



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: August 1, 2025 — 9:30 AM ET Global equity markets are mostly lower this morning. In Europe, the Euro Stoxx 50 is down 1.9% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 1.6%. Chinese markets were mixed, with the Shanghai Composite down 0.4% from its previous close and the Shenzhen Composite essentially unchanged. US equity index futures are signaling a lower open.

With 315 companies having reported so far, S&P 500 earnings for Q2 are running at \$65.90 per share, compared to estimates of \$64.65, which is up 5.0% from Q2 2024. Of the companies that have reported thus far, 82.2% have exceeded expectations while 13.3% have fallen short of expectations.

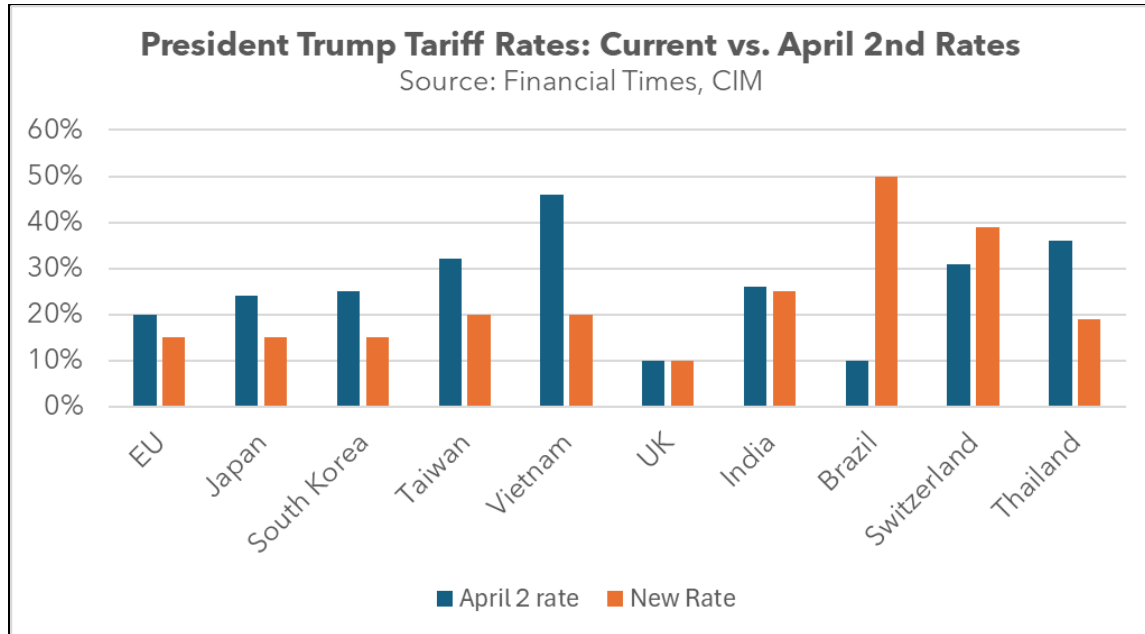
The Confluence macro team publishes a plethora of research reports and multimedia offerings on a weekly and quarterly basis, all available on our [website](#). We highlight recent publications below with new items of the day in bold.

Bi-Weekly Geopolitical Report	Asset Allocation Bi-Weekly	Asset Allocation Quarterly	Of Note
“Implications of the Israel-Iran Conflict” (7/28/25) + podcast	“Stablecoin: Treasury’s Next Big Bet?” (7/21/25) + podcast	Q3 2025 Report	The Confluence of Ideas Podcast Business Cycle Report

Have a question on the economy, markets, geopolitics, or other important topics? You can submit your queries to our new monthly podcast, *Confluence Mailbag*! Submit your question to mailbag@confluenceim.com.

Our *Comment* opens with a focus on the president's new tariffs following the expiration of the August 1 deadline. We then assess major international and domestic developments impacting financial markets, including the ongoing legal challenges to the president's tariff authority in federal appeals court, and the administration's expanding campaign to put pressure on monetary policy, which has now extended from Fed Chair Powell to the broader Federal Reserve Board regarding interest rate cuts.

Deadline Passed: [New tariff rates have been announced by President Trump](#) for countries that were unable to finalize a deal by the August 1 deadline. Although rates for most nations are still lower than the April 2 levels, Brazil and Switzerland are notable exceptions as both are seeing an increase in their rates. It is worth noting that the new tariffs will not be imposed for seven days.



- While many countries received their new tariff rates, a few notable exceptions were granted extensions. China and [Mexico, for instance, received deadline extensions](#) beyond August 1 from the Trump administration as negotiations continue. This suggests that potential trade deals could be close to finalization with these nations. While Canada was hit with 35% tariffs, goods covered under USMCA were excluded.
- On a more positive note, some countries successfully negotiated more favorable terms. [Australia, for example, secured a baseline tariff of 10%](#), a rate comparable to that granted to the UK, another country with a trade surplus with the US. Additionally, Taiwan has stated that it expects its tariff rate to be cut after talks.
- However, the president has established a global baseline tariff rate of 10%, signaling the permanence of this policy. Our view is that these country-specific tariffs are intended to be the president's primary tool to generate revenue from abroad, which would thereby help fund US spending.

Tariff Court Showdown: The [administration's tariff plans faced a cool reception on Thursday](#). At the heart of the dispute are the reciprocal tariffs, which the White House defends under the International Emergency Economic Powers Act (IEEPA). During the hearings, judges expressed broad skepticism as the act does not explicitly mention tariffs. Given the high stakes and the challenge to presidential authority, the case is almost certain to reach the Supreme Court, irrespective of the appellate court's ruling, since the losing side is very likely to appeal.

Fed Board Targeted: President Trump [has called on the Federal Reserve Board to take over for Fed Chair Powell if interest rates aren't lowered](#) at the upcoming policy meeting. This latest demand reflects the president's ongoing campaign for rate cuts, which he argues would alleviate the government's debt burden. While the previous meeting saw two dissenting votes against the rate decision, there is no indication that the board has lost confidence in its chair. However, four opposing votes by Fed governors have previously led to a chair's resignation.

Asian Factory Pessimism: [Asian manufacturing sentiment has plummeted](#) due to concerns about Trump's tariffs. According to the S&P Global Manufacturing PMI, confidence in output among surveyed businesses in the region has fallen to its lowest level since July 2020. While a surge in demand from “tariff front-running” was observed, doubts persist about the ability of these manufacturers to sell to the US market given the new levies.

AI Wariness: Investors are growing wary after [Amazon reported weaker-than-expected operating income and cloud revenue, which lagged that of key rivals](#). The disappointing earnings arrive at a critical juncture, as markets scrutinize whether massive AI investments by tech giants will deliver returns. AI-driven optimism has fueled the market rally for the past three years, but if sentiment sours, a shift in leadership could emerge.

Lower Drug Prices: President Trump has [demanded that pharmaceutical companies lower drug prices](#) by September 29. His administration sent letters to 17 major firms with a warning that if they fail to act, the White House will use all available tools to prevent price abuses. This aggressive stance underscores the executive branch's willingness to leverage its authority — potentially at the expense of corporate interests — in a bid to appeal to populist sentiment.

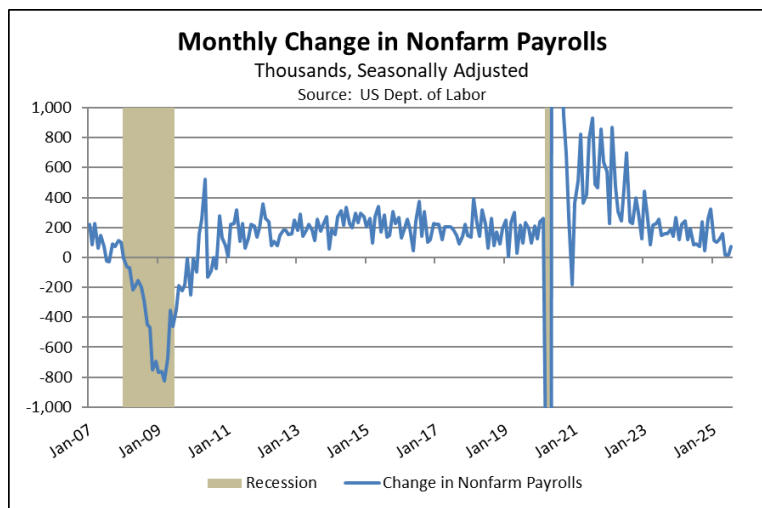
Eurozone Inflation: The eurozone's [July flash CPI estimate showed prices rose 2.0% year-over-year](#), broadly stable from the prior month but marginally exceeding the 1.9% consensus forecast. The subdued inflation reading may fuel speculation about further ECB rate cuts, as concerns over slowing growth and elevated debt levels could push the central bank toward more accommodative monetary policy.

Firm Merger & Acquisitions: [Dealmaking activity has picked up as investors gain greater clarity](#) on tax and trade policies, according to Ares Management's CEO. The comments follow a wave of recent takeovers across the railroad, cybersecurity, and industrial sectors. This trend suggests that when investors have more predictable policy outlooks, they become increasingly willing to assume additional risk.

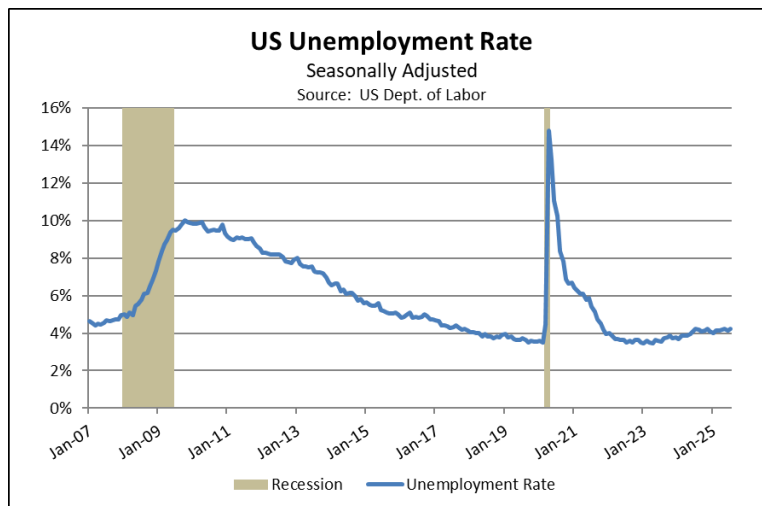
No Term Limit: [El Salvador's legislative assembly has voted to abolish presidential term limits](#), clearing the path for Nayib Bukele to potentially remain in power indefinitely. This consolidation of executive authority follows a regional pattern where leaders have eroded democratic institutions in the name of combating crime. Notably, Latin America has a complex history with strongman leaders, and while they are often politically controversial, their regimes have at times maintained relative stability for financial markets.

US Economic Releases

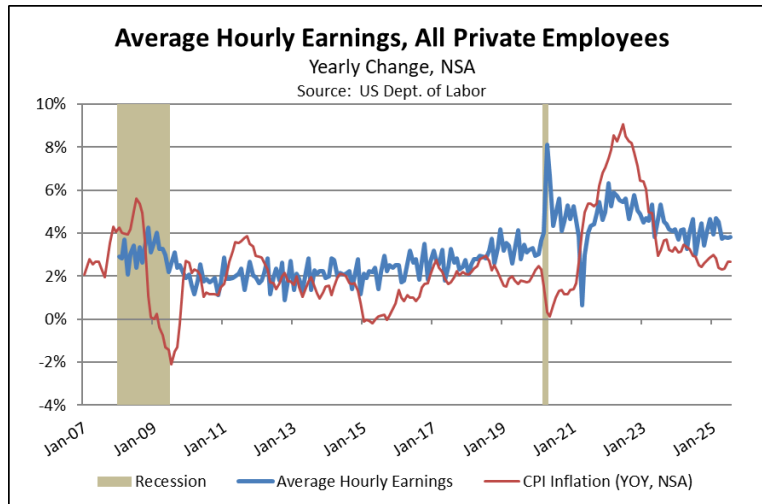
July **nonfarm payrolls** rose by a seasonally adjusted 73,000, well short of the expected gain of 104,000. However, the real story in the report was that total employer-reported payroll gains in the previous two months were revised massively downward to just 14,000 in June and 19,000 in May, compared with average monthly gains of 123,000 in the first four months of the year and 168,000 in all of 2024. The new figures suggest US labor demand essentially froze up in recent months, most likely reflecting the administration's immigration crackdown, government job cuts, and import tariffs. Going forward, it isn't clear to what extent the July rebound will continue or strengthen. The chart below shows the monthly change in nonfarm payrolls since shortly before the Great Financial Crisis.



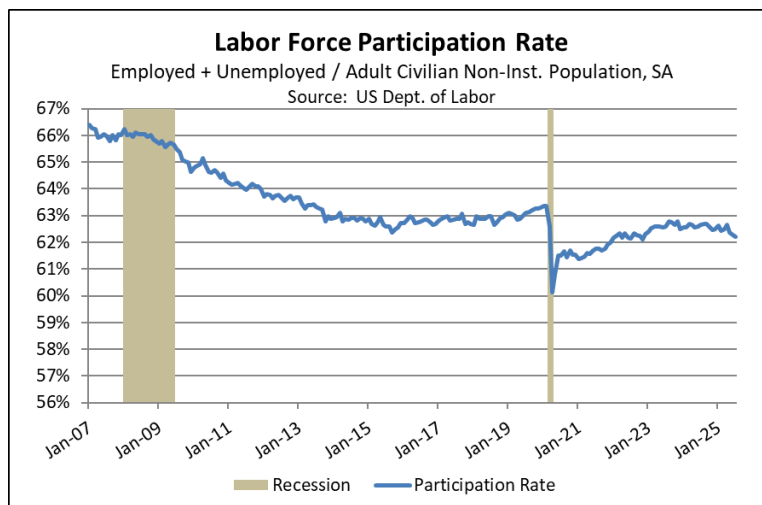
Consistent with the weak job growth, the July **unemployment rate** rose to a seasonally adjusted 4.2%, despite the fact that many people left the workforce. The chart below shows how the unemployment rate has evolved since just before the GFC.



Perhaps because the weak job growth was matched with many people pulling out of the labor force, **average hourly earnings** in July rose at the same annual rate as in June. Average earnings rose to a seasonally adjusted \$36.44, up 3.8% from the same month one year earlier. The chart below shows the year-over-year growth in average hourly earnings since just before the GFC.



A final key indicator in the monthly employment report focuses on the share of the adult, civilian, noninstitutionalized population that is either working or looking for work. The July **labor force participation rate (LFPR)** fell to a seasonally adjusted 62.2% from 62.3% previously, again reflecting people leaving the workforce. The LFPR is now at its lowest level since November 2022. The chart below shows how the LFPR has changed over the last several decades.



The table below lists the economic releases and 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	Jul F	49.7	49.5	***
10:00	ISM Manufacturing	m/m	Jul	49.5	49	**
10:00	ISM Prices Paid	m/m	Jul	70	69.7	**
10:00	ISM New Orders	m/m	Jul	48.7	46.4	**
10:00	ISM Employment	m/m	Jul	46.8	45	*
10:00	Construction Spending	m/m	Jun	0.0%	-0.3%	**
10:00	U. of Michigan Consumer Sentiment	m/m	Jul F	62.0	61.8	***
10:00	U. of Michigan Current Conditions	m/m	Jul F	67.1	66.8	**
10:00	U. of Michigan Future Expectations	m/m	Jul F	58.9	58.6	**
10:00	U. of Michigan 1-Year Inflation Expectation	m/m	Jul F	4.4%	4.4%	*
10:00	U. of Michigan 5-10 Year Inflation Expectation	m/m	Jul F	3.6%	3.6%	*
10:00	Wards Total Vehicle Sales	m/m	Jul	16.00m	15.34m	*
Federal Reserve						
EST	Speaker or Event	District or Position				
9:10	Beth Hammack	President of the Federal Reserve Bank of Cleveland				
10:00	Raphael Bostic Speaks on CNBC	President of the Federal Reserve Bank of Atlanta				

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	Jun	2.5%	2.5%	2.5%	***	Equity and bond neutral
	Job-To-Applicant Ratio	m/m	Jun	1.22%	1.24%	1.25%	***	Equity and bond neutral
	S&P Global Japan Manufacturing PMI	m/m	Jul F	48.9	48.8		***	Equity and bond neutral
Australia	S&P Global Australia Manufacturing PMI	m/m	Jul F	51.3	51.6		***	Equity and bond neutral
	PPI	y/y	2Q	3.4%	3.7%		**	Equity and bond neutral
New Zealand	ANZ Consumer Confidence	m/m	Jul	-4.1%	6.4%		**	Equity and bond neutral
	ANZ Consumer Confidence Index	m/m	Jul	94.7	98.8		*	Equity and bond neutral
	Building Permits	m/m	Jun	-6.4%	10.3%		*	Equity and bond neutral
South Korea	Trade Balance	m/m	Jul	\$6610m	\$9082m	\$5700m	*	Equity and bond neutral
	Exports	y/y	Jul	5.9%	4.3%	5.1%	***	Equity and bond neutral
	Imports	y/y	Jul	0.7%	3.3%	2.0%	**	Equity and bond neutral
	S&P Global South Korea PMI	m/m	Jul	48.0	48.7		***	Equity and bond neutral
China	S&P Global China PMI Manufacturing	m/m	Jul	49.5	50.4	50.2	***	Equity and bond neutral
India	HSBC India PMI Mfg	m/m	Jul F	59.1	59.2		***	Equity and bond neutral
EUROPE								
Eurozone	HCOB Eurozone Manufacturing PMI	m/m	Jul F	49.8	49.8	49.8	***	Equity and bond neutral
	CPI	y/y	Jul P	2.0%	2.0%	1.9%	***	Equity and bond neutral
	Core CPI	y/y	Jul P	2.3%	2.3%	2.3%	**	Equity and bond neutral
Germany	HCOB Germany Manufacturing PMI	m/m	Jul F	49.1	49.2	49.2	***	Equity and bond neutral
France	HCOB France Manufacturing PMI	m/m	Jul F	48.2	48.4	48.4	***	Equity and bond neutral
Italy	HCOB Italy Manufacturing PMI	m/m	Jul	49.8	48.4	48.7	***	Equity bullish, bond bearish
	Retail Sales	y/y	Jun	1.0%	1.4%	1.6%	**	Equity bearish, bond bullish
UK	Nationwide House Price Index	y/y	Jul	2.4%	2.1%	2.2%	***	Equity and bond neutral
	S&P Global UK Manufacturing PMI	m/m	Jul F	48.0	48.2	48.2	***	Equity and bond neutral
Russia	S&P Global Russia Manufacturing PMI	m/m	Jul	47.0	47.5		***	Equity and bond neutral
	Gold and Forex Reserves	m/m	25-Jul	\$695.5b	\$683.7b		***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	25-Jul	18.46t	18.53t		*	Equity and bond neutral
AMERICAS								
Canada	GDP	y/y	May	1.2%	1.3%	1.1%	**	Equity and bond neutral
Brazil	Industrial Production	y/y	Jun	-1.3%	3.3%	-0.7%	***	Equity bearish, bond bullish

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)	423	424	-1	Up
U.S. Sibor/OIS spread (bps)	432	432	0	Up
U.S. Libor/OIS spread (bps)	429	429	0	Up
10-yr T-note (%)	4.39	4.38	0.01	Flat
Euribor/OIS spread (bps)	201	202	-1	Down
Currencies	Direction			
Dollar	Up			Down
Euro	Down			Up
Yen	Up			Down
Pound	Down			Down
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	\$71.08	\$71.70	-0.86%	
WTI	\$68.63	\$69.26	-0.91%	
Natural Gas	\$3.07	\$3.11	-1.03%	
Crack Spread	\$24.49	\$25.05	-2.24%	
12-mo strip crack	\$23.10	\$23.40	-1.28%	
Ethanol rack	\$1.86	\$1.86	-0.10%	
Metals				
Gold	\$3,299.04	\$3,289.93	0.28%	
Silver	\$36.44	\$36.71	-0.74%	
Copper contract	\$439.20	\$435.45	0.86%	
Grains				
Corn contract	\$414.75	\$413.75	0.24%	
Wheat contract	\$519.75	\$523.25	-0.67%	
Soybeans contract	\$988.50	\$989.25	-0.08%	
Shipping				
Baltic Dry Freight	2,003	1,995	8	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)	7.70	-2.60	10.30	
Gasoline (mb)	-2.72	-1.10	-1.62	
Distillates (mb)	3.64	-0.40	4.04	
Refinery run rates (%)	-0.1%	-0.4%	0.3%	
Natural gas (bcf)	48	41	7	

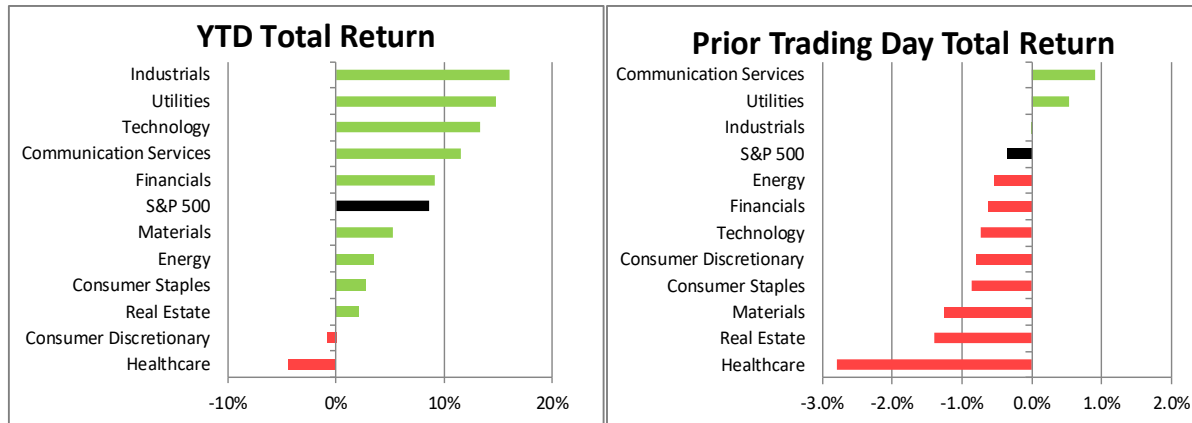
Weather

The latest 6-to-10-day and 8-to-14-day outlooks call for warmer-than-normal conditions everywhere except the Pacific Northwest and the Appalachian Mountains, where temperatures will be near normal. The forecasts call for wetter-than-normal conditions along the West Coast and from the Mississippi Valley eastward, with dry conditions in the southern Rocky Mountains.

In the Atlantic Ocean area, there are no tropical disturbances expected in the next seven days.

Data Section

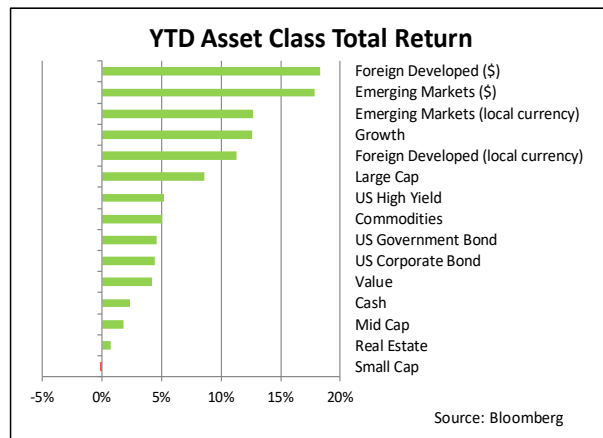
US Equity Markets – (as of 7/31/2025 close)



(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 7/31/2025 close)

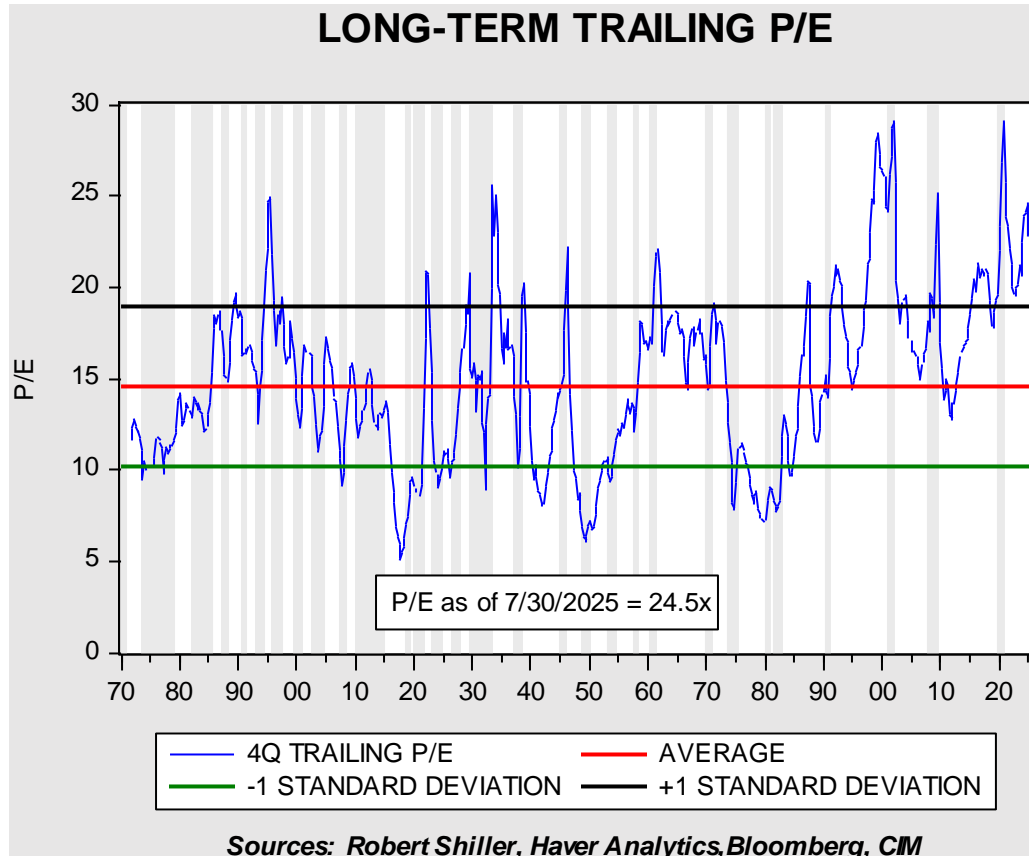


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

July 31, 2025



Based on our methodology,¹ the current P/E is 24.5x, unchanged from our last report.

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 (Q1, Q3, Q4) and one estimate (Q2). 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.