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**[Posted: February 18, 2025 — 9:30 AM ET]** Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 closed up 0.3% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 1.2%. Chinese markets were lower, with the Shanghai Composite down 0.9% from its previous close and the Shenzhen Composite down 2.0%. US equity index futures are signaling a higher open.

With 384 companies having reported so far, S&P 500 earnings for Q4 are running at \$64.70 per share compared to estimates of \$64.79, which is up 11.7% from Q4 2023. Of the companies that have reported thus far, 75.7% have exceeded expectations, while 17.8% 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:

Bi-Weekly Geopolitical Report	Asset Allocation Bi-Weekly	Asset Allocation Quarterly	Of Note
<a href="#">“Middle Eastern Stock Markets: An Overview”</a> (2/10/25) + <a href="#">podcast</a>	<b><a href="#">“Our Take on the Initial Trump Tariffs”</a></b> (2/18/25) + <a href="#">podcast</a>	<a href="#">Q1 2025 Report</a>  <a href="#">Q1 2025 Rebalance Presentation</a>	<a href="#">The Confluence of Ideas podcast</a>  <a href="#">Business Cycle Report</a>

Our *Comment* today opens with a recap of the big diplomatic meetings on the Russia-Ukraine war that have taken place over the last two days. We next review several other international and US developments with the potential to affect the financial markets today, including surprisingly good economic growth in Japan in the fourth quarter, a sudden scandal for Argentina’s president, and a Federal Reserve official’s statement that further interest rate cuts should not be off the table.

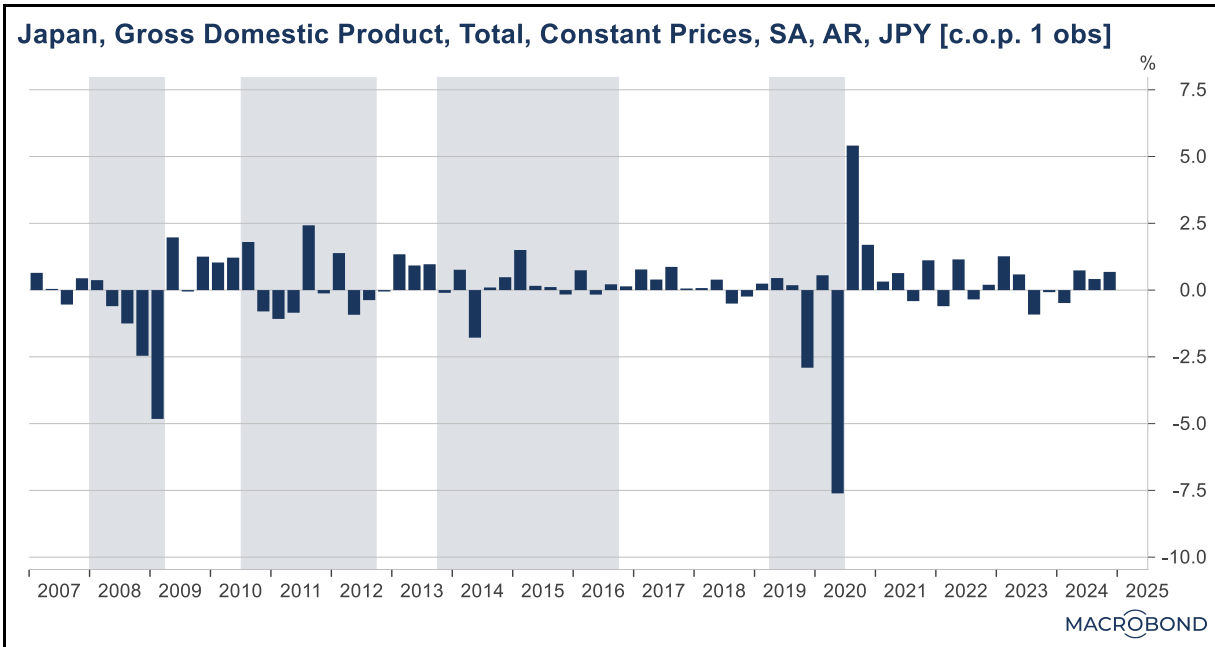
**US-Russia-Ukraine-Europe:** At a meeting today in Saudi Arabia, high-level US and Russian officials [agreed to establish diplomatic teams to work on wrapping up Russia’s war against Ukraine and improving US-Russian bilateral relations](#). According to the State Department, the teams will “lay the groundwork for future cooperation on matters of mutual geopolitical interest

and historic economic and investment opportunities which will emerge from a successful end to the conflict in Ukraine.”

- Yuri Ushakov, the Russian president’s foreign affairs advisor, gave only a muted assessment of the talks, calling them “not bad” and insisting that it was too early to say that US-Russian relations were improving. Ushakov’s statements are consistent with other signs that Russia will take a tough line on negotiations.
- Indeed, the Kremlin today issued a statement that it would not accept any role for European countries in the Ukraine peace talks and is “categorically opposed” to a European peacekeeping deployment as part of any deal. The Kremlin also insisted that the North Atlantic Treaty Organization (NATO) rescind its open-ended 2008 invitation for Ukraine to join NATO.
- Meanwhile, Ukrainian President Zelensky, who was not allowed to attend the meeting, warned that Kyiv will not abide by any agreement negotiated between Russia and the US without its involvement.
- Finally, we note that the US-Russia meeting today [followed a Monday summit of leaders from NATO, Germany, France, Italy, Spain, Denmark, Poland, and the UK](#), in which the leaders discussed how they should respond to being frozen out of the US-Russia talks on Ukraine and how they should help end the war. At the meeting, France and the UK supported sending European peacekeeping troops to help guarantee Ukraine’s security, but the other attending countries pushed back on the idea.

**Israel-Hamas:** Israeli Foreign Minister Gideon Sa’ar today [said Tel Aviv will start negotiations with the militant Hamas government in Gaza to end the war there](#), despite a two-week delay because of disputes over the ceasefire constituting the first phase of the talks. Those disputes had called into question the peace process itself. The foreign minister’s statement is likely to be taken as reassurance that the war can wind down and the energy-rich region can be stabilized.

**Japan:** Data yesterday showed gross domestic product [grew at a seasonally adjusted, annualized rate of 2.8% in the fourth quarter, almost three times the expected rate](#) and enough to mark the third straight quarter of healthy expansion. The key contributor to growth in October through December was international trade, while consumer spending came in on the soft side. The data will likely encourage the Bank of Japan to consider more interest rate hikes in the near term, prompting a modest appreciation in the yen over the last day.



**China:** New reports say the Chinese government [has transferred its stakes in five national investment firms from the country’s sovereign wealth fund to Central Huijin Investment](#), a subsidiary of the fund with experience in arranging mergers and workouts for underperforming companies. The move suggests that creating big, consolidated “national champion” investment firms will be the next step in Beijing’s effort to make China a “financial superpower.”

**Australia:** The Reserve Bank of Australia today [cut its benchmark short-term interest rate by 25 basis points to 4.10%, marking its first rate cut since November 2020](#). Although the central bank has come under pressure to ease rates ahead of national elections, RBA chief Bullock warned after the decision that policy will have to remain restrictive in the near term because of continuing inflation. Nevertheless, the Australian dollar so far this morning is trading down 0.2% at \$0.6343.

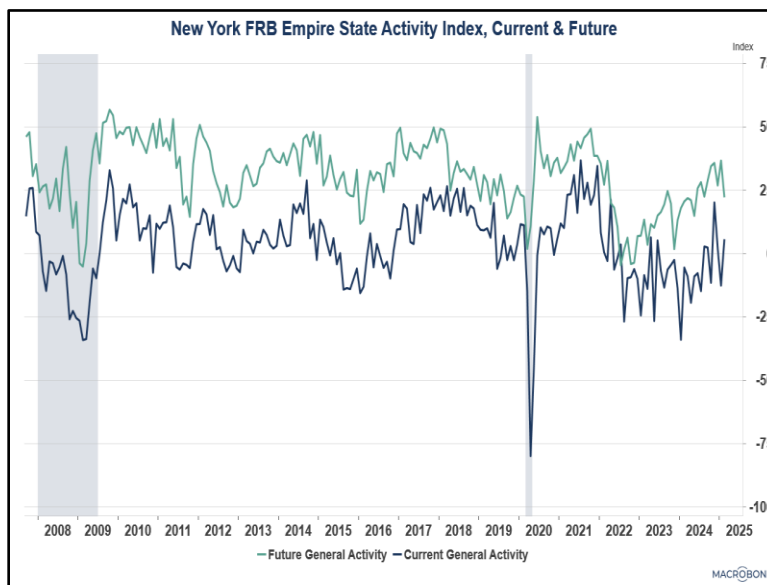
**Argentina:** Libertarian populist President Milei today [is caught up in a snowballing scandal](#) after he went on X to promote a new cryptocurrency called \$LIBRA on Friday night, apparently prompting the price to surge. The price then plunged suddenly, leaving investors in the lurch. Milei claims that he was not a part of any effort to defraud investors and has said he will cooperate with any investigation. Nevertheless, the scandal may undermine the trust Milei has earned by helping bring down Argentina’s consumer price inflation.

**US Monetary Policy:** In a speech today, Fed board member Christopher Waller [said US monetary policymakers shouldn’t be reluctant to keep cutting interest rates if price pressures start cooling again](#), despite uncertainty about new policies from the Trump administration. While some observers have called for the Fed to stay on the sidelines until the administration has rolled out more of its economic program, Waller’s statement is a reminder that some Fed officials are still looking for an opportunity to cut rates further.

**US Labor Market:** Utah’s governor [has signed into law a bill that bars public employee unions from negotiating wages and other terms of employment](#). Pushed by Utah’s Republican-led legislature and signed by its Republican governor, the new law shows how the populism of today’s Republican Party doesn’t necessarily align with traditional populist economic policies, such as protecting organized labor. From President Trump downward, the form of populism pursued by today’s Republican leaders often focuses more on cultural issues.

## US Economic Releases

The New York FRB said its February *Empire State Manufacturing Index* rose to a seasonally adjusted 5.7, a significant positive surprise compared to the expected 0.0 and a sharp reversal from the previous month’s -12.6. This index is designed so that positive readings point to expanding factory activity in New York State. At its current level, the index suggests that manufacturing activity is expanding. The chart below shows how the index has fluctuated since just before the Great Financial Crisis.



The table below lists the economic releases and Fed events scheduled for the rest of the day.

Economic Releases							
EST	Indicator			Expected	Prior	Rating	
10:00	NAHB Housing Market Index	m/m	Feb	46	47	*	
16:00	Net Long-term TIC Flows	m/m	Dec		\$79.0b	**	
16:00	Total Net TIC Flows	m/m	Dec		\$159.9b	**	
Federal Reserve							
EST	Speaker or Event	District or Position					
10:30	Mary Daly Speaks to American Bankers Association	President of the Federal Reserve Bank of San Francisco					
13:00	Michael Barr Discusses AI, Financial Stability	U.S. Federal Reserve Vice Chairman for Supervision					

## 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
<b>ASIA-PACIFIC</b>								
<b>Japan</b>	GDP SA	q/q	4Q P	0.7%	0.4%	0.3%	***	Equity and bond neutral
	GDP Deflator	q/q	4QP	2.8%	2.4%	2.8%	***	Equity and bond neutral
	Industrial Production	y/y	Dec F	-0.2%	0.3%		***	Equity and bond neutral
	Capacity Utilization	y/y	Dec	-0.2%	-1.9%		**	Equity and bond neutral
	Tertiary Industry Index	m/m	Dec	0.1%	-0.3%	0.1%	***	Equity and bond neutral
<b>India</b>	Trade Balance	m/m	Jan	-\$22997m	-\$21937m	-\$21000m	**	Equity and bond neutral
	Exports	y/y	Jan	-2.4%	-1.0%		**	Equity and bond neutral
	Imports	y/y	Jan	10.3%	4.9%		**	Equity and bond neutral
<b>EUROPE</b>								
<b>Eurozone</b>	ZEW Survey Expectations	m/m	Feb	24.2	18.0		**	Equity and bond neutral
	Trade Balance SA	m/m	Dec	14.6b	13.3b	14.5b	**	Equity and bond neutral
<b>Germany</b>	ZEW Survey Expectations	m/m	Feb	24.2	18.0		**	Equity and bond neutral
<b>France</b>	CPI, EU Harmonized	y/y	Jan F	1.8%	1.8%	1.8%	**	Equity and bond neutral
	CPI	y/y	Jan F	1.7%	1.4%	1.4%	***	Equity and bond neutral
	CPI Ex-Tobacco Index	q/q	Jan	119.01	118.88	118.77	*	Equity and bond neutral
<b>Italy</b>	Trade Balance Total	m/m	Dec	4218m	3995m	5980m	*	Equity and bond neutral
<b>UK</b>	Rightmove House Prices	y/y	Feb	1.40%	1.80%		**	Equity and bond neutral
	Average Weekly Earnings 3M/YoY	m/m	Dec	6.00%	5.50%	5.90%	**	Equity and bond neutral
	ILO Unemployment Rate 3Mths	m/m	Dec	4.40%	4.40%	4.50%	**	Equity and bond neutral
	Claimant Count Rate	m/m	Jan	4.60%	4.50%		**	Equity and bond neutral
	Jobless Claims Change	m/m	Jan	22.0k	-15.1k		**	Equity and bond neutral
<b>Switzerland</b>	Domestic Sight Deposits CHF	w/w	14-Feb	424.4b	428.1b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	14-Feb	432.5b	438.1b		*	Equity and bond neutral
	Industrial Output WDA	y/y	4Q	2.3%	3.1%		*	Equity and bond neutral
<b>Russia</b>	CPI	y/y	Jan	9.92%	9.52%	9.90%	***	Equity and bond neutral
	Core CPI	y/y	Jan	9.3%	8.9%		**	Equity and bond neutral
<b>AMERICAS</b>								
<b>Canada</b>	Manufacturing Sales	m/m	Dec	0.3%	0.8%	0.7%	**	Equity and bond neutral
	Wholesale Sales ex Petroleum	m/m	Dec	-0.2%	0.0%	0.20	**	Equity and bond neutral
	Housing Starts	m/m	Jan	239.7k	232.5k	252.5k	**	Equity and bond neutral
	Int'l Securities Transactions	m/m	Dec	14.37b	13.84b		**	Equity and bond neutral
<b>Brazil</b>	FGV Inflation IGP-10	m/m	Feb	0.87%	0.53%	0.25%	**	Equity bearish, bond bullish
	Economic Activity	y/y	Dec	2.36%	3.76%	3.35%	*	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)	421	422	-1	Down
U.S. Sibor/OIS spread (bps)	433	433	0	Down
U.S. Libor/OIS spread (bps)	434	434	0	Down
10-yr T-note (%)	4.52	4.48	0.04	Flat
Euribor/OIS spread (bps)	251	252	-1	Down
Currencies	Direction			
Dollar	Up			Up
Euro	Down			Down
Yen	Down			Up
Pound	Down			Down
Franc	Down			Down
Central Bank Action	Current	Prior	Expected	
RBA Cash Rate Target	4.10%	4.35%	4.10%	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.

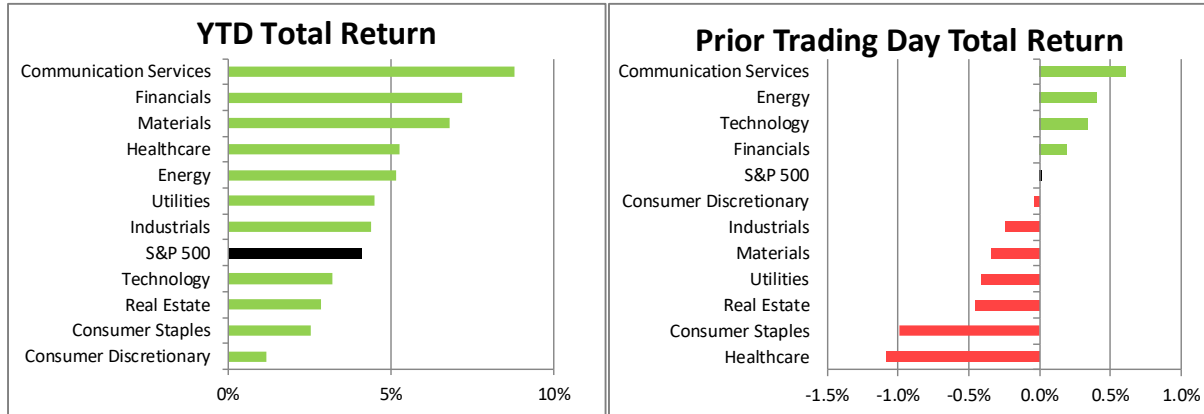
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$75.70	\$75.02	0.91%	
WTI	\$71.84	\$71.29	0.77%	
Natural Gas	\$3.75	\$3.63	3.45%	
Crack Spread	\$22.14	\$22.04	0.48%	
12-mo strip crack	\$22.73	\$22.64	0.39%	
Ethanol rack	\$1.86	\$1.86	0.16%	
Metals				
Gold	\$2,930.83	\$2,928.21	0.09%	
Silver	\$33.18	\$32.34	2.57%	
Copper contract	\$484.10	\$482.55	0.32%	
Grains				
Corn contract	\$511.00	\$506.00	0.99%	
Wheat contract	\$605.75	\$592.00	2.32%	
Soybeans contract	\$1,056.00	\$1,047.00	0.86%	
Shipping				
Baltic Dry Freight	780	776	4	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		2.31		
Gasoline (mb)		1.21		
Distillates (mb)		-2.25		
Refinery run rates (%)		0.2%		
Natural gas (bcf)		-93		

## **Weather**

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures across the western two-thirds of the country, with no sections expected to have cooler-than-normal temperatures. The forecasts call for wetter-than-normal conditions across the northern tier, from the Great Lakes to the West Coast, with dry conditions in the Southwest.

## Data Section

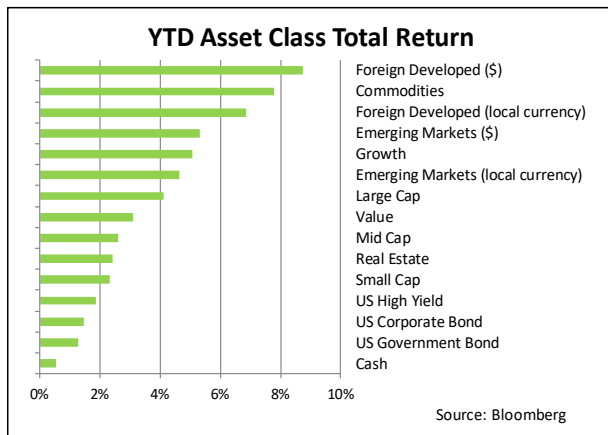
### US Equity Markets – (as of 2/14/2025 close)



(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 2/14/2025 close)



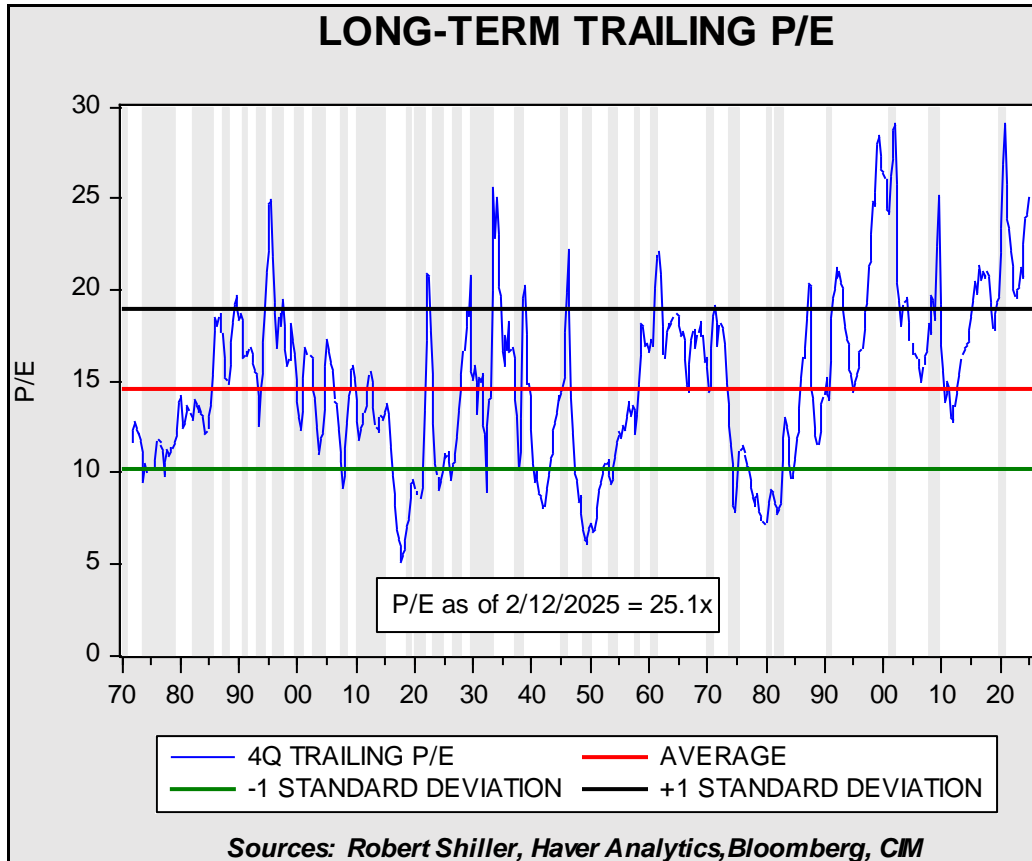
This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

February 13, 2025



Based on our methodology,<sup>1</sup> the current P/E is 25.1x, unchanged from our last report. The increase in the stock price index was offset by a rise 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.*

<sup>1</sup> 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 (Q2). 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.