



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: July 18, 2025 — 9:30 AM ET Global equity markets are mostly higher this morning. In Europe, the Euro Stoxx 50 is down 0.2% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 1.3%. Chinese markets were higher, with the Shanghai Composite up 0.5% from its previous close and the Shenzhen Composite up 0.4%. US equity index futures are signaling a slightly higher open.

With 51 companies having reported so far, S&P 500 earnings for Q2 are running at \$63.20 per share, compared to estimates of \$64.65, which is up 5.0% from Q2 2024. Of the companies that have reported thus far, 82.4% have exceeded expectations while 11.8% 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) + podcast | “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 escalating Ukrainian drone attacks on Moscow, St. Petersburg, and other areas of Russia that could potentially prompt Kremlin retaliation against the US. We next review several other international and US developments with the potential to affect the financial markets today, including a new US anti-dumping tariff against Chinese graphite materials used in electric vehicles and the latest in the Trump administration’s angling to fire Federal Reserve Chair Powell.

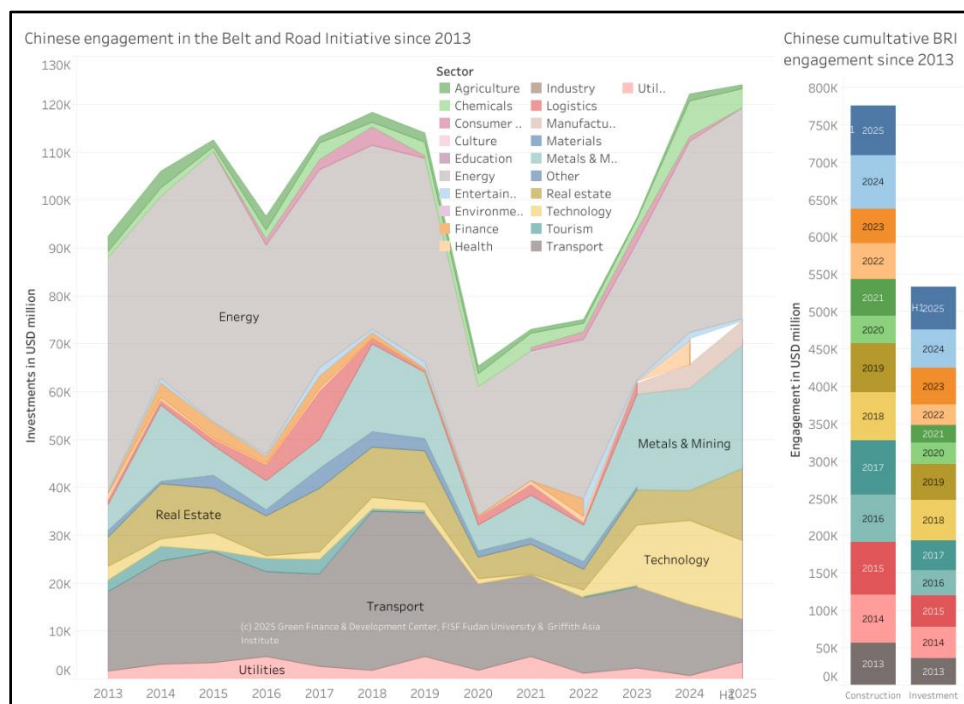
United States-Ukraine-Russia: The Ukrainian military yesterday [staged aerial drone attacks against Moscow, St. Petersburg, and other areas around Russia](#), suggesting that President

Trump's apparent greenlighting of the concept may have encouraged Kyiv to become more aggressive. As we reported in a *Comment* earlier this week, Trump urged Ukrainian President Zelensky to attack Moscow and St. Petersburg to help force the Kremlin into peace talks. The risk is that Russia could decide to retaliate, in some way, directly against the US.

United States-China: The Trump administration yesterday [said it will set a 93.5% anti-dumping tariff against Chinese graphite and other anode-active materials used to make electric-vehicle batteries](#). As an anti-dumping tariff, the graphite duty is unrelated to Trump's "reciprocal" tariffs, sectoral tariffs, and national security tariffs. In response, the share prices of non-Chinese graphite producers are surging so far this morning.

China: New research by Griffith University in Australia shows China [is once again spending lavishly on its "Belt and Road Initiative" to build ports, railroads, and other infrastructure](#) in less developed countries around the world in what is likely an attempt to curry good will and facilitate greater trade with China. The report says Chinese BRI spending in the first half of 2025 was higher than in any other six-month period in history, driven largely by new energy-related investment.

- China's renewed BRI spending comes after bad loans and bad publicity led to a sharp pullback in the program from 2020 to 2023.
- The rebound in BRI spending could spur economic growth in a number of emerging markets, albeit with the risk that the countries are again becoming overly indebted to China.



(Source: Griffith University)

Japan: Excluding the volatile fresh foods category, the June “core” consumer price index [was up 3.3% from the same month one year earlier, matching expectations and cooling from the 3.7% gain in the year to May](#). Nevertheless, inflation remains well above the Bank of Japan’s target, so the data is not expected to stop the central bank from hiking rates further. Persistent inflation is also expected to hurt the ruling Liberal Democratic Party in this weekend’s elections for the upper house of parliament.

Israel-Syria: Israeli forces [continue to operate in Syria today as they implement Tel Aviv’s new policy to help protect the Druze Christian minority group there](#) and establish a demilitarized zone along the Israel-Syria border. The Druze community in Israel numbers about 150,000 and has played an active role in the Israeli military. That has made Tel Aviv sensitive to the community’s demand to support the fellow Druze in Syria who have been attacked amid the political chaos following the fall of Syrian dictator Bashar al-Assad late last year.

Iran: Officials in Lebanon, Syria, and Yemen [say they have recently intercepted multiple weapons shipments sent by Iran to allied militants](#) in the region, including Hezbollah. Despite the military setback that Iran suffered from Israeli and US strikes in June, the shipments suggest Tehran has not yet been pacified. That raises the risk that Iran will directly or indirectly launch new, destabilizing attacks against its enemies in the future.

Argentina: Moody’s yesterday [hiked its sovereign foreign-currency debt rating on Argentina to Caa1, up from Caa3 previously](#), with a stable outlook. As justification, the firm cited Argentina’s recent macroeconomic reforms, such as removing distortive exchange controls and cutting public spending, which have helped stabilize the economy. Moody’s also said it couldn’t hike the credit rating further until Buenos Aires addresses other needed reforms, such as removing barriers to investment, but yesterday’s move is still likely to be positive for Argentine stocks and bonds.

US Monetary Policy: Federal Reserve Chair Powell yesterday [sent a letter rebutting the Office of Management and Budget’s accusation that he has grossly mismanaged the on-going renovation at the Fed’s headquarters](#) and misled Congress about it. Nevertheless, as we’ve said before, the project — essentially rebuilding the headquarters — is so big and complex that Trump officials could probably find some cost overrun or other problem to justify firing Powell, if they’re willing to accept the likely disruption in the financial markets.

US Cryptocurrency Industry: The House yesterday [passed a bill that would establish the first comprehensive set of rules for the US cryptocurrency industry](#). The vote was 294-134, signaling bipartisan support, but passage by the Senate is nevertheless considered less certain. In any case, the “Digital Asset Market CLARITY Act” lays out a new category of registered digital assets and establishes the government’s regulatory responsibilities for them, all aimed at spurring rapid growth in privately developed digital assets.

- Separately, the House yesterday also [approved the Senate-passed GENIUS Act to regulate stablecoins, sending the bill to President Trump](#) to sign it into law. The act establishes the US’s first-ever regulatory framework for issuers of stablecoins, aiming to spur development of that industry.

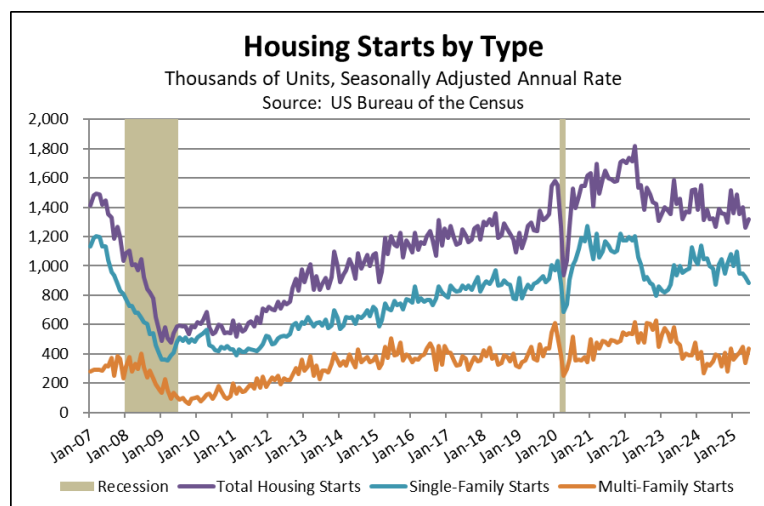
- Yet another report says Trump, as early as today, will sign an executive order directing regulators to let 401(k) plans invest in cryptocurrency assets, gold, private equity, and other nontraditional assets. If true, the order would likely force investment managers to adjust to a much broader set of investment possibilities, while introducing new risks for investors and the broader economy.

US University Endowment Funds: Even as Trump preps to let 401(k) investors take positions in nontraditional assets like cryptocurrencies and private equity, the University of California's endowment board [has voted to exit its remaining 10% allocation to "absolute return portfolios," which are essentially made up of hedge funds](#). The UC investment manager lambasted hedge funds for not providing an effective hedge against volatility and providing far worse performance than traditional stocks and bonds in recent years.

US Economic Releases

June **housing starts** rose to a seasonally adjusted, annualized rate of 1.321 million units, beating the expected rate of 1.300 million units and the revised May rate of 1.263 million. The rate of housing starts in June was up 4.6% from the previous month. Meanwhile, June **housing permits** rose to a rate of 1.397 million units, beating their anticipated rate of 1.387 million units and the unrevised May rate of 1.394 million units. Permits issued for new housing units in June were up 0.2% from the previous month.

Compared with the same month one year earlier, housing starts in June were down 0.3%, while permits were up 2.0%. The chart below shows the growth in new home starts by type of property since just before the Great Financial Crisis.



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 | U. of Michigan Consumer Sentiment | m/m | Jul P | 61.5 | 607.0 | *** |
| 10:00 | U. of Michigan Current Conditions | m/m | Jul P | 63.9 | 64.8 | ** |
| 10:00 | U. of Michigan Future Expectations | m/m | Jul P | 56.9 | 58.1 | ** |
| 10:00 | U. of Michigan 1-Year Inflation Expectation | m/m | Jul P | 5.0% | 5.0% | * |
| 10:00 | U. of Michigan 5-10 Year Inflation Expectation | m/m | Jul P | 3.9% | 4.0% | * |
| Federal Reserve | | | | | | |
| 8:00 | Christopher Waller appears on Bloomberg TV | 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 | National CPI | y/y | Jun | 3.3% | 3.5% | 3.3% | *** | Equity and bond neutral |
| | National CPI Ex-Fresh Food | y/y | Jun | 3.3% | 3.7% | 3.4% | ** | Equity and bond neutral |
| | National CPI Ex-Fresh Food & Energy | y/y | Jun | 3.4% | 3.3% | 3.3% | * | Equity and bond neutral |
| EUROPE | | | | | | | | |
| Eurozone | ECB Current Account SA | m/m | May | €32.3b | €18.6b | | * | Equity and bond neutral |
| | Construction Output | y/y | May | 2.7% | 4.7% | | * | Equity and bond neutral |
| Germany | PPI | y/y | Jun | -1.3% | -1.2% | -1.3% | ** | Equity and bond neutral |
| Italy | Current Account Balance | m/m | May | 1665m | 359m | | * | Equity and bond neutral |
| Russia | Gold and Forex Reserves | m/m | 11-Jul | \$685.3b | \$690.6b | | *** | Equity and bond neutral |
| | Money Supply, Narrow Definition | w/w | 11-Jul | 18.48t | 18.35t | | * | Equity and bond neutral |
| AMERICAS | | | | | | | | |
| Canada | Int'l Securities Transactions | m/m | May | -2.79b | -9.46b | | ** | 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 | 424 | -1 | Up |
| U.S. Sibor/OIS spread (bps) | 432 | 433 | -1 | Up |
| U.S. Libor/OIS spread (bps) | 429 | 430 | -1 | Up |
| 10-yr T-note (%) | 4.43 | 4.45 | -0.02 | Up |
| Euribor/OIS spread (bps) | 202 | 202 | 0 | 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 | \$70.03 | \$69.52 | 0.73% | |
| WTI | \$68.17 | \$67.54 | 0.93% | |
| Natural Gas | \$3.56 | \$3.54 | 0.45% | |
| Crack Spread | \$28.39 | \$27.82 | 2.05% | |
| 12-mo strip crack | \$24.56 | \$24.17 | 1.59% | |
| Ethanol rack | \$1.90 | \$1.90 | 0.01% | |
| Metals | | | | |
| Gold | \$3,355.65 | \$3,338.97 | 0.50% | |
| Silver | \$38.41 | \$38.14 | 0.71% | |
| Copper contract | \$556.75 | \$551.25 | 1.00% | |
| Grains | | | | |
| Corn contract | \$427.50 | \$421.00 | 1.54% | |
| Wheat contract | \$542.75 | \$533.50 | 1.73% | |
| Soybeans contract | \$1,039.75 | \$1,026.50 | 1.29% | |
| Shipping | | | | |
| Baltic Dry Freight | 2,030 | 1,906 | 124 | |
| 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) | 46 | 45 | 1 | |

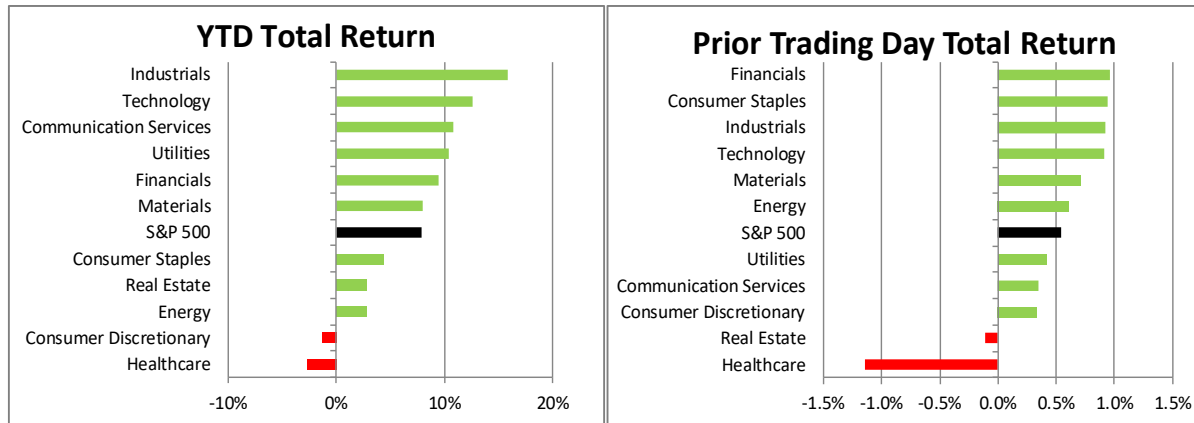
Weather

The latest 6-to-10-day and 8-to-14-day forecasts call for warmer-than-normal temperatures throughout the entire country except for the West Coast and New England, where temperatures will be near normal. The forecasts call for wetter-than-normal conditions in the Upper Midwest and along the Gulf Coast areas of Louisiana, Mississippi, and Alabama, with dry conditions in the Southwest and the southern Great Plains.

In the Atlantic Ocean area, no tropical cyclone activity is expected in the next seven days.

Data Section

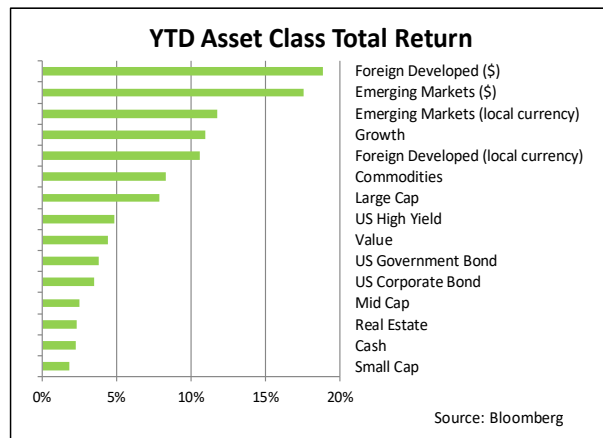
US Equity Markets – (as of 7/17/2025 close)



(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 7/17/2025 close)

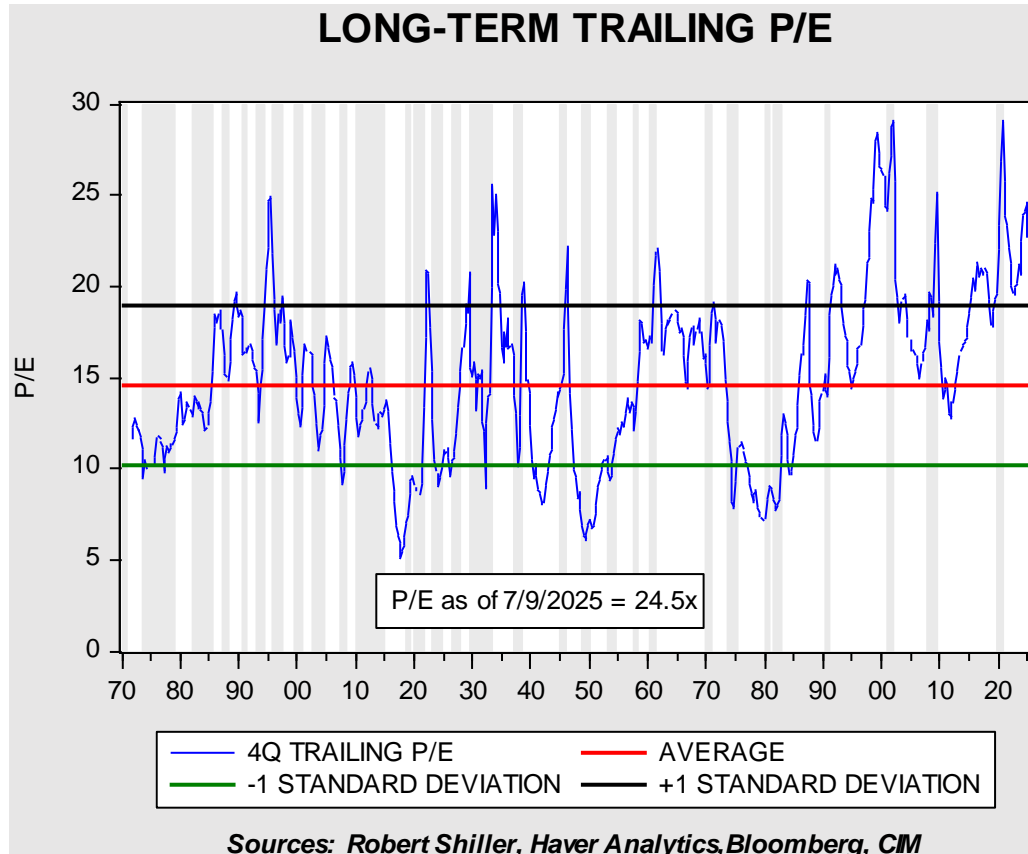


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.