

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: July 31, 2025 — 9:30 AM ET] Global equity markets are mostly lower this morning. In Europe, the Euro Stoxx 50 is down 0.6% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.8%. Chinese markets were lower, with the Shanghai Composite down 1.2% from its previous close and the Shenzhen Composite down 1.4%. Conversely, US equity index futures are signaling a higher open.

With 265 companies having reported so far, S&P 500 earnings for Q2 are running at \$64.90 per share, compared to estimates of \$64.65, which is up 5.0% from Q2 2024. Of the companies that have reported thus far, 83.4% have exceeded expectations while 12.5% 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* opens with an analysis of the latest trade agreements, paying close attention to the strategic use of tariffs and their broader implications. We then examine key international and domestic developments shaping financial markets, including insights on the Federal Reserve’s recent rate decision and noteworthy trends involving major US tech companies.

Trade Updates: While some uncertainty remains, there seems to be growing momentum toward securing trade agreements ahead of the August 1 deadline. Once the current negotiations over country-specific tariffs are concluded, the president may shift focus toward using tariffs for more

targeted purposes, such as advancing sector-specific goals or diplomatic objectives. This strategy could further legitimize tariffs as an economic tool to project US power on the global stage.

- President Trump announced that the United States and [South Korea have reached a new trade agreement](#). In a post on Truth Social, the president revealed that South Korea will invest \$350 billion in US-owned projects overseen by his administration, along with a commitment to purchase \$100 billion worth of US energy exports. In return, South Korea will benefit from lower tariffs on its exports, including vehicles that previously faced a 25% duty, with rates now reduced to 15%.
- The president has also leveraged tariffs to pressure an end to the war in Ukraine. [On Wednesday, he imposed a 25% tariff on India — plus an additional penalty](#) — due to its purchases of Russian oil and weapons. This move followed Tuesday's warning to Russia to make meaningful [ceasefire progress within 10 days or face retaliatory tariffs](#). While Wednesday's tariff rate is slightly lower than the 27% announced on Liberation Day, the added penalty could push the total higher.
- Demonstrating flexibility on sector-specific tariffs, the administration has granted targeted relief by [excluding refined metals from the 50% copper tariffs](#). This move addressed warnings from American metal producers that insufficient domestic production capacity could lead to severe shortages if imports were restricted. The policy reversal triggered an immediate market response, with US copper prices falling sharply after the announcement.
- Meanwhile, [significant momentum remains as multiple countries rush to finalize trade agreements](#) with the US before the August 1 deadline. The most critical negotiations involve Mexico, Canada, and Taiwan — all strategically important for global supply chains. Officials remain hopeful that agreements can be concluded before the deadline passes.

Fed Rate Decision: As anticipated, the Federal Reserve maintained its target range for the policy rate at 4.25% to 4.50%. This decision, however, revealed a growing division among FOMC members regarding inflation and the economy's direction. Notably, for the first time since 1993, [two Fed governors, Michelle Bowman and Christopher Waller, dissented in favor of a rate cut](#).

- While not explicitly stated, Federal Reserve officials appear increasingly concerned about the potential for short-term stagflation. During Wednesday's press conference, Chair Jerome Powell acknowledged downside risks to the economic outlook while emphasizing that, in the Fed's baseline assessment, the inflationary impact of tariffs would likely prove transitory.
- The central bank is sending mixed signals. While Chair Powell affirmed the labor market's strength by pointing to low unemployment, he also underscored weak demand and stagnant hiring. This contradictory framing implies that the labor market's resilience stems from a limited labor supply, rather than vigorous job creation. In essence, supply-side constraints are currently overshadowing demand-side frailties. This shift away from the Fed's usual emphasis on demand-driven policy is notable given policy uncertainty.

- With a divided Federal Reserve, the upcoming meeting among officials could be particularly contentious. We anticipate the next two months of data will provide strong guidance for the next rate move. Given the central bank's acknowledgment of a temporary inflation bump due to tariffs, the likelihood of a rate cut will likely hinge more on labor market data than inflation figures.

Treasury Quarterly Refunding: The [Treasury Department announced plans to maintain its current pace of longer-term debt issuance](#), consistent with volumes from the previous five quarters. This measured approach is designed to mitigate any adverse impact on long-term interest rates, given their particular sensitivity to the pace of debt issuance. As a result, our expectation is that long-term rates will largely remain stable.

Nvidia Caught in the Middle: [Chinese officials summoned the chipmaker](#) to discuss security risks associated with its H20 chips. These concerns stem from comments by [a US lawmaker advocating for tracking capabilities in advanced chips](#). While Nvidia aims to operate in both markets, it might be forced to choose between the US and China in their race for technological supremacy. Such a decision could significantly weigh on the sentiment of certain tech stocks, given the sector's substantial revenue exposure to China.

AI Demand Robust: [Meta](#) and [Microsoft](#) both surpassed market expectations for their AI-related earnings, reflecting strong demand for their services. AI continues to be a major driver of market sentiment, easing investor concerns about the significant spending on capacity building. While the AI rally might seem crowded, there are still signs that its momentum will continue over the coming months.

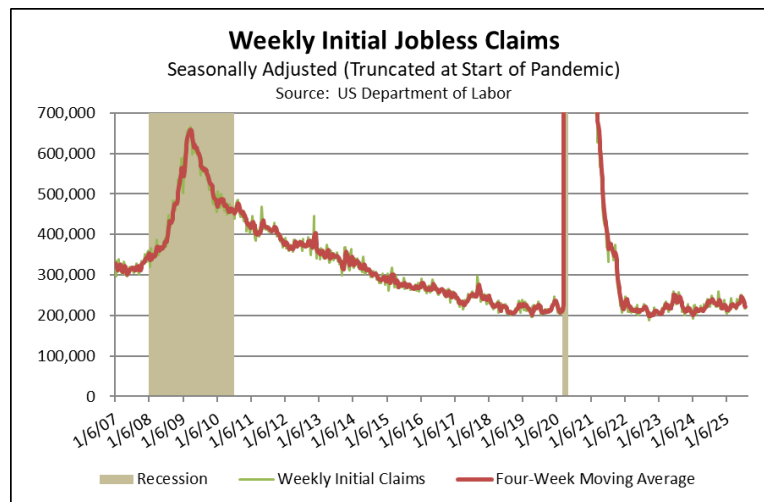
Nuclear Talks: Iran has declared it will not discuss its nuclear program until the [US agrees to compensate it for past attacks and provides guarantees against future aggression](#). These demands emerge as both sides seek to establish terms for talks following the recent 12-Day War between Iran and Israel, which concluded with US intervention. Further negotiations could pave the way for a long-term resolution to the dispute over Iran's nuclear program.

Industrial Espionage: Australia alleges that foreign spies have targeted its [sensitive rare earth sector, Antarctic research, and its involvement in the AUKUS submarine pact](#) to gather intelligence. The country estimates that this espionage cost its economy \$8 billion in 2024, specifically citing China, Russia, and Iran as particularly active. This report underscores the escalating tensions between Western nations and their adversaries.

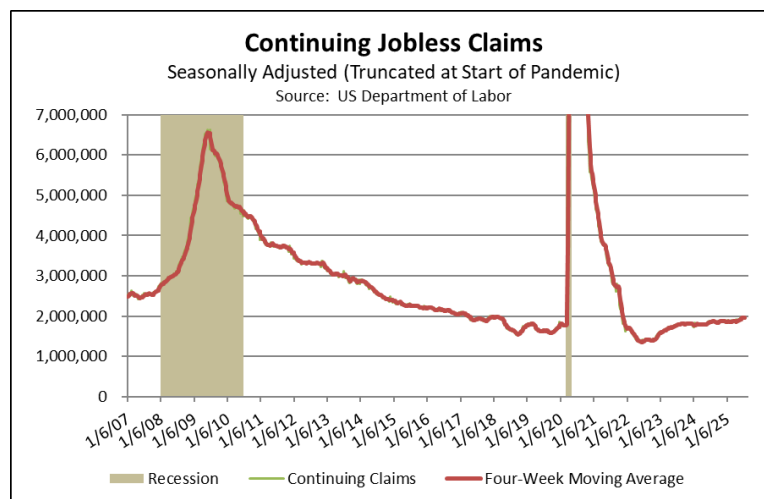
US Economic Releases

In the week ended July 26, *initial claims for unemployment benefits* rose to a seasonally adjusted 218,000, below the expected level of 224,000 and only slightly more than the previous week's level of 217,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, fell to a modest 221,000. The chart below shows how initial jobless claims have fluctuated since just before the Great Financial Crisis. The chart is

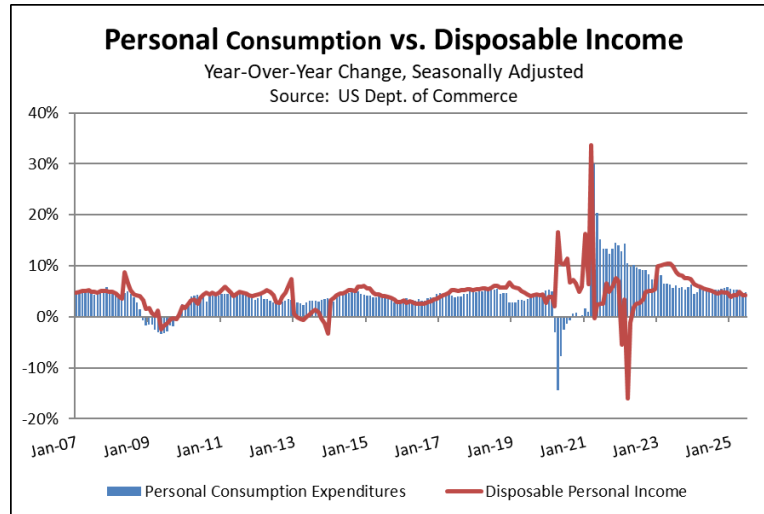
truncated through much of the pandemic period because of the extremely high level of claims at that time.



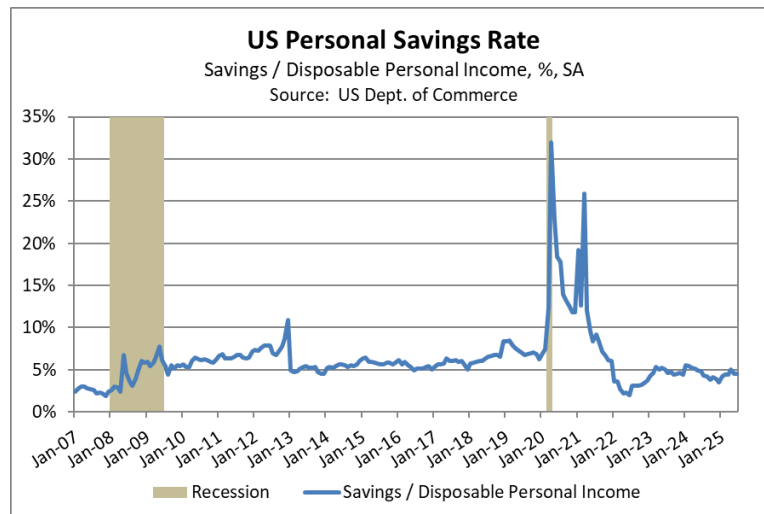
In the week ended July 19, the number of *continuing claims for unemployment benefits* (people continuing to draw benefits) was unchanged at a seasonally adjusted 1.946 million, slightly below the anticipated reading of 1.953 million. The four-week moving average of continuing claims fell to 1,949,250, but that was still high enough to suggest the “no fire/no hire” labor market is intact. 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.



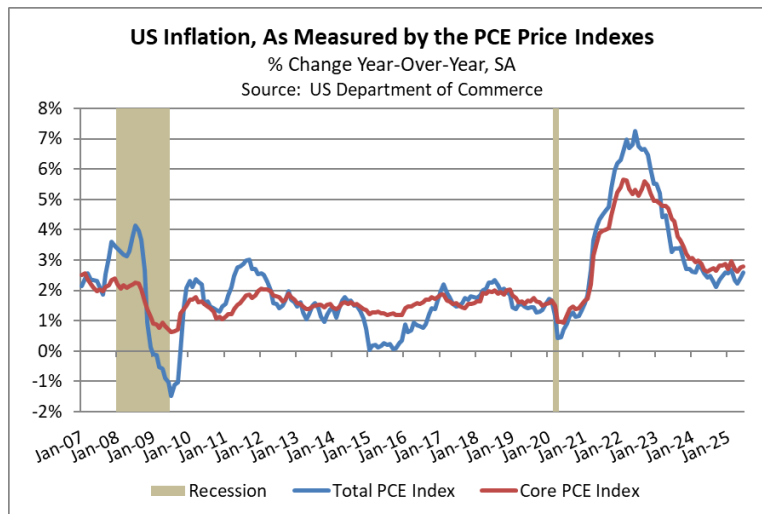
Separately, June *personal income* rose by a seasonally adjusted 0.3%, beating the expected increase of 0.2% and almost reversing the 0.4% decline in the month of May. Meanwhile, June *personal consumption expenditures (PCE)* also rose 0.3%, short of their anticipated rise of 0.4% but much better than the revised flat performance in the prior month. Personal income and PCE in June were both up 4.7% from the same month one year earlier. The chart below shows the year-over-year change in personal income and PCE since just before the GFC.



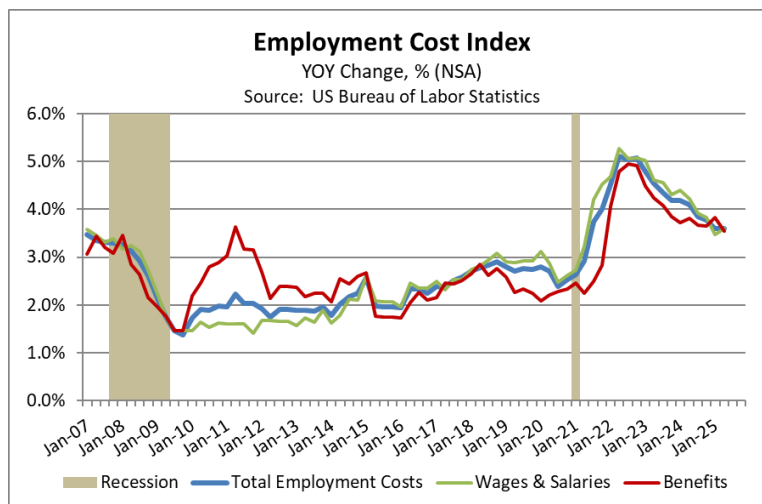
The personal income and spending report also includes a measure of personal saving, defined as disposable (after tax) income less consumption spending on goods and services. The June **personal savings rate** held steady at a seasonally adjusted 4.5%. The chart below shows how the personal savings rate has fluctuated since just before the GFC.



In addition, the income and spending report includes the Fed's preferred measure of consumer price inflation. After stripping out the volatile food and energy components, the report showed that the **Core PCE Deflator** for June was up 2.8% from the same month one year earlier, just as it was in May. The chart below shows the year-over-year change in the Total and Core PCE Deflators since just before the GFC.



Finally, the second-quarter **Employment Cost Index (ECI)** rose by a seasonally adjusted 0.9%, a bit hotter than the anticipated rise of 0.8% but matching the rise in the first quarter. The subindex on wages and salaries rose 1.0%, while the subindex on benefits rose 0.7%. Compared with the same period one year earlier, the overall ECI in the second quarter was up 3.6%. The subindex on wages and salaries was up 3.6% year-over-year, while the subindex on benefits was up 3.5%. The chart below shows the year-over-year change in the ECI since just 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
9:45	MNI Chicago PMI	m/m	Jul	42.0	40.4	***
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	Retail Sales	y/y	Jun	2.0%	2.2%	1.8%	**	Equity and bond neutral
	Industrial Production	y/y	Jun P	4.0%	-2.4%	1.3%	***	Equity bullish, bond bearish
	Depart. Store & Supermarket	y/y	Jun	-0.1%	0.6%		*	Equity and bond neutral
	Japan Buying Foreign Bonds	w/w	25-Jul	-¥331.6b	¥1641.8b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	25-Jul	¥206.3b	¥333.6b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	25-Jul	-¥184.6b	-¥990.7b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	25-Jul	¥743.3b	¥571.9b		*	Equity and bond neutral
	Housing Starts	y/y	Jun	-15.6%	-34.4%	-16.4%	**	Equity bullish, bond bearish
	Annualized Housing Starts	y/y	Jun	0.647m	0.529m	0.666m	*	Equity and bond neutral
	Consumer Confidence Index	m/m	Jul	33.7	34.5	35.0	*	Equity bearish, bond bullish
Australia	Building Approvals	m/m	Jun	11.9%	2.2%	1.8%	***	Equity bullish, bond bearish
	Retail Sales	m/m	Jun	1.2%	0.5%	0.4%	***	Equity and bond neutral
	Retail Sales Ex Inflation QoQ	q/q	2Q	0.3%	0.1%	0.0%	**	Equity and bond neutral
	Private Sector Credit	y/y	Jun	6.8%	6.9%		**	Equity and bond neutral
South Korea	Industrial Production	y/y	Jun	1.6%	-0.3%	2.6%	***	Equity bearish, bond bullish
China	Official Manufacturing PMI	m/m	Jul	49.3	49.7	49.7	***	Equity and bond neutral
	Official Services PMI	m/m	Jul	50.1	50.5	50.2	**	Equity and bond neutral
	Official Composite PMI	m/m	Jul	50.2	50.7		*	Equity and bond neutral
EUROPE								
Eurozone	Unemployment Rate	m/m	Jun	6.2%	6.2%	6.3%	**	Equity and bond neutral
Germany	Import Price Index	y/y	Jun	-1.4%	-1.1%	-1.6%	**	Equity and bond neutral
	Unemployment Change	m/m	Jul	2.0k	10.0k	15.0k	***	Equity and bond neutral
	Unemployment Claims Rate	m/m	Jul	3.3%	6.3%	6.3%	**	Equity and bond neutral
	CPI	y/y	Jul P	2.0%	2.0%	2.0%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Jul P	2.8%	1.9%	2.0%	**	Equity and bond neutral
France	CPI	y/y	Jul P	1.0%	1.0%	1.0%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Jul P	0.9%	0.9%	0.8%	**	Equity and bond neutral
	PPI	y/y	Jun	0.2%	0.0%		*	Equity and bond neutral
Italy	Unemployment Rate	m/m	Jun	6.3%	6.5%	6.4%	**	Equity and bond neutral
	CPI, EU Harmonized	y/y	Jul P	1.7%	1.8%	1.6%	***	Equity and bond neutral
	CPI NIC Including Tobacco	y/y	Jul P	1.7%	1.7%	1.5%	**	Equity and bond neutral
	PPI	y/y	Jun	3.9%	2.7%		**	Equity and bond neutral
Switzerland	Real Retail Sales	y/y	Jun	3.8%	0.3%		**	Equity and bond neutral
Russia	Unemployment Rate	m/m	Jun	2.2%	2.2%	2.2%	***	Equity and bond neutral
AMERICAS								
Brazil	Central Govt Budget Balance	m/m	Jun	-44.3b	-40.4b	-41.1b	*	Equity and bond neutral
	Primary Budget Balance	y/y	Jun	-47.1b	-33.7b	-41.0b	*	Equity and bond neutral
	Net Debt % GDP	m/m	Ju	62.90%	62.0%	62.4%	**	Equity and bond neutral
	National Unemployment Rate	m/m	Jun	5.8%	6.2%	6.0%	*	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)	433	432	1	Up
U.S. Libor/OIS spread (bps)	429	429	0	Up
10-yr T-note (%)	4.34	4.37	-0.03	Down
Euribor/OIS spread (bps)	202	203	-1	Down
Currencies	Direction			
Dollar	Up			Up
Euro	Down			Up
Yen	Up			Down
Pound	Down			Down
Franc	Down			Up
Central Bank Action	Current	Prior	Expected	
FOMC Rate Decision (Upper Bound)	4.50%	4.50%	4.50%	On Forecast
FOMC Rate Decision (Lower Bound)	4.25%	4.25%	4.25%	On Forecast
FOMC Rate on Reserve Balances	4.40%	4.40%	4.40%	On Forecast
BOJ Target Rate	0.50%	0.50%	0.50%	On Forecast
Bank of Canada Rate Decision	2.75%	2.75%	2.75%	On Forecast
Brazil Selic Rate	15.00%	15.00%	15.00%	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	\$72.84	\$73.24	-0.55%	
WTI	\$69.67	\$70.00	-0.47%	
Natural Gas	\$3.03	\$3.05	-0.56%	
Crack Spread	\$25.32	\$25.16	0.63%	
12-mo strip crack	\$23.60	\$23.50	0.40%	
Ethanol rack	\$1.86	\$1.86	0.05%	
Metals				
Gold	\$3,305.09	\$3,275.18	0.91%	
Silver	\$36.49	\$37.13	-1.73%	
Copper contract	\$437.80	\$558.60	-21.63%	
Grains				
Corn contract	\$411.75	\$412.25	-0.12%	
Wheat contract	\$525.00	\$523.75	0.24%	
Soybeans contract	\$994.75	\$995.75	-0.10%	
Shipping				
Baltic Dry Freight	1,995	2,109	-114	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)	7.70	-2.60	10.30	
Gasoline (mb)	-2.72	-1.10	-1.62	
Distillates (mb)	3.64	-0.40	4.04	
Refinery run rates (%)	-0.1%	-0.4%	0.3%	
Natural gas (bcf)		40		

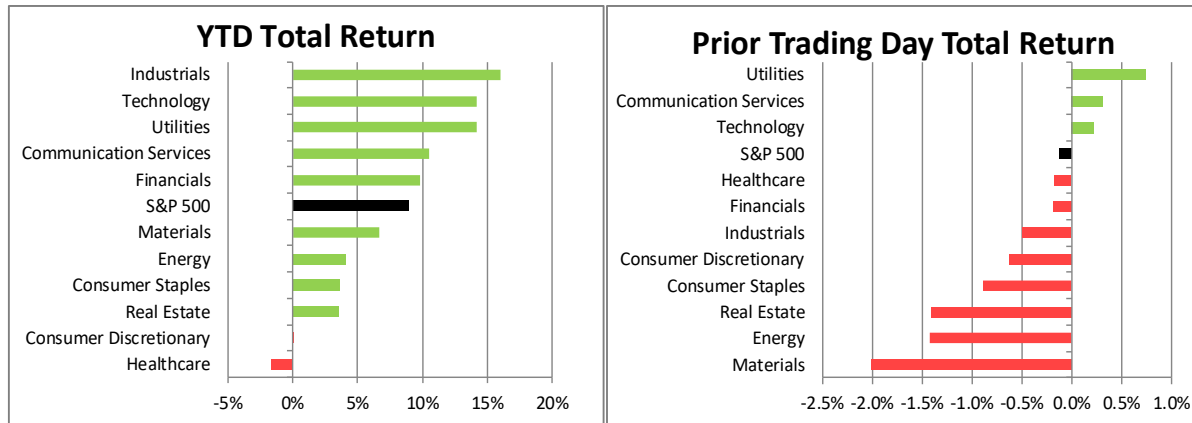
Weather

The latest 6-to-10-day and 8-to-14-day outlooks call for warmer-than-normal conditions everywhere except the Pacific Northwest and the Appalachian Mountains, where temperatures will be near normal. The forecasts call for wetter-than-normal conditions in the Pacific Northwest, the Midwest, New England, and southern 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

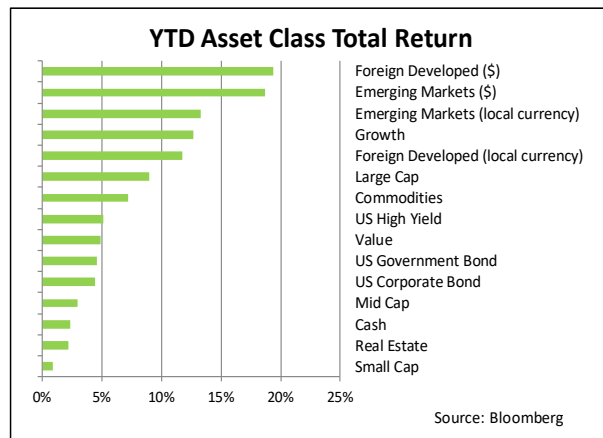
US Equity Markets – (as of 7/30/2025 close)



(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 7/30/2025 close)

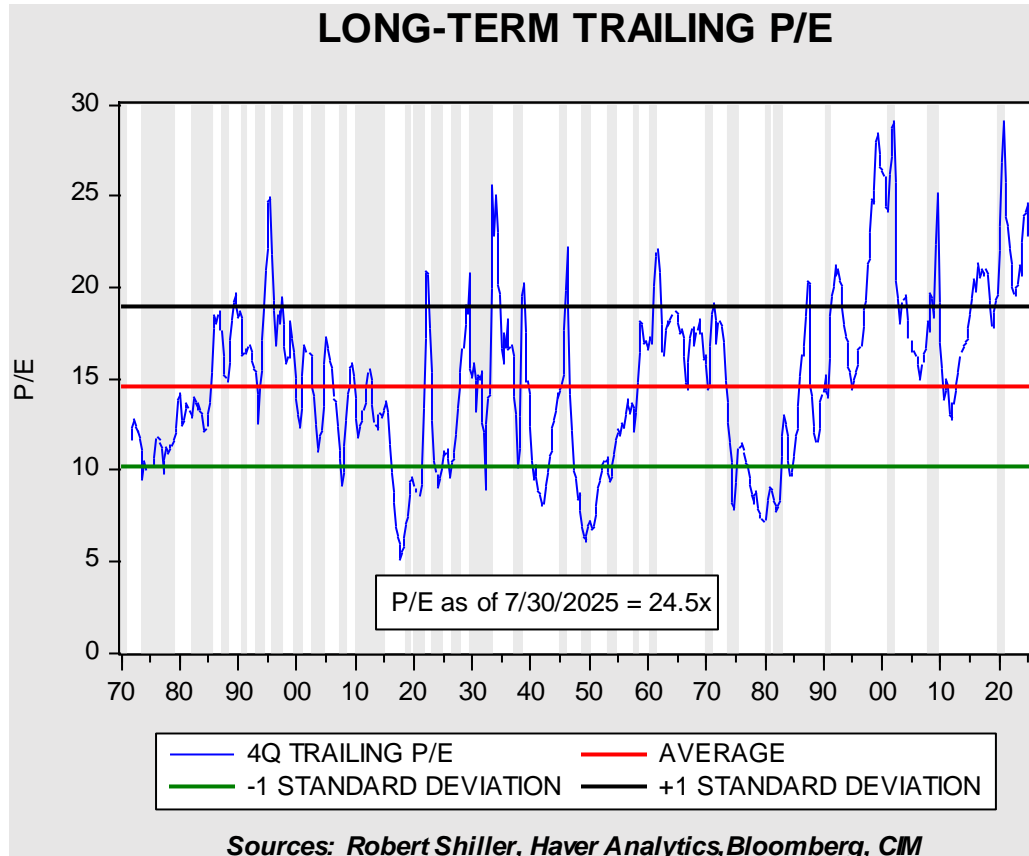


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 31, 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.