Confluence INVESTMENT MANAGEMENT

Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: July 14, 2025 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is down 0.8% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.3%. Chinese markets were higher, with the Shanghai Composite up 0.3% from its previous close and the Shenzhen Composite up 0.2%. 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 later today.**

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.

Our *Comment* today opens with a discussion of how a key Pentagon official is roiling relations between the US and its allies. We next review several other international and US developments with the potential to affect the financial markets today, including President Trump's latest major tariff announcement (against the European Union and Mexico) and a modestly more optimistic poll of economists by the *Wall Street Journal*.

United States-Japan-China: A Saturday report said US Undersecretary of Defense for Policy Elbridge Colby has been pressuring Japanese and Australian officials to clarify how they would respond if the US went to war against China over Taiwan. The pressure has irked Tokyo and Canberra because it is being seen as an effort to make them commit to specific future actions to aid the US, even though the US itself officially maintains a policy of "strategic ambiguity" on whether it would help defend Taiwan from Chinese aggression.

- Colby is strongly focused on shifting US defense resources away from Europe and the Middle East and toward the Asia-Pacific region to deter China there. His disruptive pressure on Tokyo and Canberra regarding a Taiwan contingency is only the latest example of his penchant for pushing policies far beyond what the White House wants, sometimes forcing President Trump to override him.
- For example, Colby has also "gone off the reservation" by pushing the US's allies in Asia to hike their defense spending to the same 5%-of-GDP standard asked of its NATO allies. He has also launched a review of the AUKUS defense deal in which the US and the UK will help Australia acquire nuclear-powered submarines. More recently, he was evidently instrumental in the Defense Department's temporary cutoff of arms transfers to Ukraine before Trump overruled him last week.

United States-European Union-Mexico: President Trump on Saturday revealed that he plans to impose 30% tariffs on the EU and Mexico starting August 1, separate from his 50% levies on steel and aluminum imports and his 25% tariff on auto imports. EU and Mexican officials said they would continue to negotiate until the deadline in an effort to reach broad trade deals with lower tariffs. Nevertheless, since the EU and Mexico are among the top trading partners for the US, the latest Trump tariff threats could potentially weigh on financial markets on Monday.

Germany: Research from the Bundesbank today shows German GDP would have grown 50% more from 2021 to 2024 if its export industries hadn't been held back by problems such as labor shortages and bureaucracy. The report says those challenges have kept German exports from rising in line with demand in key markets, leading to a loss of market share. The report may add to the growing fervor for deregulation, industrial policy, and other market-friendly reforms in Germany and the broader EU.

France: In his annual speech to the armed forces on the eve of the Bastille Day national holiday, President Macron said yesterday that his government will hike its defense spending to the equivalent of $74.8 billion by 2027, about double the defense budget when Macron became president in 2017. French defense spending is still only equal to about 2% of the country's gross domestic product, but Macron argued that with growing threats and an uncertain US commitment, European militaries must become more formidable in their own right.

US Military: Reports say the country's newest aircraft carrier, which was due to be delivered to the US Navy this month, will now be delayed by two years until March 2027. The delay of the *USS John F. Kennedy* mostly reflects challenges in perfecting and integrating new technologies, as well as supply-chain and labor-force issues. Given the upcoming retirement of the 50-year-old *USS Nimitz*, the delayed delivery of the *USS John F. Kennedy* would leave the US temporarily with just 10 operating carriers even as China continues to expand its carrier fleet.

US Defense Industry: As cheap, expendable drones become essential weapons in modern warfare, Defense Secretary Hegseth last week signed an order designed to rapidly scale up the US military's procurement of unmanned aerial systems. The memo loosens restrictions on the military's drone procurement programs and encourages the purchase of commercial drones that can be used for military purposes. Nevertheless, a lack of pure-play drone makers in the public equity markets continues to make it hard for investors to benefit from the move.

US Critical Minerals Industry: Several mining firms are reportedly in talks with defense giant Lockheed Martin to exploit two seabed mine licenses for critical minerals that Lockheed owns in the eastern Pacific Ocean. The firm has owned the licenses since the early 1980s but has never used them. The possible use of the licenses underscores the US rush to develop its own critical-mineral resources and end its dependency on China. It also suggests Lockheed could have an unexpected new revenue stream, but the firm hasn't said how big that stream could be.

US Economic Growth: In the *Wall Street Journal's* latest quarterly poll, economists expect fourth-quarter GDP to be up 1.0% year-over-year, slightly better than the 0.8% gain, which was forecast last quarter but still only half what they expected at the beginning of the year. The economists now put the probability of a US recession in the next year at 33%, down from 45% last quarter but still higher than the 22% chance seen in January. In perhaps the best aspect of the report, they see GDP growth rebounding to 1.9% in 2026.

US Economic Releases

No major US economic reports have been released so far today. There are no economic releases or Fed events scheduled for the rest of the day.

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	Core Machine Orders	y/y	May	4.4%	6.6%	5.2%	**	Equity bearish, bond bullish
	Industrial Production	y/y	May F	-2.4%	-1.8%		***	Equity and bond neutral
	Capacity Utilization	y/y	May	2.0%	1.3%		**	Equity and bond neutral
	Tertiary Industry Index	m/m	Mar	0.6%	0.5%	0.1%	***	Equity and bond neutral
China	New Yuan Loans	m/m	Jun	12920	10680.0b	12699.5b	**	Equity and bond neutral
	Money Supply M2	y/y	Jun	8.3%	7.9%	8.2%	***	Equity and bond neutral
	Money Supply M1	y/y	Jun	4.6%	2.3%	2.8%	*	Equity bullish, bond bearish
	Money Supply M0	y/y	Jun	12.0%	12.1%		*	Equity and bond neutral
China	Exports	y/y	Jun	5.8%	4.8%	5.0%	**	Equity bullish, bond bearish
	Imports	y/y	Jun	1.1%	-3.4%	0.3%	**	Equity bullish, bond bearish
	Trade Balance	m/m	Jun	$114.77b	$103.22b	$112.10b	***	Equity and bond neutral
India	Wholesale Prices	m/m	Jun	0%	0.39%	0.52%	*	Equity and bond neutral
	CPI	y/y	Jun	2.1%	2.8%	2.3%	***	Equity and bond neutral
EUROPE								
Switzerland	Producer & Import Prices	y/y	Jun	-0.7%	-0.7%		**	Equity and bond neutral
	Domestic Sight Deposits CHF	w/w	11-Jul	4349b	424.4b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	11-Jul	464.1b	459.8b		*	Equity and bond neutral
Russia	Trade Balance	m/m	May	8.7b	9.0b		**	Equity and bond neutral
	Exports	m/m	May	33.1b	33.7b		*	Equity and bond neutral
	Imports	m/m	May	24.4b	24.7b		*	Equity and bond neutral
	CPI	y/y	Jun	9.4%	9.9%	9.4%	***	Equity and bond neutral
	Core CPI	y/y	Jun	8.7%	8.9%		**	Equity and bond neutral
AMERICAS								
Canada	Net Change in Employment	m/m	Jun	83.1k	8.8k	0.0k	***	Equity and bond neutral
	Unemployment Rate	m/m	Jun	6.9%	7.0%	7.1%	***	Equity and bond neutral
	Participation Rate	m/m	Jun	65.4%	65.3%	65.3%	*	Equity and bond neutral
	Building Permits	m/m	May	12.0%	-6.8%	-1.70	**	Equity bullish, bond bearish
Brazil	Econimic Activity	y/y	May	3.2%	2.5%	4.1%	**	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 (%)	4.43	4.41	0.02	Up
Euribor/OIS spread (bps)	203	200	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	$71.31	$70.36	1.35%	
WTI	$69.43	$68.45	1.43%	
Natural Gas	$3.49	$3.31	5.37%	
Crack Spread	$26.89	$27.19	-1.09%	
12-mo strip crack	$23.72	$23.89	-0.72%	
Ethanol rack	$1.87	$1.87	-0.12%	
Metals				
Gold	$3,370.36	$3,355.59	0.44%	
Silver	$38.93	$38.42	1.35%	
Copper contract	$552.70	$560.45	-1.38%	
Grains				
Corn contract	$415.00	$412.25	0.67%	
Wheat contract	$549.00	$545.00	0.73%	
Soybeans contract	$1,012.00	$1,007.25	0.47%	
Shipping				
Baltic Dry Freight	1,663	1,465	198	

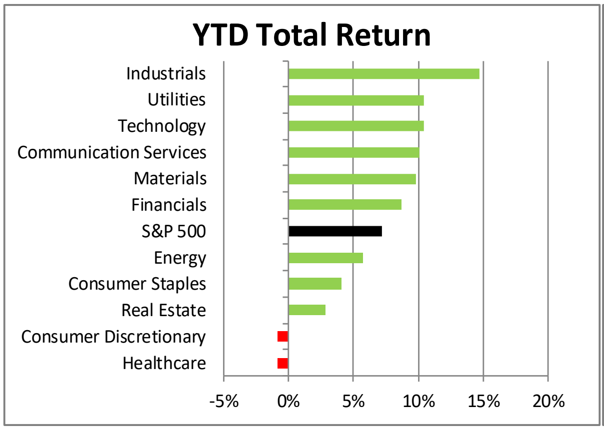
Weather

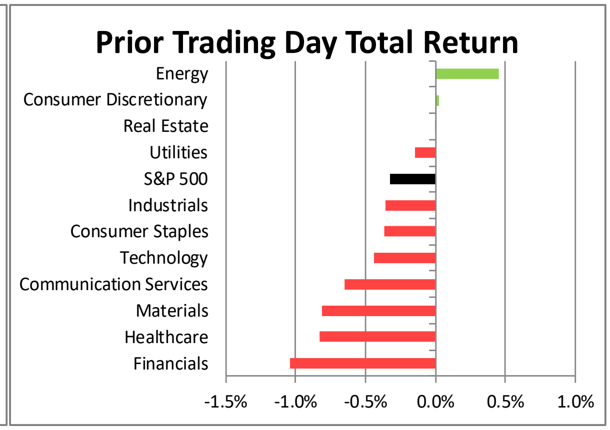
The latest 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for most of the country, with near-normal temperatures for the rest. The precipitation outlook calls for wetter-than-normal conditions to shift eastward, starting from the Rocky Mountains and advancing toward the Midwest and beyond.

In the Atlantic, there is a 30% chance of cyclone formation that could enter the Gulf of Mexico over the next seven days.

Data Section

US Equity Markets – (as of 7/11/2025 close)

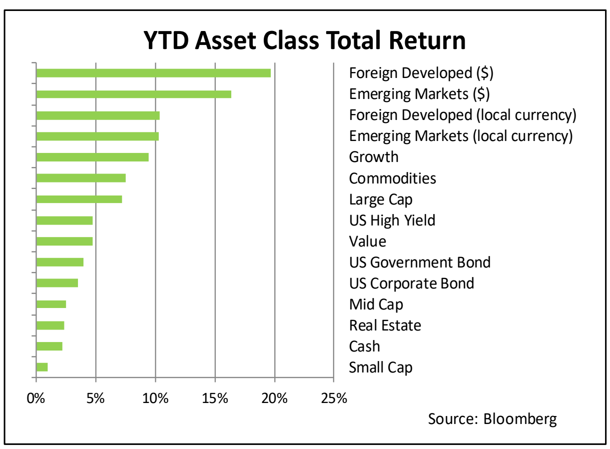




(Source: Bloomberg)

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 7/11/2025 close)

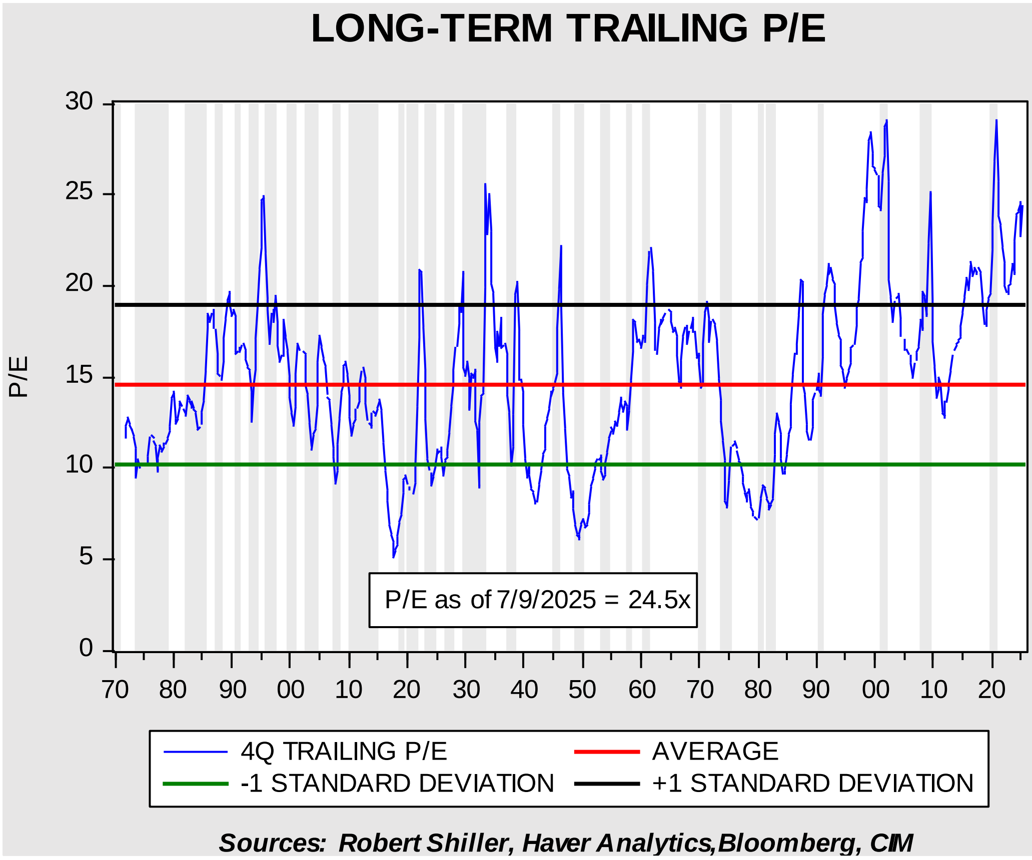


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.

---

[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.