Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: March 3, 2025 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 closed up 1.6% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.4%. Chinese markets were mixed, with the Shanghai Composite down 0.1% from its previous close and the Shenzhen Composite up 0.3%. US equity index futures are signaling a higher open.

With 485 companies having reported so far, S&P 500 earnings for Q4 are running at $65.50 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 19.3% 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
"Sanctions as an Investment Risk" (2/24/25) + 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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Our *Comment* today opens with some key observations on Friday's disastrous summit meeting between President Trump and Ukrainian President Zelensky. We next review several other international and US developments with the potential to affect the financial markets today, including key reports on consumer price inflation from the eurozone and Turkey and signs that the paused US tariffs on Canada and Mexico will finally take effect tomorrow.

United States-Russia-Ukraine: By now, we assume that those who care about global affairs and understand that international relations can profoundly affect their personal lives have already started to digest President Trump's failed meeting on Friday with Ukrainian President Zelensky. We therefore won't try to rehash all the details here. Rather, we provide a quick summary of the meeting and then focus on what it says about Trump's evolving foreign policy and what it portends for US investors.

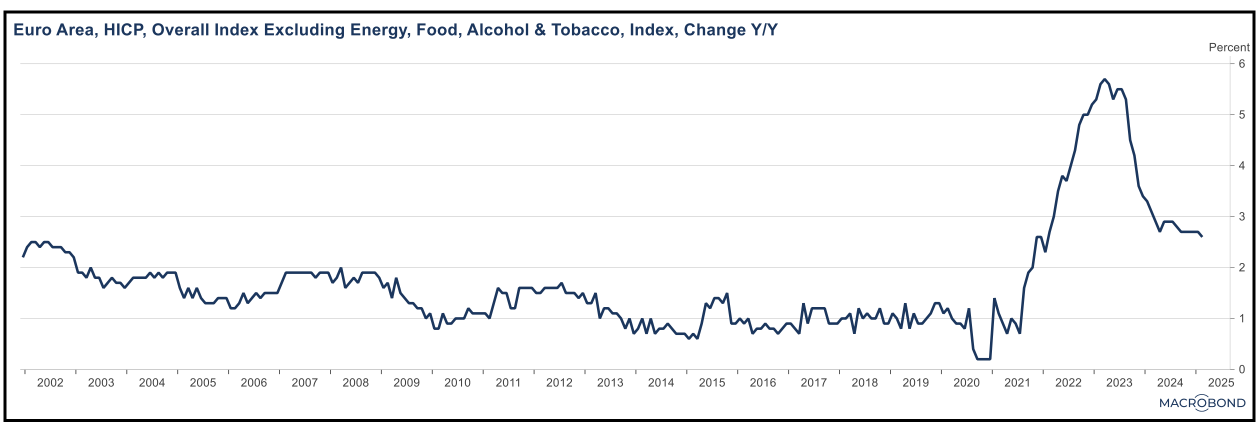
- To recap, the meeting was set for the two leaders to sign a preliminary deal in which the US would get a cut of Ukraine's future mineral profits to repay the US's past support and, supposedly, to cement the US's interests in Ukraine and deter further Russian aggression. The meeting devolved into acrimony when Zelensky warned that Russian President Putin can't be trusted. It broke up with Zelensky evicted from the White House and the deal left unsigned.
- Neither Trump nor any top administration official has provided a comprehensive statement of the president's global goals and strategy. As we've written before, one thrust so far has been to punish traditional US allies – especially Canada, Mexico, and the European members of the North Atlantic Treaty Organization – for supposedly taking advantage of the US since World War II. But unleashing brutal rhetoric, tariffs, and military threats against the allies doesn't seem to be the whole story.
- One great mystery about Trump's foreign policy is why he has seemed relatively soft on China so far and why he seems so intent on excusing Putin – a dictator who essentially aims to recreate the Russian Empire and, therefore, is a threat to Western Europe's wealth, economic potential, territory, technology, democratic institutions, and cultural development, all of which have made the region such a valuable ally for the US over decades.
- In the Trump-Zelensky meeting, it's striking that the point at which it "went south" was when Zelensky said that Putin can't be trusted. After a quarter-century of evidence pointing to Putin's brutality and duplicity, the question arises as to why that statement would so easily set off Trump and Vice President Vance. It also highlights how administration officials and nominees have apparently been instructed to avoid any criticism of Putin and to parrot Russian talking points on global affairs.
- As we've noted before, some observers think Trump is trying to pull a "reverse Nixon" or "reverse Kissinger" by splitting Russia away from China. Secretary of State Rubio, a relatively traditionalist Russia hawk, even articulated this view recently. However, there are many reasons to doubt this possibility, from the lack of any obvious Chinese-Russian political tensions to exploit to the paucity of economic advantages the US could gain from closer relations with Russia.
- Another potential reason for Trump's embrace of Russia is the possibility that he aims to divide the world into spheres of influence, with the US taking the Americas (possibly with outposts in Greenland, the Middle East, and some Pacific islands), Russia taking Europe, and China taking Asia up to the "first island chain." If so, it seems like a bad deal for the US to trade Europe for a freer hand in the Americas. This strategy would also require trusting Beijing and Moscow to respect the US sphere.
- A final potential reason that we explore here is political affinity. Alliances often are built on a common political outlook, so Trump's embrace of big, authoritarian, strong-man countries such as Russia and Saudi Arabia could simply signal his comfort level with that style of government. Since Trump has positioned himself as a champion of the US's conservative working class, who are looking to him to break the political and economic hold of the elites, such an embrace of assertive politics may be well received by his base.

- In sum, it's true that Europe has lost some luster as a political, military, and economic partner for the US. However, surrendering the region to the China/Russia geopolitical bloc potentially sets the stage for further international chaos. Even if peace in Ukraine and the reopening of Europe to Russian energy gives a boost to European stocks in the near term, greater Russian influence on the Continent could constrict US economic opportunities over the longer term.

United Kingdom-France-Ukraine: British Prime Minister Starmer hosted French President Macron, Ukrainian President Zelensky, and other European leaders yesterday to try to hash out their own peace plan for Ukraine. According to Starmer, the Europeans' aim is to develop a plan that would entice President Trump to commit the US to help provide security guarantees for Ukraine.

- Late yesterday, Macron indicated that the Europeans are working on a one-month ceasefire that would stop Russia and Ukraine from conducting air and sea assaults and attacks on each other's infrastructure. The ceasefire proposal would not apply to ground attacks due to the difficulty in policing them.
- A second part of the developing plan would involve Ukraine signing a mineral deal with the US, similar to the one that was supposed to be signed at Friday's Trump-Zelensky meeting.
- However, it's important to note that the UK and Ukraine today have both distanced themselves from the plan Macron suggested.

Eurozone: The February consumer price index was up just 2.4% from the same month one year earlier, not quite as tame as the expected 2.3% but better than the 2.5% recorded for the year to January. Stripping out the volatile food and energy components, the February core CPI was up 2.6% compared with 2.7% in the year to January. The decline in inflation last month should help bolster the case for further interest-rate cuts when the European Central Bank holds its next policy meeting later this week.



Turkey: The February consumer price index was up "just" 39.1% from the same month one year earlier, matching expectations and cooling from the 42.1% increase in the year to January. The data marked the ninth straight month in which Turkish inflation has cooled, likely setting the stage for the central bank to keep cutting the country's sky-high interest rates in the coming months.

United States-Canada-Mexico-China: Commerce Secretary Lutnick yesterday said the paused US tariffs against Canada and Mexico will indeed go into effect on Tuesday, but President Trump is still deciding whether to apply them at the originally planned 25% rate or at some lower rate. Lutnick said the new 10% additional levy against China is "set" and will also go into effect on Tuesday.

- The big, new tariffs against the US's largest trading partners could disrupt economic activity, but it's still too early to know if they'll worsen consumer price inflation.
- In any case, tariff risks continue to drive investors into stock market sectors that are more domestically oriented and therefore are perceived to be more insulated from Trump's new trade policies. The Health Care, Consumer Staples, Real Estate, and Financials stock sectors are all up more than 5% so far this year versus a gain of just over 1% for the overall market.

US Public Lands Policy: President Trump on Saturday signed an executive order directing federal agencies to examine ways to bypass environmental regulations that control timber production in US national forests and other public lands. The directive suggests Trump will try to boost domestic timber output to offset planned restrictions on imported wood. If so, any quick boost in domestic production could help reduce the costs of newly built homes and other buildings as labor and other costs keep going up.

US Cryptocurrency Market: President Trump yesterday named five cryptocurrency tokens that will be included in his new US digital-currency reserve. The tokens included will be Bitcoin, ether, solana, Ripple-linked XRP, and cardano. As might be expected, overnight prices for the tokens jumped, with the increases ranging from about 9% for Bitcoin to more than 60% for cardano. Nevertheless, prices for Bitcoin and other major cryptocurrencies remain far below their most recent highs.

US Economic Releases

No major economic reports have been released so far today. 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	Construction Spending	m/m	Jan	-0.1%	0.5%	**
10:00	ISM Employment	m/m	Feb	50.1	50.3	*
10:00	ISM Manufacturing	m/m	Feb	50.8	50.9	***
10:00	ISM New Orders	m/m	Feb	54.6	55.1	*
10:00	ISM Prices Paid	m/m	Feb	56.3	54.9	**
	Wards Total Vehicle Sales	m/m	Feb	16.08m	15.60m	**

Federal Reserve		
EST	**Speaker or Event**	**District or Position**
12:35	Alberto Musalem Speaks on Economy and Monetary Policy	President of the Federal Reserve Bank of St. Louis

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	Expected
ASIA-PACIFIC								
Japan	Jibun Bank Manufacturing PMI	m/m	Feb F	49.0	48.9		***	Equity and bond neutral
Australia	CoreLogic Home Value MoM	m/m	Feb	0.3	-0.2%		*	Equity and bond neutral
	S&P Global Australia Manufacturing PMI	m/m	Feb F	50.4	50.6		***	Equity and bond neutral
	Melbourne Institute Inflation	y/y	Feb	2.2%	2.3%		***	Equity and bond neutral
	ANZ-Indeed Job Advertisements MoM	m/m	Feb	-1.4	1.3		*	Equity and bond neutral
South Korea	Trade Balance	m/m	Feb	$4300m	-$1860m	$4841m	*	Equity and bond neutral
	Exports	y/y	Feb	1.0%	-10.2%	3.7%	***	Equity and bond neutral
	Imports	y/y	Feb	0.2%	-6.4%	2.6%	**	Equity and bond neutral
China	Manufacturing PMI	m/m	Feb	50.2	49.1	49.9	***	Equity and bond neutral
	Non-manufacturing PMI	m/m	Feb	50.4	50.2	50.4	**	Equity and bond neutral
	Composite PMI	m/m	Feb	51.1	50.1		**	Equity and bond neutral
	Caixin Manufacturing PMI	m/m	Feb	50.8	50.1	50.4	***	Equity and bond neutral
India	HSBC India PMI Mfg	m/m	Feb F	56.3	57.1		***	Equity and bond neutral
EUROPE								
Eurozone	HCOB Eurozone Manufacturing PMI	m/m	Feb F	47.6	47.3	47.3	***	Equity and bond neutral
	CPI	y/y	Feb P	2.4%	2.5%	2.3%	***	Equity and bond neutral
	CPI Core	y/y	Feb P	2.6%	2.7%	2.5%	**	Equity and bond neutral
Germany	HCOB Germany Manufacturing PMI	m/m	Feb F	46.5	46.1	46.1	***	Equity and bond neutral
France	HCOB France Manufacturing PMI	m/m	Feb F	45.8	45.5	45.5	***	Equity and bond neutral
Italy	HCOB Italy Manufacturing PMI	m/m	Feb	47.4	46.3	46.7	***	Equity bullish, bond bearish
UK	Mortgage Approvals	m/m	Jan	66.2k%	66.5k	65.5k	***	Equity and bond neutral
	Net Lending Secured on Dwellings	m/m	Jan	4.2b	3.3b	3.5b	*	Equity and bond neutral
	M4 Money Supply	y/y	Jan	4.1%	2.6%		*	Equity and bond neutral
	S&P Global UK Manufacturing PMI	m/m	Feb F	46.9	46.4	46.4	***	Equity and bond neutral
Switzerland	PMI Manufacturing	m/m	Feb	49.6	47.5	48.2	***	Equity bullish, bond bearish
	PMI Services	m/m	Feb	568	57.2		*	Equity and bond neutral
	Domestic Sight Deposits CHF	w/w	28-Feb	429.4b	430.2b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	28-Feb	437.4b	438.1b		*	Equity and bond neutral
Russia	S&P Global Russia Manufacturing PMI	m/m	Feb	502.0	53.1		***	Equity and bond neutral
AMERICAS								
Canada	GDP	y/y	Dec	2.2%	1.5%	2.0%	**	Equity and bond neutral
Brazil	S&P Global Brazil Manufacturing PMI	m/m	Feb	53.0.	50.7		***	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	Down
U.S. Sibor/OIS spread (bps)	431	431	0	Down
U.S. Libor/OIS spread (bps)	432	432	0	Down
10-yr T-note (%)	4.25	4.21	0.04	Down
Euribor/OIS spread (bps)	246	249	-3	Down
Currencies	**3 Mo**			
Dollar	Up	US		Up
Euro	Down	Euro		Down
Yen	Up	Japan		Down
Pound	Down	UK		Flat
Franc	Down	Switzerland		Down

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.

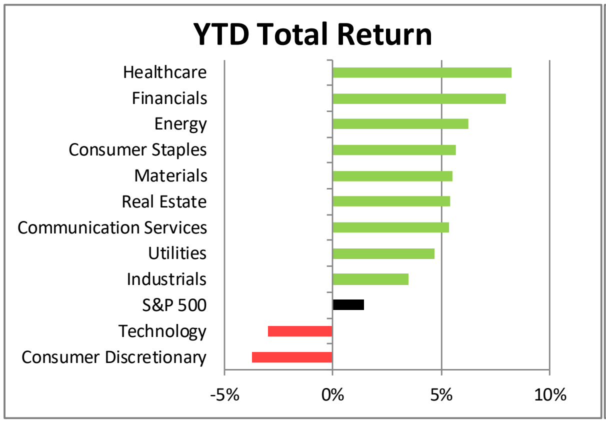
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$73.18	$72.81	0.51%	
WTI	$70.06	$69.76	0.43%	
Natural Gas	$3.88	$3.83	1.30%	
Crack Spread	$24.89	$25.02	-0.55%	
12-mo strip crack	$21.03	$21.11	-0.35%	
Ethanol rack	$1.79	$1.79	-0.13%	
Metals				
Gold	$2,876.38	$2,857.83	0.65%	
Silver	$31.63	$31.15	1.54%	
Copper contract	$460.45	$454.80	1.24%	
Grains				
Corn contract	$466.00	$469.50	-0.75%	
Wheat contract	$557.00	$555.75	0.22%	
Soybeans contract	$1,024.50	$1,025.75	-0.12%	
Shipping				
Baltic Dry Freight	1,229	1,159	70	

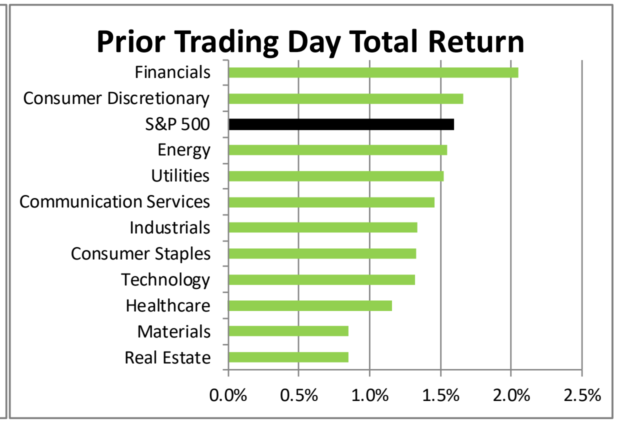
Weather

The 6-to-10 and 8-to-14-day forecasts call for cooler-than-normal temperatures throughout the Far West, with warmer-than-normal temperatures from the Great Plains eastward. The forecasts call for wetter-than-normal conditions in the Far West and Southeast, with dry conditions in Texas.

Data Section

US Equity Markets – (as of 2/28/2025 close)

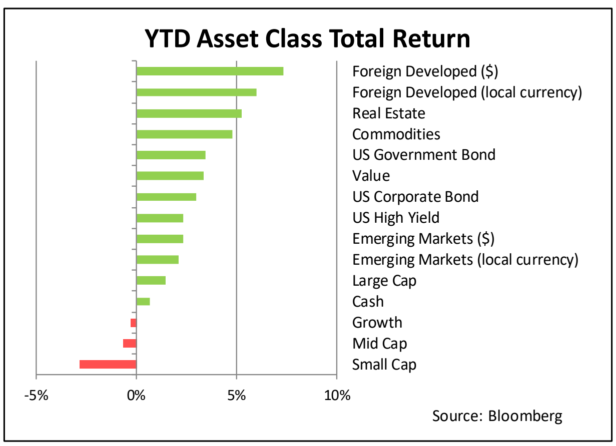




(Source: Bloomberg)

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 2/28/2025 close)

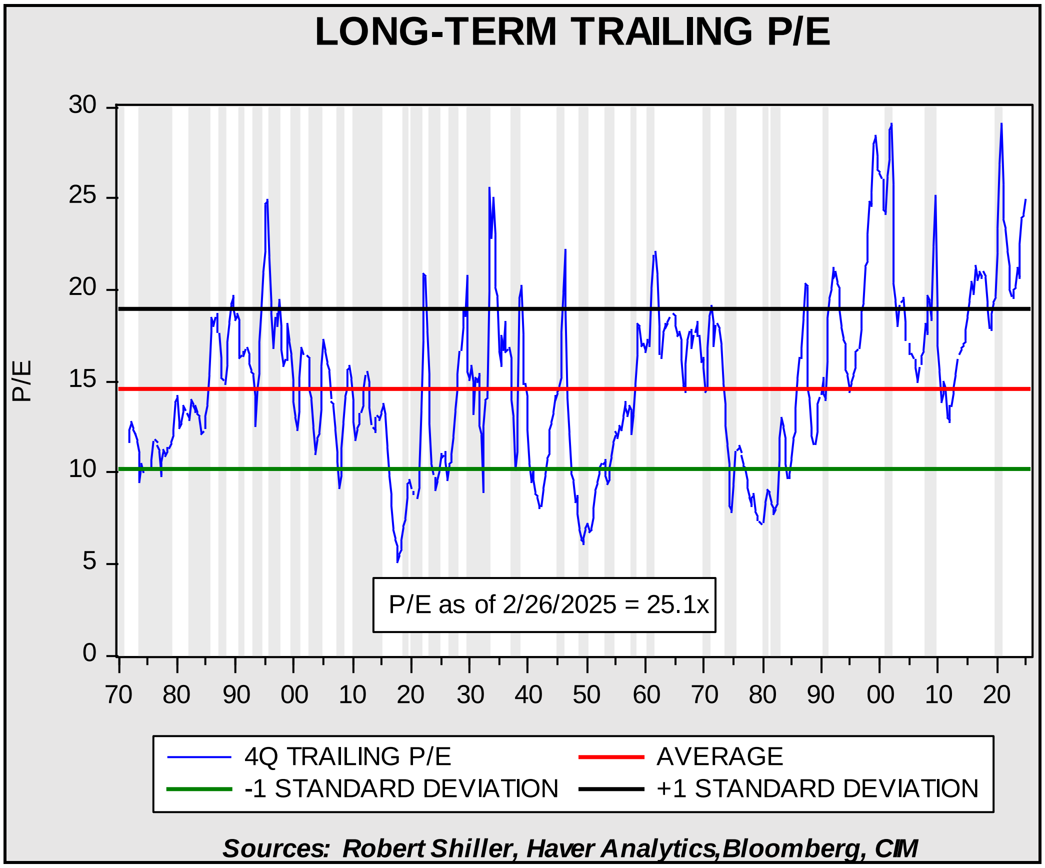


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

February 27, 2025



Based on our methodology,[1] the current P/E is 25.1x, unchanged from our last report. There was minimal change in the index and earnings from the previous week.

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 (Q2). 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.