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[Posted: March 31, 2025 – 9:30 AM ET] Global equity markets are lower this morning. In Europe, the Euro Stoxx 50 closed down 1.8% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 2.5%. Chinese markets were lower, with the Shanghai Composite down 0.5% from its previous close and the Shenzhen Composite down 1.0%. 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	“Managing an Economic Slowdown” (3/31/25) + podcast	Q1 2025 Report Q1 2025 Rebalance Presentation	The Confluence of Ideas podcast Business Cycle Report

Our *Comment* today opens with the latest U-turn in President Trump’s tariff policies, based on reports that he is now mulling applying his “reciprocal” tariffs to virtually all US trade partners, and at very high rates. We next review several other international and US developments with the potential to affect the financial markets today, including an important new article showing the US has been much more involved in the Russia-Ukraine war than previously known and a report that Trump is considering allowing tax rates on upper-income people to rise so he can fund other initiatives.

US Tariff Policy: In a weekend interview, President Trump [said he “couldn’t care less” if his steep 25% tariffs on foreign-made autos and auto parts raise car prices for US buyers](#). The statement provides further evidence that Trump intends to stick by his tariffs not only if they drive stock prices down, but even if they push prices up for US consumers.

- Separately, the *Wall Street Journal* yesterday [reported that President Trump is now leaning toward imposing bigger “reciprocal” tariffs than he indicated last week](#).

- Instead, Trump has reportedly tasked his advisors to be more aggressive. In turn, they are reportedly exploring 20% tariffs to be imposed on all US trading partners, at least in part to generate more revenues to offset the administration's planned tax cuts.
- In response to the continuing uncertainty, stock prices across the globe [have fallen so far today, with futures on the S&P 500 index currently pointing to losses of more than 1%](#). Fearing an economic retrenchment, investors have bid up US Treasury obligations, driving the benchmark yield on the 10-year note down to 4.255%.

United States-Russia: In an interview over the weekend, President Trump admitted he is angry about Russian President Putin's stalling over a peace agreement to end his invasion of Ukraine. He [also said that if Putin continues to drag his feet, the US will impose tariffs on any country that buys Russian oil](#). Although it still isn't clear whether Trump would actually impose such tariffs, given his interest in establishing warm relations with Russia, the threat raises the possibility of reduced Russian oil supplies and higher world energy prices in the future.

United States-Ukraine-Russia: The *New York Times* yesterday [carried a long article exposing how the US has been much more intimately involved in Ukraine's defense against Russia's invasion than previously known](#). The article asserts that US military officers and CIA personnel have worked literally shoulder-to-shoulder with the Ukrainians throughout the war to help them with strategic and tactical military planning, targeting, training, and intelligence operations, offering assistance that goes far beyond the \$65 billion or so in weapons provided to Kyiv.

- The article casts the US aid to Ukraine as another US-Russia proxy conflict, cut from the same cloth as the Vietnam War in the 1960s, Afghanistan in the 1980s, and Syria in the 2010s. The common thread running through each conflict is US leaders' fear that Russia could expand its power and influence beyond its own borders.
- The article asserts that joint military planning and intelligence sharing have underpinned some of Kyiv's key successes in the war, such as the sinking of the *Moskva*, the flagship of Russia's Black Sea fleet. The relationship has now come under strain because of US caution versus Ukrainian leaders' aggressiveness, but it continues. In fact, US help has been instrumental in Ukraine's recent drone strikes against targets deep in Russia.
- According to the report, the US's assistance to Ukraine has been run by generals headquartered at Wiesbaden, Germany. However, those generals have been assisted by a range of officers from other North Atlantic Treaty Organization countries, including the UK, Canada, and Poland.
- The involvement of the US and NATO in the war was almost certainly known or surmised by the Russians. The more important implication may be on politics in the US and other NATO countries. Importantly, the previously secret Western involvement in the war could validate the isolationism and distrust of government elites that is so prevalent among right-wing populists, such as those in the "America First" movement.

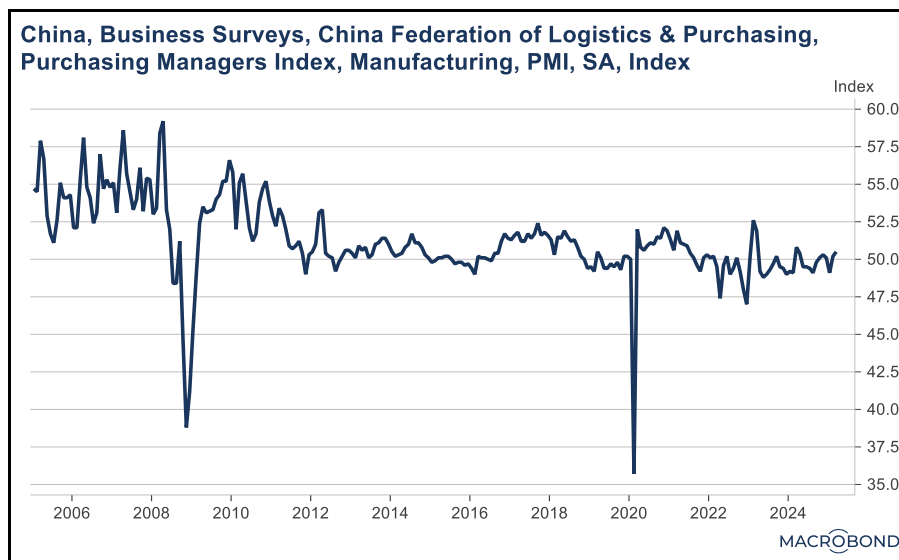
United States-European Union: US Embassies around the EU [have reportedly sent a letter to some large European firms warning them to comply with a US executive order banning diversity, equity, and inclusion programs](#). The letter asserts that President Trump's order banning

US government suppliers and service providers from running DEI programs applies even outside the US. Coupled with Trump’s tariff program and other economic policies, the letter is likely to further exacerbate US-EU relations and potentially lead to retaliation.

United States-Japan: Visiting Tokyo yesterday, US Defense Secretary Hegseth [described Japan as an “indispensable partner” in confronting Chinese geopolitical aggressiveness and reiterated the US’s treaty commitment](#) to defend the Japanese. The remarks came shortly after Hegseth [provided similar assurances to the Philippines late last week](#). Nevertheless, reports indicate that allies throughout the Asia-Pacific region remain unsettled by the US’s pullback from its defense commitments to NATO.

- One question for the Trump administration is whether it can keep the US’s Asia-Pacific allies on-board in blocking China’s expansionist policies. The challenge is that allied leaders can’t “unsee” Trump’s cooling commitment to NATO, even as they prepare for him to impose new trade barriers and other economic costs on them.
- Reflecting the Asia-Pacific allies’ concerns and their desire to hedge against Trump’s policies, Japanese and South Korean officials yesterday [met with Chinese Commerce Minister Wang to explore deeper economic ties](#), including a potential trilateral free-trade agreement.

China: The government’s official purchasing managers’ index for manufacturing [rose to a seasonally adjusted 50.5 in March, beating expectations and increasing from 50.2 in February](#). As with most major PMIs, the official China gauge is designed so that readings over 50 indicate expanding activity. The March reading therefore adds to the evidence that China’s modest economic stimulus programs are boosting activity, but it’s not clear that the factory sector’s growth can continue to strengthen in the face of structural headwinds and US tariff policies.



France: A court in Paris today [convicted Marine Le Pen, leader of the far-right National Rally party, of embezzling European Union funds](#). The court also sentenced to her to prison and

banned her from running in any election for the next five years. If sustained, the court's ruling will bar Le Pen from running in France's 2027 presidential election, where she was expected to be the frontrunner.

Portugal: Despite Europe's new, Germany-led rush to boost defense spending in the face of potential Russian aggression, Portuguese Finance Minister Joaquim Miranda Sarmiento [said his government is committed to keeping its budget in surplus, even as it modestly boosts military outlays](#). As we've noted before, Europe's plan to hike defense spending creates opportunities for investors. However, the finance minister's statement highlights that European nations more distant from Russia will likely be less enthusiastic about defense rebuilding.

US National Security: Citing White House officials, *Politico* reports that Vice President Vance, Chief of Staff Wiles, and top personnel officer Sergio Gor [told President Trump last week that he should fire National Security Advisor Waltz for his role in the "Signalgate" scandal rocking the administration](#). However, Trump rebuffed the suggestion to avoid "giving a win" to the media and his political opponents. The report suggests Trump will keep trying to ride out the scandal, even at the risk of potentially losing the support of voters concerned about national security.

- Within the administration, Waltz has become the main target for blame in the scandal, given that he or one of his aides invited a reporter, apparently inadvertently, into the controversial group chat discussing sensitive US military operations against the Houthi rebels in Yemen. That has raised concerns about Waltz's security discipline and why he had the reporter in his phone's contact list (which raises the question of whether Waltz has leaked information to the reporter in the past).
- However, including the reporter in the group chat isn't the most serious aspect of the scandal. One more important problem is that the participants were discussing such sensitive information on their cell phones, all of which have probably been compromised by the Chinese, Russian, and potentially other intelligence services. Another important problem is that they were relying on the commercial Signal messaging app instead of the government's advanced encryption systems.
- Over the weekend, reports said Republican defense hawks [are also getting uncomfortable with Defense Secretary Hegseth](#), given what they see as a series of mistakes, from discussing military operations details on the Signal chat to bringing his wife to a meeting that discussed sensitive military issues related to Ukraine (his wife apparently has no security clearances). That raises the risk that Hegseth could also be skating on thin ice.
- Coupled with other issues in Trump's foreign policy program — such as his deferential approach to Russian President Putin, his aim to cut US defense spending, and his administration's public exposure of new CIA hires — the Signalgate scandal and Hegseth's missteps threaten to make the Trump administration look weak on national security, endangering his support among traditional, pro-defense Republicans even as the *Times* article mentioned above potentially energizes isolationist Republicans.

US Tax Policy: Citing a senior White House official, *Axios* on Saturday [said President Trump has mulled letting his 2017 income tax cuts for top earners expire to make room in the federal budget for other priorities](#), such as his proposal to eliminate taxes on tips. If implemented, that would allow the top marginal tax rate to snap back to 39.6% from 37.0% now, and it would lower the income threshold above which the top rate applies.

US Consumer Demand: Airline Virgin Atlantic today reported its first annual profit since the coronavirus pandemic, but it [warned that it has recently noticed softer demand for transatlantic flights among US consumers](#). Coupled with similar reports from US carriers and soft readings on consumer optimism over the last several weeks, the Virgin Atlantic report adds to the evidence that economic uncertainty is starting to weigh on consumption plans and could soon lead to weaker economic activity.

US Economic Releases

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

Economic Releases						
EST	Indicator			Expected	Prior	Rating
9:45	MNI Chicago PMI	m/m	Mar	45.5	45.5	***
10:30	Dallas Fed Manufacturing Activity	m/m	Mar	-5.0	-8.3	**
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	Industrial Production	y/y	Feb P	0.3%	2.2%	1.2%	***	Equity bearish, bond bullish
	Retail Sales	y/y	Feb	1.4%	4.4%	2.5%	**	Equity bearish, bond bullish
	Depart. Store & Supermarket Sales	y/y	Feb	0.6%	3.6%		*	Equity and bond neutral
	Housing Starts	y/y	Feb	2.4%	-4.6%	-2.2%	**	Equity bullish, bond bearish
	Annualized Housing Starts	y/y	Feb	00.805m%	0.774m	0.777m	*	Equity and bond neutral
Australia	Melbourne Institute Inflation	y/y	Mar	2.8%	2.2%		***	Equity and bond neutral
	Private Sector Credit	y/y	Feb	6.5%	6.5%		**	Equity and bond neutral
New Zealand	ANZ Activity Outlook	m/m	Mar	48.6	45.1		*	Equity and bond neutral
	ANZ Business Confidence	m/m	Mar	57.5	58.4		**	Equity and bond neutral
South Korea	Industrial Production	y/y	Feb	7.0%	-4.7%	3.5%	***	Equity bullish, bond bearish
China	Official Manufacturing PMI	m/m	Mar	50.5	50.2	50.4	***	Equity and bond neutral
	Official Services PMI	m/m	Mar	50.8	50.4	50.6	**	Equity and bond neutral
	Official Composite PMI	m/m	Mar	51.4	51.1		*	Equity and bond neutral
EUROPE								
Germany	Import Price Index	y/y	Feb	3.6%	3.1%	3.3%	**	Equity and bond neutral
	Retail Sales	y/y	Feb	0.5%	4.0%	0.5%	*	Equity and bond neutral
	CPI	y/y	Mar P	2.2%	2.3%	2.2%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Mar P	2.3%	2.6%	2.4%	**	Equity and bond neutral
Italy	CPI, EU Harmonized	y/y	Mar P	2.1%	1.7%	1.8%	***	Equity and bond neutral
	CPI NIC Including Tobacco	y/y	Mar P	2.0%	1.6%	1.6%	**	Equity and bond neutral
UK	Net Lending Sec. on Dwellings	m/m	Feb	3.3b	4.2b	3.8b	*	Equity and bond neutral
	Mortgage Approvals	m/m	Feb	65.5k	66.0k	65.6k	***	Equity and bond neutral
	M4 Money Supply	y/y	Feb	3.8%	4.1%		*	Equity and bond neutral
Switzerland	Domestic Sight Deposits CHF	w/w	28-Mar	441.7b	440.4b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	28-Mar	451.2b	449.2b		*	Equity and bond neutral
Russia	Current Account Balance	q/q	4Q F	13542m	4500m		**	Equity and bond neutral
AMERICAS								
Canada	GDP	y/y	Jan	2.2%	2.2%	2.1%	**	Equity and bond neutral
Brazil	Formal Job Creation	m/m	Feb	431995	144086	227500	**	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	419	0	Up
U.S. Sibor/OIS spread (bps)	428	428	0	Down
U.S. Libor/OIS spread (bps)	429	430	-1	Down
10-yr T-note (%)	4.19	4.25	-0.06	Down
Euribor/OIS spread (bps)	233	236	-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.

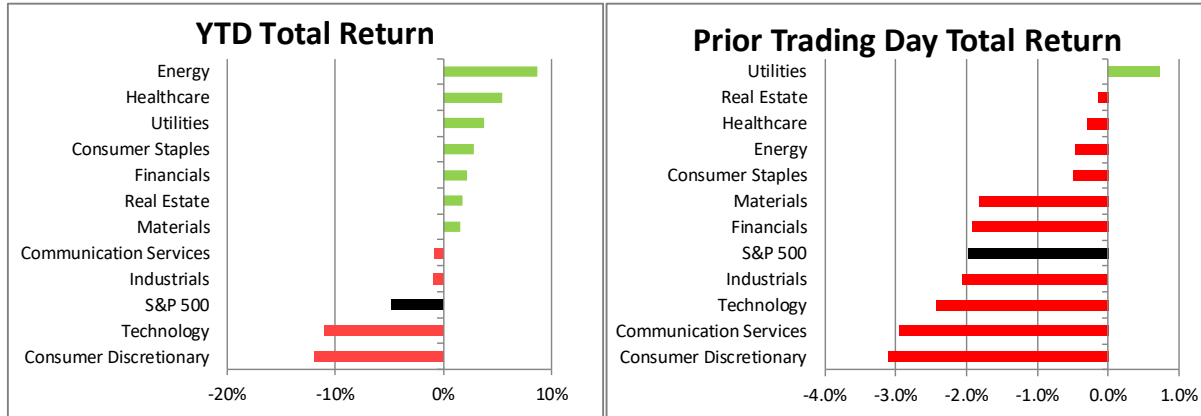
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$74.17	\$73.63	0.73%	
WTI	\$69.55	\$69.36	0.27%	
Natural Gas	\$4.20	\$4.07	3.39%	
Crack Spread	\$24.82	\$24.68	0.59%	
12-mo strip crack	\$21.64	\$21.50	0.65%	
Ethanol rack	\$1.85	\$1.85	0.05%	
Metals				
Gold	\$3,118.04	\$3,085.12	1.07%	
Silver	\$34.08	\$34.13	-0.13%	
Copper contract	\$502.60	\$513.00	-2.03%	
Grains				
Corn contract	\$453.75	\$453.25	0.11%	
Wheat contract	\$528.50	\$528.25	0.05%	
Soybeans contract	\$1,027.50	\$1,023.00	0.44%	
Shipping				
Baltic Dry Freight	1,602	1,621	-19	

Weather

The 6-to-10 and 8-to-14-day forecasts show warmer-than-normal temperatures across nearly all regions west of the Rockies, while the remainder of the country can expect cooler-than-normal conditions. On the precipitation front, dry weather is expected to expand from the North into much of the US, though Florida is likely to see wetter-than-normal conditions during this period.

Data Section

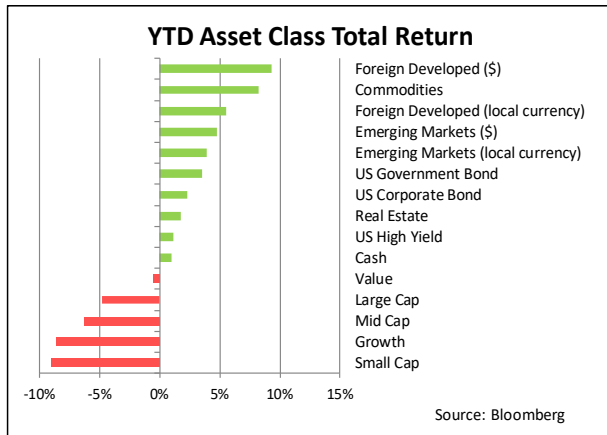
US Equity Markets – (as of 3/31/2025 close)



(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 3/31/2025 close)

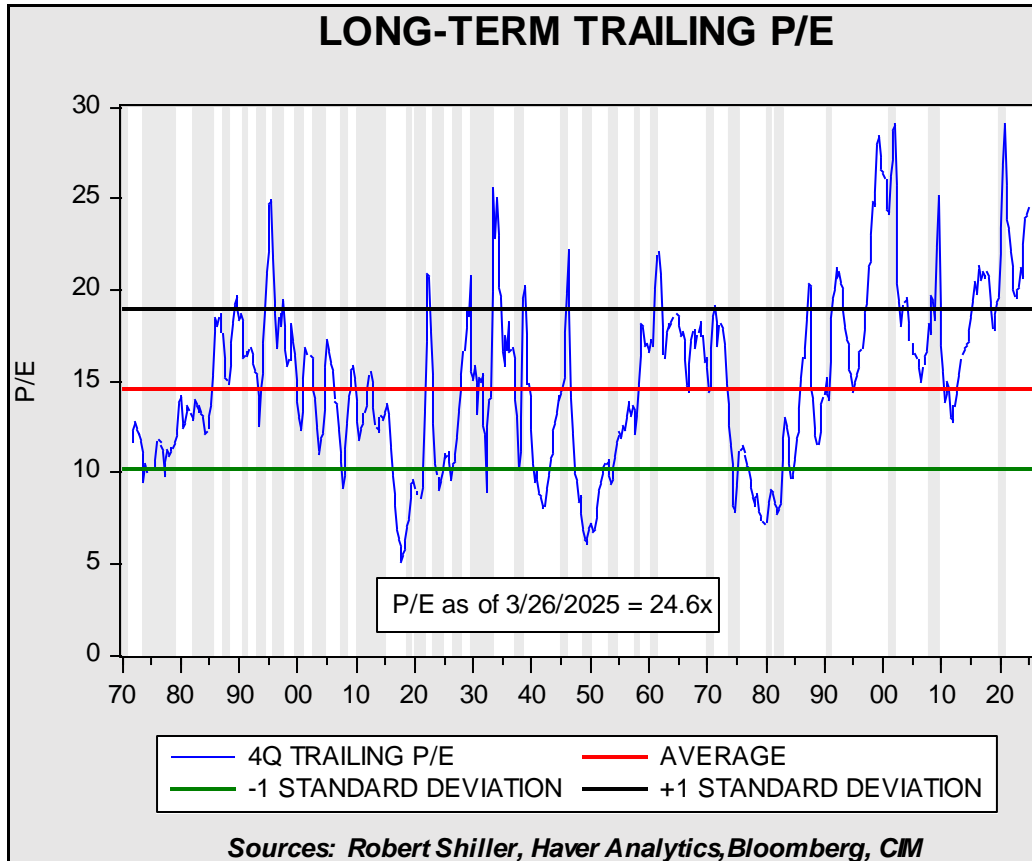


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 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.