



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

**Posted: May 13, 2025 — 9:30 AM ET** Global equity markets are mixed 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 1.3%. 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.

With 454 companies having reported so far, S&P 500 earnings for Q1 are running at \$63.90 per share compared to estimates of \$60.75, which is up 7.3% from Q1 2024. Of the companies that have reported thus far, 77.1% have exceeded expectations, while 18.9% have fallen short of expectations.

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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="#">“Update on the US-China Balance of Power”</a> (5/12/25)	<a href="#">“US Capital Flight and the Implications for Investors”</a> (5/5/25) + <a href="#">podcast</a>	<a href="#">Q2 2025 Report</a>  <a href="#">Q2 2025 Rebalance Presentation</a>	<a href="#">Keller Quarterly Business Cycle Report</a>

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Our *Comment* today opens with an added US concession in the tariff war between Washington and Beijing, which will likely help de-escalate tensions between the two sides. We next review several other international and US developments that could affect the financial markets today, including an incendiary accusation by Poland that Russia was responsible for an arson fire last year that destroyed Warsaw’s biggest shopping mall (pun intended) and new signs that US lawmakers will gut many green-tech tax incentives, including for buying electric vehicles.

**United States-China:** After yesterday’s market euphoria over the news that the US and China had agreed to temporarily slash most of their tariffs on each other, the Trump administration last night [clarified that it would also cut the US “de minimis” tariff on low-value parcels from China](#). Applied to packages with a retail value below \$800, the de minimis tariff will now be cut to 54%

from 120%. An optional \$100 payment will be unchanged, rather than rising to \$200. The move marks a further de-escalation in the US-China tariff war.

- The clarification will benefit Chinese retailers offering cheap goods directly to US consumers, such as Shein and Temu.
- Importantly, some low-end US retailers could also benefit, as they often rely on small shipments from China that qualify as de minimis parcels.

**Russia-United States-Ukraine:** President Trump yesterday [told reporters that he might attend the planned Russia-Ukraine peace talks scheduled for Thursday in Turkey](#). The idea was quickly endorsed by Ukrainian President Zelensky, but we have seen no official response from Russian President Putin so far. Indeed, it's still unclear whether Putin plans to attend. In any case, if Trump is serious about attending, it could set the stage for a potentially volatile, unpredictable meeting, which in itself could discourage Putin from participating.

**Russia-Poland:** Nearly a year after the largest shopping center in Warsaw burned to the ground, Polish Prime Minister Tusk [said it is now confirmed that the fire was set by saboteurs working for the Russian intelligence services](#). The incident marks the latest instance of Russian destabilization efforts in the European Union. Those actions are likely to keep EU countries focused on rebuilding their militaries, which in turn will likely keep boosting EU defense firms and their stock prices.

**Germany:** Showing the extent to which populist nationalism and far-right authoritarianism have progressed in some Western democracies, the German government today [banned the separatist organization "Kingdom of Germany" and confiscated its assets](#). Kingdom of Germany members have their own nominal king, reject Germany's democratic institutions, and claim to rule a small enclave of about 2.4 acres near Wittenberg.

- Berlin's move against Kingdom of Germany comes just days after it also declared the populist Alternative for Germany party to be a "rightwing extremist" organization, despite the party's success in winning about one-fifth of the votes in the February federal elections. The designation gives the government the right to monitor the AfD more closely, including by tapping its communications.
- The designation has also sparked public debate over whether to ban the AfD outright. In a survey published over the weekend, some 53% of respondents favored such a ban.

**United Kingdom:** As firms dealt with an increase in national insurance contributions last month, April payroll employment [fell by a seasonally adjusted 33,000, after a drop of 47,000 in March](#). The report also showed that average hourly earnings in the three months ended in March rose just 5.6% from the same period one year earlier, matching expectations but slowing from the annual rise of 5.9% in the three months ended in February. Weaker hiring but still-high wage growth is expected to keep the Bank of England cautious about cutting interest rates.

**US Price Inflation:** Late last week, economists at the Federal Reserve [published a paper describing a new method to estimate the real-time impact of import tariffs on consumer price](#)

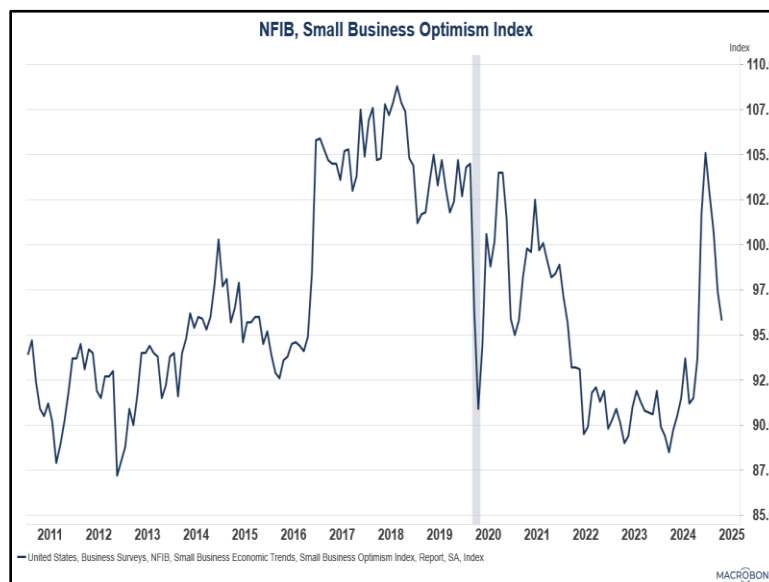
[inflation](#). Looking at individual categories of personal consumption expenditures, the tariffs implemented for each category, the prevalence of imports in each category, and assumptions about pass-through from tariffs to consumer prices, the analysis estimates that President Trump's tariffs this year have already boosted core consumer prices by 0.1%.

**US Drug Industry:** After hinting on Sunday that he would sign an order aggressively cutting US drug prices to “most favored nation” levels, the measure that President Trump signed yesterday only [directed the Department of Health and Human Services to assist any drug company](#) that wants to establish a direct-to-consumer purchasing program. The order threatened aggressive action against the drug firms if they don't voluntarily cut their prices, but that was less stringent than feared. As a result, pharmaceutical stocks yesterday generally rose.

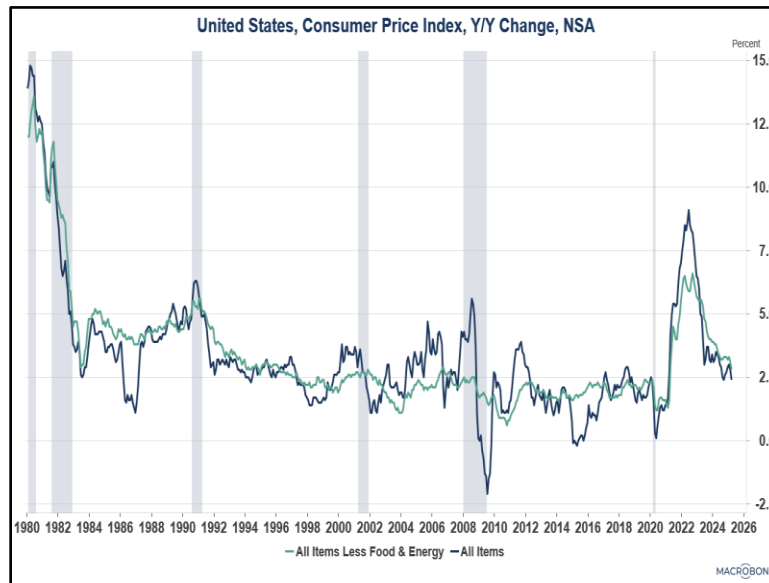
**US Green Technology Industry:** As we continue to process the draft budget bill presented by Republicans in the House, we note that one set of provisions [would end a range of subsidies for green technology](#). For example, the proposal would end the \$7,500 tax credit for buyers of new electric vehicles by the end of 2027 — despite the recent strong support for President Trump by Tesla chief executive Elon Musk. However, it's important to remember that the bill at this point remains just a proposal, so it's far too soon to know whether the provisions will become law.

## US Economic Releases

The National Federation of Independent Business' *Small Business Optimism Index* for April fell to 95.8 from 97.4 the prior month, slightly exceeding the expected 95.0. This is the fourth consecutive monthly decline in the index and its lowest reading since October, a reflection of concerns about sales prospects amid tariff uncertainty. The chart below shows the course of the index through time.



The April **consumer price index (CPI)** rose by a seasonally adjusted 0.2%, shy of the expected 0.3% rise but still an acceleration from the prior month's 0.1% decline. Excluding the volatile food and energy components, the **"core" CPI** rose an identical 0.2%, again falling shy of the expected 0.3% rise while accelerating from the prior month's 0.1% rise. The overall CPI in April rose 2.3% from the same month one year earlier, while the core CPI rose 2.8%. Both results essentially matched the expected and prior values. The chart below shows the year-over-year change in the CPI and the core CPI since 1980.



There are no economic releases or Fed events scheduled for the rest of the day.

## 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>	Money Stock M2	y/y	Apr	0.5%	0.8%		**	Equity and bond neutral
	Money Stock M3	y/y	Apr	0.1%	0.4%		**	Equity and bond neutral
<b>Australia</b>	Westpac Consumer Conf Index	m/m	May	92.1	90.1		**	Equity and bond neutral
	Westpac Consumer Conf SA	m/m	May	2.2%	-6.0%		**	Equity and bond neutral
	NAB Business Confidence	m/m	Apr	-1	-3		***	Equity and bond neutral
	NAB Business Conditions	m/m	Apr	2	3		***	Equity and bond neutral
<b>India</b>	CPI	y/y	Apr	3.16%	3.34%	3.20%	***	Equity and bond neutral
<b>EUROPE</b>								
<b>Eurozone</b>	ZEW Survey Expectations	m/m	May	11.6	-18.5		**	Equity and bond neutral
<b>Germany</b>	ZEW Survey Expectations	m/m	May	25.2	-14.0	11.3	**	Equity bullish, bond bearish
	ZEW Survey Current Situation	m/m	May	-82.0	-81.2	-77.0	**	Equity bearish, bond bullish
<b>UK</b>	Average Weekly Earnings 3M/YoY	m/m	Mar	5.5%	5.7%	5.2%	**	Equity and bond neutral
	ILO Unemployment Rate 3Mths	m/m	Mar	4.5%	4.4%	4.5%	**	Equity and bond neutral
	Claimant Count Rate	m/m	Apr	4.5%	4.5%		**	Equity and bond neutral
	Jobless Claims Change	m/m	Apr	5.2k	-16.9k		**	Equity and bond neutral
<b>AMERICAS</b>								
<b>Brazil</b>	Trade Balance Weekly	w/w	11-May	\$1440m	\$2537m		*	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)	421	423	-2	Up
U.S. Sibor/OIS spread (bps)	431	431	0	Up
U.S. Libor/OIS spread (bps)	430	431	-1	Down
10-yr T-note (%)	4.39	4.38	0.01	Up
Euribor/OIS spread (bps)	214	215	-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.

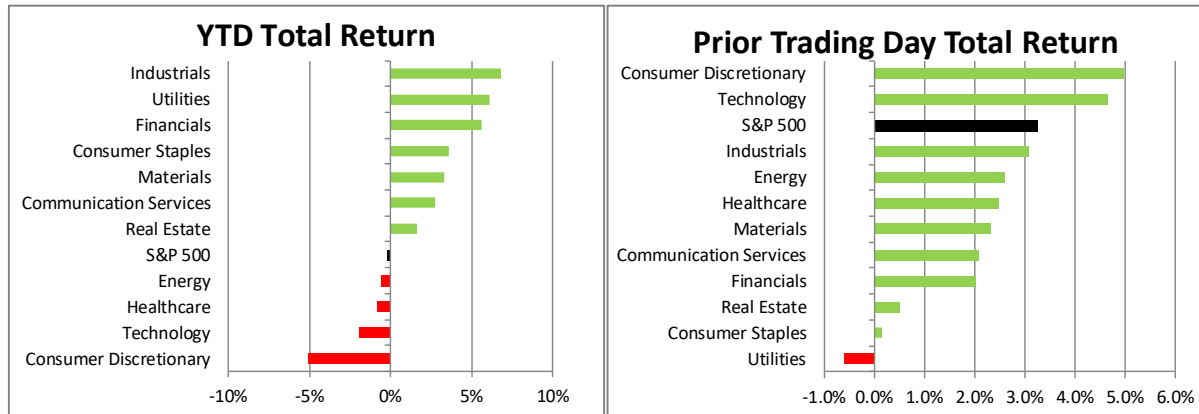
	Price	Prior	Change	Explanation
<b>Energy Markets</b>				
Brent	\$65.36	\$64.96	0.62%	
WTI	\$62.40	\$61.95	0.73%	
Natural Gas	\$3.64	\$3.65	-0.16%	
Crack Spread	\$27.13	\$27.32	-0.69%	
12-mo strip crack	\$22.47	\$22.56	-0.41%	
Ethanol rack	\$1.84	\$1.84	0.04%	
<b>Metals</b>				
Gold	\$3,254.91	\$3,236.39	0.57%	
Silver	\$32.99	\$32.60	1.19%	
Copper contract	\$467.15	\$462.10	1.09%	
<b>Grains</b>				
Corn contract	\$444.00	\$448.00	-0.89%	
Wheat contract	\$507.00	\$515.25	-1.60%	
Soybeans contract	\$1,068.50	\$1,071.25	-0.26%	
<b>Shipping</b>				
Baltic Dry Freight	1,304	1,299	5	
<b>DOE Inventory Report</b>				
	Actual	Expected	Difference	
Crude (mb)		-2.00		
Gasoline (mb)		-0.87		
Distillates (mb)		0.50		
Refinery run rates (%)		0.6%		
Natural gas (bcf)		101		

## Weather

The 6-to-10 and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in California and the South from Texas to the East Coast, with cooler-than-normal temperatures in Washington and the northeastern quarter of the country. The forecasts call for wetter-than-normal conditions for the northeastern quarter of the country, with drier-than-normal conditions California, Oregon, and Nevada.

## Data Section

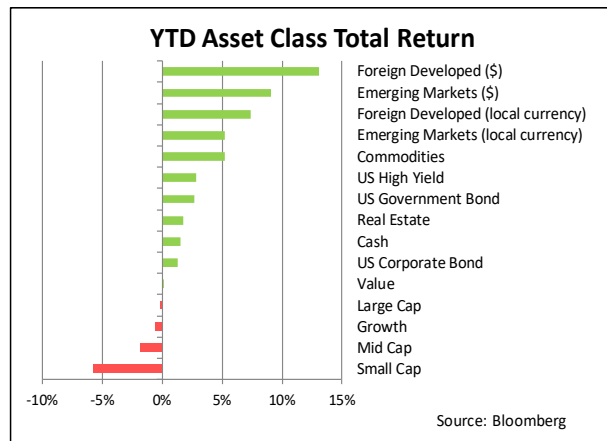
### US Equity Markets – (as of 5/12/2025 close)



(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 5/12/2025 close)



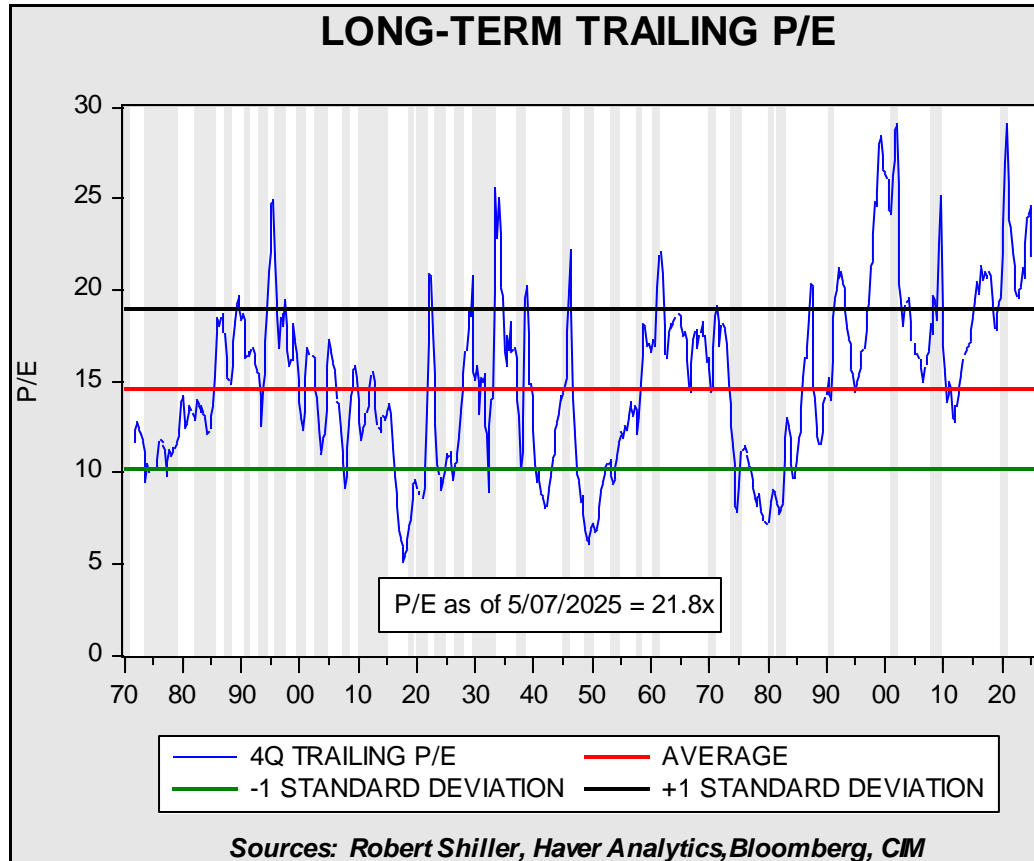
This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

May 8, 2025



Based on our methodology,<sup>1</sup> the current P/E is 21.8x, up 0.2 from our last report. The rise in the stock price index outweighed the increase in earnings.

*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 (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.