b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	28-Mar	-¥450.4b	-¥1200.0b		*	Equity and bond neutral
	Jibun bank Composite PMI	m/m	Mar F	48.9	48.5		*	Equity and bond neutral
	Jibun Bank Services PMI	m/m	Mar F	50.0	49.5		**	Equity and bond neutral
Australia	S&P Global Australia Composite	m/m	Mar F	51.6	51.3		*	Equity and bond neutral
	S&P Global Australia Services PMI	m/m	Mar F	51.6	51.2		*	Equity and bond neutral
	Trade Balance	m/m	Feb	A$2968m	A$5156m	A$5400m	***	Equity and bond neutral
	Exports	m/m	Feb	-3.6%	0.8%		*	Equity and bond neutral
	Imports	m/m	Feb	1.6%	-0.4%		*	Equity and bond neutral
New Zealand	ANZ Commodity Price	m/m	Mar	-0.4%	0.4%		**	Equity and bond neutral
South Korea	Foreign Reserves	m/m	Mar	$409.66b	$409.21		**	Equity and bond neutral
China	Caixin Composite PMI	m/m	Mar	51.8	51.5		**	Equity and bond neutral
	Caixin Services PMI	m/m	Mar	51.9	51.4	51.5	**	Equity and bond neutral
EUROPE								
Eurozone	HCOB Eurozone Services PMI	m/m	Mar F	51.0	50.4	50.4	**	Equity bullish, bond bearish
	HCOB Eurozone Composite PMI	m/m	Mar F	50.9	50.4	50.4	*	Equity and bond neutral
	PPI	y/y	Feb	3.0%	1.7%	3.0%	**	Equity and bond neutral
Germany	HCOB Germany Services PMI	m/m	Mar F	50.9	50.2	50.2	**	Equity and bond neutral
	HCOB Germany Composite PMI	m/m	Mar F	51.3	50.9	50.9	**	Equity and bond neutral
France	HCOB France Services PMI	m/m	Mar F	47.9	46.6	46.6	**	Equity bullish, bond bearish
	HCOB France Composite PMI	m/m	Mar F	48.0	47.0	47.0	**	Equity and bond neutral
Italy	HCOB Italy Services PMI	m/m	Mar	52.0	53.0	52.5	**	Equity and bond neutral
	HCOB Italy Composite PMI	m/m	Mar	50.5	51.9	51.5	**	Equity and bond neutral
UK	Official Reserves Changes	m/m	Mar	$4390m	$646m		*	Equity and bond neutral
	S&P Global UK Services PMI	m/m	Mar F	52.5	53.2	53.2	**	Equity and bond neutral
	S&P Global UK Composite PMI	m/m	Mar F	51.5	52.0	52.0	**	Equity and bond neutral
Switzerland	CPI	y/y	Mar	0.3%	0.3%	0.4%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Mar	0.1%	0.1%		*	Equity and bond neutral
	Core CPI	y/y	Mar	0.1%	0.1%		*	Equity and bond neutral
Russia	Retail Sales	m/m	Feb	2.20%	5.40%	3.80%	***	Equity bearish, bond bullish
	Unemployment Rate	m/m	Feb	2.40%	2.40%	2.40%	***	Equity and bond neutral
	S&P Global Russia Composite PMI	m/m	Mar	49.1	50.4		**	Equity and bond neutral
	S&P Global Russia Services PMI	m/m	Mar	50.1	50.5		**	Equity and bond neutral
AMERICAS								
Mexico	Gross Fixed Investment	y/y	Jan	-6.7%	-4.0%	-5.7%	**	Equity bearish, bond bullish
	Leading Indicators	y/y	Feb	-0.12	-0.11		**	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	429	-1	Down
U.S. Libor/OIS spread (bps)	428	430	-2	Down
10-yr T-note (%)	4.07	4.13	-0.06	Down
Euribor/OIS spread (bps)	236	232	4	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.

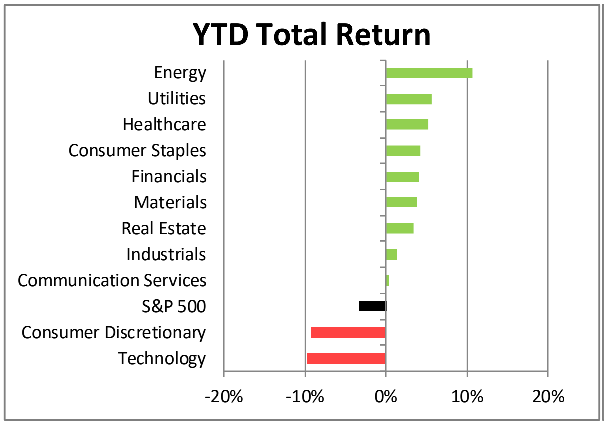
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$70.80	$74.95	-5.54%	Tariffs, demand pessimism
WTI	$67.50	$71.71	-5.87%	Tariffs, demand pessimism
Natural Gas	$4.13	$4.06	1.80%	
Crack Spread	$24.10	$26.63	-9.53%	Tariffs
12-mo strip crack	$21.17	$22.75	-6.93%	Tariffs
Ethanol rack	$1.90	$1.90	0.01%	
Metals				
Gold	$3,097.25	$3,134.17	-1.18%	
Silver	$32.50	$33.88	-4.06%	Tariff Pressures
Copper contract	$490.60	$504.05	-2.67%	
Grains				
Corn contract	$450.00	$457.75	-1.69%	
Wheat contract	$527.00	$539.25	-2.27%	
Soybeans contract	$1,007.00	$1,029.50	-2.19%	
Shipping				
Baltic Dry Freight	1,583	1,587	-4	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	6.17	-0.50	6.67	
Gasoline (mb)	-1.55	-1.55	0.00	
Distillates (mb)	0.26	-0.80	1.06	
Refinery run rates (%)	-1.0%	0.5%	-1.5%	
Natural gas (bcf)		27		

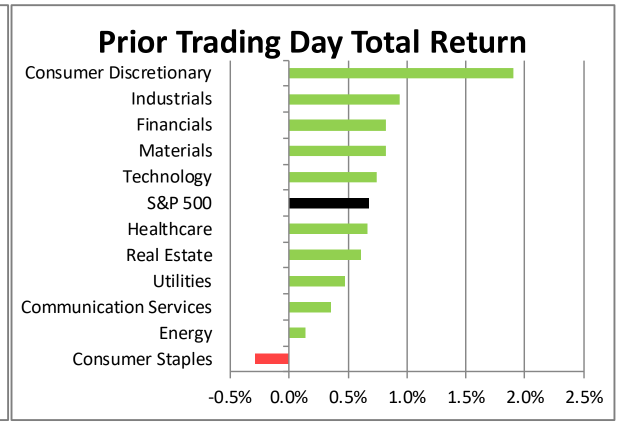
Weather

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 from the Mississippi River eastward. The forecasts show wetter-than-normal conditions in the Pacific Northwest and the Northeast, with drier-than-normal conditions in California, the Rocky Mountains, and the Great Plains.

Data Section

US Equity Markets – (as of 4/2/2025 close)

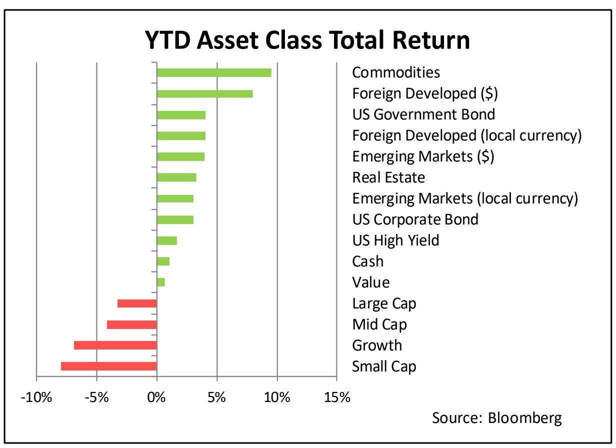




(Source: Bloomberg)

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 4/2/2025 close)

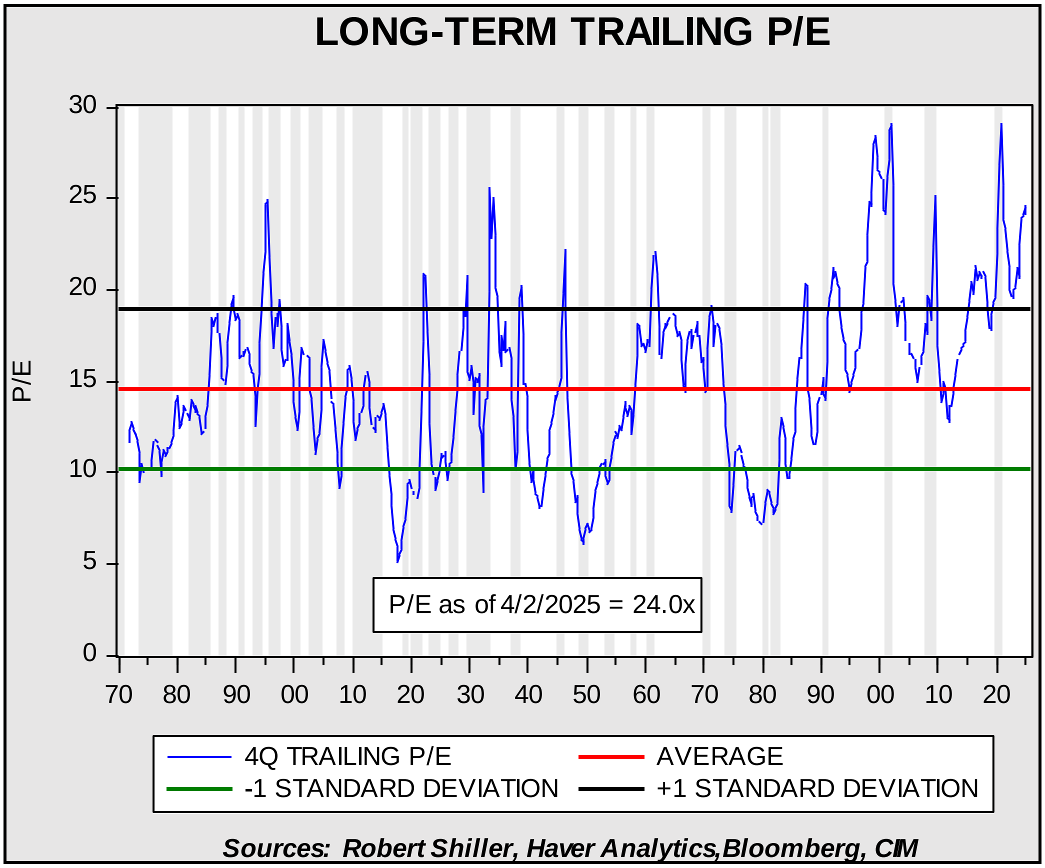


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 3, 2025



Based on our methodology,[1] the current P/E is 24.0x, down 0.7 from our last report. The drop in the multiple resulted primarily from a decrease in the stock price index and an increase in earnings.

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 (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.