Daily Comment

Confluence Investment Management

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Posted: May 2, 2025 — 9:30 AM ET] Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 closed up 1.5% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 3.7%. Chinese markets are closed today in observance of Labor Day. US equity index futures are signaling a higher open.

With 348 companies having reported so far, S&P 500 earnings for Q1 are running at $63.50 per share compared to estimates of $60.75, which is up 7.3% from Q1 2024. Of the companies that have reported thus far, 76.2% have exceeded expectations, while 19.8% 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
"Export Controls" (4/28/25) + podcast	"From Magnificent 7 to European Revival" (4/14/25) + podcast	Q2 2025 Report	Keller Quarterly **Business Cycle Report**

Our *Comment* today opens with a Chinese government statement confirming that it is considering a request for trade talks from the Trump administration. We next review several other international and US developments with the potential to affect the financial markets today, including a new trade offer from the European Union and news that President Trump today is releasing his proposed budget for the upcoming federal fiscal year.

China-United States: The Chinese commerce ministry today confirmed that US officials have "conveyed messages to China, through various channels, expressing a desire to engage in discussions" about President Trump's tariff policy. Moreover, the ministry said Beijing is "evaluating" the US request. Investors appear to be taking the statement as a sign that the two sides could soon start talks to end their trade war. In response, global stock prices and the values of other risk assets are rallying so far this morning.

- However, despite today's market optimism over the statement, investors should probably keep in mind that General Secretary Xi may have interpreted the US approach as a sign of weakness or of sufficient kowtowing to China.
- If Xi does believe the US has blinked, he could be emboldened to strike a hard negotiating stance against Trump. It is therefore probably much too early to expect an end to the trade tensions in the near term.

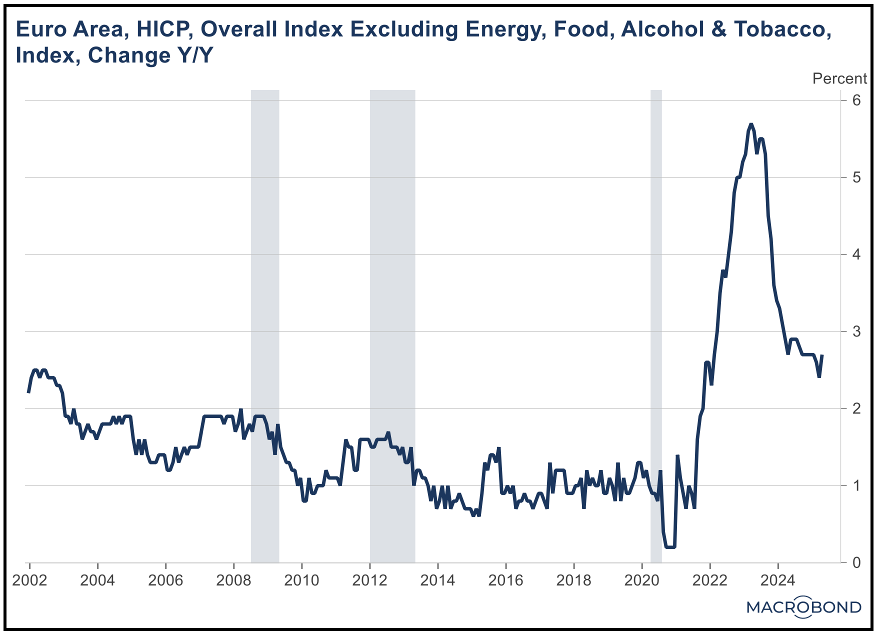
European Union-United States: In an interview with the *Financial Times*, Trade Commissioner Maroš Šefčovič said the EU will offer to hike its annual purchases of US exports by €50 billion to stave off Washington's 20% "reciprocal" tariffs, which are currently paused until early July. However, he suggested the EU offer would only apply if the US also drops its 10% baseline tariff against the EU.

- Although the Trump administration is focused heavily on the US trade deficit in physical goods, the country typically has a sizable surplus in service exports, such as tourism and digital services. According to Šefčovič, the US trade deficit with the EU is only about €50 billion when considering the US's big service surplus with Europe.
- In his interview, Šefčovič argued the EU could fairly easily make up the total imbalance by buying more liquefied natural gas, agricultural products, and other items from the US.
- Coupled with the Chinese statement about evaluating talks with the US, the statement from Šefčovič adds to evidence that Washington has indeed had some success in forcing negotiations over its bilateral trade imbalances. All the same, the progress is likely to be slow, meaning the current tariffs in place will remain a threat to the economy in the near term, even if they are lowered to more sustainable levels in the future.

United States-Iran: To increase his pressure on Iran to force it into a deal restricting its nuclear program, President Trump yesterday said he will impose "secondary" sanctions on Iranian oil. Under the sanctions, any entity buying Iranian crude or petrochemicals would be frozen out of the US financial system. If implemented, the sanctions would theoretically reduce the amount of oil on the global market, potentially boosting prices and exacerbating consumer price inflation.

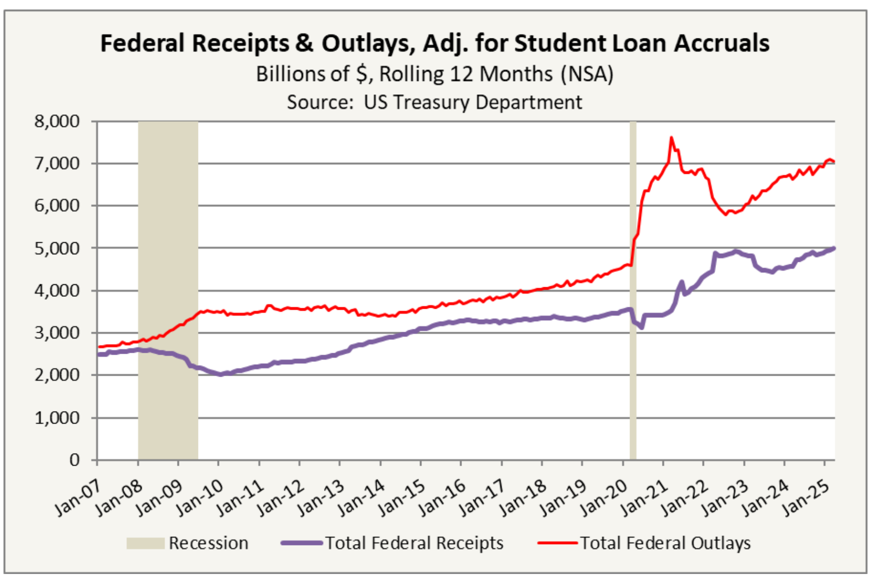
India-Pakistan: India and Pakistan today stand on the brink of war after New Delhi said Islamabad was responsible for last week's terrorist attack on its Kashmir region. The two nuclear-armed neighbors have been trading small arms fire over the last week, and reports yesterday said India may be preparing a major attack on Pakistan. Any large-scale war between the countries would likely spark fears of a potential nuclear conflict and could send global risk markets into a tailspin.

Eurozone: The March consumer price index was up 2.2% from the same month one year earlier, matching the annual increase in February but exceeding expectations that inflation would ease to just 2.1%. Excluding the volatile food and energy components, the March core CPI was up 2.7% on the year, exceeding both the 2.4% rise in the year to February and the expected increase of 2.5%. The hotter-than-expected inflation print raises the chance that the European Central Bank may not cut interest rates at its June policy meeting.



US Politics: President Trump yesterday named embattled National Security Advisor Mike Waltz to be his ambassador to the United Nations, deftly "kicking him upstairs" over the recent Signalgate scandal and other controversies within the White House. The move also facilitates keeping New York Rep. Elise Stefanik in her House seat after Trump asked her to give up her previous nomination to the UN job.

US Fiscal Policy: President Trump today will release his proposed budget for federal fiscal year 2026, which begins October 1. The proposed budget includes far-reaching tax cuts and big reductions in nondefense discretionary expenditures related to environmental, renewable energy, education, foreign aid, and other programs. However, the proposed budget will be heavily amended as it works its way through Congress, so at this point it is largely just a signal of the administration's fiscal priorities and goals.

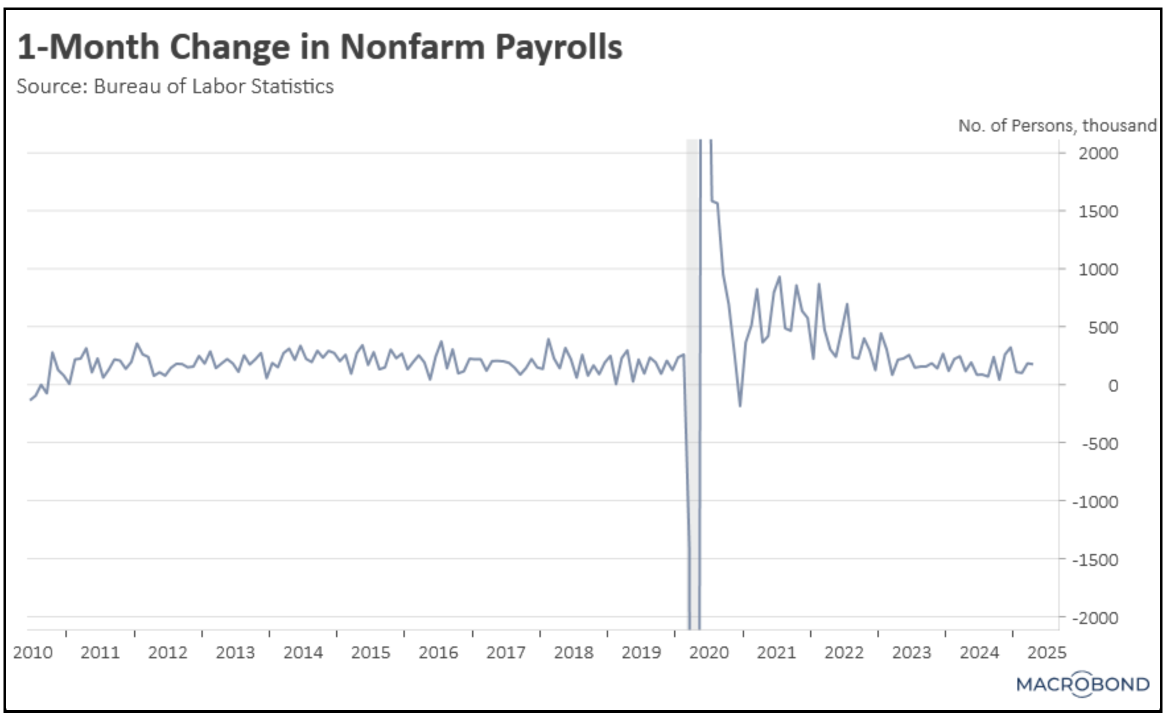


US Treasury Market: In a television interview today, Japanese Finance Minister Kato admitted that Tokyo considers its holdings of $1.3 trillion in US Treasury obligations to be a "card" that can be played in its current trade negotiations with Washington. According to Kato, "It does exist as a card. Whether or not we use that card is a different decision." The statement is likely to increase concerns about foreign capital fleeing US securities, either as a negotiating ploy or as a reflection of increased worries about US stability and friendliness to foreign capital.

- On a related note, the *Financial Times* today carries a long read looking at how the Chinese government is deliberately diversifying its foreign exchange reserves away from US Treasurys.
- The article includes a number of useful graphs showing that Beijing has gradually been reducing its exposure to US Treasurys for at least a decade.

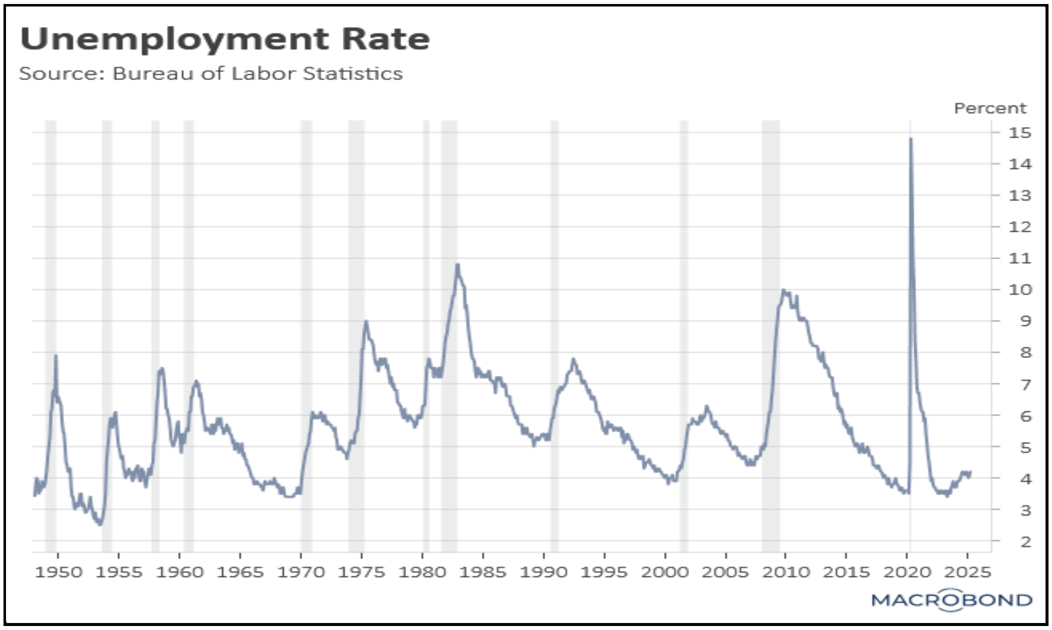
US Economic Releases

Job growth exceeded expectations in April, with the Bureau of Labor Statistics ***nonfarm payrolls*** reporting 177,000 new jobs — well above the forecast of 130,000. ***Private sector payrolls*** also outperformed, adding 167,000 jobs compared to expectations of 124,000. Meanwhile, ***manufacturing payrolls*** declined slightly, falling by 1,000 jobs instead of the projected drop of 5,000, marking a softer contraction than anticipated.



The chart above shows the monthly change in nonfarm payrolls. While jobs were able to beat expectations, the number suggests that job creation has slowed slightly.

Meanwhile, the latest household survey indicates that labor market conditions remained broadly stable compared to the previous month. The ***unemployment rate*** held steady at 4.2%, matching expectations. This unchanged figure coincides with a slight uptick in the ***participation rate***, which rose from 62.5% to 62.6%, suggesting more people joined the workforce than left it. Meanwhile, ***hourly earnings*** softened slightly, increasing by 0.2% month-over-month — just below the anticipated 0.3% rise.



The chart above shows the unemployment rate. Recent data confirms that while the labor market remains historically tight, there are emerging signs of moderation. With the jobless rate holding steady, the Federal Reserve may prioritize its inflation-fighting mandate in the upcoming policy meeting.

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

Economic Releases						
EST	**Indicator**			**Expected**	**Prior**	**Rating**
10:00	Factory Orders	m/m	Mar	4.5%	0.6%	**
10:00	Factory Orders Ex Transportation	m/m	Mar	0.3%	0.4%	**
10:00	Durables Goods Orders	m/m	Mar F	9.2%	9.2%	**
10:00	Durables Ex Transportation	m/m	Mar F	0.0%	0.0%	**
10:00	Cap Goods Orders Nondef Ex Air	m/m	Mar F	0.1%	0.1%	*
10:00	Cap Goods Ship Nondef Ex Air	m/m	Mar F	0.3%	0.3%	*
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	Jobless Rate	m/m	Mar	2.5%	2.4%	2.4%	***	Equity and bond neutral
	Job-To-Applicant Ratio	m/m	Mar	1.3%	124.0%	125.0%	***	Equity and bond neutral
	Monetary Base	y/y	Apr	-4.8%	-3.1%		**	Equity and bond neutral
	Monetary Base, End of Period	m/m	Apr	¥666.4t	¥653.8t		*	Equity and bond neutral
	Japan Buying Foreign Bonds	w/w	25-Apr	¥435.2b	¥218.2		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	25-Apr	¥133.8b	¥610.4b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	25-Apr	¥60.0b	¥998.1b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	25-Apr	¥278.3b	¥705.6b		*	Equity and bond neutral
Australia	PPI	y/y	1Q	3.7%	3.7%		**	Equity and bond neutral
	Retail Sales	m/m	Mar	0.2%	0.2%	0.4%	***	Equity and bond neutral
New Zealand	Building Permits	m/m	Mar	9.6%	0.7%		**	Equity and bond neutral
South Korea	CPI	m/m	Apr	2.1%	2.1%	2.0%	***	Equity and bond neutral
	S&P Global South Korea PMI Manufacturing	m/m	Apr	47.5	49.1		***	Equity and bond neutral
India	HSBC India PMI Mfg	m/m	Apr F	58.2	58.4		***	Equity and bond neutral
EUROPE								
Eurozone	HCOB Eurozone Manufacturing PMI	m/m	Apr F	49.0	48.7	48.7	***	Equity and bond neutral
	CPI Estimate	y/y	Apr P	2.2%	7.5%	2.1%	***	Equity and bond neutral
	CPI	mm	Apr P	0.6%	2.9%	0.5%	**	Equity and bond neutral
	Core CPI	y/y	Apr P	2.7%	2.9%	2.5%	**	Equity and bond neutral
	Unemployment Rate	m/m	Feb	6.2%	6.2%	6.1%	**	Equity and bond neutral
Germany	HCOB Germany Manufacturing PMI	m/m	Apr F	48.4	48.0	48.0	***	Equity and bond neutral
France	HCOB France Manufacturing PMI	m/m	Apr F	48.7	48.2	48.2	***	Equity and bond neutral
Italy	HCOB Italy Manufacturing PMI	m/m	Apr	49.3	46.6	47.0	***	Equity bullish, bond bearish
	Unemployment Rate	m/m	Mar	6.0%	5.9%	6.0%	**	Equity and bond neutral
Switzerland	PMI Manufacturing	m/m	Apr	45.8	48.9	48.6	***	Equity and bond neutral
	PMI Services	m/m	Apr	52.4	50.6		*	Equity and bond neutral
AMERICAS								
Canada	S&P Global Canada Manufacturing PMI	m/m	Apr	45.3	46.3		***	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)	418	419	-1	Up
U.S. Sibor/OIS spread (bps)	426	427	-1	Down
U.S. Libor/OIS spread (bps)	425	426	-1	Down
10-yr T-note (%)	4.22	4.22	0.00	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

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.

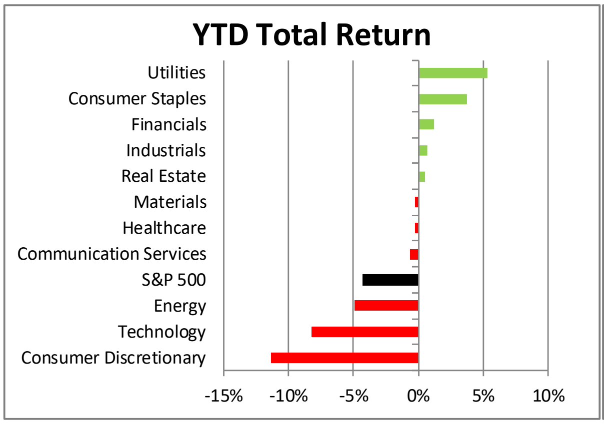
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$61.66	$62.13	-0.76%	
WTI	$58.73	$59.24	-0.86%	
Natural Gas	$3.47	$3.48	-0.32%	
Crack Spread	$26.14	$26.49	-1.35%	
12-mo strip crack	$22.20	$22.55	-1.55%	
Ethanol rack	$1.90	$1.90	-0.15%	
Metals				
Gold	$3,267.18	$3,239.20	0.86%	
Silver	$32.38	$32.41	-0.10%	
Copper contract	$467.90	$462.80	1.10%	
Grains				
Corn contract	$472.50	$472.25	0.05%	
Wheat contract	$538.50	$531.00	1.41%	
Soybeans contract	$1,052.50	$1,050.25	0.21%	
Shipping				
Baltic Dry Freight	1,411	1,386	25	
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)	107	109	-2	

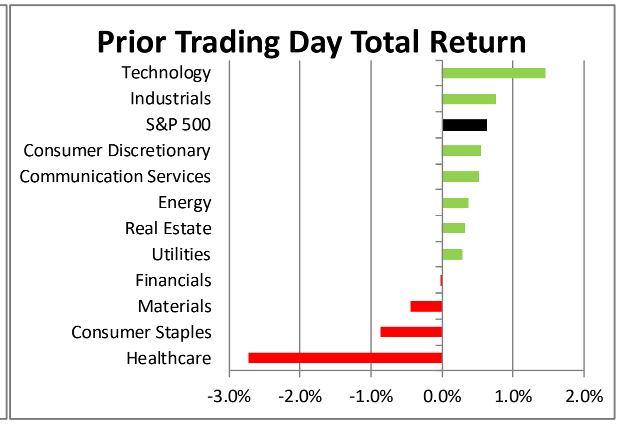
Weather

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 south-central states. The precipitation outlook calls for wetter-than-normal conditions throughout most of the South and Great Plains regions, with dry conditions in the Northern Midwest and New England regions.

Data Section

US Equity Markets – (as of 5/1/2025 close)

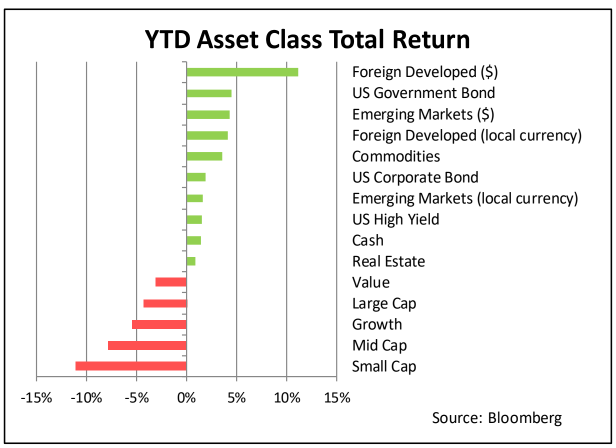




(Source: Bloomberg)

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 5/1/2025 close)

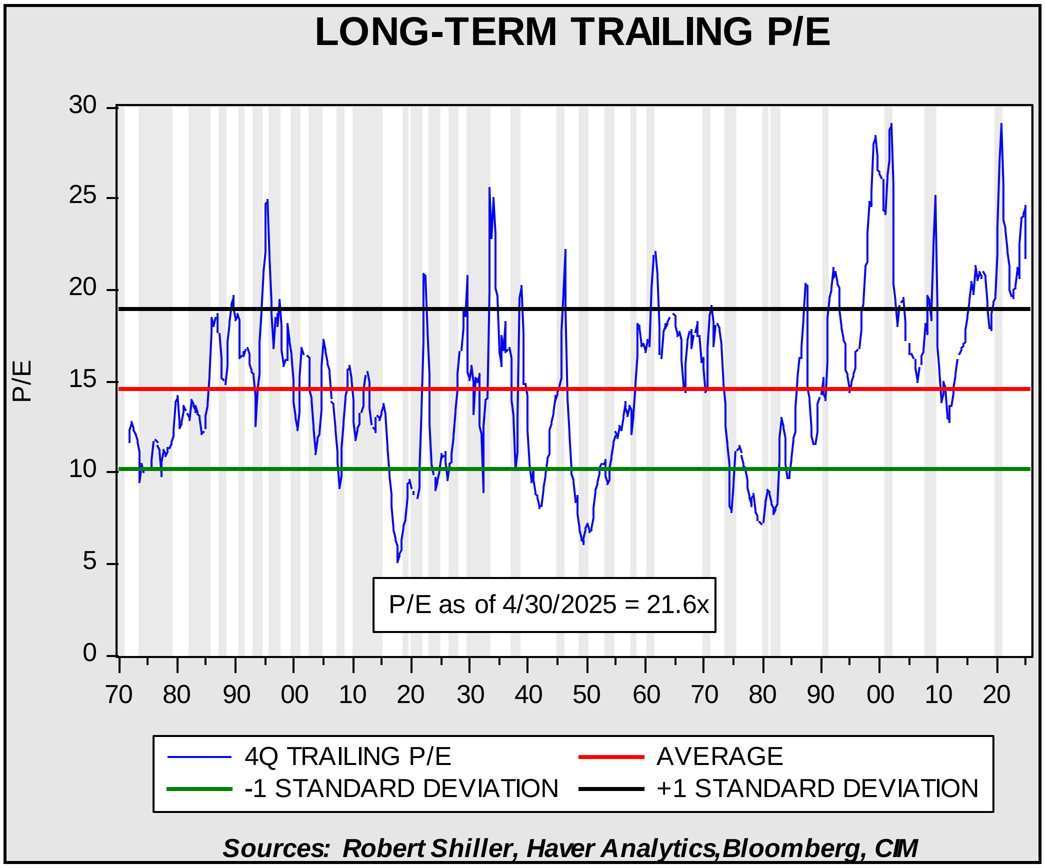


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.