Daily Comment

Confluence Investment Management

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[Posted: April 15, 2025 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 closed up 0.7% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.9%. Chinese markets were mixed, with the Shanghai Composite up 0.2% from its previous close and the Shenzhen Composite down 0.2%. 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
"Growing Fragility in the US Bloc" (4/7/25) + podcast	"From Magnificent 7 to European Revival" (4/14/25) + 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 developments in the global auto and oil industries, largely reflecting the Trump administration's new US tariff policies. We next review several other international and US developments with the potential to affect the financial markets today, including a Chinese retaliatory strategy that will crimp US access to critical minerals and magnets and a review of a key Federal Reserve board member's speech in St. Louis yesterday.

Global Auto Industry: President Trump yesterday acknowledged that auto and auto parts makers will "need a little bit of time" before they can boost production in the US, adding that, "I'm looking at something to help some of the car companies." The statement raised hopes that the administration will provide tariff relief on autos and parts or perhaps offer some other kind of aid. In response, global automakers are enjoying big gains in their share prices so far today.

- It's not clear how Trump could have failed to realize the time and cost it would take for automakers to adjust to his tariff policy and shift production to the US.
- Nevertheless, Trump's statement will likely be taken as a welcome sign of flexibility in his policy approach. This will raise hopes that he may soften his policy or implement it more gradually going forward, not just for automakers but for other key industries.

Global Energy Industry: In its latest report on the oil market, the International Energy Agency slashed its forecast of demand growth this year by about one-third to just 730,000 million barrels per day. According to the agency, the smaller figure largely reflects weakening demand in the US and China as those countries impose disruptive tariffs on each other. Faltering demand growth and increased production by key suppliers is likely to keep weighing on global oil prices in the near term, with Brent today down some 0.8% to $64.41 per barrel.

Global Defense Industry: Even though President Trump has issued orders aimed at boosting the US shipbuilding industry and accelerating the construction of ships for the US Navy, he said in a statement last week that he may ask Congress for authority to buy future navy ships from foreign countries in the interim. It appears that the most likely foreign suppliers of navy ships would be Japan and South Korea.

- As we have often noted, questions about Trump's commitment to US allies have already prompted key countries to accelerate their defense rebuilding. We think that has created investment opportunities, especially in European defense stocks.
- It would probably take some time for the US to significantly boost its orders to Japanese or South Korean shipyards. However, given the enormous size of the US defense budget, any such program could be a boon to Asian companies and defense stocks.

China-United States: Amid all the news on the US-China tariff war over the last week, many investors may have missed an equally important new trade barrier. Late last week, Beijing said it is suspending the export of several critical minerals and advanced magnets. Since China has a virtual monopoly on the supply of such products, the move threatens to disrupt the operations of automakers, aerospace manufacturers, semiconductor firms, and military contractors around the world, at least when those companies work through their current inventories.

- After President Trump announced his "reciprocal" tariffs on April 2, China said one of its retaliatory measures would be to impose licensing requirements for the export of six heavy rare-earth metals, which are refined entirely in China, and rare-earth magnets, 90% of which are produced in China.
- Chinese officials say the export suspensions are only to allow the government to develop the required licensing procedures. Of course, the risk is that Beijing will slow-walk that process, essentially leaving in place an export ban on the rare earths and magnets.

Japan: New official data released yesterday showed that the Japanese population fell 0.44% to just 123.8 million in 2024, marking the 14th straight year of contraction. In addition, the share of those aged 65 and older hit a record 29.3%. Low birth rates, falling headcounts, and population aging continue to present long-term challenges for the Japanese economy and businesses, even though labor market reforms in recent years have temporarily averted problems by drawing more people into the labor force.

Germany: The ZEW Economic Sentiment Index dived to -14.0 in April, down from 79.6 in March. The reading was much worse than expected. The ZEW indicator tracks the expectations of analysts at German banks, insurance companies, and other firms, and the latest reading likely reflects plummeting confidence in Europe's largest economy after President Trump announced his big tariff hikes earlier this month.

United States-United Kingdom: Vice President Vance said in an interview yesterday that he sees "a good chance" of the US and the UK striking a free-trade deal "that's in the interest of both countries." As a reminder, the Trump administration has only subjected the UK to the president's baseline tariff of 10% so far. A US-UK trade deal would be a political boon for British Prime Minister Starmer, but some members of the Trump coalition might push back against any concessions to UK manufacturers, especially if they help Starmer's center-left Labour Party.

US Monetary Policy: At an event in St. Louis attended by Confluence personnel yesterday, Fed board member Christopher Waller discussed how he is thinking about President Trump's tariff hikes and what they might mean for US monetary policy. Importantly, Waller insisted that higher US import tariffs would only boost consumer price inflation temporarily. However, he stressed that uncertainty surrounding the tariffs could weigh heavily on economic growth, with many firms telling him they have frozen investment and fear going out of business.

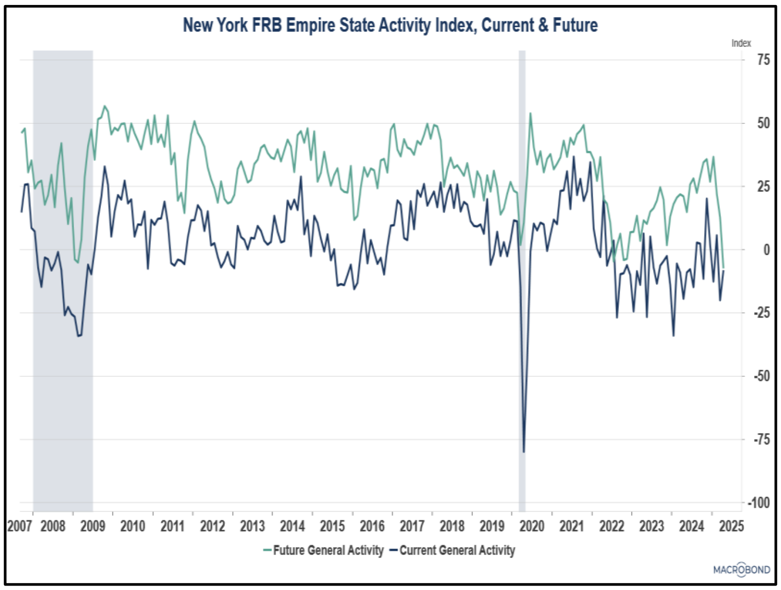
- To guide his thinking about the tariffs, Waller said he is considering two basic scenarios. In his "long lasting, high rate" scenario, Waller envisions average US import tariffs staying at 25% through at least 2027, up from about 3% at year-end 2024. In this scenario, Waller said he would expect inflation to surge to as much as 5%, but only for a short time. He expected that growth in this scenario would slow sharply, potentially setting the stage for multiple interest-rate cuts.
- In his "temporary, low rate" scenario, Waller assumes the average import tariff would quickly fall back to 10% as the US and other countries negotiate new trade relations. He expects inflation in this scenario to rise to only about 3% and then fall back quickly. In this scenario, Waller suggested the Fed would stand by its current plans to cut rates just a few more times before the end of this year.

US Tariff Policy: Reports yesterday said the Trump administration has opened investigations into the national security implications of relying on foreign semiconductors, semiconductor manufacturing equipment, pharmaceuticals, and pharmaceutical ingredients. The probes are being widely seen as preliminary steps to imposing steep new import tariffs on semiconductors and pharmaceuticals, especially those from China. Those new tariffs could come in the next few months, once the probes are completed.

- Separately, in a quarterly earnings call, healthcare giant Johnson & Johnson today said it expects as much as $400 million in tariff costs on medical devices this year, counting only the baseline, reciprocal, and other tariffs announced so far.
- Based on those tariff costs, the company boosted its 2025 sales forecast but kept its earnings expectation unchanged. The forecasted numbers would presumably change if the Trump administration imposes steep tariffs on pharmaceutical imports later this year.

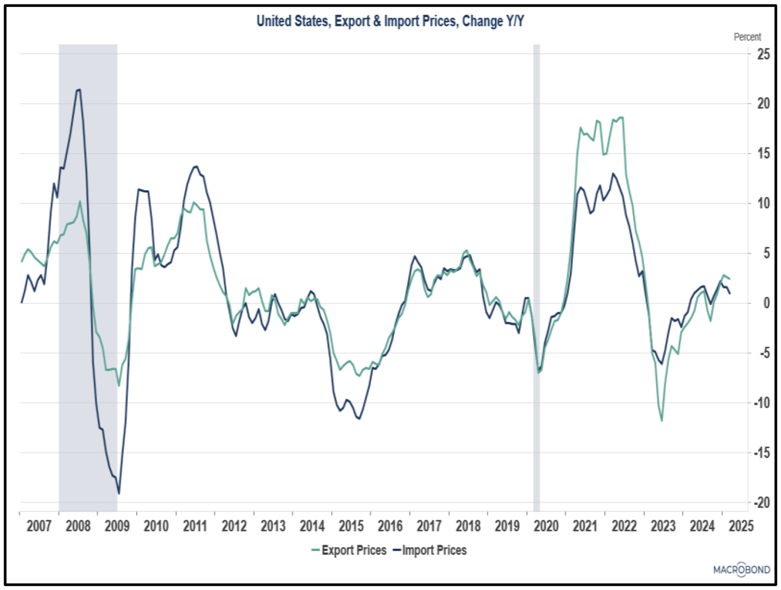
US Economic Releases

The New York FRB said its April ***Empire State Manufacturing Index*** rose to a seasonally adjusted -8.1. This is an improvement from the prior month's -20.0, and it also exceeds the expected -13.5. This index is designed so that positive readings point to expanding factory activity in New York state. At its current level, the index suggests that economic activity in this sector is contracting. The chart below shows how the index has fluctuated since just before the Global Financial Crisis.



Separately, March ***import prices*** fell 0.1% from the previous month, compared to the previous month's rise of 0.2% and the expected 0.0%. Of course, import prices are often driven by volatility in the petroleum fuels category. March ***import prices excluding fuels*** were unchanged from the previous month, which is a slight deceleration from February's 0.1% rise and falls short of the expected rise of 0.3%. Overall import prices in March rose 0.9% year-over-year, while import prices excluding fuels rose 1.6%.

According to the same report, ***export prices*** were unchanged from the previous month, which matches the expectation and marks a deceleration from the previous month's 0.5% rise. Export prices rose 2.4% from one year earlier, less than the previous month's 2.6%, but exceeding the expected 1.8% rise. Comparing the annual change in export prices versus import prices provides a sense of the US "terms of trade," or the relative advantage or disadvantage the country is facing because of trends in international trade prices. The chart below compares the year-over-year change in US export and import prices since just before the Great Financial Crisis.



The following table lists the releases and/or Fed events scheduled for the rest of the day.

Economic Releases		
No economic releases for the rest of today		
Federal Reserve		
EST	**Speaker or Event**	**District or Position**
19:10	Lisa Cook Speaks at Alumni Event	Member of the Board of Governors

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								
New Zealand	Food Prices	m/m	Mar	0.5%	-0.5%		***	Equity and bond neutral
South Korea	Money Supply L SA	m/m	Feb	0.5%	0.8%		*	Equity and bond neutral
	Money Supply M2 SA	m/m	Feb	0.6%	0.5%		*	Equity and bond neutral
India	Wholesale Prices	m/m	Mar	2.05%	2.38%	2.50%	*	Equity and bond neutral
India	CPI	y/y	Apr	3.3%	3.61%	3.50%	***	Equity and bond neutral
India	Trade Balance	m/m	Mar	-$21540m	-$14050m	$15500m	**	Equity and bond neutral
	Exports	y/y	Mar	0.7%	-10.9%		**	Equity and bond neutral
	Imports	y/y	Mar	11.4%	-16.3%		**	Equity and bond neutral
EUROPE								
Eurozone	ZEW Survey Expectations	m/m	Apr	-18.5	39.8		**	Equity and bond neutral
	Industrial Production WDA	y/y	Feb	1.2%	-0.5%	-0.7%	**	Equity bullish, bond bearish
Germany	ZEW Survey Expectations	m/m	Apr	-14.0	51.6	10.0	**	Equity and bond neutral
	ZEW Survey Current Situation	m/m	Apr	-81.2	-87.6	-86.8	**	Equity and bond neutral
France	CPI	y/y	Mar F	0.8%	0.8%	0.8%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Mar F	0.9%	0.9%	0.9%	**	Equity and bond neutral
	CPI Ex-Tobacco Index	q/q	Mar F	119.24	119.02	119.29	*	Equity and bond neutral
UK	Average Weekly Earnings 3M/YoY	m/m	Feb	5.6%	5.6%	5.7%	**	Equity and bond neutral
	ILO Unemployment Rate 3Mths	m/m	Feb	4.4%	4.4%	4.4%	**	Equity and bond neutral
	Claimant Count Rate	m/m	Mar	4.70%	4.60%		**	Equity and bond neutral
	Jobless Claims Change	m/m	Mar	18.7k	44.2k		**	Equity and bond neutral
AMERICAS								
Canada	Wholesale Sales ex Petroleum	m/m	Feb	0.3%	1.4%	0.40	**	Equity and bond neutral
Brazil	FGV Inflation IGP-10	m/m	Apr	-0.22%	0.04%	-0.30%	**	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)	420	421	-1	Up
U.S. Sibor/OIS spread (bps)	428	428	0	Down
U.S. Libor/OIS spread (bps)	427	426	1	Down
10-yr T-note (%)	4.38	4.38	0.00	Up
Euribor/OIS spread (bps)	225	228	-3	Down
Currencies	Direction			
Dollar	Up			Down
Euro	Down			Up
Yen	Up			Up
Pound	Down			Up
Franc	Down			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.

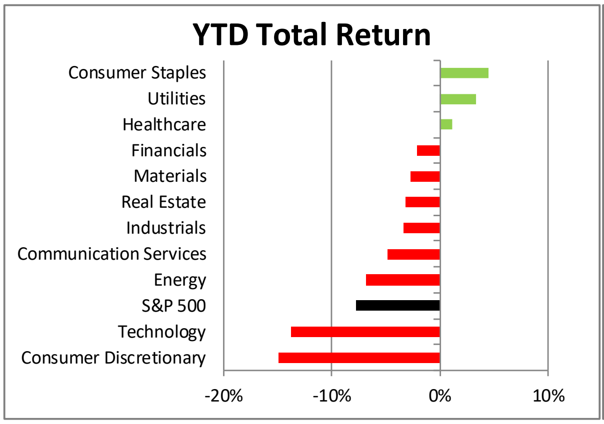
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$64.58	$64.88	-0.46%	
WTI	$61.22	$61.53	-0.50%	
Natural Gas	$3.36	$3.33	1.14%	
Crack Spread	$24.66	$24.33	1.35%	
12-mo strip crack	$21.21	$21.12	0.42%	
Ethanol rack	$1.90	$1.90	0.01%	
Metals				
Gold	$3,223.80	$3,210.93	0.40%	
Silver	$32.31	$32.35	-0.12%	
Copper contract	$468.60	$467.80	0.17%	
Grains				
Corn contract	$494.75	$492.75	0.41%	
Wheat contract	$561.00	$561.75	-0.13%	
Soybeans contract	$1,044.00	$1,050.25	-0.60%	
Shipping				
Baltic Dry Freight	1,282	1,274	8	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		2.60		
Gasoline (mb)		-1.42		
Distillates (mb)		0.10		
Refinery run rates (%)		0.5%		
Natural gas (bcf)		58		

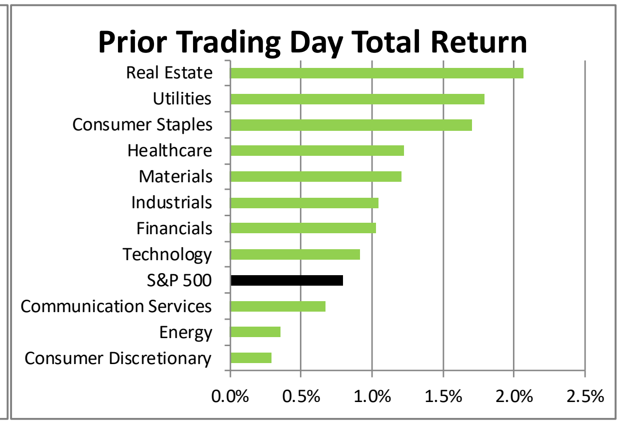
Weather

The 6-to-10 and 8-to-14-day forecasts show warmer-than-normal temperatures for the eastern two thirds of the country, with cooler-than-normal temperatures from Washington to Montana. The precipitation outlook calls for wetter-than-normal conditions for most of the country, with drier-than-normal conditions expected on the West Coast.

Data Section

US Equity Markets – (as of 4/14/2025 close)

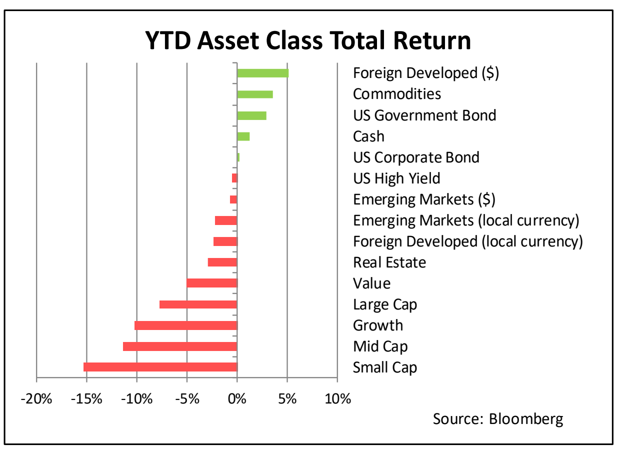




(Source: Bloomberg)

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 4/14/2025 close)

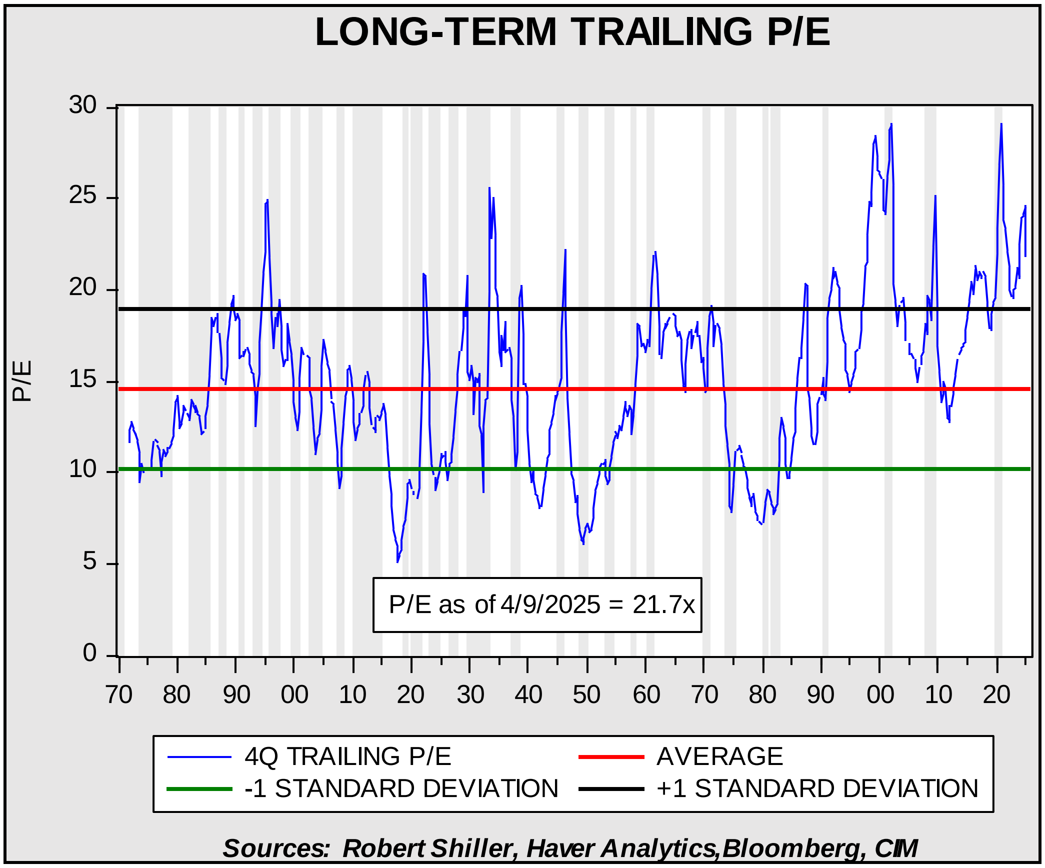


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

April 10, 2025



Based on our methodology,[1] the current P/E is 21.7x, down 2.3 from our last report. The drop in the multiple resulted primarily from a sharp decrease in the stock price index, which offset the decline in Q1 earnings.

[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 (Q2, Q3, and Q4) and one estimate (Q1). 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.