Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: March 14, 2025 — 9:30 AM ET] Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 closed up 1.3% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 1.2%. Chinese markets were higher, with the Shanghai Composite up 1.8% from its previous close and the Shenzhen Composite up 2.1%. US equity index futures are signaling a higher open.

With 496 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, 74.3% have exceeded expectations, while 19.2% 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) + **podcast**	"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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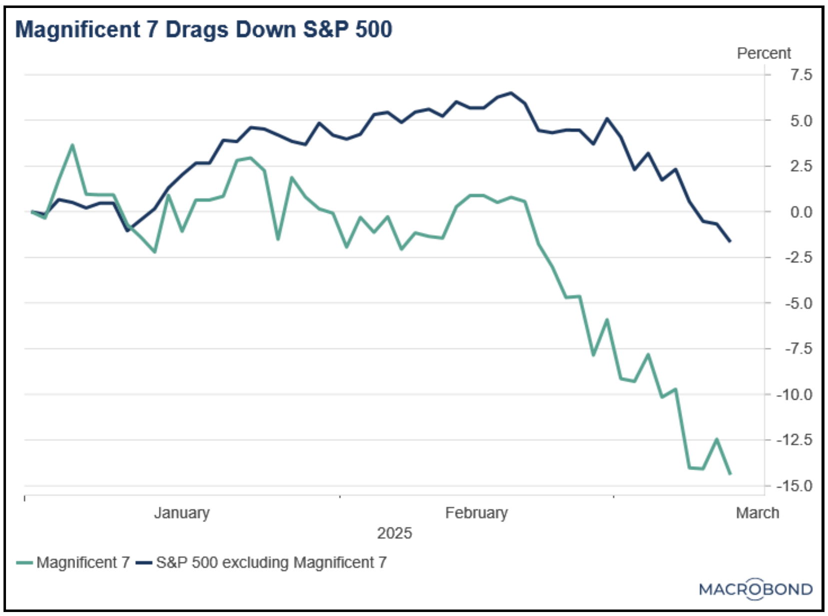
Good morning! Markets are reacting to the news that a government shutdown was averted. In sports, Steph Curry made history by hitting his 4,000th 3-pointer in the Warriors' victory over the Kings. Today's *Comment* will explore the market's recent correction, how a PPI subcomponent could shed light on the trade war's effects, and other key market-moving developments. As always, we'll also provide a summary of international and domestic data releases.

S&P 500 Correction: The market plunged 10.1% from its all-time high on Thursday, driven by mounting fears of a government shutdown and escalating trade war tensions. The sharp sell-off underscores just how sensitive investors have become to any signs of uncertainty.

- On Thursday, President Trump escalated trade tensions with the EU by threatening to impose tariffs of up to 200% on European wine, retaliating against proposed EU tariffs on American goods. This move sent a strong signal of escalating trade uncertainty, revealing a further decline in relations and the increasingly erratic nature of the dispute.

- Meanwhile, House Speaker Chuck Schumer (D-NY) fueled further uncertainty by initially declaring that his party would not support the legislation needed to avert a government shutdown. Although he later walked back this threat and expressed support for the bill, his initial reluctance underscored growing concerns that deepening partisanship is making effective governance increasingly difficult.
- Heightened uncertainty has prompted investors to reduce their exposure to risk assets, particularly the mega cap tech stocks. The divergence in year-to-date performance — a 1.6% decline for the S&P 500 excluding the Magnificent 7 versus a 14.4% drop for those stocks — indicates a significant rotation. This shift reflects potential investor fatigue with the persistent tech-led market leadership of the preceding two years.

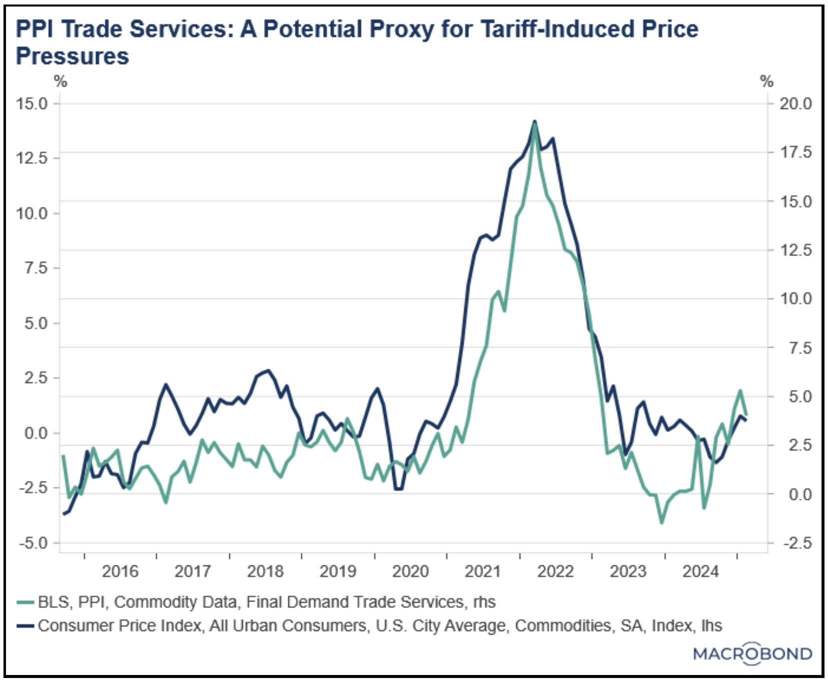


- Trade tensions are creating a "wait and see" market. A prolonged conflict risks a significant market sell-off due to increased volatility. However, a rapid resolution could fuel a market surge, with mega cap tech leading the way, given their exposure to trade sentiment and growth. In the interim, commodities could provide a potential buffer against market uncertainty.

Producer Prices Ease: Following a report of easing consumer inflation in February, producer prices also showed a slowdown in supplier price pressures. However, the ongoing trade war raises concerns that this relief may be temporary.

- The overall Producer Price Index (PPI) showed a year-over-year slowdown, easing from 3.7% to 3.2%, while core PPI, which excludes food and energy, also moderated, falling from 3.8% to 3.4%. This deceleration was largely attributed to a decline in trade services, which tracks changes in profit margins between wholesale and retail businesses. The report indicates that businesses may be hesitant to pass on higher costs to consumers.

- Trade services are expected to remain a critical indicator to monitor as the trade war persists. Changes in margins between retailers and wholesalers reflect the pass-through effects of price increases, making this metric particularly sensitive to the impact of tariffs. As a result, it could provide valuable insights into how businesses are navigating the challenges posed by ongoing trade tensions.
- This indicator proved particularly useful in assessing the impact of supply chain disruptions and surging demand on businesses during the pandemic. As the gap between retail and wholesale margins widened, inflationary pressures intensified. Conversely, as these margin differentials began to narrow, price pressures started to ease for consumers.



- In short, as long as trade services remain relatively subdued, the inflationary impact of tariffs is likely to be contained. As highlighted in previous reports, while many argue that taxes on imported goods are inherently inflationary, we believe the effects may vary significantly depending on the type of good. In fact, we contend that earnings compression — where businesses absorb higher costs rather than passing them on to consumers — could also emerge as a realistic outcome of the trade war.

Benefits on the Chopping block? President Trump is open to allowing Republican lawmakers to explore cuts to certain social spending programs as part of efforts to secure funding for his priorities, including tax cuts, border security, and defense spending.

- The president is reportedly permitting Senate Republicans to identify instances of "waste and fraud" within Medicaid as part of an effort to curb spending and reduce costs. This development follows reports that Elon Musk's cost-cutting taskforce, DOGE, has been examining inconsistencies in entitlement disbursements as part of its broader initiative to address the deficit. Both efforts highlight a growing focus on fiscal responsibility, though such measures are likely to draw scrutiny and debate.

- The heightened focus on spending comes as Republicans seek to finance an ambitious tax bill, with several conservative lawmakers insisting they will not support any legislation that exacerbates the fiscal deficit. Recently, Senator Rand Paul (R-KY) has been vocal about his concerns, vowing to oppose the stopgap bill due to its potential impact on spending. Similarly, Kentucky Representative Thomas Massie voted against the legislation in the House, citing the same reservations.
- The ongoing debate over how to fund the proposed tax cuts indicates that conservatives remain determined to pass the legislation. Efforts to target waste and inefficiency may offer some financial flexibility, but so far, these measures have not yielded substantial savings. While we anticipate that the tax bill will likely be passed before the end of the year, we remain skeptical about its ability to be deficit-neutral.

Ceasefire Close? The Russian president appeared to downplay the possibility of agreeing to a temporary ceasefire with Ukraine, instead expressing a preference for pursuing a long-term resolution. That said, there does seem to be progress.

- Putin has indicated openness to the proposed arrangement but emphasized that further discussions are necessary before he would agree to the plan. A central point of contention revolves around the allocation of territory between Ukraine and Russia, which remains a highly sensitive and unresolved issue. Additionally, negotiations would need to address the critical question of control over a large power plant, a matter of strategic and symbolic importance for both sides.
- Despite the lack of clarity, President Trump seems optimistic that a deal will be done between the two sides as Ukraine has already agreed to the terms of the truce. While there is no timeline as to when an agreement will be reached, it is clear that Russian and US officials are in contact to get something done over the next few months.

US Economic Releases

No major US reports have been released so far this morning. 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	Mar P	63.0	64.7	***
10:00	U. of Michigan Current Conditions	m/m	Mar P	64.4	65.7	**
10:00	U. of Michigan Future Expectations	m/m	Mar P	63.0	64.0	**
10:00	U. of Michigan 1-Year Inflation Expectation	m/m	Mar P	4.3%	4.3%	*
10:00	U. of Michigan 5-10 Year Inflation Expectation	m/m	Mar P	3.4%	3.5%	*
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								
New Zealand	BusinessNZ Manufacturing PMI	m/m	Feb	53.9	51.7		***	Equity and bond neutral
	Food Prices	m/m	Feb	-0.5%	1.9%		***	Equity and bond neutral
South Korea	Export Price Index	y/y	Feb	6.3%	8.6%		*	Equity and bond neutral
	Import Price Index	y/y	Feb	4.6%	6.5%		*	Equity and bond neutral
China	New Yuan Loans CNY YTD	m/m	Feb	6140.0b	5130.0b	6380.0b	*	Equity and bond neutral
China	Aggregate Financing CNY YTD	m/m	Feb	9290.0b	7056.7b	9756.7b	*	Equity and bond neutral
	Money Supply M1	y/y	Feb	0.1%	0.4%	1.0%	**	Equity and bond neutral
	Money Supply M2	y/y	Feb	7.0%	7.0%	7.0%	***	Equity and bond neutral
	Money Supply M0	y/y	Feb	9.7%	17.2%		*	Equity and bond neutral
EUROPE								
Germany	CPI	y/y	Feb F	2.3%	2.3%	2.3%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Feb F	2.6%	2.8%	2.8%	**	Equity and bond neutral
	Wholesale Price Index	m/m	Feb	1.6	0.9		*	Equity and bond neutral
France	CPI	y/y	Feb F	0.8%	0.8%	0.8%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Feb F	0.9%	0.9%	0.9%	**	Equity and bond neutral
	CPI Ex-Tobacco Index	q/q	Feb F	119.0%	119.01	119.0%	*	Equity and bond neutral
Italy	Industrial Production WDA	y/y	Jan		-7.1%	-3.0%	***	Equity and bond neutral
UK	GDP	m/m	Jan	-0.1%	0.4%	0.1%	***	Equity and bond neutral
	Industrial Production	y/y	Jan	-1.5%	-1.9%	-0.6%	***	Equity and bond neutral
	Manufacturing Production	y/y	Jan	-1.5%	-1.4%	-0.5%	**	Equity and bond neutral
	Index of Services 3M/3M	m/m	Jan	0.20%	0.10%	0.10%	**	Equity and bond neutral
	Construction output	m/m	Jan	0.2%	1.5%	0.4%	*	Equity and bond neutral
Russia	Gold and Forex Reserves	m/m	7-Mar	$639.1b	$632.4b		***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	7-Mar	18.09t	18.07t		*	Equity and bond neutral
AMERICAS								
Canada	Building Permits	m/m	Jan	-3.2%	11.1%	-5.00	**	Equity and bond neutral
Brazil	Primary Budget Balance	y/y	Jan	104.1b	15.7b	104.3b	*	Equity and bond neutral
	Net Debt % GDP	m/m	Jan	60.80%	61.10%	61.00%	**	Equity and bond neutral
	Retail Sales	y/y	Jan	3.1%	2.0%	3.5%	***	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)	429	429	0	Down
U.S. Libor/OIS spread (bps)	431	431	0	Down
10-yr T-note (%)	4.30	4.27	0.03	Flat
Euribor/OIS spread (bps)	250	253	-3	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.

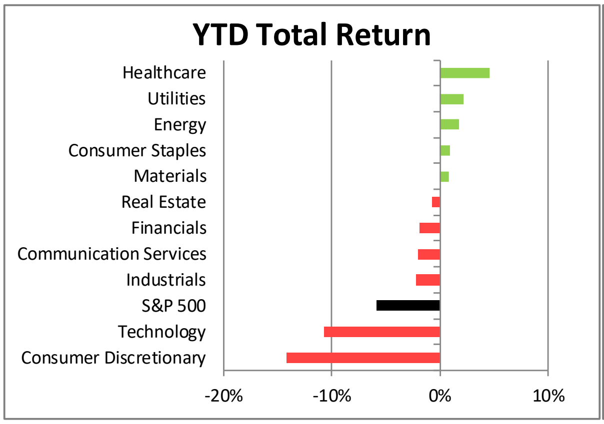
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$70.46	$69.88	0.83%	
WTI	$67.14	$66.55	0.89%	
Natural Gas	$4.05	$4.11	-1.46%	
Crack Spread	$23.17	$23.31	-0.63%	
12-mo strip crack	$20.15	$20.21	-0.31%	
Ethanol rack	$1.83	$1.83	0.18%	
Metals				
Gold	$2,996.55	$2,989.18	0.25%	
Silver	$33.88	$33.87	0.04%	
Copper contract	$493.75	$492.55	0.24%	
Grains				
Corn contract	$460.00	$465.25	-1.13%	
Wheat contract	$558.50	$562.50	-0.71%	
Soybeans contract	$1,010.00	$1,010.75	-0.07%	
Shipping				
Baltic Dry Freight	1,650	1,559	91	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	1.45	2.00	-0.55	
Gasoline (mb)	-5.74	-1.61	-4.12	
Distillates (mb)	-1.56	0.00	-1.56	
Refinery run rates (%)	0.6%	0.45%	0.2%	
Natural gas (bcf)	-62	-50	-12	

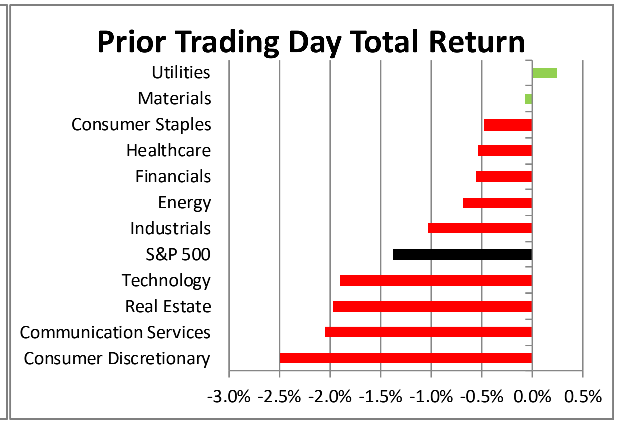
Weather

The 6-to-10 and 8-to-14-day forecasts call for cooler-than-normal temperatures in the Far West, with warmer-than-normal temperatures in the Great Plains, the Midwest, the mid-Atlantic states, and the Northeast. The forecasts call for wetter-than-normal conditions in the Pacific Northwest, the northern Rocky Mountains, and from the Great Plains eastward, with dry conditions only in Texas.

Data Section

US Equity Markets – (as of 3/13/2025 close)

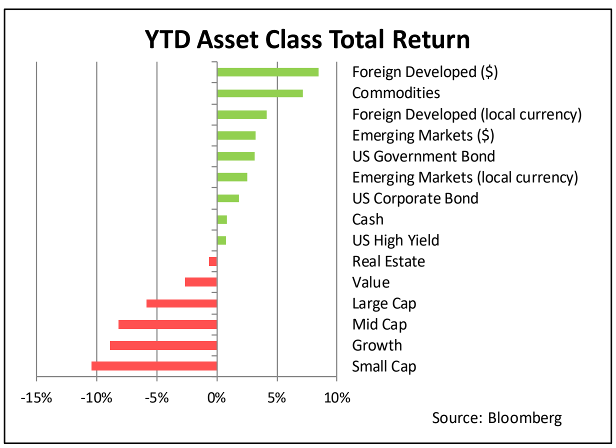




(Source: Bloomberg)

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 3/13/2025 close)

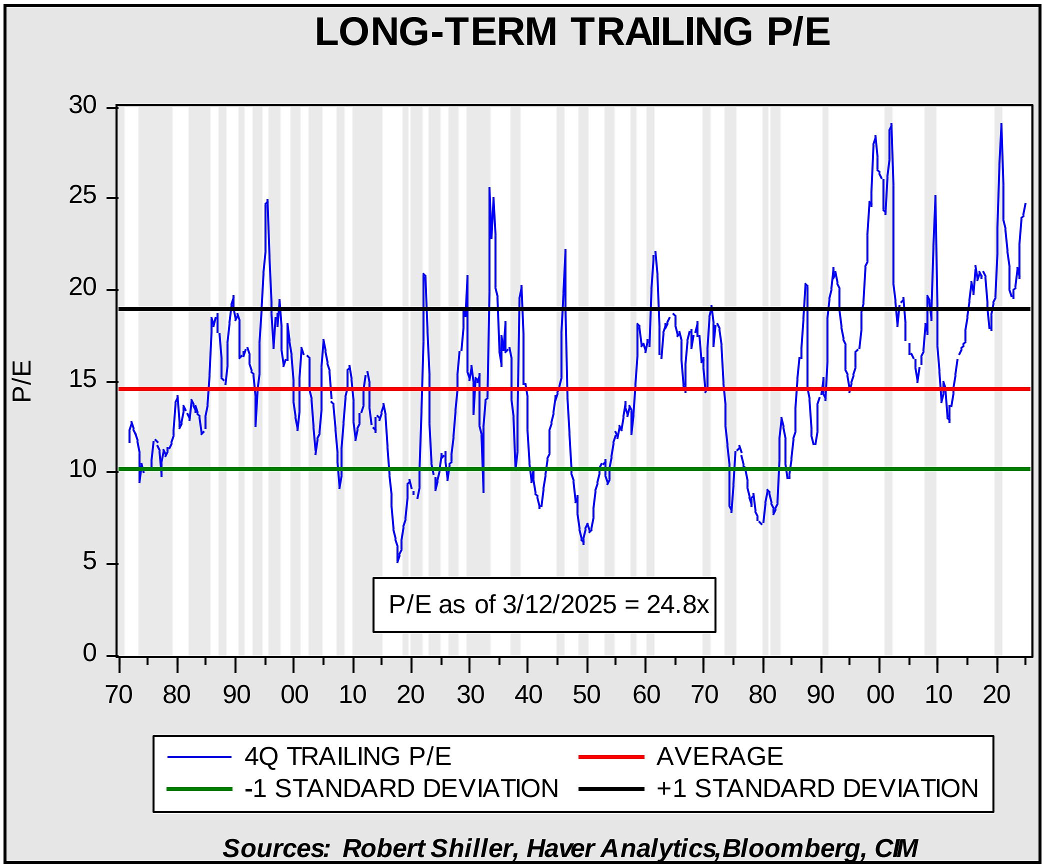


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 13, 2025



Based on our methodology,[1] the current P/E is 24.8x, down 0.2 from our last report. The drop in multiple was driven primarily 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.

[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.