Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: April 9, 2025 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 closed down 3.9% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 1.2%. Chinese markets were higher, with the Shanghai Composite up 1.3% from its previous close and the Shenzhen Composite up 1.8%. 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
"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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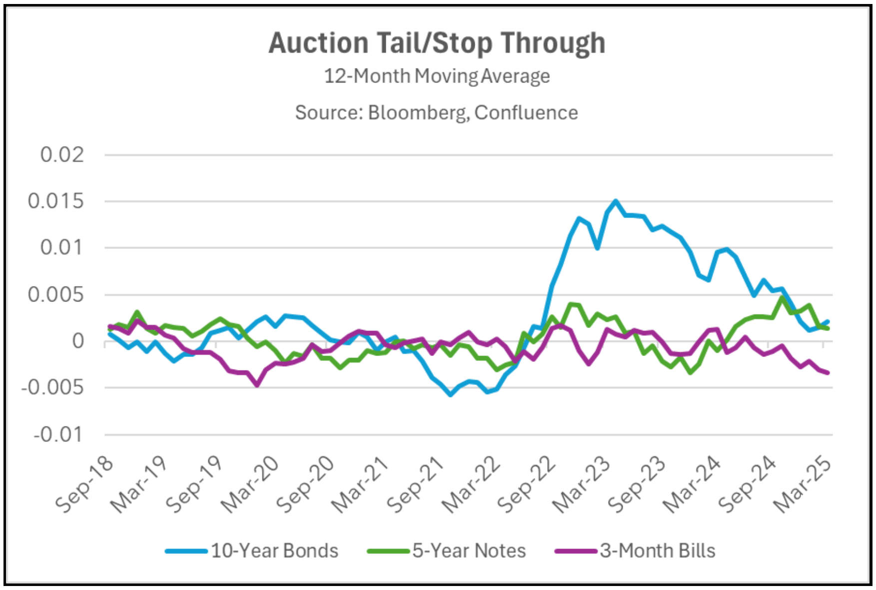
Good morning! The markets remain laser-focused on developments in the escalating trade war. In sports news, Arsenal secured a decisive 3-0 victory over Real Madrid in last night's Champions League showdown. Today's *Comment* will examine the growing anxiety in bond markets, the latest updates on tariff implementations, and other key market-moving events. As always, we'll conclude with our comprehensive roundup of both domestic and international economic data releases.

Bond Market Sell-Off: Investors are growing increasingly apprehensive as the trade war escalates, sparking a sell-off in Treasurys.

- The first day of the increased tariff implementation triggered a sell-off in global bond markets as investors retreated to the sidelines amid escalating uncertainty. Bond prices plummeted while yields surged, reflecting a rush to liquidate holdings as trade war tensions intensified. Despite these liquidity concerns, the US dollar has not strengthened — a potential sign that investors are diversifying their currency exposures.
- A recent Treasury auction has also raised fresh concerns about the growing federal deficit. Tuesday's three-year note sale drew unexpectedly weak demand, signaling investor reluctance to increase their holdings of government debt. The lackluster

performance suggests market participants may be preparing to reduce their Treasury exposure if economic conditions deteriorate in coming weeks.



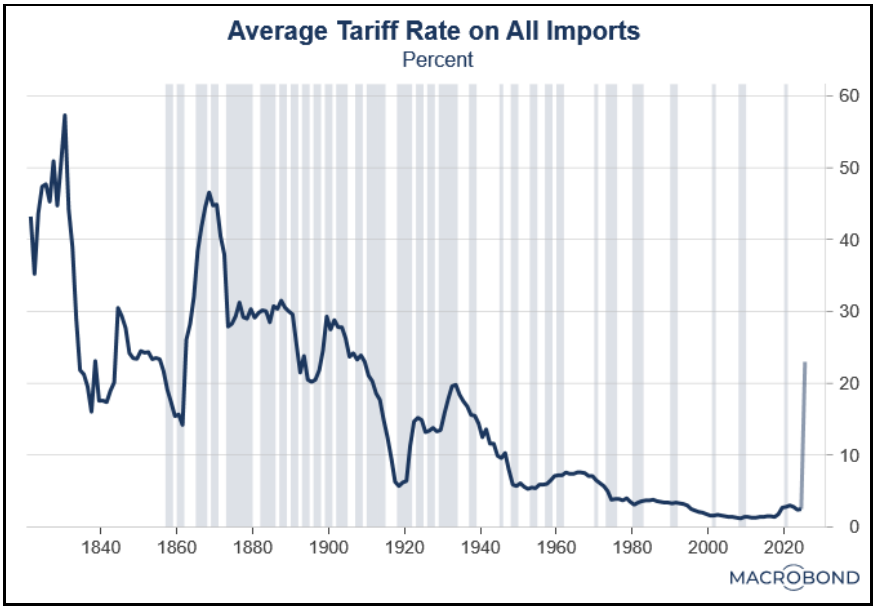
- Recent bond market activity indicates declining appetite among US debt investors for medium-to-long term duration exposure. As illustrated in the chart above, tail and stop auction levels, which reflect where yields settled relative to market expectations, confirm this trend. The Treasury's shift toward shorter-term issuance has enhanced liquidity in long-dated securities, though at the cost of reduced demand for intermediate maturities. Meanwhile, Treasury bills continue to demonstrate robust investor interest.
- Growing concerns about bond market liquidity could force the Federal Reserve to stop quantitative tightening earlier than they planned, and possibly even start buying bonds again. While lowering interest rates is still a possibility, the Fed would likely only do that if there were serious solvency risks, such as companies being in danger of not being able to pay their debts. Right now, it doesn't look like we're facing that kind of problem.

Dealing With Tariffs: Amid rising economic headwinds, foreign policymakers are implementing targeted relief measures to protect vulnerable sectors and maintain stability — while also seeking a deal with the US.

- While China has raised tariffs on US goods to 84%, it has also signaled its readiness to hold talks with the US. This comes after President Trump imposed tariffs of up to 104% on Chinese goods. Meanwhile, the People's Bank of China has sought to cushion the impact by devaluing its currency, aiming to preserve competitiveness in the ongoing trade war.
- The European Union, having retaliated with tariffs against the US, now faces growing calls to counter US trade measures by lowering its own duties and pivoting toward China. Two ECB policymakers have already endorsed rate cuts at the upcoming meeting to cushion the economic blow from rising US tariffs. Meanwhile, Spanish Prime Minister

Pedro Sánchez is urging the EU to deepen trade relations with China, aiming to reduce dependence on the US market.

- In Southeast Asia, countries are taking steps to mitigate the economic fallout by rolling out stimulus measures. Taiwan has activated its stabilization fund to shore up local equity markets following a sharp sell-off. Meanwhile, South Korea has announced a $2 billion aid package to bolster its auto industry. Elsewhere, Japan has established a task force to address the tariff dispute, with speculation mounting that it may consider an emergency budget.



- As the new tariffs take effect, signs of diplomatic progress are emerging. The US continues negotiations with trade partners to potentially reduce these measures, with several key developments: Vietnam has agreed to reduce its trade balance by purchasing more US arms, South Korea anticipates finalizing a significant trade agreement imminently, and Japan appears to be receiving preferential attention in ongoing trade discussions.

Big, Beautiful, Bill in Jeopardy? Republican lawmakers are increasingly hesitant to back the president's tax bill, voicing concerns over its fiscal impact and doubting its revenue potential amid ongoing trade tensions.

- Several House Republicans opposed the president's signature tax bill on Tuesday, raising objections to its hefty price tag. The dissenters are now threatening to block a key procedural vote needed to advance the legislation — a move that could stall the bill indefinitely. The resistance comes just hours after a high stakes meeting between GOP lawmakers, the president, and House Majority Leader Mike Johnson failed to resolve the spending dispute.
- The growing trade conflict has strengthened Republican opposition to the spending bill, as lawmakers express doubts about its ability to generate sufficient revenue to offset its

costs. While the White House projects $600 billion in annual tariff revenue, economists caution that elevated rates could decrease trade volumes, thereby jeopardizing revenue targets. In an attempt to alleviate concerns, the president has set a goal of $1 trillion in spending cuts.

- While we expect Republicans will ultimately pass the tax bill, we question their ability to identify spending cuts substantial enough to reassure markets. This fiscal constraint may force lawmakers to consider revenue-raising alternatives, including potential tax increases on high-income households, as they prioritize preserving middle-class tax relief.

Coal on the Rise: President Trump signed an executive order to boost the production of coal with hopes that it can be used to fuel AI.

- The new executive order aims to roll back industry regulations that have contributed to coal's persistent production decline. Through emergency measures, the president has authorized the Department of Energy to intervene in sustaining coal operations. The administration further underscored coal's strategic value by classifying it as a "critical mineral," a designation that directly links its production to national security.
- This move is expected to advance President Trump's ambition to establish the US as a global AI leader. This comes as the president has sought to make the US the center of innovation for AI with his Stargate Project in which the US plans to invest $100 billion on co-located data centers, which would allow them to be built next to their energy source.
- Surging demand for data centers and semiconductor production has reversed years of stagnant electricity consumption in the US, triggering the first sustained increase in over a decade. This trend could drive up utility bills industry-wide while creating inflationary pressure on housing costs.

US Economic Releases

The Mortgage Bankers Association today said ***mortgage applications*** for the week ended April 4 rose a surprising 20.0%, after falling 1.6% the prior week. Purchase applications rose 9.2%, marking the sixth consecutive rise in this category, and refinancing applications surged 35.3%, after falling 5.6% the previous week. This was the strongest gain for this category since October. This strength was driven by a nine-basis-point drop in the average 30-year fixed rate mortgage, to 6.61%, the lowest rate since October.

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	Feb F	0.4%	0.3%	**
10:00	Wholesale Trade Sales	m/m	Feb	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	Consumer Confidence Index	m/m	Mar	34.1	34.8	34.8	*	Equity bearish, bond bullish
	Machine tool orders	y/y	Mar P	11.4%	3.5%		**	Equity and bond neutral
South Korea	Unemployment Rate	m/m	Mar	2.9%	2.7%	2.8%	***	Equity and bond neutral
EUROPE								
AMERICAS								
Mexico	International Reserves Weekly	w/w	4-Apr	$237804m	$237006m		*	Equity and bond neutral
	CPI	y/y	Mar	3.80%	3.77%	3.79%	***	Equity and bond neutral
	Core CPI	y/y	Mar	3.64%	3.65%	3.65%	**	Equity and bond neutral
Brazil	Total Outstanding Loans	m/m	Feb	6487b	6462b		**	Equity and bond neutral
	Retail Sales	y/y	Feb	1.5%	3.1%	1.5%	***	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)	419	419	0	Down
U.S. Libor/OIS spread (bps)	415	415	0	Down
10-yr T-note (%)	4.41	4.29	0.12	Up
Euribor/OIS spread (bps)	229	236	-7	Down
Currencies	**Direction**			
Dollar	Up			Down
Euro	Down			Up
Yen	Up			Up
Pound	Down			Up
Franc	Down			Up
Central Bank Action	**Current**	**Prior**	**Expected**	
RBI Repurchase Rate	6.00%	6.25%	6.00%	On Forecast
RBI Cash Reserve Ratio	4.00%	4.00%	4.00%	On Forecast
RBNZ Official Cash Rate	3.50%	3.75%	3.50%	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.

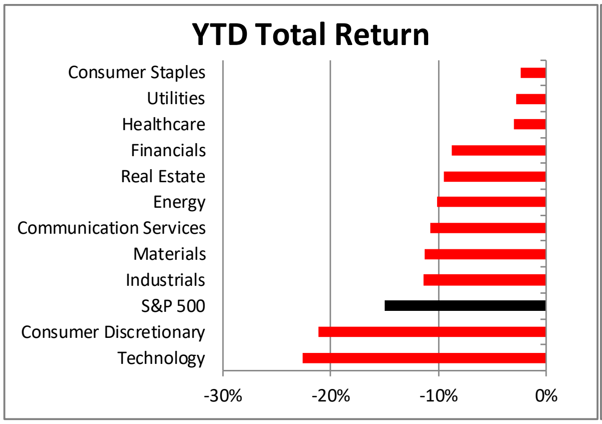
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$59.23	$62.82	-5.71%	Tariffs, economic pessimism
WTI	$55.98	$59.58	-6.04%	Tariffs, economic pessimism
Natural Gas	$3.47	$3.47	0.26%	
Crack Spread	$24.93	$25.24	-1.23%	
12-mo strip crack	$21.12	$21.41	-1.32%	
Ethanol rack	$1.88	$1.88	0.07%	
Metals				
Gold	$3,059.26	$2,983.27	2.55%	
Silver	$30.40	$29.81	1.98%	
Copper contract	$418.65	$414.40	1.03%	
Grains				
Corn contract	$474.25	$474.75	-0.11%	
Wheat contract	$540.75	$540.00	0.14%	
Soybeans contract	$992.50	$992.75	-0.03%	
Shipping				
Baltic Dry Freight	1,342	1,401	-59	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		2.60		
Gasoline (mb)		-1.42		
Distillates (mb)		0.10		
Refinery run rates (%)		0.5%		
Natural gas (bcf)		62		

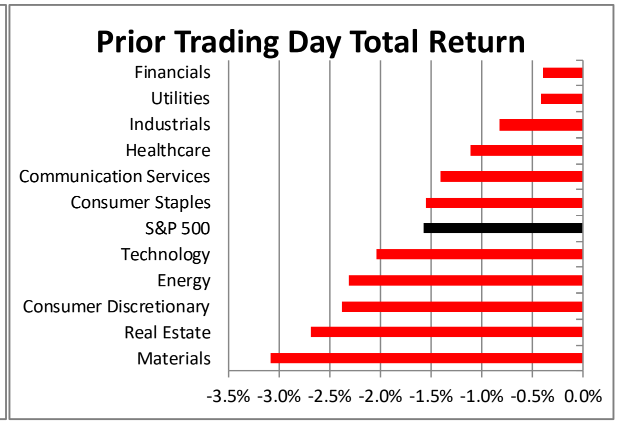
Weather

The 6-to-10 and 8-to-14-day forecasts show warmer-than-normal temperatures for the western two-thirds of the country, with cooler-than-normal temperatures in the Great Lakes region. The precipitation outlook shows wetter-than-normal conditions in Texas, New Mexico, Oklahoma, and the western Great Lakes region, with drier-than-normal conditions in the West.

Data Section

US Equity Markets – (as of 4/8/2025 close)

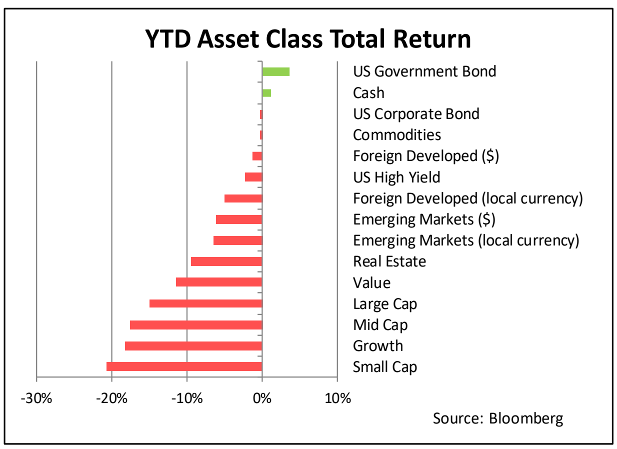




(Source: Bloomberg)

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 4/8/2025 close)

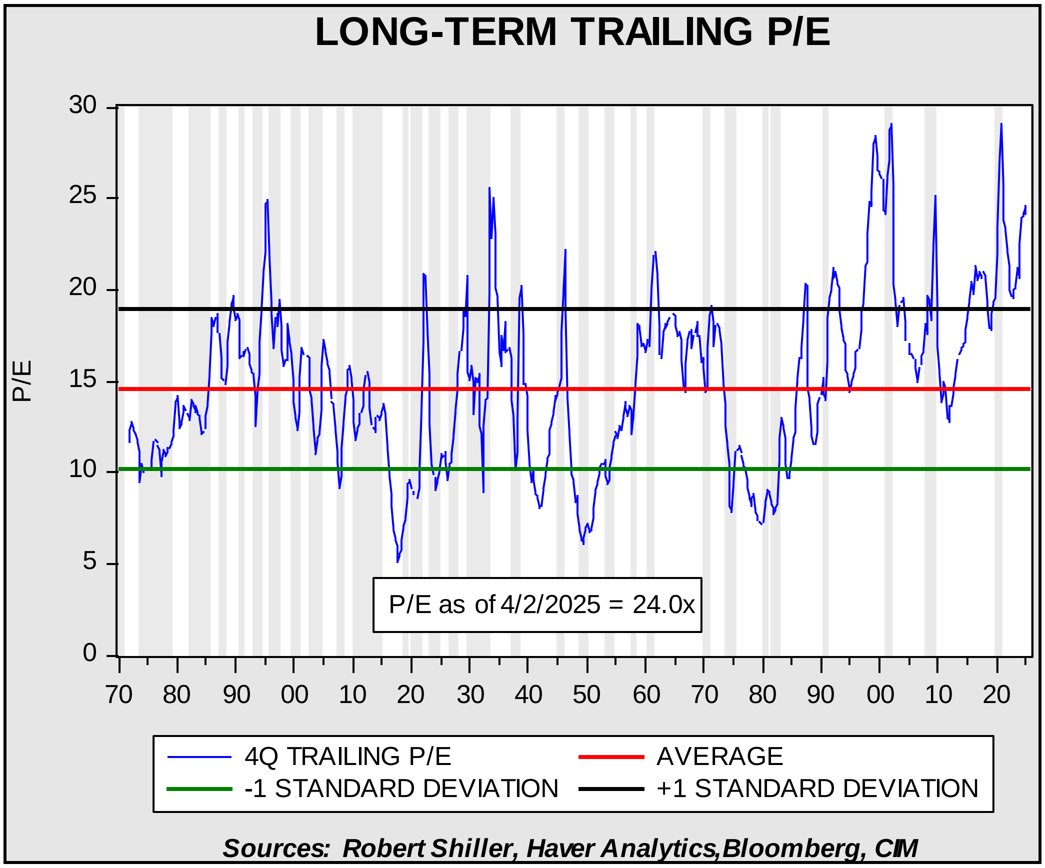


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.

[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.