Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: May 28, 2025 — 9:30 AM ET] Global equity markets are little changed this morning. In Europe, the Euro Stoxx 50 closed down 0.4% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed unchanged. Chinese markets were slightly lower, with the Shanghai Composite relatively unchanged from its previous close and the Shenzhen Composite down 0.3%. US equity index futures are signaling a mildly higher open.

With 478 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, 77.4% have exceeded expectations, while 18.8% 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
"Why Greenland Matters" (5/27/25) **+ podcast**	"The Looming Battle for US Monetary Policy" (5/19/25) + podcast	Q2 2025 Report Q2 2025 Rebalance Presentation	Confluence of Ideas Podcast Value Equity Quarterly Update

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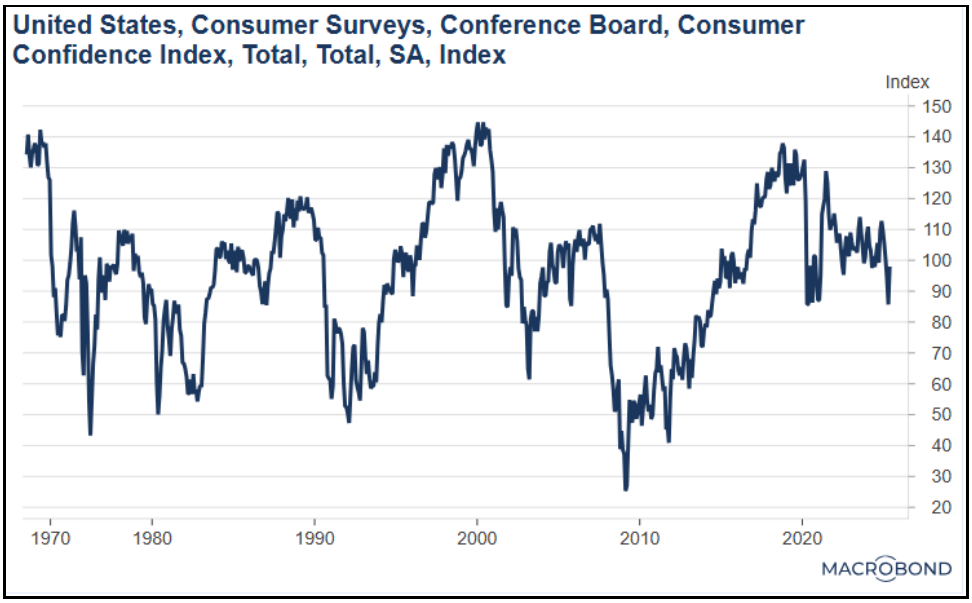
Good morning! The market is currently paying close attention to the bond market and Nvidia's earnings. Today's *Comment* will talk about the unexpected jump in consumer sentiment and explore the factors behind this shift in optimism. We will also examine why King Charles' speech added to US-Canada tensions and provide updates on other key financial reports. Finally, we'll close with a summary of today's major international and domestic data releases.

Confidence Bounce: Consumer sentiment rebounded in May, reflecting household relief amid progress in trade negotiations.

- The Conference Board's Consumer Confidence Index significantly outperformed expectations in May, rising to 98.0 from a revised 85.7 in April. This notable increase was driven primarily by a dramatic improvement in consumer expectations, which surged 17.4 points from a historic low of 55.4 to 72.8. The Present Situation Index also showed strength, climbing from 131.1 to 135.9, suggesting households are growing less concerned about immediate recession risks.

- The recent improvement in consumer sentiment was largely driven by reduced concerns about potential tariffs fueling inflation. Notably, inflation expectations declined from 7.0% to 6.5%, reflecting growing confidence in price stability despite tariff concerns. The survey also revealed increased consumer willingness to make major purchases, with more respondents indicating plans to buy automobiles and take vacations within the next twelve months.



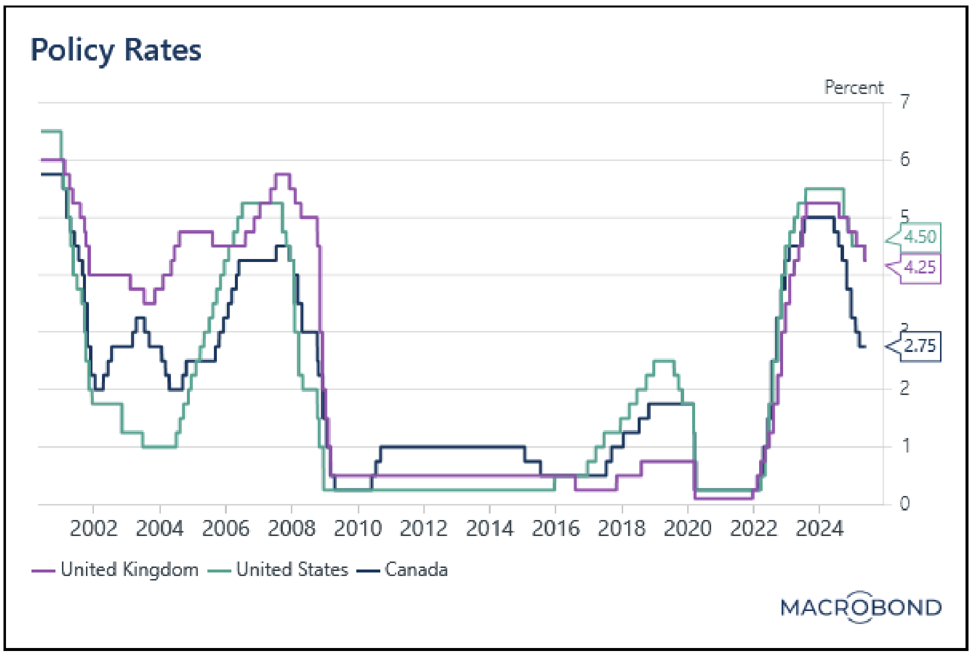
- While inflation expectations have moderated, lingering concerns about economic stability persist. The labor market indicators present a mixed picture. The share of respondents reporting jobs as "plentiful" edged up modestly from 31.2% to 31.8%, while those describing jobs as "hard to get" rose more significantly from 17.5% to 18.6%. This divergence suggests continued consumer skepticism about labor market strength, despite some positive signals.
- The latest Conference Board survey indicates consumers are increasingly attuned to economic shifts. While household spending is expected to remain strong if the economy continues its positive trend, a scenario where tariffs don't spark inflation and the labor market softens could push the Federal Reserve to ease monetary policy.

The 51st State? The king's recent speech in front of the Canadian Parliament has brought renewed attention to the US threat of acquiring Canada.

- In his address, King Charles III emphasized that the nation faces grave threats to its democratic institutions, rule of law, and right to self-determination. Although he did not explicitly mention President Trump by name, the timing of these remarks is significant, as they coincide with the US president's persistent efforts to bring the country under greater American influence. This speech will likely intensify ongoing debates about

Canada's relationship with its southern neighbor and the future of bilateral sovereignty issues.

- Discussions about reshaping the US-Canada bilateral relationship come as leaders from both nations seek to redefine their strategic partnership. The two countries explored collaborating on a joint missile defense system, dubbed the "Golden Iron Dome," which would be capable of detecting, tracking, and intercepting attacks. While President Trump has threatened to charge Canada $61 billion for access to the system, its success would depend heavily on Canada's radar coverage and Arctic airspace access.
- Rising tensions with its southern neighbor could further pressure Canadian equities. The country is already grappling with a weakening economic outlook, including slowing job growth, subdued business optimism, and a GDP contraction in Q1. A protracted dispute with its largest trading partner would only compound these challenges, adding fresh uncertainty to an already strained market environment.



- Despite escalating tensions between Canada and its largest trading partner, the country's benchmark S&P/TSX Composite Index continues to trade near all-time highs — even outperforming the S&P 500 year-to-date. This resilience stems from the index's heavy weighting in Energy and Financials, sectors relatively insulated from tariff risks. While economic pressures from trade disputes remain a concern, Canada's market strength serves as a reminder that even in politically uncertain environments, pockets of opportunity can still emerge.

Japan's Auction Blunder: Global bond yields rose following weak demand for longer-duration security issuance in Japan.

- Japan's 40-year government bond auction drew its weakest demand since last July, despite offering higher yields. The bid-to-cover ratio — a key gauge of investor appetite

— came in at 2.21, marking the second-lowest level since the pandemic. This tepid response underscores growing market reluctance to take on longer-duration risk, particularly in heavily indebted economies.

- The tepid demand for ultra-long bonds is increasing pressure on Japan's Ministry of Finance to rebalance its issuance strategy toward shorter-dated securities. This shift would help contain long-term borrowing costs while meeting market demand, a move already showing some effect after Tuesday's report about potential changes to the issuance mix helped ease 10-year JGB yields.
- The weak auction also presents new complications for the Bank of Japan's normalization path. With investors showing limited appetite for duration risk, the central bank may need to adjust its balance sheet runoff plans to prevent excessive yield volatility. This development highlights the delicate policy coordination required between Japan's fiscal and monetary authorities as they navigate an environment of rising global yields.
- The key trend we're monitoring is the shift toward shorter-duration bond issuance among indebted developed countries. While this move helps alleviate yield pressures on longer-duration securities, it also increases the government's exposure to rollover risk as bonds mature. This could pose challenges if unexpected shocks drive short-term rates higher. Although we do not anticipate this scenario materializing in the near term, we will closely track this dynamic.

Big Tech's Litmus Test: The last Magnificent 7 company will report earnings this afternoon, in what could be the next major catalyst for equity markets.

- Nvidia's upcoming quarterly earnings report represents far more than a routine corporate update — it will serve as the most consequential barometer of AI adoption and tech sector health. As the undisputed leader in AI accelerators, Nvidia has delivered eight consecutive quarters of earnings beats, transforming each report into a market-moving event that sets the tone for the entire technology ecosystem.
- The chipmaker's unique position at the center of the AI infrastructure boom makes its financial performance particularly revealing. With every major cloud provider and tech giant racing to expand AI capabilities, Nvidia's results will provide critical insight into whether corporate investment cycles remain intact despite macroeconomic pressures. Strong revenue growth and guidance would confirm sustained demand for AI infrastructure, while any weakness could signal broader enterprise spending pullbacks.
- Market implications extend well beyond the semiconductor sector. A bullish report could reignite the AI trade and potentially propel the S&P 500 above key psychological resistance at 6,000, as it would validate current growth expectations. Conversely, disappointing results might trigger a sector-wide repricing, particularly for high-multiple tech stocks that have benefited from the AI narrative.

US Economic Releases

The Mortgage Bankers Association today said ***mortgage applications*** for the week ended May 23 fell 1.2%, extending last week's 5.1% decline and marking a three-month low, likely in response to steadily rising mortgage rates. Applications for home purchase mortgages rose 2.7%, after falling 5.2% the previous week; however, applications for refinancing mortgages fell 7.1%, marking the third consecutive week of declines for this component. The average interest rate on a 30-year mortgage rose 6 basis points to 6.98%.

The table below lists the economic releases and/or Fed events scheduled for the rest of the day.

Economic Releases						
EST	Indicator			Expected	Prior	Rating
10:00	Richmond Fed Manufact. Index	m/m	May	-9	-13	**
Federal Reserve						
EST	Speaker or Event	District or Position				
14:00	U.S. Federal Reserve Releases Meeting Minutes	Federal Reserve Board				

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								
Australia	CPI	y/y	Apr	2.4%	2.4%	2.3%	**	Equity and bond neutral
South Korea	Retail Sales	y/y	Apr	7.0%	9.2%		**	Equity and bond neutral
	Depart. Store Sales	y/y	Ap	-2.9%	-2.1%		*	Equity and bond neutral
	Discount Store Sales	y/y	Apr	-3.1%	-0.2%		*	Equity and bond neutral
India	Industrial Production	y/y	Apr	2.7%	3.9%	1.0%	***	Equity bullish, bond bearish
EUROPE								
Germany	Import Price Index	y/y	Apr	-0.4%	2.1%	0.0%	**	Equity and bond neutral
	Unemployment Change	m/m	May	34.0k	6.0k	12.0k	***	Equity and bond neutral
	Unemployment Claims Rate	m/m	May	6.3%	6.3%	6.3%	**	Equity and bond neutral
France	PPI	y/y	Apr	-0.8%	-0.2%		*	Equity and bond neutral
	GDP	y/y	Q1 F	0.6%	0.8%		**	Equity and bond neutral
AMERICAS								
Mexico	International Reserves	w/w	23-May	$239885m	$238923m		*	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)	422	421	1	Up
U.S. Sibor/OIS spread (bps)	433	433	0	Up
U.S. Libor/OIS spread (bps)	433	433	0	Up
10-yr T-note (%)	4.45	4.45	0.00	Down
Euribor/OIS spread (bps)	202	204	-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**	
RBNZ Official Cash Rate	3.25%	3.50%	3.25%	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.

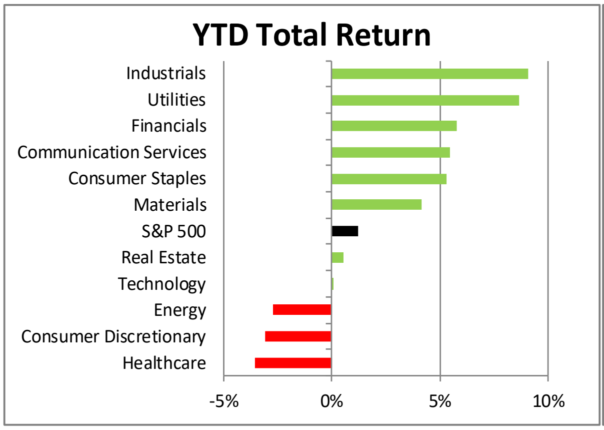
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$64.65	$64.09	0.87%	
WTI	$61.42	$60.89	0.87%	
Natural Gas	$3.46	$3.40	1.68%	
Crack Spread	$25.38	$25.02	1.47%	
12-mo strip crack	$21.87	$21.60	1.25%	
Ethanol rack	$1.92	$1.91	0.15%	
Metals				
Gold	$3,308.84	$3,300.87	0.24%	
Silver	$33.22	$33.26	-0.14%	
Copper contract	$475.70	$474.00	0.36%	
Grains				
Corn contract	$461.00	$459.50	0.33%	
Wheat contract	$531.50	$528.50	0.57%	
Soybeans contract	$1,058.50	$1,062.50	-0.38%	
Shipping				
Baltic Dry Freight	1,296	1,340	-44	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		-1.10		
Gasoline (mb)		-2.00		
Distillates (mb)		-1.40		
Refinery run rates (%)		0.7%		
Natural gas (bcf)		119		

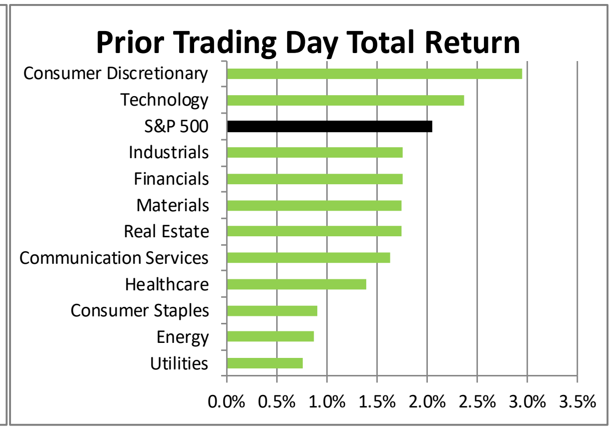
Weather

The 6-to-10 and 8-to-14-day forecasts currently call for warmer-than-normal temperatures from the Great Plains to the East Coast, with cooler-than-normal temperatures in the Rocky Mountains. The forecasts call for wetter-than-normal conditions for the middle third of the country, with drier-than-normal conditions in New England.

Data Section

US Equity Markets – (as of 5/27/2025 close)

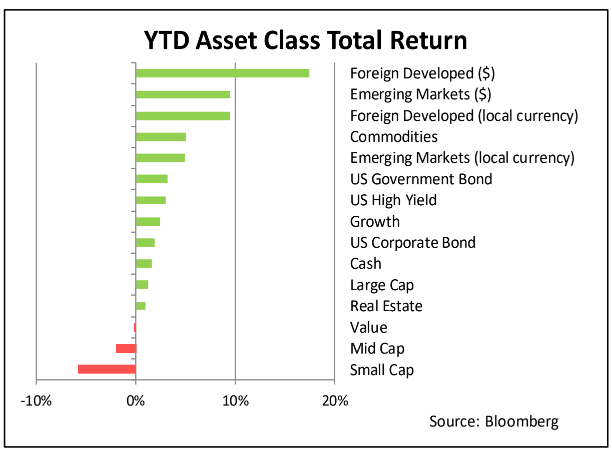




(Source: Bloomberg)

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 5/27/2025 close)

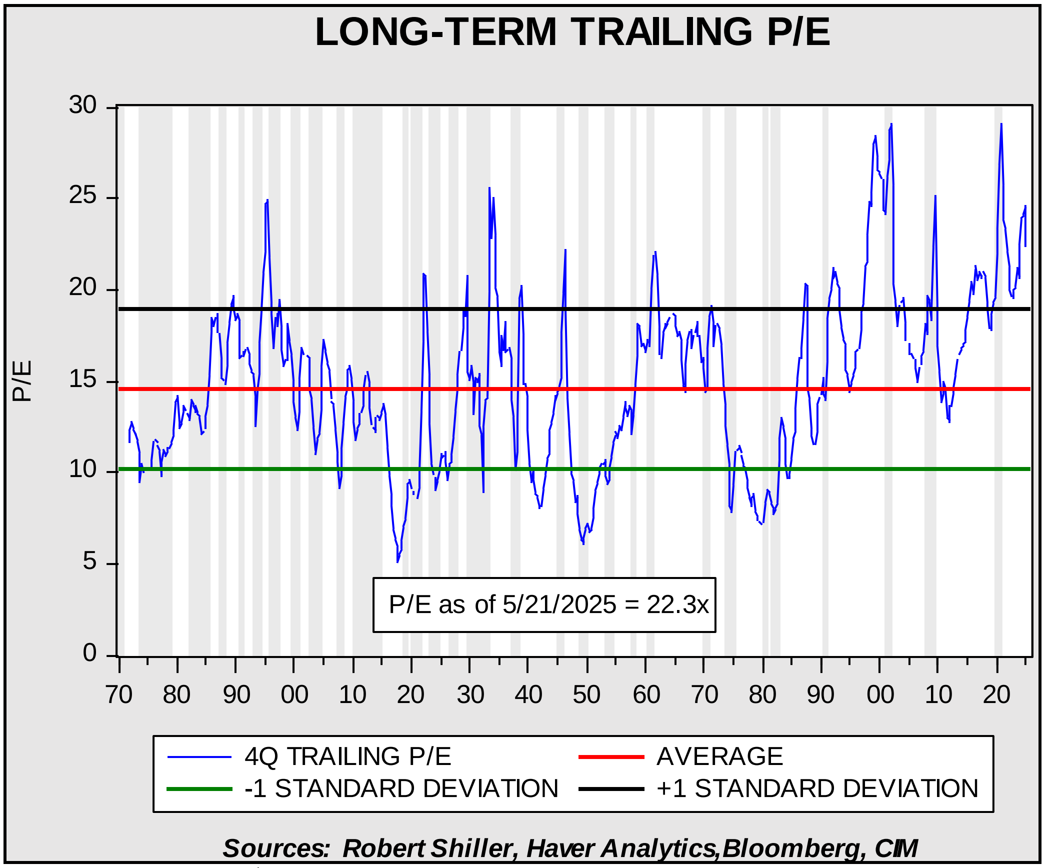


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 22, 2025



Based on our methodology,[1] the current P/E is 22.3x, up 0.3 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.

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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.