Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: July 2, 2026 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 0.9% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 3.8%. Chinese markets were lower with the Shanghai Composite down 2.0% and the Shenzhen Composite down 2.8%. US equity index futures are signaling a higher 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 Cyle" (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.

Note: Due to the holiday, there will not be a **Comment** ***published tomorrow. We hope everyone enjoys the celebrations for the 4th!***

Our *Comment* opens with our thoughts on the Warsh-led initiative to dismantle conventional forward guidance. Following that, we examine several key market-moving developments, including Meta's strategic pivot, the encouraging inflation figures out of the EU, and the prospect of another government equity stake. We also touch on other notable headlines before closing, as always, with a comprehensive roundup of the latest domestic and international economic data.

Warsh Fed Takes Shape: Kevin Warsh recently offered clues into how Federal Reserve communications might evolve under his leadership. Speaking on Wednesday at a central banking forum in Sintra, Portugal, Warsh joined fellow central bank heads in articulating a unified stance on forward guidance, aiming to reset market expectations.

- Additionally, Warsh downplayed the idea of immediate changes to the central bank's practices. However, he stated it was his "aspiration" to steer the Federal Reserve away from standard government data — which he labeled backward-looking — in favor of more real-time metrics. He also noted that the dots plot will remain in place for at least the short term while his task force conducts its review of Fed communications.
- That said, Warsh does not appear prepared to abandon forward guidance entirely. While he acknowledged that inflation has improved in recent weeks, he emphasized that readings above the Fed's 2% target would not be tolerated, signaling a reluctance to support near-term rate cuts. He also reiterated his preference for continuing the balance sheet runoff, stressing that any policy adjustments would be clearly communicated in advance.
- However, Warsh does appear to be following through on his plan to establish a task force. On Wednesday, he announced that former Bank of England Governor Mervyn King will lead the initiative. King has previously criticized the Fed's approach to forward guidance, arguing that policymakers should focus less on signaling specific near-term actions and more on outlining how policy would respond under different economic scenarios.
- King's appointment suggests that Warsh may favor a shift away from rigid forward guidance, potentially aligning the Federal Reserve with a more flexible, data-dependent communication framework similar to that of the Bank of England. This broader move toward reduced reliance on explicit guidance has also been echoed by other policymakers, including ECB President Christine Lagarde at a recent forum and Bank of Canada Governor Tiff Macklem last week.
- Although there is growing interest in phasing out forward guidance, it doesn't mean the transition will be a smooth one. In 2022, former Fed Chair Jerome Powell and Lagarde both moved away from forward guidance after being forced into more aggressive-than-expected tightening. Yet, both central banks ultimately reverted to the practice. Even recently, BOE Governor Andrew Bailey provided explicit guidance, noting that rate cuts are "off the table," suggesting even the Bank of England hasn't completely dropped the practice.
- Warsh's appearance at the forum gave him a platform to signal how he intends to shape the Fed's communication strategy. Market reaction so far has been muted, in part because the incoming data since he took over has largely matched expectations. In our view, as long as investors are confident that Warsh will respond decisively if inflation reaccelerates, they are likely to give him the benefit of the doubt. That goodwill could erode, however, if they begin to question his credibility.

Meta Compute: Meta wants to sell its excess computing power in a move that will likely put it in competition with its Magnificent 7 rivals Amazon, Google, and Microsoft. The move comes as Meta has been spending heavily on building its own data centers to develop its AI models. The plan involves selling access to its AI models hosted on its own infrastructure, as well as raw computing power. This shift reinforces our view that hyperscalers will eventually behave more like utilities as companies transition from growth to mature stages.

EU Inflation Eases: Preliminary data indicates that euro area inflation slowed more than expected in June. Headline inflation decelerated from 3.2% to 2.8%, undershooting consensus expectations of 3.0%. The moderation suggests that recent price pressures — partly driven by the Iran-related shock — are likely to prove transitory. In turn, the data reinforces the view that the ECB may not need to tighten further as inflation continues to move toward its 2% target.

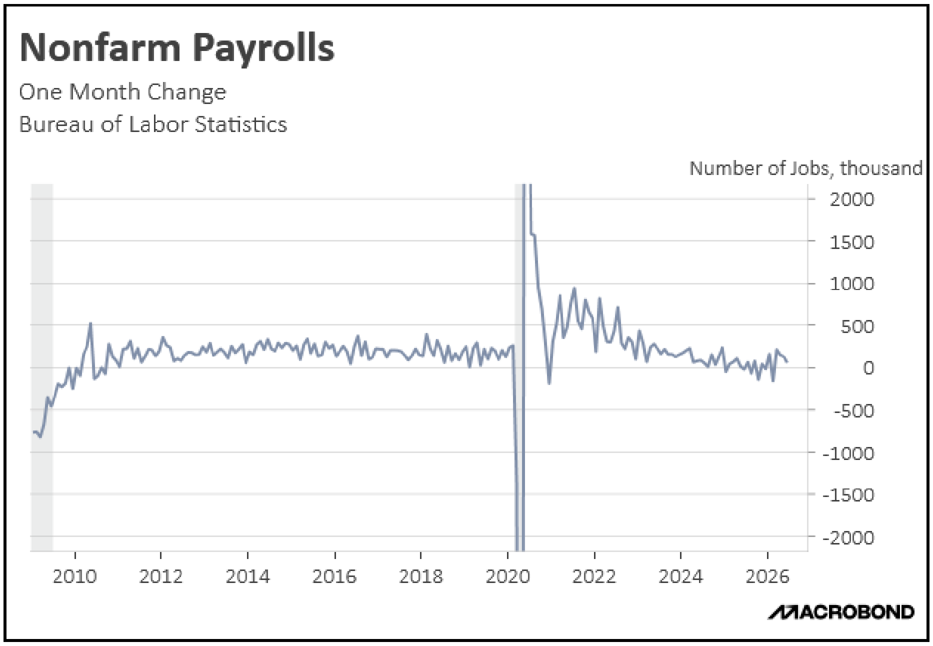
OpenAI Stake: OpenAI, the developer of ChatGPT, is reportedly considering granting the Trump administration a 5% equity stake as part of its efforts to navigate regulatory hurdles ahead of a potential IPO. The move follows recent public remarks by the president expressing interest in securing ownership in the company. If executed, this arrangement could set a precedent for other firms pursuing public listings, particularly in sectors facing heightened regulatory scrutiny. The arrangement reflects a theme in our outlook of the growing government intervention in AI.

Russian Escalation: Moscow launched significant airstrikes on Kyiv and other major Ukrainian cities on Wednesday, killing at least 17 people and injuring around 70. The attacks come amid an intensifying exchange of strikes that have targeted urban centers and signal a potential shift toward broader escalation. This dynamic suggests the conflict may be moving beyond a more contained, military-focused phase toward a wider campaign with fewer constraints on civilian infrastructure.

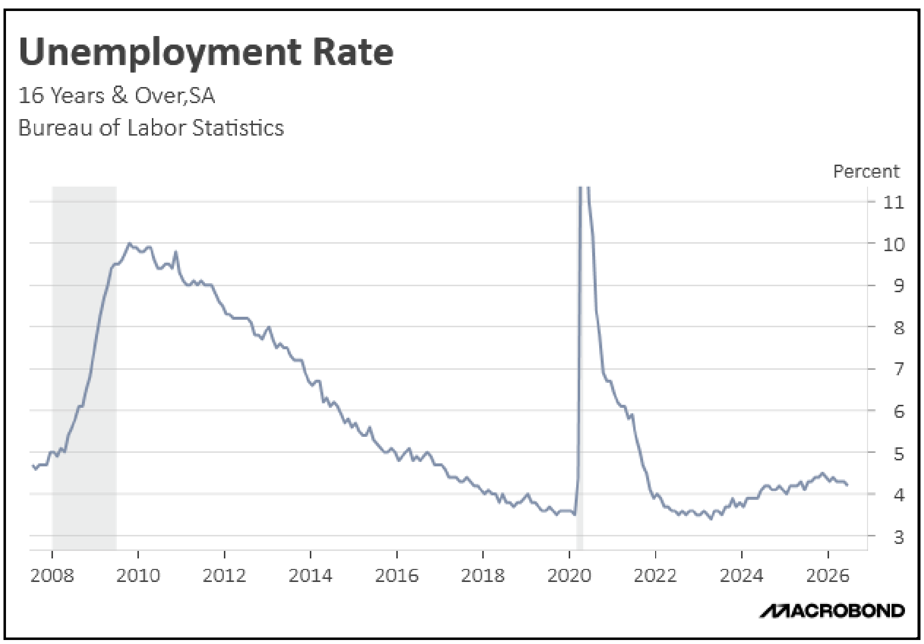
German Tax Cuts: German Chancellor Friedrich Merz has unveiled a 10 billion EUR ($11.44 billion) tax cut package aimed at jump-starting the economy. The proposal targets middle- and lower-income households. For example, a family with two children earning 60,000 EUR ($68,600) annually would receive a tax reduction of approximately 600 EUR ($686). The plan would be partially funded by raising the top marginal tax rate from 45% to 47%. Politically, the measure appears designed to shore up support among more populist factions as the ruling coalition faces declining approval.

US Economic Releases

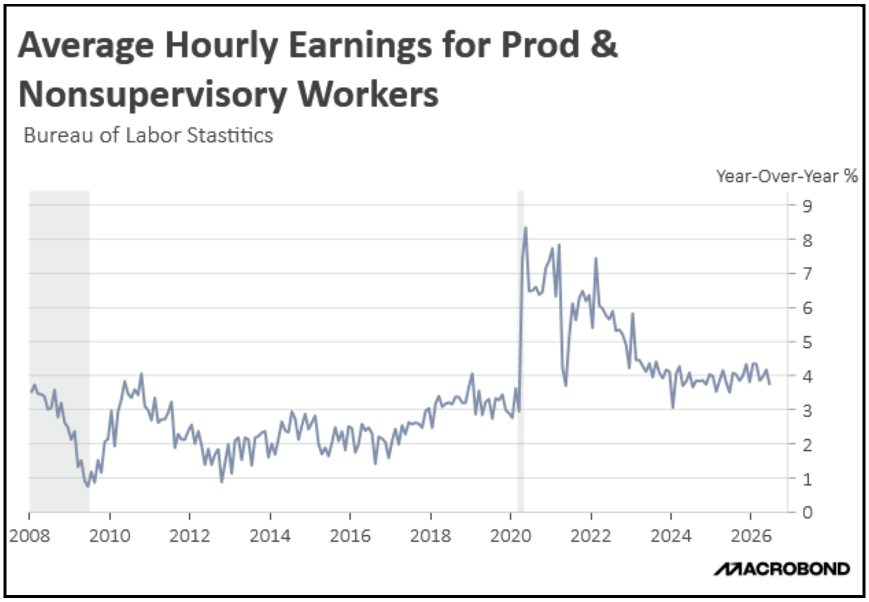
June ***nonfarm payrolls*** rose by a seasonally adjusted 57,000, almost half the expected increase of 110,000 and well below May's revised gain of 129,000. The chart below shows the change in nonfarm payrolls since shortly before the Great Financial Crisis.



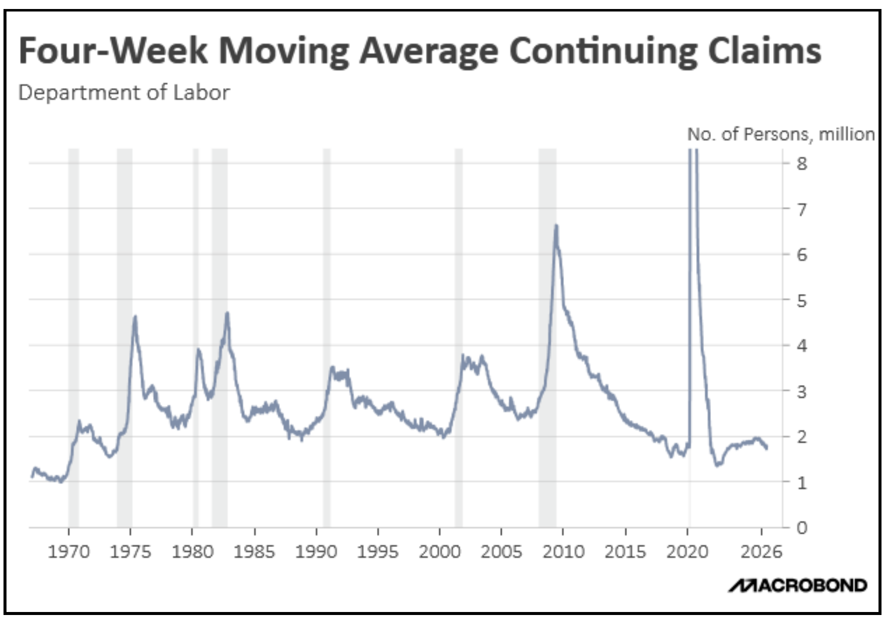
The June ***unemployment rate*** fell to a seasonally adjusted 4.2% from 4.3%, below expectations of remaining unchanged. The chart below shows how the unemployment rate has evolved since just before the GFC.



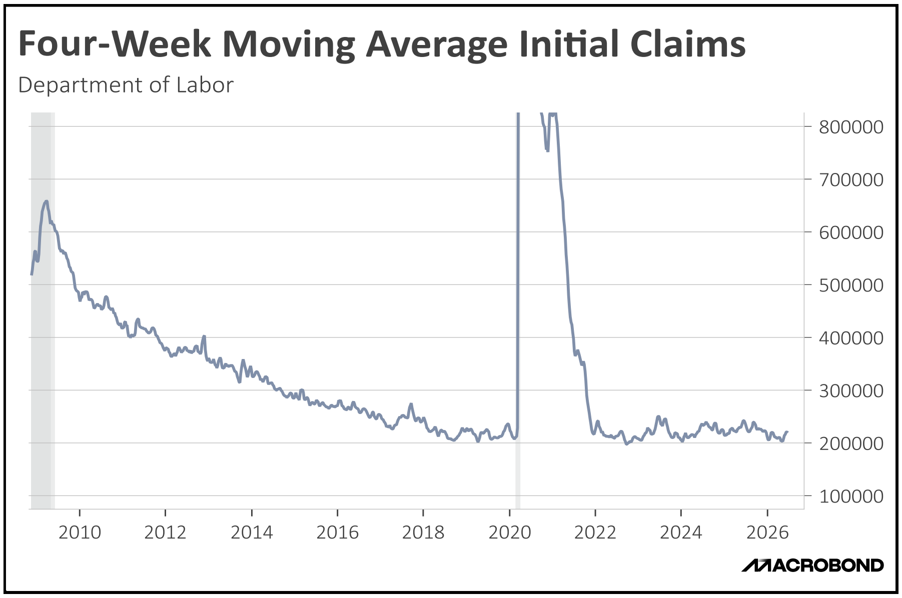
In June, ***average hourly earnings*** on a seasonally adjusted basis were up 3.5% from the same month one year earlier, in line with market expectations. The chart below shows the year-over-year growth in average hourly earnings of nonsupervisory workers since just before the GFC. Last month, earnings for production and nonsupervisory workers rose 3.7% from the previous year.



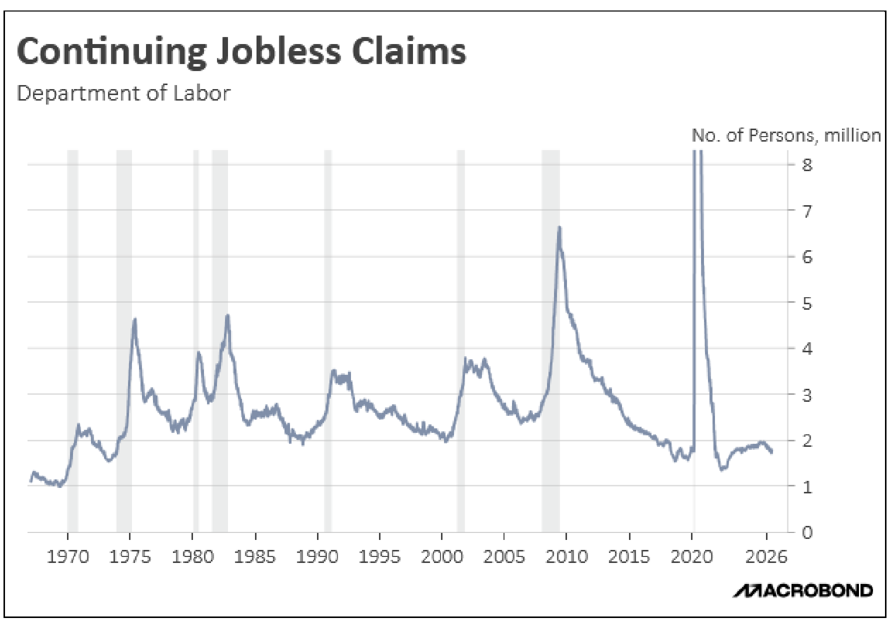
A final key indicator in the monthly employment report focuses on the share of the adult, civilian, non-institutionalized population that is either working or looking for work. The June ***labor force participation rate (LFPR)*** fell from a seasonally adjusted 61.8% to 61.5%. Excluding the pandemic period, the LFPR is now at its lowest level since the mid-1970s, at least in part reflecting legions of baby boomers retiring or otherwise falling out of the labor market. The chart below shows how the LFPR has changed over the last several decades.



In the week ended June 27, ***initial claims for unemployment benefits*** fell to a seasonally adjusted 215,000, below both the expected level of 220,000 and the revised level of 216,000 in the previous week. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, nevertheless fell to a still-modest 219,250. 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 June 20, the number of ***continuing claims for unemployment benefits*** (people continuing to draw benefits) rose to a seasonally adjusted 1.814 million, slightly above both the anticipated reading of 1.810 million and the revised reading of 1.812 million in the prior week. The four-week moving average of continuing claims rose 1,786,000. 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.



The table below lists the economic releases and Fed events scheduled for the rest of the day.

Economic Releases						
EST	**Indicator**			**Expected**	**Prior**	**Rating**
10:00	Factory Orders	m/m	May	-2.0%	4.8%	***
10:00	Factory Orders Ex Transportation	m/m	May	1.0%	1.3%	**
10:00	Durable Goods Orders	m/m	May F	-4.5%	-4.5%	***
10:00	Durable Goods Orders ex Transportation	m/m	May F	1.3%	1.3%	**
10:00	Cap Goods Orders Nondef Ex Air	m/m	May F	1.6%	1.6%	*
10:00	Cap Goods Ship Nondef Ex Air	m/m	May F	0.3%	0.3%	*
Federal Reserve						
EST	**Speaker or Event**	**District or Position**				
7:30	Mary Daly Speaks in Moderated Conversation	President of the Federal Reserve Bank of San Francisco				

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	Monetary Base	y/y	Jun	-13.7%	-12.2%		**	Equity and bond neutral
	Monetary Base, End of Period	m/m	Jun	¥560.0t	¥571.9t		*	Equity and bond neutral
	Japan Buying Foreign Bonds	w/w	26-Jun	¥280.1b	¥202.1b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	26-Jun	147.7b	¥426.7b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	26-Jun	-¥280.1b	-¥1057.3b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	26-Jun	-¥1816.5b	¥451.3b		*	Equity and bond neutral
Australia	Trade Balance	m/m	May	-A3018m	A$1383m	A$2175m	***	Equity and bond neutral
	Exports	m/m	May	-6.9%	7.2%		*	Equity and bond neutral
	Imports	m/m	May	2.6%	0.8%		*	Equity and bond neutral
New Zealand	Building Permits	m/m	May	-4.0%	11.1%		**	Equity and bond neutral
South Korea	CPI	m/m	Jun	3.2%	3.1%	3.2%	***	Equity and bond neutral
EUROPE								
Eurozone	Unemployment Rate	m/m	May	6.2%	6.2%	6.3%	**	Equity and bond neutral
Italy	Unemployment Rate	m/m	May	5.0%	5.1%		**	Equity and bond neutral
	New Car Registrations	y/y	Jun	10.6%	7.6%		*	Equity and bond neutral
Switzerland	CPI	y/y	Jun	0.5%	0.6%	0.5%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Jun	0.7%	0.9%		*	Equity and bond neutral
	Core CPI	y/y	Jun	0.3%	0.3%	0.4%	*	Equity and bond neutral
Russia	Retail Sales Real	m/m	May	7.80%	6.50%	5.50%	***	Equity bullish, bond bearish
	Unemployment Rate	m/m	May	2.10%	2.20%	2.20%	***	Equity and bond neutral
	Real Wages	y/y	Apr	5.1%	8.1%	6.0%	***	Equity bearish, bond bullish
	GDP	y/y	1Q F	-0.2%	-0.2%		**	Equity and bond neutral
AMERICAS								
Mexico	Remittances Total	m/m	May	$5611.0m	$49781m	$5575.0m	*	Equity and bond neutral
	S&P Global Mexico Manufacturing PMI	m/m	Jun	51.3	49.6		***	Equity and bond neutral
	IMEF Manufacturing Index SA	m/m	Jun	47.3	48.3	48.9	*	Equity and bond neutral
	IMEF Non-Manufacturing Index SA	m/m	Jun	49.0	48.8	49.2	*	Equity and bond neutral
Brazil	S&P Global Brazil Manufacturing PMI	m/m	Jun	50.8	49.1		***	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)	368	368	0	Up
U.S. Sibor/OIS spread (bps)	374	374	0	Up
U.S. Libor/OIS spread (bps)	372	372	0	Up
10-yr T-note (%)	4.49	4.48	0.01	Up
Euribor/OIS spread (bps)	231	232	-1	Up
Currencies	**3 Mo**			
Dollar	Down	US		Up
Euro	Up	Euro		Down
Yen	Up	Japan		Down
Pound	Up	UK		Up
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	$70.64	$71.57	-1.30%	
WTI	$67.56	$68.58	-1.49%	
Natural Gas	$3.19	$3.22	-1.02%	
Crack Spread	$57.58	$59.33	-2.94%	
12-mo strip crack	$40.31	$41.12	-1.96%	
Ethanol rack	$2.06	$2.06	0.00%	
Metals				
Gold	$4,062.14	$4,030.65	0.78%	
Silver	$59.66	$59.15	0.86%	
Copper Contract	$613.95	$617.95	-0.65%	
Grains				
Corn contract	$444.50	$442.25	0.51%	
Wheat contract	$603.00	$600.00	0.50%	
Soybeans contract	$1,154.50	$1,149.25	0.46%	
Shipping				
Baltic Dry Freight	2,562	2,501	61	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	-3.78	-2.26	-1.51	
Gasoline (mb)	-2.33	-0.86	-1.47	
Distillates (mb)	2.48	1.00	1.48	
Refinery run rates (%)	0.05%	-0.40%	0.45%	
Natural gas (bcf)		84		

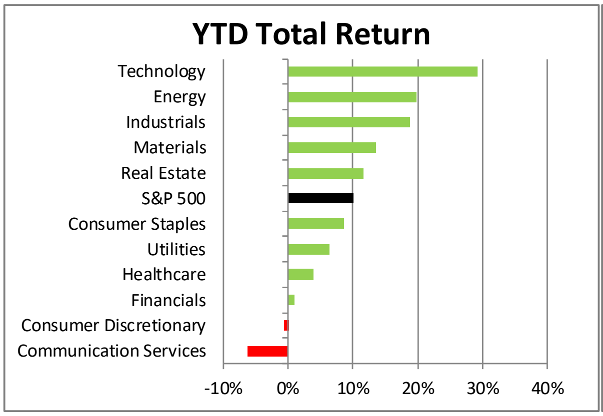
Weather

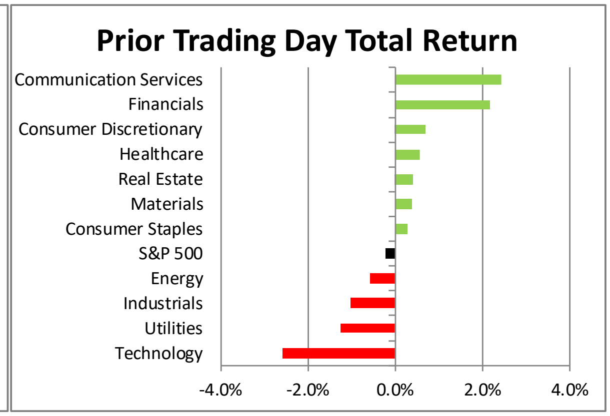
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for the entire country. The precipitation outlook forecasts wetter-than-normal conditions across the South, Rockies, Great Plains, and most of the eastern half of the country, with dry conditions in the Great 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 7/1/2026 close)

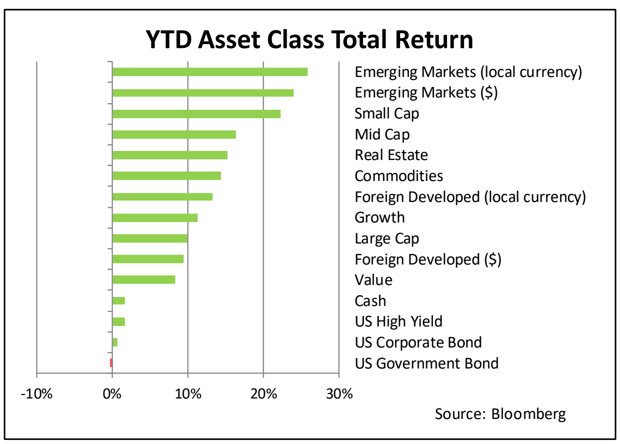




(Source: Bloomberg)

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 7/1/2026 close)

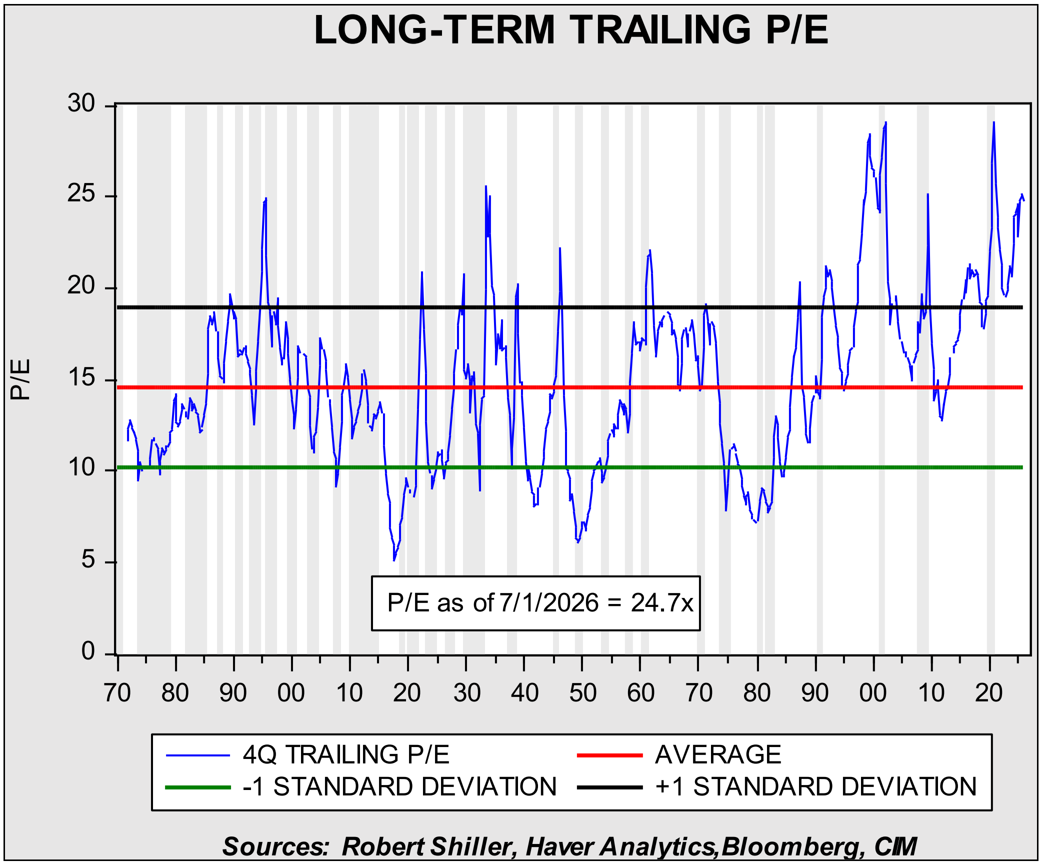


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

July 2, 2026



Based on our methodology,[1] the current P/E is 24.7x, up 0.1 from the previous report. The rise in the stock price index outpaced the rise 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.