



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: March 11, 2025 – 9:30 AM ET] Global equity markets are mostly higher this morning. In Europe, the Euro Stoxx 50 closed up 0.1% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.8%. Chinese markets were higher, with the Shanghai Composite up 0.4% from its previous close and the Shenzhen Composite up 0.3%. US equity index futures are signaling a higher open.

With 495 companies having reported so far, S&P 500 earnings for Q4 are running at \$65.60 per share compared to estimates of \$64.79, which is up 11.7% from Q4 2023. Of the companies that have reported thus far, 74.4% 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:

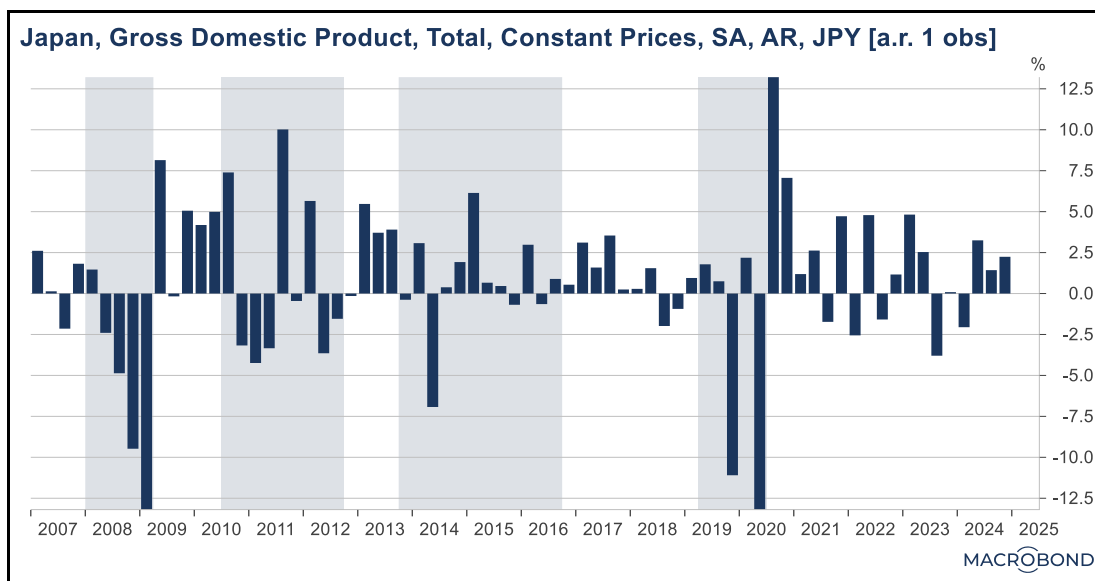
Bi-Weekly Geopolitical Report	Asset Allocation Bi-Weekly	Asset Allocation Quarterly	Of Note
“United Arab Emirates: An Overview” (3/10/25)	“Tackling Long-Term Interest Rates” (3/3/25) + podcast	Q1 2025 Report Q1 2025 Rebalance Presentation	The Confluence of Ideas podcast Business Cycle Report

Our *Comment* today opens with a few words about yesterday’s steep sell-off in the US stock market. We next review several other international and US developments with the potential to affect the financial markets today, including increased investment in the European and Australian defense industries and the latest on the US stopgap spending bill to avoid a partial government shutdown starting at the weekend.

US Financial Markets: Futures trading so far today suggests that stock prices could stabilize or even rebound modestly [after their steep declines yesterday, when the S&P 500 index fell 2.7%, and other indexes fell even more](#). Yesterday’s plunge appeared to stem largely from statements by President Trump and his administration suggesting that they are willing to tolerate short-term economic disruptions or even a recession for their longer-term goal of economic restructuring. Investors today will continue to digest those concerns.

- As we noted in our [Bi-Weekly Geopolitical Report from January 27](#), the evolving Trump economic strategy is probably more consistent and coordinated than many observers realize. Many of the strategy’s components are classic pro-growth measures that investors should like. We think the key risks are in the administration’s effort to suddenly and sharply cut spending and push many of the costs of economic adjustment onto other countries, potentially sparking a trade war and shattering the US alliance system.
- Investors are likely to keep focusing on those risks in the coming days and weeks, especially if incoming economic data continues to soften. For example, since market close yesterday, both [Delta Airlines](#) and American Airlines have reported softening consumer and business demand. Similar reports could push stock prices lower again.
- From a technical perspective, we note that yesterday’s plunge pushed the S&P 500 below its 200-day simple moving average for the first time since October 2023. The share of the S&P 500 stocks trading above their 200-day SMA is now down to 46.8%, coming closer to the 30% or so that many traders consider a weak market. If the S&P 500 continues to fall, its next major support level is probably at about 5,433, at which point it would be in correction territory.

Japan: Revised figures showed that fourth-quarter gross domestic product [expanded at an annualized rate of just 2.2%, far below the initial estimate of 2.8%](#). Nevertheless, the growth in the fourth quarter was an acceleration from the 0.6% rate in the previous quarter, and it marked the third straight period of expansion. The data will probably help prompt the Bank of Japan to keep raising interest rates after boosting its benchmark rate to 0.5% in January.



Australia: The government [has unveiled a roughly \\$19-billion investment plan to upgrade the country’s defense industrial base](#) so it can support future nuclear-powered submarines built through the AUKUS security pact with the US and the United Kingdom. The new investments in Australia’s industrial plant and workforce, coupled with regulatory reforms, show how rising

defense spending around the world is likely to spur broader economic development and boost economic growth in the coming years.

North Korea: For the first time, state media over the weekend [showed images of what it called “a nuclear-powered strategic guided missile submarine” under construction](#). South Korean analysts believe the sub would be able to carry about 10 nuclear missiles, potentially threatening the US mainland. The development has the potential to reignite tensions between Pyongyang and the governments of the US, Japan, and South Korea.

European Union: At the European Parliament today, European Commission President von der Leyen said the EU’s new 150-billion EUR (\$164 billion) loan program for member states to boost their armed forces [can only be used for purchases from European producers](#), including those in the UK, Norway, and Switzerland. According to von der Leyen, the rule aims to not only help EU nations rebuild their militaries, but also to strengthen Europe’s defense industry. The rule is likely to add even more fuel to European defense stocks and help boost Europe’s economy.

Denmark-Greenland-United States: Greenland today [is holding parliamentary elections, the outcome of which could determine whether and when the territory will hold a referendum on independence](#) and whether the US can acquire it, as President Trump wants. According to a January poll, about 85% of Greenlanders don’t want to be taken over by the US. In addition, the legislature has passed laws clamping down on foreign governments attempting to influence the island’s elections.

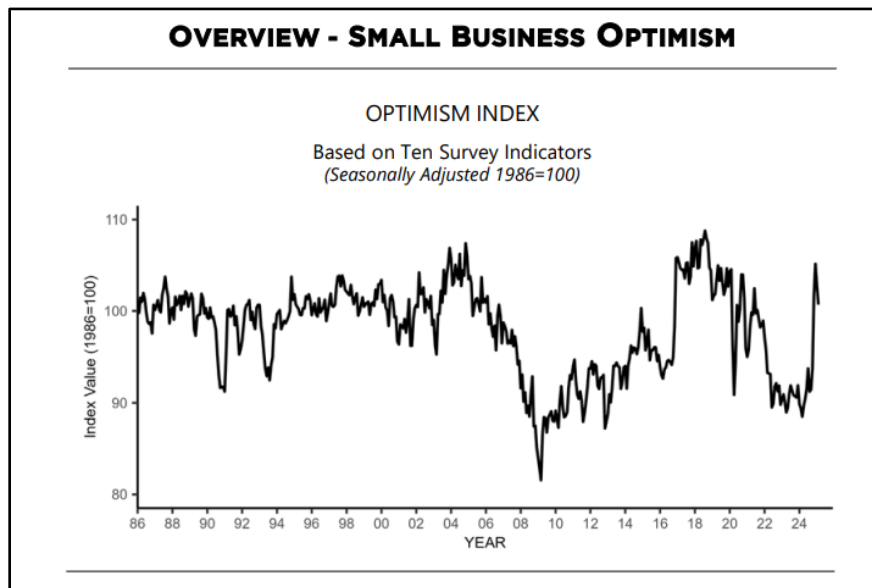
US Fiscal Policy: As the Friday deadline approaches for Congress to pass a stopgap spending bill to avoid a partial government shutdown, 21 House Republicans [have signed a letter to their leadership opposing the elimination of clean-energy tax benefits in the Biden administration’s Inflation Reduction Act](#). The signatories have threatened to vote against any spending package that eliminates the IRA funding to help pay for President Trump’s tax-cut extension.

- As we’ve noted before, Biden’s signature IRA programs have ironically channeled billions of dollars of manufacturing subsidies and other funds into districts dominated by Republicans. The signatories to the letter all represent districts that have received significant funding from the IRA.
- The letter illustrates how the IRA has created a constituency for green-energy facilities even in Republican-dominated areas. Nevertheless, it isn’t clear whether their resistance will prevent planned cuts to the IRA funding or disrupt passage of the stopgap bill.

US Military: Even as the US Army appears to be reversing its recent recruitment crisis, new data [shows that almost 25% of enlistees are washing out and leaving the service before their initial two-year contract is up](#). Army officials suggest much of the problem stems from a poor recruiting pool, with few young Americans able to meet the service’s stringent physical and educational standards. Today’s healthy labor market and rising civilian wages could also be pulling new recruits away. The data points to potential problems in US military readiness.

US Economic Releases

The National Federation of Independent Business' *Small Business Optimism Index* for February fell to 100.7 from 102.8 the prior month, falling just shy of the expected 101.0. This is a four-month low for the index, which was pulled down by a near-record high in its uncertainty component. This reflects unease over the tariff situation. Seven of the index's 10 components weakened including a slide in the economic outlook component. The chart below shows the course of the index through time.



(Source: NFIB.com)

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	JOLTS Job Openings	m/m	Jan	7600k	7600k	*
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	Household Spending	y/y	Jan	0.8%	2.7%	3.7%	**	Equity and bond neutral
	GDP SA	q/q	4Q F	0.6%	0.7%	0.7%	***	Equity and bond neutral
	GDP Deflator	q/q	4Q F	2.9%	2.8%	2.8%	***	Equity and bond neutral
	Money Stock M2	y/y	Feb	1.2%	1.3%		**	Equity and bond neutral
	Money Stock M3	y/y	Feb	0.7%	0.8%		**	Equity and bond neutral
	Machine tool orders	y/y	Feb P	3.5%	4.7%		**	Equity and bond neutral
Australia	Westpac Consumer Conf SA	m/m	Mar	4.0%	0.1%		**	Equity and bond neutral
	Westpac Consumer Conf Index	m/m	Mar	95.9	92.2		**	Equity and bond neutral
	NAB Business Confidence	m/m	Feb	-1	5		***	Equity and bond neutral
	NAB Business Conditions	m/m	Feb	4	3		***	Equity and bond neutral
New Zealand	Mfg Activity Volume	q/q	4Q	1.1%	-0.9%		**	Equity and bond neutral
	Mfg Activity SA	q/q	4Q	2.6%	0.2%		*	Equity and bond neutral
EUROPE								
Eurozone	Sentix Investor Confidence	m/m	Mar	-29.0%	-12.7%	-9.3%	*	Equity bearish, bond bullish
AMERICAS								
Mexico	Consumer Confidence	m/m	Feb	46.3	46.6		*	Equity and bond neutral
Brazil	Industrial Production	y/y	Jan	1.4%	1.4%	2.3%	***	Equity bearish, bond bullish

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)	417	418	-1	Flat
U.S. Sibor/OIS spread (bps)	429	429	0	Down
U.S. Libor/OIS spread (bps)	430	429	1	Down
10-yr T-note (%)	4.23	4.22	0.01	Down
Euribor/OIS spread (bps)	255	253	2	Down
Currencies	Direction			
Dollar	Up	US		Down
Euro	Down	Euro		Up
Yen	Up	Japan		Up
Pound	Down	UK		Up
Franc	Down	Switzerland		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.

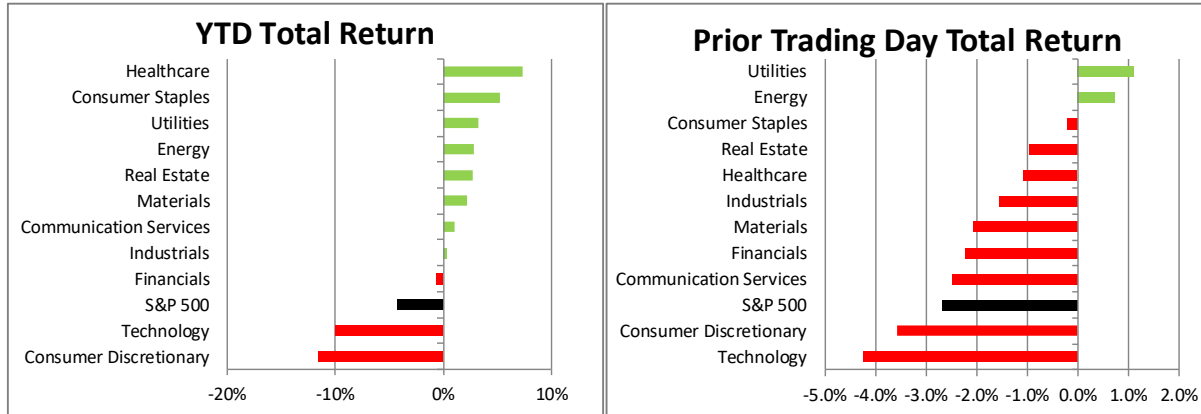
qq	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$70.12	\$69.28	1.21%	
WTI	\$66.83	\$66.03	1.21%	
Natural Gas	\$4.53	\$4.49	0.80%	
Crack Spread	\$23.07	\$23.01	0.26%	
12-mo strip crack	\$20.25	\$20.15	0.50%	
Ethanol rack	\$1.78	\$1.77	0.18%	
Metals				
Gold	\$2,913.36	\$2,888.71	0.85%	
Silver	\$32.54	\$32.11	1.36%	
Copper contract	\$476.60	\$466.65	2.13%	
Grains				
Corn contract	\$475.00	\$472.00	0.64%	
Wheat contract	\$560.00	\$562.50	-0.44%	
Soybeans contract	\$1,018.75	\$1,014.00	0.47%	
Shipping				
Baltic Dry Freight	1,424	1,400	24	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		2.00		
Gasoline (mb)		-2.23		
Distillates (mb)		-1.00		
Refinery run rates (%)		0.50%		
Natural gas (bcf)		-50		

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 from Texas to Michigan and eastward. The precipitation outlook calls for wetter-than-normal conditions in Washington, the southern Rocky Mountains, the Ohio and upper Mississippi Valleys, and New England, with drier-than-normal conditions in southern Texas.

Data Section

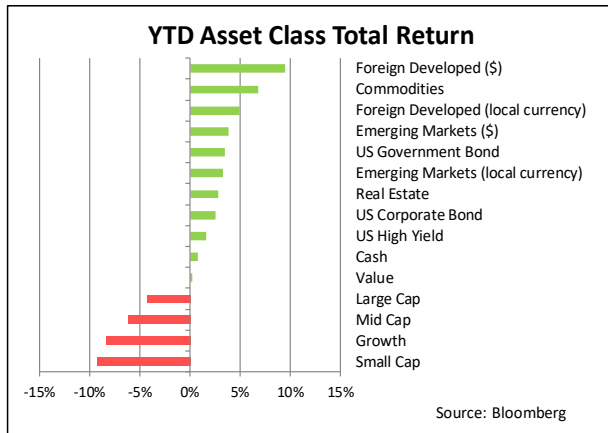
US Equity Markets – (as of 3/10/2025 close)



(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 3/10/2025 close)

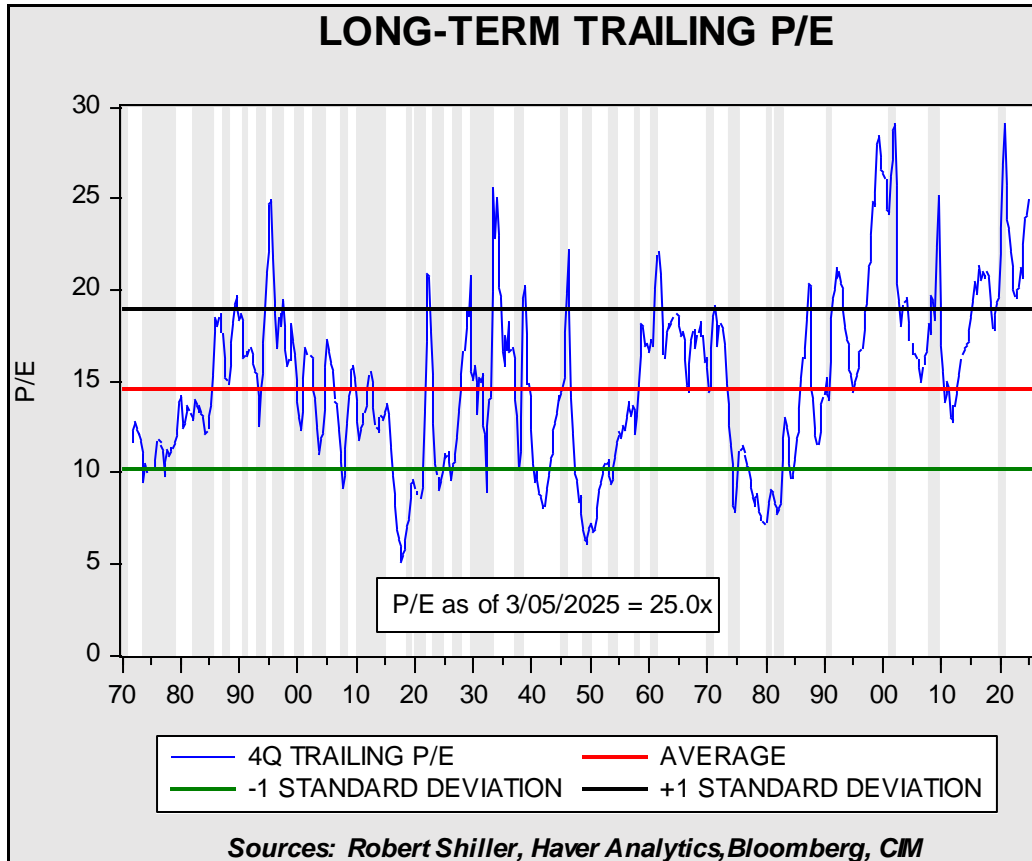


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

March 6, 2025



Based on our methodology,¹ the current P/E is 25.0x, down 0.1 from our last report. The drop in multiple was driven by a decline in the stock price index.

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 (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.