



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: May 6, 2025 — 9:30 AM ET Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 closed down 0.6% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.3%. Chinese markets were higher, with the Shanghai Composite up 1.1% from its previous close and the Shenzhen Composite up 2.3%. US equity index futures are signaling a lower open.

With 373 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, 75.3% have exceeded expectations, while 20.4% 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.

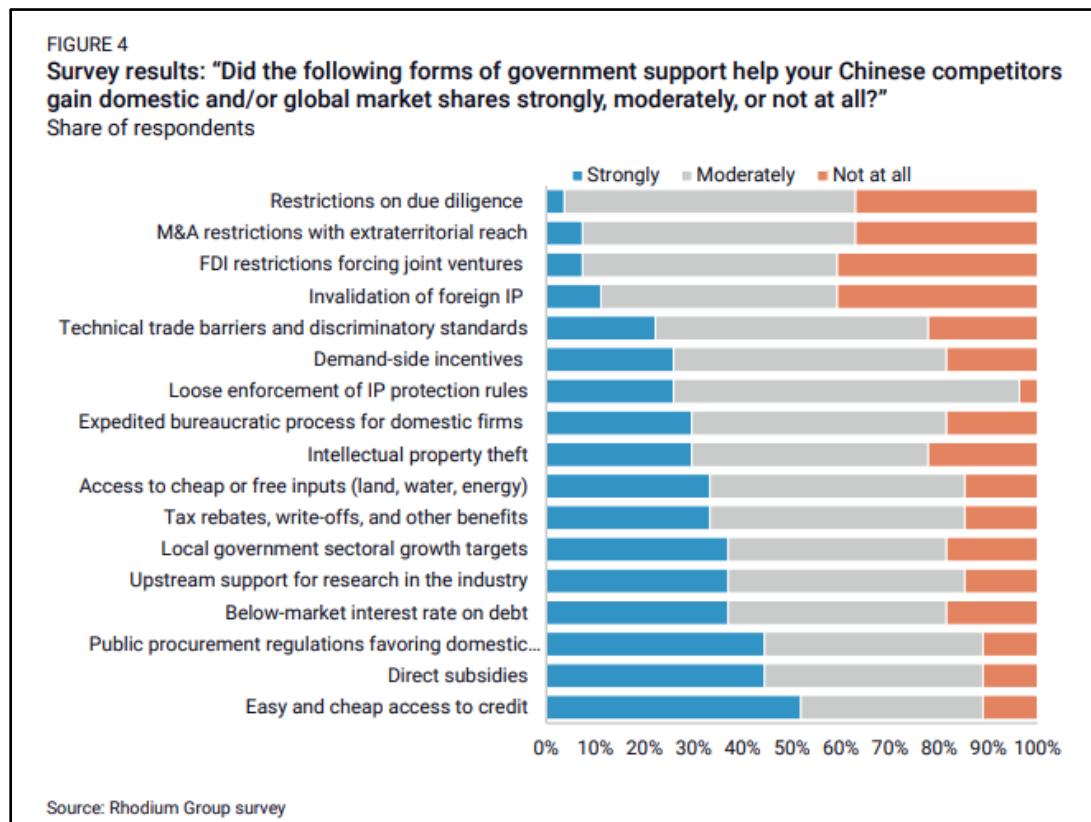
Bi-Weekly Geopolitical Report	Asset Allocation Bi-Weekly	Asset Allocation Quarterly	Of Note
“Export Controls” (4/28/25) + podcast	“US Capital Flight and the Implications for Investors” (5/5/25) + podcast	Q2 2025 Report	Keller Quarterly Business Cycle Report

Our *Comment* today starts with a new report confirming that China’s industrial strategy has not only leaned heavily on unfair trade practices, but it has also helped close China’s technology gap with the US and reduced its dependence on imports. We next review several other international and US developments with the potential to affect the financial markets today, including the German parliament’s unexpected failure to confirm Friedrich Merz as chancellor and a new strike at a major US aerospace firm.

China: The US Chamber of Commerce yesterday released a new study [confirming that Beijing’s “Made in China 2025” industrial policy is helping close China’s technology gap with the US](#) and has reduced the country’s reliance on imports. The study provides the latest evidence that Beijing has used a range of restricted trade policies — such as massive tax subsidies, low-cost public

funding, protectionist trade barriers, and forced technology transfers — to undermine US industry. The [report](#) is therefore likely to further exacerbate US-China economic tensions.

- In one especially interesting section, the report shows the results of a survey conducted among US Chamber member firms facing Chinese competitors. The survey asked the Chamber members what forms of government support were most instrumental to helping their Chinese competitors gain domestic or global market share.
- The three most effective types of support listed were easy and cheap access to credit, direct subsidies, and public procurement regulations favoring domestic producers.



Malaysia: Prime Minister Anwar yesterday [announced a fiscal relief package equal to about \\$356 million to help shield Malaysia’s small and medium-sized enterprises](#) from the effects of President Trump’s “reciprocal” import tariffs. Even though Trump has paused the 24% tariff against Malaysia until early July, Anwar told parliament the money will be made available to SMEs in the form of increased loan guarantees and low-interest loans.

European Union-United Kingdom: In a new sign of post-Brexit reintegration between the EU and UK economies, the European Commission today [will reportedly propose new legislation that would ease the recognition of British professional certifications](#). If approved by the European Parliament, the proposed law would be especially helpful for British lawyers, bankers, engineers, and other skilled workers hoping to work in the EU. In turn, that could allow firms to rebuild some cross-Channel business relationships that were disrupted by Brexit.

European Union-Russia: The European Commission today [will announce a 2027 deadline for EU companies to end their contracts for Russian energy](#). While Brussels has already clamped down heavily on Russian oil and coal deliveries via sanctions, it has struggled to end all natural gas imports because some member countries oppose further sanctions. The outright restriction on import contracts aims to get around that opposition. Of course, the new rules may worsen the EU's shortage of cheap energy, which has weighed on economic growth.

- The new rules would reportedly require companies to end all spot market gas contracts with Russian suppliers by the end of this year and to end all long-term contracts by 2027.
- Once announced, the measure would still need to be approved by a majority of EU member states and the European parliament.

Germany: Friedrich Merz, leader of the center-right CDU party, today [unexpectedly lost a parliamentary vote to confirm him as chancellor](#). Merz last week had sealed a deal with the center-left Social Democratic Party that gave the coalition 328 of the 630 seats in the Bundestag, but in secret balloting today he only got 310 votes. Merz will still likely prevail in a follow-on vote, but the unprecedented first-round loss will leave him politically wounded as he tries to renew German leadership in Europe and reform the domestic economy to boost growth.

- The embarrassing vote will also likely boost support for Germany's surging radical populist parties, especially the far-right Alternative for Germany.
- In financial markets, the unseemly show of chaos and instability drove down the value of German assets today, with the DAX stock index closing down 1.3%.

US Monetary Policy: The Federal Reserve [today begins its latest policymaking meeting](#), with its decision due tomorrow at 2:00 pm ET. Based on interest rate futures trading, investors widely [expect officials to hold their benchmark fed funds rate steady at the current target range of 4.25% to 4.50%](#). The next rate cut is expected in late July. However, investors will be paying close attention to any hints Chair Powell may give on the trajectory of rates and any change in the Fed's bond-buying program.

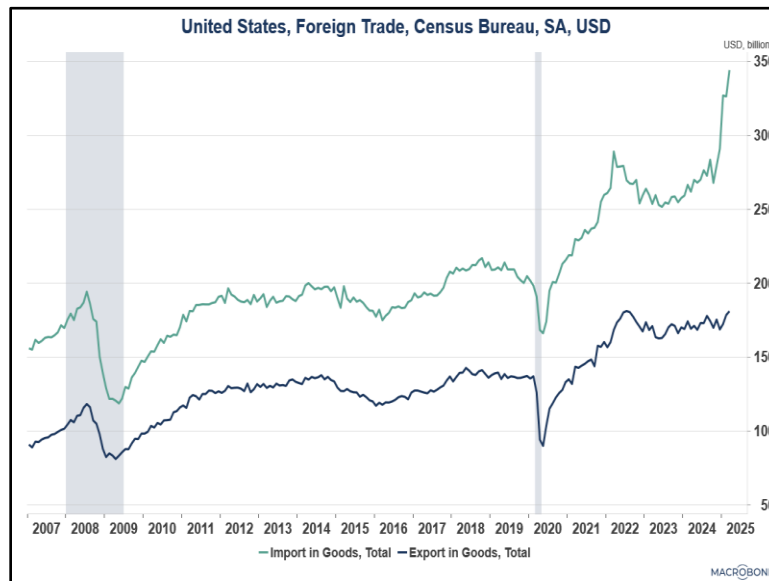
US Immigration Policy: The Department of Homeland Security yesterday [said it will cover the transportation costs and pay \\$1,000 to any illegal alien who leaves the country voluntarily](#). Officials said the government would still come out ahead financially in spite of the cost, but they did not indicate where the funding for the program would come from. In any case, we suspect that \$1,000 is not enough to spur massive numbers of illegals to "self deport," but if it is, one result would likely be more labor shortages and costlier workers for some industries.

US Labor Market: Some 3,000 workers in the International Association of Machinists and Aerospace Workers yesterday [launched a strike against jet engine maker Pratt & Whitney](#), a subsidiary of defense giant RTX. The unionized workers at the company's Connecticut facilities are demanding better wages, retirement benefits, and job security as the company reportedly mulls moving some production to its plants in Georgia. The strike also suggests that the union believes it has increased leverage as the US defense budget increases.

US Energy Market: Diamondback Energy and Coterra Energy, which are active in the prolific Permian Basin oil fields, [yesterday both said they are significantly cutting their capital spending](#) this year as they face increased foreign production and lower global oil prices. The statements have sparked concern that US oil output may have peaked already, despite President Trump's goal to rapidly boost output. Any significant drop in oil drilling could also feed into concerns about future weakness in the US labor market.

US Economic Releases

The March *trade balance* widened to a record seasonally adjusted deficit of \$140.5 billion, markedly wider than the previous month's \$123.2 billion and exceeding the expected \$137.2 billion. According to the data, total *exports* edged up 0.2%, while *imports* jumped 4.4%. Compared with the same month one year earlier, exports in March rose 6.7%, while imports rose 27.1%. The chart below shows the monthly value of US exports and imports since just before the previous recession.



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
ASIA-PACIFIC								
Australia	Building Approvals	m/m	Mar	-8.8%	-0.2%	-1.5%	***	Equity bearish, bond bullish
New Zealand	ANZ Commodity Price	m/m	Apr	0.0%	-0.4%		**	Equity and bond neutral
China	Caixin Services PMI	m/m	Apr	50.7	51.9	51.8	**	Equity bearish, bond bullish
	Caixin Composite PMI	m/m	Apr	51.1	51.8		**	Equity and bond neutral
India	HSBC India PMI Composite	m/m	Apr F	59.7	60.0		**	Equity and bond neutral
	HSBC India PMI Services	m/m	Apr F	58.7	59.1		**	Equity and bond neutral
EUROPE								
Eurozone	HCOB Eurozone Services PMI	m/m	Apr F	50.1	49.7	49.7	**	Equity and bond neutral
	HCOB Eurozone Composite PMI	m/m	Apr F	50.4	50.1	50.1	*	Equity and bond neutral
	PPI	y/y	Mar	1.9%	3.0%	2.5%	**	Equity bearish, bond bullish
Germany	HCOB Germany Services PMI	m/m	Apr F	49.0	48.8	48.8	**	Equity and bond neutral
	HCOB Germany Composite PMI	m/m	Apr F	50.1	49.7	49.7	**	Equity and bond neutral
France	Industrial Production	y/y	Mar	0.2%	-0.3%	-0.2%	***	Equity bullish, bond bearish
	Manufacturing Production	y/y	Mar	0.0%	-1.3%		**	Equity and bond neutral
	HCOB France Services PMI	m/m	Apr F	47.3	46.8	46.8	**	Equity and bond neutral
Italy	HCOB France Composite PMI	m/m	Apr F	47.8	47.3	47.3	**	Equity and bond neutral
	HCOB Italy Services PMI	m/m	Apr	52.9	52.0	51.3	**	Equity bullish, bond bearish
UK	HCOB Italy Composite PMI	m/m	Apr	52.1	50.5	50.2	**	Equity bullish, bond bearish
	New Car Registrations	y/y	Apr	-10.40%	12.40%		*	Equity and bond neutral
Switzerland	Official Reserves Changes	m/m	Apr	\$4115m	\$4390m		*	Equity and bond neutral
	S&P Global UK Services PMI	m/m	Apr F	49.0	48.9	48.9	**	Equity and bond neutral
	S&P Global UK Composite PMI	m/m	Apr F	48.5	48.2	48.2	**	Equity and bond neutral
Russia	Unemployment Rate	m/m	Apr	2.8%	2.9%	2.9%	**	Equity and bond neutral
	Gold and Forex Reserves	m/m	25-Apr	\$677.8b	\$681.3b		***	Equity and bond neutral
AMERICAS								
Canada	S&P Global Canada Services PMI	m/m	Apr F	41.5	41.2		*	Equity and bond neutral
	S&P Global Canada Composite PMI	m/m	Apr	41.7	42.0		*	Equity and bond neutral
Mexico	Gross Fixed Investment	y/y	Feb	-7.8%	-7.0%	-5.0%	**	Equity bearish, bond bullish
	Vehicle Domestic Sales	y/y	Apr	127352	127360		***	Equity and bond neutral
	Leading Indicators	y/y	Mar	-0.12	-0.16		**	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)	419	421	-2	Up
U.S. Sibor/OIS spread (bps)	431	431	0	Flat
U.S. Libor/OIS spread (bps)	430	430	0	Down
10-yr T-note (%)	4.35	4.35	0.00	Up
Euribor/OIS spread (bps)	215	214	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.

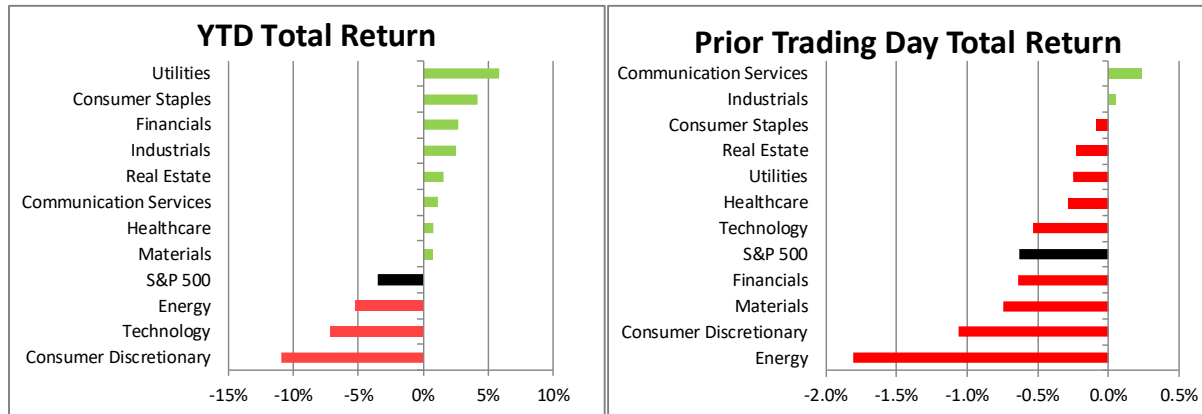
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$61.43	\$60.23	1.99%	
WTI	\$58.30	\$57.13	2.05%	
Natural Gas	\$3.59	\$3.55	1.24%	
Crack Spread	\$27.06	\$27.28	-0.80%	
12-mo strip crack	\$22.42	\$22.49	-0.28%	
Ethanol rack	\$1.88	\$1.89	-0.30%	
Metals				
Gold	\$3,383.25	\$3,334.12	1.47%	
Silver	\$33.08	\$32.49	1.82%	
Copper contract	\$470.40	\$469.90	0.11%	
Grains				
Corn contract	\$456.50	\$454.25	0.50%	
Wheat contract	\$535.50	\$531.25	0.80%	
Soybeans contract	\$1,044.25	\$1,045.50	-0.12%	
Shipping				
Baltic Dry Freight	1,421	1,411	10	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-0.58		
Gasoline (mb)		-1.43		
Distillates (mb)		-1.71		
Refinery run rates (%)		0.2%		
Natural gas (bcf)		109		

Weather

The 6-to-10 and 8-to-14-day forecasts currently call for warmer-than-normal temperatures from the Rocky Mountains eastward, with cooler-than-normal temperatures on the West Coast. The forecasts predict wetter-than-normal conditions in the northern quadrant of the country and Florida, with drier-than-normal conditions in the lower Mississippi Valley, the Midwest, and the Northeast.

Data Section

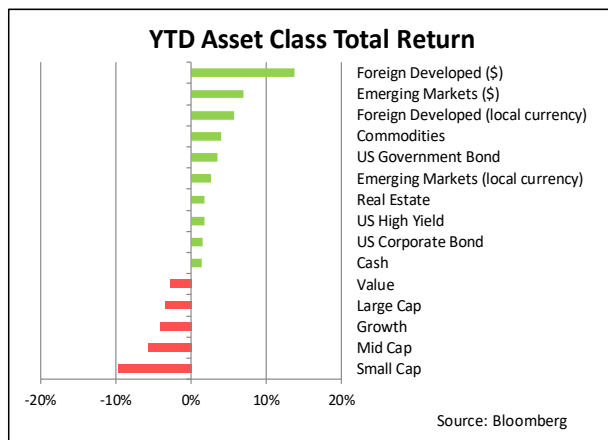
US Equity Markets – (as of 5/5/2025 close)



(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 5/5/2025 close)

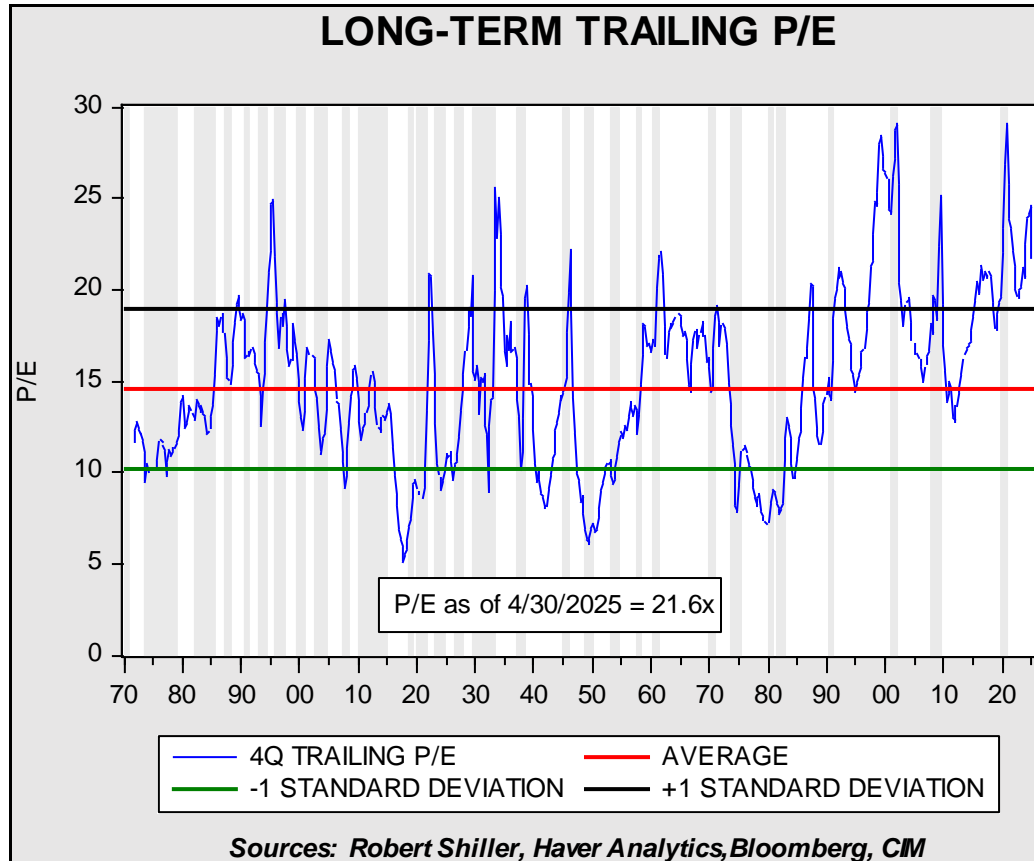


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.

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.