



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: July 25, 2025 — 9:30 AM ET Global equity markets are generally lower 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 down 1.1%. Chinese markets were lower, with the Shanghai Composite down 0.3% from its previous close and the Shenzhen Composite down 0.1%. Conversely, US equity index futures are signaling a slightly higher open.

With 163 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, 82.8% have exceeded expectations while 12.3% 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* opens with President Trump's recent visit to the Federal Reserve, a key event highlighting the ongoing tensions between the president and the Fed chair, which continue to influence market sentiment. We will also analyze other significant international and domestic developments impacting financial markets, including updates on trade policy and discussions concerning US economic health.

Powell Safe for Now: President Trump and Fed Chair Jerome Powell toured the renovations happening in the Federal Reserve Building. The project has faced sharp criticism after its costs exceeded the budget proposed in 2019. Though tensions have arisen between Powell and the

president, particularly over revised estimates with Powell challenging Trump's claim that costs were escalating further, the president [concluded the visit by affirming that Powell would not be fired.](#)

- Though speculation about Fed Chair Powell's resignation due to perceived pressure has been widespread, we contend that this is not the most probable outcome. We surmise that a significant portion of the discourse surrounding Powell serves as a means for the presidency to create an uncomfortable environment for the incumbent Fed chair, particularly if a reduction in interest rates does not materialize in the foreseeable future.
- While we do not anticipate a rate cut at the Fed's next meeting under our baseline scenario, we believe the committee could signal potential conditions for a September rate cut. This may reflect members' growing inclination to reduce rates based primarily on inflation trends, even if labor market data shows signs of resilience. That said, we expect that the Fed could cut rates by as much as 75 bps by year's end.

Economic Resilience: The [June flash S&P Global PMI survey revealed that business activity expanded at a faster-than-expected pace.](#) While the manufacturing PMI fell back into contraction territory (dropping from 52.0 to 49.5), the services sector, which accounts for roughly two-thirds of the economy, climbed to its highest level this year, rising from 52.9 to 55.2. A surge in business activity drove the rebound as firms hired more workers to address backlogs. However, the report indicated that the broader economic outlook remains subdued.

ECB Holds: The European Central Bank (ECB) [opted to hold interest rates steady following Thursday's policy meeting.](#) citing the notable resilience of the eurozone's economy. The decision appears partly driven by optimism that the US and EU will reach an agreement to avoid economically damaging tariffs. We also suspect that the ECB may be seeking to appease President Trump, who has repeatedly criticized foreign central banks for cutting rates while US rates remain relatively high.

Palestine Recognition: [French President Emmanuel Macron has announced his intention to formally recognize Palestine](#) as a state during September's United Nations General Assembly. This decision has drawn sharp criticism from the United States, which strongly opposes the move, arguing it could legitimize Hamas propaganda. The announcement comes amid growing international unease over Israel's military operations in the West Bank and risks the further diplomatic isolation of Israel.

Starmer Looks for Deals: [UK Prime Minister Keir Starmer is expected to push President Trump to consider accepting more UK steel](#) and Scottish whisky imports when the US president visits Scotland on Monday. While the existing US-UK trade agreement reduced tariffs for automakers and aerospace manufacturers, it excluded steel due to concerns about British supply chain reliability. These negotiations demonstrate how trade agreements can continue evolving even after their initial frameworks are established.

US-Japan Trade Arrangement: While both parties have acknowledged reaching a trade agreement in principle, [there are still disagreements over specific terms.](#) Japan's chief negotiator clarified three key points: (1) the deal contains no provisions regarding defense purchases, (2)

the reported 90-10 split favoring the US would fluctuate based on bilateral investment ratios, and (3) no fixed quotas were established. These discrepancies reveal deliberately broad language in the agreement that may lead to future interpretive disputes.

EU Digital Crackdown: Meta [will no longer permit political advertising on its Facebook and Instagram platforms in the EU](#), citing what it describes as unworkable regulations under the bloc's new Transparency and Targeting of Political Advertising rules set to take effect in October. This decision marks the latest flashpoint in ongoing tensions between US tech giants and EU regulators. The Trump administration has consistently sought to protect American technology companies from foreign regulatory measures, making this a key area of transatlantic contention.

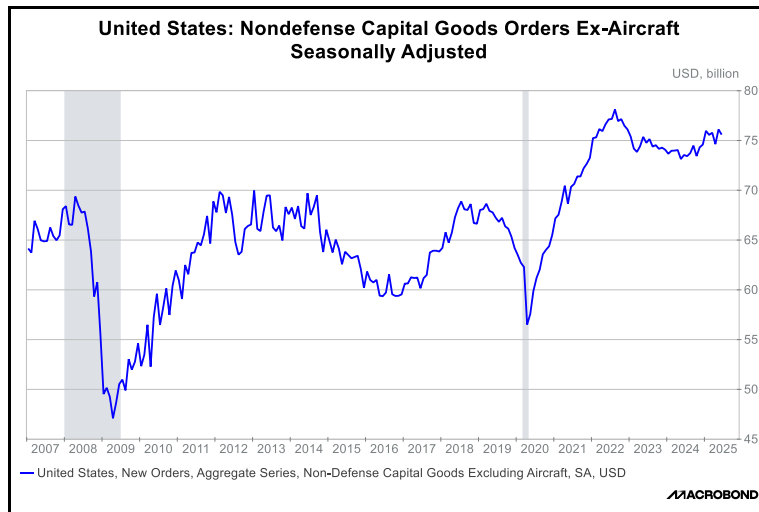
Chinese Demographics: [Kindergarten enrollment has declined by 25% over the past four years](#), reflecting the country's deepening demographic challenges. This sharp decrease threatens to undermine population growth — a critical driver of economic expansion. This trend may exacerbate existing deflationary pressures as the nation continues to grapple with industrial overcapacity and weak consumer demand.

VW Seeks Deal: The [carmaker hopes to secure a tariff exception by committing to increased investments](#) within the US. This proposal comes after the company reported a substantial 1.3 billion EUR (\$1.5 billion) hit to its bottom line in the first half of the year, directly attributed to a 25% tariff. If successful, this could pave the way for other companies to pursue similar deals with the US, especially if their home countries can't secure favorable trade arrangements.

US Economic Releases

June **durable goods orders** fell by a seasonally adjusted 9.3%, a bit better than the expected decline of 10.7% but still enough to reverse most of the revised May jump of 16.5%. Of course, durable goods orders are often driven by transportation equipment, where just a few airliner orders can have a big impact. June **durable goods orders excluding transportation** rose 0.2%, beating their anticipated rise of 0.1% but slowing from their revised May rise of 0.6%. Finally, the durable goods report also includes a key proxy for corporate capital investment. In June, nondefense capital goods orders ex-aircraft fell 0.7%, far weaker than the expected increase of 0.1% and much worse than May's revised gain of 2.0%.

Compared with the same month one year earlier, overall durable goods orders in June were up 12.6%, while durable orders ex-transport were up 4.2%. Nondefense capital goods orders ex-aircraft were up 5.0%. The chart below shows the progression of nondefense capital goods orders ex-aircraft 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
11:00	Kansas City Fed Services Activity	m/m	Jul		3	*
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	Tokyo CPI	y/y	Jul	2.9%	3.1%	3.0%	**	Equity and bond neutral
	Tokyo CPI Ex-Fresh Food	y/y	Jul	2.9%	3.1%	3.0%	***	Equity and bond neutral
	Tokyo CPI Ex-Fresh Food & Energy	y/y	Jul	3.1%	3.1%	3.1%	*	Equity and bond neutral
	PPI Services	y/y	Jun	3.2%	3.3%	3.2%	*	Equity and bond neutral
	Japan Buying Foreign Bonds	w/w	18-Jul	¥1641.3b	¥765.3b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	18-Jul	¥296.5	-¥767.9b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	18-Jul	-¥990.7	¥170.9b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	18-Jul	¥571.9b	¥442.3b		*	Equity and bond neutral
	Leading Economic Index	m/m	May F	104.8	105.3		**	Equity and bond neutral
	Coincident Index	y/y	May F	116.0	115.9		**	Equity and bond neutral
	Nationwide Dept Sales	y/y	Jun	-7.80%	-7.00%		***	Equity and bond neutral
EUROPE								
Eurozone	M3 Money Supply	y/y	Jun	3.3%	3.9%	3.7%	***	Equity and bond neutral
Germany	IFO Business Climate	m/m	Jul	88.6	88.4	89.0	***	Equity and bond neutral
	IFO Current Assessment	m/m	Jul	86.5	86.2	86.7	**	Equity and bond neutral
	IFO Expectations	m/m	Jul	90.7	90.6	91.1	**	Equity and bond neutral
France	Consumer Confidence	m/m	Jul	89.0	88.0	88.0	***	Equity and bond neutral
Italy	Consumer Confidence	m/m	Jul	97.2	96.1	95.9	***	Equity and bond neutral
	Economic Sentiment	m/m	Jul	93.6	93.9		**	Equity and bond neutral
	Manufacturing Confidence	m/m	Jul	87.8	87.3	87.5	***	Equity and bond neutral
UK	GfK Consumer Confidence	m/m	Jul	-19	-18	-20	***	Equity and bond neutral
	Retail Sales Ex-Auto Fuel	y/y	Jun	1.8%	-1.2%	1.9%	**	Equity and bond neutral
	Retail Sales	y/y	Jun	1.7%	-1.1%	1.8%	***	Equity and bond neutral
Russia	Gold and Forex Reserves	m/m	18-Jul	\$683.7b	\$685.3b		***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	18-Jul	18.53t	18.48t		*	Equity and bond neutral
AMERICAS								
Canada	Retail Sales	m/m	May	-1.1%	0.3%	-1.0%	**	Equity and bond neutral
	Retail Sales Ex-Autos	m/m	May	-0.2%	-0.3%	-0.3%	**	Equity and bond neutral
Brazil	FGV Consumer Confidence	m/m	Jul	86.7	85.9		*	Equity and bond neutral
	Current Account Balance	m/m	Jun	-\$5131m	-\$3375m	-\$4600m	**	Equity and bond neutral
	Foreign Direct Investment	m/m	Jun	\$2810m	\$3662m	\$4400m	**	Equity and bond neutral
	IBGE Inflation IPCA-15	m/m	Jul	5.30%	5.27%	5.28%	***	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)	424	425	-1	Up
U.S. Sibor/OIS spread (bps)	432	432	0	Up
U.S. Libor/OIS spread (bps)	428	428	0	Up
10-yr T-note (%)	4.41	4.40	0.01	Down
Euribor/OIS spread (bps)	195	194	1	Down
Currencies	Direction			
Dollar	Up			Down
Euro	Down			Up
Yen	Up			Down
Pound	Down			Up
Franc	Down			Up
Central Bank Action	Current	Prior	Expected	
Bank of Russia Key Rate	18.00%	20.00%	18.00%	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	\$69.39	\$69.18	0.30%	
WTI	\$66.21	\$66.03	0.27%	
Natural Gas	\$3.13	\$3.09	1.13%	
Crack Spread	\$25.68	\$25.43	1.01%	
12-mo strip crack	\$23.16	\$22.89	1.18%	
Ethanol rack	\$1.88	\$1.88	-0.07%	
Metals				
Gold	\$3,340.10	\$3,368.68	-0.85%	
Silver	\$38.69	\$39.07	-0.96%	
Copper contract	\$579.15	\$580.15	-0.17%	
Grains				
Corn contract	\$418.75	\$420.75	-0.48%	
Wheat contract	\$539.25	\$541.50	-0.42%	
Soybeans contract	\$1,018.25	\$1,024.25	-0.59%	
Shipping				
Baltic Dry Freight	2,258	2,120	138	
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)	23	27	-4	

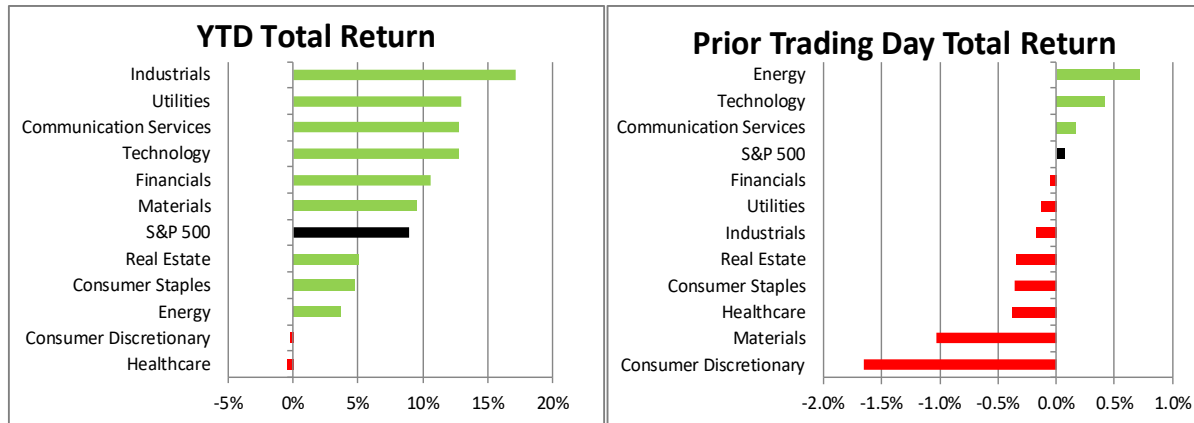
Weather

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

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

Data Section

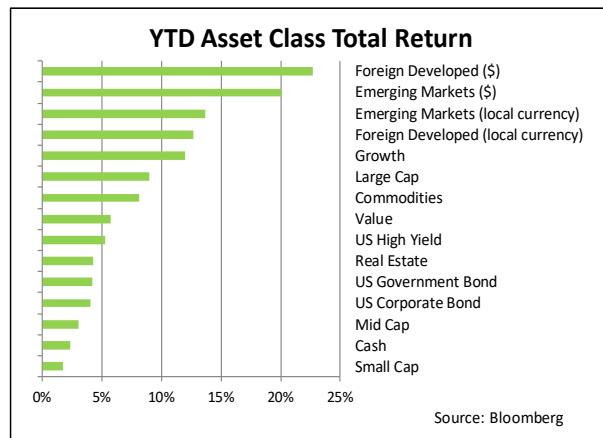
US Equity Markets – (as of 7/24/2025 close)



(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 7/24/2025 close)

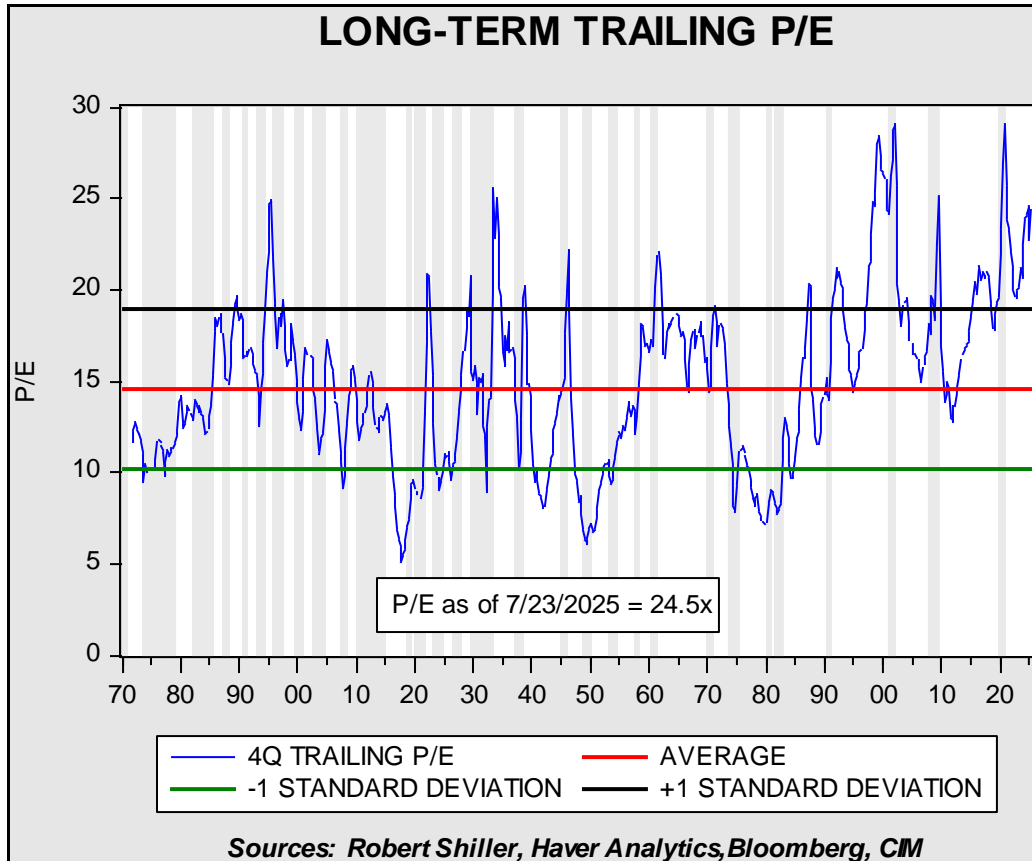


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.

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.