Daily Comment

Confluence INVESTMENT MANAGEMENT

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: April 30, 2025 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 closed up 0.3% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 1.0%. Chinese markets were mixed, with the Shanghai Composite down 0.2% from its previous close and the Shenzhen Composite up 0.7%. US equity index futures are signaling a lower open.

With 238 companies having reported so far, S&P 500 earnings for Q1 are running at $62.60 per share compared to estimates of $60.75, which is up 7.3% from Q1 2024. Of the companies that have reported thus far, 76.1% have exceeded expectations, while 19.7% 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
"Export Controls" (4/28/25) + podcast	"From Magnificent 7 to European Revival" (4/14/25) + podcast	Q2 2025 Report	Keller Quarterly

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Good morning! Markets are digesting the latest GDP figures. In sports news, the Indiana Pacers secured a victory over the Milwaukee Bucks in last night's NBA playoff action. Today's *Comment* will focus on growing concerns about a potential US recession, the EU's weighing of China trade talks, and other important market developments. As always, we've included our regular summary of both domestic and international economic data releases to keep you informed.

Recession Worries Rise: Despite rising fears of an economic slowdown, equities and bonds have not dropped as investors remain optimistic about possible intervention by the Fed.

- April's Consumer Confidence Index plummeted to 86.0 — a five-year low — which is down sharply from March's 93.9 reading. The decline reflects growing public anxiety that tariffs are dampening economic prospects. While the Present Situation Index remained relatively stable at 133.5 (down just 0.9 points), the Expectations Index cratered to 54.4, its weakest level since October 2011 and far below the 80-point threshold typically associated with recession.

- Pessimism is increasingly evident in real-time economic data as well. The latest JOLTS report revealed a decline in job openings, dropping from 7.48 million to 7.19 million in March. The ratio of job openings to unemployed workers also fell to its lowest level in four years. Meanwhile, the housing market continues to lose momentum, with national home prices rising just 0.1% month-over-month in February, well below the 0.3% consensus estimate.

- Despite the disappointing data, market optimism persists that Federal Reserve action could provide a boost. The recent weak economic indicators have prompted investors to price in additional rate cuts, with the CME FedWatch Tool now indicating a high probability of the central bank implementing its first rate cut for the year by June. Additionally, the Fed is now expected to cut rates by 100 bps by the end of the year.
- Markets are pricing in a June rate cut, but pressure is mounting on the Fed to act sooner. President Trump has intensified his calls for immediate easing at the May 7 meeting to stave off a potential downturn. He has repeatedly criticized Chair Powell's cautious approach to shifting economic conditions and is now reportedly considering appointing a shadow Fed chair, a move that could undermine Powell's authority and sway over markets.
- Next Wednesday, the Fed will likely have to weather a storm of concerns about the strength of the economy as well as the potential inflationary impact on tariffs. Most Fed officials have signaled that they will likely keep rates unchanged until they have a better understanding of where the economy is heading. As a result, we suspect the upcoming

labor report on Friday will play a strong role as to whether the Fed will cut rates next week.

EU Playing Both Sides? The bloc of European countries is currently weighing trade talks with China while simultaneously pushing for a deal with the US.

- The Chinese government has lifted sanctions on five European parliament members who had criticized China's human rights record, marking a goodwill gesture ahead of bilateral trade talks. While European officials welcomed this move, negotiations are expected to include discussions about China's industrial policies as well as accusations of dumping. The thaw in relations may accelerate following the Ukraine war's conclusion, as both sides had supported opposing factions in the conflict.
- The diplomatic thaw unfolds as Europe wrestles with its fraught relationship with Washington amid escalating US tariffs on EU exports. Despite lingering hesitancy, there are growing signs that Europe may be open to dialogue with Beijing. Spanish PM Pedro Sánchez has pushed for stronger EU-China engagement, while Italy's Giorgia Meloni maintains pragmatic bilateral ties despite withdrawing from China's Belt and Road Initiative.

- Meanwhile, US-EU trade negotiations remain deadlocked, with the bloc's Digital Services Tax continuing to serve as a major obstacle. The impasse was most recently highlighted by Treasury Secretary Bessent, who identified the controversial tax as a key sticking point before the two sides can come to an agreement.
- While the EU's engagement with China is unlikely to fundamentally shift its strategic alignment with the US, it underscores a shifting geopolitical terrain where nations adapt to a less accommodating America retreating from its role as the primary absorber of

global demand. We foresee the EU navigating a delicate balance between Washington and Beijing to further its global economic objectives.

- In the near to medium term, the euro could find tailwinds from two primary sources: (1) the US administration's apparent inclination towards dollar depreciation to stimulate exports, and (2) the potential for increased Chinese capital inflows into European markets.

India-Pakistan Feud Escalates: The two neighboring countries appear to be heading toward direct conflict, as both sides continue escalating tensions with provocative actions that risk triggering war.

- Tensions between the two nations continue to build following a deadly Islamist militant attack in India-administered Kashmir last week that killed 26 people. In response, Indian Prime Minister Narendra Modi has vowed retaliation, accusing Pakistan of involvement in the assault. Since the attack, both sides have shot down each other's surveillance drones near their shared border. On Tuesday, Pakistan's defense minister warned that war could erupt within 2-3 days if tensions continue to rise.
- The US faces a significant challenge as it attempts to maintain both countries within its sphere of influence. While India maintains ties with China, it also stands to benefit substantially as the US seeks to reduce its reliance on the world's second-largest economy. Pakistan, on the other hand, remains a strategic partner — a status underscored by the Trump administration's decision to exempt the country from the budget cuts it made in foreign aid.
- In this tense situation, US Secretary of State Rubio is getting ready for important talks with both countries. He needs to do two things: 1) stop the fighting from getting worse, and 2) protect America's interests in the region. If these talks fail, it could be very dangerous. India and Pakistan both have nuclear weapons, and if they go to war, it could scare investors and hurt economies around the world.

Ukraine Deal Close? Ukrainian officials may sign a minerals deal today, as Trump holds out hope that Putin will end his invasion of the country.

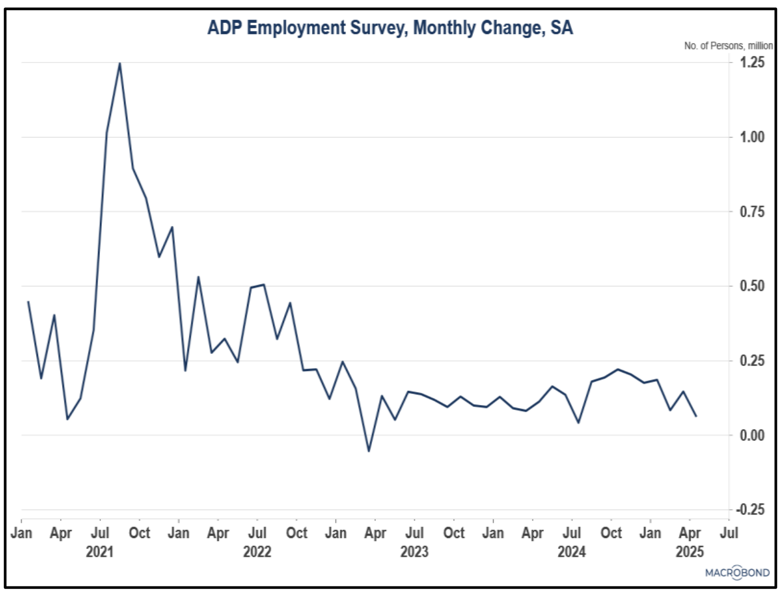
- Ukrainian Economy Minister Yulia Svyrydenko will visit Washington this week to conclude a landmark bilateral agreement following extended negotiations. The pact establishes a framework for repaying future US military assistance while locking in foreign investment for Ukraine's postwar rebuilding. The timing is significant, as it comes amid President Trump's vocal criticisms of the negotiation delays.
- Although the US-Ukraine deal is nearing completion, concerns persist that Russia may reject the proposed peace terms. President Vladimir Putin continues to insist on annexing four partially occupied regions as a precondition for any settlement. Despite these demands, President Trump remains optimistic about persuading Putin to scale back his territorial claims to end the conflict.
- Although the timeline for the ending of hostilities remains uncertain, we anticipate the conflict's conclusion within the coming months. The resolution of the war should provide

support for global risk assets and could exert downward pressure on international energy prices.

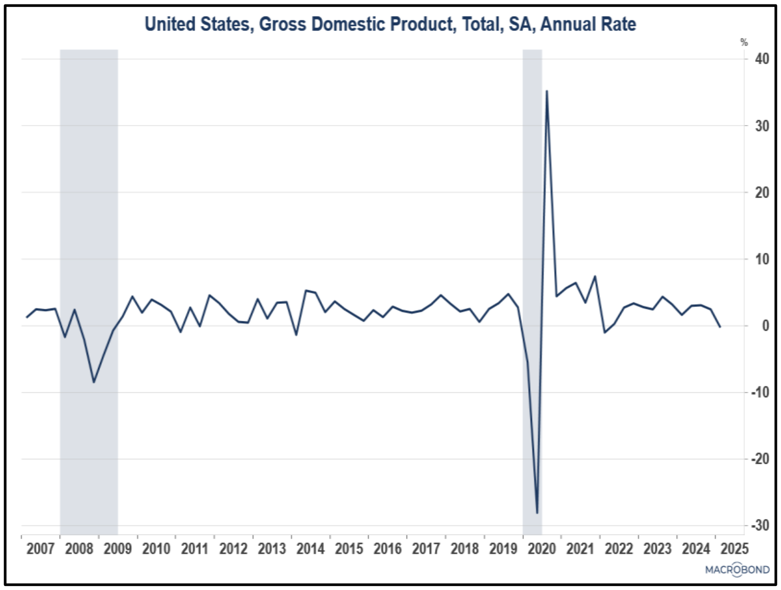
US Economic Releases

The Mortgage Bankers Association today said ***mortgage applications*** for the week ended April 26 fell 4.2%, extending the previous week's decline of 12.7%. This is the third consecutive week of declines. Purchase applications fell 4.4%, and refinancing applications fell 3.7%, both marking three consecutive declines. The average 30-year fixed-rate mortgage fell 1 basis point to 6.89%.

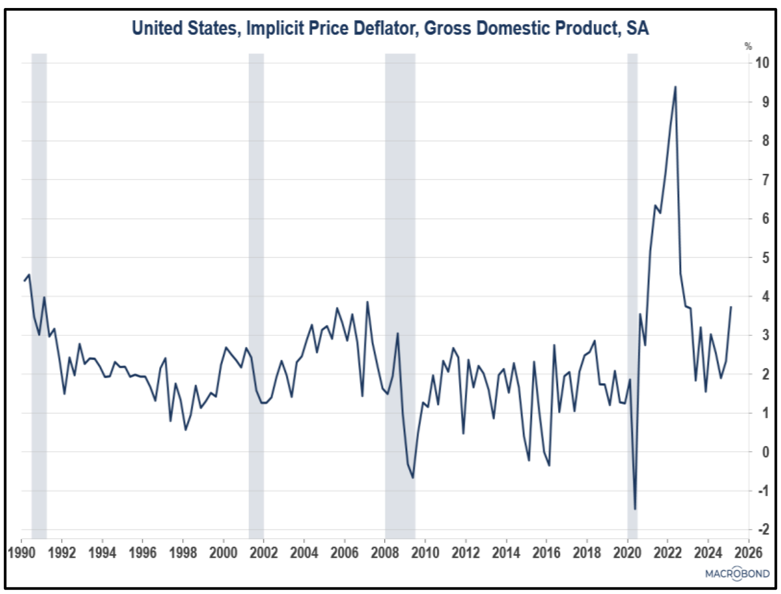
The ADP Research Institute estimated that ***private payroll employment*** rose in April by a seasonally adjusted 62,000, falling well short of the expected 115,000 and the previous month's 147,000. ADP's estimate is widely seen as an indicator of what to expect when the Labor Department releases its measure of nonfarm payrolls on Friday. The chart below shows the monthly change in ADP's estimate of private payrolls since the beginning of 2021.



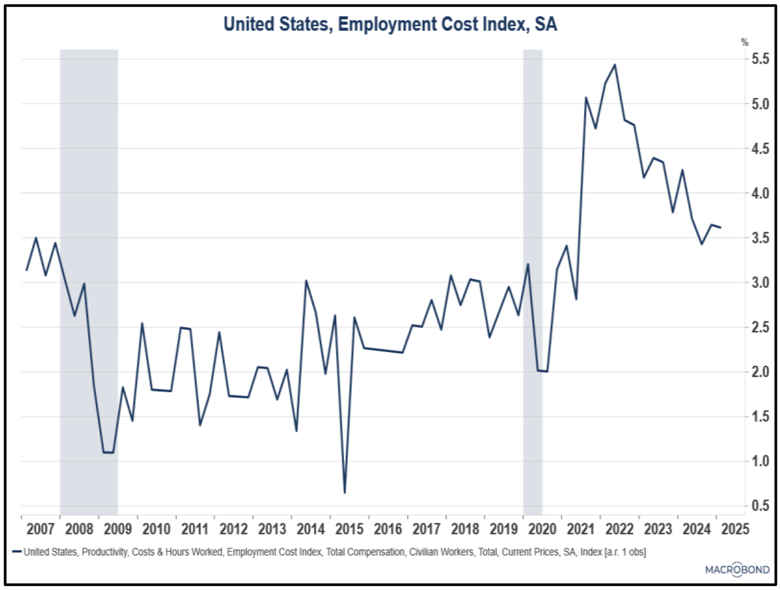
The Commerce Department released its advance estimate of economic activity in the first quarter. After stripping out seasonal factors and price changes, first-quarter ***gross domestic product (GDP)*** fell at an annualized rate of 0.3%, slightly worse than the expected decline of 0.2% and significantly weaker than the previous quarter's 2.4% growth. The chart below shows the annualized growth rate of US GDP since just before the Global Financial Crisis.



The GDP report also includes the broadest measure of US inflation. The first-quarter ***GDP Price Deflator*** registered 3.7% inflation, exceeding the expected 3.1% and marking a notable acceleration from the previous quarter's 2.3%. The chart below shows the year-over-year change in the GDP Price Index over the last several decades.



The first-quarter Employment Cost Index (ECI) matched both the expectation and the prior quarter, by rising a seasonally adjusted 0.9%. The subindex on wages and salaries rose 0.8%, while the subindex on benefits rose 1.2%. Compared with the same period one year earlier, the overall ECI in the first quarter rose 3.6%. The subindex on wages and salaries rose 3.5% year-over-year, while the subindex on benefits rose 3.8%. The chart below shows the year-over-year change in the ECI since just before the Global Financial Crisis.



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	45.9	45.5	***
10:00	Personal Income	m/m	Mar	0.4%	0.8%	***
10:00	Personal Spending	m/m	Mar	0.6%	0.4%	***
10:00	PCE Price index	m/m	Mar	2.2%	2.5%	**
10:00	Core PCE Price index	m/m	Mar	2.6%	2.8%	**
10:00	Pending Home Sales	m/m	Mar	1.0%	2.0%	**
10:00	Pending Home Sales NSA	y/y	Mar	-5.6%	-7.2%	*
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	Depart. Store & Supermarket Sales	y/y	Mar	1.7%	0.6%		*	Equity and bond neutral
	Retail Sales	y/y	Mar	3.1%	1.3%	3.5%	**	Equity and bond neutral
	Industrial Production	y/y	Mar P	-0.3%	-0.3%	0.8%	***	Equity bearish, bond bullish
	Housing Starts	y/y	Mar	39.1%	2.4%	1.0%	**	Equity bullish, bond bearish
	Annualized Housing Starts	y/y	Mar	1.080m	0.805m	0.790m	*	Equity and bond neutral
	Leading Economic Index	m/m	Feb F	107.9	107.9		**	Equity and bond neutral
	Coincident Index	y/y	Feb F	117.3	116.9		**	Equity and bond neutral
Australia	CPI	y/y	Mar	2.4%	2.4%	2.2%	**	Equity and bond neutral
	Private Sector Credit	y/y	Mar	6.5%	6.5%		**	Equity and bond neutral
New Zealand	ANZ Activity Outlook	m/m	Apr	47.7	48.6		*	Equity and bond neutral
	ANZ Business Confidence	m/m	Apr	49.3	57.5		**	Equity and bond neutral
South Korea	Industrial Production	y/y	Mar	5.3%	7.1%	3.2%	***	Equity bullish, bond bearish
China	Caixin Manufacturing PMI	m/m	Mar	50.4	51.2	49.7	***	Equity and bond neutral
	Official Composite PMI	m/m	Mar	50.2	51.4		*	Equity and bond neutral
	Official Manufacturing PMI	m/m	Mar	49.0	50.5	49.7	***	Equity and bond neutral
	Official Services PMI	m/m	Mar	50.4	50.8	50.6	**	Equity and bond neutral
EUROPE								
Eurozone	GDP	y/y	1Q A	1.2%	1.2%	1.1%	***	Equity and bond neutral
Germany	Import Price Index	y/y	Apr	2.1%	3.6%	2.5%	**	Equity and bond neutral
	Retail Sales	y/y	Apr	0.3%	0.0%	2.4%	*	Equity bearish, bond bullish
	Unemployment Change	m/m	Apr	4.0k	25.0k	15.0k	***	Equity and bond neutral
	Unemployment Claims Rate	m/m	Apr	6.3%	6.2%	6.3%	**	Equity and bond neutral
	GDP NSA	y/y	1Q P	-0.4%	-0.4%	-0.4%	**	Equity and bond neutral
	GDP WDA	y/y	1Q P	-0.2%	-0.2%	-0.2%	**	Equity and bond neutral
	CPI	y/y	Apr P	2.1%	2.2%	2.0%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Apr P	2.2%	2.3%	2.1%	**	Equity and bond neutral
France	Consumer Spending	y/y	Mar	-1.5%	0.2%	-0.4%	*	Equity bearish, bond bullish
	GDP	y/y	Q1 P	0.8%	0.8%	0.7%	**	Equity and bond neutral
	CPI	y/y	Apr P	0.8%	0.8%	0.7%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Apr P	0.8%	0.9%	0.7%	**	Equity and bond neutral
	PPI	y/y	Mar	-0.6%	-1.2%		*	Equity and bond neutral
Italy	GDP WDA	y/y	Q1 P	0.6%	0.5%	0.4%	**	Equity and bond neutral
	CPI, EU Harmonized	y/y	Apr P	2.1%	2.1%	2.3%	***	Equity and bond neutral
	CPI NIC Including Tobacco	y/y	Apr P	2.0%	1.9%	2.0%	**	Equity and bond neutral
	PPI	y/y	Mar	5.4%	8.5%		**	Equity and bond neutral
UK	Nationwide House Price Index	y/y	Apr	3.4%	3.9%	4.2%	***	Equity and bond neutral
Switzerland	KOF Leading Indicator	m/m	Apr	97.1	103.2	101.9	**	Equity and bond neutral
AMERICAS								
Mexico	International Reserves Weekly	w/w	25-Apr	$239138m	$238937m		*	Equity and bond neutral
	GDP NSA	y/y	Q1 P	0.8%	0.5%	0.7%	***	Equity and bond neutral
Brazil	Primary Budget Balance	y/y	Apr	3.6b	-19.0b	1.8b	*	Equity and bond neutral
	Net Debt % GDP	m/m	Apr	61.60%	61.40%	61.50%	**	Equity and bond neutral
	Total Outstanding Loans	m/m	Mar	6484b	6444b		**	Equity and bond neutral
	National Unemployment Rate	m/m	Mar	7.0%	6.8%	7.0%	*	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)	419	418	1	Up
U.S. Sibor/OIS spread (bps)	427	427	0	Down
U.S. Libor/OIS spread (bps)	425	426	-1	Down
10-yr T-note (%)	4.15	4.17	-0.02	Down
Euribor/OIS spread (bps)	218	219	-1	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.

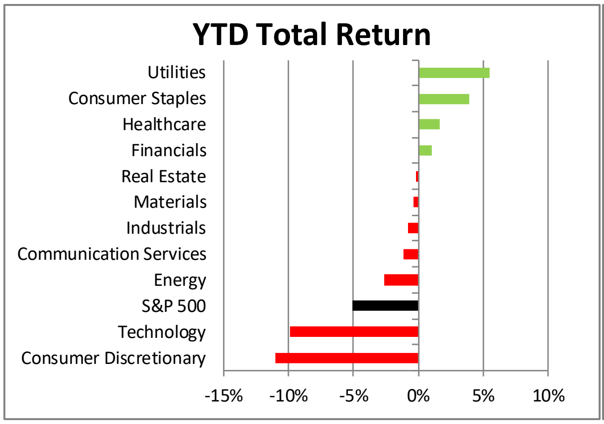
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$63.62	$64.25	-0.98%	
WTI	$59.88	$60.42	-0.89%	
Natural Gas	$3.33	$3.39	-1.80%	
Crack Spread	$26.06	$26.26	-0.75%	
12-mo strip crack	$22.39	$22.52	-0.58%	
Ethanol rack	$1.90	$1.90	-0.09%	
Metals				
Gold	$3,280.00	$3,317.41	-1.13%	
Silver	$32.27	$32.94	-2.02%	
Copper contract	$463.65	$487.25	-4.84%	
Grains				
Corn contract	$470.25	$470.25	0.00%	
Wheat contract	$527.75	$525.50	0.43%	
Soybeans contract	$1,045.25	$1,052.75	-0.71%	
Shipping				
Baltic Dry Freight	1,398	1,403	-5	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		-0.58		
Gasoline (mb)		-1.43		
Distillates (mb)		-1.71		
Refinery run rates (%)		0.2%		
Natural gas (bcf)		112		

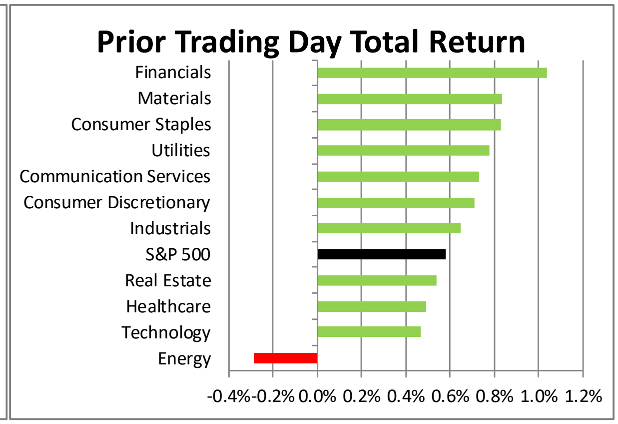
Weather

The 6-to-10 and 8-to-14-day forecasts currently call for warmer-than-normal temperatures across the northern part of the country and throughout the Mississippi Valley, with cooler than normal temperatures expected in Texas and New Mexico. The precipitation outlook calls for wetter-than-normal conditions in Florida and the western half of the country, with drier-than-normal conditions expected in New England, the Great Lakes, and the Ohio Valley.

Data Section

US Equity Markets – (as of 4/29/2025 close)

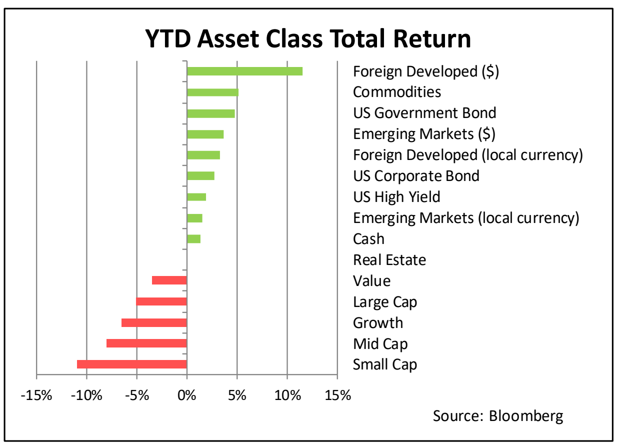




(Source: Bloomberg)

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 4/29/2025 close)

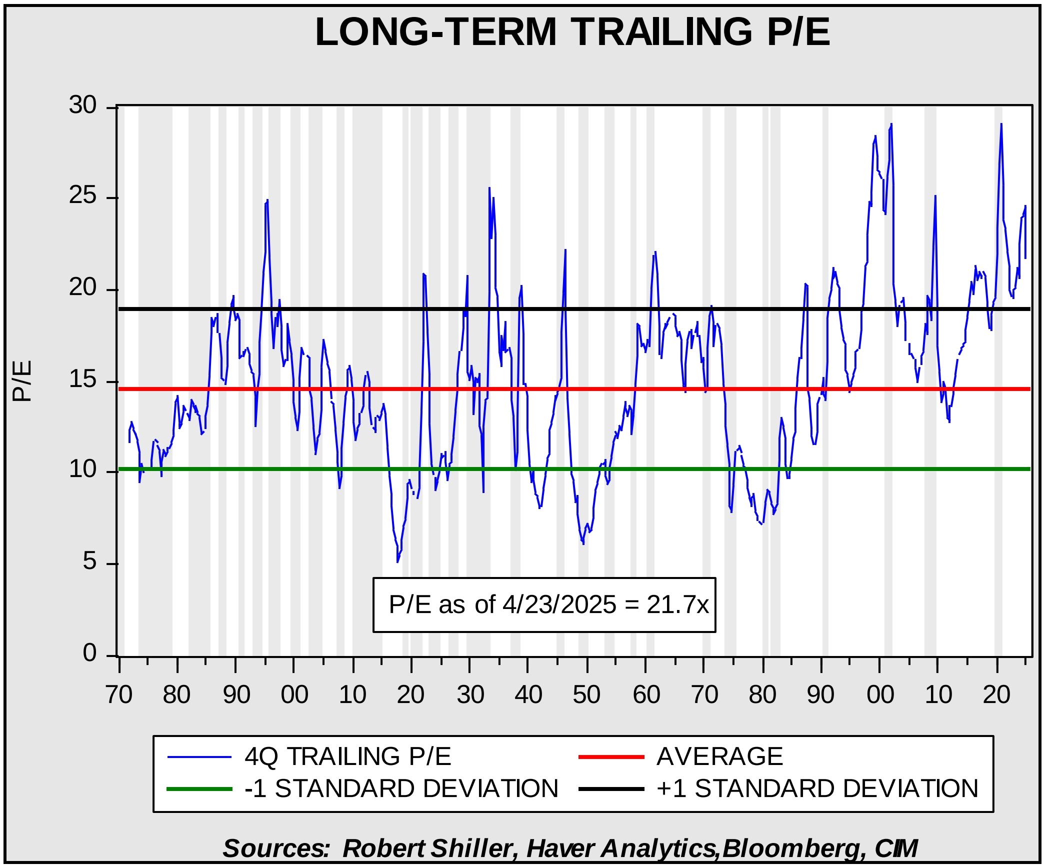


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 24, 2025



Based on our methodology,[1] the current P/E is 21.6x, down 0.1 from our last report. The stock price was little changed while earnings were revised upwards 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 (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.