



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

**[Posted: March 4, 2025 – 9:30 AM ET]** Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 closed down 2.3% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.4%. Chinese markets were higher, with the Shanghai Composite up 0.2% from its previous close and the Shenzhen Composite up 0.7%. US equity index futures are signaling a lower open.

With 485 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, 74.3% have exceeded expectations, while 19.3% have fallen short of expectations.

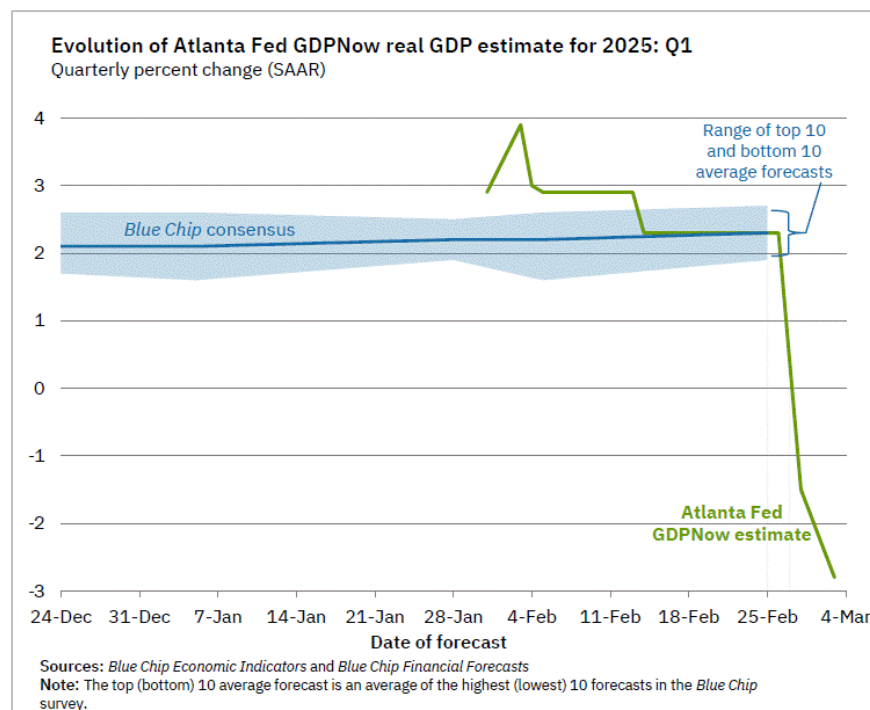
The Confluence macro team publishes a plethora of research reports and multimedia offerings on a weekly and quarterly basis, all available on our [website](#). We highlight recent publications below with new items of the day in bold:

Bi-Weekly Geopolitical Report	Asset Allocation Bi-Weekly	Asset Allocation Quarterly	Of Note
<a href="#">“Sanctions as an Investment Risk”</a> (2/24/25) + <a href="#">podcast</a>	<a href="#">“Tackling Long-Term Interest Rates”</a> (3/3/25) + <a href="#">podcast</a>	<a href="#">Q1 2025 Report</a>  <a href="#">Q1 2025 Rebalance Presentation</a>	<a href="#">The Confluence of Ideas podcast</a>  <a href="#">Business Cycle Report</a>

Good morning! The market is currently digesting the latest tariff announcements from the president. In sports news, OKC Thunder guard Shai Gilgeous-Alexander scored 51 points in the team’s recent victory, making his team the first in the competitive Western Conference to reach 50 wins this season. Today’s *Comment* will explore how tariffs are already impacting economic activity, why the Federal Reserve’s independence is being called into question, and other market-related developments. As usual, the report will also cover key domestic and international data releases.

**Stagflation Fears Rise:** The latest Purchasing Managers' Index (PMI) from the Institute for Supply Management revealed that manufacturing output growth has stagnated, while prices surged at their fastest pace since 2022. The weak reading has heightened concerns that ongoing trade tensions are starting to weigh on economic output.

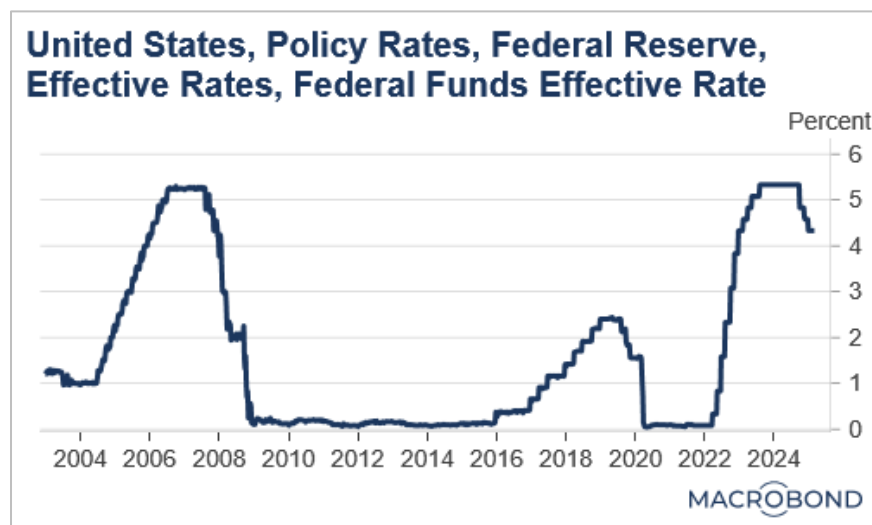
- The [February ISM Manufacturing Index came in at 50.3](#), down from the previous month's reading of 50.9. Although the report remained above the contraction threshold of 50, the expansion was primarily driven by a sharp increase in manufacturing prices, which have reached their highest level since June 2022. Meanwhile, new orders and employment both fell into contraction territory.
- While the recent reading remained above the 12-month average of 48.6, the [frequent mentions of uncertainty among respondents](#) suggest that firms are growing more concerned about their economic prospects in the future. Their worries appear to center on navigating US trade tensions with Mexico, Canada, and China, as businesses struggle to determine how to invest in this evolving environment. This challenge is further compounded by fluctuating tariff rates and uncertainty over potential policy responses.
- On Monday, President Trump [announced plans to follow through on his threat to impose tariffs](#) as a punitive measure against countries he claims are not doing enough to curb the flow of fentanyl into the US. Mexico and Canada will face a 25% tariff on all goods, with the exception of Canadian energy products, which will be subject to a lower import tax of 10%. Meanwhile, tariffs on Chinese goods will double from 10% to 20%. He is also weighing additional tariffs on steel, aluminum, [and food imports](#).
- In response, Canada [has imposed a 25% tariff on \\$20.6 billion worth of US goods](#), including orange juice, peanut butter, wine, and coffee. A second round of tariffs targeting cars, trucks, and steel is also expected to take effect in the coming weeks. Meanwhile, China has [retaliated by targeting US agricultural products](#) with a 15% tariff, and [Mexico plans to announce its response later today](#).



- Economic data is already beginning to reflect the impact of trade war concerns. Following the report's release, the Atlanta Fed's GDPNow forecast for Q1 2025 fell further into contraction territory, dropping from -1.5% to -2.8%. This decline was driven by a rise in imports, as well as a slowdown in consumption and investment, all of which have weighed heavily on GDP growth.
- While it is still too early to assess the full economic impact of the ongoing trade war, US equities may continue to find support as investors attempt to gauge the extent of rising trade tensions. So far, the S&P 500 has fallen by as much as 5% from its all-time high, but a rebound could occur if there are signs that these tariffs are being reversed.

**Fed Independence in Focus:** A group of Republican lawmakers are turning their attention to the Federal Reserve, aiming to review the central bank's authority over monetary policy and bank regulation. This scrutiny marks an early sign that the Fed's independence could be at risk.

- On Tuesday, a [House task force that was established to scrutinize the Fed](#) will hold its first hearing. The committee will begin its examination of the Fed's authority by reviewing its original 1913 charter. This review comes amid the president's ongoing efforts to test the limits of executive authority, as he seeks to expand his control over government operations.
- While the president has shown relative restraint in his criticism of the Fed — with Treasury Secretary Scott Bessent noting that the [administration aims to focus on long-term yields](#) — he has repeatedly expressed dissatisfaction with its reluctance to cut interest rates. Several days prior to the January 28-29 FOMC meeting, President Trump went so far as to claim that he [understands interest rates better than the central bank's officials](#).
- Currently, pressure on the Fed is likely to undermine the central bank's ability to maintain autonomy in its decision-making, as it grapples with inflation persistently above the 2% target and an economy showing signs of slowing. New tariffs are likely to add to those challenges as they will further contribute to price pressures at a time in which goods have been a reliable source of drag on the overall index.



- The US dollar may face significant risks from increased scrutiny of the Fed, as a perceived lack of central bank independence could undermine global confidence in investing in the United States. However, this scenario may strengthen the case for gold, as investors could turn to the precious metal as a safe-haven alternative.

**US Suspends Aid:** [President Trump has decided to withhold additional aid to Ukraine](#) following President Zelensky's reluctance to agree to a peace deal without security guarantees. While the decision was widely anticipated, its potential spillover effects remain unclear.

- The order specifically targets military weapons used to prolong the conflict, as President Trump has repeatedly expressed his desire to achieve peace on the continent after years of fighting. He has also stated that he would welcome President Zelensky back to the White House once Zelensky demonstrates a genuine commitment to pursuing peace.
- In response to the US's reluctance to provide assistance to Ukraine, Europe has swiftly moved to increase its defense spending. European Commission President Ursula von der Leyen announced that the EU will activate a mechanism enabling member states to allocate an additional 650 billion EUR (\$685 billion) toward defense over the next four years. Additionally, the [bloc plans to issue 150 billion EUR \(\\$158 billion\) in loans](#) to further support these efforts.
- The combination of the US's reluctance to provide financial support and growing doubts about its commitment to global security has sparked widespread concern. Several figures within President Trump's orbit, [including Tesla CEO Elon Musk](#), have openly questioned the US's role in NATO. This has prompted European officials to pursue a dual approach with some pushing for reconciliation with the Trump administration, while others are advocating for greater unity among European nations.
- While it is unlikely that the EU will be able to fully assume responsibility for its security in the short term — given budgetary constraints and limited experience — a shift toward greater spending and independence from the US is expected to benefit European defense companies. These firms are likely to see significant gains from increased military expenditures.

**Big Beautiful Bill:** The Senate is working on revising the House budget bill to align with some of President Trump's tax promises. However, disagreements have emerged over the figures, as the Senate aims to ensure that the budget impact from the tax changes remains minimal.

- [Senate Republicans are working to revise the House budget bill](#), with a particular focus on the SALT (State and Local Tax) deductions, which have been a point of contention. While the House aims to raise the deduction cap, the Senate prefers to keep it at the current level.
- The two sides will need to resolve their disagreements to pass a tax bill through budget reconciliation, a process that allows them to bypass a Senate filibuster, which would otherwise require 60 votes for passage.
- While the bill is likely to pass, the scale of the tax cuts remains uncertain. That said, a final version could be ready by summer, barring any significant setbacks.

## US Economic Releases

No major economic reports have been released so far today. 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
14:20	John Williams Speaks at Bloomberg Invest Forum	President of the Federal Reserve Bank of New York

## 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
<b>ASIA-PACIFIC</b>								
<b>Japan</b>	Jobless Rate	m/m	Jan	2.5%	2.5%	2.4%	***	Equity and bond neutral
	Job-To-Applicant Ratio	m/m	Jan	1.26	1.25	1.25	***	Equity and bond neutral
	Capital Spending	y/y	4Q	-0.2%	8.1%	5.0%	**	Equity bearish, bond bullish
	Monetary Base	y/y	Feb	-1.8%	-2.5%	-1.8%	**	Equity and bond neutral
	Monetary Base, End of Period	m/m	Feb	¥655.3T	¥653.4t		*	Equity and bond neutral
	Consumer Confidence Index	m/m	Feb	35.0	35.2	35.3	*	Equity and bond neutral
<b>Australia</b>	BoP Current Account Balance	q/q	4Q	-A\$12.5b	-A\$13..9b	-A\$12.0b	***	Equity and bond neutral
	Retail Sales	m/m	Jan	0.3%	-0.1%	0.3%	***	Equity and bond neutral
<b>New Zealand</b>	Building Permits	m/m	Jan	2.6%	-5.6%		***	Equity and bond neutral
<b>South Korea</b>	Industrial Production	y/y	Jan	-4.1%	4.4%	-2.0%	***	Equity bearish, bond bullish
	S&P Global South Korea PMI Manufacturing	m/m	Feb	49.9	50.3		***	Equity and bond neutral
<b>EUROPE</b>								
<b>Eurozone</b>	Unemployment Rate	m/m	Jan	6.2%	6.2%	6.3%	**	Equity and bond neutral
<b>France</b>	Budget Balance YTD	y/y	Jan	-17.3b	-156.3b		*	Equity and bond neutral
<b>Italy</b>	New Car Registrations	y/y	Feb	-6.28%	-5.86%		*	Equity and bond neutral
	Budget Balance	y/y	Feb	-18.7b	-5.4b		**	Equity and bond neutral
	Unemployment Rate	m/m	Jan	6.3%	6.4%	6.2%	**	Equity and bond neutral
<b>AMERICAS</b>								
<b>Canada</b>	S&P Global Canada Manufacturing PMI	m/m	Feb	47.8	51.6		***	Equity and bond neutral
<b>Mexico</b>	S&P Global Mexico Manufacturing PMI	m/m	Feb	47.6	49.1		***	Equity and bond neutral
	Vehicle Domestic Sales	y/y	Feb	117617	119811		*	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)	417	419	-2	Down
U.S. Sibor/OIS spread (bps)	428	429	-1	Down
U.S. Libor/OIS spread (bps)	430	431	-1	Down
10-yr T-note (%)	4.15	4.16	-0.01	Down
Euribor/OIS spread (bps)	246	246	0	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.

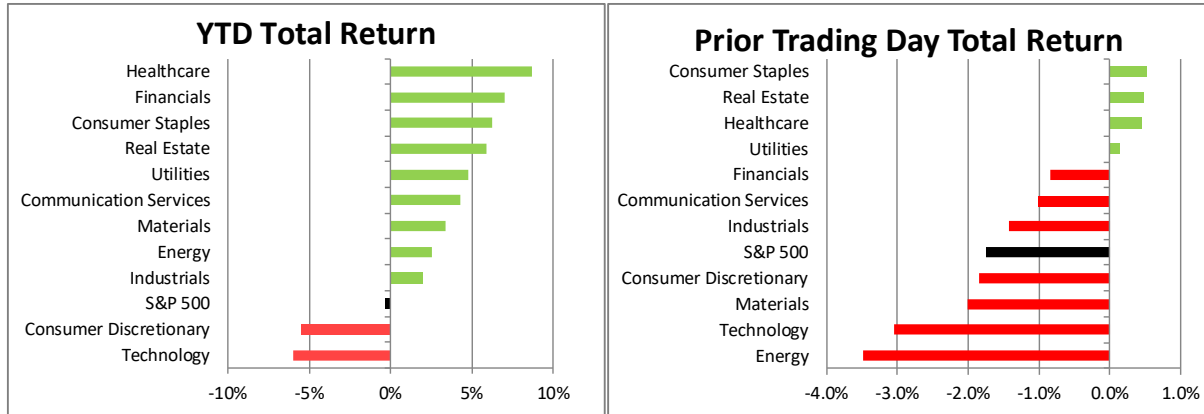
	Price	Prior	Change	Explanation
<b>Energy Markets</b>				
Brent	\$70.31	\$71.62	-1.83%	
WTI	\$67.23	\$68.37	-1.67%	
Natural Gas	\$4.06	\$4.12	-1.53%	
Crack Spread	\$25.22	\$25.06	0.64%	
12-mo strip crack	\$20.99	\$21.13	-0.68%	
Ethanol rack	\$1.77	\$1.78	-0.41%	
<b>Metals</b>				
Gold	\$2,923.38	\$2,892.73	1.06%	
Silver	\$31.93	\$31.68	0.77%	
Copper contract	\$455.45	\$460.70	-1.14%	
<b>Grains</b>				
Corn contract	\$449.75	\$456.25	-1.42%	
Wheat contract	\$541.50	\$547.75	-1.14%	
Soybeans contract	\$999.00	\$1,011.50	-1.24%	
<b>Shipping</b>				
Baltic Dry Freight	1,276	1,229	47	
<b>DOE Inventory Report</b>				
	Actual	Expected	Difference	
Crude (mb)		2.40		
Gasoline (mb)		-1.40		
Distillates (mb)		-2.76		
Refinery run rates (%)		-0.2%		
Natural gas (bcf)		-271		

## **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 from the Rocky Mountains westward and for the eastern time zone, with dry conditions in Texas and Oklahoma.

## Data Section

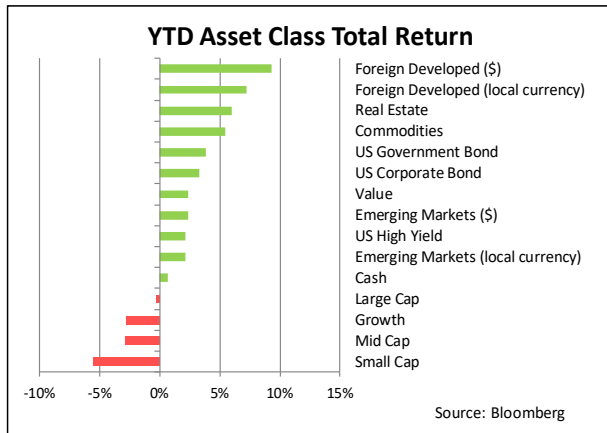
### US Equity Markets – (as of 3/3/2025 close)



(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 3/3/2025 close)



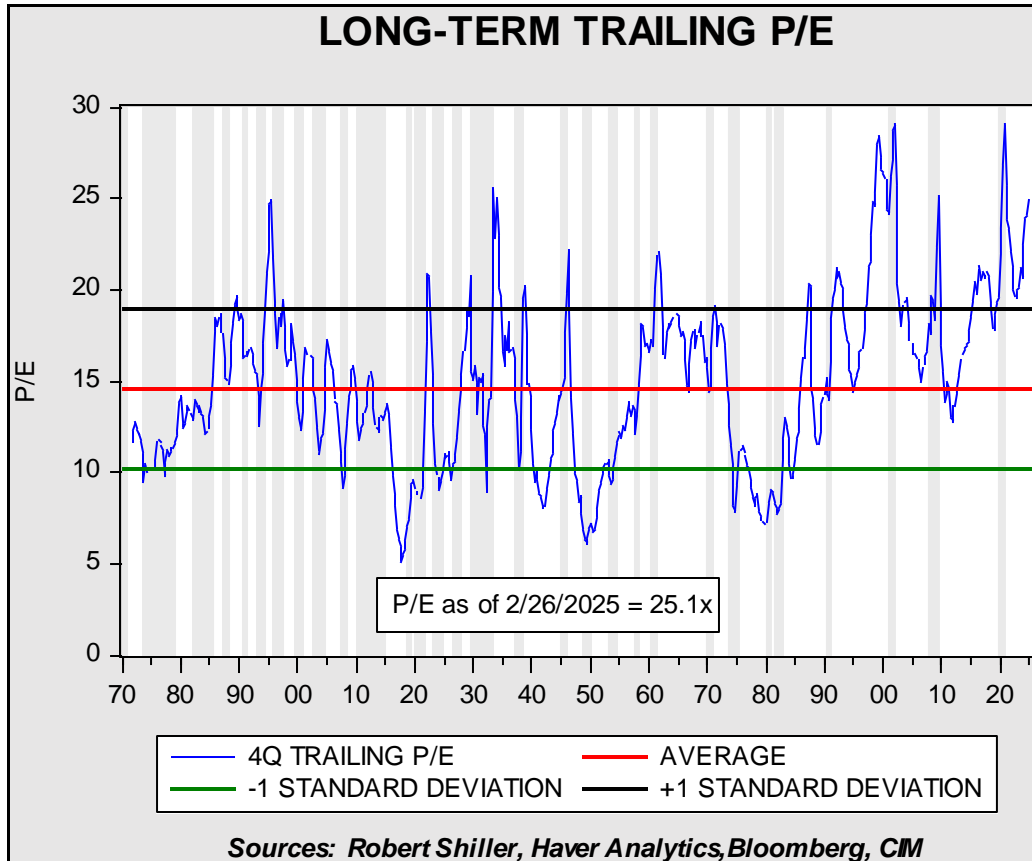
This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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,<sup>1</sup> 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.*

<sup>1</sup> 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 (Q2). 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.