Daily Comment

Confluence Investment Management

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: July 11, 2025 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is down 1.0% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.2%. Chinese markets were higher, with the Shanghai Composite relatively unchanged from its previous close and the Shenzhen Composite up 0.5%. US equity index futures are signaling a lower 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

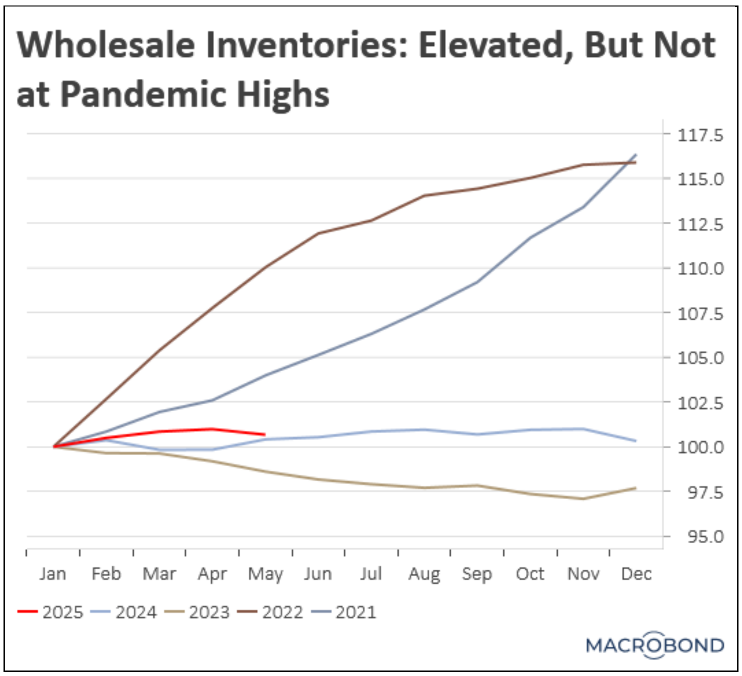
Have a question on the economy, markets, geopolitics, or other important topics? You can submit your queries to our new monthly podcast, *Confluence Mailbag*! Submit your question to mailbag@confluenceim.com.

Good morning! The market is focused squarely on new tariff developments. Today's *Comment* will give our thoughts on President Trump's latest trade threats. We'll also explain the escalating US stance on Russia, focusing on the proposed "Sanctioning Russia Act of 2025." The report will also cover other market-moving news and key domestic and international economic data releases.

Tariff Broadening: The president continues to broaden his trade fight, threatening higher tariffs for countries and materials.

- President Trump has threatened to impose steep tariff hikes, raising duties on most trading partners to 15–20%. This follows an earlier warning of a potential 35% levy on Canadian goods not covered by the USMCA. Additionally, the existing 50% tariff on copper is expected to be expanded to include semi-finished products. The president also signaled a willingness to escalate tariffs further if deemed necessary.

- This escalation in trade tensions coincides with the administration's push to secure negotiated agreements before the August 1 deadline, when the president is expected to formalize new tariff rates. The president faces mounting pressure to deliver concrete trade deals after his controversial decision to extend negotiations beyond the original July 9 cutoff date.
- While markets have largely priced in the “Trump Always Chickens Out” (TACO) trade, growing evidence suggests that the president faces mounting pressure to deliver on trade deals. Many businesses have so far avoided passing higher costs on to consumers, having stockpiled inventories ahead of potential tariffs in anticipation of more favorable terms that could prevent sharp price hikes.



- The primary challenge for firms will be navigating new tariffs if they remain in place at current levels or increase after August 1, while also attempting to replenish inventories. Current stock levels sit modestly above figures from a year ago but elevated costs could drive them lower. We anticipate businesses may offset these pressures through price increases, production cuts, or potential workforce reductions.
- That said, the president has consistently employed a pattern of Friday market warnings followed by Monday resolutions — a tactic we've dubbed FAME (Friday Alarm, Monday Excitement). Historically, he uses end-of-week volatility to amplify pressure, only to announce negotiated deals at week's start. If this pattern holds, we may see another round of agreements announced Monday.

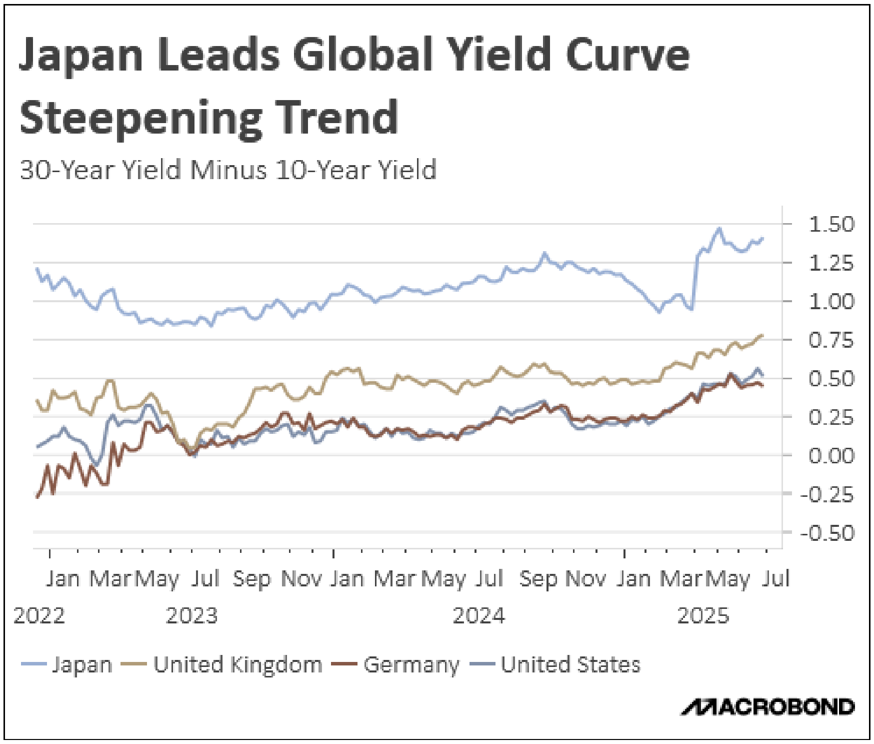
Tough on Russia: President Trump is expected to make a major statement on Monday about Russia as he pushes to end the war in Ukraine.

- The president has grown increasingly frustrated with the Kremlin's persistent obstruction of peace negotiations with Ukraine. This frustration comes amid reports that Russia has adopted an uncompromising stance in talks, with the Trump administration dismissing Moscow's demands as unrealistic. In response to Russia's intensified aerial attacks on Ukrainian cities, the White House has authorized new missile shipments to strengthen Ukraine's defensive capabilities.
- President Trump's forthcoming policy announcement coincides with rising bipartisan pressure to take stronger action against Russia. This sentiment is reflected in new Senate legislation, the Sanctioning Russia Act of 2025, which would impose unprecedented 500% tariffs on nations purchasing sanctioned Russian goods. The bill, introduced by Senators Lindsey Graham (R-SC) and Richard Blumenthal (D-CT), would specifically target countries like India and China.

- Russia's war persistence stems largely from domestic political calculus, as leaders look to maintain the appearance of control while avoiding any perception of defeat. After three years of devastating conflict, the war has paradoxically boosted military-dependent industries while leaving Russia increasingly isolated, making a settlement without tangible gains politically risky for the Kremlin.
- We anticipate a negotiated settlement in the coming months, likely extracting further Ukrainian concessions while offering tentative discussions on restoring European ties. The outcome hinges on Russia's need for face-saving terms against Ukraine's sovereignty demands, with Western support remaining the decisive factor.

Treasury Auction Success: There has been strong demand for long-dated securities; however, global-debt burden remains a problem.

- The [US Treasury's $22 billion 30-year bond auction cleared at a high yield of 4.889%](), closely aligning with the pre-auction "when-issued" rate. The solid bid-to-cover ratio of 2.38 demonstrated healthy investor appetite, a significant test following last week's passage of expansive fiscal legislation. This outcome suggests that the market remains capable of absorbing the increase in long-dated supply, at least for now.
- Sovereign bond issuance is drawing intense scrutiny as governments ramp up fiscal stimulus worldwide. Facing upward pressure on long-term yields, many central banks, including the US Treasury and the Bank of Japan, are strategically shifting issuance toward shorter maturities to alleviate yield curve strain.

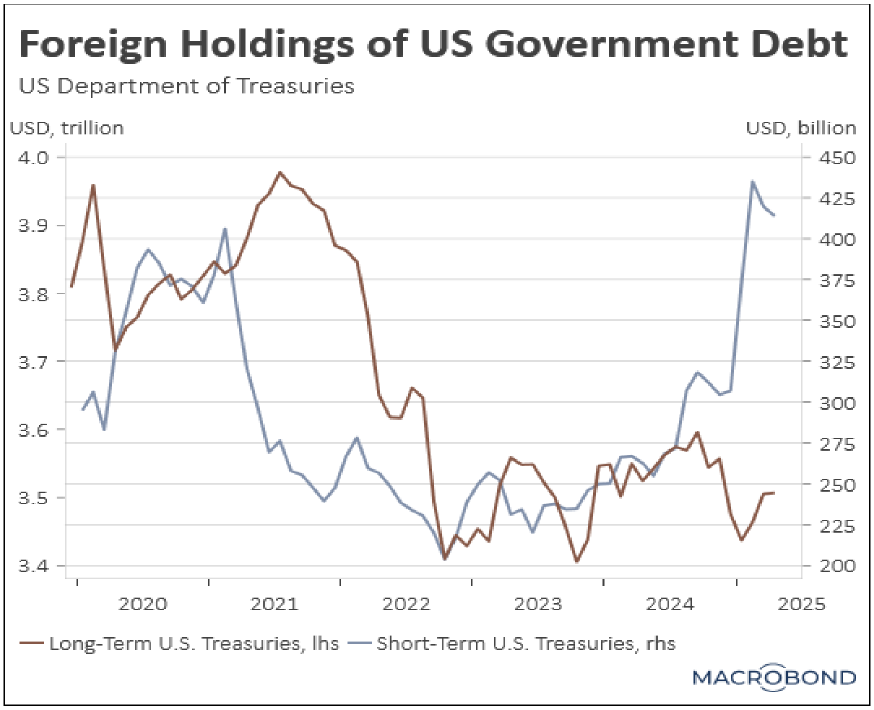


- While increased sovereign debt issuance may provide short-term economic stimulus, it risks tightening global financial conditions through upward pressure on interest rates. This tension could compel central banks to deploy unconventional measures, including rate cuts or renewed quantitative easing, as they navigate the dual challenges of supporting growth while preserving debt sustainability.

ECB Under Pressure: As US lawmakers push for additional fiscal cuts this year, European governments are urging their central banks to maintain accommodative monetary policies.

- While the ECB has cut rates three times this year, French Prime Minister [François Bayrou is pushing for more accommodative monetary policy]() to shore up the economy. This comes as European nations face the dual challenge of a slowing economic environment, growing budget deficits, and the need to adjust to an increasingly protectionist and less dependable US ally.

- This rare criticism coincides with US lawmakers' efforts to pressure Fed Chair Jerome Powell for an interest rate cut at the upcoming meeting. They argue a cut would help offset the rising budget deficit and promote domestic growth. Adding to this, Ohio Senator Bernie Moreno has reportedly initiated efforts to garner GOP backing for Powell's resignation.



- The imperative to lower interest rates in the face of burgeoning budget deficits will likely compel the market, particularly foreign investors, to favor shorter-duration government securities. This diminished appetite for longer-dated bonds could consequently exacerbate interest rate volatility.

US Economic Releases

No major US economic reports have been released so far today. The following table lists the economic releases and Fed events scheduled for the rest of the day.

Economic Releases						
EST	Indicator			Expected	Prior	Rating
14:00	Federal Budget Balance	m/m	Jun	-$30.0b	-$316.0b	**
Federal Reserve						
EST	**Speaker or Event**	**District or Position**				
13:00	Austan Goolsbee Appears on Podcast	President of the Federal Reserve Bank of Chicago				

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								
New Zealand	BusinessNZ Manufacturing PMI	m/m	Jun	48.8	47.4		***	Equity and bond neutral
EUROPE								
Germany	Wholesale Price Index	y/y	Jun	0.9%	0.4%		*	Equity and bond neutral
France	CPI	y/y	Jun F	1.0%	0.9%	0.9%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Jun F	0.9%	0.8%	0.8%	**	Equity and bond neutral
	CPI Ex-Tobacco Index	q/q	Jun F	120.23	119.77	120.19	*	Equity and bond neutral
UK	Industrial Production	y/y	May	-0.3%	0.3%	0.2%	***	Equity bearish, bond bullish
	Manufacturing Production	y/y	May	0.3%	1.3%	0.4%	**	Equity and bond neutral
	Index of Services 3M/3M	m/m	May	0.4	0.6	0.4	**	Equity and bond neutral
	Construction Output	y/y	May	1.2	3.6	1.6	*	Equity and bond neutral
	Visible Trade Balance	m/m	May	-£21688m	-£22424m	-£121000	**	Equity and bond neutral
	Trade Balance	m/m	May	5699	-£6502m	-£4605m	**	Equity and bond neutral
Russia	Gold and Forex Reserves	m/m	4-Jul	$690.6b	$687.7b		***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	4-Jul	18.35t	18.26b		*	Equity and bond neutral
AMERICAS								
Mexico	Industrial Production	y/y	May	-0.8%	-4.0%	-1.9%	***	Equity bullish, bond bearish
	Manufacturing Production	y/y	May	0.5%	-2.6%	-0.2%	*	Equity bullish, bond bearish
Brazil	IBGE Services Volume	y/y	May	3.60%	1.80%	3.40%	*	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	425	-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	4.35	0.04	Up
Euribor/OIS spread (bps)	200	197	3	Down
Currencies	**Direction**			
Dollar	Up			Down
Euro	Down			Up
Yen	Up			Down
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	$69.18	$68.64	0.79%	
WTI	$67.19	$66.57	0.93%	
Natural Gas	$3.38	$3.34	1.14%	
Crack Spread	$26.86	$26.84	0.05%	
12-mo strip crack	$23.45	$23.46	-0.03%	
Ethanol rack	$1.87	$1.87	-0.10%	
Metals				
Gold	$3,346.93	$3,324.05	0.69%	
Silver	$37.56	$37.00	1.50%	
Copper contract	$550.50	$559.10	-1.54%	
Grains				
Corn contract	$415.25	$416.50	-0.30%	
Wheat contract	$552.25	$554.50	-0.41%	
Soybeans contract	$1,012.50	$1,013.75	-0.12%	
Shipping				
Baltic Dry Freight	1,465	1,423	42	
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)	53	62	-9	

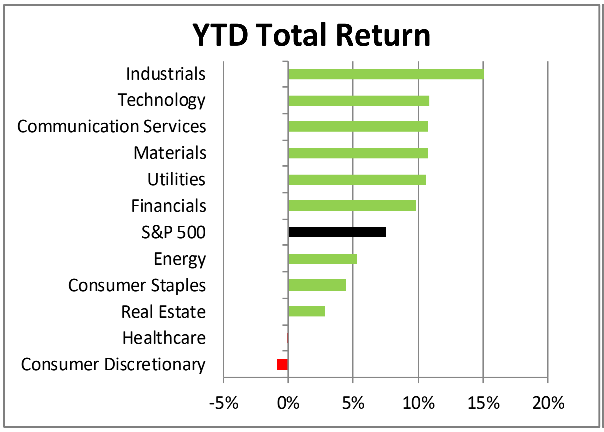
Weather

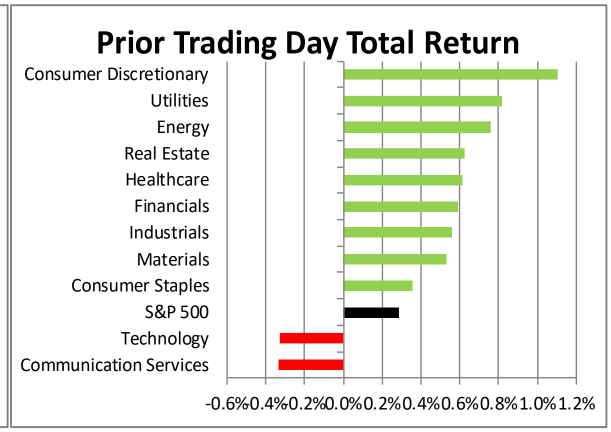
The latest 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in the Pacific Northwest, New England, Texas, and Florida, with cooler-than-normal temperatures in the Great Lakes region. The forecasts call for wetter-than-normal conditions in the Southwest, the northern Great Plains, the Deep South, and along the East Coast, with normal conditions elsewhere.

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

Data Section

US Equity Markets – (as of 7/10/2025 close)

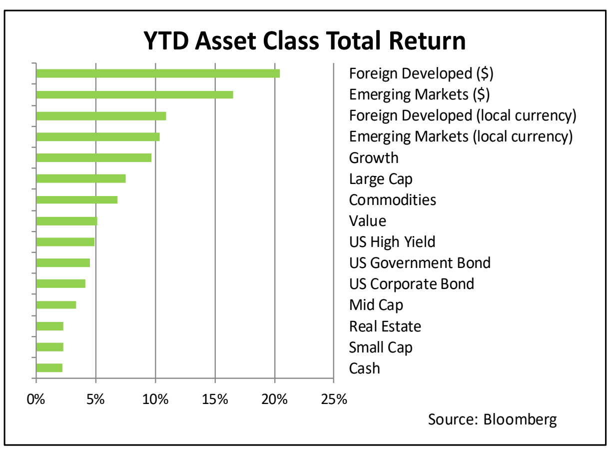




(Source: Bloomberg)

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 7/10/2025 close)

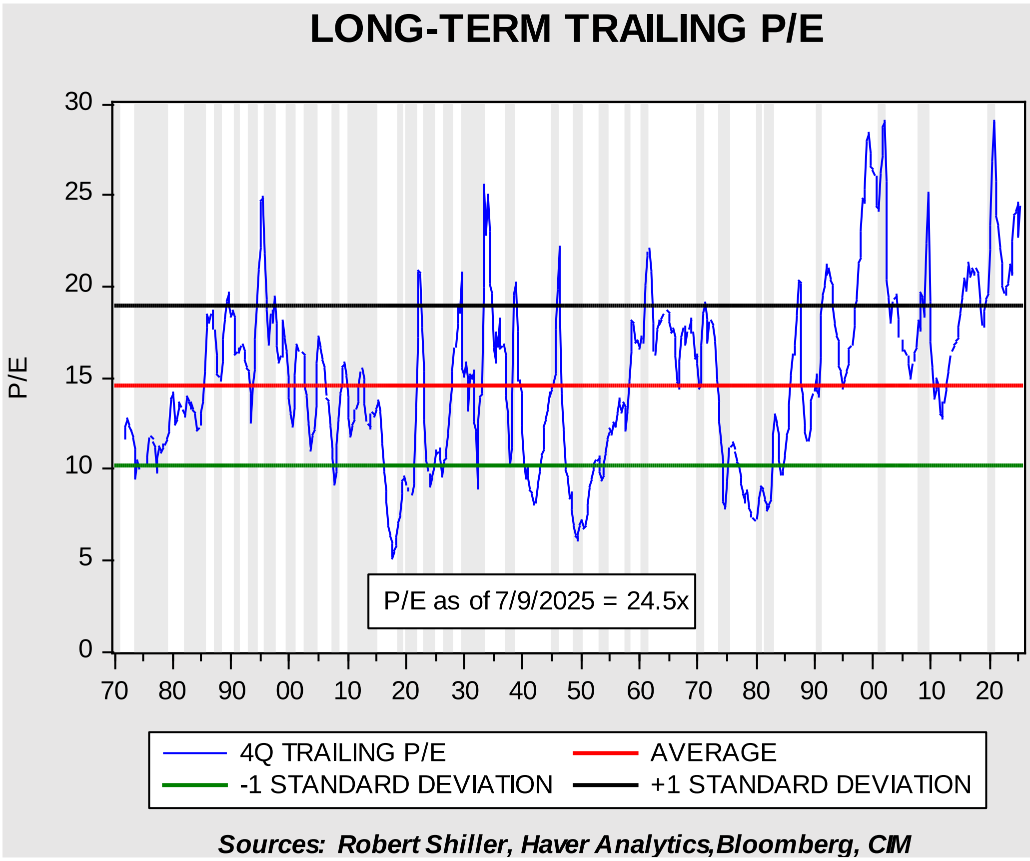


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.