Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: July 17, 2025 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 0.8% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.4%. Chinese markets were higher, with the Shanghai Composite up 0.4% from its previous close and the Shenzhen Composite up 1.2%. US equity index futures are signaling a slightly lower open.

With 40 companies having reported so far, S&P 500 earnings for Q2 are running at $63.00 per share, compared to estimates of $64.65, which is up 5.0% from Q2 2024. Of the companies that have reported thus far, 80.0% have exceeded expectations while 12.5% 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
"Mid-Year Geopolitical Outlook" (7/14/25)	"The Hidden Battle in the 'One Big, Beautiful Bill'" (6/30/25) + podcast	Q2 2025 Report Q2 2025 Rebalance Presentation	The Confluence Mailbag Podcast

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 few words on President Trump's apparent readiness to fire Federal Reserve Chair Powell. We next review several other international and US developments with the potential to affect the financial markets today, including new measures to protect Canada's steel industry and Trump's announcement of a blanket import tariff against about 150 countries around the world.

US Monetary Policy: News reports yesterday said President Trump polled House Republican leaders about whether he should fire Fed Chair Powell, and when they answered affirmatively, he showed them a termination letter that has already been drafted. Trump later denied that he was contemplating Powell's removal, but we believe he remains intent on eventually replacing Powell with a Fed chair that he thinks would cut interest rates aggressively, even if doing so would risk higher inflation and higher yields on US Treasury obligations.

- Separately, New York FRB President Williams asserted in a speech last night that the Fed's current interest-rate setting should not yet be eased. According to Williams, "Maintaining this modestly restrictive stance of monetary policy is entirely appropriate" because incoming data now shows that the Trump administration's big import tariffs are finally starting to push up consumer price inflation.
- The threat of Powell being quickly replaced by an overly dovish new chair temporarily drove US stocks sharply lower yesterday, although they later recovered on Trump's assertion that he wasn't planning to fire Powell. Nevertheless, at least some investors remain rattled by the incident. Stock index futures at this moment suggest stock prices will be relatively steady at market open.
- Similarly, investors also sold off the dollar when the news hit yesterday, but the greenback later clawed back its losses and ended little changed. Measured by the US Dollar Index, the currency has appreciated about 0.4% so far this morning.

United States-China: According to the *Wall Street Journal* today, Beijing has threatened to block the preliminary March deal for Western investors to buy more than 40 ports now owned by Hong-Kong based CK Hutchison, including two key ports associated with the Panama Canal. Beijing is reportedly demanding that Chinese shipping firm Cosco also get an equal stake alongside BlackRock and Mediterranean Shipping Co. BlackRock and MSC are open to the inclusion of Cosco, but Beijing's late demand could heighten US-China tensions.

Italy: New reports say the government this month will approve spending $15.8 billion for a bridge linking the Italian mainland with the island of Sicily. Importantly, Rome has mulled the idea of counting the bridge funding as defense spending, consistent with the new NATO deal in which member countries have committed to hike their formal defense outlays to 3.5% of gross domestic product and spend an additional 1.5% of GDP on "strategic infrastructure."

- Through much of the Cold War, the Soviet Union tried to obscure how much it was spending on its military by hiding much of its defense spending in ostensibly civilian budget accounts and off-budget. We have long expected that the European members of NATO could try to do the same thing in reverse, thereby artificially inflating their defense spending to reach the levels demanded by President Trump.
- While that would violate the principle of budget transparency, we note that such spending — on Italy's big bridge, for example — would still be stimulative to the European economy. Looking forward, we think Europe's economic prospects have brightened not just because of higher defense spending per se, but because global military and economic threats have spurred it to adopt generally looser fiscal policy and cap regulation.

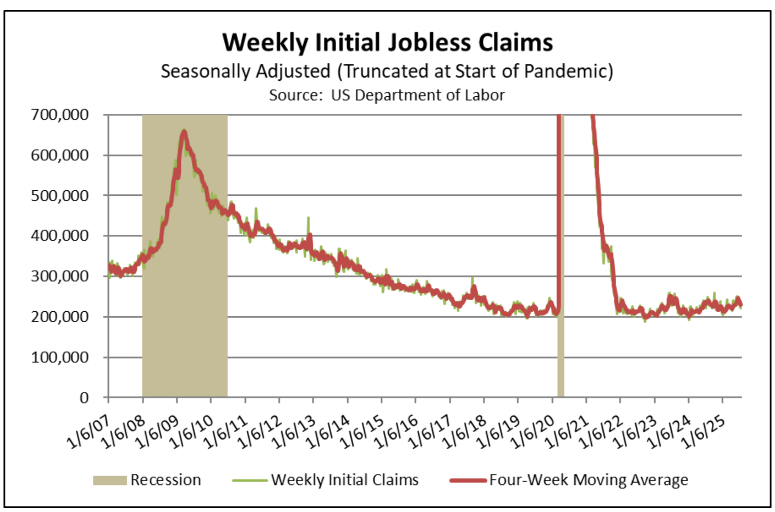
Canada: Prime Minister Carney yesterday said his government will impose a series of import caps and tariffs against steel from countries other than the US and Mexico, claiming Canada has been "disproportionately open" to steel imports over time. The new policy appears aimed at cushioning the blow for Canadian steel firms dealing with President Trump's 50% tariff on US steel imports. The policy illustrates how Trump's embrace of protectionist policies for the US will also probably spur more protectionism by foreign countries, impinging on global trade.

US Fiscal Policy: The Senate overnight narrowly passed a bill to cut $9 billion in federal spending for foreign aid programs and domestic public broadcasting. The bill, which now goes to the House for its approval, essentially rescinds funds previously appropriated for the programs. Although the spending cuts in the bill make up only a tiny share of total federal outlays, the legislation represents an effort to codify some of the controversial cuts pushed by President Trump's "Department of Government Efficiency" earlier this year.

US Trade Policy: President Trump yesterday said he plans to impose a blanket import tariff of 10% to 15% on about 150 countries around the world. The blanket tariff would evidently apply to the many lower-profile nations that aren't major US trading partners and haven't been a focus of the administration so far. Markets appeared to like the news, probably because it suggests a relatively mild US approach to the targeted countries, with less potential trade disruption.

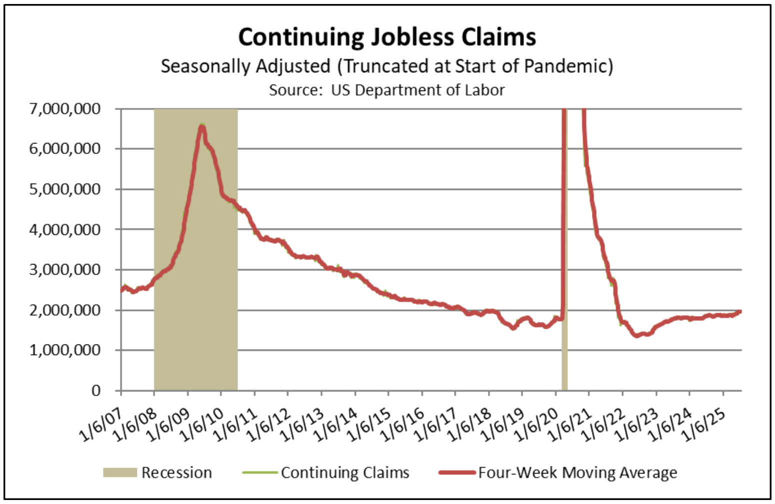
US Economic Releases

In the week ended July 12, ***initial claims for unemployment benefits*** fell to a seasonally adjusted 221,000, well below the expected level of 233,000 and down from a revised 228,000 in the prior week. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, fell to a modest 229,500. 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.

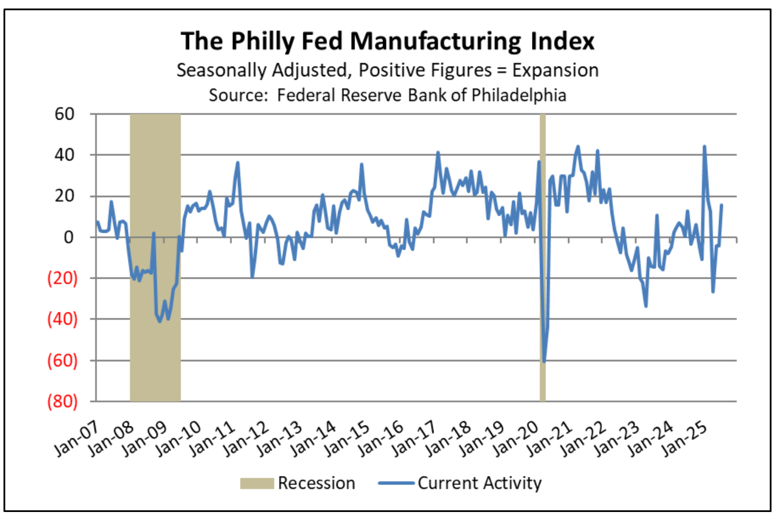


In the week ended July 5, the number of ***continuing claims for unemployment benefits*** (people continuing to draw benefits) rose to a seasonally adjusted 1.956 million, which was below the anticipated reading of 1.965 million but still slightly above the revised reading of 1.954 million in the previous week. The four-week moving average of continuing claims rose further to

1,957,500, suggesting the labor market remains in its recent "no hire/no fire" mode. 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.

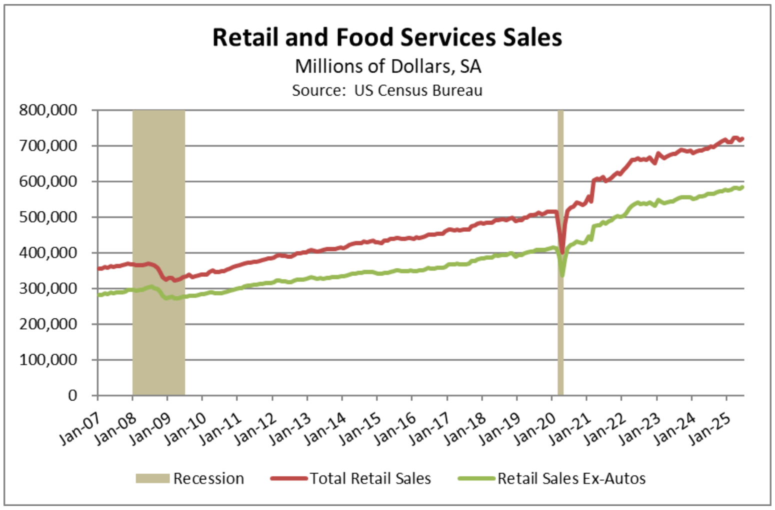


In another key report this morning, the Philadelphia FRB said its June ***Philly Fed Index*** jumped to a seasonally adjusted 15.9, smashing through the expected reading of -1.0 and the well above the -4.0 readings in each of the previous two months. The index, officially designated as the Philadelphia FRB Manufacturing Activity Index, is designed so that positive readings point to expanding factory activity in the mid-Atlantic region. At its current level, the index suggests that mid-Atlantic manufacturing is growing again after three months of declines. The chart below shows how the index has fluctuated since just before the GFC.

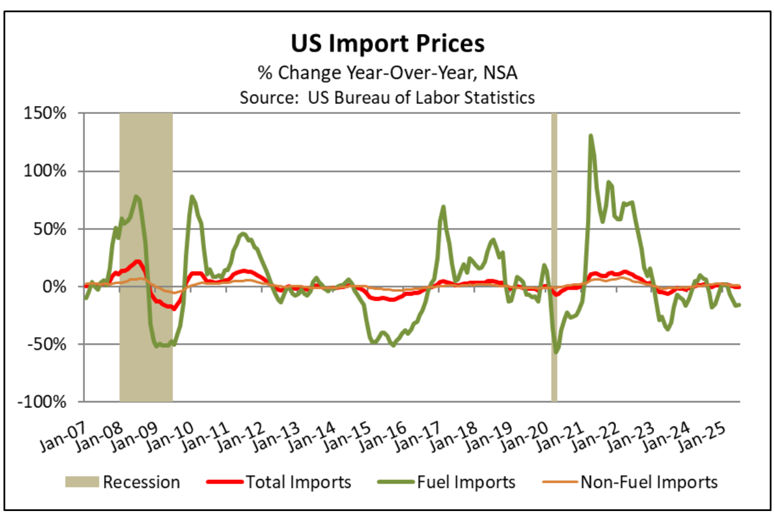


Separately, June ***retail sales*** jumped by a seasonally adjusted 0.6%. That was far better than the anticipated rise of just 0.1%, although it still wasn't enough to reverse the 0.9% decline in May. Of course, overall retail sales are often driven by the volatile auto and auto parts sector, which makes up almost one-fifth of the total. June ***retail sales excluding autos and auto parts*** were up

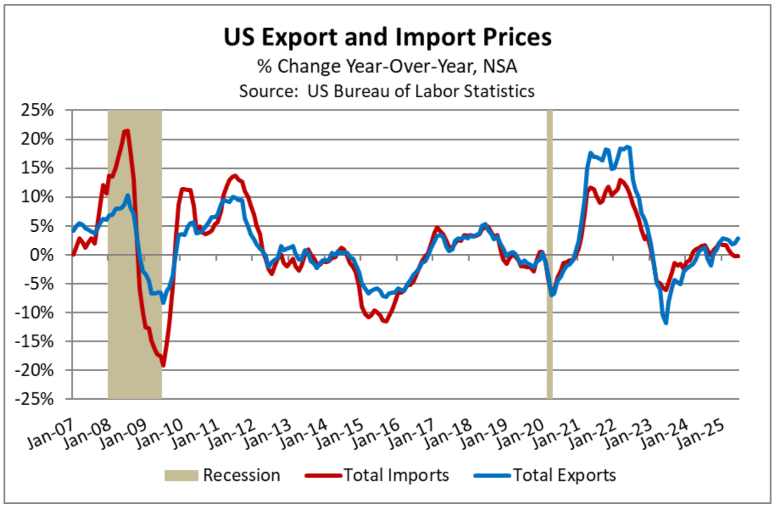
0.5%, beating their expected rise of 0.3% and reversing their revised May decline of 0.2%. Overall retail sales in June were up 3.7% from the same month one year earlier, while sales excluding autos and auto parts were up 3.3%. The chart below shows how retail sales have changed since just before the GFC.



June ***import prices*** were up just 0.1% from the previous month, less than the expected rise of 0.3% and only enough to reverse a small proportion of the revised decline of 0.4% in May. Of course, import prices are often driven by volatility in the petroleum fuels category. June ***import prices excluding fuels*** were unchanged, coming in weaker than the anticipated rise of 0.3% but matching the flat performance in May. Overall import prices in June were down 0.2% year-over-year, while import prices excluding fuels were up 1.2%. The chart below shows the year-over-year change in import prices since just before the GFC.



According to the report, ***export prices*** in June were up 2.8% from one year earlier. Comparing the year-over-year change in export prices versus import prices provides a sense of the US "terms of trade," or the relative advantage or disadvantage the country is facing because of trends in international trade prices. The chart below compares the year-over-year change in US export and import prices since just before the GFC.



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

Economic Releases						
EST	Indicator			Expected	Prior	Rating
10:00	Business Inventories	m/m	May	0.0%	0.0%	*
10:00	NAHB Housing Market Index	m/m	May	33	32	*
16:00	Net Long-Term TIC Flows	m/m	May		-$7.8b	**
16:00	Total Net TIC Flows	m/m	May		-$14.2b	**
Federal Reserve						
EST	Speaker or Event	District or Position				
10:00	Adriana Kugler Speaks on Housing Market and Economic Outlook	Members of the Board of Governors				
12:45	Mary Daly Appears on BTV	President of the Federal Reserve Bank of San Francisco				
13:30	Lisa Cook Speaks on Artificial Intelligence and Innovation	Members of the Board of Governors				
18:30	Christopher Waller Speaks on Economic Outlook	Member of the Board of Governors				

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	Trade Balance	y/y	Jun	¥153.1b	-¥637.6b	¥353.9b	**	Equity and bond neutral
	Exports	y/y	Jun	-0.5	-1.7	0.5	*	Equity bearish, bond bullish
	Imports	y/y	Jun	0.2	-7.7	-1.1	*	Equity bullish, bond bearish
	Japan Buying Foreign Bonds	w/w	11-Jul	¥759.3b	¥1659.1b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	11-Jul	-¥767.9b	-¥514.4b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	11-Jul	¥170.4b	-¥167.8b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	11-Jul	¥446.0b	¥611.5b		*	Equity and bond neutral
	Tokyo Condominiums for Sale	y/y	Jun	-1.3%	-16.9%		*	Equity and bond neutral
Australia	Employment Change	m/m	Jun	2.0k	-1.1k	20.0k	***	Equity and bond neutral
	Unemployment Rate	m/m	Jun	4.3%	4.1%	4.1%	***	Equity and bond neutral
	Participation Rate	m/m	Jun	67.1%	67.0%	67.0%	**	Equity and bond neutral
New Zealand	Food Prices	m/m	Juh	1.2%	0.5%		***	Equity and bond neutral
EUROPE								
Eurozone	CPI	y/y	Jun F	2.0%	2.0%	2.0%	***	Equity and bond neutral
	Core CPI	y/y	Jun F	2.3%	2.3%	2.3%	**	Equity and bond neutral
UK	Average Weekly Earnings 3M/YoY	m/m	May	5.0%	5.4%	5.0%	**	Equity and bond neutral
	ILO Unemployment Rate 3Mths	m/m	May	4.7%	4.6%	4.6%	**	Equity and bond neutral
	Claimant Count Rate	m/m	Jun	4.5%	4.5%		**	Equity and bond neutral
	Jobless Claims Change	m/m	Jun	25.9k	15.3k		**	Equity and bond neutral
Switzerland	Real Exports	m/m	Jun	6.1%	-8.1%		*	Equity and bond neutral
	Real Imports	m/m	Jun	0.7%	0.6%		*	Equity and bond neutral
Russia	PPI	y/y	Jun	0.1%	0.3%	0.1%	***	Equity and bond neutral
AMERICAS								
Canada	Housing Starts	m/m	Jun	283.7k	282.7k	262.5k	**	Equity and bond neutral
Brazil	FGV Inflation IGP-10	m/m	Jul	3.42%	5.62%		**	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)	423	423	0	Up
U.S. Sibor/OIS spread (bps)	433	433	0	Up
U.S. Libor/OIS spread (bps)	430	430	0	Up
10-yr T-note (%)	4.47	4.46	0.01	Up
Euribor/OIS spread (bps)	202	204	-2	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	$68.67	$68.52	0.22%	
WTI	$66.75	$66.38	0.56%	
Natural Gas	$3.58	$3.55	0.68%	
Crack Spread	$27.20	$26.88	1.18%	
12-mo strip crack	$23.79	$23.49	1.28%	
Ethanol rack	$1.89	$1.89	-0.04%	
Metals				
Gold	$3,325.44	$3,347.13	-0.65%	
Silver	$37.86	$37.91	-0.13%	
Copper contract	$550.80	$552.60	-0.33%	
Grains				
Corn contract	$422.75	$424.00	-0.29%	
Wheat contract	$537.25	$541.25	-0.74%	
Soybeans contract	$1,020.00	$1,020.50	-0.05%	
Shipping				
Baltic Dry Freight	1,906	1,866	40	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	-3.86	-0.50	-3.36	
Gasoline (mb)	3.40	-1.50	4.90	
Distillates (mb)	4.17	-1.50	5.67	
Refinery run rates (%)	-0.8%	-0.5%	-0.3%	
Natural gas (bcf)		45		

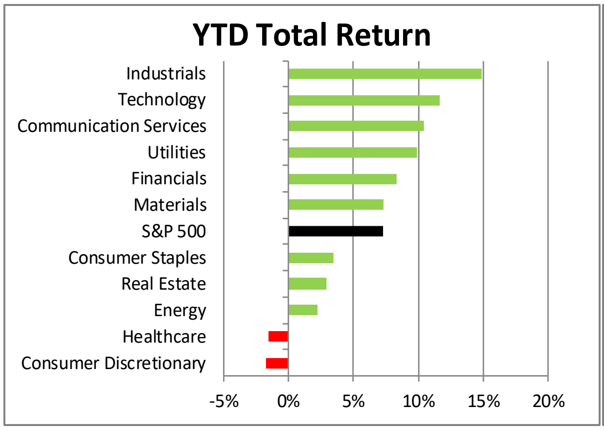
Weather

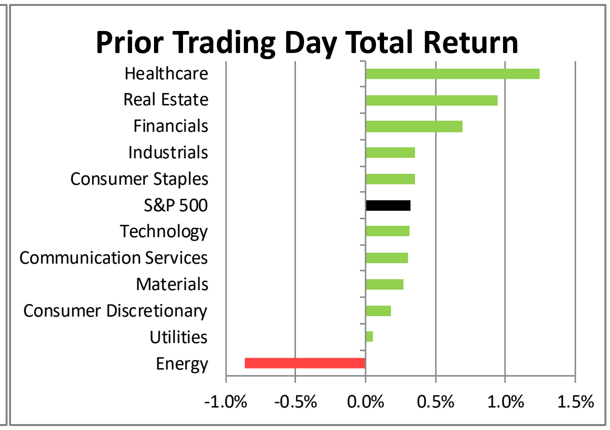
The latest 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for the entire country from the Rocky Mountains eastward, with cooler-than-normal temperatures in the Pacific Northwest and California. The forecasts call for wetter-than-normal conditions in the northern tier states, the Upper Midwest, and the Gulf Coast, with dry conditions in the Southwest and Texas.

In the Atlantic Ocean area, there is currently a tropical disturbance along the Gulf Coast from the Florida panhandle to Louisiana, but it is assessed to have less than a 40% chance of cyclonic formation in the next seven days.

Data Section

US Equity Markets – (as of 7/16/2025 close)

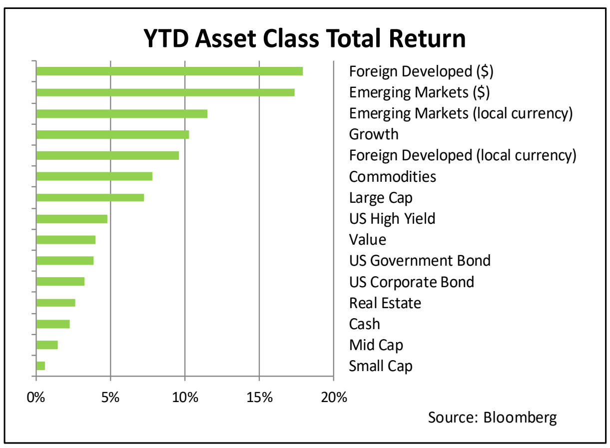




(Source: Bloomberg)

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 7/16/2025 close)

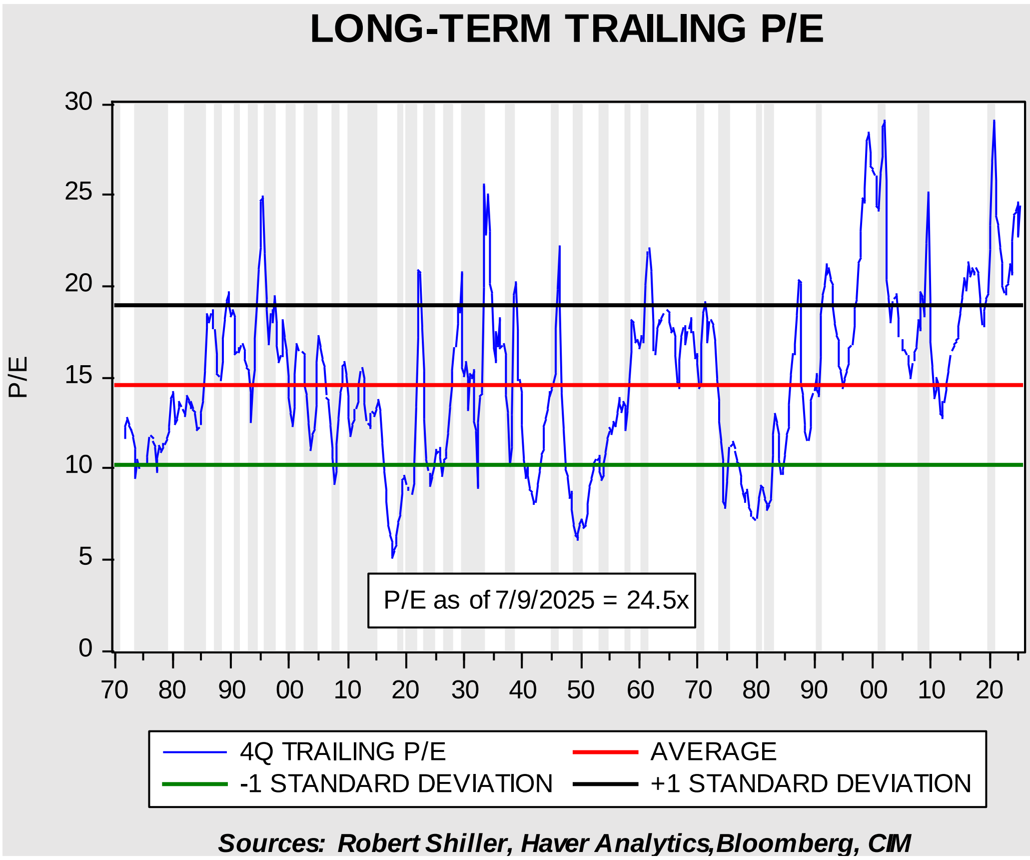


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.

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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.