



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: July 23, 2025 — 9:30 AM ET Global equity markets are mostly higher this morning. In Europe, the Euro Stoxx 50 is up 0.9% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 2.0%. Chinese markets were mixed, with the Shanghai Composite essentially unchanged from its previous close and the Shenzhen Composite down 0.5%. US equity index futures are signaling a higher open.

With 97 companies having reported so far, S&P 500 earnings for Q2 are running at \$63.40 per share, compared to estimates of \$64.65, which is up 5.0% from Q2 2024. Of the companies that have reported thus far, 83.5% have exceeded expectations while 12.4% 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 Keller Quarterly 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 new US trade deals with Japan, Indonesia, and the Philippines, which were announced late yesterday. We next review several other international and US developments with the potential to affect the financial markets today, including several news items related to European security issues and an industry official’s suggestion that the US should start to develop a strategic reserve of critical minerals.

US Trade Policy: President Trump last night [said the US and Japan have agreed to a trade deal](#) in which the US will set a 15% tariff on Japanese imports (including autos), the Japanese will open to trade including cars and trucks, rice and other agricultural products, and Japanese entities

will invest \$550 billion in the US, with the US receiving 90% of the profits from those investments. However, it isn't clear whether Japan will be spared Trump's "sectoral" tariffs of 50% on imported steel and aluminum products.

- Separately, Trump also [said Indonesia has agreed to a framework deal in which the US will set a 19% tariff against most Indonesian imports](#), with a 40% rate charged on goods from Indonesia with a high level of foreign content, especially from China. Indonesia will eliminate almost all tariffs on US goods, supply the US with critical minerals, and buy billions of dollars of US airliners, farm products, and energy goods.
- Trump [also said Manila has accepted a trade deal in which the US will impose a 19% tariff on Philippine imports](#) while US goods will enter the Philippines tariff-free.
- On the heels of the news, the S&P 500 stock price index rose to a new record high, likely on investor relief that the US tariffs are coming in near the levels expected and provide some hope for an end to the recent uncertainty regarding trade policy.
- Still, looking forward, it's not clear how successful Trump's trade policy will be in promoting US re-industrialization and improving the lot of his working-class base. His tariffs and other policies will likely encourage added investment in some US industrial sectors, but in other sectors, domestic and foreign firms will probably continue to prefer investing abroad for structural reasons, such as the availability of low-cost workers, better supply chains, production expertise, or the opportunity to produce close to customers.

Asia-Pacific Region: The Asian Development Bank today [again lowered its economic growth forecasts for member countries, citing the US's evolving high-tariff policy](#). The institution said it now expects the developing countries of Asia — including China, India, and South Korea — to see their gross domestic product growth to slow from 5.1% in 2024 to just 4.7% in 2025 and 4.6% in 2026. The forecasts are consistent with expectations that the new US tariffs will be especially challenging for emerging markets.

Japan: With the US-Japan trade deal prompting investors to shift their buying to equities, and with some starting to bet that Prime Minister Ishiba will now resign, today's auction of 40-year Japanese government bonds (JGB) [generated extremely weak demand](#). Indeed, its bid-to-cover ratio came in at just 2.127, marking the lowest ratio for a 40-year auction since 2011. In response, yields on 10-year JGBs today have rebounded to the 17-year high of 1.597% reached last week.

Germany-France-Spain: In a key test of Europe's re-armament effort, the leaders of Germany and France today [are meeting today to settle a dispute over which country should lead the effort to build a joint German-French-Spanish fighter jet](#). The project, known as the Future Air Combat System (FACS), could be important to the fortunes of European defense contractors such as Airbus and Dassault, but it is in danger of being further delayed by the leadership dispute.

United Kingdom-Germany-Turkey: Berlin today reportedly [approved the UK's sale to Turkey of up to 40 Eurofighter Typhoon fighter jets](#), Europe's current joint fighter that is produced by

the UK, Germany, Spain, and Italy. We expect that Europe's re-armament effort will continue to boost sales for firms in the Eurofighter program until the FACS program begins production.

Russia-Germany: In an interview this week, Berlin's military counterintelligence chief [warned that Russian spying and sabotage efforts in Germany in the first half of 2025 have doubled from 2024](#). Strikingly, she said Russian operatives have even been able to sabotage German navy ships by cutting cables, putting oil in water systems, and dropping metal shrapnel into a motor drive train. The incidents illustrate President Putin's aggressive, risk-tolerant stance toward European democracies, which we think will fuel continued rearmament in the West.

Russia: According to Ukrainian intelligence, the Russian defense industry [can now produce 170 large Shahed-class strike drones per day](#). The analysis says Russia's increased production is allowing it to stage large-scale drone attacks on Ukraine with ever-greater frequency and will soon let it launch 2,000 or more drones in a single attack. As we have noted previously, Russia's frequent drone-swarm attacks are a key reason why its forces have recently accelerated their territorial gains in their invasion of Ukraine.

- While Russia and other countries ramp up their output of cutting-edge drones, making the weapons perhaps the most dominant part of the modern battlefield, a video this week [illustrates how behind-the-curve the US effort is](#).
- In the video, the US Army touts a new ability to drop hand grenades from small drones that have been modified to pull the safety pin from the weapons before dropping them. The video, which celebrated the Army's first-ever drop of ordinance from a drone, was widely panned for how minor the accomplishment was in comparison to the advanced drones being developed by Russia, Ukraine, and other countries.

US Critical Minerals Industry: Randall Atkins, CEO of Ramaco Resources, [said yesterday in an interview with the *Financial Times* that the US is "long overdue" in establishing a stockpile of critical minerals](#) to blunt China's near monopoly on them. Atkins argued for stronger public involvement in the industry, such as the recent deal in which the US government bought a stake in rare-earth producer MP Minerals. The statement may portend ever greater government support and guaranteed prices and demand for firms in the sector going forward.

US Stock Market: The meme-stock frenzy [has suddenly returned to US stock markets](#), but with a new cast of characters. Among the fast-rising stocks over the last week or more, retailer Kohl's yesterday saw its stock price double before ending up almost 40%. Other members of the new meme-stock craze include real-estate platform Opendoor Technologies, QuantumScape, and Rigetti Computing.

US Economic Releases

The Mortgage Bankers Association today said *mortgage applications* for the week ended July 18 rose 0.8%, compared to the previous week's decline of 10.0%. Applications for home purchase mortgages rose 3.4%, compared to the previous week's decline of 11.8%. Applications for

refinancing mortgages fell 2.6%, extending the previous week's 7.4% decline. Meanwhile, the average interest rate on a 30-year mortgage rose 2 basis points to 6.84%.

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	Existing Home Sales	m/m	Jun	4.00m	4.03m	***
10:00	Existing Home Sales MoM	m/m	Jun	-0.7%	0.8%	*
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								
Japan	Machine tool orders	y/y	Jun F	-0.5%	-0.5%		**	Equity and bond neutral
Australia	Westpac Leading Index	m/m	Jun	-0.30%	0.50%		**	Equity and bond neutral
South Korea	Consumer Confidence	m/m	Jul	110.8	108.7		*	Equity and bond neutral
AMERICAS								
Mexico	International Reserves Weekly	w/w	18-Jul	\$242086m	\$241912m		*	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	421	2	Up
U.S. Sibor/OIS spread (bps)	432	432	0	Up
U.S. Libor/OIS spread (bps)	428	428	0	Flat
10-yr T-note (%)	4.36	4.35	0.01	Down
Euribor/OIS spread (bps)	194	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	\$68.10	\$68.59	-0.71%	
WTI	\$64.83	\$65.31	-0.73%	
Natural Gas	\$3.23	\$3.25	-0.74%	
Crack Spread	\$26.73	\$26.80	-0.25%	
12-mo strip crack	\$23.38	\$23.42	-0.15%	
Ethanol rack	\$1.91	\$1.90	0.25%	
Metals				
Gold	\$3,422.11	\$3,431.48	-0.27%	
Silver	\$39.36	\$39.29	0.18%	
Copper contract	\$581.60	\$572.15	1.65%	
Grains				
Corn contract	\$419.50	\$418.00	0.36%	
Wheat contract	\$550.50	\$549.50	0.18%	
Soybeans contract	\$1,033.25	\$1,025.50	0.76%	
Shipping				
Baltic Dry Freight	2,035	2,016	19	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-1.50		
Gasoline (mb)		-0.20		
Distillates (mb)		-1.25		
Refinery run rates (%)		-0.4%		
Natural gas (bcf)		27		

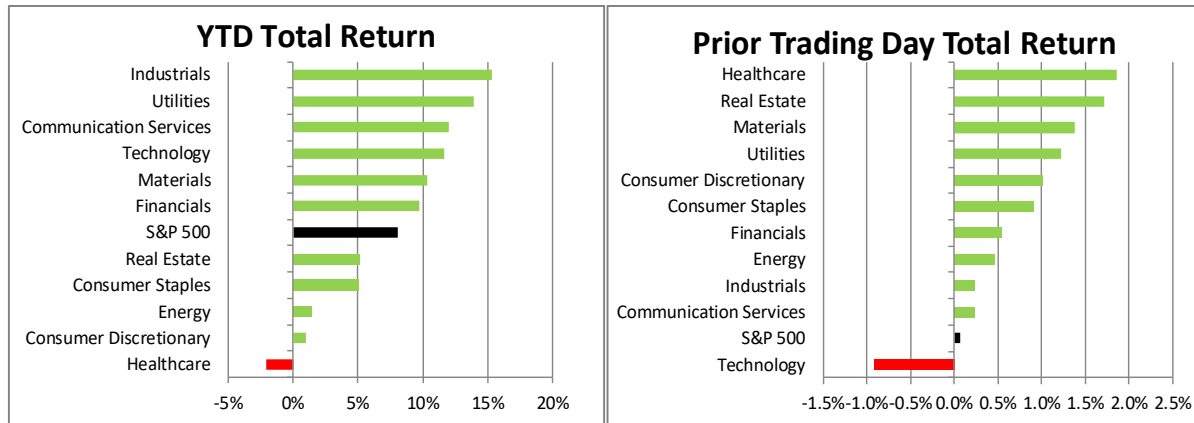
Weather

The latest 6-to-10-day and 8-to-14-day forecasts call for warmer-than-normal temperatures in the Rocky Mountains, Great Plains, and South, with cooler-than-normal temperatures in Maine and California. The forecasts call for wetter-than-normal conditions in the northwest and along the Gulf and Atlantic Coasts, with drier-than-normal conditions in Nevada.

The tropical weather outlook indicates an area of disturbance along the Gulf Coast from Texas to the Florida Panhandle with a 10% chance of cyclonic formation in the next seven days.

Data Section

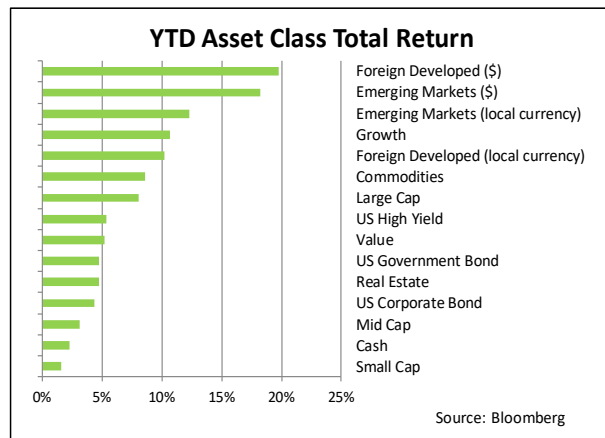
US Equity Markets – (as of 7/22/2025 close)



(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 7/22/2025 close)

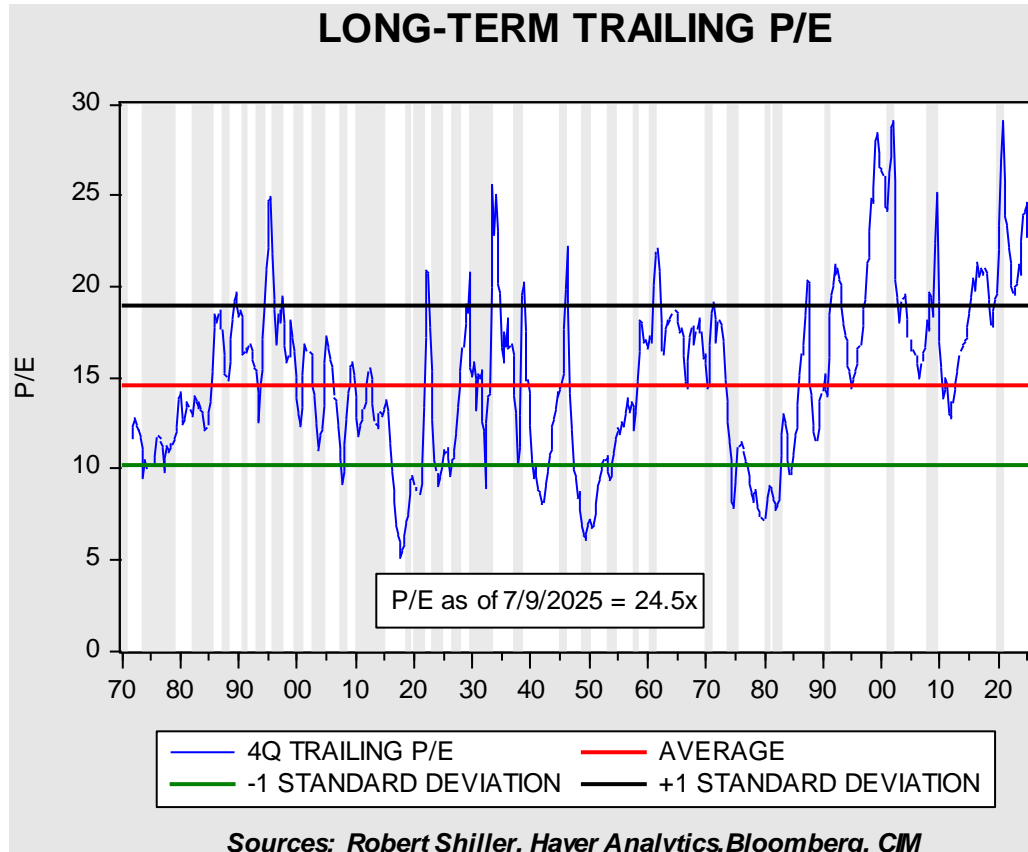


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.