Daily Comment

Confluence INVESTMENT MANAGEMENT

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[Posted: March 5, 2025 — 9:30 AM ET] Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 closed up 2.3% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 2.3%. Chinese markets were higher, with the Shanghai Composite up 0.5% from its previous close and the Shenzhen Composite up 0.4%. US equity index futures are signaling a higher open.

With 489 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, 74.5% have exceeded expectations, while 19.1% 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 decisions from the Chinese government's annual legislative sessions. We next review several other international and US developments with the potential to affect the financial markets today, including a big, new fiscal stimulus program proposed in Germany and a short recap of President Trump's speech to a joint meeting of Congress last night.

China: At the opening of the "Two Sessions" legislative meetings yesterday, Premier Li Qiang announced that the government would target about 5% economic growth in 2025, matching expectations and in line with the goals from the previous two years. The target for consumer price inflation was set at 2%. The government's expected budget deficit was set at 4%, up from 3% in recent years and the highest in decades.

- Given China's structural economic headwinds and budding trade war with the US, the new economic growth goal is considered aggressive.
- That, coupled with the increased budget deficit, implies that the government will unveil significant stimulus policies later in the sessions. If it does, Chinese equities would likely get a boost.

Germany: Center-right leader Friedrich Merz, who won last month's election, said his party and its prospective coalition partners plan to exempt defense spending from Germany's strict spending and debt limits. They also plan to set up a massive, off-budget fund of 500 billion EUR ($536 billion) for infrastructure projects.

- The initiative exemplifies how the rising threat of Russian aggression and the Trump administration's reluctance to support the US's allies in Europe have spurred greater defense spending on the Continent. As a result, European defense stocks remain in a strong rally.
- More broadly, the new spending on infrastructure also has the potential to stimulate faster economic growth in the European Union's biggest country. In response, European stocks are in a strong rally so far this morning. European bond prices have fallen, pushing up yields, while the euro has appreciated 0.6% to $1.0694.

United States-Japan: In a statement early this week that hasn't been widely reported, President Trump accused Japan and China of deliberately weakening their currencies to garner trade advantages. In response, Trump hinted that he was prepared to impose tariffs to retaliate for the practice. Trump's statement may be the first sign that he's planning broad tariffs against Japan, even though some of his other tariffs, such as those on autos and steel, would hit certain economic sectors.

United States-Ukraine: The *Financial Times* today reports that the US has followed up its suspension of military aid to Ukraine by freezing all intelligence sharing, although at least one Ukrainian official has said some information continues. Among other consequences, any freeze on intelligence sharing would hamper Kyiv's ability to effectively target Russia's invasion forces and give the Kremlin a further advantage in the run-up to expected peace talks.

United States-Venezuela: The Trump administration yesterday told energy giant Chevron that it will revoke the firm's license to produce oil in Venezuela in 30 days. The move is in retaliation for Caracas's recent slowdown in accepting Venezuelan immigrants deported from the US. Chevron's Venezuelan operations, which produce some 240,000 barrels of oil per day, will be taken over by state-owned oil company Petróleos de Venezuela, known as PdVSA. However, PdVSA is not expected to be able to maintain the operation's output for long.

US Economic Policy: In his speech to a joint session of Congress last night, President Trump mainly recapped his accomplishments so far. The speech contained few major, new policy announcements. For investors, the key takeaways were probably Trump's announcement of a new initiative to boost US shipbuilding and confirmation that the specific product imports to be targeted in his next round of tariffs will include a range of metals, including copper.

- Trump also acknowledged that the tariffs put into place by his administration would cause some economic disruptions, but he insisted that "we're OK with that."
- On a more positive note, Commerce Secretary Lutnick said overnight that Trump today could announce a deal with Canada and Mexico that would soften the tariffs on them. The statement has helped give a boost to US stock prices so far this morning.

US Economic Statistics: According to the *Wall Street Journal*, Commerce Secretary Lutnick last week disbanded two committees of outside experts that had advised government agencies on data collection, analysis, and reporting for decades. The committees were typically made up of unpaid academic economists, think-tank researchers, and business executives.

- The move will raise concerns that US economic data releases, such as the quarterly report on gross domestic product, could be manipulated for political purposes under the new administration.
- If that happens, concerns about unreliable data could undermine asset prices.

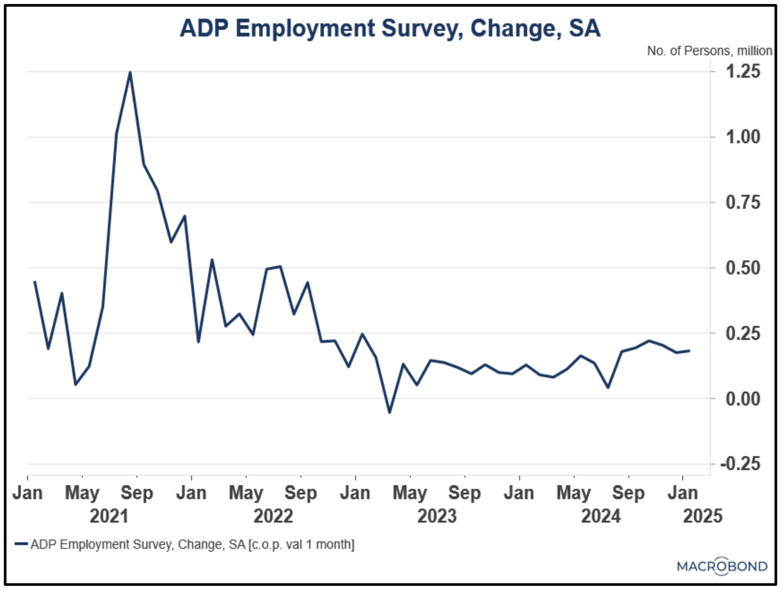
US Labor Market: The US Office of Personnel Management (OPM) has quietly issued an addendum to its January memo to agencies that spurred mass firings of probationary workers. Citing a court case invalidating the move, the addendum has clarified that OPM doesn't have the authority to order firings at individual agencies. Rather, agency chiefs must decide who and when to fire. The new language may slow some of the administration's effort to cull the federal work force. Still, the threat of firing will remain, likely slowing consumer spending.

US Stock Market: In market action yesterday, the S&P 500 price index for large-cap US stocks fell 1.2%, settling below its level on election day. Stocks have now lost all of their price gains in the initial euphoria over President Trump's election, probably reflecting his aggressive tariff policies, signs that his policies are weighing on economic activity, and uncertainty over the direction of future policy.

US Economic Releases

The Mortgage Bankers Association today said ***mortgage applications*** for the week ended February 28 surged 20.4%, reversing the previous week's 6.4% decline and marking the largest gain in seven weeks. Applications for home purchase mortgages also posted a strong rise of 9.1%, after falling 8.1% the previous week. Applications for refinancing mortgages propelled the large overall gain by rising an impressive 37%, after falling 3.6% the previous week. This is probably attributable to the largest single-week drop since November in the average interest rate on a 30-year mortgage, which fell 15 basis points to 6.73%.

Separately, the ADP Research Institute estimated that ***private payroll employment*** rose in February by a seasonally adjusted 77,000. While still a gain, this marks a notable slowdown from the previous month's rise of 186,000. ADP's estimate is widely seen as an indicator of what to expect when the Labor Department releases its measure of nonfarm payrolls on Friday. The chart below shows ADP's estimate of private payrolls since the beginning of 2021.



The table below lists the economic releases and Fed events scheduled for the rest of the day.

Economic Releases						
	No economic releases for the rest of today					
EST	**Indicator**			**Expected**	**Prior**	**Rating**
9:45	S&P Global US Services PMI	m/m	Aug	49.7	49.7	***
9:45	S&P Global US Composite PMI	m/m	Aug	50.4	50.4	***
10:00	Factory Orders	m/m	Feb F	1.7%	-0.9%	**
10:00	Factory Orders Ex Transportation	m/m	Feb F	0.2%	0.3%	**
10:00	Durables Goods Orders	m/m	Jan	3.1%	3.1%	**
10:00	Durables Ex Transportation	m/m	Jan	0.0%	0.0%	**
10:00	Cap Goods Orders Nondef Ex Air	m/m	Jan F	0.8%	0.8%	*
10:00	Cap Goods Ship Nondef Ex Air	m/m	Jan F	-0.3%	-0.3%	*
10:00	ISM Services Index	m/m	Jan F	52.5	52.8	***
10:00	ISM Services Prices Paid	m/m	Jan F	60.4	60.4	*
10:00	ISM Services New Orders	m/m	Feb	51.5	51.3	*
10:00	ISM Services Employment	m/m	Feb	51.6	52.3	*
Federal Reserve						
14:00	U.S. Federal Reserve Releases Beige Book	Federal Reserve Board				

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	Jibun bank Composite PMI	m/m	Feb F	52.0	51.6		**	Equity and bond neutral
	Jibun Bank Services PMI	m/m	Feb F	53.7	53.1		**	Equity and bond neutral
Australia	S&P Global Australia Composite	m/m	Feb F	50.6	51.2		*	Equity and bond neutral
	S&P Global Australia Services PMI	m/m	Feb F	50.8	51.4		*	Equity and bond neutral
	GDP	y/y	4Q	1.3%	0.8%	1.3%	**	Equity and bond neutral
New Zealand	ANZ Commodity Price	m/m	Feb	3.0%	1.8%		**	Equity and bond neutral
South Korea	GDP	q/q	4Q P	1.2%	1.2%	1.2%	**	Equity and bond neutral
China	Caixin Composite PMI	m/m	Feb	51.5	51.1		**	Equity and bond neutral
	Caixin Services PMI	m/m	Feb	51.4	51.0	50.7	**	Equity bullish, bond bearish
India	HSBC India PMI Composite	m/m	Feb F	58.8	60.6		**	Equity and bond neutral
	HSBC India PMI Services	m/m	Feb F	59.0	61.1		**	Equity and bond neutral
EUROPE								
Eurozone	HCOB Eurozone Services PMI	m/m	Feb F	50.6	50.7	50.7	**	Equity and bond neutral
	HCOB Eurozone Composite PMI	m/m	Feb F	50.2	50.2	50.2	*	Equity and bond neutral
	PPI	y/y	Jan	1.8%	0.1%	1.3%	**	Equity and bond neutral
Germany	HCOB Germany Services PMI	m/m	Feb F	51.1	52.2	52.2	**	Equity and bond neutral
	HCOB Germany Composite PMI	m/m	Feb F	50.4	51.0	51.0	**	Equity and bond neutral
France	Industrial Production	y/y	Jan	-1.6%	-1.5%	-0.2%	***	Equity bearish, bond bullish
	Manufacturing Production	y/y	Jan	-2.4%	-2.6%		**	Equity and bond neutral
	S&P Services PMI	m/m	Feb F	45.3	44.5	44.5	**	Equity and bond neutral
	S&P Composite PMI	m/m	Feb F	45.1	44.5	44.5	**	Equity and bond neutral
Italy	HCOB Italy Services PMI	m/m	Feb	53.0	50.4	51.0	**	Equity and bond neutral
	HCOB Italy Composite PMI	m/m	Feb	51.9	49.7	50.0	**	Equity and bond neutral
	GDP WDA	y/y	4Q F	0.6%	0.5%	0.5%	**	Equity and bond neutral
	Retail Sales	y/y	Jan	0.9%	0.6%		**	Equity and bond neutral
UK	New Car Registrations	m/m	Feb	-1.00%	-2.50%		*	Equity and bond neutral
	Official Reserves Changes	m/m	Feb	$646m	$2112m		*	Equity and bond neutral
	S&P Global UK Services PMI	m/m	Feb F	51.0	51.1	51.1	**	Equity and bond neutral
	S&P Global UK Composite PMI	m/m	Feb F	50.5	50.5	50.5	**	Equity and bond neutral
Switzerland	CPI	y/y	Feb	0.3%	0.4%	0.2%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Feb	0.1%	0.2%		*	Equity and bond neutral
	Core CPI	y/y	Feb	0.9%	0.9%	0.7%	*	Equity and bond neutral
Russia	S&P Global Russia Composite PMI	m/m	Feb	50.4	54.7		**	Equity and bond neutral
	S&P Global Russia Services PMI	m/m	Feb	50.5	54.6		**	Equity and bond neutral
AMERICAS								
Mexico	Gross Fixed Investment	y/y	Dec	-4.0%	-0.9%	-2.5%	**	Equity bearish, bond bullish
	Leading Indicators	y/y	Jan	-0.11	-0.13	-0.12	**	Equity and bond neutral
Brazil	S&P Global Brazil Composite PMI	m/m	Feb F	51.2	48.2		***	Equity and bond neutral
	S&P Global Brazil Services PMI	m/m	Feb	50.6	47.6		***	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	Down
U.S. Sibor/OIS spread (bps)	430	430	0	Down
U.S. Libor/OIS spread (bps)	430	431	-1	Down
10-yr T-note (%)	4.24	4.25	-0.01	Down
Euribor/OIS spread (bps)	249	246	3	Down
Currencies	**3 Mo**			
Dollar	Up	US		Down
Euro	Down	Euro		Up
Yen	Up	Japan		Up
Pound	Down	UK		Up
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.

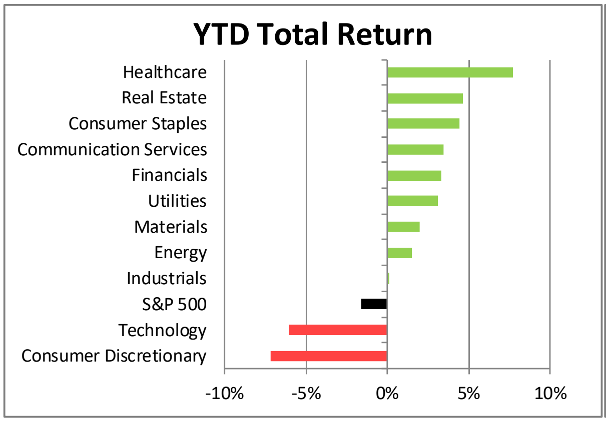
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$70.13	$71.04	-1.28%	
WTI	$67.05	$68.26	-1.77%	
Natural Gas	$4.30	$4.35	-1.26%	
Crack Spread	$24.59	$25.44	-3.33%	
12-mo strip crack	$20.71	$21.44	-3.39%	
Ethanol rack	$1.75	$1.76	-0.29%	
Metals				
Gold	$2,915.98	$2,917.89	-0.07%	
Silver	$32.38	$31.98	1.25%	
Copper contract	$476.10	$455.65	4.49%	
Grains				
Corn contract	$457.25	$451.50	1.27%	
Wheat contract	$545.00	$536.75	1.54%	
Soybeans contract	$1,007.50	$999.00	0.85%	
Shipping				
Baltic Dry Freight	1,262	1,276	-14	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		0.80		
Gasoline (mb)		-0.75		
Distillates (mb)		1.50		
Refinery run rates (%)		0.45%		
Natural gas (bcf)		-95		

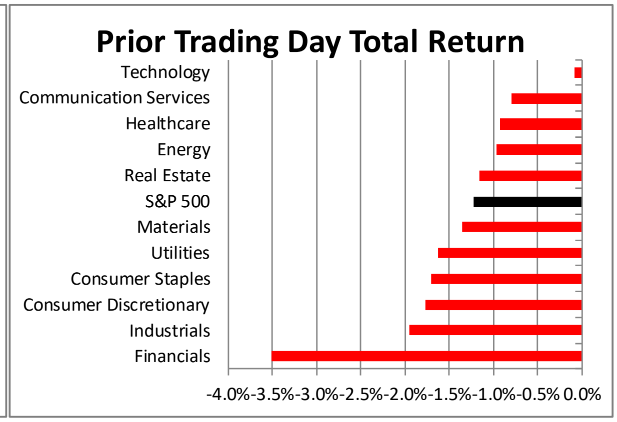
Weather

The 6-to-10 and 8-to-14-day forecasts call for cooler-than-normal temperatures from the Rocky Mountains westward, with warmer-than-normal temperatures for most of the country from the Great Plains eastward. The forecasts call for wetter-than-normal conditions for most of the country except the Atlantic Coast and Deep South, with dry conditions in Texas and Oklahoma.

Data Section

US Equity Markets – (as of 3/4/2025 close)

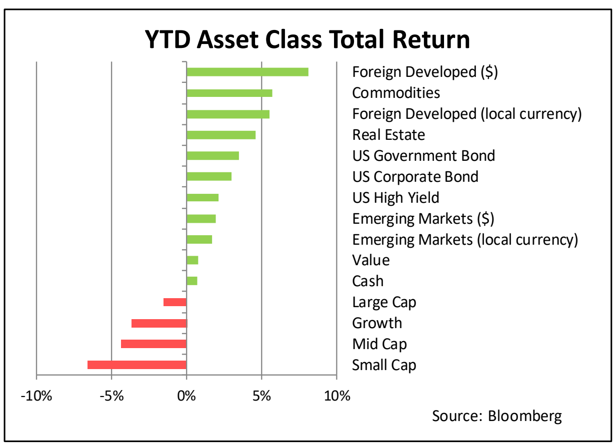




(Source: Bloomberg)

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 3/4/2025 close)

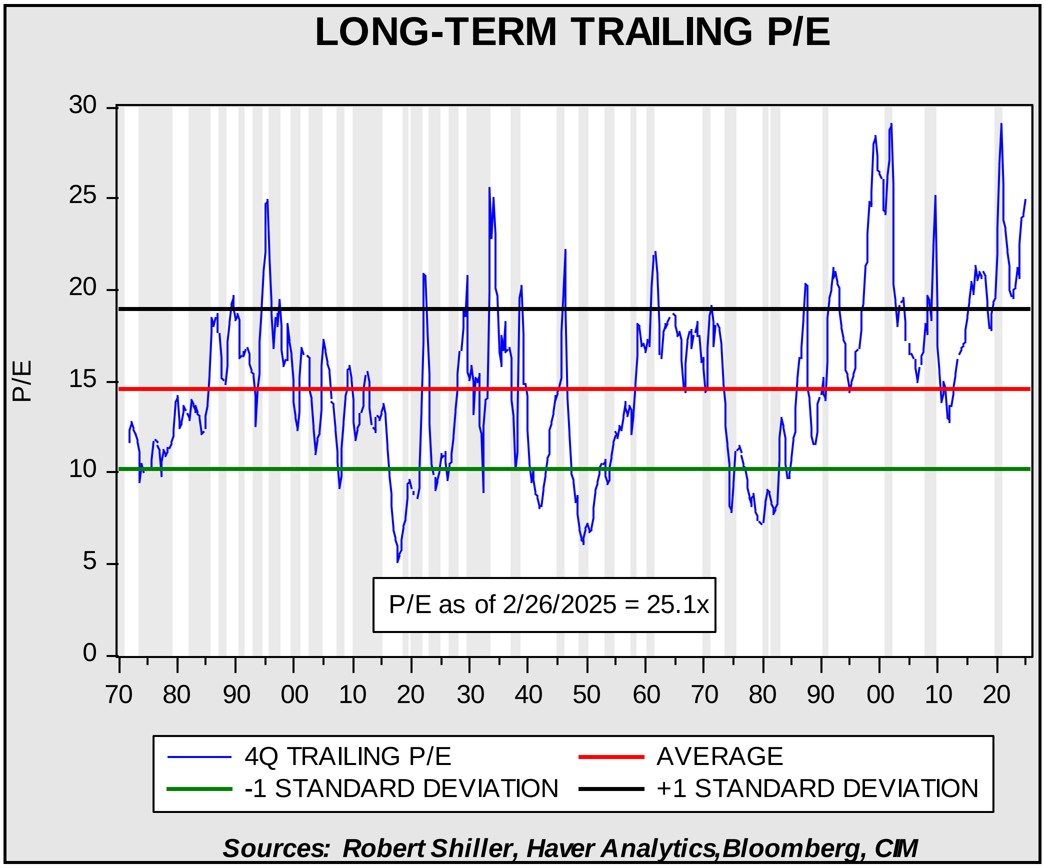


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.

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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.