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by S&P Global

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PMI and markets

July flash US PMI reinforces positive picture for the S&P 500 index

The Purchasing Managers' Index (PMI) and its sub-indices offer valuable insights into macroeconomic conditions and are also commonly used for studying and predicting financial market trends. This includes comparisons with equity index changes to gauge whether the market is over- or under-performing compared with economic fundamentals.

The latest July Flash US PMI data alluded to the fact that the S&P 500 index, especially the equal-weighted index, is trading largely in line with economic fundamentals.

Meanwhile on the foreign exchange (FX) market front, the US-dollar index's slight recovery this month is in line with predictions based on our PMI-based model as we await the fresh signal with the release of global PMI data at the start of August.

S&P 500's record high and the PMI

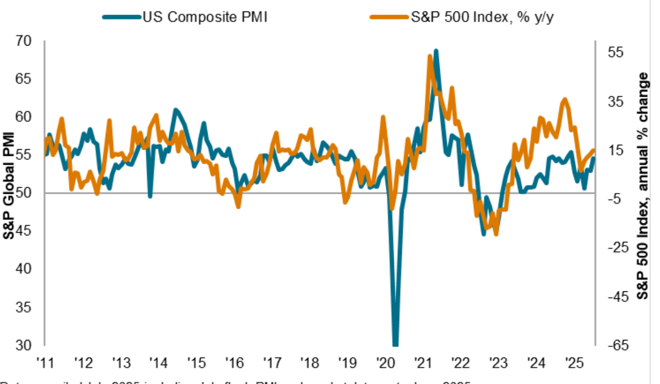
As the second quarter US earnings season progresses, we have seen the US S&P 500 index remaining relatively elevated. The benchmark US equity index has notably been in focus over whether it is over-valued, especially with the series of record-highs posted of late.

Certainly the [July S&P Global Investment Manager Index] pointed to valuations having been the top concern among US money managers at the start of the month, and was accompanied by predictions for falling near-term market performance even as risk appetite turned positive for the first time since January. The August iteration of the survey will be eagerly anticipated on August 12th for updated insights into professional investors' expectations.

While the sources of downside risks to US equities are not few by number – counting US tariff uncertainty, potential delays to Fed cuts and rising geopolitical uncertainty to name a few – the latest PMI data lend some support to the recent US equities trend.

In a simple comparison of the year-on-year (y/y) change of the S&P 500 Index and the US Composite PMI data (using data up to the latest July flash release) we see that the S&P 500 index is hovering at a level that is only slightly higher than indicated by PMI data.

US PMI and S&P 500 Index



Data compiled July 2025 including July flash PMI and market data up to June 2025.
PMI (Purchasing Managers' Index) 50 = no change on prior month, covers manufacturing and services.
Source: S&P Global PMI, S&P Global Market Intelligence.
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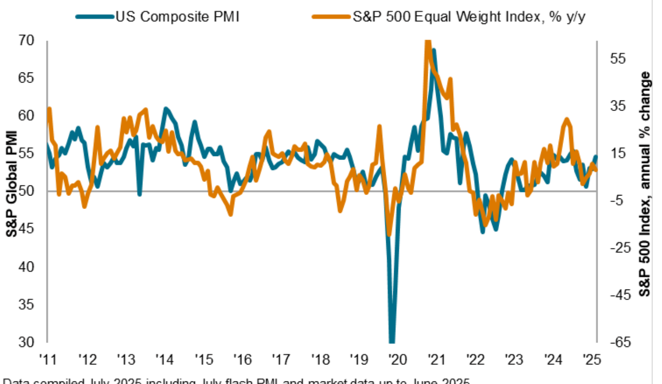
A better comparison would be to use the equal-weighted S&P 500 index, rather than the market capitalization weighted index, given the skew to the latter attributed to a handful of large-cap companies. The simple comparison here suggests that the PMI provides a good gauge for S&P 500 index movement and has been indicating that the equity market is in fact moving in line with economic fundamentals into end July.

US PMI and S&P 500 Index (Equal-weighted)



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Source: S&P Global PMI, S&P Global Market Intelligence.
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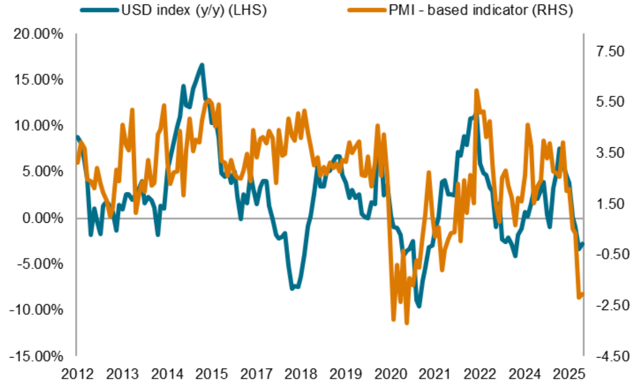
The one caveat that we must raise, however, is that more detailed PMI sub-indices, including the manufacturing PMI quantity of purchases and stocks of purchases indices, showed that the US outperformance in the second quarter was centred largely on stock building ahead of planned tariffs. As such, there carries a risk of payback going into the second half of the year. As it is, the manufacturing sector has started to see a softening of growth pace in July, according to flash PMI data, and the risk of the payback, given the extent to which stocks had built, persists even if the outlook for US tariffs should turn out eventually to be the best-case scenario moving forward.

Further greenback weakness?

Alongside the US equity market strength is the US dollar bounce. In one of our latest papers, completed in July, we have shown that PMI data can be used to help gauge the direction of the US dollar index as an example to demonstrate the usefulness of the PMI data in predicting FX trends.

A check of the model indicates that the 'Buy' signal from July 6, derived based on predictions for levels on August 6 compared with a year ago has so far yielded positive returns. An update will be made on August 6 when we next run the model.

USD index vs PMI-based indicator



Data compiled July 2025, including PMI data to June and FX data to 6 July 2025.
Source: S&P Global PMI, Federal Reserve Bank of St. Louis.
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