Daily Comment

Confluence Investment Management

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Posted: July 30, 2025 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 0.1% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed essentially unchanged. Chinese markets were mixed, with the Shanghai Composite up 0.2% from its previous close and the Shenzhen Composite down 0.7%. US equity index futures are signaling a higher open.

With 212 companies having reported so far, S&P 500 earnings for Q2 are running at $64.00 per share, compared to estimates of $64.65, which is up 5.0% from Q2 2024. Of the companies that have reported thus far, 81.6% have exceeded expectations while 13.7% 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* begins with an assessment of the current FOMC meeting, focusing on the potential timing of interest rate cuts. Additionally, we will explore a range of other impactful international and domestic developments influencing financial markets, including the latest in trade policy and the ongoing situation with China.

Fed Meeting: Today, Federal Reserve officials are anticipated to conclude their two-day meeting by holding interest rates at the current target range of 4.25% to 4.50%. This decision is poised to move financial markets, with investors closely scrutinizing the Fed's statements for any indication of when rate cuts might occur later this year. Although market expectations lean towards a September rate cut, Fed officials might choose to be more noncommittal in their guidance, allowing them to keep their policy options open.

- The market will closely monitor any dissents during this meeting. In the weeks leading up to it, Fed officials have expressed differing views on whether the central bank should cut rates this month. Two Fed governors — Christopher Waller and Michelle Bowman — are seen as likely to dissent if rate cuts are not implemented.
- The monetary policy debate arises amid concerns over tariffs' economic impact. While most agree that tariffs will fuel higher inflation, officials disagree on whether the effect will be temporary or more structural.
- So far, tariffs have had a relatively modest impact on inflation. In June, overall CPI edged up from 2.4% to 2.7%, while core inflation saw a smaller increase, rising from 2.8% to 2.9%.
- We expect that any sign of dovishness from the Fed would likely boost equities, though the bond market reaction could be mixed, particularly if rates are left unchanged. Potential dovish signals might focus specifically on labor market inertia, where firms have shown reluctance both to hire or to lay off workers.

China Truce: Following two-day trade talks in Stockholm, the US and China concluded their meeting with no plans to extend the August 12 deadline for a new trade deal or reintroduce previous, more onerous tariffs. This meeting follows earlier discussions held in Geneva in May and London in June, as the world's two largest economies strive to prevent escalating trade tensions.

- While trade talks have made progress, any final deal still requires President Trump's approval. There is growing speculation that failure to extend the tariff truce could trigger a return to triple-digit tariffs on Chinese goods.
- Any easing of US-China trade tensions would likely boost US equities, with technology stocks positioned to benefit disproportionately given their significant revenue exposure and supply chain dependence on the world's second-largest economy.

Yen in Trouble?: The Japanese currency is under significant pressure amid political and monetary policy uncertainty. The recently negotiated US trade deal has raised concerns that the government may increase fiscal spending and delay Bank of Japan tightening to support the economy. While this could provide a tailwind for Japanese equities, it may further strain the already-challenged bond market.

Tariff Stimulus Checks: Senator Josh Hawley (R-MO) has proposed legislation that would provide $600 rebates to American households to help offset rising costs from new tariffs. While the bill faces significant political hurdles following recent tax-cut stimulus measures, President Trump has indicated he might support the idea, particularly if tariff revenues continue to surpass expectations. Additional stimulus could provide further support to equity markets while reducing recession risks.

South Korea-US Trade Talks: Both parties are working diligently to reach an agreement before the August 1 deadline. While the Japan trade deal is largely viewed as a framework agreement, reports indicate several notable exceptions may be included, particularly provisions requiring South Korea to allow its currency to appreciate against the dollar while increasing imports of US beef and rice. While such a deal would likely boost Korean equity prices, it could potentially slow the country's economic growth.

Eurozone Resilience: The eurozone maintained modest growth despite escalating trade tensions with the US, as GDP expanded 0.1% quarter-on-quarter in Q2, slightly exceeding expectations of flat growth. However, this aggregate performance masked divergences among member states, as economic contractions in Germany and Italy highlighted emerging vulnerabilities. While we maintain a constructive outlook for regional growth, we are closely monitoring these signs of weakness.

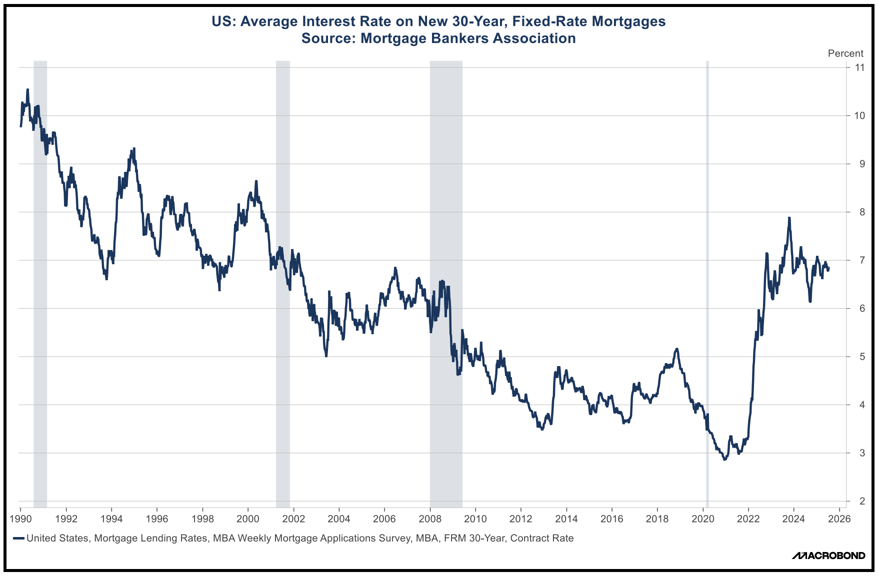
Climate Deregulation: The Trump administration is now pushing to roll back Obama-era regulations to limit carbon emissions. The EPA is expected to rescind its endangerment finding that classified carbon dioxide and other greenhouse gases as public health threats. This regulatory reversal would support the administration's broader deregulation agenda, aimed at streamlining investment and accelerating development in key sectors.

Beijing Meets: China's Communist Party will convene its next plenary session in October to deliberate on the 2026-2031 Five-Year Plan. Although the report didn't specify an exact date, the meeting is expected to draw close scrutiny from global investors seeking clarity on China's economic strategy amid escalating trade tensions.

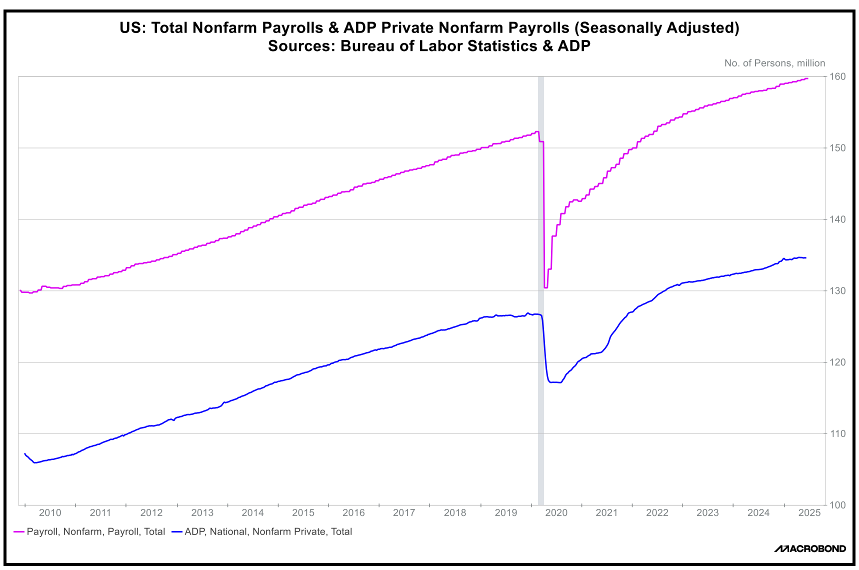
Pacific Tsunami: A major earthquake off Russia's far east coast has triggered tsunami waves, which are expected to impact Japan, Hawaii, and the West Coast of the United States. Evacuations are underway in affected regions as residents seek higher ground. While initial signs don't point to a catastrophic outcome, the risk remains elevated.

US Economic Releases

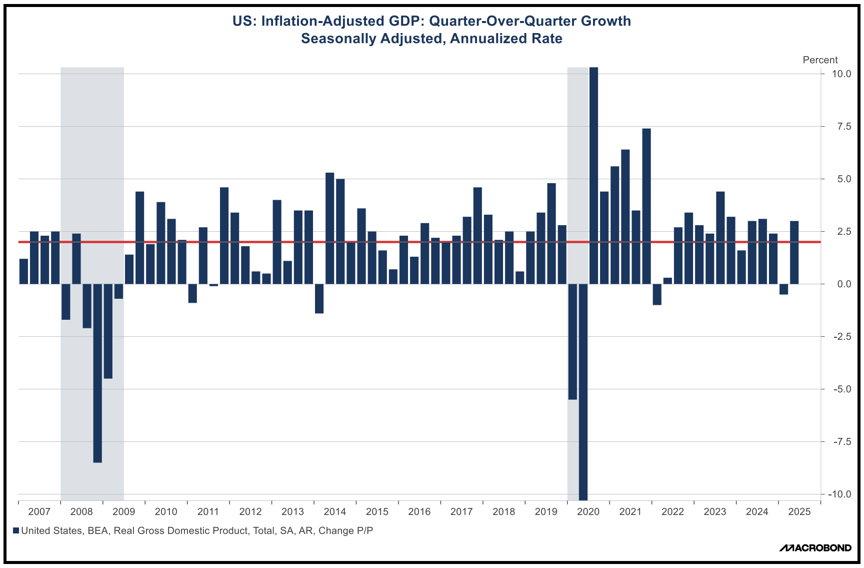
According to the Mortgage Bankers Association today, ***mortgage applications*** in the week ended July 26 were down 3.8%, more than offsetting the prior week's rise of 0.8%. Applications for home purchase mortgages declined 5.8%, offsetting their 3.4% rise in the previous week. Applications for refinancing mortgages fell 1.1%, extending their 2.6% fall in the prior week. The average interest rate on a 30-year mortgage fell one basis point to 6.83%. The chart below shows how mortgage rates have changed over time.



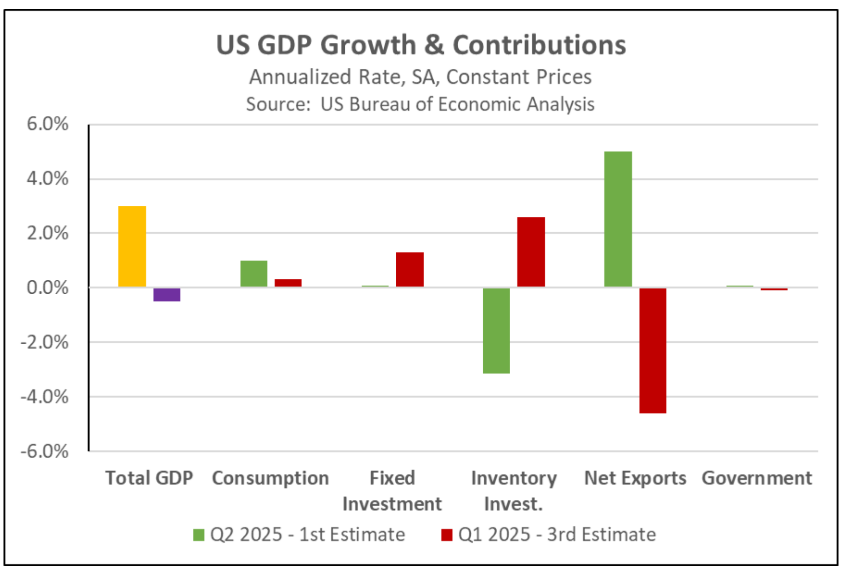
Separately, the ADP Research Institute estimated that ***private payroll employment*** rose in July by a seasonally adjusted 104,000, beating the expected rise of 76,000 and reversing the revised June decline of 23,000. ADP's estimate is widely seen as an indicator of what to expect when the Labor Department releases its measure of nonfarm payrolls on Friday. The chart below shows the Labor Department's figure for total nonfarm payrolls and ADP's estimate of private payrolls since 2010.



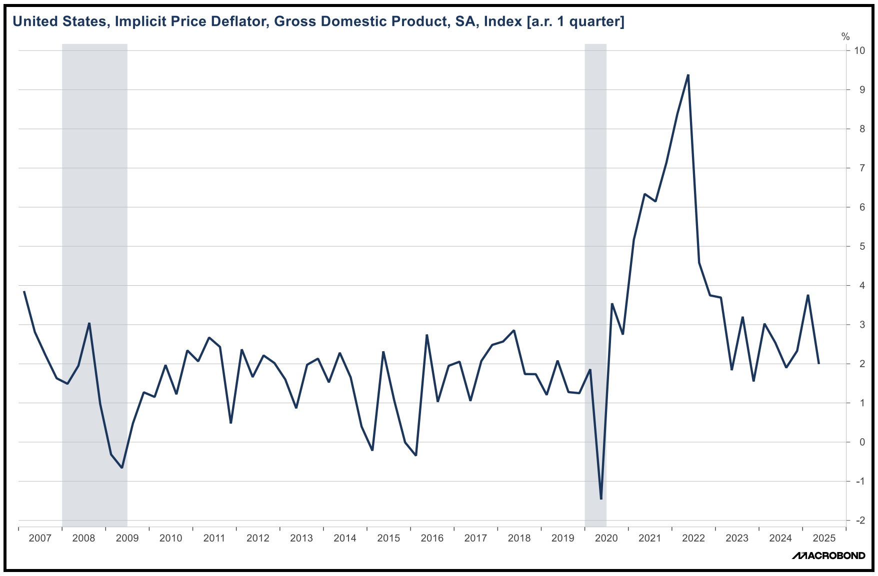
Finally, the Commerce Department released its initial estimate of US economic activity in the second quarter. After stripping out seasonal factors and normal price changes, second-quarter ***gross domestic product (GDP)*** rose at an annualized rate of 3.0%, beating the anticipated growth rate of 2.6% and reversing the small first-quarter contraction of 0.5%. The chart below shows the annualized growth rate of US GDP since just before the Great Financial Crisis; the horizontal red line shows the average growth rate of 2.0% average rate over the last two decades.



A close look at the details in the report shows that the main source of growth in the quarter was net exports, as the first quarter's pre-tariff import surge reversed (which was widely expected). Personal consumption expenditures also contributed to the period's growth rate. The chart below shows the contributions to the annualized growth rate in the second quarter.



The GDP report also includes the broadest measure of US price inflation. The second-quarter ***GDP Price Index*** rose at an annualized rate of 2.0%, coming in better than both the expected rate of 2.2% and the first quarter's rate of 3.8%. The chart below shows the annualized rate of change in the GDP Price Index since right before the GFC.



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	Pending Home Sales	m/m	Jun	0.2%	1.8%	**
10:00	Pending Home Sales NSA	y/y	Jun	-2.8%	-0.3%	**
14:00	FOMC Rate Decision (Upper Bound)	w/w	30-Jul	4.50%	4.50%	***
14:00	FOMC Rate Decision (Lower Bound)	w/w	30-Jul	4.25%	4.25%	***
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								
Australia	CPI	y/y	Jun	1.9	2.10%	2.10%	**	Equity and bond neutral
New Zealand	ANZ Activity Outlook	m/m	Jul	40.6	40.9		*	Equity and bond neutral
	ANZ Business Confidence	m/m	Jul	47.8	46.3		**	Equity and bond neutral
South Korea	Retail Sales	y/y	Jun	7.3%	7.0%		**	Equity and bond neutral
	Depart. Store Sales	y/y	Jun	-0.9%	2.3%		*	Equity and bond neutral
	Discount Store Sales	y/y	Jun	-2.8%	0.2%		*	Equity and bond neutral
EUROPE								
Eurozone	Consumer Confidence	m/m	Jul	-14.7	-14.7		**	Equity and bond neutral
	Economic Confidence	m/m	Jul F	95.8	94.2	94.5	***	Equity bullish, bond bearish
	Industrial Confidence	m/m	Jul	-10.4	-11.8	-11.0	***	Equity bullish, bond bearish
	Services Confidence	m/m	Jul	4.1	3.1	3.2	**	Equity bullish, bond bearish
	GDP	y/y	Q2 A	1.4%	1.5%	1.2%	***	Equity and bond neutral
Germany	Retail Sales	y/y	Jun	24.0%	4.6%		*	Equity and bond neutral
	GDP NSA	y/y	Q2 P	0.0%	0.0%	0.1%	**	Equity and bond neutral
	GDP WDA	y/y	Q2 P	0.4%	0.3%	0.2%	**	Equity and bond neutral
France	Consumer Spending	y/y	Jun	0.9%	-0.6%	0.0%	*	Equity bullish, bond bearish
	GDP	y/y	Q2 P	0.7%	0.6%	0.5%	**	Equity and bond neutral
Italy	GDP WDA	y/y	Q2 P	0.4%	7.0%	0.6%	**	Equity and bond neutral
	Industrial Sales WDA	y/y	May	-1.8%	0.9%		*	Equity and bond neutral
Switzerland	KOF Leading Indicator	m/m	Jul	101.1	96.3	97.9	**	Equity bullish, bond bearish
AMERICAS								
Mexico	GDP NSA	y/y	Q2 P	0.1%	0.8%	0.0%	***	Equity and bond neutral
Brazil	FGV Inflation IGPM	y/y	Jul	2.96%	4.39%	2.88%	***	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)	429	430	-1	Up
U.S. Libor/OIS spread (bps)	426	427	-1	Up
10-yr T-note (%)	4.33	4.32	0.01	Down
Euribor/OIS spread (bps)	203	202	1	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	$71.97	$72.51	-0.74%	
WTI	$68.67	$69.21	-0.78%	
Natural Gas	$3.16	$3.14	0.51%	
Crack Spread	$25.18	$25.96	-3.01%	
12-mo strip crack	$23.18	$23.75	-2.39%	
Ethanol rack	$1.87	$1.87	-0.25%	
Metals				
Gold	$3,328.71	$3,326.62	0.06%	
Silver	$37.93	$38.21	-0.72%	
Copper contract	$561.75	$562.55	-0.14%	
Grains				
Corn contract	$411.50	$411.00	0.12%	
Wheat contract	$529.75	$529.75	0.00%	
Soybeans contract	$1,009.50	$1,009.50	0.00%	
Shipping				
Baltic Dry Freight	2,109	2,226	-117	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		-2.60		
Gasoline (mb)		-1.10		
Distillates (mb)		-0.40		
Refinery run rates (%)		-0.4%		
Natural gas (bcf)		36		

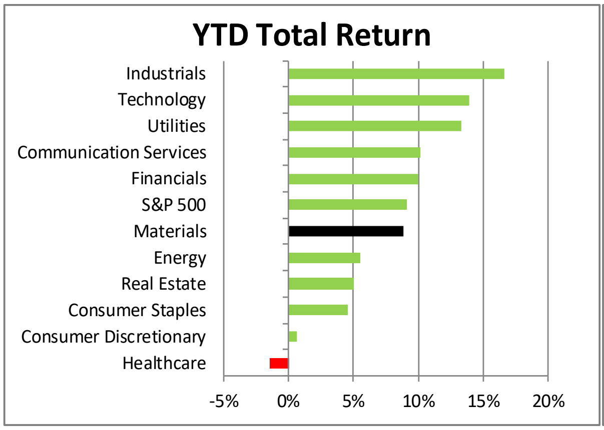
Weather

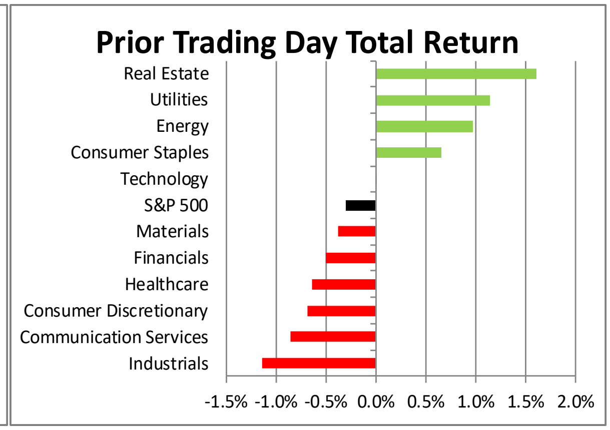
The latest 6-to-10-day and 8-to-14-day outlooks call for warmer-than-normal conditions everywhere except the Far West and the Appalachian Mountains, where temperatures will be near normal. The forecasts call for wetter-than-normal conditions all along the border with Canada and in the Midwest and Florida, with dry conditions in the southern Rocky Mountains and the Desert Southwest.

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

Data Section

US Equity Markets – (as of 7/29/2025 close)

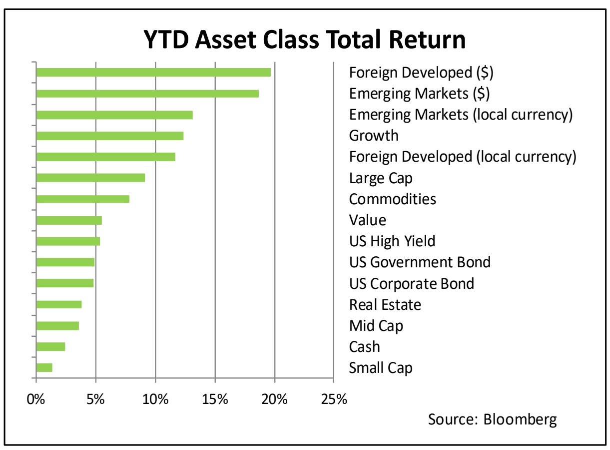




(Source: Bloomberg)

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 7/29/2025 close)

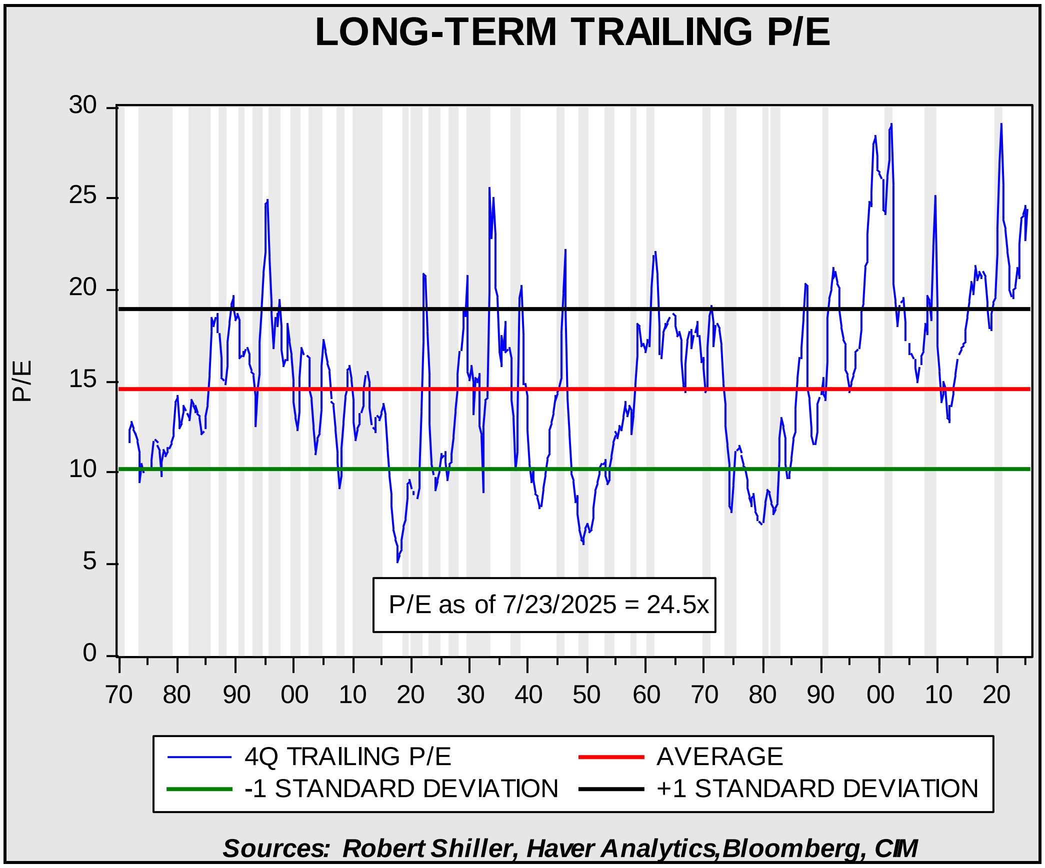


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.