Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: March 19, 2025 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 closed up 0.2% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.5%. Chinese markets were lower, with the Shanghai Composite down 0.1% from its previous close and the Shenzhen Composite down 0.4%. US equity index futures are signaling a higher open.

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	"Equities as an Inflation Hedge?" (3/17/25) + 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 currently awaiting the Fed's rate decision later today. In sports news, Putin and Trump have expressed an openness to organizing hockey games between teams from their respective countries. Today's *Comment* will cover our expectations for the latest Fed meeting, recent developments in the Ukraine-Russia ceasefire talks, and other market-related news. As usual, the report will include a summary of international and domestic data releases.

Fed Speaks: The Federal Open Market Committee (FOMC) is expected to conclude its two-day meeting by keeping interest rates unchanged. However, the market will closely monitor the press conference for insights into the Fed's outlook on inflation and its expectation for the economy.

- Despite the January core CPI report signaling accelerating price pressures, Fed officials are likely to welcome the progress that has been made on inflation. In January, the year-over-year change in core PCE increased by 2.6%, marking its slowest pace in over six months. Meanwhile, core CPI has seen its slowest two-month start to the year since 2020.
- Meanwhile, recent economic data has sparked concerns about the health of the economy. The Atlanta Fed's GDPNow forecast suggests the possibility of economic contraction, though this reading has been heavily influenced by a surge in imports, particularly gold. The inclusion of gold, classified as an investment rather than a consumable good, has

drawn scrutiny for potentially skewing the data. The Atlanta Fed plans to adjust for this issue with its update on March 26.

- Tariffs are expected to be a key topic of discussion among Fed officials as they explore ways to mitigate the potential negative economic impact of trade restrictions. So far, most Fed officials have signaled a “wait-and-see” approach to the administration’s trade policies. However, recent data suggests that tariffs may already be influencing import prices.

- The prices that US importers are paying for Chinese goods have risen at their fastest pace since 2021, signaling that Chinese firms are unwilling to absorb the cost of tariffs. The sharp increase in import prices appears to reinforce the view that Beijing has pressured its firms to resist easing the tariff burden for their US buyers, underscoring its stance that it will not bear the cost of these tariffs.

- We expect the Fed to lean dovish, in line with its current policy stance. While officials may not signal a willingness to cut rates in May, they could be prepared to do so in June, assuming inflation data continues to show progress toward the 2% target. Additionally, we believe the central bank is likely to address and downplay concerns about the economy entering a recession.

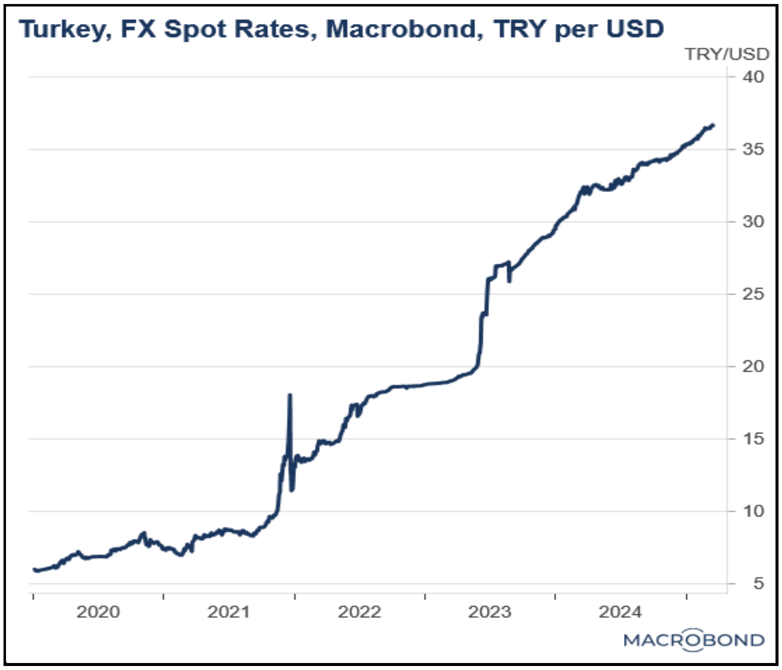
Ceasefire on Ice: Talks between Vladimir Putin and Donald Trump ended without securing a deal for a comprehensive ceasefire. Despite this setback, cautious optimism remains that both leaders will eventually reach a mutually acceptable agreement.

- The failure to reach a ceasefire agreement appears to stem from Putin's insistence that military aid to Ukraine, particularly from the US, be halted during the pause in hostilities. This demand has been deemed unacceptable by the US, as it would effectively allow Russian forces to regroup and rearm during the lull, while leaving Ukraine severely constrained and vulnerable.

- However, Putin did offer one concession by agreeing to halt attacks on Ukraine's energy infrastructure. Despite this gesture, other critical areas remain vulnerable to assault. Shortly after the agreement, Russia launched a drone strike targeting other forms of Ukrainian infrastructure, a move that drew sharp criticism and condemnation from EU officials.
- Additionally, the US has been actively seeking support from the EU and the UK, as their involvement is crucial for any peace deal. This is largely due to the need for their approval to lift sanctions as Russia desires — a process that is likely to face significant hurdles. Complicating matters further, both the EU and the UK are currently considering plans to sell seized Russian assets, a move aimed at supporting Ukraine's recovery but one that could exacerbate tensions with Moscow.
- We remain cautiously optimistic that a peace deal can eventually be reached between the two sides. However, Russia's lack of urgency in ongoing negotiations suggests a perceived strategic advantage over Ukraine. A potential agreement will likely prioritize European equity interests, reflecting regional stability concerns. Despite this, the path to peace remains challenging, with both sides navigating complex demands. Entrenched positions continue to complicate the negotiation process.

Erdoğan Crackdown: The Turkish president has been accused of targeting political rivals in an effort to stifle any serious challenge ahead of elections scheduled to take place by 2028. This move has unsettled markets, with investors raising concerns about the erosion of the country's rule of law.

- Turkish police have detained Istanbul's mayor, Ekrem İmamoğlu, widely regarded as a formidable political rival to President Erdoğan. The arrest, which was linked to alleged terrorism-related charges, coincided with reports that the opposition Republican People's Party (CHP) was preparing to name him as its presidential candidate. İmamoğlu, who gained significant popularity after securing major victories in Istanbul's mayoral elections, has become a symbol of opposition strength.
- His detention has ignited widespread criticism, with many condemning the move as politically motivated and warning of its implications for democracy and judicial independence in Turkey. The news triggered a sharp sell-off in Turkish assets, sending the lira (TRY) plunging by 10% to new record lows, while equities dropped 6%, prompting a temporary trading halt. Additionally, the country's bond yields surged as investor confidence eroded following the report.



- Erdoğan's intensifying crackdown on political rivals aligns with his party's refusal to consider early elections, despite mounting public discontent. A recent poll highlights the deepening frustration among Turks, with 61% predicting a further deterioration in the country's economic situation over the next six months and 58% calling for new elections. Turkey's economy has been plagued by soaring inflation and rising unemployment, placing significant strain on households and exacerbating widespread dissatisfaction.
- While political instability in Turkey is a growing concern, there is currently little indication that widespread outrage, either domestically or from the West, will escalate into a larger movement. For now, we view these developments as relatively contained, though the situation could intensify if the government's crackdown on opposition parties sparks violent protests or further unrest. As such, Turkey remains a country to monitor closely, but for the time being, there is no immediate cause for significant alarm.

Meloni in the Middle: Italian PM Giorgia Meloni urged Brussels to avoid escalating a trade war with the US, emphasizing that such conflict benefits no one. This aligns with her cautious approach to transatlantic relations amid existing tensions.

- Her warning comes as the EU prepares to impose 50% tariffs on US goods, including whiskey, motorcycles, and jeans, set to take effect on April 1. In response, President Trump has threatened to levy 200% tariffs on European wines, escalating tensions in an already fraught trade dispute.
- Additionally, Meloni has cautioned the EU against attempting to ramp up defense spending as a means of reducing reliance on the US. She argued that it would be unrealistic for the EU to fully shoulder its defense responsibilities without American support, emphasizing the continued importance of transatlantic cooperation in maintaining global security.

- Meloni is set to meet with EU leaders in Brussels on Thursday, where they will discuss strategies to address US tariffs and calls for increased defense spending. Her remarks highlight a growing reluctance among some EU leaders to engage in a prolonged tit-for-tat with the US, underscoring a preference for diplomatic solutions over escalating tensions.

US Economic Releases

The Mortgage Bankers Association today said ***mortgage applications*** for the week ended March 14 fell 6.2%, reversing the previous week's strong 11.2% rise, in response to the first increase of mortgage rates in nine weeks. The main downdraft occurred in refinancing applications, which fell 12.8%, reversing the strong gains of the previous two weeks. Purchase applications actually ticked up 0.1%, just keeping alive a three-week trend of increases in this category. The average interest rate on a 30-year mortgage rose 5 basis points to 6.72%.

The following table lists the additional releases and Fed events scheduled for the rest of the day.

Economic Releases						
EST	**Indicator**			**Expected**	**Prior**	**Rating**
14:00	FOMC Rate Decision (Lower Bound)	w/w	19-Mar	4.50%	4.50%	***
14:00	FOMC Rate Decision (Upper Bound)	w/w	19-Mar	4.25%	4.25%	***
14:00	Interest on Reserve Balances Rate	w/w	19-Mar	3.9%	3.9%	**
16:00	Total Net TIC Flows	m/m	Jan		$72.0b	**
16:00	Net Long-Term TIC Flows	m/m	Jan		$87.1b	**
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	Trade Balance	y/y	Feb	-¥584.5b	-¥2736.6b	¥688.3b	**	Equity and bond neutral
	Exports	y/y	Feb	11.4%	7.3%	12.6%	*	Equity bearish, bond bullish
	Imports	y/y	Feb	-0.7%	16.5%	0.8%	*	Equity bearish, bond bullish
	Core Machine Orders	y/y	Jan	-3.5%	-0.8%	-0.1%	**	Equity bearish, bond bullish
	Industrial Production	y/y	Jan F	2.2%	2.6%		***	Equity and bond neutral
	Machine tool orders	y/y	Feb F	3.5%	3.5%		**	Equity and bond neutral
Australia	Westpac Leading Index	m/m	Feb	0.07%	0.10%		**	Equity and bond neutral
New Zealand	Wespac Consumer Confidence	m/m	1Q	89.2	97.5		*	Equity and bond neutral
	BoP Current Account Balance NZD	m/m	4Q	-7.037b	-10.839b	-6.650b	**	Equity and bond neutral
EUROPE								
Eurozone	CPI	y/y	Feb F	2.3%	2.4%	2.4%	***	Equity and bond neutral
	Core CPI	y/y	Feb F	2.6%	2.6%	2.6%	**	Equity and bond neutral
AMERICAS								
Canada	CPI	y/y	Feb	2.6%	1.9%	2.2%	***	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)	431	431	0	Down
U.S. Libor/OIS spread (bps)	433	433	0	Down
10-yr T-note (%)	4.29	4.29	0.00	Down
Euribor/OIS spread (bps)	243	246	-3	Down
Currencies	**Direction**			
Dollar	Up	US		Down
Euro	Down	Euro		Up
Yen	Up	Japan		Up
Pound	Down	UK		Up
Franc	Down	Switzerland		Up
Central Bank Action	**Current**	**Prior**	**Expected**	
BOJ Target Rate	0.50%	0.50%	0.50%	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.

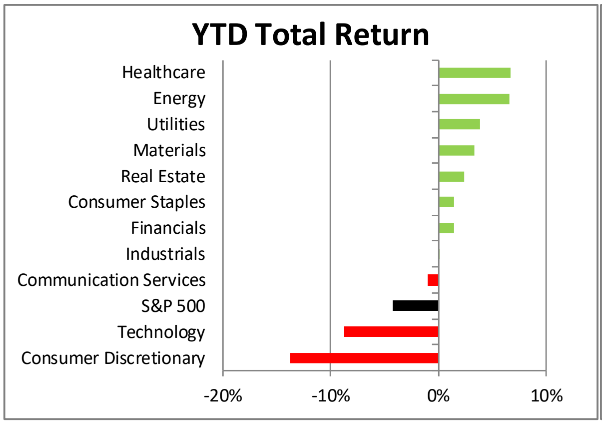
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$70.39	$70.56	-0.24%	
WTI	$66.72	$66.90	-0.27%	
Natural Gas	$4.14	$4.05	2.12%	
Crack Spread	$24.78	$24.67	0.48%	
12-mo strip crack	$20.98	$20.95	0.14%	
Ethanol rack	$1.87	$1.86	0.50%	
Metals				
Gold	$3,035.00	$3,034.73	0.01%	
Silver	$33.81	$34.01	-0.60%	
Copper contract	$504.50	$501.65	0.57%	
Grains				
Corn contract	$459.00	$458.75	0.05%	
Wheat contract	$566.50	$565.00	0.27%	
Soybeans contract	$1,014.00	$1,012.75	0.12%	
Shipping				
Baltic Dry Freight	1,650	1,658	-8	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		1.00		
Gasoline (mb)		-3.00		
Distillates (mb)		-0.50		
Refinery run rates (%)		0.00%		
Natural gas (bcf)		-50		

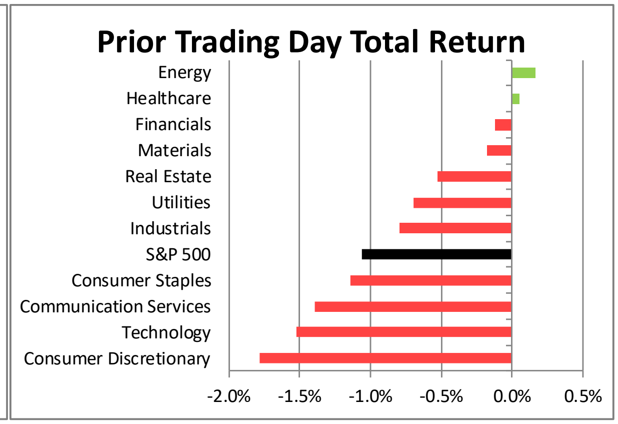
Weather

The 6-to-10 and 8-to-14-day forecasts predict that cooler temperatures are expected in the Great Lakes region stretching into the upper Ohio Valley, with warmer-than-normal temperatures expected for the western half of the country. The forecasts also indicate wetter-than-normal conditions in south Texas and the Pacific Northwest, with dryer-than-normal conditions expected in Arizona and New Mexico.

Data Section

US Equity Markets – (as of 3/18/2025 close)

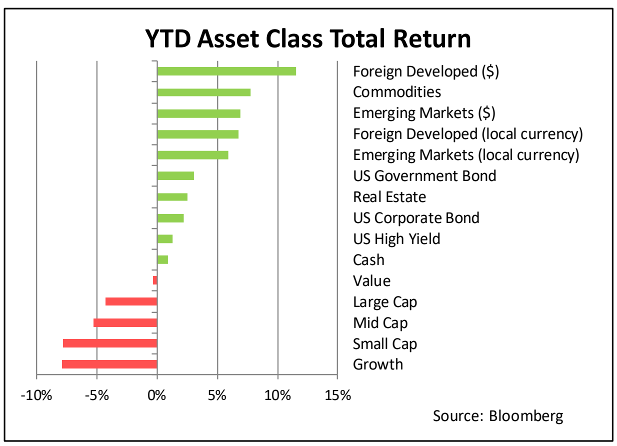




(Source: Bloomberg)

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 3/18/2025 close)

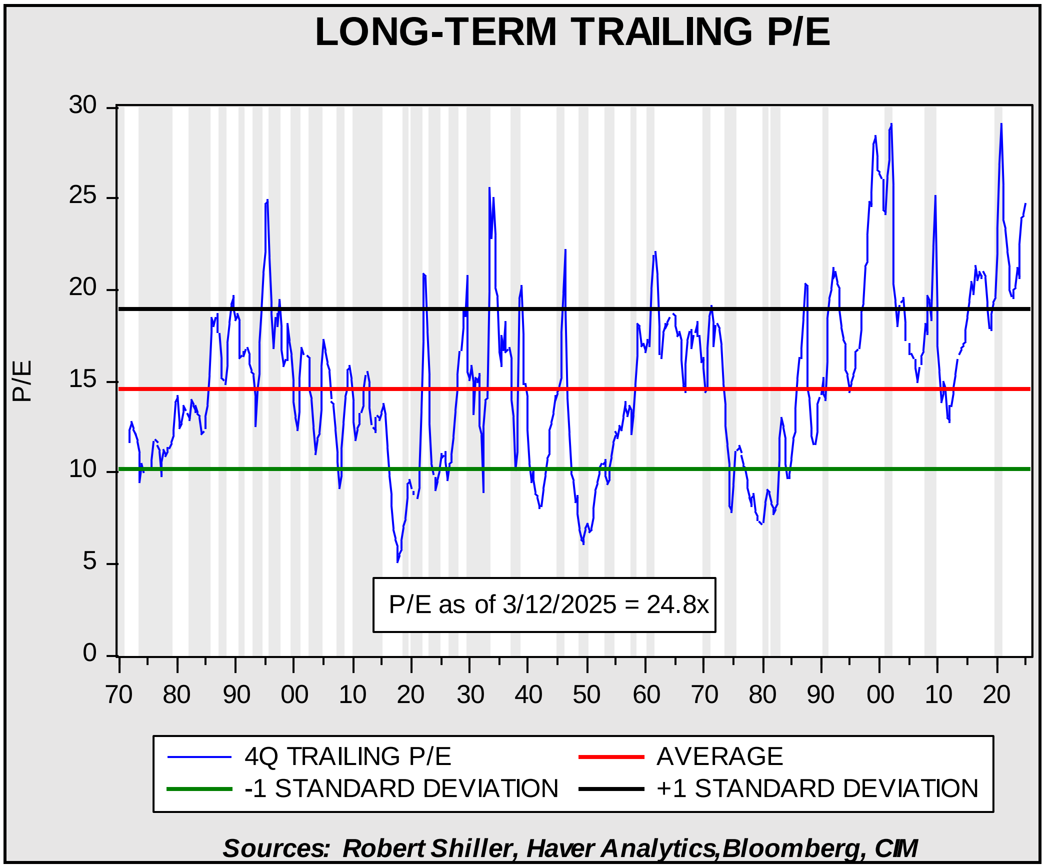


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.

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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.