Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: March 28, 2025 — 9:30 AM ET] Global equity markets are lower this morning. In Europe, the Euro Stoxx 50 closed down 0.4% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.8%. Chinese markets were lower, with the Shanghai Composite down 0.7% from its previous close and the Shenzhen Composite down 0.9%. US equity index futures are signaling a lower 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) + **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**

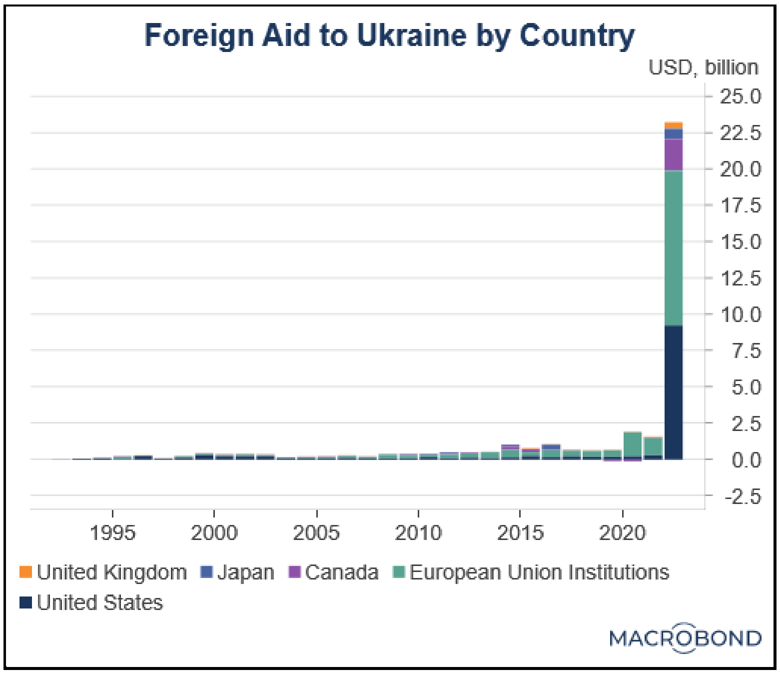
Good morning! Markets are closely processing the latest inflation and spending data. In sports, Duke secured a spot in the Elite 8 — congratulations to the Blue Devils! In today's *Comment*, we'll break down the rising tensions between the US and EU over Ukraine, analyze global reactions to new US auto tariffs, and cover other key market-moving developments. As always, we'll wrap up with a roundup of today's domestic and international data releases.

America First, Europe Out: The Trump administration is reportedly preparing to pursue an exclusive resource partnership with Ukraine, a move that would deliberately sideline Europe.

- The US is pushing for a "right of first offer" on all infrastructure and critical mineral projects in Ukraine, a demand that reflects Washington's effort to secure priority access to development projects once the war concludes. Although the arrangement has yet to be finalized, the Trump administration appears determined to include it. Ukrainian President Volodymyr Zelensky has expressed openness to the idea but remains hesitant to commit due to the potential economic implications.
- America's insistence on securing final approval over foreign investment in Ukrainian mineral resources comes as European nations have shown growing interest in similar arrangements. Since October, France has been negotiating with Ukraine to secure access

to its critical minerals that could be used to bolster's Europe's military ambitions. As part of the potential agreement, France is working with the rest of Europe on deploying "reassurance troops" to Ukraine to help enforce any future peace deal.

- The competition for access to Ukrainian resources underscores the widening rift between the US and Europe. Although America has been the largest financial supporter of Ukraine's defense against Russia, it has declined to provide the long-term security guarantees Ukraine would need to deter any future aggression from Russia. Meanwhile, some European nations have shown a willingness to offer limited security assurances post-war but consensus on this approach remains elusive.

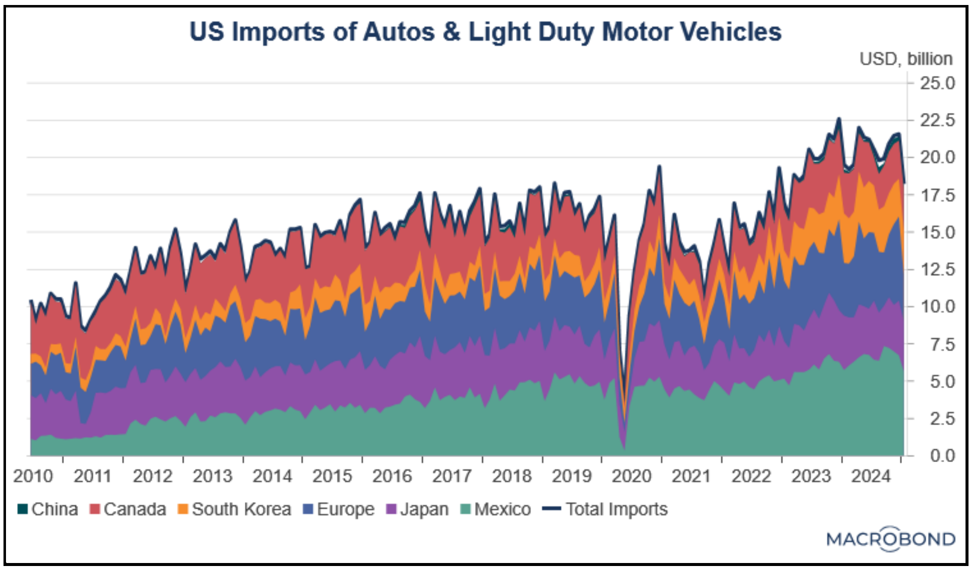


- The approaching end of the war in Ukraine may signal the first signs of fraying in US-European relations. While both sides will likely seek to maintain their alliance, growing mutual distrust has become undeniable. This emerging divide could accelerate Europe's push for strategic autonomy, particularly in defense capabilities independent of US support. Such a shift may prove transformative for European defense industries, fueling their long-term growth and technological development.

Auto Tariff Fallout: President Trump's decision to impose auto tariffs has triggered retaliatory measures from foreign governments, as nations seek both to shield domestic industries and avoid escalating tensions with Washington.

- Canada and the European Union were among the first to respond to the tariffs. Canadian Prime Minister Mark Carney warned that the US action would permanently alter bilateral relations, affecting both trade and security cooperation. Across the Atlantic, France and Germany have advocated for a coordinated EU-wide response to the auto tariffs, potentially targeting the US services sector as it vows not to yield to the Trump administration.

- Despite their combative public posturing, signs are emerging that key Western allies may be pursuing backchannel compromises. The European Union is actively considering reduced penalties for Meta and Apple — a conciliatory signal aimed at de-escalating tensions. Simultaneously, Canadian PM Carney has indicated a willingness to negotiate a new trade agreement with the Trump administration, one that would diversify Canada's export markets beyond its current heavy reliance on the US.
- Asian economies are bearing the brunt of the auto tariffs, given the centrality of vehicle manufacturing to their economic ecosystems. Japan, while reserving the right to impose retaliatory measures, is currently focused on mitigating the anticipated economic fallout. Taiwan, meanwhile, has proactively sought to appease the US through unilateral concessions, including lowering its own import tariffs and significantly boosting American energy purchases.



- While the outcome of the highly anticipated "Liberation Day" on April 2 remains uncertain, the potential fallout could be significant given possible retaliatory measures from key trading partners. That said, we maintain cautious optimism that reality may fall short of expectations, as behind-the-scenes concessions could prevent uncontrolled escalation in global trade tensions. Should this scenario materialize, equity markets may see a meaningful rally next week.

US Federal Debt: A government watchdog warned that the US national debt burden could exceed World War II levels, signaling that federal spending remains on an unsustainable trajectory.

- The Congressional Budget Office (CBO) projects that the US debt-to-GDP ratio will rise to 107% by 2029 and could soar to 156% by 2055. Although these figures remain alarmingly high, they are below previous projections due to the assumed reductions in Medicaid, lower interest rates, and higher tax revenues. However, the estimate excludes potential extensions of current tax cuts — a policy that, if enacted, could add another 47 percentage points to the debt ratio by 2054.

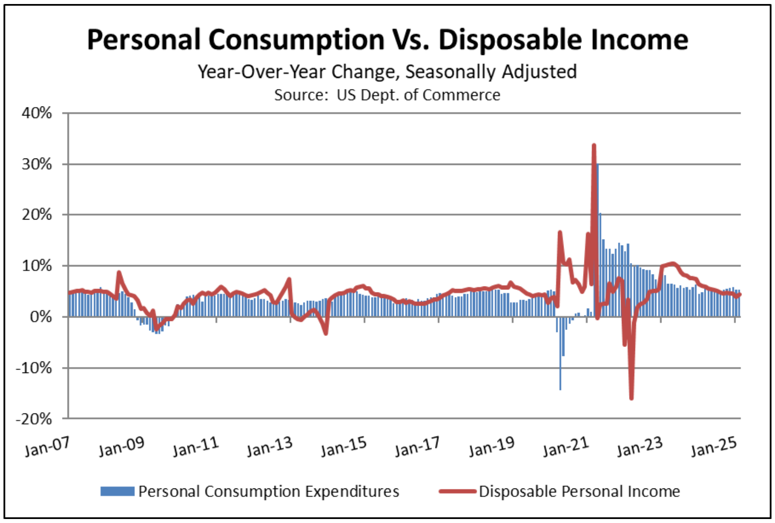
- The estimate follows Moody's recent warning that the Trump administration's tariffs could undermine the government's ability to manage mounting debt and higher interest rates. While the ratings agency acknowledged America's economic growth and resilience should support debt financing, it cautioned that trade tensions might weaken demand for US Treasurys. Moody's also highlighted unfunded tax cuts and economic tail risks as potential threats to long-term fiscal sustainability.
- Despite ongoing concerns about the national debt, the Trump administration has initiated efforts to reduce spending. Elon Musk, leading a task force focused on this issue, has identified $130 billion in potential savings to date, with a target of $1 trillion in total cuts by May. The group is prioritizing workforce streamlining within the government as a key strategy.
- Debates over whether the US can sustainably manage its debt burden are likely to intensify following the passage of the long-anticipated tax bill. While proponents argue that lower taxes will spur faster economic growth and, in turn, increase government revenue, this dynamic could be complicated by ongoing tariffs on imports. Moreover, as long as uncertainty persists regarding the trajectory of fiscal policy, Treasury yields are likely to remain elevated, all else being equal.

German Coalition: Europe's largest economy is nearing the formation of a new government after February's election brought the Conservative party to power.

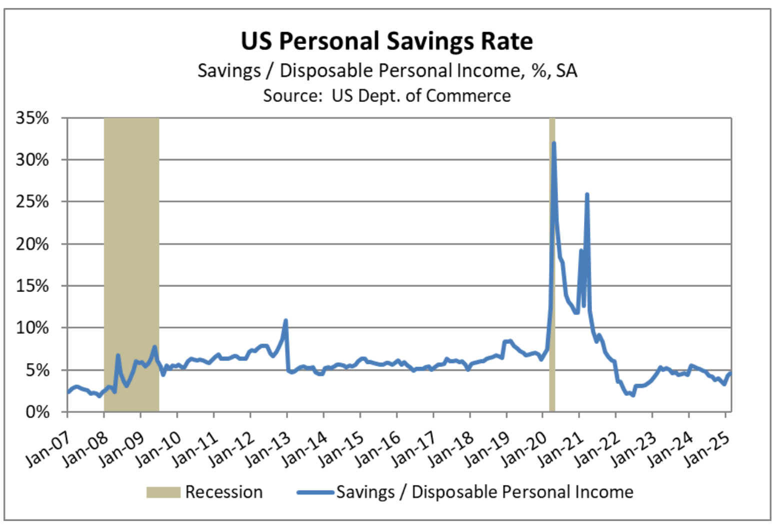
- The new government will likely form from a coalition between the Conservative Party and the Social Democrats (SPD), though the two sides remain divided on key fiscal policies. The primary disagreement centers on the country's financial direction. The Conservatives propose cutting corporate taxes from 15% to 10% while implementing stricter unemployment benefit requirements. Conversely, the SPD advocates raising capital gains taxes from 25% to 30% and maintaining current welfare spending levels.
- Although the coalition parties will likely finalize an agreement, the prolonged budget negotiations reveal fundamental tensions in reconciling the country's competing priorities. The government faces a difficult balancing act between significantly boosting military expenditures and maintaining robust social safety nets — a combination that appears increasingly unsustainable given the nation's growing debt burden.
- We believe markets will remain skeptical about debt sustainability until policymakers demonstrate a credible path for addressing these contradictory fiscal objectives, suggesting bond yields may face persistent upward pressure.

US Economic Releases

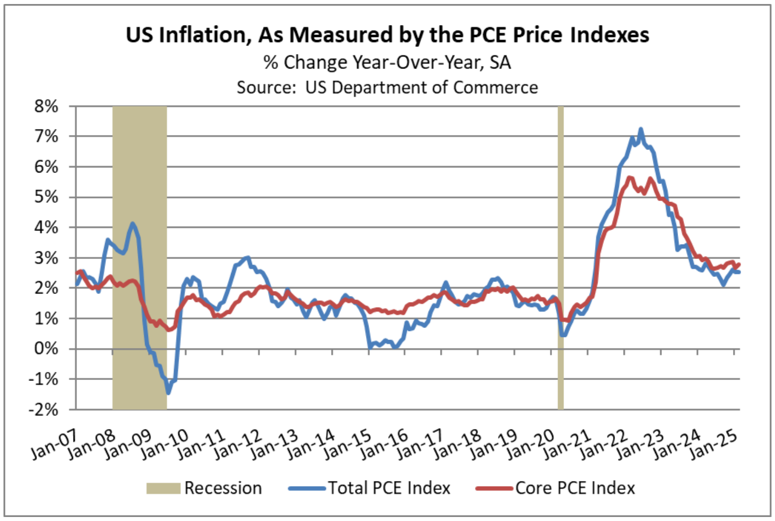
February ***personal income*** jumped by a seasonally adjusted 0.8%, twice the expected increase of 0.4% and enough to mark an acceleration from the revised gain of 0.7% in January. February ***personal consumption expenditures (PCE)*** rose a more modest 0.4%, short of the anticipated rise of 0.5% but enough to reverse the revised 0.3% fall in the previous month. Personal income in February was up 4.6% from the same month one year earlier, while PCE was up 5.3%. The chart below shows the year-over-year change in personal income and PCE since just before the Great Financial Crisis.



The personal income and spending report also includes a measure of personal saving, defined as disposable (after tax) income less consumption spending on goods and services. The February ***personal savings rate*** rose to a seasonally adjusted 4.6%, its highest level since last June. The chart below shows how the personal savings rate has fluctuated since just before the GFC.



Finally, the income and spending report includes the Federal Reserve's preferred measure of consumer price inflation. After stripping out the volatile food and energy components, February's ***Core PCE Deflator*** was up 2.8% from the same month one year earlier, worse than expectations that the figure would match the 2.7% increase in the year to January. The big annual increase in February will further raise concerns about sticky inflation. The chart below shows the year-over-year change in the Core PCE Deflator since just before the GFC.



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	U. of Michigan Consumer Sentiment	m/m	Mar F	57.9	57.9	***
10:00	U. of Michigan Current Conditions	m/m	Mar F	63.5	63.5	**
10:00	U. of Michigan Future Expectations	m/m	Mar F	54.1	54.2	**
10:00	U. of Michigan 1-Year Inflation Expectation	m/m	Mar F	4.9%	4.9%	*
10:00	U. of Michigan 5-10 Year Inflation Expectation	m/m	Mar F	3.9%	3.9%	*
11:00	Kansas City Fed Services Index	m/m	Mar		2	*
Federal Reserve						
EST	Speaker or Event	District or Position				
12:15	Michael Barr Gives Speech on Banking Policy	U.S. Federal Reserve Vice Chairman for Supervision				
15:45	Raphael Bostic Moderates Panel on Housing Finance	President of the Federal Reserve Bank of Atlanta				

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	Tokyo CPI	y/y	Apr	2.9%	2.8%	2.7%	**	Equity and bond neutral
	Tokyo CPI Ex-Fresh Food	y/y	Apr	2.4%	2.2%	2.2%	***	Equity and bond neutral
	Tokyo CPI Ex-Fresh Food & Energy	y/y	Apr	2.2%	1.9%	1.9%	*	Equity and bond neutral
New Zealand	ANZ Consumer Confidence Index	m/m	Mar	93.2	96.6		*	Equity and bond neutral
China	BoP Current Account Balance	q/q	4QF	$163.8b	$180.7b		*	Equity and bond neutral
EUROPE								
Eurozone	Consumer Confidence	m/m	Mar F	-14.5	-14.5		**	Equity and bond neutral
	Economic Confidence	m/m	Mar	95.2	96.3	96.9	***	Equity and bond neutral
	Industrial Confidence	m/m	Mar	-10.6	-11.0	-10.6	***	Equity and bond neutral
	Services Confidence	m/m	Mar	2.4	5.1	6.4	**	Equity bearish, bond bullish
Germany	GfK Consumer Confidence	m/m	Apr	-24.5	-24.6	-22.5	**	Equity bearish, bond bullish
	Unemployment Change	m/m	Mar	26.0k	9.0k	10.0k	***	Equity and bond neutral
	Unemployment Claims Rate	m/m	Mar	6.3%	6.2%	6.2%	**	Equity and bond neutral
France	CPI	y/y	Mar P	0.8%	0.8%	0.9%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Mar P	0.9%	0.9%	1.1%	**	Equity and bond neutral
	PPI	y/y	Mar	-1.4%	-2.2%		*	Equity and bond neutral
Italy	Consumer Confidence	m/m	May	95.0	98.8	98.5	***	Equity bearish, bond bullish
	Manufacturing Confidence	m/m	May	86.0	86.9	87.6	***	Equity and bond neutral
	Economic Sentiment	m/m	May	93.3	94.7		**	Equity and bond neutral
	PPI	y/y	Mar	8.5%	6.0%		**	Equity and bond neutral
UK	GDP	y/y	4Q F	1.5%	1.4%	1.4%	***	Equity and bond neutral
	Current Account Balance	4Q	4Q	-21.0b	-12.5b	-24.5b	*	Equity and bond neutral
	Retail Sales	y/y	Feb	2.2%	0.6%	0.6%	***	Equity and bond neutral
	Retail Sales Ex-Auto Fuel	y/y	Feb	2.2%	0.8%	0.4%	**	Equity and bond neutral
	Visible Trade Balance GBP/Mn	m/m	Jan	-£17849m	-£19723m	-£16700m	**	Equity and bond neutral
	Trade Balance GBP/Mn	m/m	Jan	-£596m	-£3184m	-£3000m	**	Equity and bond neutral
Switzerland	KOF Leading Indicator	m/m	Mar	103.9	102.6	102.5	*	Equity and bond neutral
Russia	Gold and Forex Reserves	m/m	21-Mar	65040.0%	$641.9b		***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	21-Mar	18.11t	18.11t		*	Equity and bond neutral
AMERICAS								
Mexico	Trade Balance	m/m	Feb	2212.4m	-4558.0m	-527.5m	**	Equity and bond neutral
	Exports	m/m	Feb	49280m	44446m		*	Equity and bond neutral
	Imports	m/m	Feb	47067m	49004m		*	Equity and bond neutral
Mexico	Unemployment Rate NSA	m/m	Feb	2.50%	2.70%	2.60%	***	Equity and bond neutral
Brazil	FGV Inflation IGPM	y/y	Mar	8.58%	8.44%	8.77%	***	Equity and bond neutral
	National Unemployment Rate	m/m	Feb	6.8%	6.5%	6.8%	*	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	419	-1	Up
U.S. Sibor/OIS spread (bps)	430	430	0	Down
U.S. Libor/OIS spread (bps)	431	431	0	Down
10-yr T-note (%)	4.33	4.36	-0.03	Up
Euribor/OIS spread (bps)	236	237	-1	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**	
Bank of Mexico Overnight Rate	9.00%	9.50%	9.00%	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.

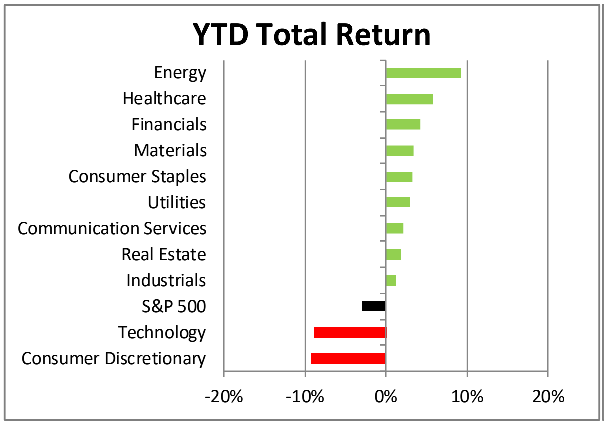
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$74.00	$74.03	-0.04%	
WTI	$69.91	$69.92	-0.01%	
Natural Gas	$3.84	$3.93	-2.19%	
Crack Spread	$24.85	$24.74	0.44%	
12-mo strip crack	$21.59	$21.51	0.36%	
Ethanol rack	$1.85	$1.86	-0.44%	
Metals				
Gold	$3,078.41	$3,057.29	0.69%	
Silver	$34.48	$34.41	0.21%	
Copper contract	$510.50	$511.95	-0.28%	
Grains				
Corn contract	$445.75	$450.00	-0.94%	
Wheat contract	$524.75	$532.00	-1.36%	
Soybeans contract	$1,012.25	$1,016.75	-0.44%	
Shipping				
Baltic Dry Freight	1,621	1,634	-13	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	-3.34	1.98	-5.32	
Gasoline (mb)	-1.45	-1.50	0.05	
Distillates (mb)	-2.81	-1.00	-1.81	
Refinery run rates (%)	0.1%	-0.5%	0.6%	
Natural gas (bcf)	37	34	3	

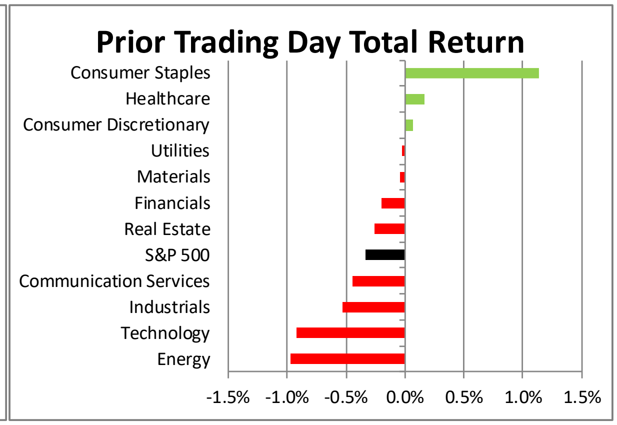
Weather

The 6-to-10 and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in virtually all areas from the Great Plains eastward, with cooler-than-normal temperatures in the Far West. The forecasts call for wetter-than-normal conditions everywhere but Florida, where conditions will be near normal.

Data Section

US Equity Markets – (as of 3/27/2025 close)

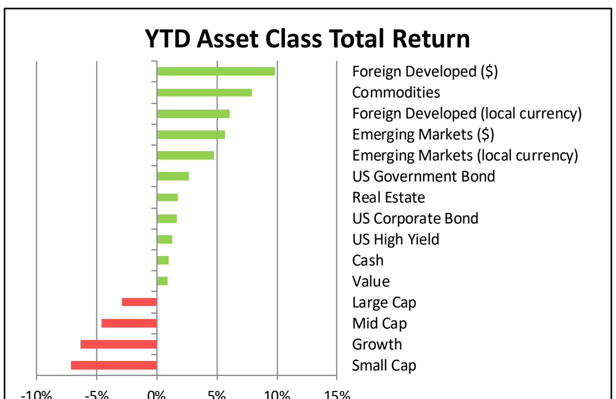




(Source: Bloomberg)

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 3/27/2025 close)



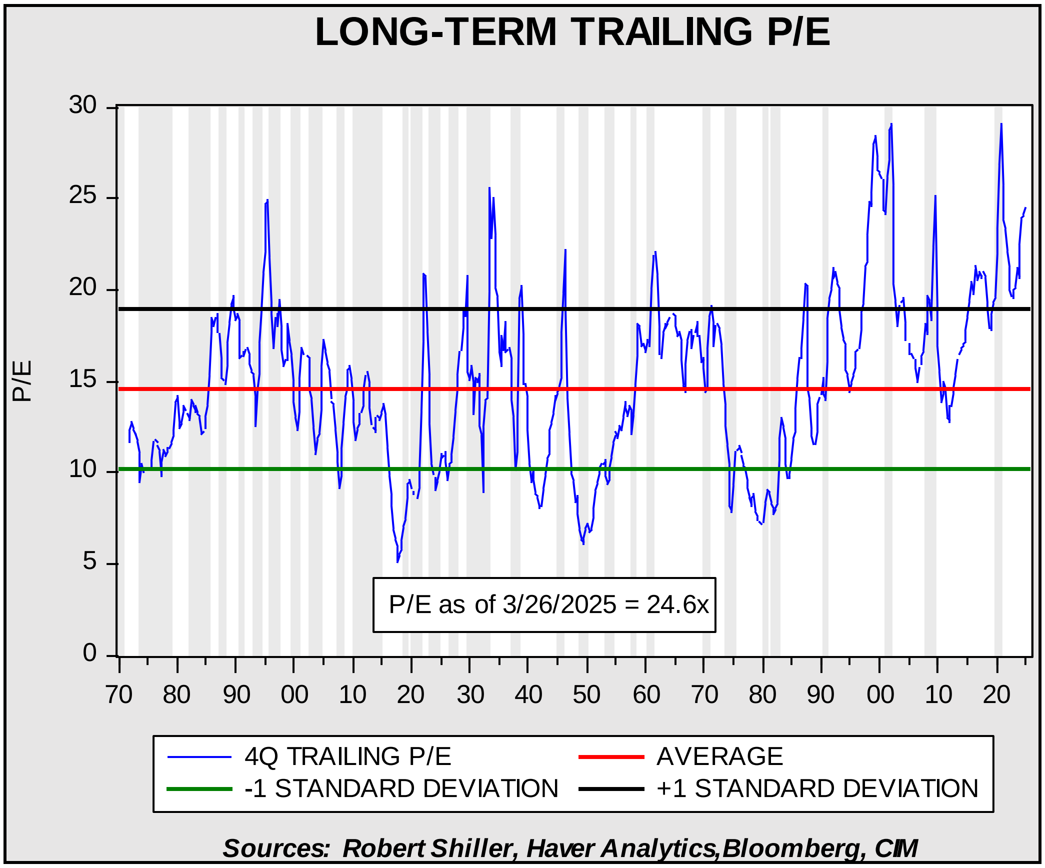
Source: Bloomberg

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 27, 2025



Based on our methodology,[1] the current P/E is 24.6x, 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.