



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: April 2, 2026 – 9:30 AM ET] Global equity markets are lower this morning. In Europe, the Euro Stoxx 50 is down 2.2% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 2.8%. Chinese markets were lower, with the Shanghai Composite down 0.7% and the Shenzhen Composite down 1.6%. 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
“From the Shah to the Strait” (3/23/26) + podcast	“The Strategic Petroleum Reserve: A Primer” (3/30/26) + podcast	Q1 2026 Report Q1 2026 Rebalance Presentation	Confluence of Ideas podcast Confluence Mailbag

Have a question on the economy, markets, geopolitics, or other important topics? You can submit your queries to our monthly podcast, *Confluence Mailbag*! Submit your question to mailbag@confluenceim.com.

Note: Due to the holiday, there will not be a Daily Comment published tomorrow or a Bi-Weekly Geopolitical Report published next week.

Our *Comment* opens with a discussion of the strengthening labor market. We then outline our views on tariff policy one year after Liberation Day. In addition, we provide a brief update on the US-Israeli war with Iran and examine concerns that AI investment may be crowding out other areas of capital spending. As always, we include a summary of recent US and international economic data releases.

Labor Comeback: There are growing indications that firms are finally starting to ramp up their hiring activity. In March, the [ADP private payrolls report showed that the economy added over 62,000 jobs](#), beating estimates of 40,000. Although the overall number remains low, the upside surprise suggests that the economy is starting to gain steam following a slowdown in which the BLS estimated that only 181,000 jobs were added during the whole of 2025. The uptick in job

creation is likely to boost optimism that the labor market and the broader economy remain on solid footing.

- The reading is likely to increase positivity heading into the next payroll report, scheduled for release on Friday. While the ADP and BLS private payroll series often diverge on a month-to-month basis, they have historically tracked each other over longer time horizons. A sustained acceleration in ADP readings should eventually show up in the BLS figures — though no single report should be treated as a reliable preview of the official data.
- The Michigan Survey of Consumer Sentiment adds to the case for a firming labor market, with households reporting greater optimism about near-term job prospects. The improvement was broad-based across education levels but most striking among high school-educated respondents. A growing sense of job optimism among workers over 65 is an additional signal, suggesting improving labor conditions may be drawing older workers back into the workforce.
- This improvement is likely to reinforce the Federal Reserve's view that the labor market is stabilizing, reducing the urgency for near-term rate cuts. Several Fed officials, including Chicago Fed President Austan Goolsbee, have indicated a wait-and-see approach, with inflation remaining stubbornly above the 2% target. This leaves the Fed increasingly focused on its price stability mandate before considering further easing.
- The improvement in the labor market is likely a welcome sign for the economy, as it should help counter concerns of a downturn. However, the resurgence could make it harder to justify a rate cut this year. While we believe the economy remains well positioned to absorb shocks, we think that a strengthening labor market, together with still-elevated inflation, will likely keep the Fed from cutting rates at least until the summer, when a new Fed chair is selected.

Liberation Day Anniversary: A year after the White House announced its new tariffs, uncertainty persists over both the scale and durability of these levies. The government is now in the process of issuing refunds to companies after the [Supreme Court ruled that imposing tariffs under IEEPA exceeded the president's authority](#). At the same time, the president has been exploring alternative legal statutes to reimpose similar measures. Although the broader economy has displayed notable resilience, this policy uncertainty continues to unsettle business owners.

- The president is expected to announce two tariff changes in the coming weeks. He is scheduled [to introduce new tariffs on Thursday targeting pharmaceutical companies](#) that have failed to reduce drug prices. In addition, the White House is preparing to [overhaul existing steel and aluminum tariffs](#) by shifting the focus toward finished products, with the administration aiming to impose a 25% duty on goods manufactured using non-US inputs.
- The move comes as the White House seeks to bolster the effectiveness of its trade measures following heightened legal and political scrutiny. Pharmaceutical firms have so far failed to bring US drug prices in line with those charged in other countries. Additionally, existing steel and aluminum tariffs have drawn criticism for effectively

penalizing domestic manufacturers that must purchase higher-priced US metal even as foreign competitors continue to access cheaper overseas supplies.

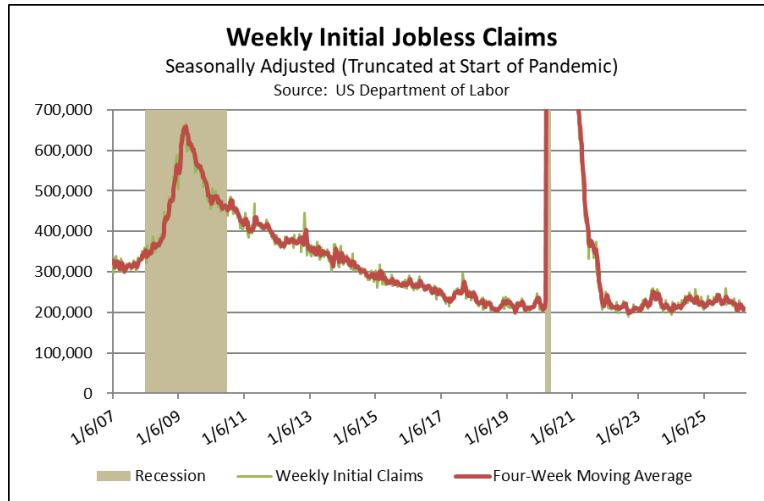
- That said, firms are still in the early stages of adapting to the current tariff regime, relying on product mix shifts, supplier diversification, margin compression, and selective price increases to absorb costs. At the same time, firms have found additional cost savings through technology adoption, which has boosted productivity and reduced the need to hire more workers.
- While uncertainty persists, these measures have likely fostered greater resilience than what was present at Liberation Day. Since last April, it has become clear that the economic and market impact of tariffs may be less severe than originally feared. Consequently, we are less worried that tariff changes (though disruptive to specific sectors) will undermine the broader market. Our view remains that tariffs only matter if they hurt earnings or lead to tighter monetary policy.

Iran Update: On Wednesday, both the US and Iran appealed to the American public concerning the Persian Gulf conflict. President Trump asserted the US is [positioned to end this war in the coming weeks](#) and vowed to intensify pressure on Iran. The [Iranian president sent a letter expressing no ill will to the American people](#) and stated that Iran poses no threat to the country. Both nations are strategically courting American public opinion to gain diplomatic leverage in talks.

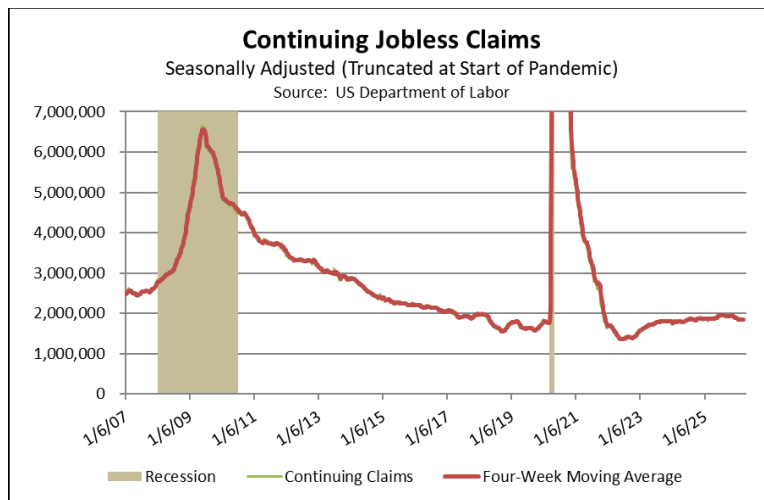
AI Crowd out: Growing concerns have emerged that the tech sector's aggressive push to build out AI infrastructure has come at the cost of investment elsewhere in their businesses. Microsoft is a notable example; [after pausing data center development, it found itself losing ground to rivals](#). The setback underscores the dilemma of whether to spend heavily on AI to stay competitive, even at the risk of overcapacity. While AI investment still has momentum, there are early signs that the buildout is leading to underinvestment in other business segments.

US Economic Releases

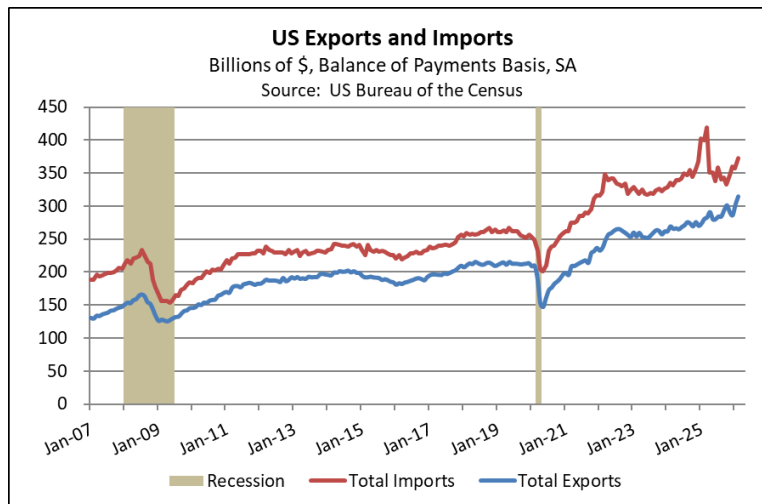
In the week ended March 28, *initial claims for unemployment benefits* fell to a seasonally adjusted 202,000, below both the expected level of 212,000 and the previous week's revised level of 211,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, fell to 207,750. The chart below shows how initial jobless claims have fluctuated since just before the Great Financial Crisis. The chart is truncated through much of the pandemic period because of the extremely high level of claims at that time.



In the week ended March 21, the number of *continuing claims for unemployment benefits* (people continuing to draw benefits) rose to a seasonally adjusted 1.841 million, above both the anticipated reading of 1.837 million and the prior week’s revised reading of 1.816 million. The four-week moving average of continuing claims fell to a low 1,838,750, its lowest level since late 2024. The chart below shows how continuing claims have fluctuated since the GFC. It is also truncated during the pandemic period because of the high level of claims at the time.



In a separate report today, the February *trade balance* showed a seasonally adjusted deficit of \$57.3 billion, narrower than the expected shortfall of \$60.6 billion but wider than the revised January deficit of \$54.7 billion. According to the data, total *exports* rose 4.2%, while *imports* rose 4.3%. Compared with the same month one year earlier, exports in February were up 12.2%, while imports were down 7.1%. The chart below shows the monthly value of US exports and imports since just before the GFC.



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		
Federal Reserve		
EST	Speaker or Event	District or Position
10:15	Lorie Logan Speaks at Dallas Fed Banking Conference	President of the Federal Reserve Bank of Dallas
12:45	Michelle Bowman Speaks at Banking Conference (Closed 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 shift 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	Monetary Base	y/y	Mar	-11.6%	-10.6%		**	Equity and bond neutral
	Monetary Base, End of Period	m/m	Mar	¥580.7t	¥582.7t		*	Equity and bond neutral
	Japan Buying Foreign Bonds	w/w	27-Mar	-¥945.4b	-¥635.1b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	27-Mar	¥140.6b	¥30.3b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	27-Mar	-¥2646.3b	¥511.8b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	27-Mar	-¥4448.1b	-¥2511.0b		*	Equity and bond neutral
Australia	Trade Balance	m/m	Feb	A\$5686m	A\$2258m	A\$2820m	***	Equity and bond neutral
	Exports	m/m	Feb	4.9%	-1.6%		*	Equity and bond neutral
	Imports	m/m	Feb	-3.2%	1.1%		*	Equity and bond neutral
South Korea	CPI	m/m	Mar	2.2%	2.0%	2.3%	***	Equity and bond neutral
India	HSBC India PMI Mfg	m/m	Mar F	53.9	53.8		***	Equity and bond neutral
EUROPE								
France	Budget Balance YTD	y/y	Feb	-32.1b	-9.7b		***	Equity and bond neutral
Italy	New Car Registrations	y/y	Mar	7.6%	14.0%		*	Equity and bond neutral
	Retail Sales	y/y	Feb	1.6%	2.5%	2.1%	**	Equity bearish, bond bullish
Switzerland	CPI	y/y	Mar	0.3%	0.1%	0.5%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Mar	0.6%	0.5%		*	Equity and bond neutral
	Core CPI	y/y	Mar	0.4%	0.4%	0.4%	*	Equity and bond neutral
Russia	Retail Sales	m/m	Feb	0.30%	0.7%	1.0%	***	Equity and bond neutral
	Unemployment Rate	m/m	Feb	2.1%	2.2%	2.2%	**	Equity and bond neutral
	Real Wages	y/y	Jan	8.6	2.4	2.5	**	Equity and bond neutral
AMERICAS								
Canada	S&P Global Canada Manufacturing PMI	m/m	Mar	50.0	51.0		***	Equity and bond neutral
Mexico	Remittances Total	m/m	Feb	\$4468.20m	\$4594.1m	\$4490.0m	*	Equity and bond neutral
	S&P Global Mexico Manufacturing PMI	m/m	Mar	48.9	47.1		***	Equity and bond neutral
	IMEF Manufacturing Index SA	m/m	Mar	47.4	47.1		*	Equity and bond neutral
	IMEF Non-Manufacturing Index SA	m/m	Mar	49.0	50.0	49.7	*	Equity and bond neutral
Brazil	S&P Global Brazil Manufacturing PMI	m/m	Mar	49.0	47.3		***	Equity and bond neutral
	Industrial Production	y/y	Feb	-0.7%	0.2%	-1.0%	***	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)	361	361	0	Up
U.S. Sibor/OIS spread (bps)	368	368	0	Up
U.S. Libor/OIS spread (bps)	366	366	0	Up
10-yr T-note (%)	4.37	4.32	0.05	Down
Euribor/OIS spread (bps)	208	208	0	Up
Currencies				
	3 Mo			
Dollar	Down	US		Up
Euro	Up	Euro		Down
Yen	Up	Japan		Down
Pound	Up	UK		Down
Franc	Up	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.

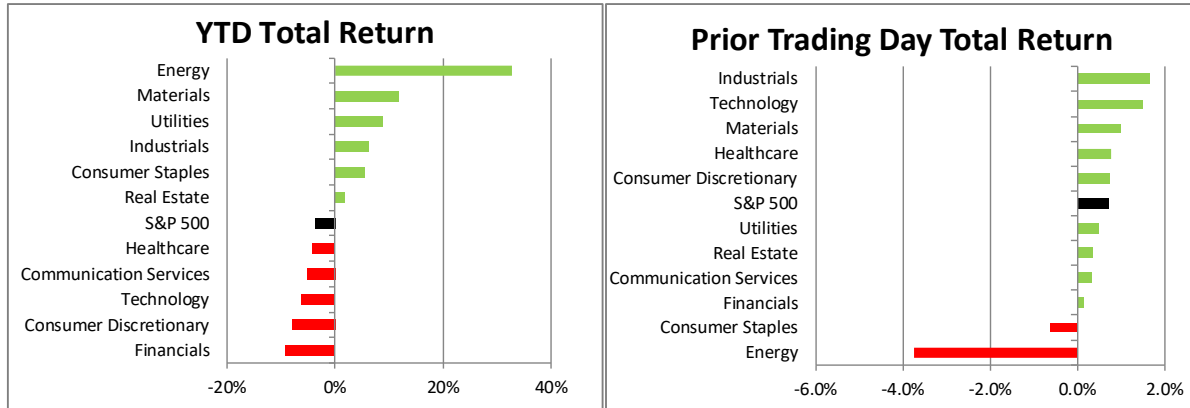
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$109.21	\$101.16	7.96%	Middle East Conflict
WTI	\$108.79	\$100.12	8.66%	Middle East Conflict
Natural Gas	\$2.84	\$2.82	0.71%	
Crack Spread	\$47.09	\$44.08	6.84%	Middle East Conflict
12-mo strip crack	\$38.07	\$36.00	5.76%	Middle East Conflict
Ethanol rack	\$2.16	\$2.17	-0.45%	
Metals				
Gold	\$4,615.39	\$4,758.57	-3.01%	Middle East Conflict
Silver	\$70.86	\$75.08	-5.63%	Middle East Conflict
Copper Contract	\$553.35	\$564.65	-2.00%	
Grains				
Corn contract	\$457.50	\$454.25	0.72%	
Wheat contract	\$607.50	\$597.50	1.67%	
Soybeans contract	\$1,171.25	\$1,168.50	0.24%	
Shipping				
Baltic Dry Freight	2,030	1,995	35	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)	5.45	2.00	3.45	
Gasoline (mb)	-0.59	-2.37	1.78	
Distillates (mb)	-2.11	-0.05	-2.06	
Refinery run rates (%)	-0.08%	0.60%	-0.68%	
Natural gas (bcf)		37		

Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in the Far West, the central Great Plains, and the Mississippi Valley, with cooler-than-normal temperatures in northern North Dakota and Minnesota. The outlook calls for wetter-than-normal conditions from the Rocky Mountains to the Mississippi River, with dry conditions in the Pacific Northwest and the Carolinas.

Data Section

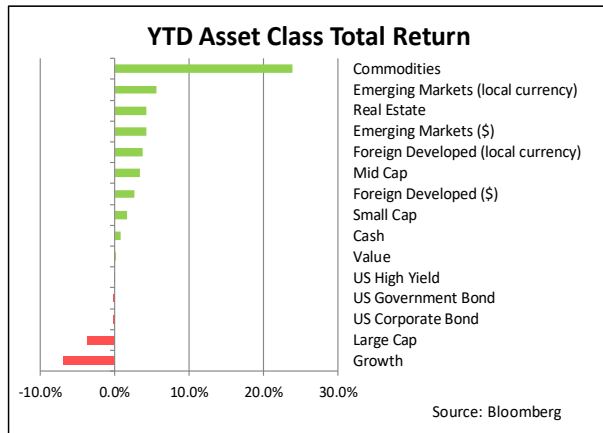
US Equity Markets – (as of 4/1/2026 close)



(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 4/1/2026 close)

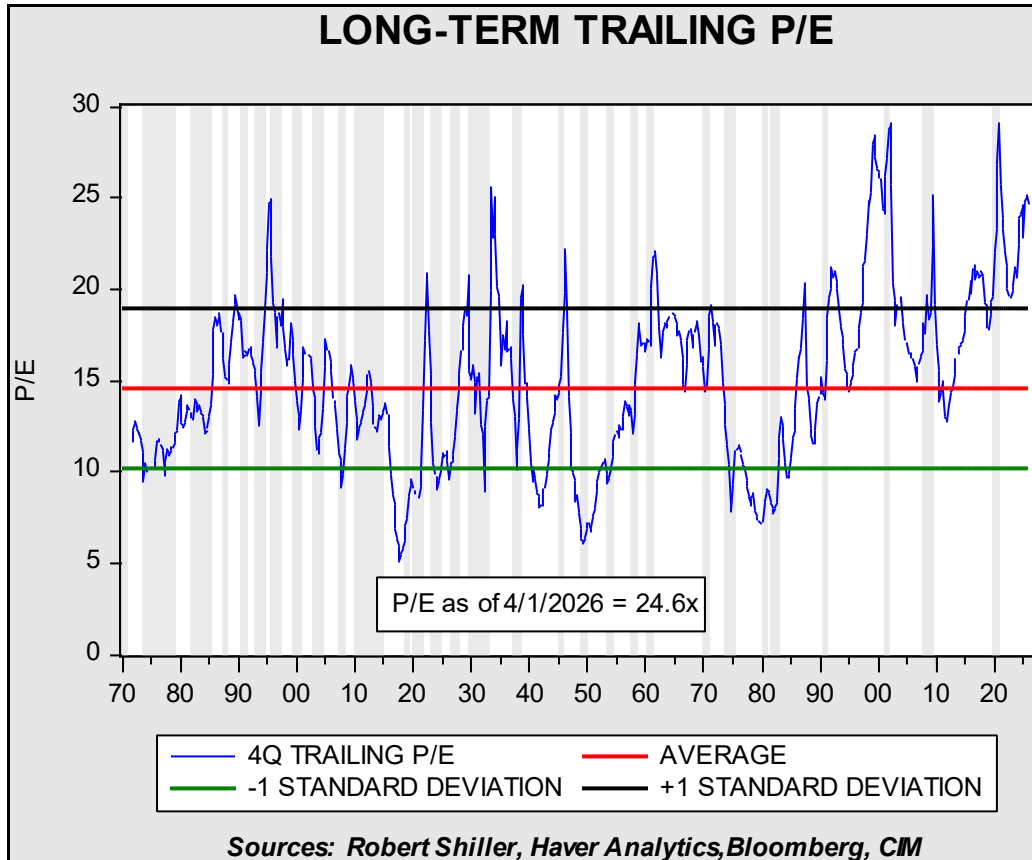


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 2, 2026



Based on our methodology,¹ the current P/E is 24.6x, unchanged from the previous report. Last week, the stock price index fell slightly, while earnings were relatively unchanged 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, Q4) and one estimate (Q3). 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.