



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: May 14, 2025 — 9:30 AM ET Global equity markets are mostly higher this morning. In Europe, the Euro Stoxx 50 closed down 0.3% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 2.5%. Chinese markets were higher, with the Shanghai Composite up 0.9% from its previous close and the Shenzhen Composite up 0.5%. US equity index futures are signaling a higher 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.

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
“Update on the US-China Balance of Power” (5/12/25)	“US Capital Flight and the Implications for Investors” (5/5/25) + podcast	Q2 2025 Report Q2 2025 Rebalance Presentation	Confluence of Ideas Podcast Value Equity Quarterly Update

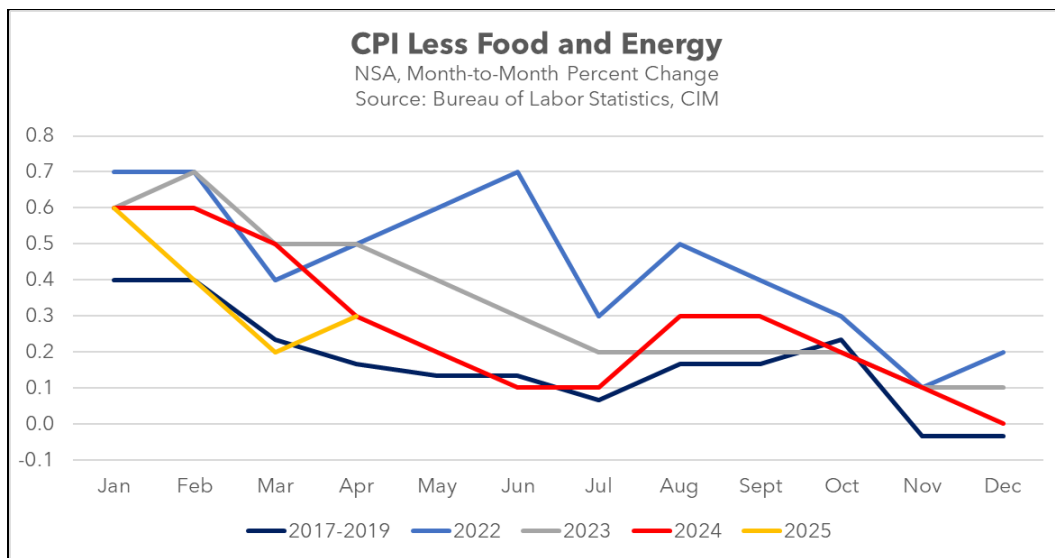
Good morning! Financial markets are still in a good mood following the latest deals from the Trump administration. In sports news, fans are celebrating the Indiana Pacers' victory over the Cleveland Cavaliers that secured their spot in the Eastern Conference Finals. Today's *Comment* will examine the latest inflation data, important tax policy developments, and other market-moving news. As always, our report will provide comprehensive summaries of both domestic and international economic data releases.

Where's the Tariff? Inflation was softer than expected, signaling a continued downward trend in underlying price pressures that began before the tariffs took effect.

- Overall, US consumer prices increased by 2.3% year-over-year, down slightly from the previous month's 2.4% and well below the 3.0% reading at the start of the year. The decline was driven by a sharp 11.5% drop in energy prices compared to the prior year,

along with a monthly decrease in food costs. Excluding food and energy, Core CPI held steady at 2.8% for the month.

- The most encouraging aspect of the report is the continued downward trend in services inflation, signaling a return to normalization. The year-over-year change in the index has declined for six consecutive months, with the deceleration primarily driven by shelter costs — a key inflationary driver. This moderation in shelter prices has played a major role in bringing overall inflation closer to the 2% target.
- However, there are early signs that tariff pass-through is beginning to influence inflation, albeit modestly. As the chart below illustrates, the latest CPI reading pushed inflation above its pre-pandemic trend, roughly matching the previous year's monthly increase. Much of this uptick stemmed from key goods likely affected by tariff-related cost pressures. Notably, price indexes for appliances, recreational goods, and educational commodities all accelerated compared to the previous month.



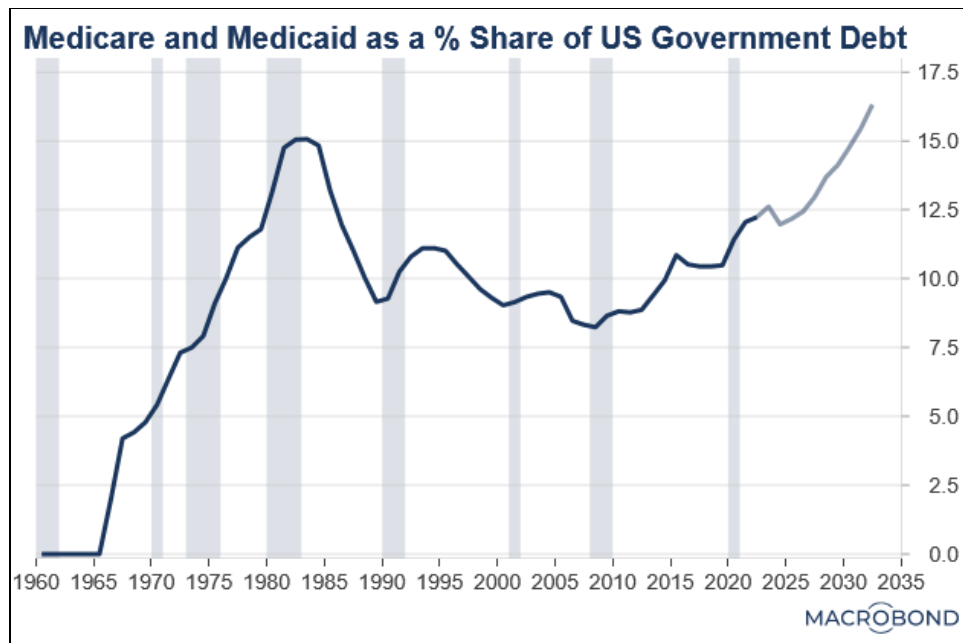
- The April CPI report offers some reassurance that the feared inflationary surge may not be as severe as initially expected. As we've noted in previous commentaries, these tariffs are unfolding alongside a broader disinflationary trend, particularly in shelter costs, which should help restrain an increase in the overall index for the year. That said, the full impact of inflationary pressures may not materialize until mid-to-late summer. Therefore, investors can remain cautiously optimistic regarding inflation.

More Tax Details: The latest estimate for the House Republicans' tax bill falls within the range projected by lawmakers, clearing the way for additional adjustments to the bill.

- According to the Joint Committee on Taxation, the GOP's latest budget proposal is [projected to increase the deficit by \\$3.7 trillion over the next decade](#). This figure reflects \$5.8 trillion in proposed new tax spending, partially counteracted by \$1.9 trillion in savings achieved through the reversal of clean energy incentives. With this projected

deficit increase remaining below the House Ways and Means Committee's \$4.5 trillion benchmark, the possibility of additional tax reductions is being explored.

- Expanding the SALT deduction has emerged as the most likely concession. Several lawmakers have signaled they would support the tax bill only if the deduction is raised from the current \$30,000 cap. They contend that opposing the bill outright could lead to a full repeal of the cap, so they are pushing for a larger deduction as an incentive to vote in favor. While negotiations over a potential increase continue, House Speaker Mike Johnson has [indicated that a deal could be reached by Wednesday](#).
- The additional fiscal flexibility could also facilitate a partial reversal of eligibility restrictions for food and health assistance programs. Republican legislators have expressed concerns that these limitations might alienate key constituents who supported Trump's 2024 presidential victory. This newfound budgetary margin may enable lawmakers to relax certain provisions, potentially averting significant political backlash.



- Although the bill has not yet reached its final form, it is still anticipated to deliver significant stimulus to the broader economy. This economic boost could help mitigate much of the anticipated impact from rising tariffs. We expect businesses may view the bill's provisions as an incentive to increase investment activity. Consequently, the legislation could provide meaningful support to equity markets in the second half of the year when the tariff impact becomes clearer.

Strengthening US-Gulf Relations: On the first day of his Middle East diplomatic tour, President Trump strengthened strategic partnerships with key Arab leaders, marking a significant step in countering China's growing influence in the region.

- During his diplomatic visit, the president focused on strengthening economic and security partnerships across the Middle East. The trip yielded significant results, [including Saudi Arabia's commitment to invest more than \\$1 trillion](#) in the US. A landmark agreement was also reached to enable [Nvidia and Advanced Micro Devices \(AMD\) to supply critical semiconductor chips for several countries in the Middle East](#), bolstering the region's artificial intelligence capabilities.
- Additionally, President Trump aims to address long-standing regional conflicts through diplomatic engagement. [His administration has announced plans to lift sanctions against Syria's government](#) and remains open to negotiations with Iran regarding its nuclear program. Furthermore, he is scheduled to meet with Qatari leaders on Wednesday to discuss strengthening bilateral security cooperation.
- The president's actions appear to be part of a broader strategy to counter China's expanding influence in the region. Over the past five years, [China has significantly deepened its trade and investment ties across the Middle East](#) as part of its effort to reduce economic reliance on the US. This expansion has included major advancements in digital technology, with Arab nations playing an increasingly important role in Beijing's Digital Silk Road Initiative.
- The administration's sanctions relief and technology agreements appear strategically designed to counter China's regional influence by disrupting its economic momentum and isolating it technologically. The Trump administration is reportedly preparing to implement [new trade rules that would require partner nations to limit technology transfers to China](#). If effectively executed, this strategy could substantially weaken Beijing's ability to compete with American dominance in AI.

A New Plaza Accord: Speculation is growing that the Trump administration may pressure Asian nations to allow their currencies to appreciate to bring down the value of the US dollar.

- The [Trump administration has reportedly engaged in preliminary discussions with South Korea regarding currency policy](#). These talks coincide with upcoming bilateral trade negotiations aimed at averting potential tariffs on Korean exports. While no formal agreements have been confirmed, market reaction to the reports has already triggered appreciation in the Korean won.
- A potential appreciation of Asian currencies could reinforce market expectations that the administration favors a weaker dollar policy to prevent tariff circumvention. While this approach would increase costs for foreign imports, it might also create conditions for either reduced tariff rates or at least an avoidance of additional increases beyond those implemented on April 2.

US Economic Releases

The Mortgage Bankers Association today said *mortgage applications* for the week ended May 9 rose 1.1%, after rising 11.0% the previous week. Applications for home purchase mortgages rose 2.3%, after rising 11.1% the previous week. Applications for refinancing mortgages fell 0.4%,

after rising 11.1% the previous week. Meanwhile, the average interest rate on a 30-year mortgage rose 2 basis points to 6.86%.

The table below lists the economic releases and/or 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
9:10	Philip Jefferson Speaks on Economic Outlook	Member of the Board of Governors
17:40	Mary Daly Speaks in fireside Chat	President of the Federal Reserve Bank of San Francisco
TBD	Austan Goolsbee appears on NPR's Morning Edition	President of the Federal Reserve Bank of Chicago

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	PPI	y/y	May	4.0%	4.3%	4.0%	***	Equity and bond neutral
Australia	Wage Price Index	m/m	1Q	3.4%	3.2%	3.2%	***	Equity and bond neutral
South Korea	Unemployment Rate	m/m	Apr	2.7%	2.9%	3.0%	***	Equity and bond neutral
China	New Yuan Loans CNY	m/m	Apr	10060.0b	9774.6b	10474.6b	**	Equity and bond neutral
	Aggregate Financing CNY	m/m	Apr	16340.0b	15177.1b	16563.1b	**	Equity and bond neutral
	Money Supply M2	y/y	Apr	8.0%	7.0%	7.2%	***	Equity and bond neutral
	Money Supply M1	y/y	Apr	1.5%	1.6%	3.2%	*	Equity bearish, bond bullish
	Money Supply M0	y/y	Apr	12.0%	11.5%		*	Equity and bond neutral
India	Wholesale Prices	m/m	Apr	0.85%	2.05%	1.50%	*	Equity bullish, bond bearish
EUROPE								
Germany	Current Account Balance	m/m	Mar	34.1b	26.2b		**	Equity and bond neutral
	CPI	y/y	Apr F	2.1%	2.1%	2.1%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Apr F	2.2%	2.2%	2.2%	**	Equity and bond neutral
Russia	Gold and Forex Reserves	m/m	2-May	\$680.2b	\$677.b		***	Equity and bond neutral
	Official Reserve Assets	m/m	Apr	680.3b	647.4b		*	Equity and bond neutral
AMERICAS								
Mexico	International Reserves Weekly	w/w	9-May	\$239627m	\$239319m		*	Equity and bond neutral
Brazil	IBGE Services Volume	y/y	Mar	1.9%	4.2%	2.0%	*	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)	421	423	-2	Up
U.S. Sibor/OIS spread (bps)	431	431	0	Flat
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.

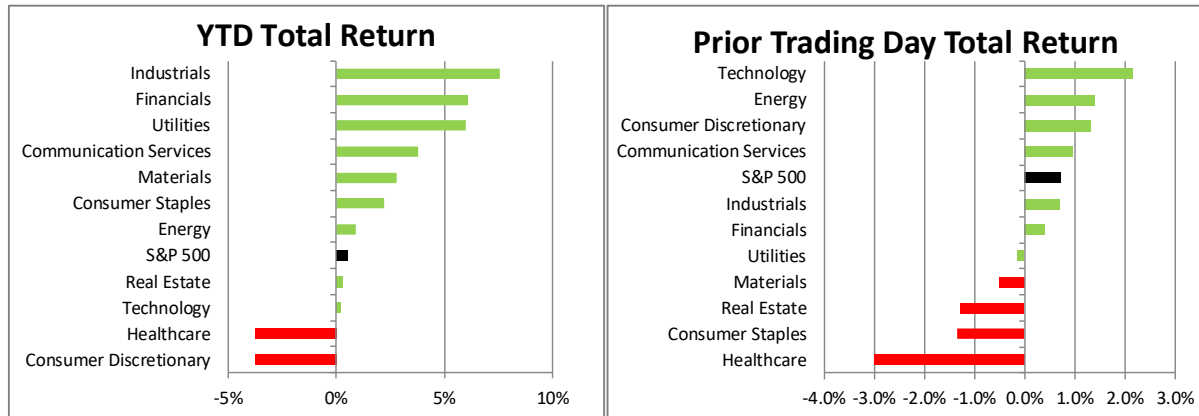
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$66.01	\$66.63	-0.93%	
WTI	\$63.03	\$63.67	-1.01%	
Natural Gas	\$3.56	\$3.65	-2.39%	
Crack Spread	\$27.57	\$27.41	0.59%	
12-mo strip crack	\$22.67	\$22.67	0.01%	
Ethanol rack	\$1.83	\$1.84	-0.28%	
Metals				
Gold	\$3,227.33	\$3,250.31	-0.71%	
Silver	\$32.90	\$32.93	-0.09%	
Copper contract	\$470.80	\$472.30	-0.32%	
Grains				
Corn contract	\$440.50	\$442.50	-0.45%	
Wheat contract	\$515.50	\$517.25	-0.34%	
Soybeans contract	\$1,075.75	\$1,072.50	0.30%	
Shipping				
Baltic Dry Freight	1,280	1,304	-24	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-2.21		
Gasoline (mb)		-0.94		
Distillates (mb)		0.12		
Refinery run rates (%)		0.7%		
Natural gas (bcf)		111		

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 in Texas, the Ohio Valley, and the Northeast, with drier-than-normal conditions in California, Oregon, and Nevada.

Data Section

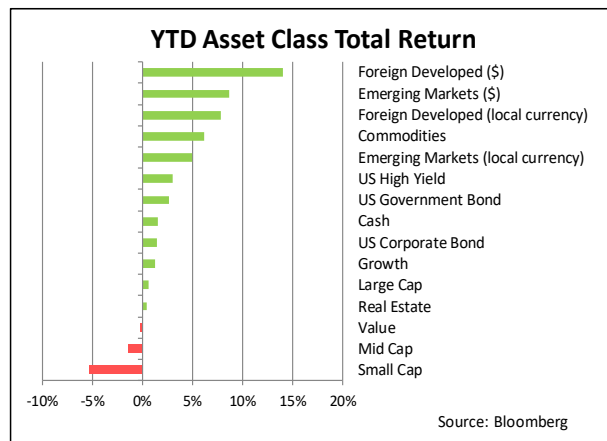
US Equity Markets – (as of 5/13/2025 close)



(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 5/13/2025 close)

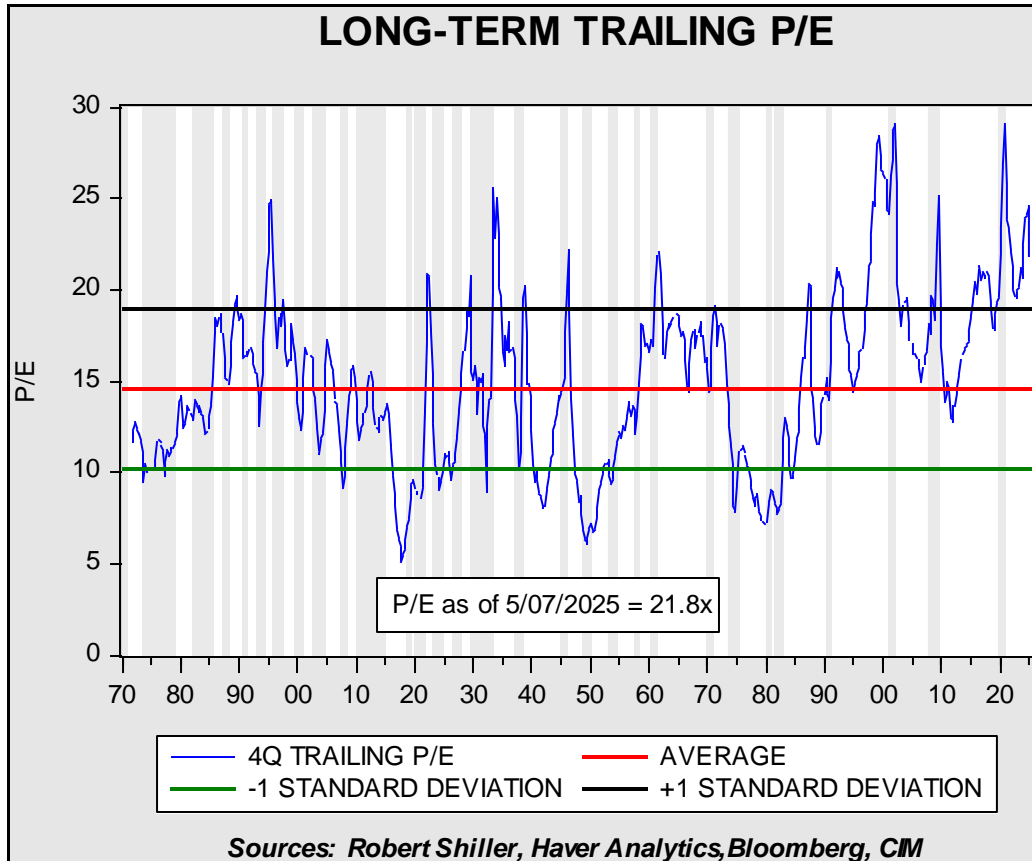


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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,¹ 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.

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.