



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: February 25, 2025 — 9:30 AM ET] Global equity markets are mostly lower this morning. In Europe, the Euro Stoxx 50 closed up 0.1% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 1.2%. Chinese markets were lower, with the Shanghai Composite down 0.8% from its previous close and the Shenzhen Composite also down 0.8%. US equity index futures are signaling a lower open.

With 437 companies having reported so far, S&P 500 earnings for Q4 are running at \$65.40 per share compared to estimates of \$64.79, which is up 11.7% from Q4 2023. Of the companies that have reported thus far, 76.3% have exceeded expectations, while 17.5% 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
“Sanctions as an Investment Risk” (2/24/25) + 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

Our *Comment* today opens with more evidence of the Trump administration’s revolutionary realignment of US foreign policy, which could have big implications for the US economy and financial markets over the longer term. We next review several other international and US developments with the potential to affect the financial markets today, including news that Trump intends to let his big 25% tariffs against Canada and Mexico take effect next week and an important union vote at US ports today.

United States-Russia-Ukraine-Europe: In the United Nations Security Council yesterday, the US [voted with China and Russia to approve a measure calling for a swift end to the war in Ukraine](#) but failing to designate Russia as the aggressor. Earlier, in the UN General Assembly, the US voted with the likes of Russia, Belarus, North Korea, Hungary, and Nicaragua to oppose

a resolution condemning Russia for its invasion of Ukraine. Finally, President Trump yesterday said he was negotiating an economic development deal with Russia.

- Yesterday's moves are the latest examples of how the Trump administration appears to be trying to realign US foreign policy in favor of authoritarian powers long recognized as inimical to US interests, and away from the US's traditional allies.
- One theory for this is that Trump is trying to pull a "reverse Kissinger," replicating the former Secretary of State's strategy in the Cold War to cozy up to China and isolate the Soviet Union. However, China and Russia are no longer at odds as they were in the 1960s and 1970s, so there is a risk that Russia will simply pocket any concessions it gets from the US, leaving the China/Russia bloc stronger and splitting the US bloc.
- In any case, any realignment of the US toward Russia and other authoritarian states would be a revolution in the country's foreign policy. As we've noted before, another important risk is that the move could split the US from Western Europe and make the Continent vulnerable to Russian aggression, which would ultimately constrict US economic opportunities and probably undermine US financial markets in the longer term.

United States-Canada-Mexico: President Trump today reportedly [said that his 25% tariffs on Canadian and Mexican imports would be put into place as scheduled next week](#), although at least one administration insider has said the decision isn't yet final. While the tariffs have been paused for the last month to allow for negotiations, we have seen no details on how the talks proceeded or if they in fact took place. In any case, the big tariffs will be a test case to see how broad duties against whole countries will affect the exporting economies and the US.

United States-Iran: As part of its renewed "maximum pressure" campaign to weaken Iran, the Trump administration yesterday [imposed new, targeted sanctions on more than 30 individuals, entities, and ships associated with Iran's "shadow fleet"](#) for exporting oil. The aim of the new sanctions is reportedly to reduce China's ability to import cheap Iranian crude. As background, our [Bi-Weekly Geopolitical Report for February 24](#) provides an overview of US sanctions and the risks they create for investors.

Eurozone: Bundesbank President Joachim Nagel, who sits on the board of the European Central Bank, today [said the ECB can continue to cut interest rates as consumer price inflation falls towards the policymakers' 2% target](#), but since price pressures are proving stickier than expected, it should be cautious and not cut too fast. Separately, ECB executive board member Isabel Schnabel said in a speech that estimates for the neutral rate had moved up recently, and that higher rates were more likely in future.

- The statements by Nagel and Schnabel suggest the ECB's rate cuts going forward may be slower than investors anticipate.
- The statements have given a modest boost to the euro (EUR) so far today, pushing it up 0.3% to \$1.0495.

Germany: While Friedrich Merz, leader of the center-right CDU/CSU party, starts working to form a coalition government with the center-left SPD after Sunday's elections, he reportedly [is](#)

[mulling a maneuver for the current parliament to ease the constitution’s “debt brake” before the resurgent far-right and far-left parties can be seated](#) for the new parliament. Easing the debt limits is widely seen as necessary for Germany to ramp up its defense spending to counter potential Russian aggression and to boost public investment to support economic growth.

United Kingdom: Setting the stage for his trip to Washington to meet President Trump on Thursday, Prime Minister Starmer [announced in parliament that his government will boost the UK’s defense budget from 2.3% of gross domestic product now to 2.5% in 2027](#) and 3.0% in the longer term. The hike in defense spending responds to both pressure from Trump and the growing threat from Russia. As such, the move exemplifies the rise in general European defense spending, which has ignited European defense stocks over the last couple of years.

China-Taiwan: The Taiwanese coast guard today [caught a Chinese freighter in the act of dragging its anchor and cutting a subsea communications cable](#) off the island’s west coast. The incident is the latest example of suspected Chinese and Russian “grey zone” warfare against US allies’ subsea infrastructure. The Taiwanese have reportedly detained the ship, risking increased tensions with Beijing.

South Korea: The Bank of Korea today [cut its benchmark short-term interest rate by 25 basis points to 2.75%, as widely expected](#). The central bank also cut its forecast of 2025 gross domestic product growth to just 1.5% from 1.9% previously, as the economy softens amid uncertainty surrounding President Yoon’s impeachment trial. The country’s growth in recent quarters has also suffered from weak demand in China, but improved prospects there have strengthened the won (KRW) so far this year, including today.

Global Energy Market: In its annual outlook, energy giant Shell [predicted that global demand for liquified natural gas in 2040 will be 60% higher than today](#), up from a 50% jump projected last year. The upward revision stems from expectations for faster economic growth in China and India, increased demand for energy-intensive computing, and continued corporate efforts to cut greenhouse emissions. If correct, the forecasts bode well for further development in the US energy sector, which has become a powerhouse LNG exporter.

US Labor Market: Unionized workers at ports on the East and West coasts [will vote today on a new six-year labor contract](#) that includes a total 62% pay hike and limits on automation. The contract is widely expected to be approved, precluding any further strikes or other labor actions at the ports until 2030. Despite the hefty pay hike and automation limits, reports say some port operators are comfortable with the automation investments that they will be allowed under the deal.

US Economic Releases

There were no economic releases today prior to publication time. 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	Conf. Board Consumer Confidence	m/m	Feb	10.5.5	104.1	***
10:00	Richmond Fed Manufact. Index	m/m	Feb	-3.0	-4.0	**
10:00	Richmond Fed Business Conditions	m/m	Feb		7.0	*
10:30	Dallas Fed Services Activity	m/m	Feb		7.4	*
Federal Reserve						
EST	Speaker or Event	District or Position				
11:45	Michael Barr Gives Remarks on Financial Stability with Q&A	U.S. Federal Reserve Vice Chairman for Supervision				
13:00	Thomas Barkin Speaks on Inflation	President of the Federal Reserve Bank of Richmond				

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	PPI Services	y/y	Jan	3.1	2.90%	3.10%	***	Equity and bond neutral
	Nationwide Dept Sales	y/y	Jan	5.2%	2.8%		***	Equity and bond neutral
	Machine tool orders	y/y	Jan F	4.7%	4.7%		**	Equity and bond neutral
South Korea	Retail Sales	y/y	Jan	11.7%	8.9%		**	Equity and bond neutral
	Depart. Store Sales	y/y	Jan	10.3%	1.1%		*	Equity and bond neutral
	Discount Store Sales	y/y	Jan	16.1%	-6.6%		*	Equity and bond neutral
EUROPE								
Eurozone	EU27 New Car Registrations	y/y	Jan	-2.6%	5.1%		***	Equity and bond neutral
Germany	GDP WDA	y/y	4Q F	-0.2%	-0.2%	-0.2%	**	Equity and bond neutral
	GDP NSA	y/y	4Q F	-0.4%	-0.4%	-0.4%	**	Equity and bond neutral
AMERICAS								
Brazil	IBGE Inflation IPCA-15	m/m	Feb	4.96%	4.50%	5.10%	***	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)	417	419	-2	Down
U.S. Sibor/OIS spread (bps)	431	432	-1	Down
U.S. Libor/OIS spread (bps)	433	433	0	Down
10-yr T-note (%)	4.32	4.40	-0.08	Down
Euribor/OIS spread (bps)	252	252	0	Down
Currencies	3 Mo			
Dollar	Up	US		Down
Euro	Down	Euro		Flat
Yen	Up	Japan		Up
Pound	Down	UK		Up
Franc	Down	Switzerland		Down
Central Bank Action	Bank section (otherwise, I have	Expected		
Bank of Korea Base Rate	2.75%	3.00%	2.75%	On Forecast
PBOC 1-Year Med-Term Lending Volume	300.0b	200.0b	300.0b	On Forecast
PBOC 1-Year Med-Term Lending Facility	2.00%	2.00%	2.00%	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.

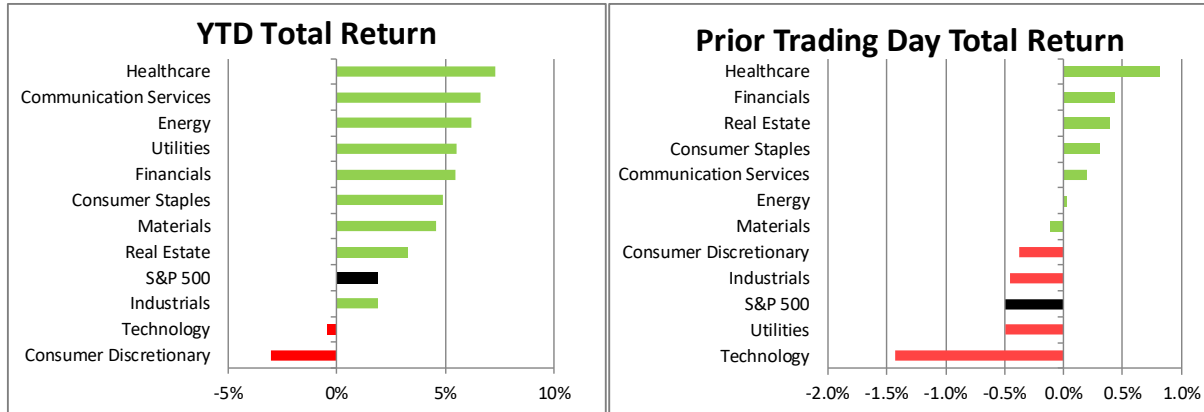
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$74.41	\$74.78	-0.49%	
WTI	\$70.39	\$70.70	-0.44%	
Natural Gas	\$4.03	\$3.99	0.95%	
Crack Spread	\$26.13	\$26.30	-0.67%	
12-mo strip crack	\$21.64	\$21.83	-0.89%	
Ethanol rack	\$1.90	\$1.90	-0.23%	
Metals				
Gold	\$2,926.02	\$2,951.73	-0.87%	
Silver	\$31.77	\$32.35	-1.78%	
Copper contract	\$457.05	\$456.35	0.15%	
Grains				
Corn contract	\$491.50	\$497.00	-1.11%	
Wheat contract	\$584.25	\$593.50	-1.56%	
Soybeans contract	\$1,044.75	\$1,047.50	-0.26%	
Shipping				
Baltic Dry Freight	1,002	981	21	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		3.00		
Gasoline (mb)		-1.00		
Distillates (mb)		-1.50		
Refinery run rates (%)		-0.6%		
Natural gas (bcf)		-193		

Weather

The 6-to-10 and 8-to-14 day forecasts call for cooler-than-normal temperatures in New England and the central West Coast, with warmer-than-normal temperatures across the central portion of the country. The precipitation forecasts call for wetter-than-normal conditions across the majority of the country.

Data Section

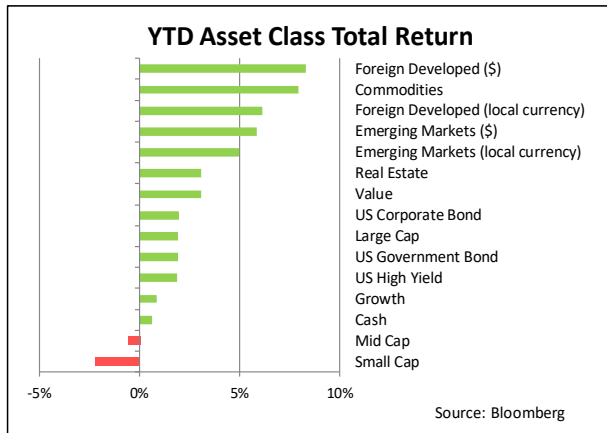
US Equity Markets – (as of 2/24/2025 close)



(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 2/24/2025 close)

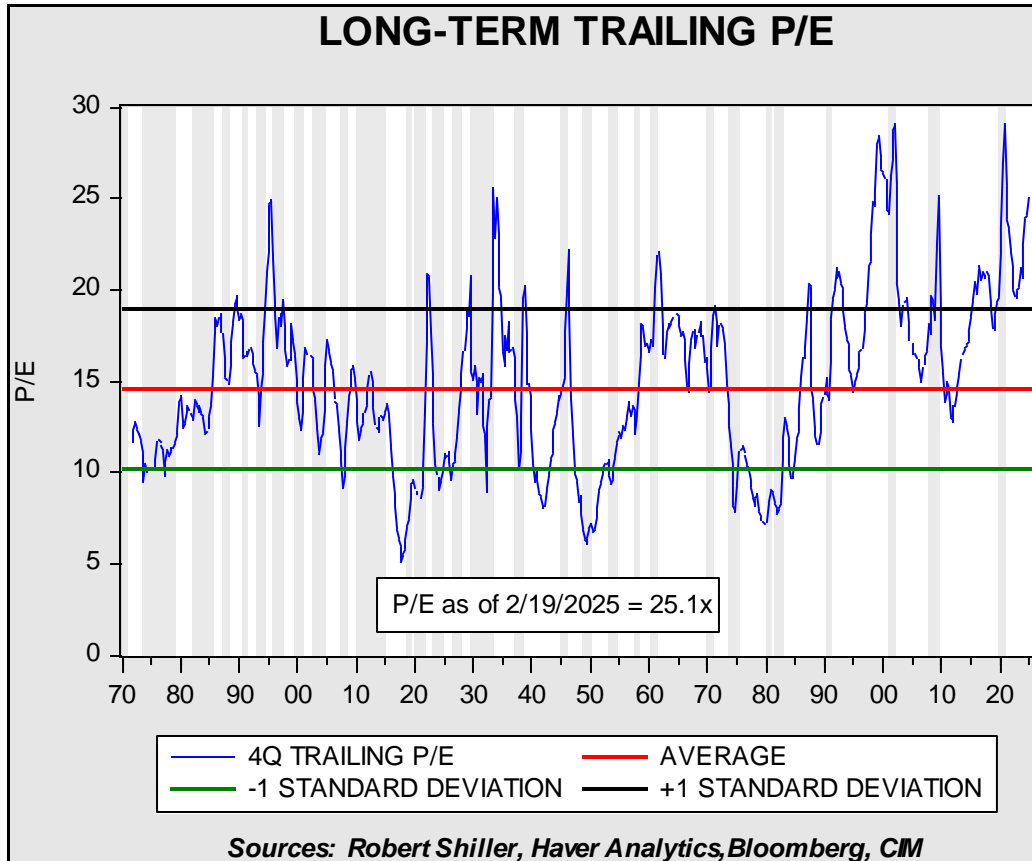


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.