# Daily Comment

Confluence Investment Management

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**Posted: July 9, 2025 — 9:30 AM ET]** Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 1.1% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.7%. Chinese markets were mildly lower, with the Shanghai Composite down 0.1% from its previous close and the Shenzhen Composite relatively unchanged. US equity index futures are signaling a higher open.

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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. **Note: The next *Bi-Weekly Geopolitical Report* will be our Mid-Year Outlook and will be published July 14.**

| Bi-Weekly Geopolitical Report | Asset Allocation Bi-Weekly | Asset Allocation Quarterly | Of Note |
|---|---|---|---|
| "Introducing Friedrich Merz" (6/23/25) + podcast | "The Hidden Battle in the 'One Big, Beautiful Bill'" (6/30/25) + podcast | Q2 2025 Report<br>Q2 2025 Rebalance Presentation | NEW: The Confluence Mailbag Podcast<br>Business Cycle Report |

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.

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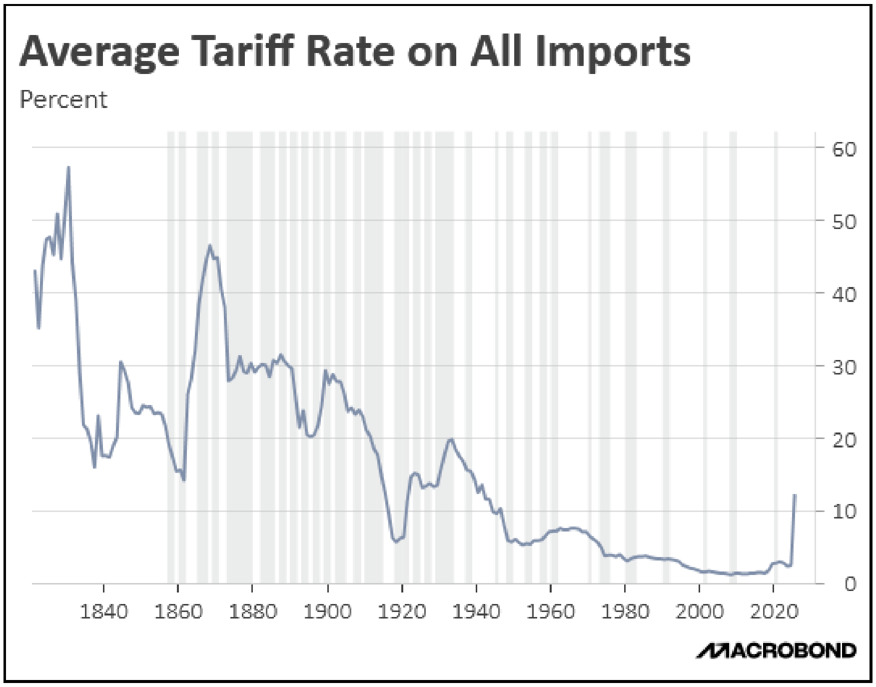
Good morning! Markets are actively assessing the latest trade developments. Today's *Comment* will delve into the president's evolving trade strategy, particularly as he considers new tariffs. We'll also examine the reasons behind calls for Fed Chair Powell's resignation and other key market-moving news. As always, the report concludes with a comprehensive summary of the latest domestic and international data releases.

**From Countries to Sectors:** Despite agreeing to push back the tariff deadline from July to August, President Trump has intensified his trade war measures, suggesting prolonged trade uncertainty.

- The president announced that he does not plan to extend the deadline further for country-specific tariffs set to expire on August 1. Although he expects trade deals to be finalized in the coming days, he still intends to ramp up tariffs, even for countries that are likely to agree on a framework in the near future. He specifically targeted the EU, accusing it of unfairly fining and taxing US technology firms, and threatened unilateral tariffs in response.

- Furthermore, the president appears to be shifting his focus from country-wide tariffs to specific sectors. He has announced plans to impose a 50% tariff on copper by the August 1 deadline, followed by 200% tariffs on foreign-made pharmaceuticals a year later. The threat has already driven COMEX copper prices to a record high, while also weighing on the stocks of drugmakers.

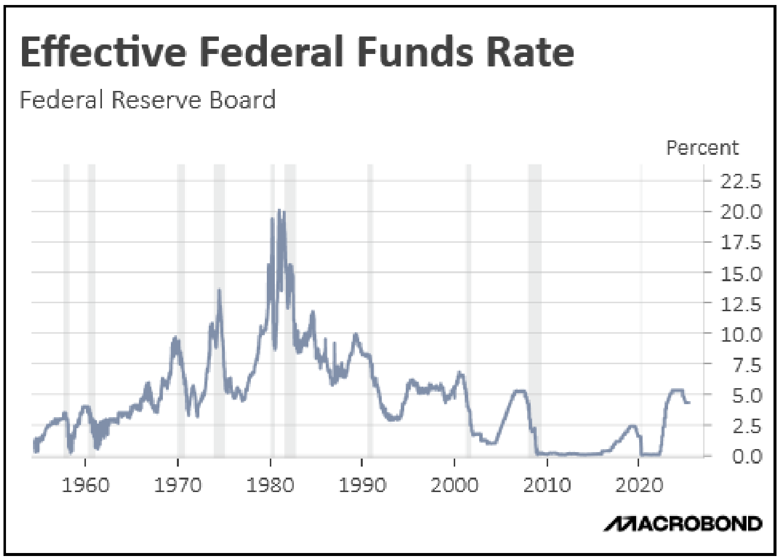



- The shift from country-specific tariffs to sector-specific tariffs may represent a long-term strategy for the president as he seeks to use tariffs to balance the dual objectives of generating revenue and incentivizing the reshoring of manufacturing. We expect he may lower broad, country-wide tariffs to maintain trade flows while imposing sharply higher tariffs on strategic sectors, effectively implementing a restrictive trade policy where it matters most.
- The overall impact of tariffs on equities remains uncertain, as investors have largely begun tuning out the president's trade actions. However, this dynamic could shift if the next round of earnings reports reveals squeezed corporate margins. We believe the sustainability of the S&P 500's rally will likely depend on companies' ability to either absorb higher costs or pass them along to consumers.

**Powell Resignation?** President Trump called for Federal Reserve Chair Jerome Powell to resign if allegations that he misled Congress prove to be true.

- Fed Chair Powell faces accusations of misleading Congress regarding reports of extensive renovations to the Fed's headquarters. When questioned about claims that the central bank was undergoing a "lavish overhaul," Powell dismissed the reports as inaccurate. However, a [*New York Post* report revealed the renovation costs had ballooned to $2.5 billion], a 32% increase from the initial $1.9 billion estimate, with many of these upgrades documented in official filings that contradict Powell's testimony.

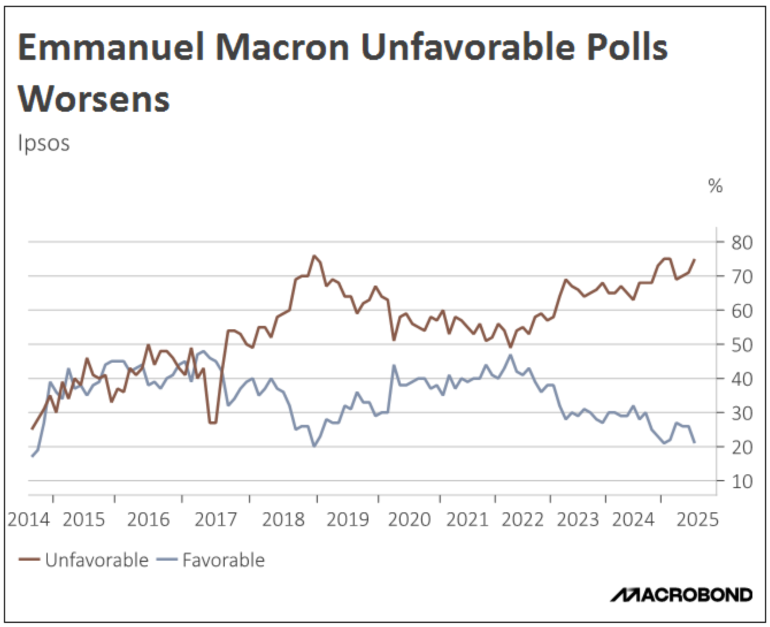
- The accusation is likely to fuel speculation that the president is attempting to oust Powell. He has consistently pressured Fed Chair Powell to resign, criticizing his refusal to cut interest rates over what the president deems to be unfounded concerns that tariffs could exacerbate inflation. Although the president has limited authority to dismiss a sitting Fed chair, he retains the power to do so if justified cause exists.
- According to *The Wall Street Journal*, two leading contenders are in line to succeed Powell if he is removed. The first is Kevin Hassett, the president's director of the National Economic Council and former chair of the Council of Economic Advisers. The second is Kevin Warsh, a former Fed governor who was previously a runner-up for the role during the president's last attempt to fill the position. The president is expected to value loyalty over qualifications.




- Yet, market reactions could upend those expectations. When President Jimmy Carter accepted Fed Chair William Miller's resignation, markets plunged into chaos after Vice Chair Frederick Schultz, a prominent Democratic donor, was named interim Fed chair. The intense backlash, fueled by fears that Schultz would be too politically beholden to the president, ultimately led Carter to appoint market approved Paul Volcker, even against the advice of some of his own advisors.
- One name that could emerge as a consensus pick, and would likely soothe market concerns, is Fed Governor Christopher Waller. His research focusing on job openings as a key indicator of labor market tightness gives him a unique advantage, providing a data-driven framework to justify potential rate cuts. Moreover, his selection would extend a longstanding tradition of elevating sitting Fed governors, a pattern unbroken since the days of Paul Volcker.

**RN Under Fire:** France's far-right movement is confronting intensified scrutiny as the ruling party grapples with eroding popularity.

- French authorities have raided the headquarters of the far-right National Rally party (RN) as part of an investigation into alleged misuse of EU parliamentary funds to finance political campaigns. The operation comes amid ongoing scrutiny of the party's finances, including a recent conviction against its leader, Marine Le Pen, for embezzling EU funds — a ruling she is currently appealing.
- The crackdown coincides with French President Emmanuel Macron regaining the authority to call snap elections, a power he last exercised a year ago in a failed attempt to curb the far-right's rising influence. This time, however, Macron appears far less inclined to take such a risk, particularly as his approval ratings have plummeted to near-record lows.




- We believe the crackdown on the far right may inadvertently boost support for the National Rally. Such an outcome could rattle European equities, as it raises the risk of a renewed push for "Frexit," potentially destabilizing the EU itself. Moreover, markets may get a preview of how populist leaders would navigate increasingly strained US-Europe trade relations.

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## US Economic Releases

The Mortgage Bankers Association today said ***mortgage applications*** for the week ended July 4 rose 9.4%, compared to 2.7% the previous week, marking the third consecutive rise. Applications for home purchase mortgages rose 9.4%, after rising 0.1% the previous week. This brought the level for purchases to its highest since early 2023. Applications for refinancing mortgages rose 9.2%, after rising 6.5% the previous week. Meanwhile, the average interest rate on a 30-year mortgage fell 2 basis points to 6.77%.

The following table lists the economic releases or Fed events scheduled for the rest of the day.

| Economic Releases | | | | | | |
|---|---|---|---|---|---|---|
| EST | Indicator | | | Expected | Prior | Rating |
| 10:00 | Wholesale Trade Sales | m/m | May | 0.2% | 0.1% | * |
| 10:00 | Wholesale Inventories | m/m | May F | -0.3% | -0.3% | ** |
| **Federal Reserve** | | | | | | |
| **EST** | **Speaker or Event** | **District or Position** | | | | |
| 14:00 | U.S. Federal Reserve Releases Meeting Minutes | Federal Reserve Board | | | | |

## 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** | Money Stock M2 | y/y | Jun | 0.9% | 0.6% | | ** | Equity and bond neutral |
| | Money Stock M3 | y/y | Jun | 0.4% | 0.2% | | ** | Equity and bond neutral |
| | Machine tool orders | y/y | Jun P | -0.5% | 3.4% | | ** | Equity and bond neutral |
| **EUROPE** | | | | | | | | |
| **UK** | RICS House Price Balance | y/y | Jun | | -8% | -9% | ** | Equity and bond neutral |
| **AMERICAS** | | | | | | | | |
| **Mexico** | International Reserves Weekly | w/w | 4-Jul | $241880m | $241480m | | * | Equity and bond neutral |
| | CPI | y/y | Jun | 4.32% | 4.42% | 4.30% | *** | Equity and bond neutral |
| | Core CPI | y/y | Ju | 4.24% | 4.06% | 4.22% | ** | 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)** | 425 | 425 | 0 | Up |
| **U.S. Sibor/OIS spread (bps)** | 433 | 434 | -1 | Up |
| **U.S. Libor/OIS spread (bps)** | 430 | 431 | -1 | Up |
| **10-yr T-note (%)** | 4.42 | 4.40 | 0.02 | Up |
| **Euribor/OIS spread (bps)** | 195 | 194 | 1 | Down |
| **Currencies** | **Direction** | | | |
| Dollar | Up | | | Down |
| Euro | Down | | | Up |
| Yen | Up | | | Up |
| Pound | Down | | | Up |
| Franc | Down | | | Up |
| **Central Bank Action** | **Current** | **Prior** | **Expected** | |
| RBNZ Official Cash Rate | 3.25% | 3.25% | 3.25% | 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 | $70.27 | $70.15 | 0.17% | |
| WTI | $68.48 | $68.33 | 0.22% | |
| Natural Gas | $3.31 | $3.34 | -0.90% | |
| Crack Spread | $26.69 | $27.19 | -1.82% | |
| 12-mo strip crack | $23.51 | $23.71 | -0.84% | |
| Ethanol rack | $1.86 | $1.86 | 0.29% | |
| **Metals** | | | | |
| Gold | $3,286.45 | $3,301.92 | -0.47% | |
| Silver | $36.50 | $36.76 | -0.70% | |
| Copper contract | $555.25 | $568.55 | -2.34% | |
| **Grains** | | | | |
| Corn contract | $412.75 | $414.25 | -0.36% | |
| Wheat contract | $547.25 | $547.75 | -0.09% | |
| Soybeans contract | $1,015.25 | $1,017.50 | -0.22% | |
| **Shipping** | | | | |
| Baltic Dry Freight | 1,431 | 1,436 | -5 | |
| **DOE Inventory Report** | | | | |
| | **Actual** | **Expected** | **Difference** | |
| Crude (mb) | | -1.60 | | |
| Gasoline (mb) | | -1.00 | | |
| Distillates (mb) | | -1.50 | | |
| Refinery run rates (%) | | -0.3% | | |
| Natural gas (bcf) | | 57 | | |

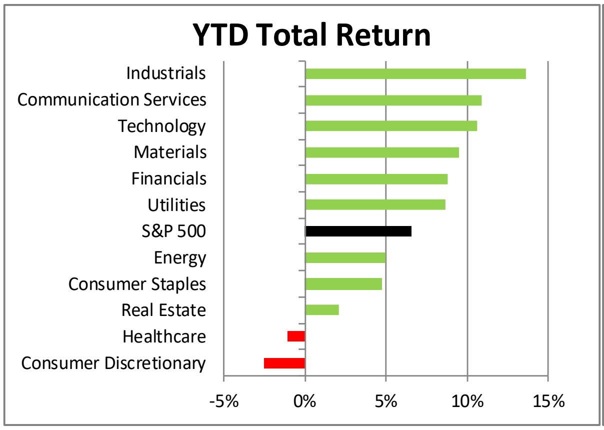
## Weather

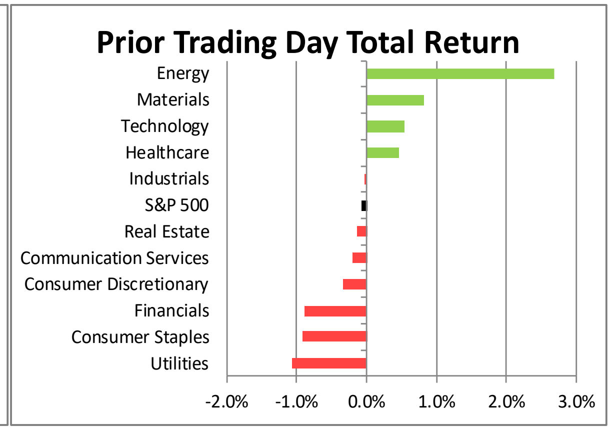
The latest 6-to-10-day and 8-to-14-day forecasts indicate warmer-than-normal conditions for the western quarter of the country, the Southeast, and Northeast, with a small patch of cooler-than-normal temperatures in the Desert Southwest. The forecasts indicate wetter-than-normal conditions for the majority of the country, with a small patch of drier-than-normal conditions in Washington and Oregon.

The latest 7-day tropical weather outlook indicates no cyclonic activity.

## Data Section

### **US Equity Markets** – (as of 7/8/2025 close)

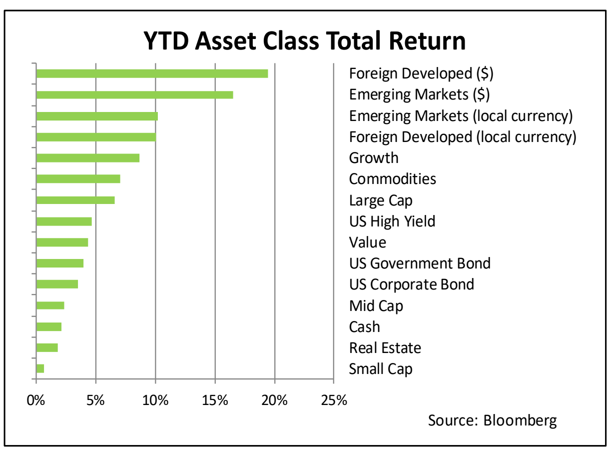



*(Source: Bloomberg)*

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 7/8/2025 close)

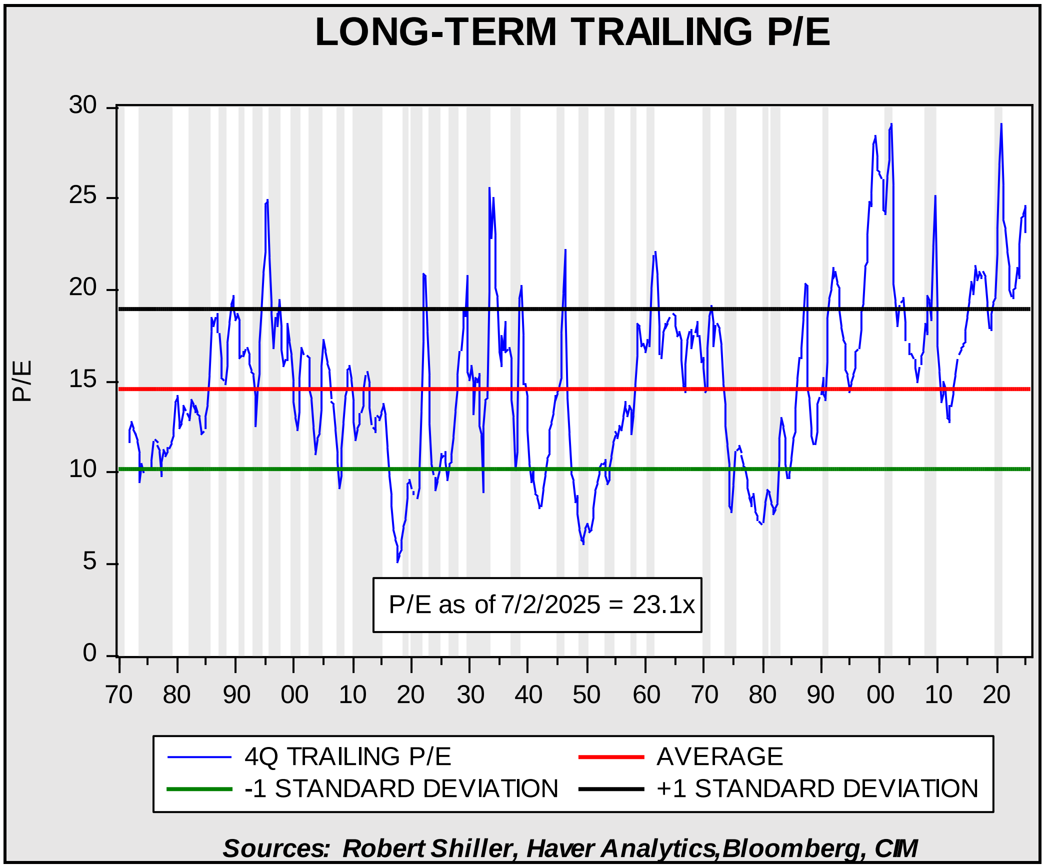



This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 3, 2025




Based on our methodology,[1] the current P/E is 23.1x, up 0.3 from our last report. The increase in the multiple was due to a rise in the stock price index as well as a drop in the earnings estimate for the current quarter.

*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.