# Daily Comment

Confluence Investment Management

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**Posted: July 24, 2025 — 9:30 AM ET]** Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 is up 0.4% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.1%. Chinese markets were higher, with the Shanghai Composite up 0.7% from its previous close and the Shenzhen Composite up 1.2%. US equity index futures are signaling a higher open.

With 133 companies having reported so far, S&P 500 earnings for Q2 are running at $63.80 per share, compared to estimates of $64.65, which is up 5.0% from Q2 2024. Of the companies that have reported thus far, 82.7% have exceeded expectations while 12.0% have fallen short of expectations.

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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<br>The Confluence Mailbag Podcast |

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Our *Comment* today begins with a focus on US trade policy, specifically the growing concerns about the recent agreements. We will also examine other significant international and domestic developments impacting financial markets, including the increasing influence of AI and escalating geopolitical tensions.

**US Trade Policy:** President Trump has announced plans to impose new tariffs, with rates starting at 15% and potentially reaching as high as 50% on specific countries. The move appears to be a response to criticism that his recent trade deal with Japan could undermine efforts to bring manufacturing back to the US. His comments are likely to fuel concerns that the administration will intensify pressure on nations that have yet to establish trade agreements with the United States.

- Following the trade deal with Japan, the Trump administration is now pursuing similar agreements with other nations, including South Korea. The two sides are negotiating a deal that would lower tariffs from 25% to 15% in exchange for an investment commitment. Additionally, the agreement is expected to include provisions for South Korea to increase purchases of US goods in key sectors.
- While the trade reprieve has boosted confidence in global equities, US producers — particularly automakers — have raised concerns. The reduction of auto tariffs is expected to give Asian manufacturers a competitive edge over their American counterparts. A key issue is that while foreign automakers will still face tariffs, they may avoid the added cost burden faced by US companies, which are paying more due to tariffs imposed earlier this year.
- Additionally, optimism persists for a US-EU trade agreement. Observers expect the bloc to adopt a framework similar to Japan's as both sides push to finalize a deal by August 1. This potential agreement could help the EU avoid the worst impacts of an escalating trade war with the US.
- While countries without trade agreements may face higher tariffs, we expect the overall market impact to be limited once major trading partners reach deals. Consequently, investor focus could gradually shift toward other themes in the coming months.

**Thai-Cambodia Conflict**: Thailand conducted airstrikes against Cambodia following renewed border clashes, marking an escalation in tensions between the two Southeast Asia nations. The longstanding territorial dispute, which dates back decades, intensified earlier this year after a Cambodian soldier was killed in a skirmish. This conflict could have significant regional implications, particularly for nations viewing Thailand and Cambodia as potential alternatives to China in their supply chain diversification strategies.

**EU-China Relations:** EU leaders have arrived in China for a summit marking 50 years of bilateral relations, with both sides seeking to bridge differences on trade and the Ukraine war. While expressing mutual interest in strengthening ties, EU officials have cautioned that the relationship may be approaching a turning point. The talks occur as China attempts to prevent further EU distancing amid its own escalating tensions with the United States.

**Export Controls Failing:** According to the *Financial Times*, over $1 trillion worth of Nvidia chips have been sold to China in the three months following the tightening of US export restrictions. This development underscores growing concerns about the significant loopholes and effectiveness of current trade restrictions as both nations vie for dominance in the critical AI technology sector, which is increasingly viewed as the next frontier in global technological competition.

**Alphabet to Spend More:** Google's parent company Alphabet exceeded second-quarter sales estimates as it capitalizes on growing AI demand. The tech giant reported that surging interest in its cloud services has driven capital expenditures to $85 billion this year, with further increases anticipated in 2025. While the initial frenzy around AI has moderated from its peak two years ago, the technology remains a key driver of market sentiment.

**Amazon Under Pressure:** The [e-commerce giant faced intense competition from Walmart]() during its highly anticipated Prime Day event. Despite extending the promotional period for subscribers, early indicators suggest many shoppers turned to Walmart for better deals. This heightened competition [emerges as rising tariffs pressure retailers' pricing strategies](), while consumers grow increasingly price-sensitive in the current economic climate.

**Iran-US Tension:** A [tense standoff occurred between US and Iranian forces in the Gulf of Oman]() after the US Navy allegedly entered waters claimed by Iran. Although no shots were fired, both sides exchanged threats, with Iran later asserting that the American vessel withdrew. This confrontation marks the first major incident since the US airstrike on Iranian targets and underscores the ongoing volatility in bilateral relations.

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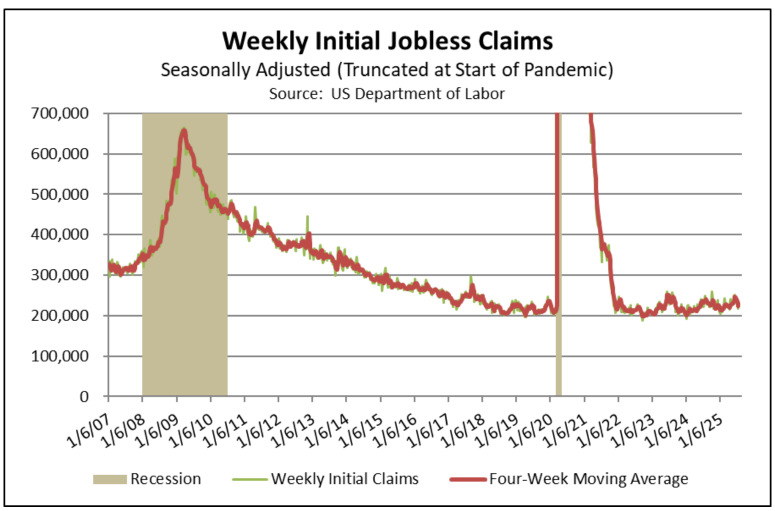
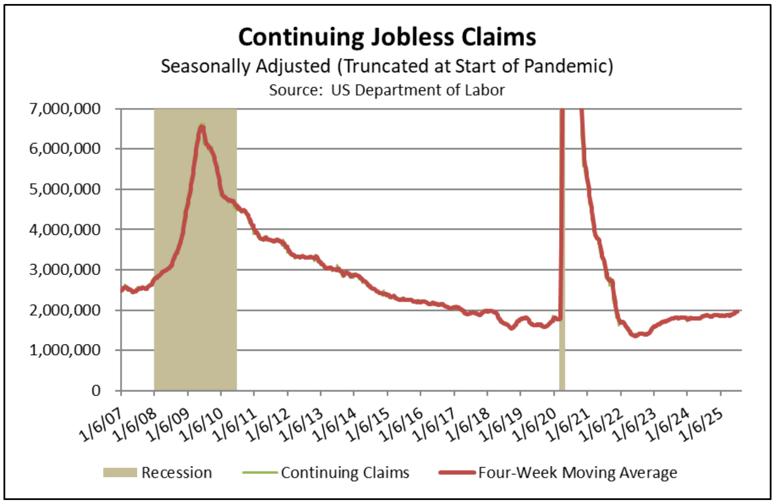
## US Economic Releases

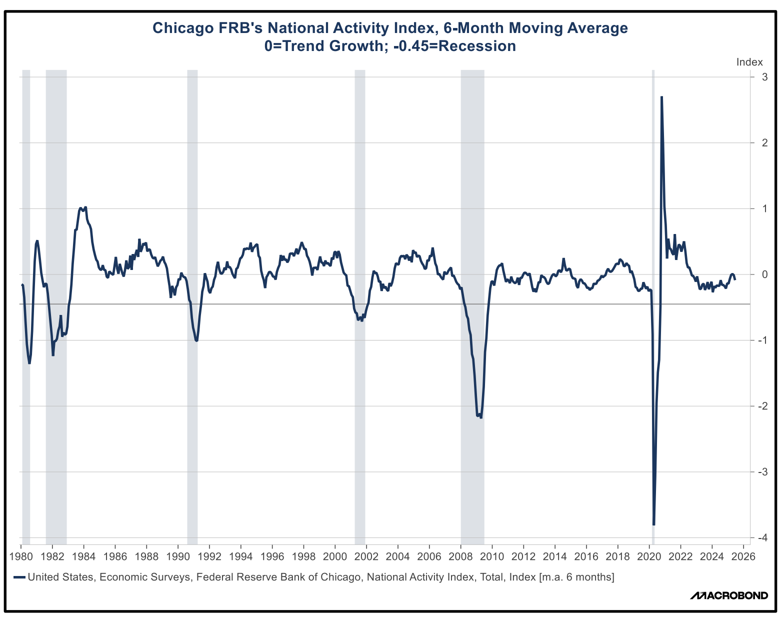
In the week ended July 19, ***initial claims for unemployment benefits*** fell to a seasonally adjusted 217,000, below both the expected level of 226,000 and the prior week's level of 221,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, fell to a modest 224,500. 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 12, the number of ***continuing claims for unemployment benefits*** (people continuing to draw benefits) rose to a seasonally adjusted 1.955 million, slightly above both the anticipated reading of 1.954 million and the previous week's revised reading of 1.951 million. The four-week moving average of continuing claims fell to 1.954 million, but it is still quite elevated, consistent with the "no fire/no hire" labor market recently. 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.




Separately, the Chicago Fed said its June ***National Activity Index (CFNAI)*** improved to -0.10, beating the expected level of -0.15 and May's revised level of -0.16. The CFNAI, which encompasses dozens of separate indicators to capture all aspects of current economic activity, is designed so that a reading of 0.00 reflects the economy growing at trend. Our analysis shows that when the six-month moving average of the CFNAI falls below -0.45, it suggests the economy is in recession. With the latest reading, this indicator suggests the economy is now growing only slightly below trend. The chart below shows how the six-month moving average of the CFNAI has fluctuated over the last several decades.



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

| Economic Releases | | | | | | |
|---|---|---|---|---|---|---|
| **EST** | **Indicator** | | | **Expected** | **Prior** | **Rating** |
| **9:45** | S&P Global US Manufacturing PMI | m/m | Jul P | 52.7 | 52.9 | *** |
| **9:45** | S&P Global US Services PMI | m/m | Jul P | 53 | 52.9 | *** |
| **9:45** | S&P Global US Composite PMI | m/m | Jul P | 52.8 | 52.9 | *** |
| **10:00** | New Home Sales | m/m | Jun | 650k | 623k | *** |
| **10:00** | New Home Sales MoM | m/m | Jun | 4.3% | -13.7% | ** |
| **11:00** | Kansas City Fed Manfacturing Index | m/m | Jul | 0 | -2 | * |
| | Building Permits | m/m | Jun F | 1397k | 1397k | ** |
| | | | | | | |
| 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 | S&P Global Japan PMI Composite | m/m | Jul P | 51.5 | 51.5 | | ** | Equity and bond neutral |
| | S&P Global Japan PMI Mfg | y/y | Jul P | 48.8 | 50.1 | | *** | Equity and bond neutral |
| | S&P Global Japan PMI Services | y/y | Jul P | 53.5 | 51.7 | | ** | Equity and bond neutral |
| Australia | S&P Global Australia Composite PMI | m/m | Jul P | 53.6 | 51.6 | | * | Equity and bond neutral |
| | S&P Global Australia Manufacturing PMI | m/m | Jul P | 51.6 | 50.6 | | *** | Equity and bond neutral |
| | S&P Global Australia Services PMI | m/m | Jul P | 53.8 | 51.8 | | * | Equity and bond neutral |
| South Korea | GDP | y/y | 2Q A | 0.5% | 0.0% | 0.4% | *** | Equity and bond neutral |
| India | HSBC India PMI Composite | m/m | Jul P | 60.7 | 61.0 | | ** | Equity and bond neutral |
| | HSBC India PMI Mfg | m/m | Jul P | 59.2 | 58.4 | | *** | Equity and bond neutral |
| | HSBC India PMI Services | m/m | Jul P | 59.8 | 60.4 | | ** | Equity and bond neutral |
| EUROPE | | | | | | | | |
| Eurozone | EU27 New Car Registrations | y/y | Jun | -7.3% | 1.6% | | *** | Equity and bond neutral |
| | HCOB Eurozone Manufacturing PMI | m/m | Jul P | 49.8 | 49.5 | 49.8 | *** | Equity and bond neutral |
| | HCOB Eurozone Services PMI | m/m | Jul P | 51.2 | 50.5 | 50.6 | ** | Equity bullish, bond bearish |
| | HCOB Eurozone Composite PMI | m/m | Jul P | 51.0 | 50.6 | 50.7 | * | Equity and bond neutral |
| Germany | HCOB Germany Manufacturing PMI | m/m | Jul P | 49.2 | 49.0 | 49.5 | *** | Equity and bond neutral |
| | HCOB Germany Services PMI | m/m | Jul P | 50.1 | 49.7 | 50.0 | ** | Equity and bond neutral |
| | HCOB Germany Composite PMI | m/m | Jul P | 50.3 | 50.4 | 50.7 | ** | Equity and bond neutral |
| France | Business Confidence | m/m | Jul P | 96 | 96 | 96 | ** | Equity and bond neutral |
| | Manufacturing Confidence | m/m | Jul P | 96 | 96 | 97 | * | Equity and bond neutral |
| | HCOB France Manufacturing PMI | m/m | Jul P | 48.4 | 48.1 | 48.5 | *** | Equity and bond neutral |
| | HCOB France Services PMI | m/m | Jul P | 49.7 | 49.6 | 49.6 | ** | Equity and bond neutral |
| | HCOB France Composite PMI | m/m | Jul P | 49.6 | 49.2 | 49.1 | ** | Equity and bond neutral |
| UK | S&P Global UK Manufacturing PMI | m/m | Jul P | 48.2 | 47.7 | 48.0 | *** | Equity and bond neutral |
| | S&P Global UK Services PMI | m/m | Jul P | 51.2 | 52.8 | 52.9 | ** | Equity bearish, bond bullish |
| | S&P Global UK Composite PMI | m/m | Jul P | 51.0 | 52.0 | 51.8 | ** | Equity bearish, bond bullish |
| Russia | Industrial Production | y/y | Jun | | 1.8% | | *** | 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)** | 431 | 432 | -1 | Up |
| **U.S. Libor/OIS spread (bps)** | 428 | 428 | 0 | Up |
| **10-yr T-note (%)** | 4.41 | 4.38 | 0.03 | Down |
| **Euribor/OIS spread (bps)** | 194 | 194 | 0 | Down |
| **Currencies** | **Direction** | | | |
| Dollar | Up | | | Down |
| Euro | Down | | | Up |
| Yen | Up | | | Down |
| Pound | Down | | | Up |
| Franc | Down | | | Up |
| **Central Bank Action** | **Current** | **Prior** | **Expected** | |
| ECB Deposit Facility Rate | 2.00% | 2.00% | 2.00% | On Forecast |
| ECB Main Refinancing Rate | 2.15% | 2.15% | 2.15% | On Forecast |
| ECB Marginal Lending Facility | 2.40% | 2.40% | 2.40% | 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 | $68.93 | $68.51 | 0.61% | |
| WTI | $65.75 | $65.25 | 0.77% | |
| Natural Gas | $3.09 | $3.08 | 0.32% | |
| Crack Spread | $26.26 | $26.97 | -2.61% | |
| 12-mo strip crack | $23.36 | $23.59 | -0.98% | |
| Ethanol rack | $1.89 | $1.89 | -0.39% | |
| **Metals** | | | | |
| Gold | $3,362.33 | $3,387.29 | -0.74% | |
| Silver | $39.01 | $39.27 | -0.66% | |
| Copper contract | $589.40 | $581.95 | 1.28% | |
| **Grains** | | | | |
| Corn contract | $419.50 | $417.50 | 0.48% | |
| Wheat contract | $541.00 | $540.50 | 0.09% | |
| Soybeans contract | $1,027.50 | $1,022.75 | 0.46% | |
| **Shipping** | | | | |
| Baltic Dry Freight | 2,120 | 2,035 | 85 | |
| **DOE Inventory Report** | | | | |
| | **Actual** | **Expected** | **Difference** | |
| Crude (mb) | -3.17 | -1.50 | -1.67 | |
| Gasoline (mb) | -1.74 | -0.20 | -1.54 | |
| Distillates (mb) | 2.93 | -1.25 | 4.18 | |
| Refinery run rates (%) | 1.6% | -0.4% | 2.0% | |
| Natural gas (bcf) | | 27 | | |

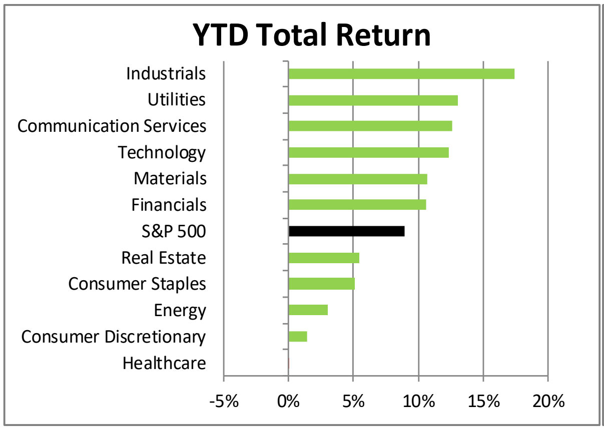
## Weather

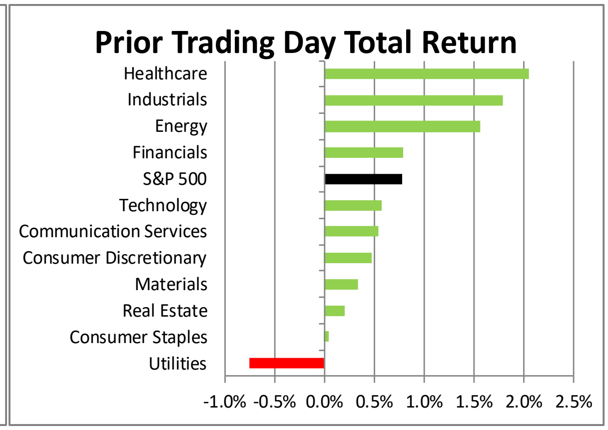
The latest 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in the Pacific Northwest, the Southwest, and the Deep South, with cooler-than-normal temperatures in southern California, the Upper Midwest, and New England. The forecasts call for wetter-than-normal conditions everywhere except Southern California, western Texas, the Midwest, and New England, with dry conditions around the Great Lakes.

In the Atlantic Ocean area, there is currently a tropical disturbance along the Gulf Coast off Texas and Louisiana, but it is assessed to have only a 10% chance of cyclonic formation in the next seven days.

## Data Section

### **US Equity Markets** – (as of 7/23/2025 close)

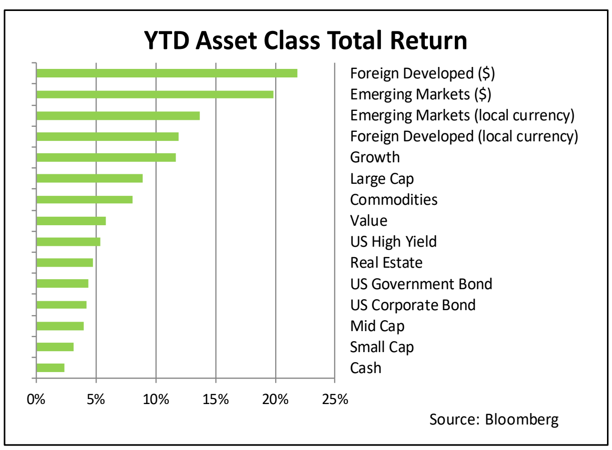



*(Source: Bloomberg)*

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 7/23/2025 close)

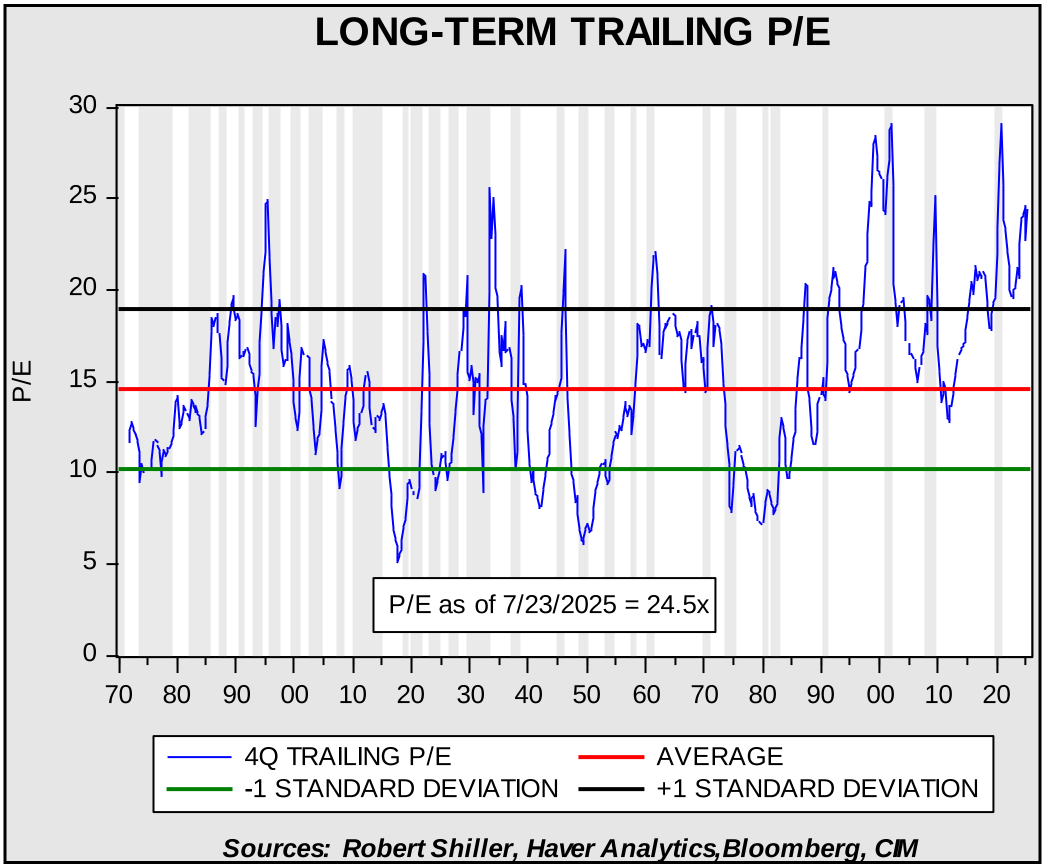



This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 24, 2025




Based on our methodology,[1] the current P/E is 24.5x, unchanged from our last report.

*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.