Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

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

With 440 companies having reported so far, S&P 500 earnings for Q1 are running at $63.80 per share compared to estimates of $60.75, which is up 7.3% from Q1 2024. Of the companies that have reported thus far, 76.6% have exceeded expectations, while 19.3% 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	"US Capital Flight and the Implications for Investors" (5/5/25) + podcast	Q2 2025 Report	Keller Quarterly Business Cycle Report

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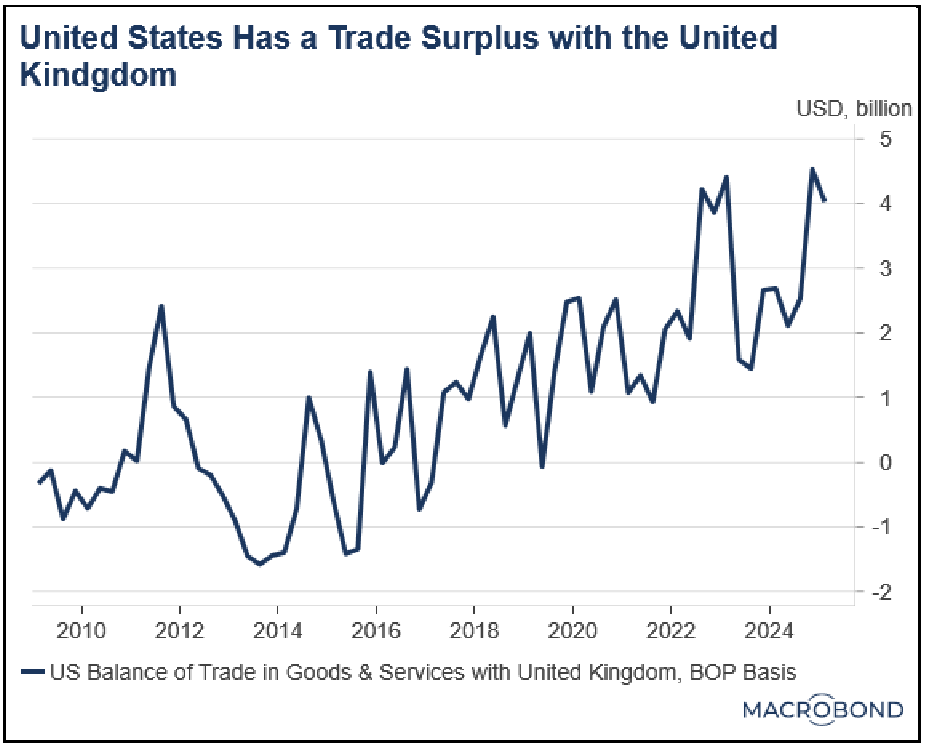
Good morning! Markets are digesting the latest trade developments this morning. In sports news, the Edmonton Oilers secured a commanding 2-0 series lead against the Vegas Golden Knights. Today's *Comment* will focus on the UK's positioning in trade negotiations with the US and India, progress in US-China trade talks, and other key market-moving developments. As always, we'll provide a comprehensive roundup of domestic and international economic data releases.

Starmer the Dealmaker: The Brits have been able to secure better trade treatments with two key partners as the UK looks to boost its economy.

- On Thursday, the UK became the first country to secure trade concessions from the US following President Trump's decision to impose tariffs on imports. The agreement ensures a reduction in US tariffs on British automobiles, covering up to 100,000 vehicles — an amount that aligns with the UK's historical annual exports to the US. Furthermore, the deal eliminates all tariffs on UK steel and aluminum. In return, the UK has committed to allowing greater imports of American beef and has agreed to purchase Boeing aircraft.

- Although a 10% tariff remains on British exports to the US, the UK secured favorable terms without significant concessions. It avoided demands to lower its digital services tax, open healthcare markets to American firms, or relax food standards — all key priorities for the Trump administration. With negotiations ongoing, the deal demonstrates how running a trade deficit with the US can provide leverage in securing flexible terms.
- Progress in US-UK trade negotiations coincided with the finalization of a landmark UK-India trade agreement. The deal grants India tariff-free access for 99% of its exports to the UK, while India will cut duties by 90% on British goods, with most tariffs gradually removed over the next 10 years. The agreement is particularly advantageous for the automotive sector as India's affluent consumers will gain access to luxury British vehicles at significantly lower prices.



- While the UK's trade agreements with the US and India may appear unrelated, they offer valuable insights into how nations are adapting to the new global economic landscape. The UK's experience demonstrates that securing a swift deal with the US may be less disruptive than anticipated and that businesses can mitigate declining US exports by forging compensatory partnerships elsewhere.
- As the US turns inward, countries are forging new trade alliances and reshaping the global economic order into one less centered on American dominance. While this shift could gradually erode the dollar's primacy in trade, its status as the world's reserve currency remains secure for now. The more immediate effect, however, will be a redirection of capital toward foreign firms as businesses adapt to this evolving landscape.

US-China Trade Talks: The two sides are scheduled to hold talks this weekend, marking the start of formal trade negotiations between the longtime rivals.

- As a goodwill gesture, President Trump has announced plans to reduce punitive tariffs — currently as high as 145% — in exchange for substantive progress in trade talks. The Trump administration is reportedly considering cutting tariffs to 80%, a move China is expected to reciprocate. The proposal comes after repeated demands from Chinese negotiators who have insisted that any agreement must include tariff relief.
- In the lead-up to the meeting, both sides engaged in posturing, unwilling to appear weak ahead of negotiations. Beijing has sought to project strength despite the trade war's toll on its economy. Since the conflict began, Chinese firms have struggled to replace lost American buyers, with bankruptcies expected to rise sharply as a result. China's decision to withhold wage data further suggests an effort to conceal the economic damage inflicted by the trade war.

- Meanwhile, the US has faced increasing pressure to de-escalate trade tensions. There is speculation that a prolonged trade war could lead to summer supply shortages as firms and households struggle to secure alternatives to Chinese imports. These economic anxieties have depressed both consumer and business confidence, while dragging down the president's overall approval ratings.
- Recent progress in trade talks between the world's two largest economies suggests tensions may be easing, a development likely to bolster market optimism. This shift could reignite risk appetites as investors cautiously re-enter the markets following earlier

volatility. However, the longer-term economic impact of tariffs on corporate profits and consumer spending remains a critical concern.

Trump Backs Taxing the Rich: Initially opposed to raising taxes on high-income earners making $1 million or more, the president now seems to have reversed his stance.

- The president has formally endorsed a plan to restore pre-2017 tax rates for individuals earning over $2.5 million annually. This move follows other progressive tax initiatives, including closing the carried interest loophole that has long been exploited by private equity firms, as part of a broader effort to fund middle-class tax relief. By supporting higher taxes on top earners, the president has made a decisive break with traditional Republican orthodoxy, which has historically rejected all tax increases as a matter of principle.
- The president's proposed tax increases have deepened internal divisions as lawmakers attempt to balance his promised "big, beautiful" tax cuts with spending cuts. Although officials have pursued deficit reduction through eliminating redundancies and targeting fraud, these measures have yet to generate sufficient savings to offset the legislation's projected costs. Meanwhile, it is still unclear whether tariff revenue will also be enough to offset the spending increases.
- Further exacerbating the issue are internal party disagreements regarding the SALT deduction, a provision the president has characterized as largely favoring blue states. The current point of contention involves lawmakers' efforts to increase the SALT deduction limit in the new bill from $10,000 to a potential $30,000, a substantial jump from the originally suggested $20,000.
- While the bill is expected to pass by summer, several key details remain unresolved. Nevertheless, we anticipate that provisions like reduced corporate tax rates will deliver the most significant benefits for investors. Additionally, the proposed income tax cuts should help offset financial pressures on households grappling with higher costs from tariffs on everyday goods.

India-Pakistan Conflict Grows: The rivals continue to fight as concerns about an expanding war grow.

- The conflict has now expanded beyond the Kashmir region, with hostilities escalating across both nations. India has conducted airstrikes targeting Pakistan-administered Kashmir as well as mainland Pakistani territory. In retaliation, Pakistan has struck Jammu, an Indian-controlled city within Kashmir. Neither side shows signs of de-escalation, with both increasingly relying on drone warfare — a development that has already resulted in civilian casualties on both sides of the border.
- Although the two nations have engaged in multiple wars throughout their history, the current confrontation represents their most serious escalation to date. While President Trump has offered to mediate the conflict, India has firmly rejected third-party intervention. The growing tensions threaten to destabilize the Indo-Pacific region if left unchecked, with significant potential to negatively impact global risk assets.

US Economic Releases

No major US economic reports have been released so far today. The table below lists the economic releases and 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**
9:15	John Williams Appears on Bloomberg TV	President of the Federal Reserve Bank of New York
10:00	Austan Goolsbee Gives Remarks at Fed Listens Event	President of the Federal Reserve Bank of Chicago
11:30	John Williams and Christopher Waller on Panel at Hoover Monetary Conference	President of the Federal Reserve Bank of New York and Member of the Board of Governors
19:45	Alberto Musalem, Beth hammack, and Lisa Cook on Panel at Hoover Monetary Pollicy Conference	Presidents of the Federal Reserve Banks of St. Louis and Cleveland and Member of the Board of Governors

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	Real Cash Earnings	m/m	Mar	-2.1%	-1.5%	-1.6%	*	Equity bearish, bond bullish
	Labor Cash Earnings	y/y	Mar	2.1%	2.7%	2.5%	**	Equity and bond neutral
	Household Spending	y/y	Mar	2.1%	-0.5%	0.2%	**	Equity bullish, bond bearish
	Leading Economic Index	m/m	Mar P	107.7	108.2	107.5	**	Equity and bond neutral
	Coincident Index	y/y	Mar P	116.0	117.3	115.9	*	Equity and bond neutral
South Korea	BoP Current Account Balance	m/m	Mar	$9144.6m	$7177.7m		**	Equity and bond neutral
	BoP Goods Balance	m/m	Mar	$8493.1m	$8175.2m		*	Equity and bond neutral
China	BoP Current Account Balance	q/q	1Q P	$165.6b	9774.6b		*	Equity and bond neutral
EUROPE								
Italy	Industrial Production WDA	y/y	Mar	-1.8%	-2.6%	-1.9%	***	Equity and bond neutral
AMERICAS								
Mexico	Consumer Confidence	m/m	Apr	45.3	46.0	46.0	*	Equity and bond neutral
	Vehicle Production	m/m	Apr	326069	338669	$21.400b	*	Equity and bond neutral
Brazil	IBGE Inflation IPCA	m/m	Apr	5.53%	5.48%	5.52%	***	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	Down
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.

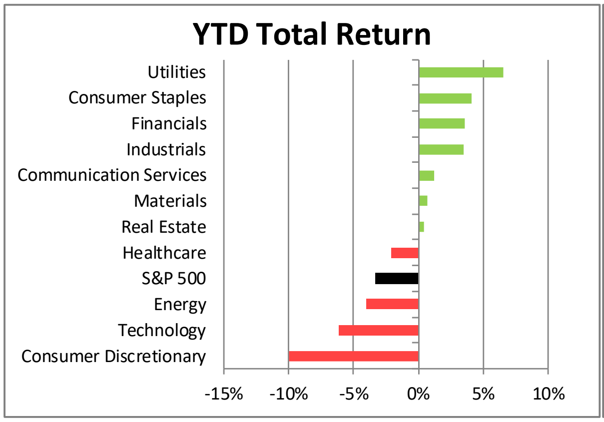
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$64.08	$62.84	1.97%	
WTI	$61.23	$59.91	2.20%	
Natural Gas	$3.65	$3.59	1.53%	
Crack Spread	$26.99	$27.28	-1.05%	
12-mo strip crack	$22.37	$22.49	-0.52%	
Ethanol rack	$1.85	$1.85	-0.24%	
Metals				
Gold	$3,330.35	$3,305.72	0.75%	
Silver	$32.60	$32.46	0.41%	
Copper contract	$460.55	$460.40	0.03%	
Grains				
Corn contract	$453.00	$447.50	1.23%	
Wheat contract	$532.50	$529.25	0.61%	
Soybeans contract	$1,048.50	$1,045.00	0.33%	
Shipping				
Baltic Dry Freight	1,316	1,374	-58	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	-2.03	-1.86	-0.17	
Gasoline (mb)	0.19	-1.20	1.39	
Distillates (mb)	-1.11	-0.12	-0.99	
Refinery run rates (%)	0.4%	0.6%	-0.2%	
Natural gas (bcf)	104	101	3	

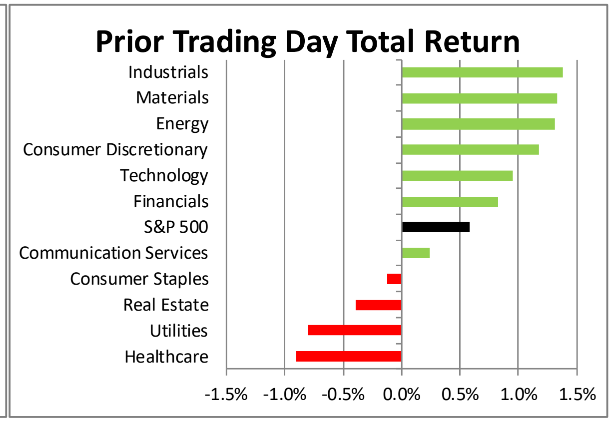
Weather

The 6-to-10 and 8-to-14-day forecasts currently call for warmer-than-normal temperatures across the entire area from the Great Plains eastward, with cooler-than-normal temperatures in the Rocky Mountains. The forecasts call for wetter-than-normal conditions in the northern and central Rocky Mountains, the Great Plains, the Mississippi Valley, and the Midwest, with dry conditions in southern Texas.

Data Section

US Equity Markets – (as of 5/8/2025 close)

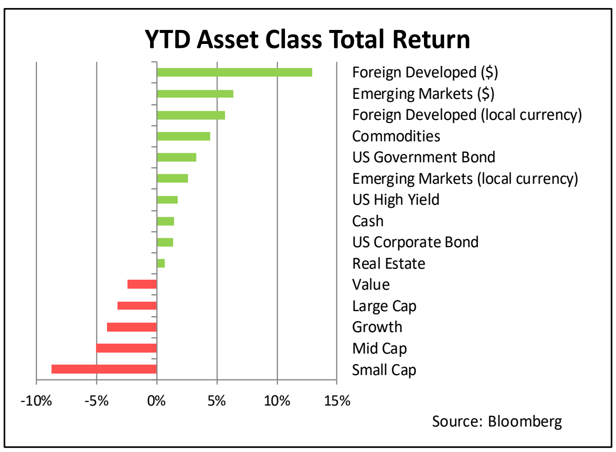




(Source: Bloomberg)

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 5/8/2025 close)

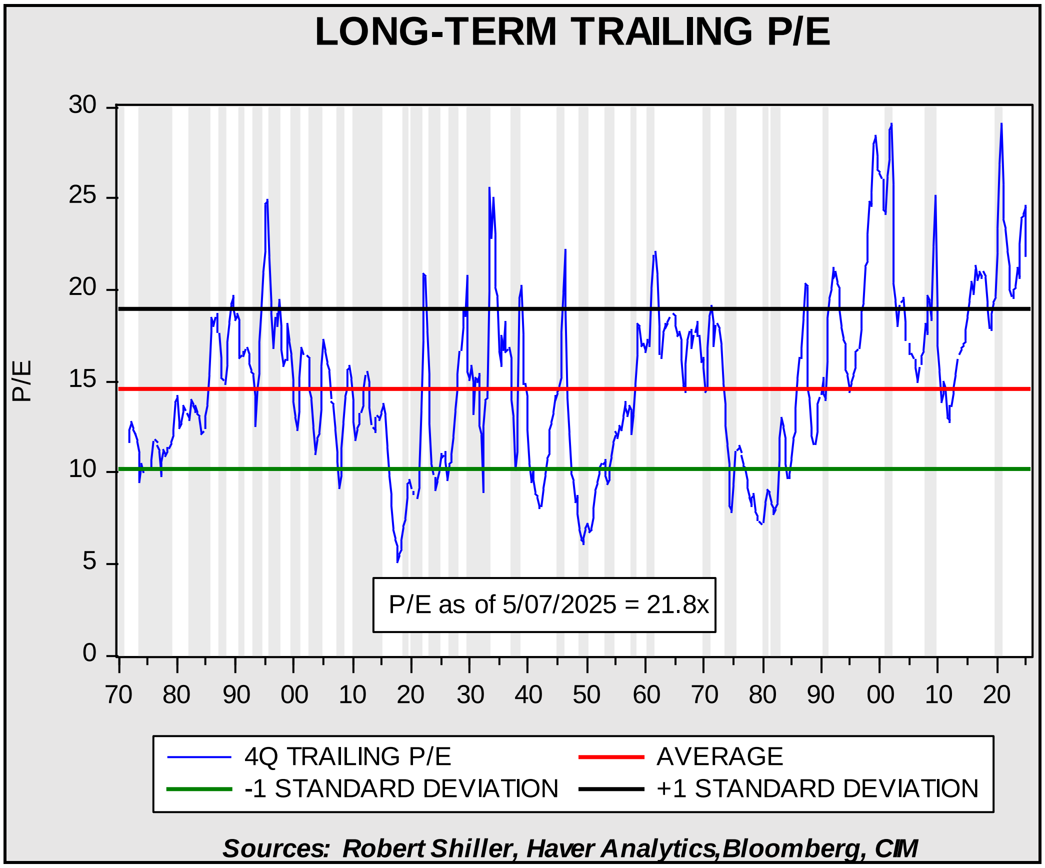


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.

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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.