Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: July 10, 2025 — 9:30 AM ET] Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 is up 0.3% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.5%. Chinese markets were higher, with the Shanghai Composite up 0.5% from its previous close and the Shenzhen Composite up 0.3%. US equity index futures are signaling a higher open.

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. **Note: The next *Bi-Weekly Geopolitical Report* will be our Mid-Year Outlook and will be published July 14.**

Bi-Weekly Geopolitical Report	Asset Allocation Bi-Weekly	Asset Allocation Quarterly	Of Note
"Introducing Friedrich Merz" (6/23/25) + podcast	"The Hidden Battle in the 'One Big, Beautiful Bill'" (6/30/25) + podcast	Q2 2025 Report Q2 2025 Rebalance Presentation	NEW: The Confluence Mailbag Podcast Business Cycle Report

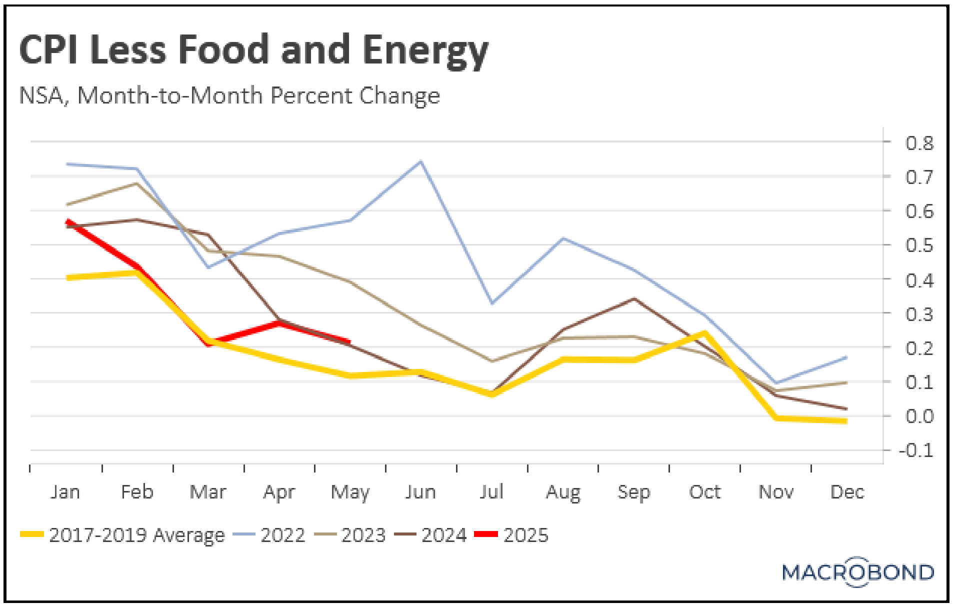
Have a question on the economy, markets, geopolitics, or other important topics? You can submit your queries to our new monthly podcast, *Confluence Mailbag*! Submit your question to mailbag@confluenceim.com.

Good morning! The market is focused on the latest trade updates. Today's *Comment* will dive into the newly released Federal Reserve meeting minutes. We'll also explore what Nvidia's impressive surge reveals about the increasing influence of technology on equity performance. Plus, we'll cover other breaking market news. As always, you'll find a comprehensive summary of recent international and domestic data releases in the report.

A Divided Fed: FOMC members continue to favor a wait-and-see approach on rate cuts, despite their differing views on the long-term inflationary impact of tariffs.

- The minutes from the June 17-18 meeting revealed that while most committee members believed tariffs would remain a long-term inflationary challenge, a significant contingent argued that the effects might be temporary. The disagreement centered largely on firms' ability to pass price increases on to consumers. Skeptics of sustained inflation questioned whether businesses had sufficient pricing power, whereas proponents doubted whether profit margins could absorb higher input costs without raising prices.

- The discussion also revealed divisions over how tariffs were affecting the labor market. While the committee agreed that labor conditions remained strong, several officials noted that some firms had paused hiring due to trade policy uncertainty. Others pointed to tighter immigration enforcement as a growing constraint on labor supply. The overall view is that labor demand could soften over the next few months.
- In short, the meeting minutes suggested that Fed officials were prioritizing inflation over labor market concerns, a sign that the committee may be adopting a more hawkish stance. This heightened focus on inflation stems partly from uncertainty over whether current data fully reflects the tariffs' impact on prices. Recently, Minneapolis Fed President Neel Kashkari warned that the effects could be delayed, citing firms' reluctance to raise prices, high inventory levels, and even efforts to bypass tariffs altogether.



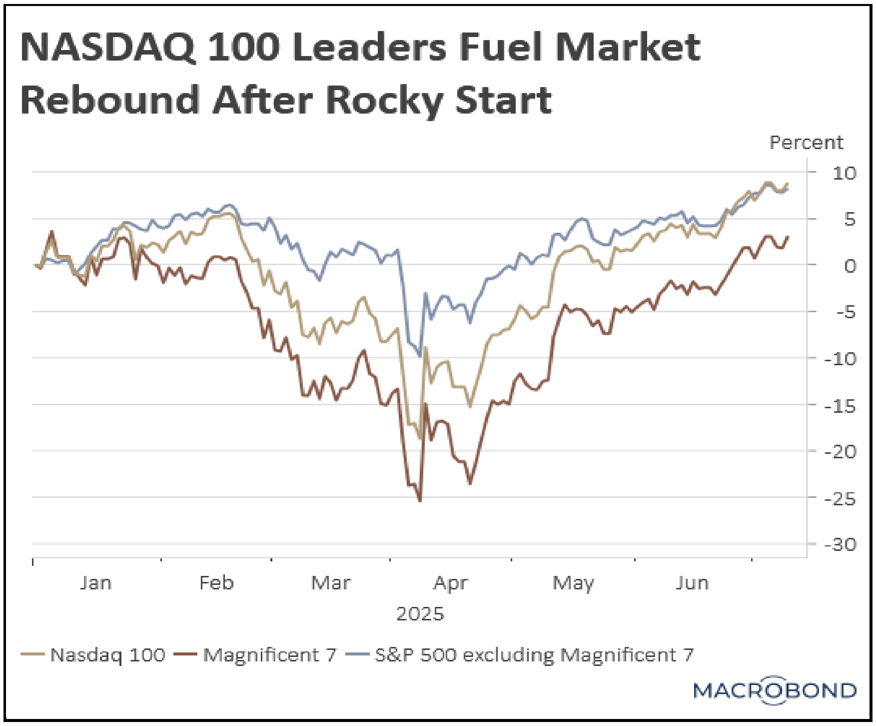
- Although two Fed officials, Fed Governors Christopher Waller and Michelle Bowman, have expressed support for a July rate cut, most committee members appear unconvinced unless a labor supply shock materializes. That said, September may be a more likely candidate for action. Historically, summer months tend to produce softer inflation readings, and if the trend of tame inflation readings hold, it could reinforce the view that tariff-related price pressures remain contained.

Nvidia Sets Record: The chipmaker has become the first $4 trillion company as investors pour into the tech sector, betting on its resilience amid easing trade policy concerns.

- The sharp increase reflects growing investor confidence that AI spending will remain robust. The stock overcame earlier concerns following the release of China's language model, DeepSeek, which demonstrated comparable performance to some US models despite using less advanced chips. Additionally, reduced fears of a severe trade war —

and its potential impact on capital spending — provided further support. As a result, the stock rebounded 74% from its 2025 low in April.

- Nvidia's meteoric rise underscores the market's fixation on companies driving the AI revolution. That enthusiasm is no longer confined to the Magnificent 7 tech giants, as investors increasingly turn to smaller, more agile tech firms with higher growth potential. This shift is already showing up in market performance. While the NASDAQ 100 continues to outperform the S&P 500 this year, only three members of the Magnificent 7 have kept pace, with most now trailing the broader index.

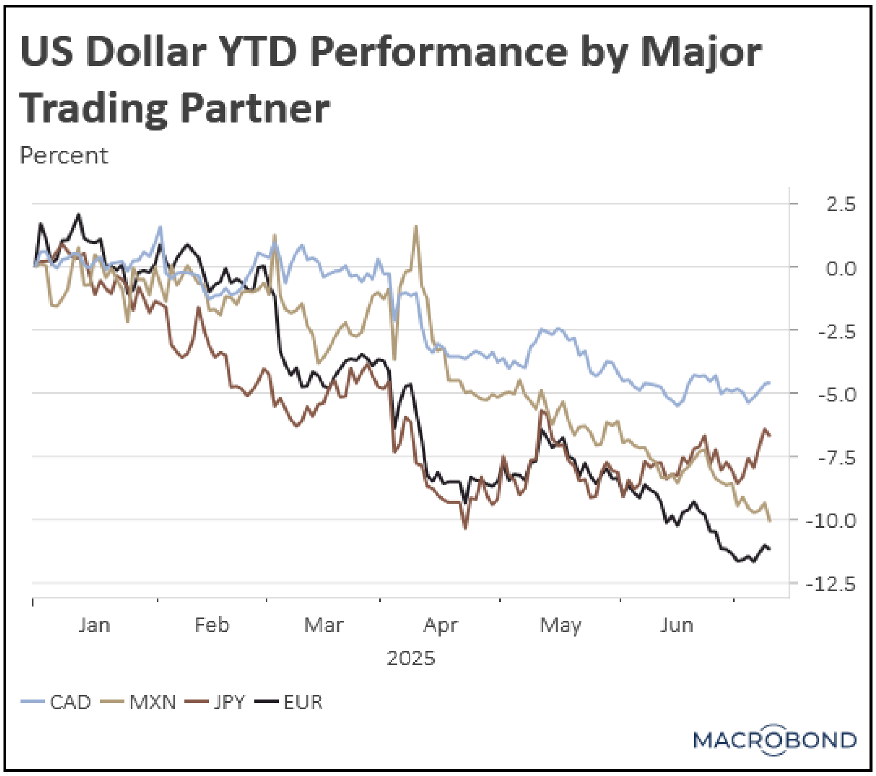


- While the surge in technology stocks (including Nvidia) has been remarkable, we believe it represents a key market vulnerability. Earnings reports in the coming weeks will serve as a critical test of the rally's sustainability. As long as tech companies demonstrate sales growth, investor enthusiasm will likely persist. However, any signs of softening demand could trigger a pullback, potentially undermining market sentiment.

More Tariff News: President Trump issued a series of tariff letters to emerging markets, notifying them of increased rates and pressing for additional requirements.

- The president issued eight additional letters to countries, notifying them of updated tariff rates targeting emerging market economies. Of these, only two nations, the Philippines and Brunei, faced increases, with rates rising by 1% and 3%, respectively. The remaining countries saw their tariffs either hold steady or drop by as much as 25%. The adjustments dealt a blow to hopes that country-specific rates would fall uniformly to 10% across the board.

- The president escalated tensions with [Brazil by threatening to impose tariffs of up to 50%](), citing political disputes between the two nations. The warning specifically referenced Brazil's treatment of former President Jair Bolsonaro and its government's crackdown on social media platforms accused of spreading election misinformation. The announcement immediately rattled markets, triggering a sell-off of Brazilian equities, while President Lula da Silva vowed retaliatory measures in response.
- The president's treatment of emerging market economies suggests a broader shift in US strategy from benevolent hegemony toward a more malevolent approach. His willingness to impose harsh tariffs on countries with limited import capacity implies they may be viewed as a form of tribute. Furthermore, his targeting of Brazil reinforces the perception that tariffs are being weaponized to influence foreign policy, signaling a departure from cooperative engagement in favor of coercive economic leverage.



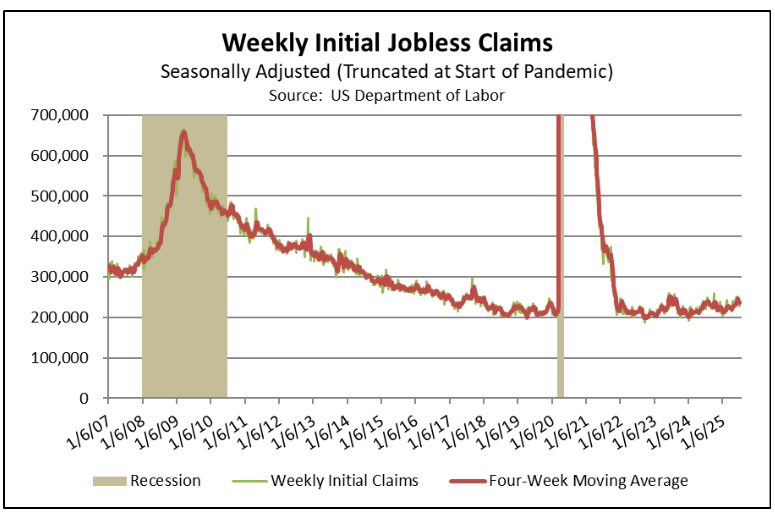
- If our assessment is correct, this is likely to further damage global perceptions of the United States, potentially weakening confidence in holding the US dollar. Recent surveys indicate a notable shift in international sentiment, with more countries now favoring China over the US — a stark reversal from just a year ago. Data from Morning Consult and Nira Data reveals that not only does the US trail China in global favorability but it has also fallen into net-negative territory, while China maintains a positive image.

Canary in the Coal Mine: There are some warning signs that the economy may be heading toward a slowdown.

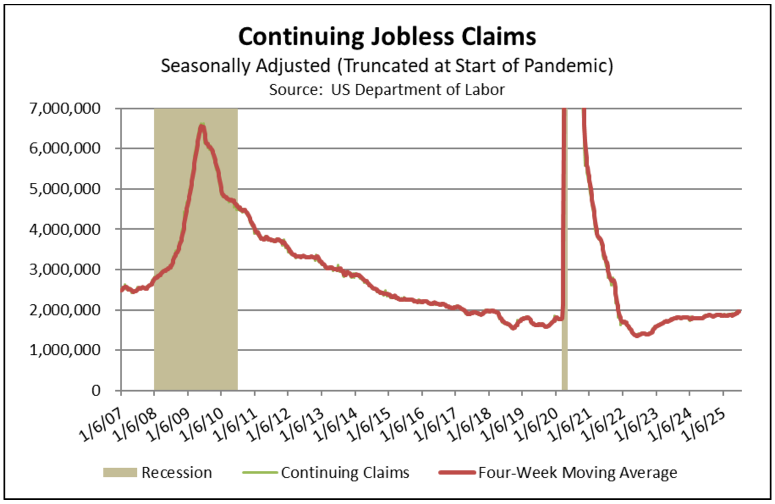
- Amazon Prime Day's opening sales fell sharply short of expectations, with preliminary data showing a 41% year-over-year decline in purchases. The event — traditionally a bellwether for consumer demand — has long served as a key indicator of household spending trends. While the drop may partly reflect Prime Day's extension from two days to four, the weak start will likely fuel concerns about consumers tightening their budgets amid economic uncertainty.
- Additionally, WPP, the world's largest advertising agency, reported a sharp decline in ad spending during the first half of the year and expects the trend to persist through the second half. While some losses may stem from the disruptive impact of AI on the industry, WPP has primarily blamed the slowdown on deteriorating macroeconomic conditions. Advertising budgets are often among the first cuts businesses make when bracing for an economic downturn.
- While we maintain optimism about the economy's resilience in the coming quarters, we are closely monitoring for any shifts in the business cycle. Currently, economic conditions remain favorable and should continue to support equity markets. However, as new signals emerge, we may recommend investors adjust their risk exposure accordingly.

US Economic Releases

In the week ended July 5, ***initial claims for unemployment benefits*** fell to a seasonally adjusted 227,000, below both the expected level of 235,000 and the prior week's revised level of 232,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, fell to a modest 235,500. The chart below shows how initial jobless claims have fluctuated since just before the Great Financial Crisis. The chart is truncated through much of the pandemic period because of the extremely high level of claims at that time.



In the week ended June 28, the number of ***continuing claims for unemployment benefits*** (people continuing to draw benefits) rose to a seasonally adjusted 1.965 million, matching expectations but up from the previous week's revised reading of 1.955 million. The four-week moving average of continuing claims rose to 1,955,250. Excluding the unusual pandemic era, continuing claims are now at their highest level since March 2018. Taken together, the claims data is consistent with the new "no fire/no hire" labor market, in which firms are reluctant to let go of current workers but don't want to bring on new workers, either. The chart below shows how continuing claims have fluctuated since the GFC. It is also truncated during the pandemic period because of the high level of claims at the time.



The following table lists the economic releases or 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**
9:00	Alberto Musalem Speaks on US Economy and Monetary Policy	President of the Federal Reserve Bank of St. Louis
14:30	Mary Daly Speaks on US Economic Outlook	President of the Federal Reserve Bank of San Francisco

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	PPI	y/y	Jun	2.9%	3.3%	2.0%	***	Equity bearish, bond bullish
	Japan Buying Foreign Bonds	w/w	4-Jul	¥1656.8b	¥182.8b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	4-Jul	-¥512.7b	¥190.6b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	4-Jul	-¥164.6b	¥1059.1b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	4-Jul	¥611.7b	¥651.3b		*	Equity and bond neutral
EUROPE								
Germany	CPI	y/y	Jun F	2.0%	2.0%	2.0%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Jun F	2.0%	2.0%	2.0%	**	Equity and bond neutral
France	Current Account Balance	m/m	May	-3.1b	-6.6b		*	Equity and bond neutral
Italy	Industrial Production WDA	y/y	May	-0.9%	0.1%	0.4%	***	Equity bearish, bond bullish
AMERICAS								
Brazil	IBGE Inflation IPCA	y/y	Jun	5.35%	5.32%	5.31%	***	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)	424	426	-2	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 (%)	4.34	4.33	0.01	Down
Euribor/OIS spread (bps)	197	195	2	Down
Currencies	**Direction**			
Dollar	Up			Down
Euro	Down			Up
Yen	Up			Down
Pound	Down			Up
Franc	Down			Up
Central Bank Action	**Current**	**Prior**	**Expected**	
Bank of Korea Base Rate	2.50%	2.50%	2.50%	On Forecast

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	$69.82	$70.19	-0.53%	
WTI	$67.92	$68.38	-0.67%	
Natural Gas	$3.22	$3.21	0.31%	
Crack Spread	$26.91	$26.70	0.81%	
12-mo strip crack	$23.53	$23.51	0.05%	
Ethanol rack	$1.87	$1.87	0.21%	
Metals				
Gold	$3,328.76	$3,313.66	0.46%	
Silver	$36.76	$36.39	1.02%	
Copper contract	$562.50	$548.65	2.52%	
Grains				
Corn contract	$416.25	$415.50	0.18%	
Wheat contract	$553.25	$547.00	1.14%	
Soybeans contract	$1,008.75	$1,007.25	0.15%	
Shipping				
Baltic Dry Freight	1,423	1,431	-8	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	7.07	-1.60	8.67	
Gasoline (mb)	-2.66	-1.00	-1.66	
Distillates (mb)	-0.83	-1.50	0.68	
Refinery run rates (%)	-0.2%	-0.3%	0.1%	
Natural gas (bcf)		62		

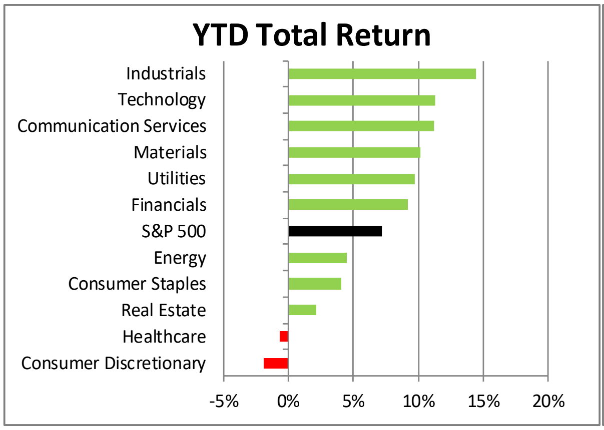
Weather

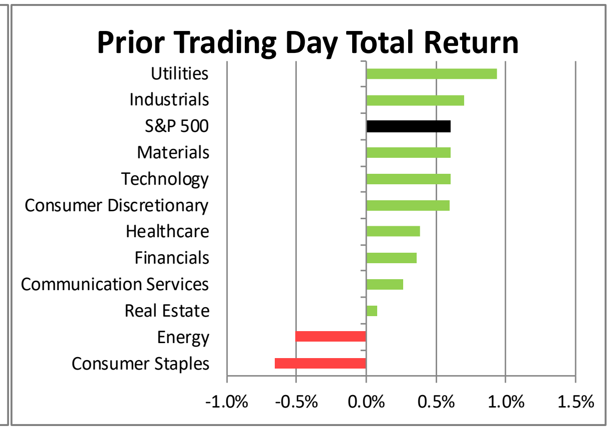
The latest 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in the Pacific Northwest, New England, Texas, and Florida, with cooler-than-normal temperatures in the Great Plains and the southern Rocky Mountains. The forecasts call for wetter-than-normal conditions in the southern Rocky Mountains, the southern Great Plains, and all points east of the Mississippi River, with dry conditions in the State of Washington.

In the North Atlantic area, no cyclonic activity is expected over the coming seven days.

Data Section

US Equity Markets – (as of 7/9/2025 close)

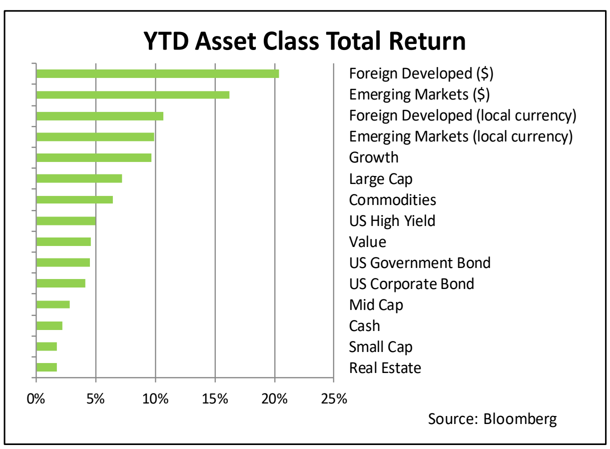




(Source: Bloomberg)

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 7/9/2025 close)

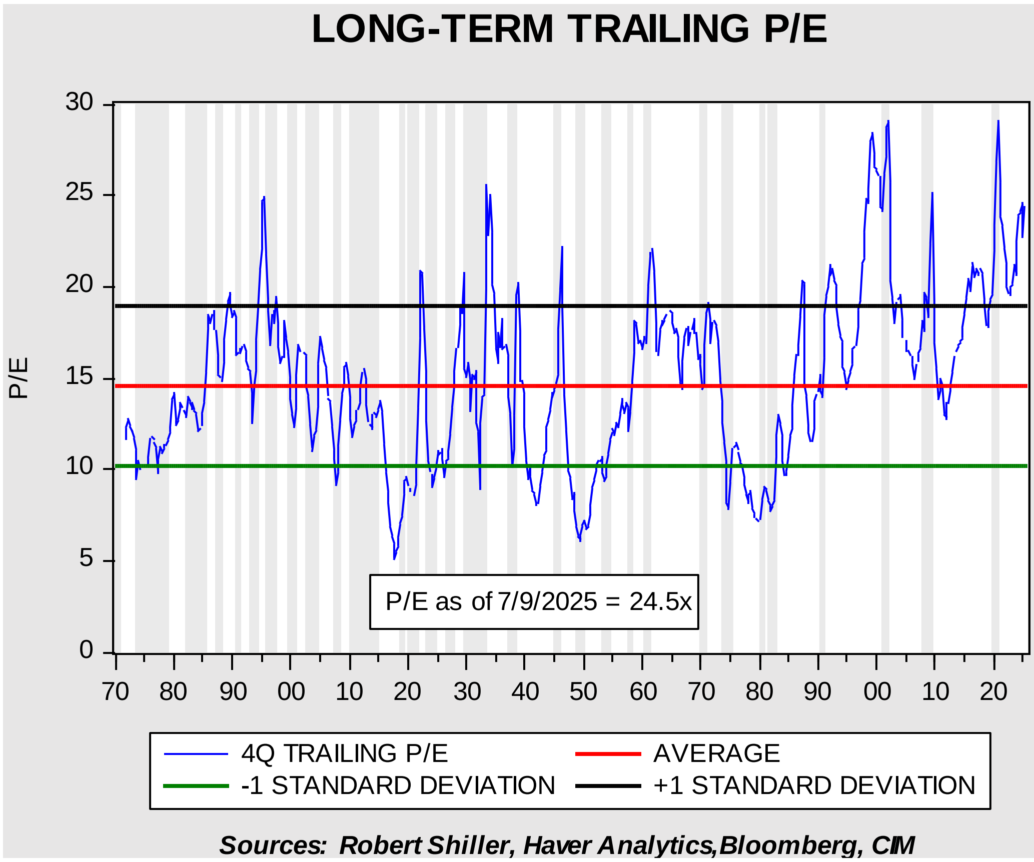


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 10, 2025



Based on our methodology,[1] the current P/E is 24.5x, up 1.4 from our last report. This rise in the multiple is attributable to a shift in quarters, which boosted the average stock price index, and a new earnings estimate that was down from the previous quarter.

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 (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.