



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: July 29, 2025 — 9:30 AM ET Global equity markets are mostly higher this morning. In Europe, the Euro Stoxx 50 is up 1.0% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.8%. Chinese markets were higher, with the Shanghai Composite up 0.3% from its previous close and the Shenzhen Composite up 0.5%. US equity index futures are signaling a slightly higher open.

With 179 companies having reported so far, S&P 500 earnings for Q2 are running at \$63.90 per share, compared to estimates of \$64.65, which is up 5.0% from Q2 2024. Of the companies that have reported thus far, 83.2% 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
“Implications of the Israel-Iran Conflict” (7/28/25) + podcast	“Stablecoin: Treasury’s Next Big Bet?” (7/21/25) + podcast	Q3 2025 Report	The Confluence of Ideas Podcast 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 US-China trade talks, which mostly aim to extend the current trade truce between the two countries. We next review several other international and US developments that could affect the financial markets today, including new signs that the threat from Russia is sparking more public investment in Europe and new details on an unexpected industrial tax break in President Trump’s recent “big, beautiful” tax-and-spending bill.

United States-China: Last night, US Treasury Secretary Bessent, Chinese Vice Premier He, and other top economic officials from the US and China [began a new round of trade talks](#) in Stockholm. Following previous talks in Geneva and London, the Stockholm talks aim to extend

the current 90-day trade truce, which ends August 12. If the officials fail to extend the deal, President Trump's ultra-high tariffs on Chinese imports would be applied again, and the Chinese would likely renew their debilitating embargo on rare-earth exports.

United States-Taiwan: The *Financial Times* late yesterday said President Trump [has denied Taiwanese President Lai's request to transit through New York on an upcoming trip to Central America to avoid riling Beijing](#). The move is consistent with the *FT*'s previous report that Trump has also frozen new curbs against US technology exports to China to avoid spoiling the prospects of a US-China trade deal.

- Trump's ban on new US technology curbs against China comes despite national security concerns about the Chinese military gaining access to advanced US technologies.
- The reporting suggests that Trump is extremely focused on getting a US-China trade deal over the goal line. Given Beijing's demonstrated willingness to play tough in the talks, that suggests Trump could accept unfavorable terms from Beijing. Any such deal could be taken well by the financial markets because it would eliminate a lot of uncertainty, but the result could be longer-term disadvantages for the US.

China: New data from cloud computing platform PPIO [indicates that China's well-known DeepSeek artificial-intelligence models are rapidly losing market share to Alibaba's Qwen model](#). DeepSeek burst into the world's consciousness earlier this year with its low-cost, open-source models. Qwen's success in catching up rapidly is a reminder for investors that in today's hyper-competitive AI industry, the current leading firms can easily lose their rank, while apparent laggards have the potential to catch up quickly.

Japan: The government [has announced a new "employment for skill development" system to bring in foreign workers and address labor shortages](#) in higher-skill job categories. The new system will replace the current technical-intern training program, which many firms have abused to simply bring in low-cost labor from developing countries. That has displaced many Japanese workers with lower skills, helping spark an anti-immigrant backlash that boosted the right-wing nationalist Sanseitō Party in this month's elections for the upper house of parliament.

Philippines: The Supreme Court, which is dominated by judges appointed by former President Rodrigo Duterte, [has ruled that procedural errors nullify the congress's February impeachment of Vice President Sara Duterte-Carpio](#), the daughter of the former president. As a result, the pending Senate trial of Duterte-Carpio must be cancelled, at least temporarily thwarting current President Ferdinand Marcos, Jr.'s effort to sideline the China-friendly Duterte-Carpio ahead of the 2028 presidential election.

European Union: In an interview yesterday, Transport Commissioner Apostolos Tzitzikostas [warned that the EU's roads, bridges, and railways would be unfit for rapid military mobilization in case of war with Russia](#). To remedy that, Tzitzikostas noted that the EU's proposed 2028-2034 budget includes 17 billion EUR (\$19.6 billion) for military mobilization projects, such as strengthening and widening bridges. The plans illustrate how Europe's improved near-term

economic prospects don't just reflect higher defense spending per se, but also broader fiscal loosening.

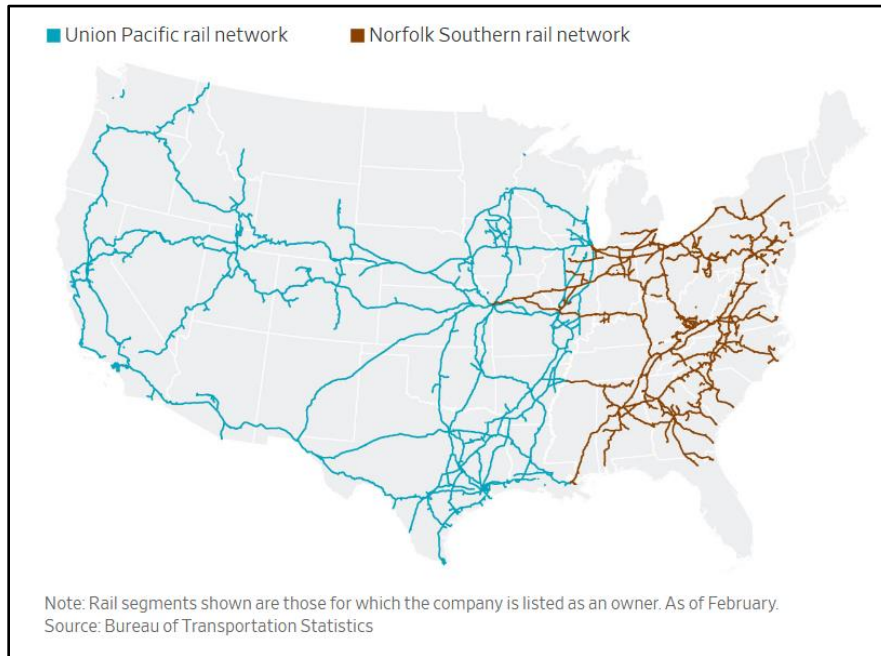
- As we have often noted, economies often get a bigger-than-expected boost from an external military threat, since the threat helps justify investments that otherwise wouldn't get made.
- A prime example in the US was the interstate highway system, officially designated the "Dwight D. Eisenhower National System of Interstate and Defense Highways." It was the brainchild of former President Eisenhower based on his logistics experience leading allied forces in Europe in World War II.
- Many aspects of the interstate highway system were designed to support military mobilization and evacuations in case of war with the Soviet Union. Building out the system is widely assessed to have boosted US economic growth, especially in the 1960s.

Eurozone: A workers' committee at the European Central Bank [has written a scathing letter to ECB President Lagarde and her staff, accusing them of operating in an anti-democratic manner](#) and mistreating employees through favoritism and unreasonable work expectations. The letter is only the most recent example of bad labor relations at the ECB. There is no sign that the unrest threatens Lagarde's position, but it could influence who becomes her successor when her term ends in October 2027.

US Monetary Policy: The Fed today begins its latest policy meeting, with the decision due tomorrow at 2:00 PM ET. Based on interest-rate futures trading, investors [are almost unanimous in expecting the policymakers to hold the benchmark fed funds rate steady at 4.25% to 4.50%](#). Traders expect the next rate cut at the September meeting. However, all eyes will be on Chair Powell and whether he gives a hint of other plans in his post-decision press conference.

US Manufacturing Industry: The *Wall Street Journal* today [highlights a previously unreported detail of President Trump's recent "big, beautiful" tax-and-spending bill that should cut income taxes](#) for many big, capital-intensive industrial firms. The provision restructures and broadens the Foreign-Derived Investment Income deduction to make it more useful for capital-intensive firms with international operations. It has therefore given big US exporters an unexpected tax break and added incentives to move production back home.

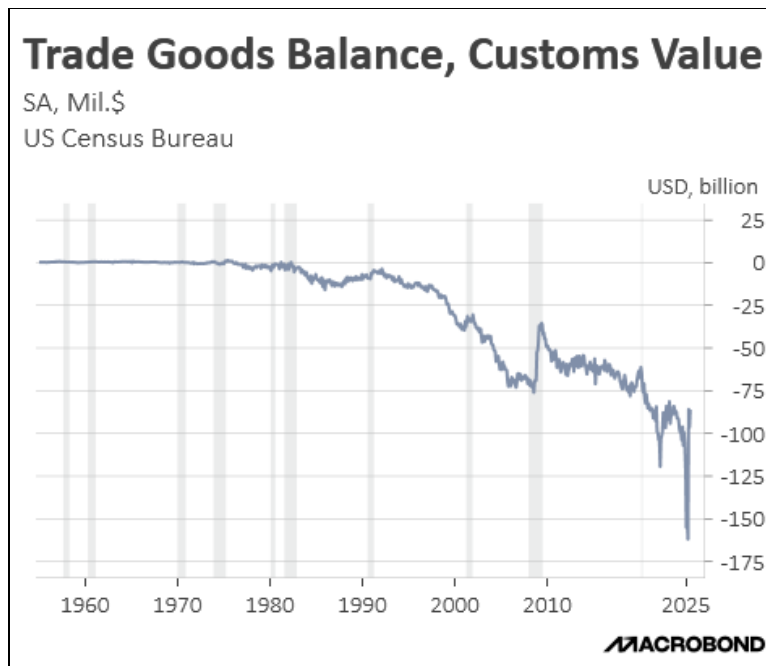
US Railroad Industry: Railroad giant Union Pacific [today said it has made a deal to purchase rival Norfolk Southern for \\$85 billion](#). One notable aspect of the deal is that, if approved, it would create the nation's first coast-to-coast freight railroad, allowing shippers to send goods all the way across the country using just one company. However, while that sounds positive, we note that past railroad mergers have sometimes faltered because of the difficulty in tying firms' operations together safely and efficiently.



*Current Union Pacific and Norfolk Southern rail networks.
(Source: US Bureau of Transportation Statistics)*

US Economic Releases

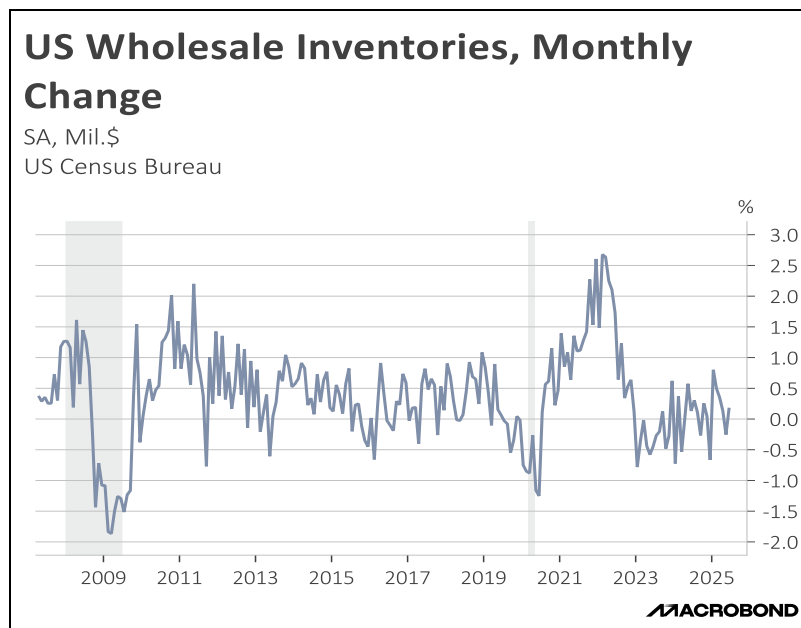
A preliminary estimate showed the US **merchandise trade balance** in June fell 10.8% from the previous month to a seasonally adjusted deficit of \$86.0 billion. The deficit came in below estimates, which had projected an increase from the revised \$96.4 billion to \$98.4 billion.



The chart above shows the US trade balance in goods. Last month, the trade deficit narrowed due to a significant drop in imports, which fell by \$11.5 billion to \$264.2 billion. While exports also declined by a smaller \$1.1 billion to \$178.2 billion.

June preliminary **wholesale inventories** rose by a seasonally adjusted 0.2%, compared to an expected decline of 0.1% and the previous month's decline of 0.3%. According to the report, **wholesale sales** rose 0.2% in May. The wholesale inventory-to-sales ratio remained unchanged at 1.3.

Since distributors are in a unique position to understand both production activities and final demand, we think wholesale inventories provide an important perspective on where the economy is heading. The chart below shows the monthly change in wholesale inventories since just before the Global 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
10:00	JOLTS Job Openings	m/m	Jun	7550k	7769k	**
10:00	Conf. Board Consumer Confidence	m/m	Jul	96.0	93.0	***
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
EUROPE								
France	Total Job Seekers	m/m	Jun	2298.7k	3185.8k		*	Equity and bond neutral
UK	Net Lending Sec. on Dwellings	m/m	Jun	5.3b	2.2b	2.4b	*	Equity bullish, bond bearish
	Mortgage Approvals	m/m	Jun	64.2k	63.3k	63.1k	***	Equity and bond neutral
	M4 Money Supply	y/y	Jun	3.3%	3.5%		*	Equity and bond neutral
AMERICAS								
Brazil	Trade Balance Weekly	m/m	7/27	\$1276m	\$1530m		*	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)	431	431	0	Up
U.S. Libor/OIS spread (bps)	427	427	0	Up
10-yr T-note (%)	4.39	4.41	-0.02	Up
Euribor/OIS spread (bps)	202	197	5	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	\$70.13	\$70.04	0.13%	
WTI	\$66.83	\$66.71	0.18%	
Natural Gas	\$3.08	\$2.99	2.98%	
Crack Spread	\$25.79	\$25.74	0.19%	
12-mo strip crack	\$23.24	\$23.33	-0.39%	
Ethanol rack	\$1.88	\$1.88	-0.05%	
Metals				
Gold	\$3,315.93	\$3,314.61	0.04%	
Silver	\$38.06	\$38.17	-0.29%	
Copper contract	\$561.20	\$561.55	-0.06%	
Grains				
Corn contract	\$413.25	\$414.00	-0.18%	
Wheat contract	\$531.00	\$538.50	-1.39%	
Soybeans contract	\$1,009.25	\$1,011.50	-0.22%	
Shipping				
Baltic Dry Freight	2,226	2,257	-31	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-3.18		
Gasoline (mb)		-1.32		
Distillates (mb)		-0.66		
Refinery run rates (%)		-0.4%		
Natural gas (bcf)		27		

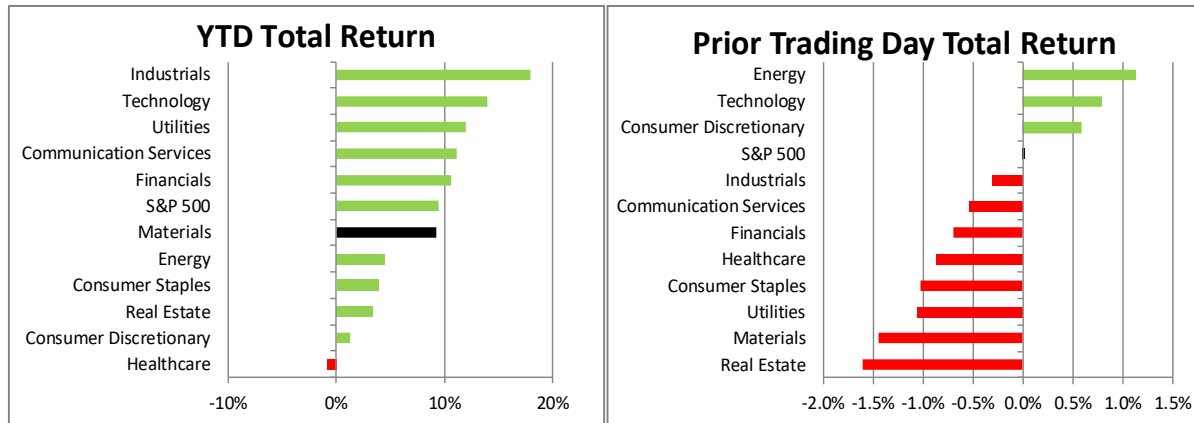
Weather

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, Great Plains, 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

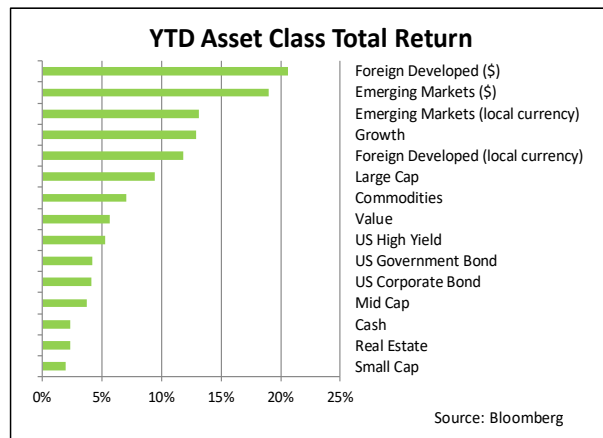
US Equity Markets – (as of 7/28/2025 close)



(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 7/28/2025 close)

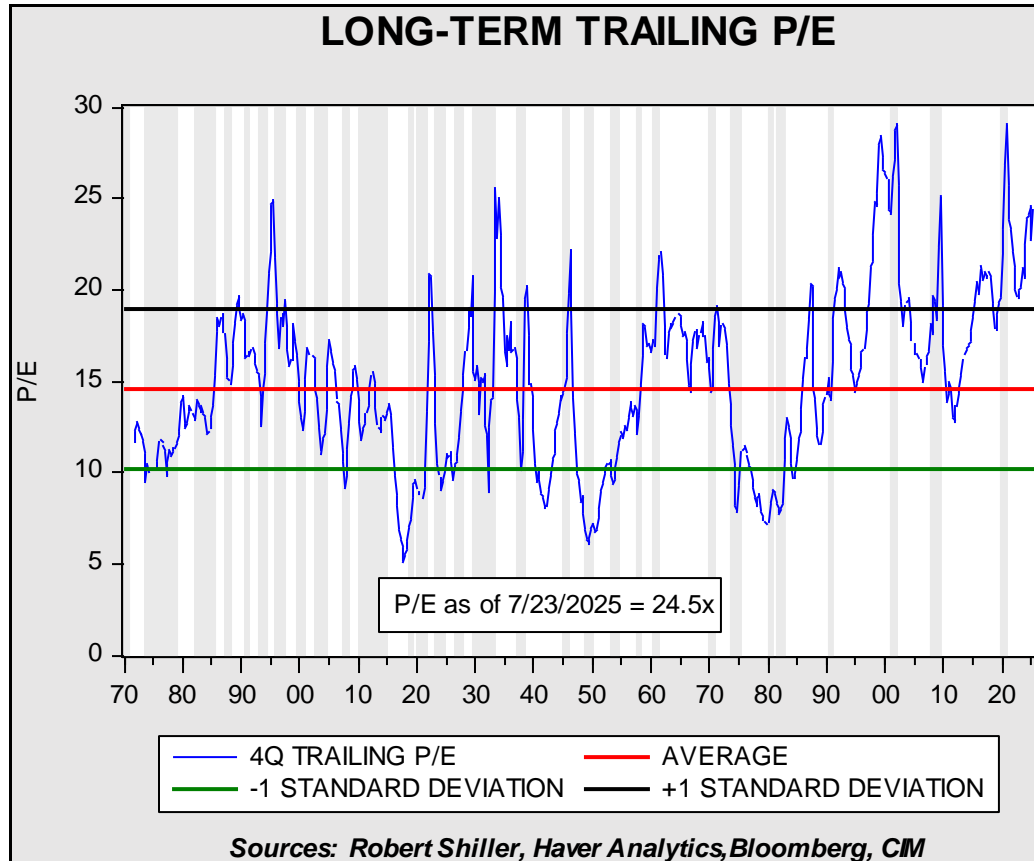


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.