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[Posted: July 1, 2026 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is down 0.2% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.2%. Chinese markets were higher with the Shanghai Composite up 0.4% and the Shenzhen Composite also up 0.4%. US equity index futures are signaling a lower open.

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
“Mid-Year Geopolitical Outlook” (6/22/26)	“The Evolution of the Tech Life Cycle” (6/29/26) + podcast	Q2 2026 Report Q2 2026 Rebalance Presentation	Value Equity: “Déjà vu for Dividends?” Confluence of Ideas Podcast

Have a question on the economy, markets, geopolitics, or other important topics? You can submit your queries to our monthly podcast, *Confluence Mailbag*! Submit your question to mailbag@confluenceim.com.

Our *Comment* opens with a discussion of the Bank of Japan and the evolving question of central bank independence. We then turn to equities, analyzing how the AI-driven rally has created a new set of market leaders. Next, we briefly address the US decision to lift restrictions on Anthropic, NATO’s appeal for continued US commitment to the alliance, and the upcoming joint review of the USMCA. As always, we conclude with a summary of the latest domestic and international economic data releases.

BOJ in the Middle: Japan’s central bank is facing a growing threat to its independence. This shift comes amid efforts by the [Japanese government to reshape the institution’s composition](#) with an apparent preference for more dovish policymakers. While these changes are unlikely to alter the near-term trajectory of rate hikes, they have raised questions about the central bank’s longer-term commitment to policy normalization, particularly as the government seeks to stimulate the economy.

- The Bank of Japan's independence appears to be coming into question. The decision to reshape the institution reflects broader efforts by the government to align the central bank more closely with the current administration's priorities. Notably, the economic minister, who attended the June policy meeting, pressed BOJ officials to incorporate the government's growth objectives into their policy discussions.
- While Japanese Prime Minister Sanae Takaichi has not openly criticized the central bank's recent monetary decisions, her stance suggests support for reshaping its policy framework. An upcoming policy blueprint, expected to be finalized soon, [is likely to emphasize closer coordination between the government and the BOJ](#) to maximize policy effectiveness and stimulate private demand.
- Concerns over the Bank of Japan's independence, particularly amid the recent rise in inflation, help explain the yen's recent weakness. While the central bank's independence is legally protected, statutory provisions require a degree of policy coordination with the government, creating potential tension between autonomy and alignment. As a result, investors increasingly question whether the BOJ will remain fully committed to its price stability mandate.
- Rising pressure on the BOJ to slow its tightening cycle, combined with government efforts to stimulate growth, will likely weigh on the yen. Historically, when the yen weakens, Japan has offloaded US Treasuries to fund currency interventions. While this strategy will likely face pushback from the White House, Tokyo has few other options if it wants to support its currency. Consequently, we could see either a coordinated US-Japan currency policy or a potential sell-off in US government securities.

AI Trade: The [S&P 500 delivered its strongest Q2 performance in six years](#), driven by a broadening AI rally that extended beyond technology into other sectors. This sharp uptick was fueled by easing geopolitical tensions and robust corporate earnings, which collectively bolstered market sentiment. The continued strength underscores the market's underlying resilience amid persistent economic headwinds. However, beneath the surface of this broad-based advance, a notable compositional shift appears to be taking place.

- Hardware tech stocks were the primary drivers of the S&P 500's rise last quarter, as firms continued to deliver strong earnings. The [S&P 500 Hardware Select Industry Index](#) surged more than 55% during the period, led largely by chipmakers. This robust performance comes as companies looking to expand their AI capacity have ramped up spending on equipment and inputs to build the infrastructure needed to meet surging demand.
- The strong performance of hardware stocks has overshadowed the underperformance of the hyperscalers that provide the revenue base for hardware companies. Despite being viewed as the heart of the AI boom, the Magnificent 7, which include five of the six major hyperscalers, are not only underperforming the S&P 500 by roughly 10% but are also trading down year-to-date. The weakness stems from heavy infrastructure spending, which has come under scrutiny due to its sheer magnitude.
- While the S&P 500's recent gains have once again been driven by technology, the internal shift from software to hardware stocks underscores the danger of concentration

risk. As noted over the last few months, tech stocks carry significant upward momentum, yet signs of fragility are increasingly evident. To mitigate this volatility and reduce overall thematic exposure, diversifying into defensive sectors like aerospace and defense can provide valuable balance to investment portfolios.

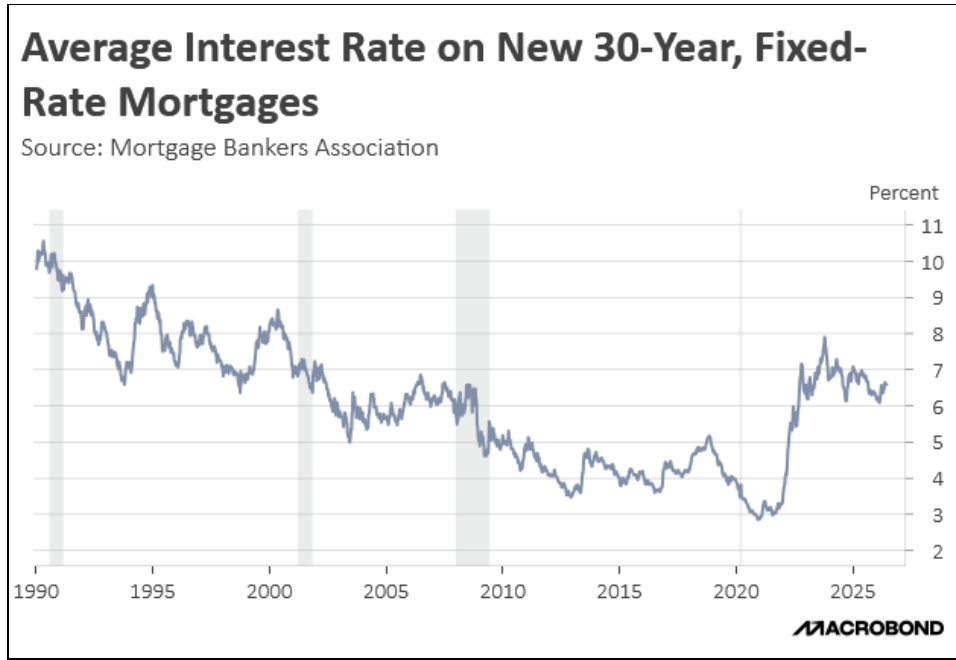
Anthropic Freed? The White House has agreed to lift its export controls on Anthropic's AI tools. The [US Department of Commerce sent a letter to the firm granting permission for foreign nationals to use its Claude Fable 5 and Mythos 5 models](#). The move comes after Anthropic implemented new safeguards that addressed the government's security concerns. While removing these restrictions paves the way for the company to re-release its models globally, it leaves open the question of just how much influence Washington intends to exert over frontier AI providers.

NATO Plea: The head of NATO has sought to dissuade a potential US exit from the security alliance by appealing directly to its economic benefits. [NATO Secretary-General Mark Rutte argued that \\$300 billion in outstanding European arms orders](#) from the US help sustain over 195,000 American defense jobs. While it remains unclear whether this transactional argument will successfully convince Washington to stay, the massive scale of these contracts underscores that European rearmament is a long-term reality.

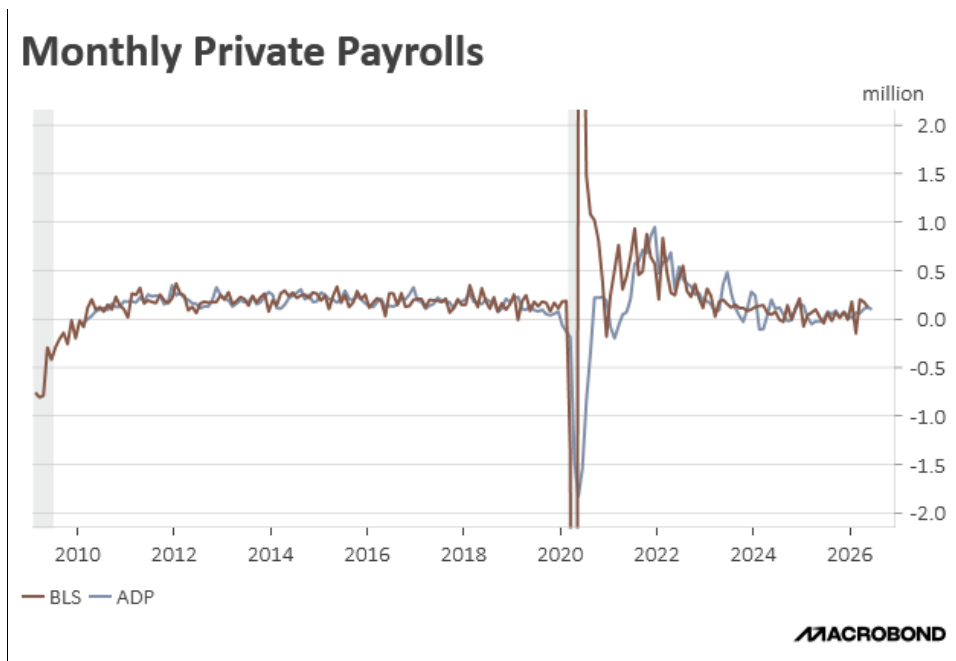
USMCA Talks Begin: The six-year joint review of the USMCA begins today under the treaty's sunset clause. The [United States has signaled reluctance to commit to a 16-year extension at this stage](#), raising the risk that the pact will shift into an annual review process that could stretch over the next decade and, in a downside scenario, culminate in termination or US withdrawal by 2036. Canada and Mexico have indicated that they will formally seek renewal and remain publicly optimistic that an agreement can be reached.

US Economic Releases

The Mortgage Bankers Association said *mortgage applications* in the week ended June 26 were unchanged from the previous week. Applications for home purchase mortgages rose 0.5% in the prior week. Meanwhile, applications for refinancing mortgages fell 0.7% in the same period. The average interest rate on a 30-year, fixed-rate mortgage fell 2 basis points to 6.57%. The chart below shows how mortgage rates have changed over time.



Separately, the ADP Research Institute estimated that private payroll employment rose in June by a seasonally adjusted 98,000, below the expected rise of 113,000 and the revised May gain of 122,000. 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.



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	S&P Global US Manufacturing PMI	m/m	Jun F	55.7	55.7	***
10:00	ISM Manufacturing	m/m	Jun	53.9	54	**
10:00	ISM Prices Paid	m/m	Jun	77.5	82.1	**
10:00	ISM New Orders	m/m	Jun	57.0	56.8	**
10:00	ISM Employment	m/m	Jun	48.8	48.6	*
10:00	Construction Spending	m/m	May	0.1%	0.4%	**
Federal Reserve						
EST	Speaker or Event	District or Position				
9:00	Lagarde, Warsh, Bailey, Macklem Speak in Sintra	Heads of Central Banks in the ECB, US, UK, and Canada				
9:00	Kevin Warsh Appears on Panel at ECB Forum	Chairman of the Board of Governors				

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 shift 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	Tankan Large Manufacturing Index	q/q	2Q	22	17	16	***	Equity bullish, bond bearish
	Tankan Large Non-Manufacturing Index	q/q	2Q	37	36	36	***	Equity and bond neutral
	Tankan Large Manufacturing Outlook	q/q	2Q	17	14	13	***	Equity bullish, bond bearish
	Tankan Large Non-Manufacturing Outlook	q/q	2Q	28	29	29	***	Equity and bond neutral
	Tankan Large All-Industry Capex	q/q	2Q	11.5%	3.3%	11.0%	***	Equity and bond neutral
	S&P Global Japan Manufacturing PMI	m/m	Jun F	54.8	54.9		***	Equity and bond neutral
	Consumer Confidence Index	m/m	Jun	33.8	33.6	34.1	*	Equity and bond neutral
Australia	S&P Global Australia Manufacturing PMI	m/m	Jun F	51.5	51.2		***	Equity and bond neutral
	Building Approvals	m/m	May	-1.1%	-0.2%	0.0%	***	Equity bearish, bond bullish
South Korea	S&P Global South Korea PMI Manufacturing	m/m	Jun	52.1	54.8		***	Equity and bond neutral
	Trade Balance	m/m	Jun	\$36149m	\$26949m	\$32600m	*	Equity and bond neutral
	Exports	y/y	Jun	70.9%	53.2%	60.9%	***	Equity and bond neutral
	Imports	y/y	Jun	30.1%	20.8%	24.5%	**	Equity and bond neutral
China	RatingDog China PMI Mfg	m/m	Jun	51.7	51.8	52.0	***	Equity and bond neutral
India	HSBC India PMI Mfg	m/m	Jun F	54.2	54.5		***	Equity and bond neutral
EUROPE								
Eurozone	S&P Global Eurozone Manufacturing PMI	m/m	Jun F	51.4	51.3	51.3	***	Equity and bond neutral
	CPI	y/y	Jun P	2.8%	3.2%	3.0%	***	Equity and bond neutral
	Core CPI	y/y	Jun P	2.4%	2.6%	2.6%	**	Equity and bond neutral
Germany	S&P Global/BME Germany Manufacturing PMI	m/m	Jun F	50.3	50.0	50.0	***	Equity and bond neutral
France	S&P Global France Manufacturing PMI	m/m	Jun F	51.2	50.7	50.7	***	Equity and bond neutral
Italy	S&P Global Italy Manufacturing PMI	m/m	Jun	52.2	52.9	52.4	***	Equity and bond neutral
UK	Nationwide House Price Index	y/y	Jun	2.2%	1.7%	2.5%	***	Equity and bond neutral
	S&P Global UK Manufacturing PMI	m/m	Jun F	52.5	53.1	53.1	***	Equity and bond neutral
Switzerland	Real Retail Sales	y/y	May	3.5%	1.7%		**	Equity and bond neutral
	PMI Manufacturing	m/m	Jun	54.3	57.3	56.5	***	Equity bearish, bond bullish
	PMI Services	m/m	Jun	59.8	56.0		*	Equity and bond neutral
Russia	Current Account Balance	q/q	1Q F	12654m	12200m		**	Equity and bond neutral
	S&P Global Russia Manufacturing PMI	m/m	Jun	50.3	48.8		***	Equity and bond neutral
AMERICAS								
Canada	GDP	y/y	Apr	1.1%	0.4%	0.9%	**	Equity and bond neutral
Mexico	International Reserves Weekly	w/w	26-Jun	\$225181m	\$255236m		*	Equity and bond neutral
Brazil	Formal Job Creation Total	m/m	May	72960	79526	130000	*	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)	373	373	0	Up
U.S. Sibor/OIS spread (bps)	375	374	1	Up
U.S. Libor/OIS spread (bps)	373	373	0	Up
10-yr T-note (%)	4.46	4.47	-0.01	Up
Euribor/OIS spread (bps)	232	232	0	Up
Currencies	3 Mo			
Dollar	Down	US		Up
Euro	Up	Euro		Down
Yen	Up	Japan		Down
Pound	Up	UK		Down
Franc	Up	Switzerland		Down

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	\$72.26	\$72.95	-0.95%	
WTI	\$68.86	\$69.50	-0.92%	
Natural Gas	\$3.24	\$3.28	-1.22%	
Crack Spread	\$59.27	\$56.32	5.23%	
12-mo strip crack	\$41.31	\$40.00	3.28%	
Ethanol rack	\$2.07	\$2.07	-0.06%	
Metals				
Gold	\$4,009.11	\$4,008.02	0.03%	
Silver	\$58.32	\$58.60	-0.47%	
Copper Contract	\$612.50	\$625.40	-2.06%	
Grains				
Corn contract	\$438.00	\$436.00	0.46%	
Wheat contract	\$592.50	\$589.25	0.55%	
Soybeans contract	\$1,144.25	\$1,143.75	0.04%	
Shipping				
Baltic Dry Freight	2,501	2,490	11	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-2.26		
Gasoline (mb)		-0.86		
Distillates (mb)		1.00		
Refinery run rates (%)		-0.40%		
Natural gas (bcf)		83		

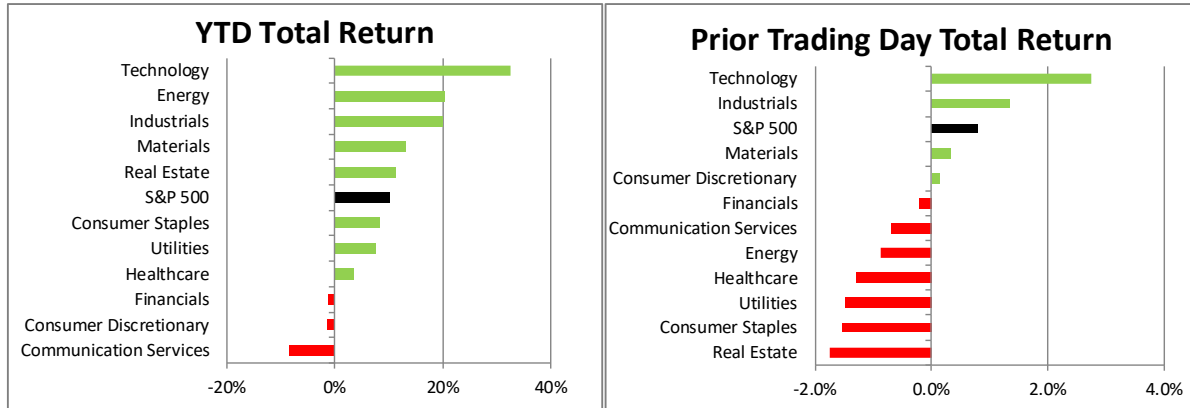
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for the entire country. The precipitation outlook forecasts wetter-than-normal conditions across the South, Rockies, and the eastern third of the country, with dry conditions in the Midwest, Great Lakes, and parts of the central Pacific region.

There is no tropical cyclone activity expected within the next seven days.

Data Section

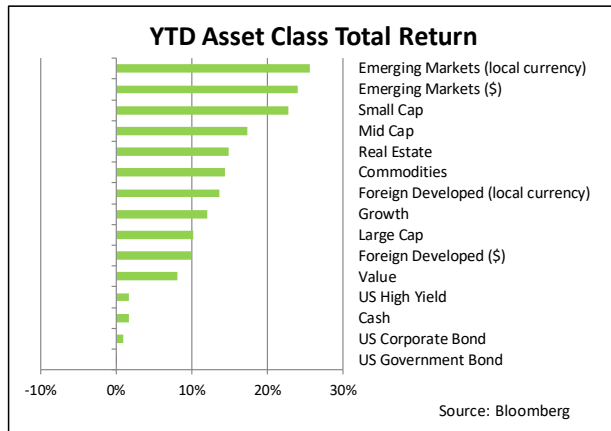
US Equity Markets – (as of 6/30/2026 close)



(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 6/30/2026 close)

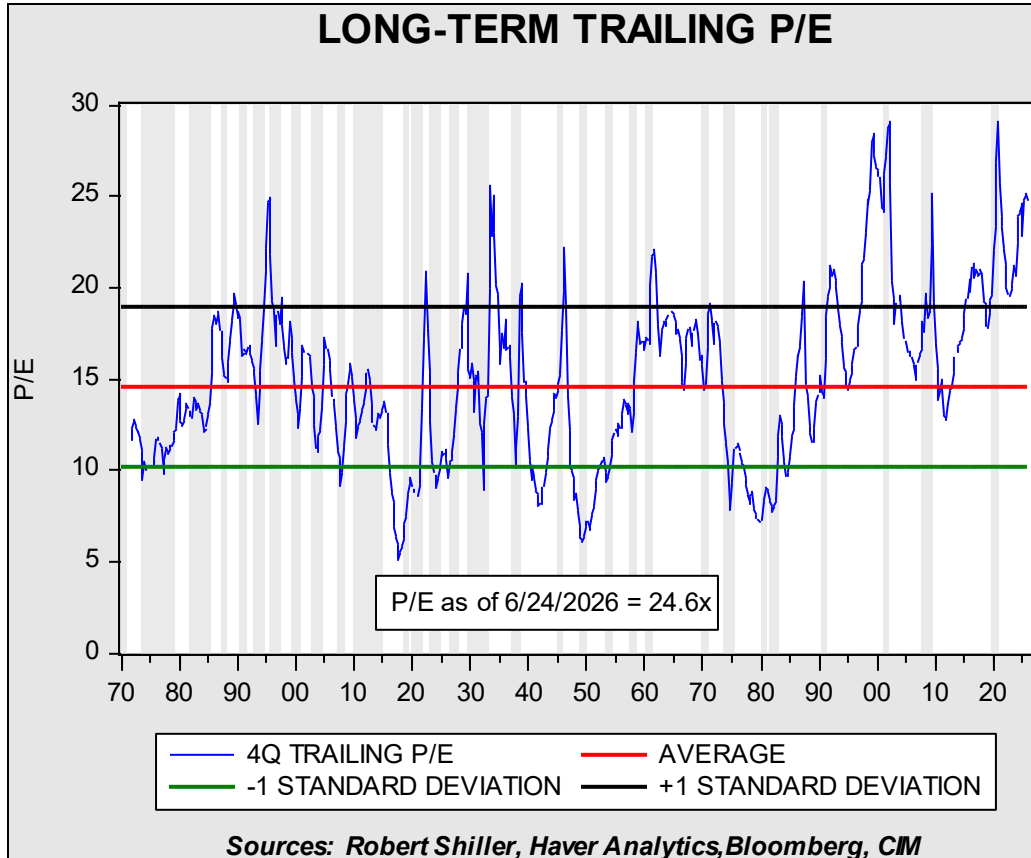


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

June 25, 2026



Based on our methodology,¹ the current P/E is 24.6x, was unchanged from the previous report. The rise in the stock price index was offset by an increase in earnings.

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, Q2, Q4) and one estimate (Q3). 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.