



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: July 6, 2026 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 0.1% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.1%. Chinese markets were lower with the Shanghai Composite down 0.1% and the Shenzhen Composite down 1.3%. 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 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* today opens with some interesting comments by a major Japanese defense industry leader warning that civilian industrial firms will not necessarily be able to exploit growing defense budgets around the world. We next review several other international and US developments that could affect the financial markets today, including the latest developments around the global oil market as the Strait of Hormuz reopens to shipping and the weekend launch of the “Trump Accounts” program.

Global Defense Industry: Amid a growing global trend of auto firms with underutilized factories trying to convert to green energy and defense products to take advantage of better prospects there, the head of a major Japanese defense contractor today [has warned that auto factories probably can’t be used successfully to produce high-demand military drones](#). According to Eisaku Ito, chief executive of Mitsubishi Heavy Industries, the problem is that production issues between drones and autos are so dramatically different.

- As Ito explains it, factories geared toward automaking or producing other types of standardized, high-volume industrial products would not be able to handle the constant technological changes associated with drones.
- Ito's statement is important because many struggling industrial firms around the world likely see a silver bullet in the world's rising defense budgets, which we have discussed in detail. However, investors should probably be wary of whether such "conversion" efforts can work. Experienced defense contractors and closely related technology firms are likely to be more successful in exploiting the trend.

Global Oil Market: The *Wall Street Journal* today carries a useful article noting that oil tanker traffic through the Strait of Hormuz is starting to recover rapidly following the new US-Iran ceasefire and prices [have fallen almost back to their pre-war levels](#). Near Brent crude futures are trading at about \$71.94 per barrel this morning, and some analysts think they could fall to the mid-60s soon. However, the article notes that countries trying to rebuild their emergency stockpiles could help push prices higher again later in the year.

China: The People's Liberation Army today said a PLA Navy submarine [has test fired a long-range ballistic missile carrying a dummy warhead from the waters off northeast China](#). The missile apparently landed in the southern Pacific Ocean. Although the PLA notified neighboring countries of the launch ahead of time and publicly asserted that it was part of its normal training cycle, US allies in the region have condemned it as destabilizing.

- More broadly, the launch is further evidence that Beijing is trying to take advantage of the US administration's preference to ease tensions and establish a kind of détente with China after years of escalating bilateral tensions.
- If Chinese officials really do believe that the US will now pull its punches, they could miscalculate, raising the risk of going too far and sparking an international crisis that could be unsettling for financial markets.

United States-Italy: Ahead of this week's summit of the North Atlantic Treaty Organization, during which leaders from the US, Canada, and many European countries will meet, President Trump [has posted a social media meme saying Italian Prime Minister Meloni needs a restraining order](#). The meme illustrates the rapid deterioration in relations between the erstwhile allies. It also comes as even many right-wing European leaders have begun to distance themselves politically from the US president, signaling continued tensions even as more right-wing parties gain power.

US Politics: In a speech commemorating Independence Day on Friday, President Trump [warned that a "resurgence of the communist menace in our land" is currently the "greatest threat" to the US](#), on par with both world wars and the 9/11 terror attacks. The statement illustrates what is likely to be a key Republican attack line against the Democrats in this autumn's midterm congressional elections, given that Democratic Socialists have recently won many Democratic primaries across the US.

- It's not clear that the attack line will be successful.

- However, to the extent it is successful, it would offset other favorable trends that have buoyed Democratic hopes for taking control of at least the House of Representatives.

US Financial Markets: Over the weekend, the Treasury Department [officially launched the new “Trump Accounts” program](#), which gives citizens born between 2025 and 2028 a government-funded, tax-deferred investment account of \$1,000 that families can build on over time. Firms can also elect to match employee contributions to the funds. Initially, contributions will be invested in low-cost US stock index funds, such as the State Street SPDR Portfolio S&P 500 ETF (SPYM).

US Economic Releases

There were no domestic releases prior to the publication of this report. 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 Services PMI	m/m	Jun F	51.3	51.3	***
9:45	S&P Global US Composite PMI	m/m	Jun F	52.3	52.2	***
10:00	ISM Services Index	m/m	Jun	54	54.5	***
10:00	ISM Services Prices Paid	m/m	Jun	67.5	71.3	*
10:00	ISM Services New Orders	m/m	Jun	56.8	57.3	*
10:00	ISM Services Employment	m/m	Jun	48.2	47.9	*
Federal Reserve						
EST	Speaker or Event	District or Position				
11:00	Christopher Waller at Conference in Rome	Member 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	S&P Global Japan Composite PMI	m/m	Jun F	52.8	52.5		*	Equity and bond neutral
	S&P Global Japan Services PMI	m/m	Jun F	52.2	51.8		*	Equity and bond neutral
Australia	S&P Global Australia Composite PMI	m/m	Jun F	50.4	49.8		*	Equity and bond neutral
	S&P Global Australia Services PMI	m/m	Jun F	50.5	49.9		*	Equity and bond neutral
	Melbourne Institute Inflation	y/y	Jun	3.9%	4.4%		***	Equity and bond neutral
	ANZ-Indeed Job Advertisements	m/m	Jun	-0.2	2.0		*	Equity and bond neutral
New Zealand	ANZ Consumer Confidence Index	m/m	Jun	91.3	86.5		*	Equity and bond neutral
	ANZ Commodity Price	m/m	Jun	-1.0%	0.7%		**	Equity and bond neutral
China	RatingDog China PMI Composite	m/m	Jun	53.6	54.0		**	Equity and bond neutral
	RatingDog China PMI Services	m/m	Jun	51.4	54.4	53.0	**	Equity bearish, bond bullish
India	HSBC India PMI Composite	m/m	Jun F	57.1	57.4		**	Equity and bond neutral
	HSBC India PMI Services	m/m	Jun F	57.4	57.3		**	Equity and bond neutral
EUROPE								
Eurozone	S&P Global Eurozone Services PMI	m/m	Jun F	49.4	48.9	48.9	**	Equity and bond neutral
	S&P Global Eurozone Composite PMI	m/m	Jun F	50.0	49.5	49.5	*	Equity and bond neutral
	PPI	y/y	May	5.9%	5.0%	5.8%	**	Equity and bond neutral
	Retail Sales	y/y	May	1.6%	0.9%	1.6%	*	Equity and bond neutral
Germany	S&P Global Germany Services PMI	m/m	Jun F	48.6	46.8	46.8	**	Equity and bond neutral
	S&P Global Germany Composite PMI	m/m	Jun F	49.5	48.0	48.0	**	Equity bullish, bond bearish
	Factory Orders WDA	y/y	May	6.2%	2.1%	4.6%	***	Equity bullish, bond bearish
	S&P Global Germany Construction PMI	m/m	Jun	44.8	42.4		*	Equity and bond neutral
France	Industrial Production	y/y	May	3.2%	2.9%	2.9%	***	Equity and bond neutral
	Manufacturing Production	y/y	May	2.5%	2.6%		**	Equity and bond neutral
	S&P Global France Services PMI	m/m	Jun F	46.8	47.4	47.4	**	Equity and bond neutral
	S&P Global France Composite PMI	m/m	Jun F	47.2	47.6	47.6	**	Equity and bond neutral
UK	S&P Global UK Construction PMI	m/m	Jun	38.4	38.2	40.0	**	Equity bearish, bond bullish
	New Car Registrations	y/y	Jun	11.4%	7.1%		*	Equity and bond neutral
Switzerland	Domestic Sight Deposits CHF	w/w	3-Jul	440.9b	440.6b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	3-Jul	479.2b	474.7b		*	Equity and bond neutral
	Unemployment Rate	m/m	Jun	2.9%	3.0%	2.9%	**	Equity and bond neutral
Russia	Gold and Forex Reserves	m/m	30-Jun	\$715.2b	\$743.8b		***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	30-Jun	21.37t	21.36t		*	Equity and bond neutral
	S&P Global Russia Composite PMI	m/m	Jun	48.9	49.2		**	Equity and bond neutral
	S&P Global Russia Services PMI	m/m	Jun	48.2	48.7		**	Equity and bond neutral
AMERICAS								
Canada	S&P Global Canada Manufacturing PMI	m/m	Jun	53.0	52.9		***	Equity and bond neutral
Mexico	Vehicle Domestic Sales	y/y	Jun	126778	127107		*	Equity and bond neutral
	Consumer Confidence	m/m	Jun	43.8	43.4	44.3	*	Equity and bond neutral
Brazil	Industrial Production	y/y	May	0.2%	2.7%	1.2%	***	Equity bearish, bond bullish
	S&P Global Brazil Composite PMI	m/m	Jun	50.7	49.5		***	Equity and bond neutral
	S&P Global Brazil Services PMI	m/m	Jun	51.3	50.4		***	Equity and bond neutral
	Trade Balance	m/m	Jun	\$9758m	\$7679m	\$11000m	**	Equity and bond neutral
	Exports	m/m	Jun	\$36277m	\$31753m	\$37900m	*	Equity and bond neutral
	Imports	m/m	Jun	\$26520m	\$24074m	\$26600m	*	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)	366	367	-1	Up
U.S. Sibor/OIS spread (bps)	373	372	1	Up
U.S. Libor/OIS spread (bps)	372	370	2	Up
10-yr T-note (%)	4.46	4.49	-0.03	Up
Euribor/OIS spread (bps)	232	234	-2	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	\$71.70	\$72.12	-0.58%	
WTI	\$68.30	\$68.69	-0.57%	
Natural Gas	\$3.23	\$3.20	1.16%	
Crack Spread	\$59.71	\$59.50	0.35%	
12-mo strip crack	\$41.76	\$41.79	-0.06%	
Ethanol rack	\$2.07	\$2.07	0.00%	
Metals				
Gold	\$4,153.17	\$4,176.94	-0.57%	
Silver	\$62.19	\$62.42	-0.35%	
Copper Contract	\$621.80	\$616.90	0.79%	
Grains				
Corn contract	\$455.00	\$441.50	3.06%	
Wheat contract	\$609.75	\$599.75	1.67%	
Soybeans contract	\$1,182.25	\$1,147.75	3.01%	
Shipping				
Baltic Dry Freight	2,717	2,650	67	

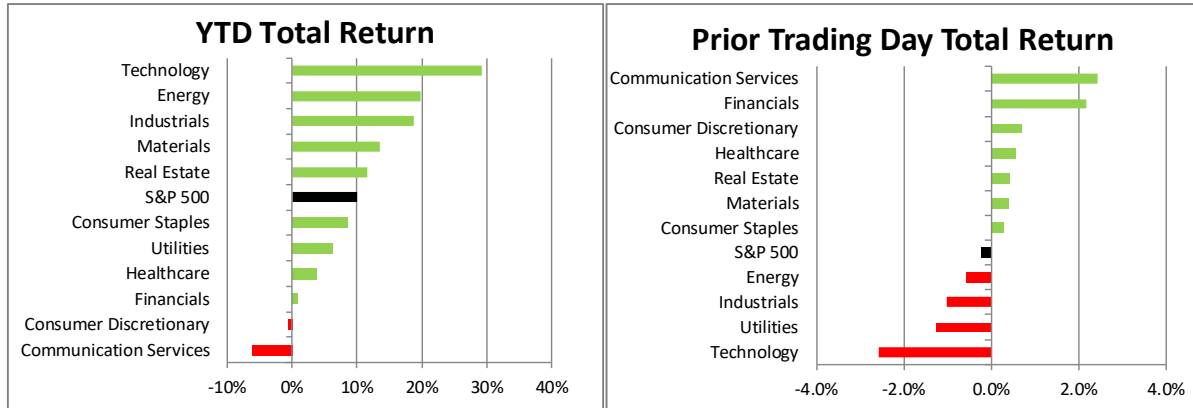
Weather

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, most of the eastern half of the country, and parts of the Pacific, with dry conditions expected in the Midwest and Great Plains.

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

Data Section

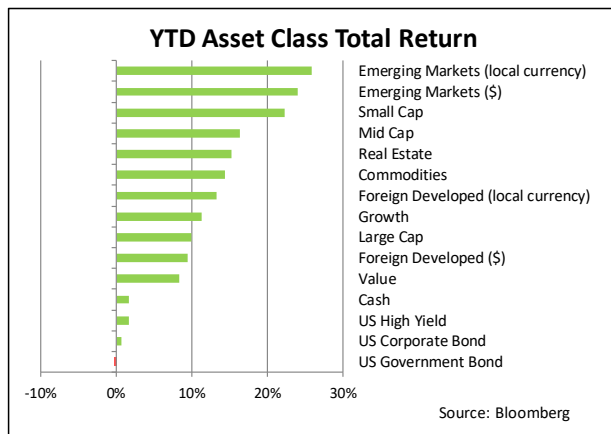
US Equity Markets – (as of 7/2/2026 close)



(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 7/2/2026 close)

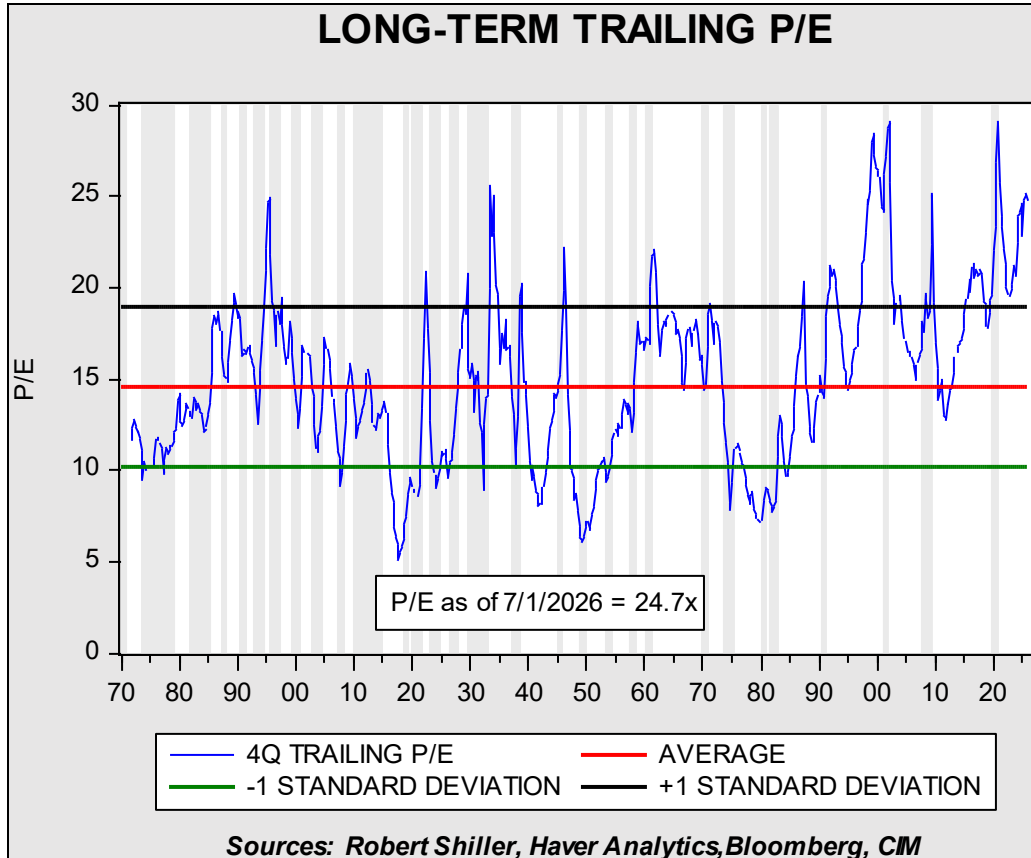


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.