Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: March 12, 2025 — 9:30 AM ET] Global equity markets are mostly higher this morning. In Europe, the Euro Stoxx 50 closed up 1.5% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.3%. Chinese markets were mixed, with the Shanghai Composite down 0.2% from its previous close and the Shenzhen Composite up 0.1%. US equity index futures are signaling a higher open.

With 495 companies having reported so far, S&P 500 earnings for Q4 are running at $65.60 per share compared to estimates of $64.79, which is up 11.7% from Q4 2023. Of the companies that have reported thus far, 74.4% have exceeded expectations, while 19.1% 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
"United Arab Emirates: An Overview" (3/10/25)	"Tackling Long-Term Interest Rates" (3/3/25) + podcast	Q1 2025 Report Q1 2025 Rebalance Presentation	The Confluence of Ideas podcast Business Cycle Report

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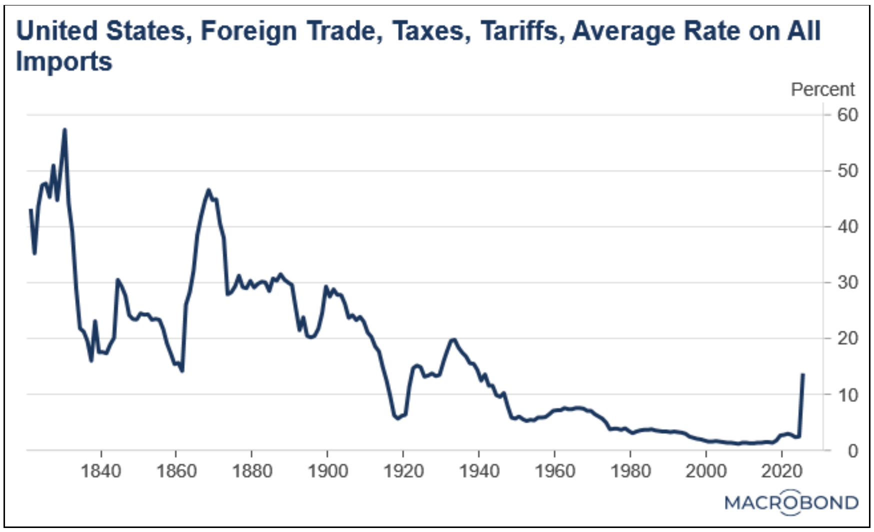
Good morning! Markets are digesting the latest inflation data. In sports, Gonzaga clinched a victory over Saint Mary's in the West Coast Conference Finals. Today's *Comment* will cover key developments, including the ongoing US-Canada trade tensions, Ukraine's proposed 30-day ceasefire, and other market-moving stories. As always, the report will also feature a summary of recent domestic and international economic data releases.

Tariff Uncertainty: US equities swung sharply on Tuesday amid fears of a US-Canada trade war. The S&P 500 briefly dipped into correction territory, rebounded, then fell again as trade concerns lingered, keeping markets on edge.

- Market volatility surged as tensions escalated between the US and Canada over retaliatory tariffs. The day began with President Trump imposing 50% tariffs on Canadian steel and aluminum products as a response to Ontario's threat of a 25%

surcharge on electricity exports to Michigan, Minnesota, and New York. The standoff eased after Ontario agreed to drop the surcharge in exchange for a meeting with the US Secretary of Commerce Howard Lutnick to discuss the USMCA trade agreement.

- Following the arrangement, President Trump scaled back the tariff on Canadian steel from 50% to 25%, alleviating some market concerns but failing to fully ease fears over ongoing trade uncertainty. While Ontario has withdrawn its electricity surcharges, Canada has opted to maintain its tariffs on US goods and has signaled that it will only reconsider once it believes the Trump administration is prepared to be respectful in its approach. The situation remains fluid, leaving markets wary of further developments.
- At midnight, universal tariffs on aluminum and steel products were imposed without exemptions, marking a significant escalation in trade policy. The European Union retaliated with its own tariffs that are expected to take place mid-April, while the UK is expected to maintain its current stance and refrain from immediate action. Meanwhile, Chinese tariffs on US agricultural products have also gone into effect.



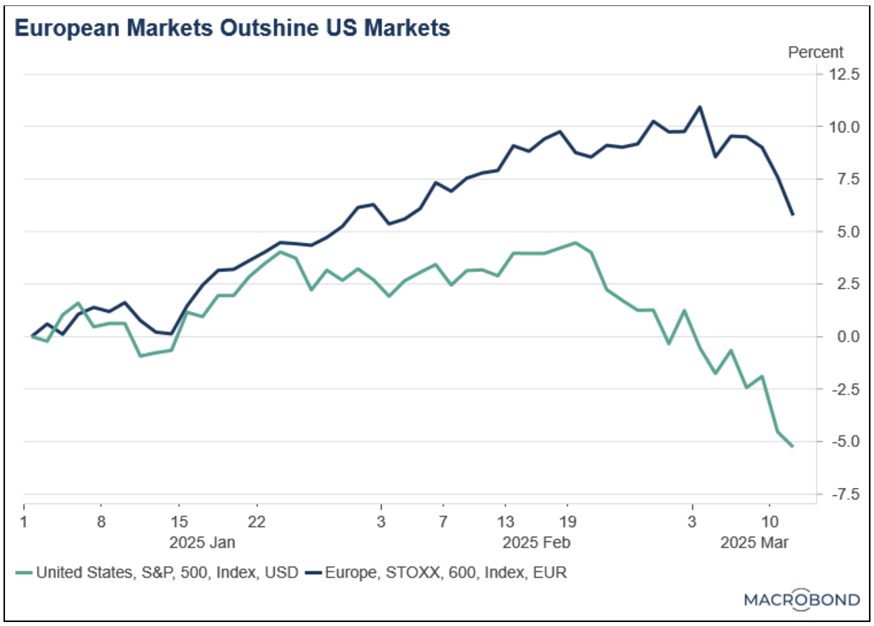
- The ongoing trade war is expected to keep equities highly vulnerable to midday swings, as investors attempt to assess the potential economic impact of tariffs. While there have been preliminary signs of an economic slowdown — such as major airlines reporting weaker demand for both leisure and business travel — these indicators remain anecdotal. For now, there is no concrete evidence of a broader economic downturn, but the uncertainty continues to weigh on market sentiment.

Ukraine Peace Deal: US officials successfully persuaded Ukraine to back a ceasefire agreement with Russia. Although the deal still requires Putin's approval, it includes provisions for the US to share military intelligence with Ukraine and restore military aid, underscoring the continued strong relationship between the two nations.

- The proposal outlines a 30-day ceasefire that would encompass the entire front line, expanding beyond the initially proposed restrictions on air and sea operations. This development comes at a critical juncture, as Ukraine's recent territorial losses in Russia's

Kursk region have weakened its negotiating position, diminishing a key bargaining chip tied to territorial control. The agreement represents a potential shift in the conflict's dynamics, though its broader implications remain uncertain.

- With Ukraine agreeing to the ceasefire, the focus now shifts to Moscow. Russian President Vladimir Putin has consistently justified the continuation of the war as a means to achieve the country's long-term strategic goal of preventing NATO expansion near its borders. While the conflict has likely stalled Ukraine's bid to join the military alliance, Russia has yet to secure full control of the Donbas region — a key objective that would mark a significant success in its campaign.



- That said, the ceasefire agreement signals a potentially positive development, suggesting that the Russian invasion may be nearing its conclusion. This would be a significant boost for risk assets, particularly in Europe, as the resolution of the conflict could pave the way for the return of Russian energy supplies to the global market. Such a scenario would likely accelerate Europe's efforts to revitalize its industrial sector, with Germany standing to benefit considerably.

Shutdown Avoided: The House of Representatives has passed a bill to fund the government for the next seven months. The legislation is now headed to the Senate, where it is expected to pass with bipartisan support, as Democrats are likely to back the measure to ensure government operations continue uninterrupted.

- The proposed legislation, featuring a $6 billion boost to defense spending, additional funding for border security, and a $13 billion reduction in non-defense programs, has become a lightning rod for controversy. Republican lawmakers argue that the bill fails to adequately address government overspending, while Democrats express deep concern over the targeted cuts to crucial programs they are aiming to protect.

- While the bill ultimately passed, the vote was not without its share of drama, as there were defections in both the Republican and Democrat camps. Notably, conservative Kentucky Representative Thomas Massie, a staunch deficit hawk, voted against the measure, while Maine Democrat Jared Golden broke ranks with his party to support it. This lack of unity on both sides underscores emerging intraparty tensions, suggesting that ideological and strategic rifts may be deepening within each camp.
- The interparty divisions appear to be more pronounced within the Democratic Party, as lawmakers continue to grapple with the shifting political landscape following Trump's victory. While many Senate Democrats view the stopgap bill as insufficient, they are reluctant to oppose it outright, fearing the potential fallout from a government shutdown.
- The passage of the budget resolution to fund the government through the rest of the year is likely to set the stage for a more contentious battle over the president's tax bill. While Republicans have largely supported the measure, there is increasing pressure within the party to ensure the bill is as deficit neutral as possible. On the other side, Democrats remain united in their efforts to shield key programs from cuts, though it is evident that many are open to compromise. The passage of a tax bill this year seems highly likely.

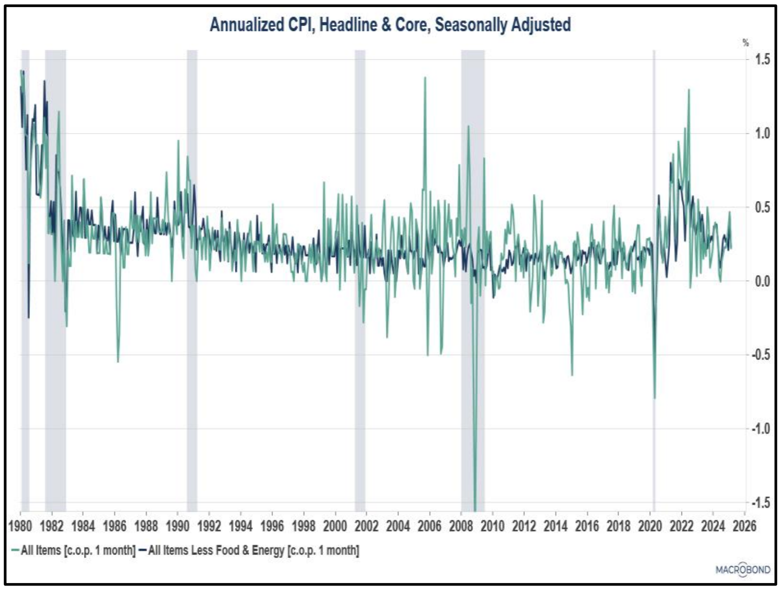
Greenland Speaks: The center-right Demokraatit Party secured a surprising victory, as voters demonstrated strong support for the region's independence. This outcome followed controversial overtures from Trump, who had previously expressed interest in acquiring the territory from Denmark.

- The Demokraatit Party was not the only pro-independence group to experience a surge in support, as the Naleraq Party also secured a strong second-place finish. Their successes underscore the depth of voter concern over the perceived threat of US annexation and highlight a growing desire among the electorate to have a greater say in shaping the region's future.
- That said, it is important to note that the election results also revealed a preference among voters for a more gradual approach to independence, indicating that the population is not yet ready to fully sever ties with Denmark. While support for pro-independence parties has grown, the cautious pace advocated by some factions suggests a desire to balance aspirations for self-determination with the stability and benefits provided by the current relationship with Denmark.

US Economic Releases

The Mortgage Bankers Association today said ***mortgage applications*** for the week ended March 7 rose 11.2% after rising 20.4% the previous week, spurred on by steadily declining mortgage rates. Applications for home purchase mortgages rose 7.0%, extending the previous week's 9.1% rise. Applications for refinancing mortgages rose 16.2% after last week's strong 37% surge. For the sixth consecutive week, the average interest rate on a 30-year mortgage fell, this time 6 basis points to 6.67%, its lowest level since December.

The February ***consumer price index (CPI)*** rose by a seasonally adjusted 0.2%, less than the expected 0.3% and a notable deceleration from the previous month's 0.5%. Excluding the volatile food and energy components, the ***"core" CPI*** also rose 0.2%, again less than the expected 0.3% and the previous month's 0.4%. The overall CPI in February rose 2.8% from the same month one year earlier, exhibiting a similar pattern of being just shy of the expected 2.9% and previous month's 3.0%, while the core CPI rose 3.1% versus the expected 3.2% and the previous 3.3%. The chart below shows the year-over-year change in the CPI and the core CPI since 1980.



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

Economic Releases						
EST	**Indicator**			**Expected**	**Prior**	**Rating**
14:00	Federal Budget Balance	m/m	Feb	-$308b	-$128.6b	**
Federal Reserve						
No Fed speakers or events for the rest of today						

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	y/y	Feb	4.0%	4.2%	4.0%	***	Equity and bond neutral
South Korea	Unemployment Rate	m/m	Feb	27.0%	2.9%	3.0%	***	Equity and bond neutral
India	CPI	y/y	Feb	3.6%	4.3%	4.0%	***	Equity and bond neutral
	Industrial Production	y/y	Jan	5.0%	3.5%	3.5%	***	Equity bullish, bond bearish
AMERICAS								
Mexico	International Reserves Weekly	w/w	7-Mar	$235940m	$234347m		*	Equity and bond neutral
Brazil	IBGE Inflation IPCA	y/y	Feb	5.06%	4.56%	5.05%	***	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	418	1	Up
U.S. Sibor/OIS spread (bps)	430	429	1	Down
U.S. Libor/OIS spread (bps)	431	431	0	Down
10-yr T-note (%)	4.28	4.28	0.00	Flat
Euribor/OIS spread (bps)	255	255	0	Down
Currencies	**Direction**			
Dollar	Up	US		Down
Euro	Down	Euro		Up
Yen	Up	Japan		Up
Pound	Down	UK		Up
Franc	Down	Switzerland		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.

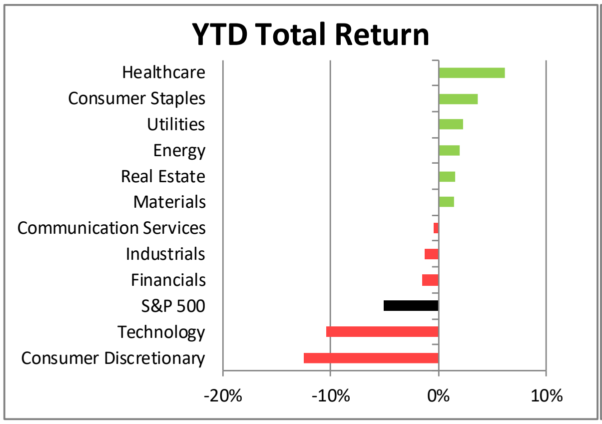
qq	Price	Prior	Change	Explanation
Energy Markets				
Brent	$70.20	$69.56	0.92%	
WTI	$66.92	$66.25	1.01%	
Natural Gas	$4.31	$4.45	-3.23%	
Crack Spread	$23.63	$23.57	0.22%	
12-mo strip crack	$20.50	$20.47	0.13%	
Ethanol rack	$1.81	$1.80	0.60%	
Metals				
Gold	$2,915.56	$2,915.90	-0.01%	
Silver	$33.06	$32.94	0.35%	
Copper contract	$485.20	$476.60	1.80%	
Grains				
Corn contract	$463.00	$470.25	-1.54%	
Wheat contract	$551.75	$556.75	-0.90%	
Soybeans contract	$1,002.50	$1,011.25	-0.87%	
Shipping				
Baltic Dry Freight	1,436	1,424	12	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		2.00		
Gasoline (mb)		-1.61		
Distillates (mb)		0.00		
Refinery run rates (%)		0.45%		
Natural gas (bcf)		-47		

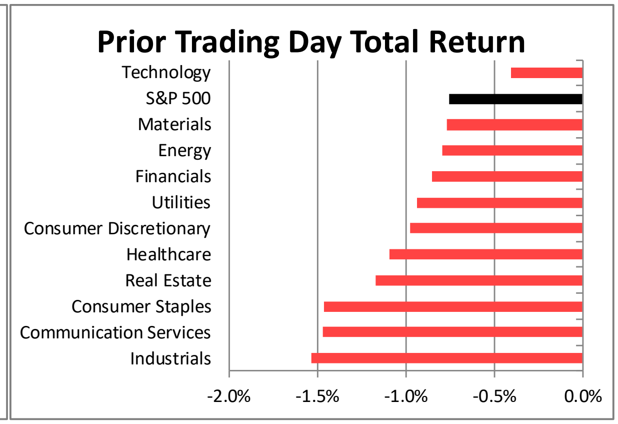
Weather

The 6-to-10 and 8-to-14-day forecasts call for cooler-than-normal temperatures from the Rocky Mountains westward, with warmer-than-normal temperatures for most of the eastern half of the country. The precipitation outlook calls for wetter-than-normal conditions in most of the West, as well as the northern third of the East, with drier-than-normal conditions in west Texas.

Data Section

US Equity Markets – (as of 3/11/2025 close)

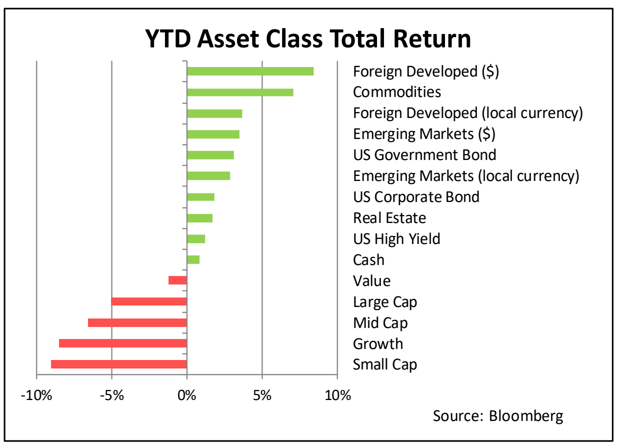




(Source: Bloomberg)

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 3/11/2025 close)

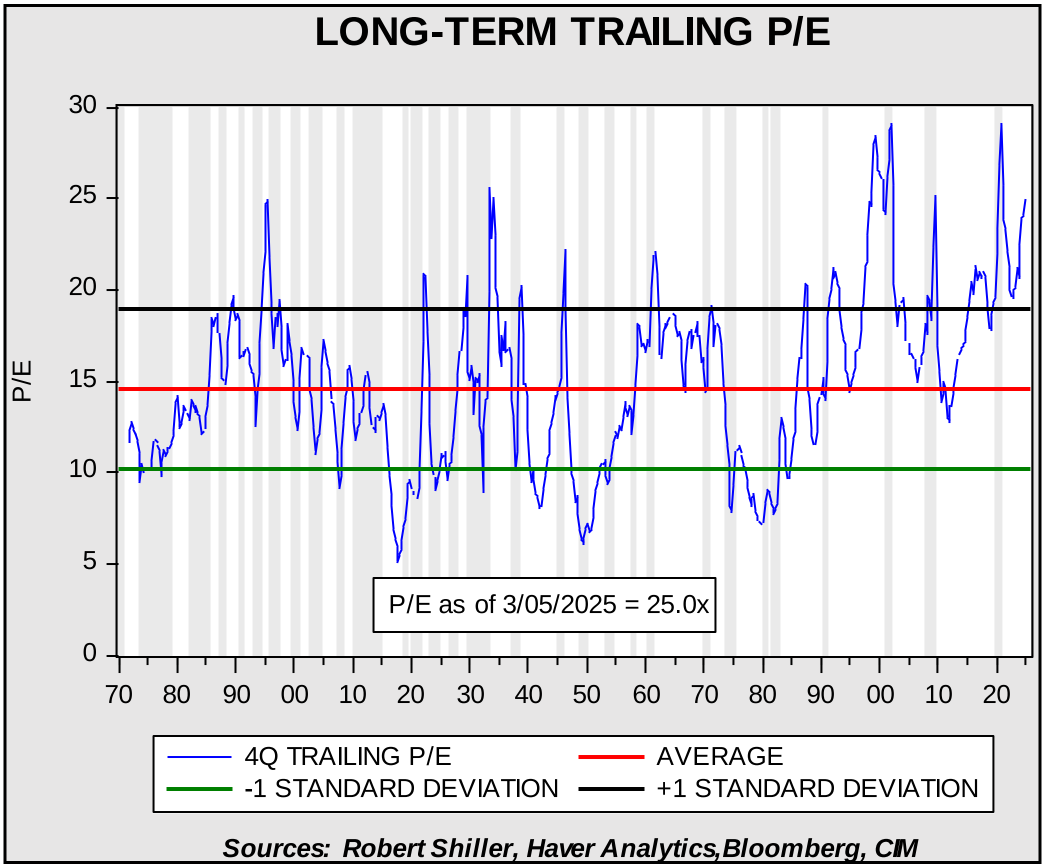


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

March 6, 2025



Based on our methodology,[1] the current P/E is 25.0x, down 0.1 from our last report. The drop in multiple was driven by a decline in the stock price index.

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.

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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.