



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

**Posted: August 5, 2025 — 9:30 AM ET** Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 is up 0.4% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.8%. Chinese markets were higher, with the Shanghai Composite up 1.0% from its previous close and the Shenzhen Composite up 0.8%. US equity index futures are signaling a higher open.

With 346 companies having reported so far, S&P 500 earnings for Q2 are running at \$66.10 per share, compared to estimates of \$64.65, which is up 5.0% from Q2 2024. Of the companies that have reported thus far, 82.1% have exceeded expectations while 13.6% have fallen short of expectations.

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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
<a href="#">“Implications of the Israel-Iran Conflict”</a> (7/28/25) + <a href="#">podcast</a>	<a href="#">“No Country for Recessions”</a> (8/4/25)	<a href="#">Q3 2025 Report</a>	<a href="#">The Confluence of Ideas Podcast</a> <a href="#">Business Cycle Report</a>

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](mailto:mailbag@confluenceim.com).

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Our *Comment* today opens with new data showing how China’s massive excess industrial capacity is undermining corporate profits and prompting big layoffs. We next review several other international and US developments that could affect the financial markets today, including a rush effort by Switzerland to forestall the 39% tariffs that President Trump announced against it last week and Trump’s statement today that he won’t nominate Treasury Secretary Bessent to lead the Federal Reserve when the term of current Chair Powell ends in May.

**China:** New regulatory filings by China’s top publicly-traded solar panel firms [show they collectively shed 31% of their employees last year](#). The layoffs illustrate the effects of China’s

massive overcapacity in key industries championed by the government, such as electric vehicles and solar panels. Excess production, weak domestic demand, and increasing barriers to trade continue to spark vicious price wars and falling profitability for major firms in the sectors.

**United Kingdom:** British bank stocks [surged yesterday in response to a Supreme Court ruling that shielded them from liability for aggressive auto-loan selling tactics](#) and insufficient lending disclosures by the nation's car dealers. The ruling lifts a cloud that had been hanging over UK banks, especially those that have big exposure to domestic auto lending. For example, the stock price of specialty lender Close Brothers closed up 23% on the day, while Lloyds Banking Group rose 9%.

**Ukraine:** In a little-noticed statement at the end of last month, Ukrainian President Zelensky [called for a \\$6-billion fund to produce cheap, expendable interceptor drones that could take down Russian attack drones](#) without relying on expensive surface-to-air missiles. Zelensky aims for Ukraine to produce up to 1,000 interceptor drones per day. The plan is further evidence of how autonomous vehicles are becoming one of the key weapons of war and a potential opportunity for defense-industry investors.

**Israel:** Prime Minister Netanyahu's cabinet yesterday [voted to fire Attorney General Gali Baharav-Miara, who is prosecuting Netanyahu for corruption](#). On concern that Netanyahu was illegally trying to protect himself and his aides, the Supreme Court immediately issued an injunction against the move and ruled that the attorney general would maintain all her authority. The incident is being seen as a new move toward authoritarianism by Netanyahu which, along with the war in Gaza, could potentially make Israel a pariah state in investors' eyes.

**Brazil:** The Supreme Court yesterday [ordered the house arrest of former President Bolsonaro](#) as it probes accusations that he plotted a military takeover of the country in 2022. The move has prompted protests by thousands of supporters of the former right-wing populist leader. Another potential impact may come in the form of greater political and economic pressure from the US, where President Trump has already announced a 50% tariff against Brazilian imports as punishment for Brasilia's prosecution of Bolsonaro.

**United States-Switzerland:** Bern today [said President Karin Keller-Sutter and Economy Minister Guy Parmelin are rushing to Washington with new trade offers](#) aimed at avoiding the 39% tariff against Switzerland that President Trump announced last week. Keller-Sutter, of the centrist Liberal Party, has reportedly had strained relations with Trump, but the Swiss hope that adding Parmelin, of the right-wing Swiss People's Party, will help appease the US and result in a tariff more in line with those imposed on other developed countries.

**United States-India:** President Trump yesterday [said he plans to "substantially" hike US tariffs on imports from India because of its purchases of Russian oil](#). The new tariffs would evidently be on top of the 25% tariff imposed on imports from India last week. Not only does Trump's threat reflect the souring US-India relationship, but it also is the latest evidence that he has abandoned his previous effort to forge warmer ties with Russia.

**US Politics:** In response to Texas Governor Abbott’s push for a mid-decade redistricting to elect more Republicans to the House of Representatives, which we described in yesterday’s *Comment*, Democrats in states such as California, New York, and Illinois [are taking steps to do the same in their states and send more Democrats to the House](#). At stake is whether control of the House will shift back from the Republicans to the Democrats in next year’s mid-term election. In the longer term, the moves threaten to worsen political polarization and complicate policymaking.

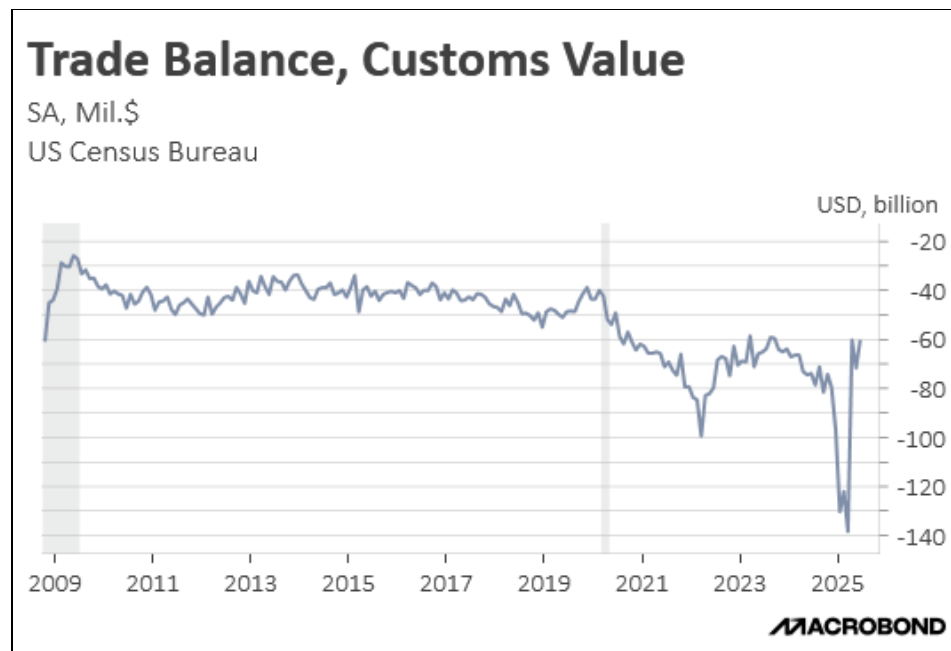
**US Monetary Policy:** President Trump this morning [ruled out nominating Treasury Secretary Bessent to lead the Fed when current Chair Powell’s term ends next May](#). According to Trump, Bessent wants to stay in his current position. The president said his short list of candidates is now down to Director of the National Economic Council Kevin Hassett, former Fed Governor Kevin Warsh, and two other persons that he declined to name.

- Regarding the Fed board seat vacated last week by Adriana Kugler, Trump said he’s leaning toward filling it soon with a short-term replacement. However, he also said he might use the vacancy to install the person who will succeed Powell in May.
- In any case, the president seems well on his way toward filling out the Fed with more dovish policymakers who will be more likely to cut interest rates aggressively in 2026.

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## US Economic Releases

The June **trade balance** showed a seasonally adjusted deficit of \$60.2 billion. According to the US Census Bureau, total **exports** declined 0.5%, while **imports** declined 3.7%. Compared with the same month one year earlier, exports in June were up 3.3%, while imports were down 1.4%. The chart below shows the US trade balance.



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

<b>Economic Releases</b>						
<b>EST</b>	<b>Indicator</b>			<b>Expected</b>	<b>Prior</b>	<b>Rating</b>
<b>9:45</b>	S&P Global US Services PMI	m/m	Jul F	55.2	55.2	***
<b>9:45</b>	S&P Global US Composite PMI	m/m	Jul F	54.6	54.6	***
<b>10:00</b>	ISM Services Index	m/m	Jul	51.5	50.8	***
<b>10:00</b>	ISM Services Prices Paid	m/m	Jul	66.5	67.5	*
<b>10:00</b>	ISM Services New Orders	m/m	Jul		51.3	*
<b>10:00</b>	ISM Services Employment	m/m	Jul		47.2	*
<b>Federal Reserve</b>						
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
<b>ASIA-PACIFIC</b>								
Japan	S&P Global Japan Manufacturing PMI	m/m	Jul F	51.6	51.5		***	Equity and bond neutral
	S&P Global Japan Composite PMI	m/m	Jul F	53.3	53.5		*	Equity and bond neutral
Australia	S&P Global Australia Composite PMI	m/m	Jul F	53.8	53.6		*	Equity and bond neutral
	S&P Global Australia Services PMI	m/m	Jul F	54.1	53.8		*	Equity and bond neutral
	ANZ-Indeed Job Advertisements	m/m	Jul F	-1.0	1.6		*	Equity and bond neutral
	Household Spending	y/y	Jun	4.8%	4.4%	4.9%	*	Equity and bond neutral
New Zealand	ANZ Commodity Price	m/m	Jul F	-1.8%	-2.4%		**	Equity and bond neutral
South Korea	CPI	m/m	Jul	2.1%	2.2%	2.1%	***	Equity and bond neutral
China	S&P Global China Composite PMI	m/m	Jul	50.8	51.3		***	Equity and bond neutral
	S&P Global China Services PMI	m/m	Jul	52.6	50.6	50.4	*	Equity bullish, bond bearish
India	HSBC India PMI Composite	m/m	Jul F	61.1	60.7		**	Equity and bond neutral
	HSBC India PMI Services	m/m	Jul F	60.5	59.8		**	Equity and bond neutral
<b>EUROPE</b>								
Eurozone	HCOB Eurozone Services PMI	m/m	Jul F	51.0	51.2	51.2	**	Equity and bond neutral
	HCOB Eurozone Composite PMI	m/m	Jul F	50.9	51.0	51.0	*	Equity and bond neutral
	PPI	y/y	Jun	0.6%	0.3%	0.6%	**	Equity and bond neutral
Germany	HCOB Germany Services PMI	m/m	Jul F	50.6	50.1	50.1	**	Equity and bond neutral
	HCOB Germany Composite PMI	m/m	Jul F	50.6	50.3	50.3	**	Equity and bond neutral
France	Industrial Production	y/y	Jun	2.0%	-1.1%	-0.5%	***	Equity bullish, bond bearish
	Manufacturing Production	y/y	Jun	2.4%	-0.4%		**	Equity and bond neutral
	HCOB France Services PMI	m/m	Jul F	48.5	49.7	49.7	**	Equity bearish, bond bullish
	HCOB France Composite PMI	m/m	Jul F	48.6	49.6	49.6	**	Equity bearish, bond bullish
Italy	HCOB Italy Services PMI	m/m	Jul	52.3	52.1	52.6	**	Equity and bond neutral
	HCOB Italy Composite PMI	m/m	Jul	51.5	51.1	51.5	**	Equity and bond neutral
UK	New Car Registrations	y/y	Jul	-5.0%	6.7%		*	Equity and bond neutral
	S&P Global UK Services PMI	m/m	Jul F	51.8	51.2	51.2	**	Equity and bond neutral
	Official Reserves Changes	m/m	Jul	-\$906m	\$1221m		*	Equity and bond neutral
	S&P Global UK Composite PMI	m/m	Jul F	51.5	51.0	51.0	**	Equity and bond neutral
Russia	S&P Global Russia Composite PMI	m/m	Jul	478.0	48.5		**	Equity and bond neutral
	S&P Global Russia Services PMI	m/m	Jul	48.6	49.2		**	Equity and bond neutral
<b>AMERICAS</b>								
Mexico	Gross Fixed Investment NSA	y/y	May	--	-12.5%	-6.3%	**	Equity and bond neutral
Brazil	Formal Job Creation Total	m/m	Jun	166621	148992	177250	*	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)	413	412	1	Up
U.S. Sibor/OIS spread (bps)	424	423	1	Down
U.S. Libor/OIS spread (bps)	421	420	1	Down
10-yr T-note (%)	4.22	4.19	0.03	Down
Euribor/OIS spread (bps)	199	199	0	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
<b>Energy Markets</b>				
Brent	\$68.23	\$68.76	-0.77%	
WTI	\$65.69	\$66.29	-0.91%	
Natural Gas	\$2.99	\$2.93	2.08%	
Crack Spread	\$24.94	\$25.05	-0.41%	
12-mo strip crack	\$22.79	\$23.01	-0.96%	
Ethanol rack	\$1.86	\$1.86	0.02%	
<b>Metals</b>				
Gold	\$3,351.55	\$3,373.59	-0.65%	
Silver	\$37.38	\$37.41	-0.07%	
Copper contract	\$442.20	\$443.75	-0.35%	
<b>Grains</b>				
Corn contract	\$406.00	\$407.00	-0.25%	
Wheat contract	\$516.50	\$516.75	-0.05%	
Soybeans contract	\$999.00	\$994.50	0.45%	
<b>Shipping</b>				
Baltic Dry Freight	1,970	2,018	-48	
<b>DOE Inventory Report</b>				
	Actual	Expected	Difference	
Crude (mb)		-1.07		
Gasoline (mb)		-1.00		
Distillates (mb)		0.06		
Refinery run rates (%)		-0.4%		
Natural gas (bcf)		41		

## Weather

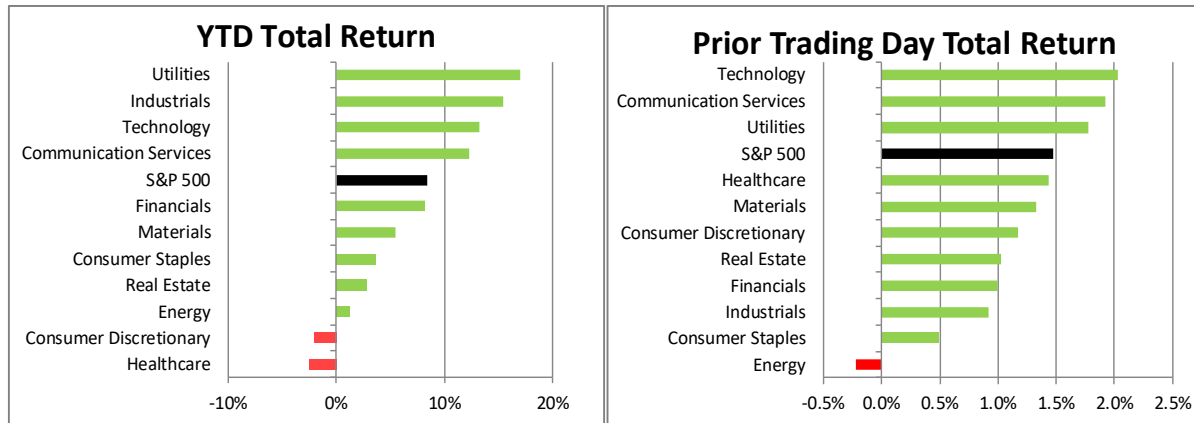
The latest 6-to-10-day and 8-to-14-day outlooks call for warmer-than-normal conditions for most of the country with near-normal temperatures in parts of the Pacific Northwest. The precipitation outlook calls for wetter-than-normal conditions from the Mississippi Valley eastward, with dry conditions in the southwest and lower Rocky Mountain regions.

The Atlantic Ocean is expected to see three tropical disturbances within the next seven days. Tropical Storm Dexter in the mid-Atlantic isn't forecast to impact the US. However, two other systems are strengthening. While they have yet to be named tropical storms, one is on a path that could bring it to the Carolina coast by the end of the week.



## Data Section

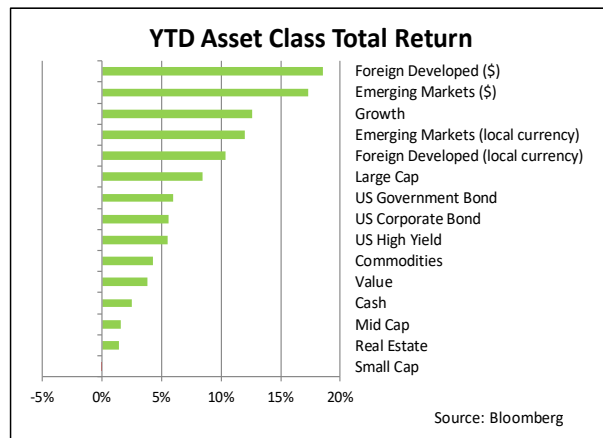
### US Equity Markets – (as of 8/4/2025 close)



(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 8/4/2025 close)

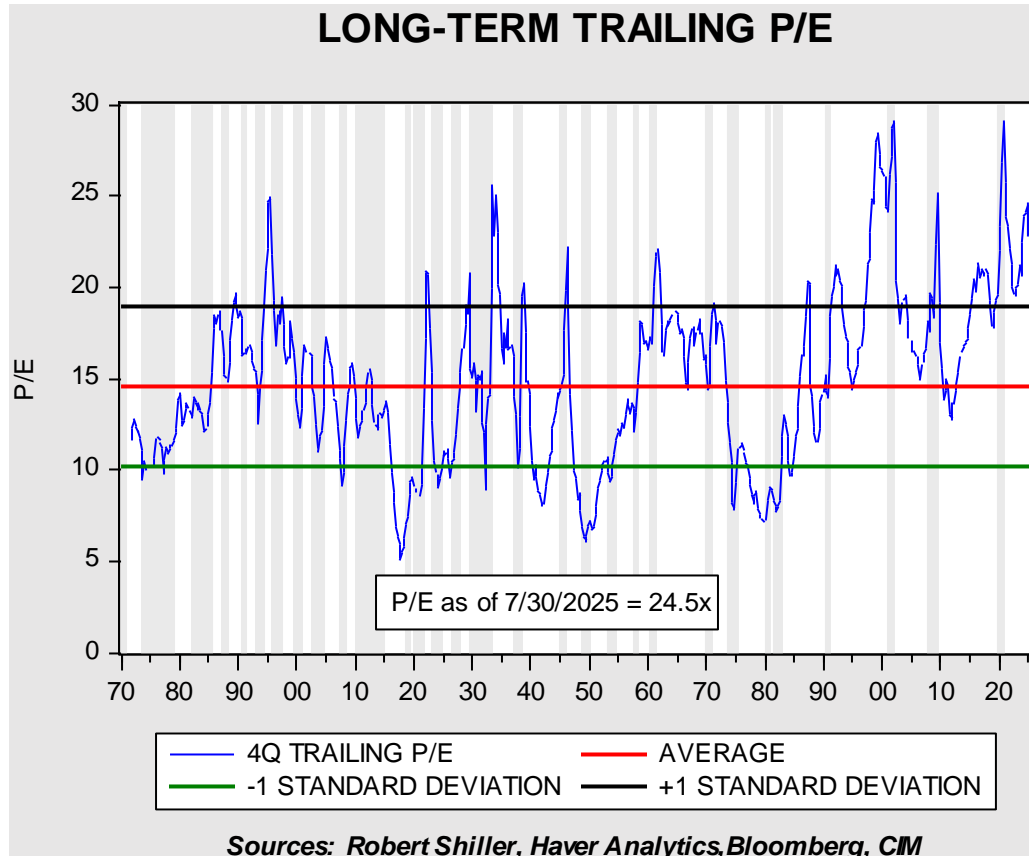


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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,<sup>1</sup> 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.*

<sup>1</sup> 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.