Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: July 21, 2025 — 9:30 AM ET] Global equity markets are mostly higher this morning. In Europe, the Euro Stoxx 50 is down 0.4% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.2%. Chinese markets were higher, with the Shanghai Composite up 0.7% from its previous close and the Shenzhen Composite up 1.1%. US equity index futures are signaling a slightly higher open.

With 59 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, 83.1% have exceeded expectations while 11.9% 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	**"Stablecoin: Treasury's Next Big Bet?" (7/21/25) + podcast**	**Q3 2025 Report**	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 the latest update regarding the damage inflicted on Iran's nuclear program by last month's US and Israeli attacks. We next review several other international and US developments with the potential to affect the financial markets today, including the Japanese ruling party's loss in yesterday's election for the upper house of parliament and new reporting on how Treasury Secretary Bessent helped talk President Trump out of firing Federal Reserve Chair Powell last week.

Iran: According to reports late last week, intelligence analysts now believe the US attacks on Iran's underground nuclear facilities in June "badly damaged, and potentially destroyed" only the one at Fordo, while the facilities at Natanz and Isfahan were less damaged. The evolving damage assessments suggest most of Iran's uranium-refining centrifuges were destroyed and that its stockpile of refined uranium is mostly inaccessible, but analysts are less clear on how long it would take Tehran to restart its nuclear program.

- Analysts believe that Iranian leaders still want to get their hands on a nuclear weapon to deter attacks by Israel and other nations, but the June attacks and the threat of follow-on attacks have made them unsure of the best way forward.
- US officials say any Iranian effort to repair and restart Natanz or Isfahan would be detected, allowing the US and/or Israel to attack them again. Israeli officials have also repeatedly said that they are willing to periodically "mow the lawn" to stop Tehran from restarting its program.
- All the same, it's safe to say that the US and Israeli attacks have significantly disrupted Iran's nuclear program, pushing back the day when Tehran could threaten its enemies with obliteration. However, Iran might still gain nukes sometime in the future, keeping alive its potential to threaten and disrupt the US, Israel, and other nations.

Russia-Ukraine War: The *New York Times* on Saturday carried a useful update on Russia's invasion of Ukraine explaining why the Kremlin's forces have recently been able to accelerate their advances, as we noted in our *Mid-Year Geopolitical Outlook*. The article ascribes Russia's recent success to its overwhelming advantage in manpower and equipment, including the growth of its domestic drone industry. However, it also notes that Russia's high military spending is likely unsustainable for its economy, especially if the US recommits to helping Kyiv militarily.

European Union-United States: EU officials still haven't given up on a trade deal with the US and don't plan to retaliate for President Trump's tariffs before his August 1 deadline, but new reports say Germany has now joined France and other EU nations in wanting tough retaliatory measures, beyond mere tariffs, if Trump hikes duties after the deadline. For example, the EU could use its anti-coercion law to tax or restrict US digital services, ban US firms from the EU's public procurement programs, or restrict investment by US firms.

Japan: In elections for the upper house of parliament yesterday, the ruling Liberal Democratic Party and its Komeito partner came at least two seats short of holding their majority, mimicking their performance in the lower-house election last year. Despite now having to rely on the finicky support of several small parties in each chamber, LDP Prime Minister Ishiba has vowed to stay in power and address the issues angering voters, such as high consumer price inflation and rising immigration. That continuity could help Japan reach a trade deal to minimize new US tariffs.

China: The State Administration for Market Regulation on Friday summoned major online food delivery platforms to demand that they avoid "irrational" competition amid their fierce price war. The firms summoned included units of Alibaba, Ele.me, Meituan, and JD.com. The move shows how Beijing has become increasingly concerned about debilitating price competition as the effect of excess capacity spreads throughout the economy. Importantly, observers widely expect Beijing to soon clamp down on the price war in China's key electric-vehicle market.

United States-China: The US Department of Agriculture last week said it has fired 70 foreign researchers — mostly from China, but also from Russia, Iran, and North Korea — who had been working for USDA on contract. The firings apparently stem from the department's new farm security plan, which aims to protect the US food supply from threats by those countries (the plan also says nationals from China, Russia, Iran, and North Korea can't buy US farmland). The firings are also the latest example of continued US-China decoupling.

United States-Israel: *Axios* yesterday said White House officials are furious at Israeli Prime Minister Netanyahu for his bombing last week of Syria's military headquarters in Damascus and a Catholic church in Gaza. The officials increasingly see Netanyahu as too prone to use military force in the region even as President Trump tries to calm things down. They are also angry over Tel Aviv's growing restrictions on Christian Evangelicals trying to visit Israel.

- At this point, it isn't clear to what extent Trump shares the officials' concerns.
- Still, the report suggests there are growing disagreements between the countries that could undermine US security and economic interests in the region going forward.

US Monetary Policy: The *Wall Street Journal* reports that Treasury Secretary Bessent was instrumental last week in talking President Trump out of firing Fed Chair Powell. Illustrating how Bessent provides key ballast to Trump's economic decisionmaking, he reportedly told Trump there was no need for the move right now because the economy and financial markets are doing well even with interest rates high, and the Fed is ready to cut rates further in any case. Bessent also warned the move could invite political, legal, and financial-market blowback.

US Trade Policy: New reports say President Trump is mulling several new "sectoral" import tariffs that would kick in along with the "reciprocal" tariffs against individual countries that are due to be imposed August 1. Complementing Trump's existing sectoral tariffs on imported steel, aluminum, autos, and auto parts, the new tariffs would hit imports of lumber, critical minerals, copper, pharmaceuticals, and semiconductors. The news could potentially rekindle investor concerns about future US tariff levels and therefore weigh on stock prices.

US Economic Releases

No major US economic reports have been released so far today. 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	Leading Economic Index	m/m	Jun	-0.2%	-0.1%	***
Federal Reserve						
No Fed speakers or events for the rest of today						

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	CPI	y/y	Q2	2.7%	2.5%	2.8%	**	Equity and bond neutral
EUROPE								
UK	Rightmove House Prices	y/y	Jul	0.10%	0.80%		**	Equity and bond neutral
Switzerland	M3 Money Supply	y/y	Jun	4.3%	3.5%		**	Equity and bond neutral
	Domestic Sight Deposits CHF	w/w	8-Jul	444.8b	434.9b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	8-Jul	475.3b	464.1b		*	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)	432	432	0	Up
U.S. Libor/OIS spread (bps)	428	429	-1	Up
10-yr T-note (%)	4.37	4.42	-0.05	Down
Euribor/OIS spread (bps)	200	202	-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**	
PBOC 1-Year Loan Prime Rate	3.00%	3.00%	3.00%	On Forecast
PBOC 5-Year Loan Prime Rate	3.50%	3.50%	3.50%	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	$69.10	$69.28	-0.26%	
WTI	$67.28	$67.34	-0.09%	
Natural Gas	$3.36	$3.57	-5.75%	Supply Optimism
Crack Spread	$26.85	$27.09	-0.89%	
12-mo strip crack	$23.66	$23.78	-0.52%	
Ethanol rack	$1.91	$1.90	0.34%	
Metals				
Gold	$3,370.91	$3,349.94	0.63%	
Silver	$38.47	$38.18	0.77%	
Copper contract	$563.10	$560.45	0.47%	
Grains				
Corn contract	$425.75	$427.75	-0.47%	
Wheat contract	$548.00	$546.25	0.32%	
Soybeans contract	$1,028.50	$1,035.75	-0.70%	
Shipping				
Baltic Dry Freight	2,052	2,030	22	

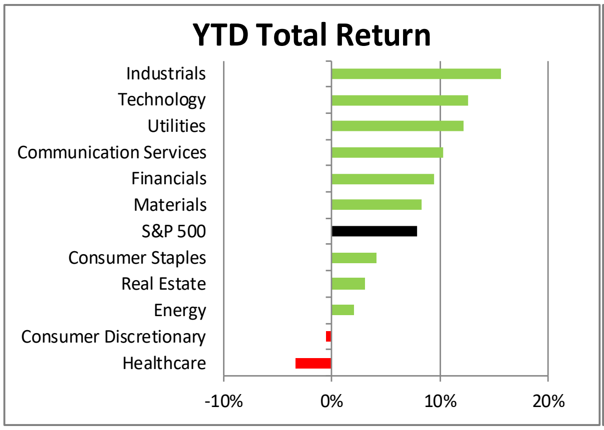
Weather

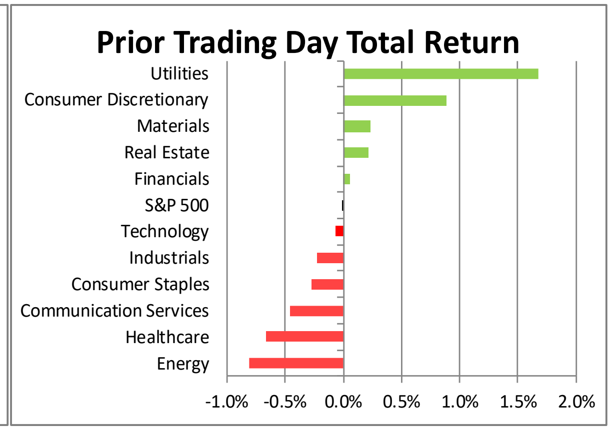
The latest 6-to-10-day and 8-to-14-day forecasts call for warmer-than-normal temperatures throughout the entire country except for the Pacific Northwest and northern Maine, where temperatures will be cooler-than-normal. The forecasts call for wetter-than-normal conditions in Montana, the Dakotas, Minnesota, and Wisconsin, with dry conditions in the central and southern Rocky Mountains and the central Great Plains.

In the Atlantic Ocean area, there is now a tropical disturbance about 700 miles east-southeast of the Lesser Antilles islands, but it is assessed to have only a 20% chance of turning into a cyclone in the next seven days.

Data Section

US Equity Markets – (as of 7/18/2025 close)

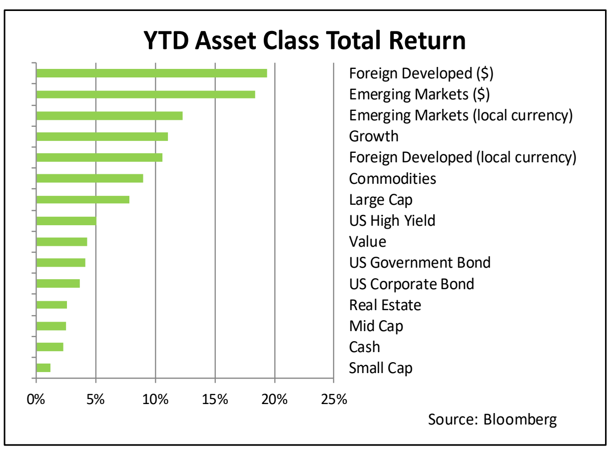




(Source: Bloomberg)

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 7/18/2025 close)

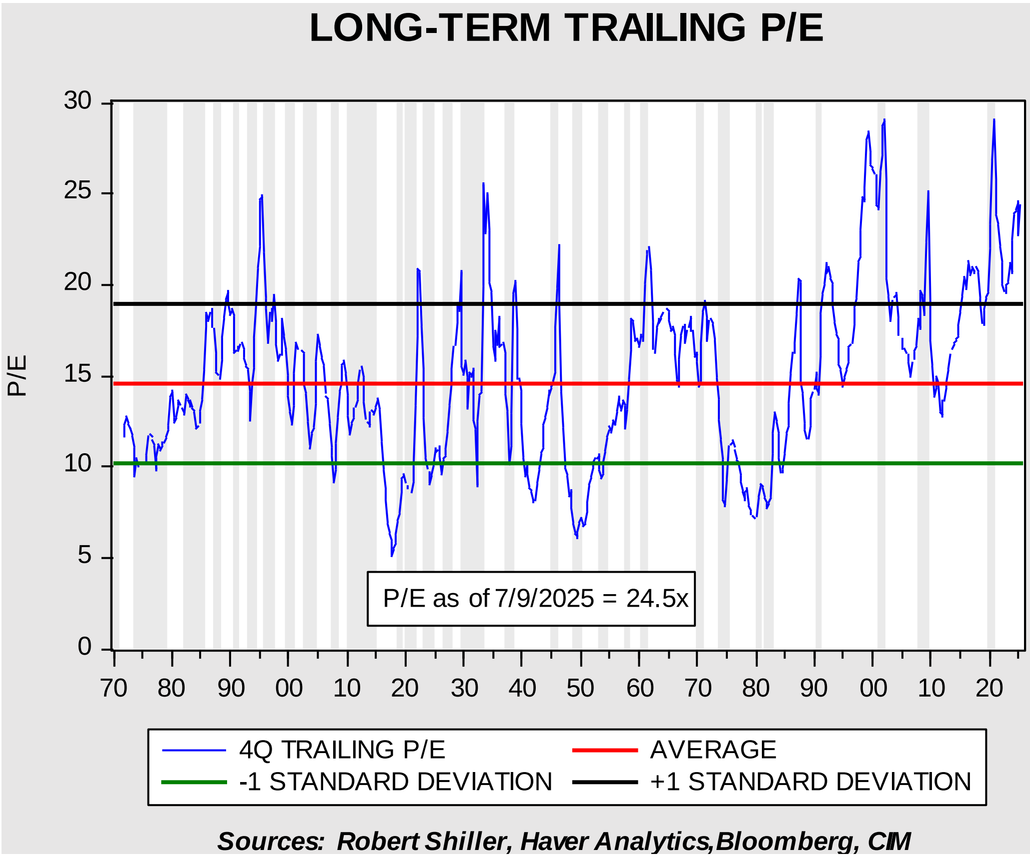


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.