Yardeni Research

July 30, 2025

Morning Briefing

Big Deals For Europe & Japan?
Better Earnings For S&P 500?

Check out the accompanying chart collection.

Executive Summary: While many European officials rue the US/EU trade deal struck last weekend, others accept it as the least bad of the EU's options. One important benefit, William explains, is that it clears the uncertainty that's been clouding the way forward for European policymakers and companies. … Japan and the US also have struck a trade deal, but in all uncertain terms. Both countries herald the agreement as a win but are on different pages about what it entails. … And Joe reports that better tariff clarity and strong Q2 earnings have raised analysts' Q3 revenues and earnings sights for S&P 500 companies, with most sectors enjoying estimate pops.

Weekly Webcast. If you missed Monday's live webcast, you can view a replay *here*.

US Tariffs I: Clearer Path Ahead for ECB. In recent weeks, Christine Lagarde, president of the European Central Bank (ECB), has been telegraphing the message that the Eurozone is in a "good place." On July 24, she walked the walk by leaving rates on hold for a change. It was the first time this year that the ECB concluded a policy meeting without easing (*Fig. 1*).

Since summer 2024, the ECB has delivered *eight rate cuts*, adding *200 basis points* worth of stimulus to the 20 economies that use the euro. After the previous four conclaves, it cut its key deposit facility to 2.0% from 3.0%, well below *4.0% in September 2023*. That was the highest level since the launch of the euro in 1999.

Yet now the ECB may find itself in an even better place.

One of the big areas of uncertainty over recent months was US-European Union (EU) trade tensions. Although several economies have been experiencing *disinflation*—including Germany, Italy, and Spain—fears that tariffs might prove inflationary have complicated the ECB's decision-making (*Fig. 2*).

But now, the US/EU trade wildcard is back in the deck. On Sunday, the US and EU reached a tariff deal, avoiding a more painful trade war. Notably, the US and EU together account for nearly one-third of world trade.

Let's take a closer look at what the deal means for the EU:

(1) *Tariff deal*. The *15% levy* to which President Donald Trump and European Commission President Ursula Von der Leyen agreed is half the 30% import tax rate that the White House had *threatened* to implement this Friday. The agreement means the EU's 27 member countries will open their markets to American exporters with 0% tariffs on certain products.

(2) *Not everyone's happy*. French Prime Minister François Bayrou expressed the displeasure of many European officials when he said on social media: "It's a *dark day* when an alliance of free peoples, brought together to affirm their common values and to defend their common interests, resigns itself to submission."

While the US-EU tariff deal has its detractors, many leaders see it as a matter of Europe accepting the least bad option.

(3) *Economic peace dividend.* The resulting economic peace dividend could make life easier at ECB headquarters in Frankfurt. Even before the US-EU tariff deal, Lagarde was emphasizing the positive, *downplaying* disinflation risks. Whereas the US and Japan are worried about above-trend consumer prices, the Eurozone faces a weak-pricing/weak-demand problem, made worse by the tariffs (*Fig. 3*).

(4) *Tariff fallout*. Trade-war concerns haven't disappeared. The US is in the throes of negotiating with China, which hasn't shied away from dumping discounted produce on the EU market. In May, Maros Sefcovic, the EU trade chief, said: "We are monitoring *possible risks* of trade diversion" on China's part.

(5) *Strong euro*. Another challenge: The euro's *nearly 13% gain* versus the dollar so far this year (*Fig. 4*). This is decidedly a be-careful-what-you-wish-for moment. Over the last quarter-century, the ECB has been angling for a strong euro. The single currency was, after all, meant to be the heir of the deutschmark of old, the ECB the successor to the German Bundesbank.

But now the euro might be a bit too strong for its own good. The stronger it gets, the more it risks choking off Europe's recovery. If policymakers across the Continent have learned anything these past two-and-a-half decades, it’s the dark side of an overly strong euro.

(6) *Fog has cleared.* With tariff risks now greatly reduced, EU governments can pivot to raising their economic games and competitiveness. And ECB officials can breathe a whole lot easier with the economic road ahead much clearer.

US Tariffs II: Japan & US ‘Lost in Translation.’ If Sofia Coppola and Bill Murray are keen to make a “Lost in Translation 2” movie, a script based on the growing number of misunderstandings surrounding the US-Japan tariff deal is writing itself in real time.

That *2003 comedy-drama* was filmed in Tokyo. The Japanese capital is again the site of an international cast of befuddled characters. This time, they’re all wondering what, oh what just transpired between the No. 1 and No. 3 economies.

Normally, bilateral trade deals are tedious, labor-intensive affairs that can take years to conclude. And typically, both parties insist on putting the deal down in writing. It's during the processes of pouring over, lawyering, and parsing the text that trade wars often are won or lost. The pact to which the US and Japan *agreed on July 22* seems more of a vague gentleman’s agreement. The trouble is, both US President Trump and Japanese Prime Minister Shigeru Ishiba’s are at odds on deal specifics.

Let’s explore what appears to have gotten lost in translation:

(1) *Starting date*. In Tokyo, Ishiba’s trade team, led by Ryosei Akazawa, is working under the impression that the *15% tariff* on which the US and Japan agreed goes into effect on Friday, August 1. That’s the deadline for most economies to conclude deals with the White House. US officials, though, *remain vague* about when Japan's significantly lower-than-feared rate—it *could’ve been 35%*—kicks in. One possible reason for delay is dealing with blowback from Detroit.

(2) *Auto tariffs*. Japan Inc. is spinning the pact as a win, considering that Toyota, Honda, Nissan, and other Japanese automakers had been looking at a *25% US import tax*. The United Auto Workers union called it a “*bad deal*.” One reason: US auto companies, in theory, will pay higher tariffs for imports from their plants and suppliers in Canada and Mexico than Japanese automakers. No doubt Japan is anxious to get the 15% rate in place so that Trump World can’t backtrack on it.

(3) *$550 billion fund*. The mechanics of the unorthodox fund Japan is expected to create to

invest in the US at Trump's direction are anyone's guess.

Trump called the $550 billion agreement a "*signing bonus*." Ishiba's Liberal Democratic Party is calling it a political nightmare. Trump wants the US to get 90% of profits, much to *Tokyo's chagrin*. But while the US wants a mountain of cash now, Tokyo is eyeing a mixture of investment, loans, and financial guarantees that *might* be deployed by 2029. And it sees the *projects getting done through* government-backed institutions like Japan Bank for International Cooperation.

Trump hopes that his Japanese fund becomes a template for trade deals with other nations. Yet nobody seems sure what its terms are—least of all the Japanese.

(4) *Boeing's cut*. Ostensibly, Japan says it will buy *100 Boeing aircraft*. Ishiba's trade team says it has already consulted with Japan Airlines and All Nippon Airways. But some in Tokyo ask how a Group of Seven government could compel publicly traded companies to make ginormous purchases. Could the two airlines just slow-walk orders and space them out for many years into the future?

(5) *Rice imports*. Trump argues that Japan agreed to open its market for US rice. But Japan's interpretation is that the sale of US rice in Japan would be subject to Tokyo's "*minimum access*" framework, which balances international trade obligations with protecting domestic rice farmers. Farmers are the LDP's main base and top donors. Sell them out, and the shellacking that Ishiba's party took in the July 20 elections will be worse next time. The last thing Tokyo can afford is for things to get completely lost in translation with the Japanese masses, too.

Strategy: Analysts' Q3 Sights Lifting. With the S&P 500's Q2 earnings reporting season 36% complete through midday Tuesday, the results are better than expected. Aggregating the results of the S&P 500 sectors' reporting companies to date shows that nearly all 11 sectors beat analysts' consensus expectations on both top and bottom lines (*Fig. 5* and *Fig. 6*).

However, these strong results and future forecasts were overshadowed during the quarter by the uncertainty over tariffs. With the future becoming clearer as tariff deals are announced, analysts have been raising estimates for upcoming quarters. You can track and analyze the rapidly changing quarterly consensus expectations for the 11 sectors in our weekly publication titled *S&P 500 Sectors Quarterly Revenues/Earnings/Margins (REM)*.

Here’s Joe’s compilation of the data on how analysts have been adjusting their Q3 revenues and earnings expectations for the various S&P 500 sectors and the S&P 500 itself:

(1) *Three sectors post big Q3 revenues estimate pop as all 11 sectors’ revenues forecasts rise.* The Q3-2025 revenues forecast for the S&P 500 companies in aggregate has risen 0.5% in the four weeks since the June 30 week (*Fig. 7*). All 11 sectors’ revenues forecasts have risen qtd, but just three of the 11 sectors outperformed the overall S&P 500 in this regard: Financials leads, with its Q3 revenues forecast rising 1.7%, ahead of Communication Services (1.3%) and Materials (1.0). While eight sectors lagged the S&P 500’s revenues forecast gain, their qtd gains are impressive nonetheless, all between 0.1%-0.3%.

(2) *Four sectors lead on Q3 earnings estimate revisions, but fewer improving overall.* Analysts gave a tad smaller lift to the S&P 500’s Q3 earnings forecast than they did to its Q3 revenues, with EPS rising 0.4% since June 30 (*Fig. 8*).

Energy’s EPS forecast popped higher during the July 14 week, and it now leads all 11 sectors by this measure with an impressive 4.5% gain since June 30. As for those three sectors with Q3 revenue gains ahead of the S&P 500’s, they also posted increases in their Q3 EPS estimates that beat those of the S&P 500: Communication Services (2.7%), Financials (1.6), and Materials (1.5).

Not coincidentally, sectors with the weakest Q3 revenue forecast changes are also weak in terms of Q3 earnings revisions activity. Among them, Health Care’s Q3 earnings forecast has tumbled 2.3% since June 30, markedly worse than the declines for the Real Estate (-0.9%), Consumer Staples (-0.9), and Industrials (-0.8) sectors.

(3) *Quarterly y/y growth forecasts rising now.* On a proforma same-company basis, analysts expect revenues growth of 4.6% y/y in Q3 for the S&P 500 (*Fig. 9*). While that’s down from their 5.4% forecast for Q3 growth at the year’s start, before Trump’s Tariff Turmoil (TTT), it has improved 0.6ppt since mid-May. It’s also a hair above the 4.5% y/y growth for Q2.

For Q4-2025, analysts think revenues growth will accelerate even further to 5.2%—which would be the fastest growth rate of the year.

Analysts now think S&P 500 earnings, also on a proforma same-company basis, will rise 8.4% y/y in Q3, down from over 13% expected at the year’s start and below Q1’s 13.7%

(*Fig. 10*). Although analysts are now forecasting single-digit percentage earnings gains for Q2-2025 and H2-2025, their estimates are now on an improving trajectory.

(4) *Quarterly profit margin forecasts ticking higher for H2*. When earnings forecasts rise more (or fall less), than revenues forecasts, the implied profit margin moves higher (we calculate analysts' margin expectations from their consensus earnings and revenues forecasts). That has been the case for the S&P 500. Profit margin forecasts took a hit during TTT but are rising again now. Analysts currently expect the S&P 500's profit margin to improve from 13.1% in Q2 to 13.5% in both Q3 and Q4 (*Fig. 11*).

Calendars

US: Wed: Fed Interest Rate Decision 4.5%; Real GDP & Price Index 2.4% & 2.4%; ADP Employment Change 78,000; MBA Mortgage Applications; Pending Home Sales 0.0%. **Thurs:** Personal Income & Spending 0.2% & 0.4%; PCE Price Index 0.3%m/m, 2.5%y/y; Employment Cost Index 0.8%q/q; Initial Claims 224k; Chicago PMI 42. (Source: FX Street)

Global: Wed: Eurozone GDP Flash Estimate 0.1%q/q, 1.2%y/y; Eurozone Economic Sentiment 94.5; Germany GDP Flash Estimate -0.1%q/q, 0.2%y/y Germany Retail Sales 0.5%; France GDP Flash Estimate 0.1% q/q; Italy GDP Flash Estimate 0.2%q/q, 0.6%y/y; Spain CPI 2.7%; Japan Retail Sales; BoC Interest Rate Decision 2.75%. **Thurs:** Germany CPI 0.2%mm, 1.9%y/y; Germany Import Prices -0.2%; Germany Unemployment Rate 6.4%; France CPI 0.3%m/m,1.0%y/y; Japan Unemployment Rate 2.5%; China Caixin M-PMI 50.5. (Source: FX Street)

US Economic Indicators

Consumer Confidence (*link*): "Consumer confidence has stabilized since May, rebounding from April's plunge, but remains below last year's heady levels," according to the Conference Board. *Headline consumer confidence* rose 2.0 points to 97.2 in July, after sinking from 98.4 in May to 95.2 in June, led by a 4.5-point increase in the *expectations* component to 74.4, while the *current conditions* component fell 1.5 points to 131.5. Despite the gain, the expectations component remained below the threshold of 80, which typically signals a recession ahead, for the sixth consecutive month. Consumers' assessment of the *short-term labor market* cooled in July, with 30.2% of consumers saying jobs are “plentiful,” up from 29.4% in June, while 18.9% said jobs are “hard to get,” up from 17.2%. Consumers’ outlook for *short-term business conditions* were slightly more positive in July, with 20.1% of consumer saying business conditions were “good,” little changed from June’s 20.5%, while only 14.3% said business conditions were “bad,” down from 15.0% in June. The consumer outlook for the *labor market six months* from now was less negative in July, with 17.5% of consumers expecting more jobs to be available, up from 15.9% in June, while 25.4% anticipated fewer jobs, a couple of ticks below June’s 25.7%. Consumers were less pessimistic about *future business conditions* this month, with 18.4% expecting conditions to improve, up from 17.1% in June, while 23.3% expected business conditions to worsen, down from June’s 24.8%. Consumers’ outlook for their *income prospects* was more positive in July, with 18.2% expecting their incomes to increase, down from 17.6% last month, while only 12.0% expected their incomes to decrease, below last month’s 12.9%. *Write-in responses* once again showed that tariffs were the top concern for consumers this month, while inflation and high prices were also among consumers’ concerns—though inflation expectations eased a bit. *Consumers’ outlook on stock prices* continued to increase from April’s 16-month low of 37.6%, climbing to 47.9% this month.

JOLTS (*link*): Job openings in June decreased after climbing to the highest level since November 2024 in May. *Job openings* fell 275,000 in June to 7.44 million from 7.71 million in May, with total private-sector openings down 325,000 to 6.55 million and government openings up 50,000 to 886,000. *By industry*, accommodation & food services (-308,000) posted the largest decline, followed by health care and social assistance (-244.000), finance & insurance (-142,000), durable goods manufacturing (-35,000), and wholesale trade (-35,000). Partially offsetting the declines were solid gains in retail trade (+190,000), professional & business services (+156,000), information services (+67,000), and state & local education (+61,000). *Regionally*, job openings rose in the West (+110,000), but fell in the Midwest (-149,000), South (-130,000), and the Northeast (-106,000). There were 1.1 *available jobs for each unemployed* person; this ratio was at a recent high of 2.0 during July 2022. *Separations* include quits, which are generally voluntary separations initiated by employees—serving as a measure of workers’ willingness or ability to leave jobs. *Total quits* fell 128,000 in June to 3.14 million, near March’s nine-month high of 3.33 million. Quits were at a recent peak of 4.46 million during spring 2022, falling to a recent low of 3.03 million during November 2024.

Contact us by *email* or call 480-664-1333.

Ed Yardeni, President & Chief Investment Strategist, 516-972-7683
Debbie Johnson, Chief Economist, 480-664-1333
Joe Abbott, Chief Quantitative Strategist, 732-241-6502

Melissa Tagg, Senior Global Investment Strategist, 516-782-9967
Mali Quintana, Senior Economist, 480-664-1333
Jackie Doherty, Contributing Editor, 917-328-6848
William Pesek, Contributing Editor, 516-277-2432
Valerie de la Rue, Director of Institutional Sales, 516-277-2432
Mary Fanslau, Manager of Client Services, 480-664-1333
Sandy Cohan, Senior Editor, 570-228-9102