Daily Comment

Confluence INVESTMENT MANAGEMENT

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Posted: July 28, 2025 — 9:30 AM ET] Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 is up 0.7% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.3%. Chinese markets were higher, with the Shanghai Composite up 0.1% from its previous close and the Shenzhen Composite up 0.5%. US equity index futures are signaling a slightly higher open.

With 168 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, 82.1% have exceeded expectations while 13.1% 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 big news of a trade deal between the United States and the European Union. We next review several other international and US developments with the potential to affect the financial markets today, including more trade tensions between the EU and China and a brief overview of this week's Federal Reserve policy meeting.

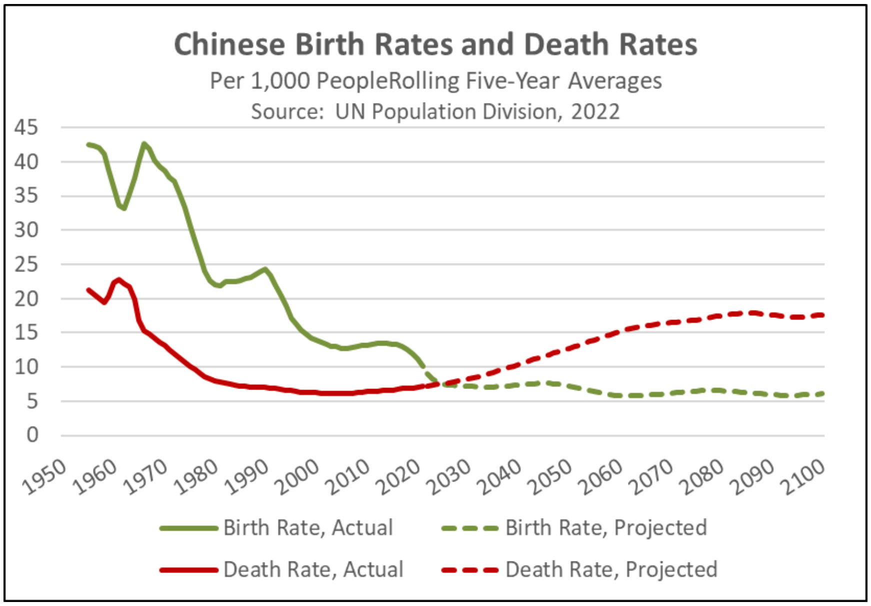
United States-European Union: The US and the EU yesterday said they had reached a trade deal in which the US will impose a 15% tariff on most EU imports, including automobiles, while the EU drops its tariffs against US goods. However, the US would still impose a 50% tariff against EU steel and aluminum. The deal provides some certainty for US and EU businesses, but the new tariffs will likely disrupt trade supply chains and create inefficiencies over time, as well as potentially raising costs for US firms and consumers.

- President Trump said the EU also committed to spend an additional $750 billion on US energy products and "hundreds of billions of dollars" on US military equipment. He also said the EU had agreed to invest $600 billion in the US.
- The EU commitment to invest in the US appears similar to the Japanese government's commitment to invest under its trade deal with the US. These investment promises are important because they appear to give Trump an extraordinary opportunity to intervene in the US economy by influencing where those funds are invested.
- In any case, investors are reacting positively to the news. The S&P 500 price index for large cap US stocks at this writing is up about 0.5%, while the Stoxx Europe 600 is up about 0.9%. The US Dollar Index has also increased, up 0.6% so far today.

United States-China: Over the weekend, the *Financial Times* said White House officials told the Commerce Department to freeze new export controls on US technology going to China to avoid spoiling President Trump's trade negotiations with General Secretary Xi. The report is consistent with the way the administration has backtracked over its springtime threat to further clamp down on sensitive exports to China. The news suggests Trump is prioritizing his trade talks over the national security goal of keeping advanced US technology away from the Chinese military.

European Union-China: Brussels today issued preliminary findings that Chinese e-commerce platform Temu has breached the EU's new Digital Services Act by failing to prevent fake and harmful products from being sold on its platform. If confirmed as guilty, Temu could face a fine of up to 6% of its global revenue. The move will probably further poison EU-China relations after Brussels and Beijing held a tense, cool summit late last week.

China: In its latest effort to boost the country's birthrate and arrest its population decline, the Chinese government has launched a program that will annually give families the equivalent of about $503 for each child under the age of three. However, the program is already being panned by demographers and other observers, who believe the sum is much too small to encourage more births.



Taiwan: Over the weekend, voters cast ballots in the recall election of 24 lawmakers from the opposition Kuomintang Party (KMT), with recall elections on seven more planned for late August. Preliminary results indicated that voters rejected the recall in every single constituency, leaving the China-friendly KMT in control of the legislature. That means China-Taiwan tensions will likely be contained in the near term.

Thailand-Cambodia: Border clashes continued into the weekend, with Thailand deploying naval ships near the Cambodian border and President Trump threatening to stop talks toward a US trade deal with each country if they keep fighting. The two countries today agreed on a ceasefire to start tonight, but it remains to be seen if it will really be implemented. For US investors, the conflict is especially concerning with regard to Thailand, which has a relatively large stock market capitalization and is popular with emerging market investors.

United States-Israel: A report by *SpyTalk* last night said multiple hedge funds have bankrolled a private investigation into the source of pedophile Jeffrey Epstein's wealth, evidently to clarify whether Epstein was indirectly funded by Mossad, the Israeli intelligence service, to blackmail President Trump and other powerful US business people and politicians. While Trump's past association with Epstein has already been an irritant to Trump and angered his political base, any link to Israel would likely threaten to further strain US-Israeli relations.

US Monetary Policy: The Federal Reserve this week will hold its latest policy meeting, with the decision due out on Wednesday at 2:00 PM ET. Based on current interest-rate futures trading, investors are virtually unanimous in expecting the policymakers to hold the benchmark fed funds rate steady at its current range of 4.25% to 4.50%. Traders don't expect the next rate cut until the September meeting.

- In the meantime, since the policymakers won't be releasing their "dot plot" of economic projections at this meeting, investors will be closely watching the policy statement and press conference for any sign that Chair Powell is ready to succumb to the Trump administration's pressure for aggressive, near-term rate cuts.

- Assuming that Powell is not forced out before the end of his term in May, we continue to expect only a limited number of rate cuts over the coming year. However, we expect President Trump to then replace him with someone he perceives to be much more dovish, raising the risk of aggressive rate cuts and overly loose monetary policy later in 2026.

US Lumber Industry: The *Wall Street Journal* today carries an article on how President Trump has directed the US Forest Service to develop a five-year plan to contribute to a 25% increase in the overall volume of timber harvested from national forests. The Agriculture Department has also begun to ease regulations limiting timber cutting. Along with tariffs on imports from Canada and other countries, the moves could potentially mean that more of the wood used in US home construction will be domestic, boosting the domestic lumber industry but possibly raising costs.

US Economic Releases

There were no economic releases prior to the publication of this report. The table below lists the economic releases and Fed events scheduled for the rest of the day.

Economic Releases						
EST	Indicator			Expected	Prior	Rating
10:30	Dallas Fed Manufacturing Activity	m/m	Jul	-9.5	-12.7	**
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								
China	Industrial Profits	y/y	Jun	-4.3%	-9.1%		*	Equity and bond neutral
India	Industrial Production	y/y	Jun	1.5%	1.9%	2.2%	***	Equity bearish, bond bullish
EUROPE								
Switzerland	Domestic Sight Deposits CHF	w/w	25-Jul	445.0b	444.8b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	25-Jul	4747b	475.3b		*	Equity and bond neutral
AMERICAS								
Mexico	Unemployment Rate NSA	m/m	Jun	2.69%	2.75%	2.80%	***	Equity and bond neutral
	Trade Balance	m/m	Jun	514.4m	1231.8m		**	Equity and bond neutral
	Exports	m/m	Jun	54002m	55477m		*	Equity and bond neutral
	Imports	m/m	Jun	53487m	54245m		*	Equity and bond neutral
Brazil	Total Outstanding Loans	m/m	Jun	6686b	6653b		**	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 (%)	4.40	4.39	0.01	Up
Euribor/OIS spread (bps)	197	195	2	Down
Currencies	**Direction**			
Dollar	Up			Down
Euro	Down			Up
Yen	Up			Down
Pound	Down			Down
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	$69.25	$68.44	1.18%	
WTI	$65.96	$65.16	1.23%	
Natural Gas	$3.09	$3.11	-0.80%	
Crack Spread	$26.07	$25.78	1.13%	
12-mo strip crack	$23.35	$23.12	1.00%	
Ethanol rack	$1.88	$1.88	-0.02%	
Metals				
Gold	$3,336.21	$3,337.30	-0.03%	
Silver	$38.12	$38.16	-0.10%	
Copper contract	$578.40	$578.50	-0.02%	
Grains				
Corn contract	$417.00	$419.00	-0.48%	
Wheat contract	$536.75	$538.25	-0.28%	
Soybeans contract	$1,015.25	$1,021.00	-0.56%	
Shipping				
Baltic Dry Freight	2,257	2,258	-1	

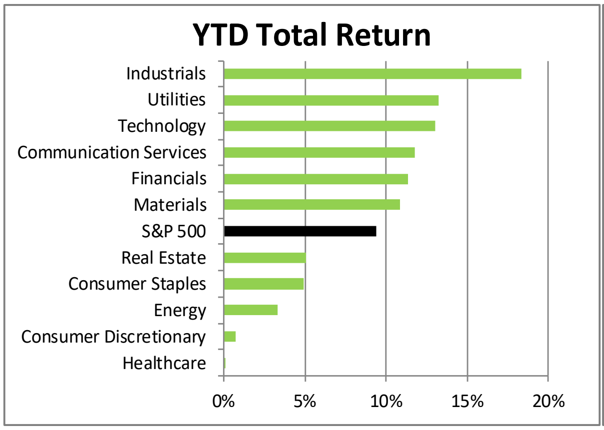
Weather

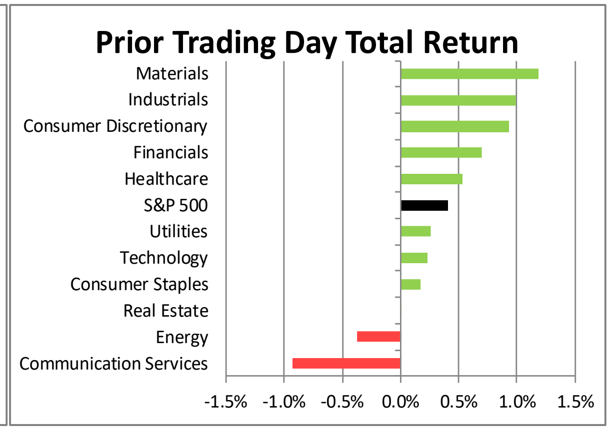
The latest 6-to-10-day and 8-to-14-day outlooks indicate that cooler-than-normal conditions will gradually recede in the latter half of the period, giving way to warmer-than-normal temperatures nationwide. For precipitation, most of the country can expect wetter-than-normal conditions, while the Southwest and New England regions are likely to remain drier than average.

In the Atlantic Ocean area, there are no tropical disturbances expected in the next seven days.

Data Section

US Equity Markets – (as of 7/25/2025 close)

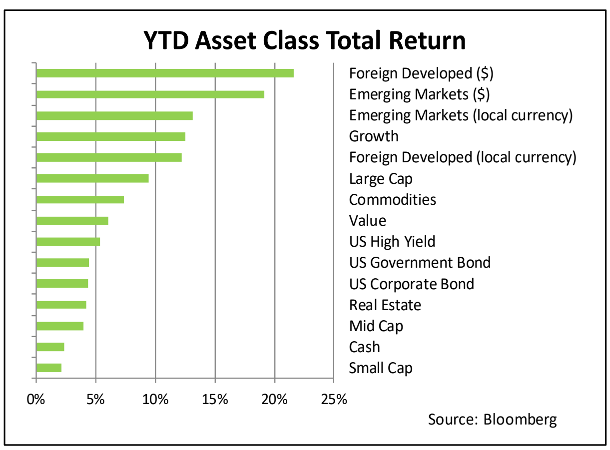




(Source: Bloomberg)

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 7/25/2025 close)

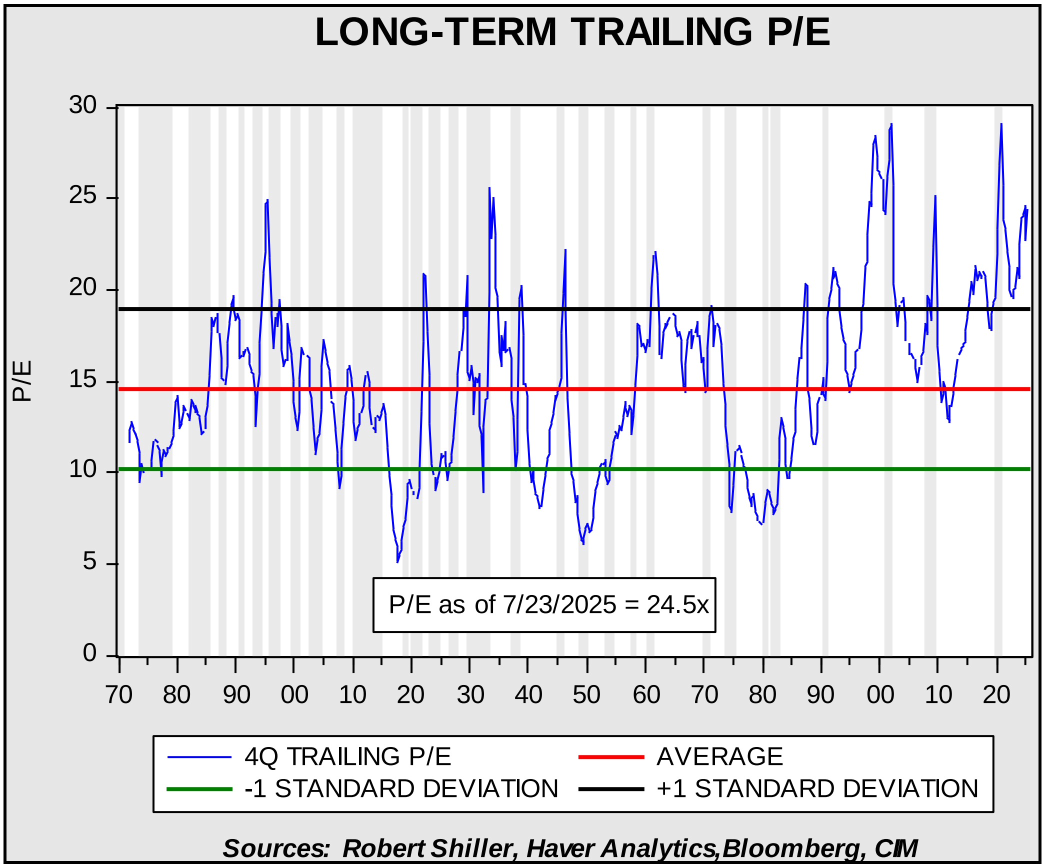


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.