Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: February 21, 2025 — 9:30 AM ET] Global equity markets are higher 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 2.8%. Chinese markets were higher, with the Shanghai Composite up 0.9% from its previous close and the Shenzhen Composite up 1.6%. US equity index futures are signaling a higher open.

With 428 companies having reported so far, S&P 500 earnings for Q4 are running at $64.90 per share compared to estimates of $64.79, which is up 11.7% from Q4 2023. Of the companies that have reported thus far, 76.8% have exceeded expectations, while 16.9% 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
"Middle Eastern Stock Markets: An Overview" (2/10/25) + podcast	"Our Take on the Initial Trump Tariffs" (2/18/25) + podcast	Q1 2025 Report Q1 2025 Rebalance Presentation	The Confluence of Ideas podcast Business Cycle Report

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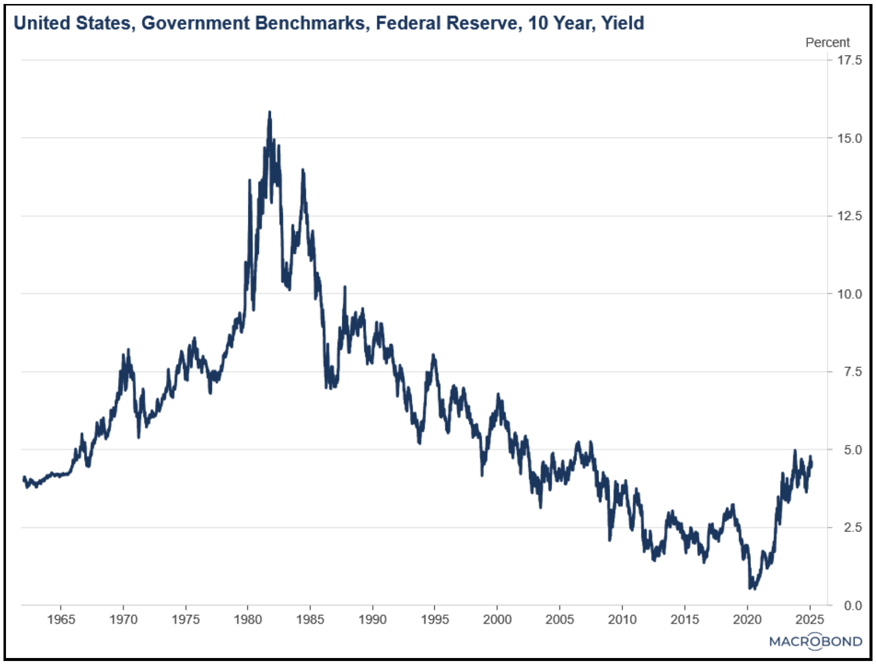
Good morning! The market is on hold as investors await the release of US PMI data, which will provide insight into the strength of the economy. In sports news, Canada secured a victory over the US in the 4 Nations Face-Off. Today's *Comment* will cover key highlights, including our analysis of Scott Bessent's recent interview with Bloomberg, an overview of the upcoming German elections this weekend, and discussions of other important market developments. As always, the report will also feature a summary of the latest international and domestic data releases.

Scott Bessent Speaks: The US Treasury Secretary spoke with Bloomberg, outlining the Trump administration's key objectives as it advances its policy agenda. The interview occurred just one day before his scheduled meeting with China's top financial official, where the two were set to discuss the evolving dynamics of US-China relations.

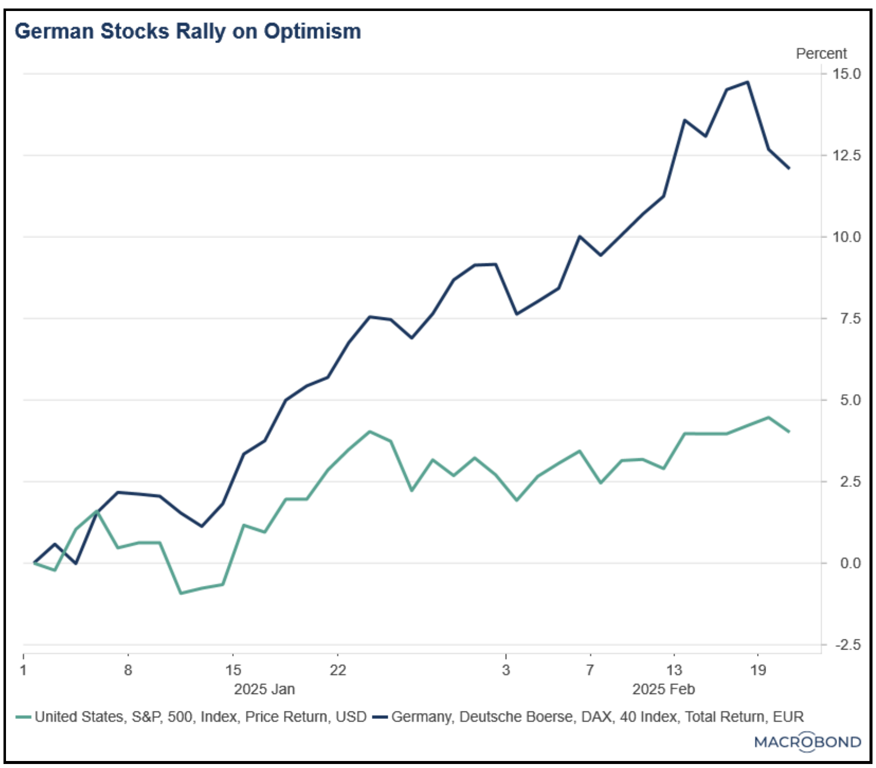
- During the discussion, Bessent reaffirmed the US's commitment to maintaining a strong dollar policy and upholding Federal Reserve independence, though not without a few pointed remarks. He noted that while the US prefers a strong currency, it also wants other countries to avoid currency manipulation, specifically calling out China and the European Union. He also criticized the Fed for suggesting that tariffs could contribute to inflation, implying that even if such an effect occurred, it would likely be transitory.
- Bessent also addressed and dispelled rumors surrounding gold. He emphasized that the US holds all the gold reported on its balance sheet and noted that these reserves are subject to regular audits. Additionally, he dismissed speculation that the US might revalue its gold holdings as part of its efforts to establish a sovereign wealth fund, saying that it was not something he had considered.



- Additionally, he discussed the Trump administration's efforts to reduce long-term bond yields. Bessent indicated that the Treasury might maintain the current duration of bond issuances until the Federal Reserve halts its quantitative tightening program. He also suggested that cost-cutting measures could play a role in helping to bring yields down further.
- Although the interview did not provide significant new insights, it did highlight the Trump administration's preference in avoiding extreme measures while pursuing its agenda. Despite the provocative rhetoric often seen in headlines, the administration has shown a reluctance to adopt interventionist policies, such as devaluing the dollar or revaluing gold, that could severely destabilize financial markets. This suggests a more cautious approach than the bold claims might imply.

German elections: The country is holding parliamentary elections on Sunday, with the two leading parties, the Union parties (CDU/CSU) and the far-right Alternative for Germany (AfD), expected to secure the most votes. However, neither is projected to win a majority.

- Recent polls suggest that CDU/CSU is likely to secure around 30% of the vote, while AfD is expected to garner 21%. Although the combined support for both parties would be enough to form a government, CDU/CSU has categorically ruled out entering into a coalition with AfD. That said, the race remains highly unpredictable, with roughly a fifth of the electorate still undecided.
- The battle for control of the government is expected to be highly contentious. While the CDU/CSU holds an advantage, a strong performance by AfD could significantly undermine their leverage. Meanwhile, the other two parties likely to gain seats — the Social Democratic Party (SPD) and The Greens — are polling at 16% and 13%, respectively. However, neither party is close to securing the number of seats required to form a coalition.
- If the polls are accurate, CDU/CSU may have to rely on smaller parties to form a government. These include the left-wing Sahra Wagenknecht Alliance (BSW), The Left party, and the fiscally conservative Free Democratic Party (FDP). While FDP is ideologically closer to CDU/CSU, polls suggest the party is trending below the 5% threshold required to secure parliamentary seats. As a result, CDU/CSU may be forced to make concessions to one of the left-wing parties to achieve a governing majority.



- Year-to-date, the German equity market has been one of the world's best-performing markets, rising nearly 12%. This growth has been fueled by optimism surrounding a potential economic rebound, expectations of increased fiscal spending following the election, and the possibility of an end to the war in Ukraine. We suspect this trend could continue as long as there are no surprises in the election.

The Great Rebalance: US and Chinese officials are set to discuss measures aimed at addressing trade imbalances, particularly by encouraging China to reduce its reliance on exports for growth and boost its domestic consumption.

- Ahead of the talks, Chinese Premier Li Qiang emphasized the need for the country to expand its services sector, particularly in areas such as healthcare, sports, and entertainment. His comments come as the country struggles to deal with crippling deflation due to the lack of domestic demand for goods and services.
- While Li's remarks suggest a willingness to engage in dialogue, China is unlikely to change its course of action without sustained pressure from the US. China has a history of making promises and not delivering on them.
- We believe a crucial step for the government to reduce its reliance on export growth and stimulate domestic consumption is the creation of a comprehensive social safety net. This would empower households to spend more freely on discretionary items.
- The US effort to improve its savings and trade balance may rely on convincing China to boost welfare spending. While Chinese leaders have discussed strengthening the social safety net, little action has been taken. If reforms materialize, increased consumer confidence could make China a more attractive investment destination by driving domestic consumption and reducing export reliance.

Zelensky-Trump Rivalry: Ukrainian President Volodymyr Zelensky and US President Donald Trump have been embroiled in a heated exchange over Ukraine's valuable mineral resources. The tension arose after Zelensky reportedly refused to cede more than 50% of the rights to these resources without firm guarantees of security and stability for Ukraine.

- The Trump administration has argued that the proposed deal would strengthen bilateral ties by aligning the interests of both countries. It believes that such an arrangement would foster mutual benefits and long-term cooperation. However, President Zelensky has emphasized that any agreement must include concrete commitments and guarantees from the US administration to ensure Ukraine's sovereignty and security are safeguarded in exchange for access to its valuable resources.
- The dispute over Ukraine's mineral resources is particularly significant, as many of these valuable materials, which include rare earth elements and titanium that are critical for weapons development and advanced technologies like semiconductors, are located in regions currently occupied by Russia.
- While the friction between Zelensky and Trump is unlikely to cause a complete breakdown in relations, it could strain their partnership and complicate efforts as peace talks move forward.

US Economic Releases

No major economic reports were released prior to publication. 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	U. of Michigan Consumer Sentiment	m/m	Feb F	67.8	67.8	***
10:00	U. of Michigan Current Conditions	m/m	Feb F	68.5	68.7	**
10:00	U. of Michigan Future Expectations	m/m	Feb F	67.4	67.3	**
10:00	U. of Michigan 1-Year Inflation Expectation	m/m	Feb F	4.3%	4.3%	*
10:00	U. of Michigan 5-10 Year Inflation Expectation	m/m	Feb F	3.3%	3.3%	*
10:00	Existing Home Sales	m/m	Jan	4.13m%	4.24m	**
10:00	Existing Home Sales MoM	m/m	Jan	-2.2%	2.2%	*
Federal Reserve						
EST	**Speaker or Event**	**District or Position**				
11:30	Philip Jefferson Speaks on Central Bank Communication	Vice Chair 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	National CPI	y/y	Jan	4.0%	3.6%	4.0%	***	Equity and bond neutral
	National CPI Ex-Fresh Food	y/y	Jan	3.2%	3.0%	3.1%	**	Equity and bond neutral
	National CPI Ex-Fresh Food & Energy	y/y	Jan	2.5%	2.4%	2.5%	*	Equity and bond neutral
	Jibun bank Composite PMI	m/m	Feb P	51.6	51.1		*	Equity and bond neutral
	Jibun Bank Manufacturing PMI	m/m	Feb P	48.9	48.7		***	Equity and bond neutral
	Jibun Bank Services PMI	m/m	Feb P	53.1	53.0		**	Equity and bond neutral
Australia	S&P Global Australia Composite PMI	m/m	Feb P	51.2	51.1		*	Equity and bond neutral
	S&P Global Australia Manufacturing	m/m	Feb P	50.6	50.2		***	Equity and bond neutral
	S&P Global Australia Services PMI	m/m	Feb P	51.4	51.2		*	Equity and bond neutral
New Zealand	Trade Balance NZD	m/m	Jan	-7223m	-94m		**	Equity and bond neutral
	Exports NZD	m/m	Jan	6.19b	6.67b		**	Equity and bond neutral
	Imports NZD	m/m	Jan	6.68b	6.58b		**	Equity and bond neutral
India	HSBC India PMI Composite	m/m	Feb P	60.6	57.7		**	Equity and bond neutral
	HSBC India PMI Mfg	m/m	Feb P	57.1	57.7		***	Equity and bond neutral
	HSBC India PMI Services	m/m	Feb P	61.1	56.5		**	Equity and bond neutral
EUROPE								
Eurozone	HCOB Eurozone Composite PMI	m/m	Feb P	50.2	50.2	50.5	*	Equity and bond neutral
	HCOB Eurozone Manufacturing PMI	m/m	Feb P	47.3	46.6	47.0	***	Equity and bond neutral
	HCOB Eurozone Services PMI	m/m	Feb P	50.7	51.3	51.5	**	Equity bearish, bond bullish
	Consumer Confidence	m/m	Feb P	-13.6	-14.2	-14.0	**	Equity and bond neutral
Germany	HCOB Germany Manufacturing PMI	m/m	Feb P	46.1	45.0	45.5	***	Equity and bond neutral
	HCOB Germany Services PMI	m/m	Feb P	52.2	52.5	52.5	**	Equity and bond neutral
	HCOB Germany Composite PMI	m/m	Feb P	51.0	50.5	50.8	**	Equity and bond neutral
France	Business Confidence	m/m	Feb	96	95	96	**	Equity and bond neutral
	Manufacturing Confidence	m/m	Feb	97	96	96	*	Equity and bond neutral
	HCOB France Manufacturing PMI	m/m	Feb P	45.5	45.0	45.3	***	Equity and bond neutral
	HCOB France Services PMI	m/m	Feb P	44.5	48.2	48.9	**	Equity bearish, bond bullish
	HCOB France Composite PMI	m/m	Feb P	44.5	47.6	48.0	**	Equity bearish, bond bullish
Italy	CPI, EU Harmonized	y/y	Jan F	1.7%	1.7%	1.7%	***	Equity and bond neutral
	CPI FOI Index Ex Tobacco	y/y	Jan	120.9	120.2	120.9	*	Equity and bond neutral
UK	Public Finances (PSNCR)	m/m	Jan	-22.5b	20.2b		*	Equity and bond neutral
	Public Sector Net Borrowing	m/m	Jan	15.4b	18.1b	-20.3b	*	Equity and bond neutral
	PSNB ex Banking Groups	m/m	Jan	-15.4b	18.1b		**	Equity and bond neutral
	Retail Sales	y/y	Jan	1.0%	2.8%	0.7%	***	Equity and bond neutral
	Retail Sales Ex-Auto Fuel	y/y	Jan	1.2%	2.1%	0.6%	**	Equity and bond neutral
	GfK Consumer Confidence	m/m	Feb	-20	-22	-22	***	Equity and bond neutral
	S&P Global UK Manufacturing PMI	m/m	Feb P	46.4	48.3	48.5	***	Equity and bond neutral
	S&P Global UK Services PMI	m/m	Feb P	51.1	50.8	50.8	**	Equity and bond neutral
	S&P Global UK Composite PMI	m/m	Feb P	50.5	50.6	50.3	**	Equity and bond neutral
Switzerland	M3 Money Supply	y/y	Jan	1.6%	1.9%		**	Equity and bond neutral
Russia	Gold and Forex Reserves	m/m	14-Feb	$628.5b	$626.9b		***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	14-Feb	18.29t	18.28t		*	Equity and bond neutral
AMERICAS								
Canada	Industrial Product Price	m/m	Jan	1.6.%	0.4%	0.8%	**	Equity bearish, bond bullish
	Raw Material Prices	m/m	Jan	3.7%	1.3%	2.6%	*	Equity bearish, bond bullish
Mexico	GDP NSA	y/y	4Q F	0.5%	0.6%	0.6%	***	Equity and bond neutral
	Economic Activity IGAE	y/y	Dec	-0.44%	0.54%	0.20%	**	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)	420	421	-1	Down
U.S. Sibor/OIS spread (bps)	432	432	0	Down
U.S. Libor/OIS spread (bps)	434	434	0	Down
10-yr T-note (%)	4.49	4.51	-0.02	Up
Euribor/OIS spread (bps)	253	253	0	Down
Currencies	**3 Mo**			
Dollar	Up	US		Down
Euro	Down	Euro		Down
Yen	Up	Japan		Up
Pound	Down	UK		Up
Franc	Down	Switzerland		Down

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.

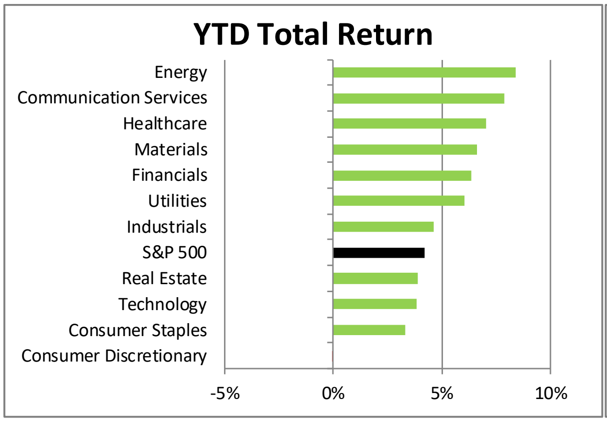
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$75.94	$76.48	-0.71%	
WTI	$71.92	$72.48	-0.77%	
Natural Gas	$4.25	$4.15	2.34%	
Crack Spread	$26.65	$20.72	28.63%	
12-mo strip crack	$21.97	$22.15	-0.82%	
Ethanol rack	$1.92	$1.92	-0.05%	
Metals				
Gold	$2,933.06	$2,938.98	-0.20%	
Silver	$32.92	$32.96	-0.12%	
Copper contract	$464.10	$466.60	-0.54%	
Grains				
Corn contract	$511.75	$512.75	-0.20%	
Wheat contract	$605.25	$600.25	0.83%	
Soybeans contract	$1,060.50	$1,063.00	-0.24%	
Shipping				
Baltic Dry Freight	941	904	37	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	4.63	3.00	1.63	
Gasoline (mb)	-0.15	-1.00	0.85	
Distillates (mb)	-2.05	-1.50	-0.55	
Refinery run rates (%)	-0.1%	-0.6%	0.5%	
Natural gas (bcf)	-196	-193	-3	

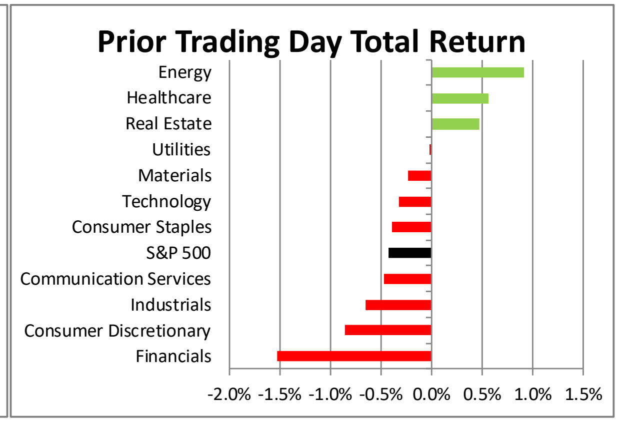
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for cooler-than-normal temperatures only along the Canadian border from Wisconsin eastward, with warmer-than-normal temperatures from the West Coast to the Great Plains. The forecasts call for wetter-than-normal conditions in southern Texas, the northern Great Plains, and the Northeast, with dry conditions along the West Coast.

Data Section

US Equity Markets – (as of 2/20/2025 close)

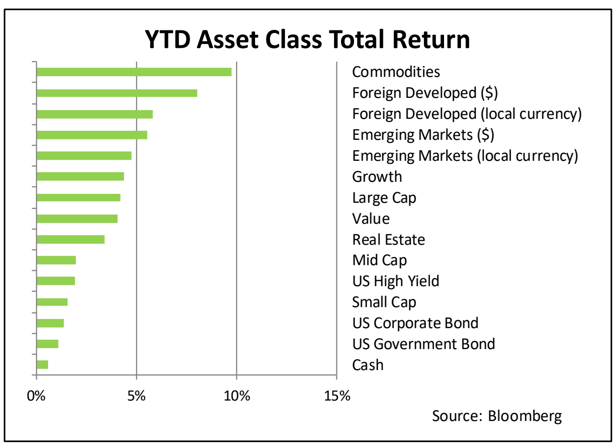




(Source: Bloomberg)

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 2/20/2025 close)

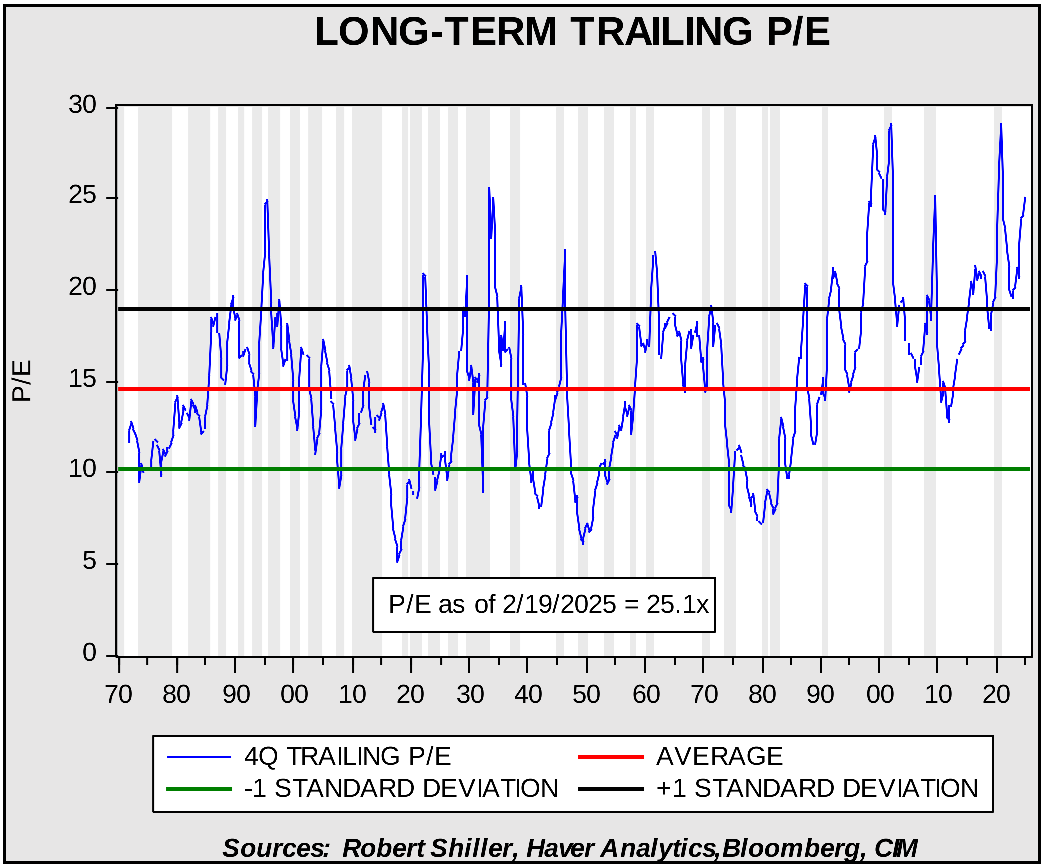


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 20, 2025



Based on our methodology,[1] 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.

[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 (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.