Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: April 8, 2025 — 9:30 AM ET] Global equity markets are mostly higher this morning. In Europe, the Euro Stoxx 50 closed up 2.2% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.2%. Chinese markets were higher, with the Shanghai Composite up 1.6% from its previous close and the Shenzhen Composite up 0.8%. US equity index futures are signaling a higher 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
"Growing Fragility in the US Bloc" (4/7/25) + 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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Our *Comment* today opens with some new observations on the global financial markets as they respond to President Trump's new US tariff regime. We next review several other international and US developments with the potential to affect the financial markets today, including reports of a new Ukrainian incursion into Russia and another firing of a high-level US military officer as part of what appears to be a broad purge of officials.

Global Financial Markets: By market close yesterday, US stock prices were relatively little changed. However, intraday trading was just about as volatile as yesterday's action in Asia and Europe. Stocks were whipsawed by a false report that President Trump would pause his reciprocal tariffs for 90 days and by news that he threatened an added 50% tariff on Chinese goods if Beijing doesn't lift its retaliatory tariff of 34% on US goods by Tuesday. Amid this volatility, we think investors and their advisors should keep in mind the following key points:

- While it is tempting to tag all this volatility on Trump's tariffs, the problem is broader. As we've written for years, the global order is in the process of changing as the US reconsiders its role as the global hegemon. Even if Trump froze or rescinded his tariffs today, that process would likely continue, and the result would likely be further economic disruption and market chaos.

- The administration's mixed messages and shifting strategies also are likely to prolong the uncertainty. After all, even if Trump decided to pause or rescind some or all of the tariffs, businesses and investors now have probably been trained not to trust him. As with those of us who live in Missouri, their attitude might well be, "Show me" before they let down their guard and start making normal long-term decisions again.
- It's also important to remember that the epicenter of the trade war is China. In response to Trump's threat to impose an additional 50% tariff on China, the country's commerce minister today said, "If the US insists on its own way, China will fight to the end . . . China will resolutely take countermeasures to safeguard its own rights and interests." We judge that the Chinese leaders should be taken at their word on this, which suggests a prolonged US-China trade war.
- The ebb and flow of statements and potential tariff adjustments will certainly spark some rallies in the markets. Indeed, Japanese and US stocks today are rebounding on signs from the White House that it is open to negotiations. Given the discussion above, we think investors should be skeptical that a long-lasting rebound can be established so easily.
- Investment strategy should therefore make full use of the various tools available to manage risk, from proper diversification to meaningful positions in safe-haven assets such as US Treasury obligations, defensive blue-chip stocks, and gold. Such tools may not protect against all losses, but they are likely to help reduce gut-wrenching volatility.
- At the same time, our geopolitical, economic, and financial market analysis teaches us that today's global transition and the Trump administration's specific tariff policies have created big, long-lasting trends that are likely to be investable. For example, we have long championed high quality, dividend paying value stocks. Our Asset Allocation programs have also taken positions in European defense stocks. We continue to look for new opportunities amid the current market volatility.
- While investors may be tempted to sell their risk assets in times like these, it's important to remember that such a strategy is very hard to pull off as it requires being right about both the time to sell and the time to get back into the market to take advantage of any rebound. Because that's so difficult, the better approach for many investors is probably to ride out the storm and resist panic selling.
- Finally, while we might quibble with whether Trump really needed to impose his tariffs and other radical economic policies so abruptly and idiosyncratically — rather than telescoped beforehand and implemented step-by-step over time — we can appreciate the effort to address the US's longstanding trade deficits, budget deficits, and debt. Even if Trump's approach has created a lot of uncomfortable volatility and raised the risk of recession, the policies may well prove positive in the longer term. Time will tell.

China: State-owned investment fund Central Huijin yesterday afternoon confirmed that it had bought Chinese "A" shares to support the domestic stock market amid a rout sparked by the new US tariffs on China. The market intervention highlights the policy tools that Beijing is likely to roll out to protect the Chinese economy from the new tariffs. Other potential measures include interest rate cuts, a devaluation of the renminbi, and increased fiscal spending.

Turkey: In an interview with the *Financial Times*, Finance Minister Mehmet Şimşek said the global economic and market turmoil around the new US tariffs could actually be positive for his country. According to Şimşek, falling energy prices would help reduce Turkey's current account deficit and help the country rebuild its foreign reserves. It would also help bring down consumer price inflation. The statement is a reminder that some well-placed countries could well see their geopolitical or economic positions enhanced in the new environment.

Russia-Ukraine War: Ukrainian President Zelensky today confirmed for the first time that Kyiv's forces are now fighting in the Belgorod region of Russia, marking a second incursion after Ukrainian troops seized part of the Kursk region last summer. Even though the current US-brokered deal to stop attacking each other's energy infrastructure is faltering, the new Ukrainian incursion is probably designed at least in part to be leverage in any broader peace negotiations between Moscow and Kyiv.

Canada: In its first-quarter business outlook report yesterday, the Bank of Canada said 32% of surveyed businesses indicated they are now planning for a recession in the coming year, up from an average of just 15% in the last two quarters of 2024. The figures confirm other reports suggesting the Canadian economy is already slipping into a contraction in response to the new US tariffs on Canadian goods.

United States-China-Panama: US financial firm BlackRock's deal with Hong Kong-based CK Hutchison to acquire dozens of ports around the world, including key ports at either end of the Panama Canal, now appears to be in trouble after a Panamanian official said Hutchison owes $300 million to Panama and violated some Panamanian regulations. If the deal is scuttled, it would likely further fray US-China relations, which had been unexpectedly calm over the first two months of President Trump's administration.

- The BlackRock-Hutchison deal had been pushed by Trump to reduce Chinese influence over the Panama Canal, but General Secretary Xi was reportedly angry about it when he eventually got wind of it.
- Because of Xi's opposition, it would not be a surprise if covert Chinese influence was behind the wrench being thrown into the deal. At this point, however, it isn't entirely clear whether the agreement will be killed definitively.

United States-Iran: Yesterday, the US and Iran said they will begin negotiations over Tehran's nuclear program. However, the statements were contradictory, with President Trump saying the talks would take place directly between US and Iranian officials and the Iranians saying the talks would only be indirect through intermediaries.

- If the talks take place and are successful, the eventual result could be an end to US sanctions on Iran and more Iranian oil freely trading on global markets.

- If the talks fail, the chance of a US-Israeli attack on Iran would increase. Any such attack would likely be highly disruptive to the global economy and energy supplies.

US Military: Reports yesterday said Vice Admiral Shoshana Chatfield, the US representative to the North Atlantic Treaty Organization's military committee, has been abruptly fired. That makes Chatfield one of about a dozen top military and national security officials fired after a meeting last week between President Trump and right-wing conspiracy theorist Laura Loomer. The firings have raised questions about who controls or influences top US national security officials and how the administration is managing US national defense.

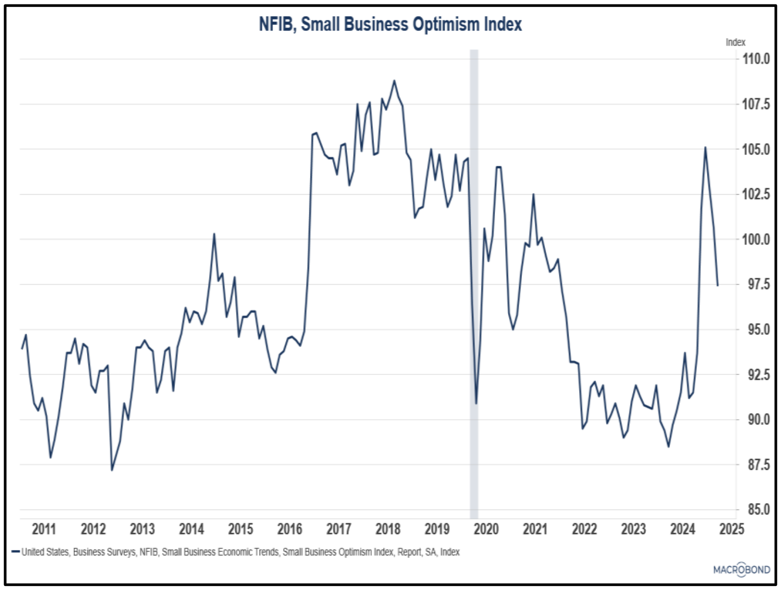
- Chatfield was previously the first woman to head the US Naval War College in Newport, Rhode Island. While she headed the college, she was accused by conservative groups of being overly concerned with diversity, equity, and inclusion initiatives.
- Other officials recently purged include the head of the National Security Agency and several staff members of the National Security Council who Loomer reportedly accused of being disloyal to Trump.

US Fiscal Policy: The Centers for Medicare and Medicaid Services yesterday said it will provide a 5.06% hike in the rate at which it pays health insurers participating in the Medicare Advantage program. The increase, which takes place in 2026, is more than double the 2.23% hike proposed by the Biden administration in January. Since the new figure signals the Trump administration will be unexpectedly supportive of Medicare Advantage, the news will likely give a boost to health insurers' stocks today.

US Tax Policy: A Bloomberg report yesterday said the Trump administration is mulling a potential exporter tax credit to help firms damaged by other countries' retaliatory tariffs on US goods and services. Administration officials remain divided on the idea, which in any case would require Congressional approval.

US Economic Releases

The National Federation of Independent Business' ***Small Business Optimism Index*** for March fell to 97.4, falling short of both the expected 99.0 and the prior month's 100.7. This is the largest monthly decline since June 2022. Seven of the 10 components of the index declined. Small business owners have scaled back expectations for sales growth, among other concerns relating to costs, labor quality, taxes, and the effects of the recently announced tariffs. The chart below shows the course of the index through time.



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	Wholesale Inventories	m/m	May F	0.4%	0.3%	**
10:00	Wholesale Trade Sales	m/m	May	0.8%	-1.3%	*
Federal Reserve						
EST	**Speaker or Event**	**District or Position**				
11:00	Thomas Barkin Speaks to Economic Club of Washington DC	President of the Federal Reserve Bank of Richmond				
14:00	FOMC Meeting Minutes	Federal Reserve Board				

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	BoP Current Account Balance	m/m	Feb	¥4060.7b	-¥248.1b	¥3812.5b	***	Equity and bond neutral
	BoP Trade Balance	m/m	Feb	¥7129b	-¥2937.9b	¥535.9b	**	Equity and bond neutral
Australia	Westpac Consumer Conf SA	m/m	Apr	-6.0%	4.0%		**	Equity and bond neutral
	Westpac Consumer Conf Index	m/m	Apr	90.1	95.9		**	Equity and bond neutral
	NAB Business Confidence	m/m	Mar	-3	-2		***	Equity and bond neutral
	NAB Business Conditions	m/m	Mar	4	3		***	Equity and bond neutral
South Korea	BoP Current Account Balance	m/m	Feb	$7,177.70	$2940.1m		**	Equity and bond neutral
	BoP Goods Balance	m/m	Feb	$8,175.20	$2500.4m		*	Equity and bond neutral
EUROPE								
France	Trade Balance	m/m	Feb	-7874m	-6490m		*	Equity and bond neutral
	Current Account Balance	m/m	Feb	-1.9b	-1.3b		*	Equity and bond neutral
Russia	Official Reserve Assets	m/m	Mar	6647.4b	632.4b		*	Equity and bond neutral
AMERICAS								
Mexico	Formal Job Creation Total	m/m	Mar	32.2k	119.4k		*	Equity and bond neutral
Brazil	Primary Budget Balance	y/y	Feb	-19.0b	104.1b	-25.4b	*	Equity and bond neutral
	Net Debt % GDP	m/m	Feb	61.4%	60.8%	61.6%	**	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)	415	416	-1	Up
U.S. Sibor/OIS spread (bps)	424	423	1	Down
U.S. Libor/OIS spread (bps)	422	422	0	Down
10-yr T-note (%)	4.18	4.19	-0.01	Up
Euribor/OIS spread (bps)	236	232	4	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.

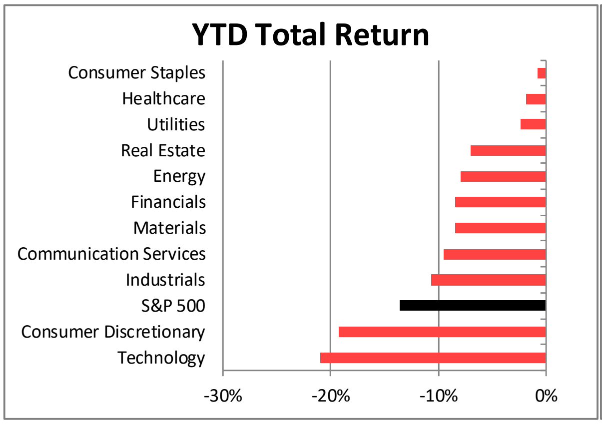
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$64.23	$64.21	0.03%	
WTI	$60.77	$60.70	0.12%	
Natural Gas	$3.64	$3.66	-0.36%	
Crack Spread	$25.16	$24.73	1.75%	
12-mo strip crack	$21.23	$20.94	1.41%	
Ethanol rack	$1.88	$1.89	-0.55%	
Metals				
Gold	$3,009.74	$2,983.28	0.89%	
Silver	$30.34	$30.08	0.85%	
Copper contract	$425.70	$418.60	1.70%	
Grains				
Corn contract	$472.75	$470.75	0.42%	
Wheat contract	$541.50	$536.50	0.93%	
Soybeans contract	$991.75	$983.00	0.89%	
Shipping				
Baltic Dry Freight	1,401	1,489	-88	
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		

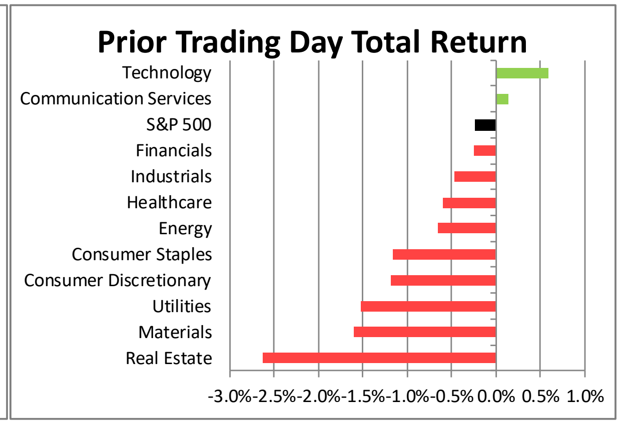
Weather

The 6-to-10 and 8-to-14-day forecasts show warmer-than-normal temperatures stretching from the Great Lakes to Texas and westward to the Rocky Mountains and southern California, with cooler-than-normal temperatures in Washington and Maine. The precipitation outlook shows wetter-than-normal conditions in New England and the northern tier, with drier-than-normal conditions in the Southeast and a portion of the West stretching from California and Oregon to Nebraska.

Data Section

US Equity Markets – (as of 4/7/2025 close)

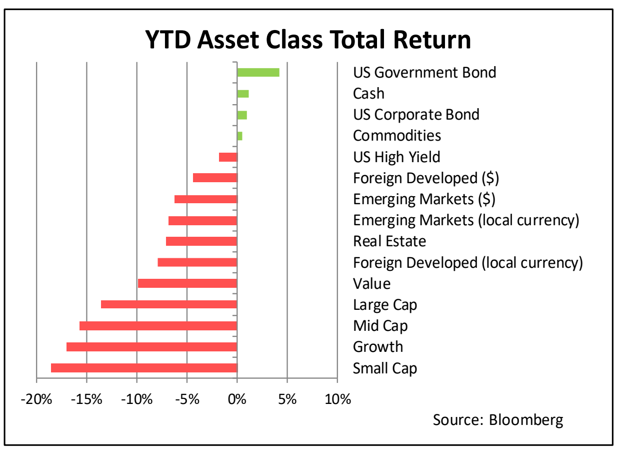




(Source: Bloomberg)

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 4/7/2025 close)

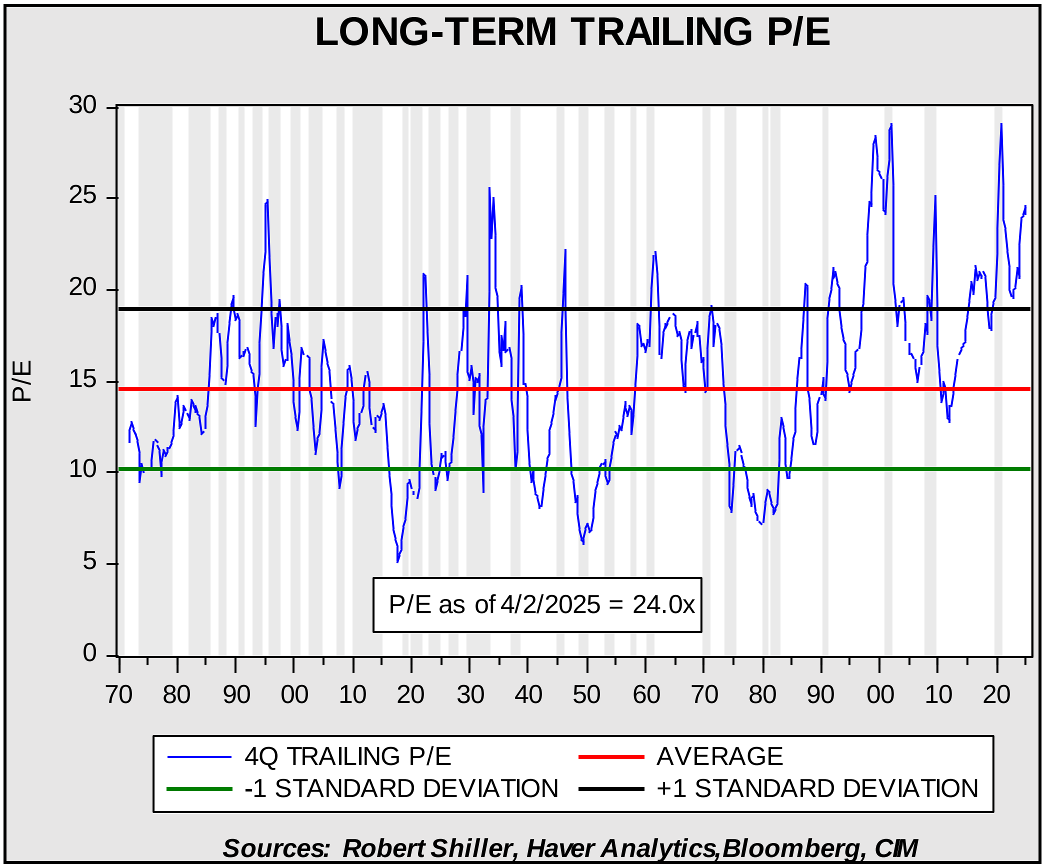


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.

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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.