



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: March 25, 2025 – 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 closed up 1.1% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.9%. Chinese markets were mixed, with the Shanghai Composite unchanged from its previous close and the Shenzhen Composite down 0.6%. 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
“The Bessent Gambit” (3/24/25)	“Equities as an Inflation Hedge?” (3/17/25) + podcast	Q1 2025 Report Q1 2025 Rebalance Presentation	The Confluence of Ideas podcast Business Cycle Report

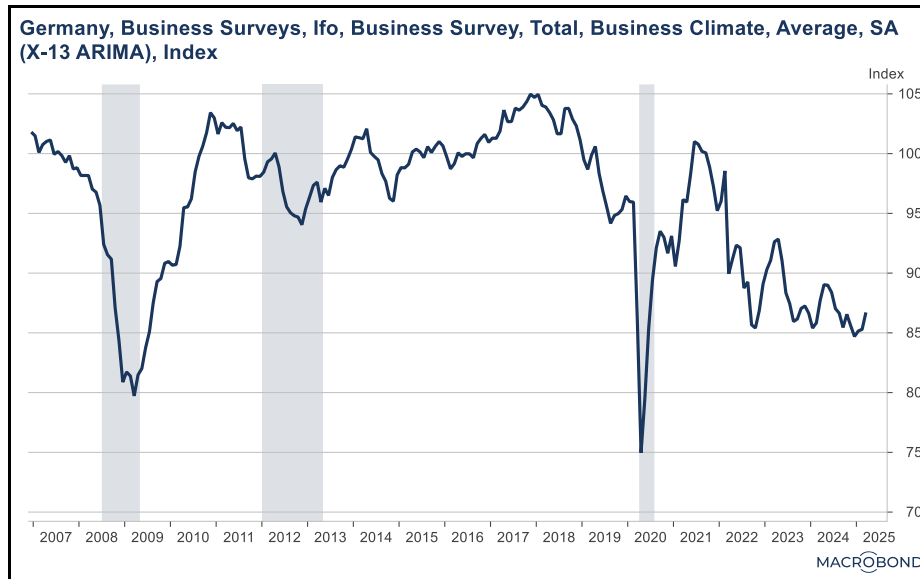
Our *Comment* today opens with news of a potential new economic stimulus program that could potentially boost growth and stock prices in China. We next review several other international and US developments with the potential to affect the financial markets today, including signs that Germany’s new fiscal policies are boosting business optimism in that country and the latest developments on US tariff policies.

China: To spur stronger consumer demand and faster economic growth, Chinese officials [are reportedly considering a multi-billion dollar program to subsidize purchases of services such as travel, tourism, and sports](#). The program would apparently supplement the government’s existing consumer subsidy program, which aims to spur purchases of merchandise such as autos and appliances. Even if implemented, however, the temporary program may do little to reverse the big structural headwinds holding back China’s economy and financial markets.

Australia: Ahead of elections that must be held by May, the ruling Labor Party government [has proposed a budget for the upcoming fiscal year that would cut taxes for the working class and hike spending](#) on energy subsidies, healthcare, education, and defense. The measures are expected to produce a budget deficit equivalent to about \$17.4 billion after two straight years of

surpluses due to high commodity prices. In response, Australian stock prices and the Australian dollar have both appreciated modestly so far today.

Germany: The IFO Institute today said its March Business Climate Index [rose to a seasonally adjusted 86.7, modestly beating the expected reading but up comfortably from the February index of 85.3](#). The index remains historically weak, reflecting Germany’s recent economic headwinds and slow growth, but the upturn may suggest that the government’s new fiscal stimulus policies are being well received by companies.



Israel-Hamas: The Israeli Defense Forces’ new chief of staff [has reportedly developed a plan to reconquer the Gaza Strip and establish a long-term occupation](#) to finally root out the Hamas militants that currently govern the territory. If approved by the government’s cabinet, the plan would likely be supported by the Trump administration, but it would also likely generate further criticism of Israel by many countries and weigh on the Israeli economy and financial markets.

United States-Denmark-Greenland: Second Lady Usha Vance, National Security Advisor Waltz, and other top officials from the Trump administration [have announced that they will be in Greenland later this week, in part on an ostensibly private visit](#) to attend a dogsledding competition and see the sights. Given President Trump’s threats to take over Greenland, Danish Prime Minister Fredericksen and the Greenland government have rejected any characterization of the trip as “private” and instead called it out as a provocation.

- Besides signaling Trump’s continued interest in acquiring Greenland, the trip may be designed to generate a positive response among the island’s residents.
- However, all Greenland political parties have rejected Trump’s call to acquire Greenland, and public opinion polls suggest about 85% of the island’s residents don’t want to become a part of the US. Press reports say residents are planning a protest at the dogsledding event to be attended by Vance and the US officials.

US National Security: President Trump today [is facing a scandal after his national security officials included an editor from *The Atlantic* in a group chat planning last week's airstrikes against Houthi rebels](#) in Yemen. The most serious concern is that the officials were using the Signal commercial communication platform to discuss such sensitive planning, rather than the Defense Department's secure encrypted systems.

- Although Signal is known for its strong encryption and has been endorsed by Elon Musk, it has also been subject to security bugs. The advanced encryption used by US national security and intelligence organizations is significantly stronger than Signal's.
- It is not uncommon for new administrations to make such errors. After all, new administrators often come from the private sector where strict protocols are not necessary. Nevertheless, the use of Signal and the apparently inadvertent inclusion of the reporter in the group chat will add to concerns that administration officials may have a relatively casual approach to national security, especially if similar mistakes happen in the future.
- More broadly, poor communication security practices by the administration may add to concerns that allies may stop sharing sensitive intelligence information with the US out of fear that it could be exposed. Although the US intelligence agencies generate the bulk of the information vital to national security, foreign partners provide intelligence that can be critical to "filling in the gaps" of US knowledge.

US Tariff Policy: One day after reports indicated that President Trump may limit his April 2 "reciprocal" tariffs to only about 15 countries, he yesterday [suggested that his sectoral tariffs on products such as automobiles and lumber may not come until sometime in the future](#). At the same time, he unexpectedly said he would impose an additional 25% tariff on any country that buys oil or gas from Venezuela.

- The *Financial Times* this morning also reports that officials in the administration [are considering a two-step process where tariffs would be initially imposed using one legal authorization but later rely on a different law](#). The move would aim to make the tariffs more legally durable.
- Importantly, officials cited in the article said they were more focused on using the tariffs to generate revenues rather than to punish other countries for their US trade imbalances.
- In any case, as we've noted before, we think the administration's erratic tariff announcements could keep asset prices volatile for the time being.

US Labor Market: The Office of Federal Contract Compliance Programs, which oversees the activity of firms doing business with the government, [has said it will review the civil-rights plans submitted by those contractors prior to President Trump's current term](#) to determine whether they should be penalized for discriminatory employment practices. Given that the government has some 40,000 contractors, the move suggests the administration's fight against diversity and equity programs in the private sector could now broaden dramatically.

US Economic Releases

There were no economic releases prior to publication. The following table lists the releases and/or Fed events scheduled for the rest of the day.

Economic Releases						
EST	Indicator			Expected	Prior	Rating
10:00	New Home Sales	m/m	Feb	680k	657k	***
10:00	New Home Sales MoM	m/m	Feb	3.5%	-10.5%	**
10:00	Conf. Board Consumer Confidence	m/m	Mar	94.0	98.3	***
10:00	Richmond Fed Manufact. Index	m/m	Mar		6.0	**
	Building Permits	m/m	Feb F	1455k	1456k	**
Federal Reserve						
EST	Speaker or Event	District or Position				
8:40	Adriana Kugler Gives Speech on Economy and Entrepreneurship	Member of the Board of Governors				
9:05	John Williams Gives Opening Remarks at NY Fed Conference	President of the Federal Reserve Bank of New York				

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	Nationwide Dept Sales	y/y	Feb	-1.50%	5.20%		***	Equity and bond neutral
South Korea	Consumer Confidence	m/m	Mar	93.4	95.2		*	Equity and bond neutral
South Korea	Retail Sales	y/y	Feb	4.4%	11.7%		**	Equity and bond neutral
	Depart. Store Sales	y/y	Feb	-3.6%	10.3%		*	Equity and bond neutral
	Discount Store Sales	y/y	Feb	-18.8%	16.1%		*	Equity and bond neutral
EUROPE								
Eurozone	EU27 New Car Registrations	y/y	Feb	-3.4%	-2.6%		***	Equity and bond neutral
Germany	IFO Business Climate	m/m	Mar	86.7	85.3	86.7	***	Equity and bond neutral
	IFO Current Assessment	m/m	Mar	85.7	85.0	85.5	**	Equity and bond neutral
	IFO Expectations	m/m	Mar	87.7	85.6	87.3	**	Equity and bond neutral
AMERICAS								
Mexico	Retail Sales	y/y	Jan	2.7%	-0.2%	1.1%	***	Equity bullish, bond bearish
Brazil	FGV Consumer Confidence	m/m	Mar	-79	1.08		*	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)	418	418	0	Up
U.S. Sibor/OIS spread (bps)	431	431	0	Down
U.S. Libor/OIS spread (bps)	432	432	0	Down
10-yr T-note (%)	4.36	4.34	0.02	Up
Euribor/OIS spread (bps)	237	239	-2	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.

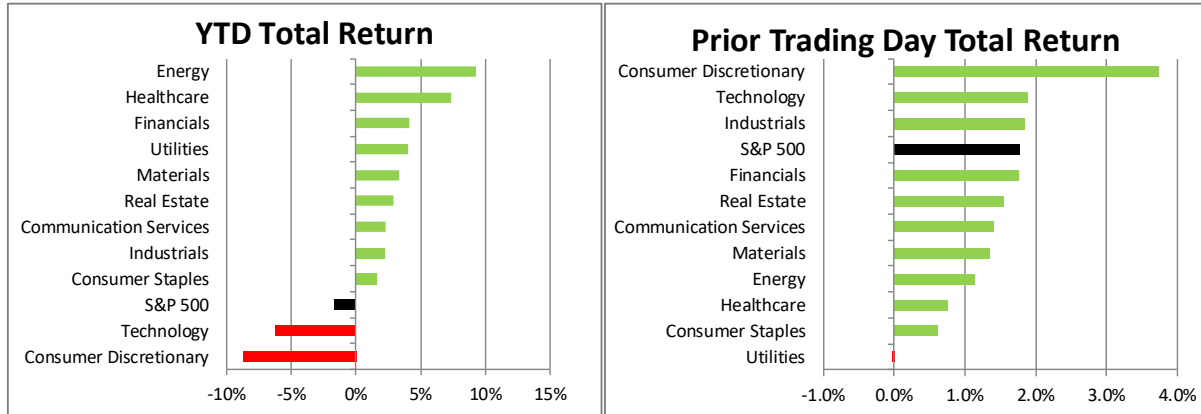
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$73.42	\$73.00	0.58%	
WTI	\$69.49	\$69.11	0.55%	
Natural Gas	\$3.96	\$3.91	1.05%	
Crack Spread	\$23.92	\$23.79	0.53%	
12-mo strip crack	\$20.92	\$20.84	0.42%	
Ethanol rack	\$1.90	\$1.90	-0.21%	
Metals				
Gold	\$3,023.10	\$3,011.04	0.40%	
Silver	\$33.36	\$33.02	1.05%	
Copper contract	\$515.25	\$509.25	1.18%	
Grains				
Corn contract	\$462.75	\$464.50	-0.38%	
Wheat contract	\$547.50	\$548.25	-0.14%	
Soybeans contract	\$1,002.75	\$1,007.25	-0.45%	
Shipping				
Baltic Dry Freight	1,652	1,643	9	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		1.00		
Gasoline (mb)		-3.00		
Distillates (mb)		-0.50		
Refinery run rates (%)		0.0%		
Natural gas (bcf)		5		

Weather

The 6-to-10 and 8-to-14-day forecasts indicate warmer-than-normal temperatures across most of the country, with cooler conditions expected along the West Coast and in Maine. For precipitation, wetter-than-normal conditions are likely on the West Coast and the northern half of the country, while New Mexico and Texas are expected to have drier conditions.

Data Section

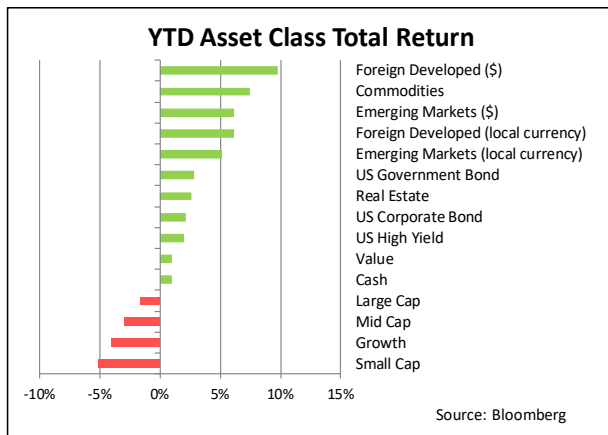
US Equity Markets – (as of 3/24/2025 close)



(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 3/24/2025 close)

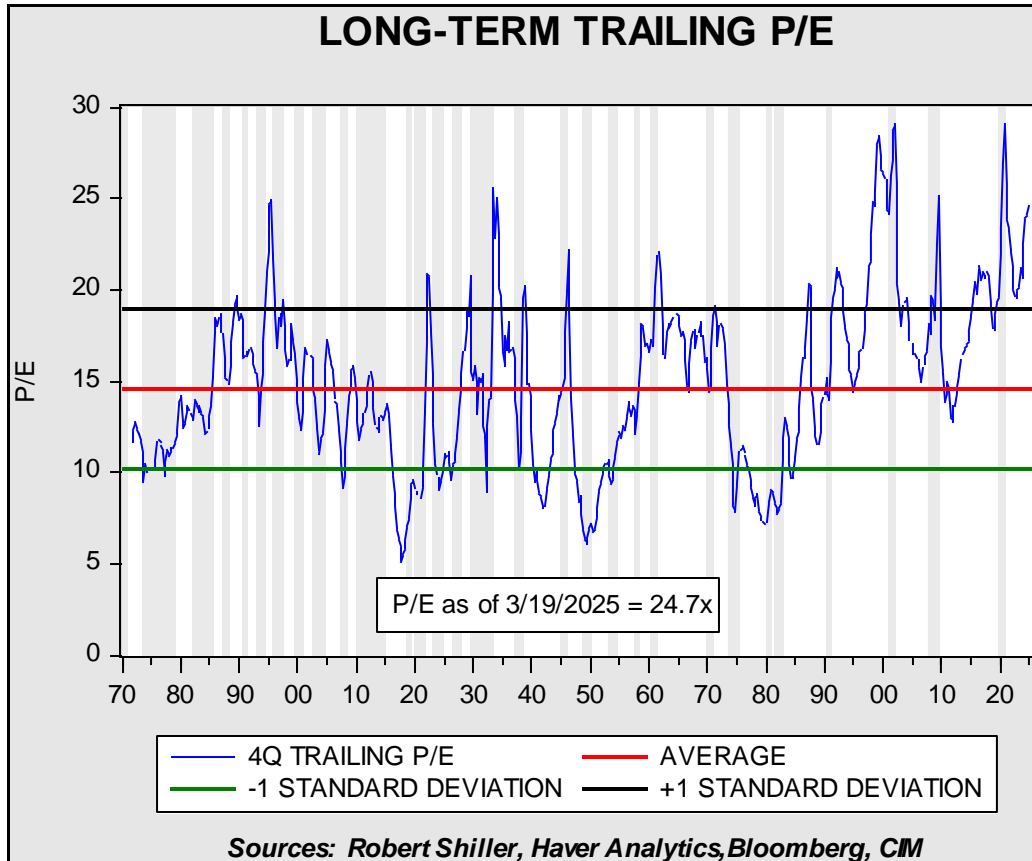


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

March 20, 2025



Based on our methodology,¹ the current P/E is 24.7x, down 0.1 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.