Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: May 1, 2025 — 9:30 AM ET] Global equity markets are generally higher this morning. In Europe, the Euro Stoxx 50 is essentially unchanged from its prior close. In In Asia, the MSCI Asia Apex 50 Index closed up 1.0%. Chinese markets are closed today in observance of Labor Day. US equity index futures are signaling a higher open.

With 286 companies having reported so far, S&P 500 earnings for Q1 are running at $63.30 per share compared to estimates of $60.75, which is up 7.3% from Q1 2024. Of the companies that have reported thus far, 75.5% have exceeded expectations, while 20.3% 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
"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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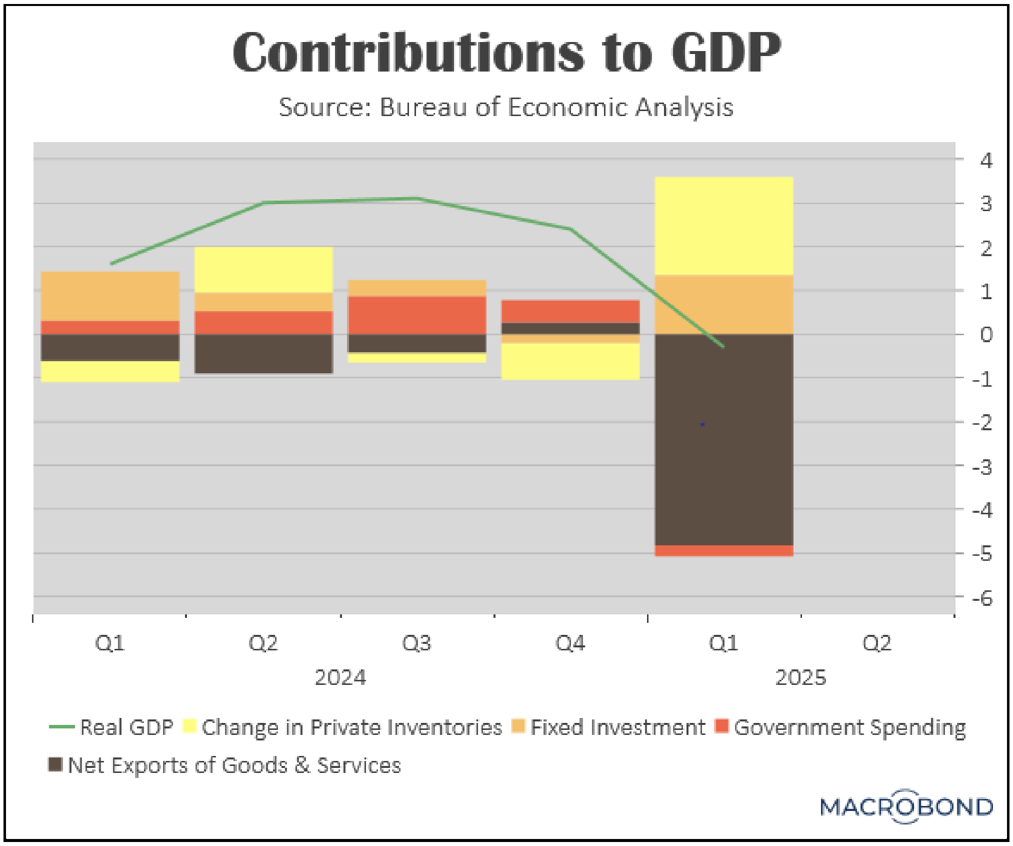
Good morning! The market is currently digesting the latest tech earnings. On the ice, the Jets secured a third playoff victory against the Blues. Today's *Comment* dives into why we're not overly concerned about the economic contraction in Q1, the market's focus on Treasury developments, and other key market news. As always, we'll also provide a summary of relevant international and domestic data releases.

GDP Contracts: While the economy's contraction in Q1 has intensified recession concerns, a closer examination of the underlying data paints a more nuanced picture.

- The US economy shrank at an annualized rate of 0.3% in Q1 2025, marking the first quarterly decline since 2022. This downturn was primarily driven by a surge in imports as businesses and consumers accelerated foreign purchases ahead of anticipated tariff implementations. The flood of foreign goods more than offset gains in domestic consumption and fixed investment. Further exacerbating the weakness, a drop in government spending created additional headwinds for economic growth.

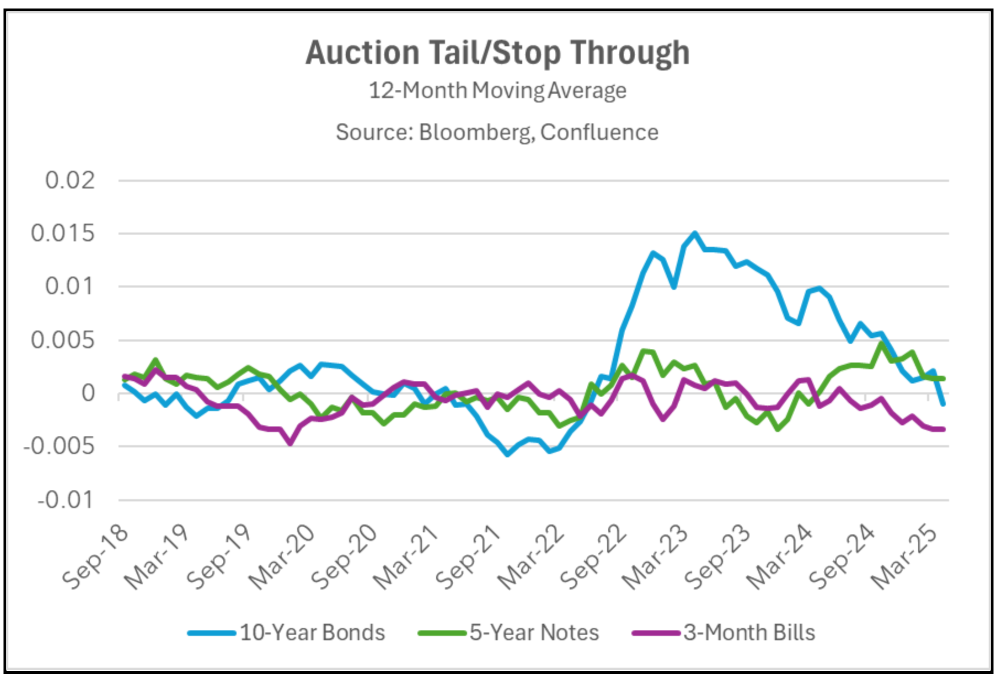
- While the import surge is expected to reverse — easing GDP concerns — the sustainability of recent consumption and investment growth remains doubtful. Much of the apparent strength stems from temporary factors such as businesses stockpiling inventory ahead of tariffs and using existing stock to suppress price hikes, therefore artificially boosting demand. These short-term dynamics suggest that underlying economic weakness may persist once these one-off boosts fade.
- The report also revealed emerging signs of inflationary pressures as the GDP price deflator — the inflation measure used to adjust nominal output for price changes — accelerated to its fastest pace since Q4 2022. This sharp increase, driven primarily by stronger adjustments to prices related to personal consumption and government spending, may fuel concerns about potential stagflation risks in the economy.



- We advise investors against overreacting to this single economic report as conditions are expected to shift throughout the year. As [we've highlighted previously](), the administration likely anticipated an early-year slowdown, positioning itself to deploy stimulative policies like tax cuts later this year to reinvigorate growth. Such measures could materialize in the coming months, potentially boosting the economy ahead of next year's midterm elections.

Under the Radar: The Treasury signaled no changes to its borrowing program, sticking with existing issuance levels even as investors worry about bond market saturation.

- The US Treasury's latest quarterly refunding announcement maintained steady issuance sizes for long-term bonds, with officials indicating this approach would continue for "several quarters." While market participants had speculated about potential bond buyback changes to address supply concerns, Treasury Secretary Bessent only confirmed that the department is studying such measures but stopped short of committing to implementation or providing a timeline.
- Growing speculation about an expanded buyback program follows weeks of exceptional volatility in long-dated bonds. The 10-year Treasury's trading range in April marked its widest swing since the March 2023 banking crisis triggered by Silicon Valley Bank's collapse. While these adjustments would extend a program initiated by the prior administration, market participants view the potential expansion as further evidence of the Treasury's increasingly active role in the bond market.
- The statutory debt limit has further complicated the Treasury's position, preventing increases in net Treasury supply and forcing reliance on cash reserves and extraordinary measures to maintain government funding. The department is expected to announce in early May when these temporary measures will be exhausted, potentially adding another layer of uncertainty for the Treasury market.



- Though boring, Treasury auctions are emerging as a critical market force. Successive administrations have deliberately managed issuance patterns to prevent liquidity shortfalls and improve market functioning. We expect coordinated Treasury and Federal Reserve action to actively contain long-term yield volatility in the future, creating potential tailwinds for both fixed income and equity markets as policymakers intervene to maintain orderly conditions.

BOJ Holds Off Hikes: The Bank of Japan is postponing its policy normalization plans as it continues to assess the potential economic impact of US tariffs.

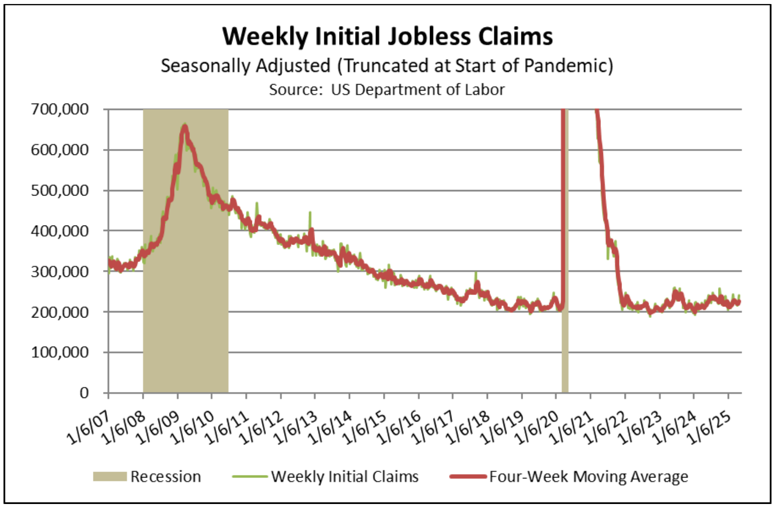
- The Bank of Japan held its policy rate steady at 0.5%, while slashing its 2025 GDP growth forecast by more than half — from 1.1% to 0.5% — citing heightened risks from US tariffs imposed on Japan's export-driven economy. Despite inflation being above its 2% inflation target, policymakers opted to delay rate hikes, signaling concern over near-term headwinds while preserving flexibility for possible monetary tightening should economic conditions stabilize.
- Japan's economy has taken center stage in global markets as investors gauge how potential shifts in trade policy could reverberate across the world economy. The Trump administration has placed Japan at the forefront of its trade agenda, heightening the significance of ongoing bilateral negotiations. However, progress of the talks remains uncertain, with Japanese Prime Minister Shigeru Ishiba recently asserting that Japan will not compromise its national interests to accommodate US demands.
- The two nations are preparing for a third round of trade talks in which Japan is anticipated to offer an increase in imports of US rice and soybeans, while easing certain auto safety regulations. However, more substantial concessions appear unlikely as Ishiba faces domestic political constraints ahead of July's critical elections, limiting flexibility for potentially unpopular trade compromises.
- Given the risk of slowing growth ahead of elections, the BOJ will likely delay monetary tightening to avoid additional economic strain. This dovish stance should support global bond markets as higher Japanese rates could have prompted the nation's institutional investors, a crucial source of global fixed income demand, to repatriate significant capital.

US Tech Shows Life: Despite growing concerns about the economic fallout from the tariffs, robust tech earnings — particularly in AI-focused companies — demonstrate the sector's remarkable resilience.

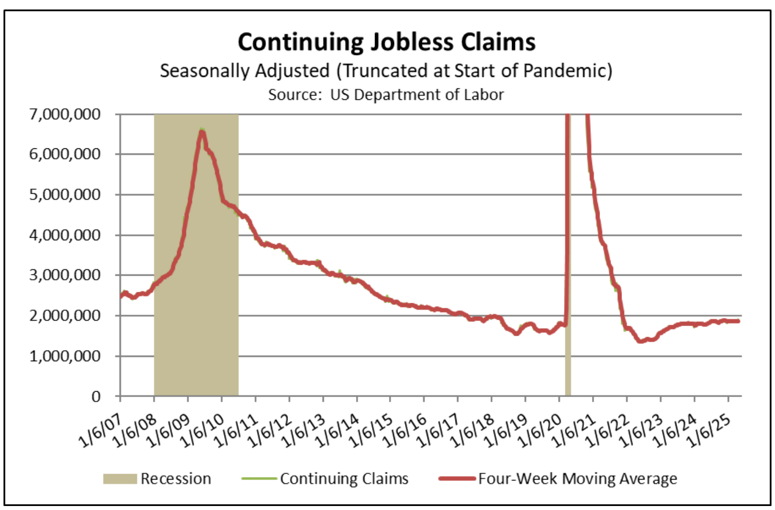
- Several mega-cap tech leaders revealed robust earnings growth in their cloud computing divisions, with Microsoft and Meta both surpassing market expectations, fueling positive momentum across the AI sector. Investor attention now turns to upcoming reports from Apple and Amazon, particularly focusing on how these companies navigated supply chain challenges amid escalating trade tensions last quarter.
- AI-related sectors are likely to be among the first to rebound as global economic expectations reset, with investors favoring established players that have demonstrated consistent growth. However, the sector may experience heightened volatility if ongoing macroeconomic uncertainty persists in the coming months.

US Economic Releases

In the week ended April 26, ***initial claims for unemployment benefits*** jumped to a seasonally adjusted 241,000 compared with expectations that they would be unchanged from the previous week's revised level of 223,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, rose to 226,000, reaching its highest level since mid-March. The chart below shows how initial jobless claims have fluctuated since just before the Great Financial Crisis (GFC). The chart is truncated through much of the pandemic period because of the extremely high level of claims at that time.



In the week ended April 19, the number of ***continuing claims for unemployment benefits*** (people continuing to draw benefits) rose to a seasonally adjusted 1.916 million, above both the anticipated reading of 1.865 million and the prior week's revised reading of 1.833 million. The four-week moving average of continuing claims rose to 1,867,750, also reaching its highest level since mid-March. The chart below shows how continuing claims have fluctuated since the GFC. It is also truncated during the pandemic period because of the high level of claims at the time.



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	S&P Global US Manufacturing PMI	m/m	Apr F	50.5	50.7	***
10:00	ISM Manufacturing	m/m	Apr	49.7	49	**
10:00	ISM Prices Paid	m/m	Apr	73	69.4	**
10:00	ISM New Orders	m/m	Apr	45.0	45.2	**
10:00	ISM Employment	m/m	Apr	44.6%	44.7	*
10:00	Construction Spending	m/m	Mar	0.2%	0.7%	**
	Wards Total Vehicle Sales	m/m	Apr	17.16m	17.77m	***
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	Jibun Bank Manufacturing PMI	m/m	Apr F	48.7	48.5		***	Equity and bond neutral
	Consumer Confidence Index	m/m	Apr	117.3	116.9		*	Equity and bond neutral
Australia	S&P Global Australia Manufacturing PMI	m/m	Apr F	51.7	51.7		***	Equity and bond neutral
	Trade Balance	m/m	Mar	A$6900m	A$2852m	A$3200m	***	Equity and bond neutral
	Exports	m/m	Mar	7.6%	-4.2%		*	Equity and bond neutral
	Imports	m/m	Mar	-2.2%	1.8%		*	Equity and bond neutral
South Korea	Trade Balance	m/m	Apr	$4884m	$4922m	$4403m	*	Equity and bond neutral
	Exports	y/y	Apr	3.7%	3.0%	-2.0%	***	Equity bullish, bond bearish
	Imports	y/y	Apr	-2.7%	2.3%	-6.7%	**	Equity bullish, bond bearish
EUROPE								
UK	Net Lending Sec. on Dwellings	m/m	Mar	13.0b	3.3b	3.2b	*	Equity bullish, bond bearish
	Mortgage Approvals	m/m	Mar	64.3k	61.5k	64.5k	***	Equity and bond neutral
	M4 Money Supply	y/y	Mar	3.4%	3.9%		*	Equity and bond neutral
	S&P Global UK Manufacturing PMI	m/m	Apr F	45.4	44.0	44.0	***	Equity bullish, bond bearish
Switzerland	Real Retail Sales	y/y	Mar	2.2%	1.2%		**	Equity and bond neutral
Russia	Money Supply, Narrow Definition	w/w	25-Apr	18.4t	18.07t		*	Equity and bond neutral
	Retail Sales	m/m	Mar	2.20%	2.20%	2.80%	***	Equity and bond neutral
	Unemployment Rate	m/m	Mar	2.30%	2.40%	2.40%	***	Equity and bond neutral
AMERICAS								
Canada	GDP	y/y	Feb	1.6%	2.2%	1.7%	**	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	Up
U.S. Sibor/OIS spread (bps)	425	427	-2	Down
U.S. Libor/OIS spread (bps)	424	425	-1	Down
10-yr T-note (%)	4.13	4.16	-0.03	Down
Euribor/OIS spread (bps)	216	218	-2	Down
Currencies	**Direction**			
Dollar	Up			Down
Euro	Down			Up
Yen	Up			Up
Pound	Down			Up
Franc	Down			Up
Central Bank Action	**Current**	**Prior**	**Expected**	
BOJ Target Rate	0.50%	0.50%	0.50%	On Forecast

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.

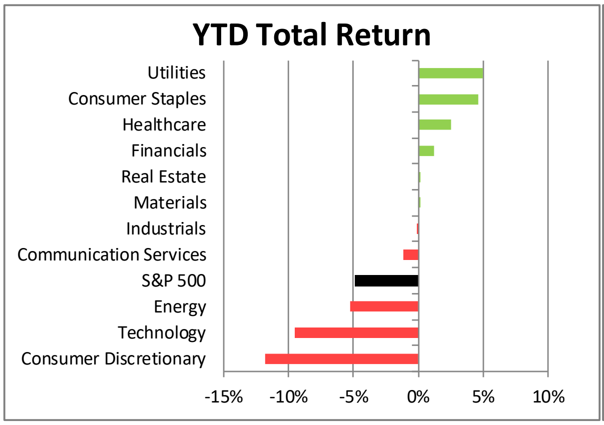
	Price	**Prior**	**Change**	**Explanation**
Energy Markets				
Brent	$59.69	$61.06	-2.24%	
WTI	$56.79	$58.21	-2.44%	
Natural Gas	$3.41	$3.33	2.44%	
Crack Spread	$26.64	$26.43	0.76%	
12-mo strip crack	$22.50	$22.44	0.26%	
Ethanol rack	$1.91	$1.91	0.01%	
Metals				
Gold	$3,223.84	$3,288.71	-1.97%	
Silver	$32.02	$32.62	-1.82%	
Copper contract	$465.70	$460.90	1.04%	
Grains				
Corn contract	$478.00	$475.50	0.53%	
Wheat contract	$534.00	$530.75	0.61%	
Soybeans contract	$1,039.25	$1,044.50	-0.50%	
Shipping				
Baltic Dry Freight	1,386	1,398	-12	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	-2.70	-0.58	-2.12	
Gasoline (mb)	-4.00	-1.43	-2.58	
Distillates (mb)	0.94	-1.71	2.65	
Refinery run rates (%)	0.2%	0.2%	0.0%	
Natural gas (bcf)		109		

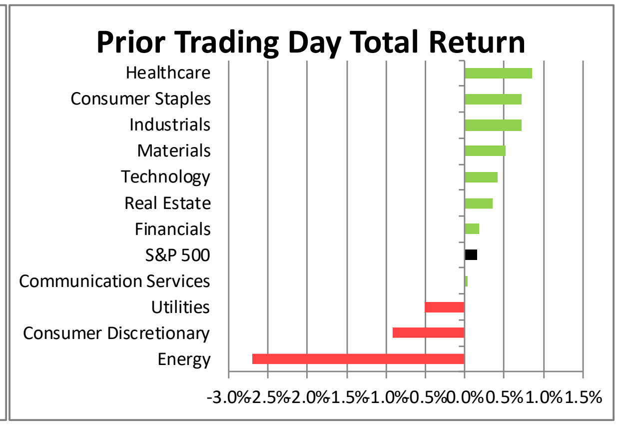
Weather

The 6-to-10 and 8-to-14-day forecasts currently call for warmer-than-normal temperatures across the entire northern half of the country, with cooler-than-normal temperatures in the Southwest and southern Florida. The forecasts call for wetter-than-normal conditions in Florida and the entire western half of the country excluding California, with dry conditions in the Midwest and Northeast.

Data Section

US Equity Markets – (as of 4/30/2025 close)

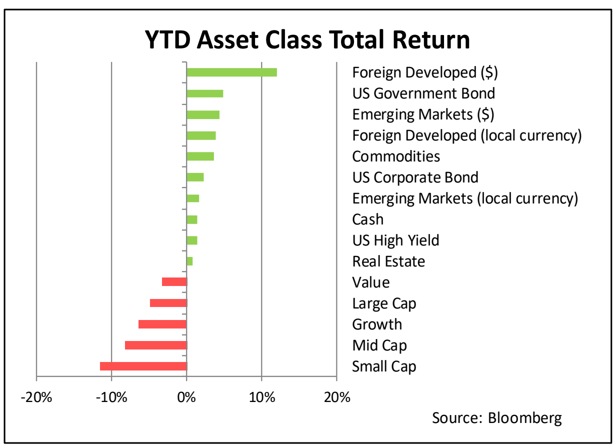




(Source: Bloomberg)

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 4/30/2025 close)

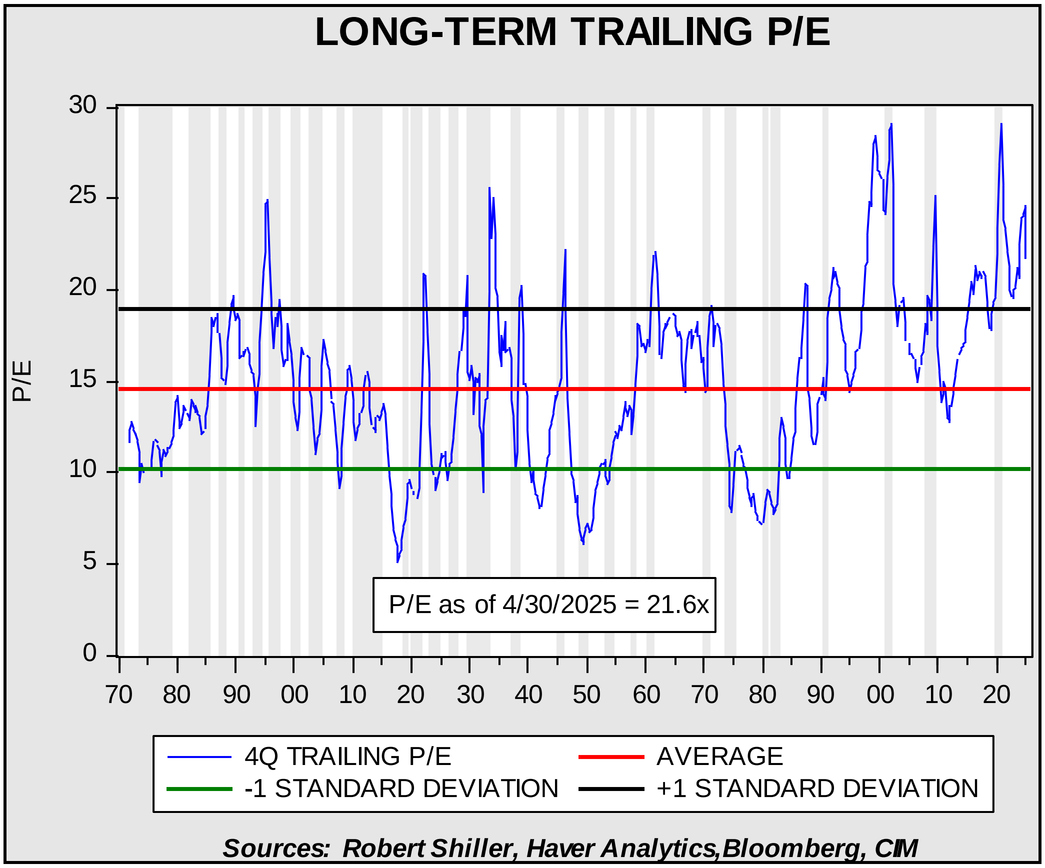


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 1, 2025



Based on our methodology,[1] the current P/E is 21.6x, unchanged from our last report. The rise in the stock price index was offset by an 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.

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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.