



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: July 1, 2025 — 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 up 0.8%. Chinese markets were higher, with the Shanghai Composite up 0.4% from its previous close and the Shenzhen Composite up 0.2%. 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
“Introducing Friedrich Merz” (6/23/25) + podcast	“The Hidden Battle in the ‘One Big, Beautiful Bill’” (6/30/25) + podcast	Q2 2025 Report Q2 2025 Rebalance Presentation	NEW: The Confluence Mailbag Podcast Business Cycle Report

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

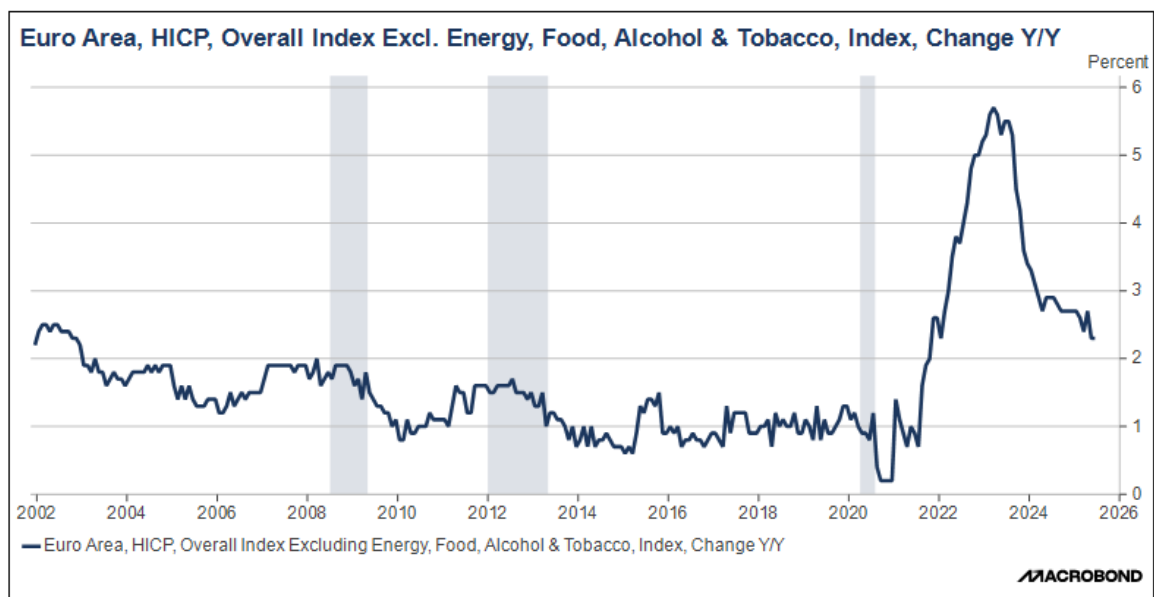
Our *Comment* today opens with the latest on US trade policy. Specifically, we note that the Trump administration has apparently shifted tactics as the president’s July 9 deal deadline approaches. We next review several other international and US developments with the potential to affect the financial markets today, including a rebound in eurozone price inflation and the latest on the fate of Trump’s “big, beautiful” tax-and-spending bill in the US Senate.

US Tariff Policy: With it looking increasingly unlikely that the Trump administration will meet its July 9 deadline to strike comprehensive trade deals with dozens of countries, officials [are now reportedly shifting gears to focus on achieving only narrow “agreements in principle” on specific trade issues](#), with the hope of striking broader deals later.

- As we’ve noted in the past, it was always a stretch to think the administration could finalize so many big trade deals in just a few months. If Trump officials really are prepared to accept that, trade tensions between the US and some countries could cool.

- All the same, it would not be a surprise for Trump to ratchet up threats this week against major trading partners such as the European Union and [Japan](#). Talks with both economies have proven tough and given how significant they are for the US trade balance, Trump may well decide to focus his guns on them.

Eurozone: The June consumer price index [was up 2.0% from the same month one year earlier](#), matching expectations and bringing inflation back to the European Central Bank's target after the rise of 1.9% in the year to May. However, excluding volatile categories such as food and energy, the June "core" CPI was up 2.3% on the year, matching its annual rise in May. The data supports the idea that the ECB will soon stop reducing its interest-rate cuts out of fear that core inflation won't fall to target.



China: The Communist Party late last week [removed the Chinese military's top ideology officer, Miao Hua, from his role on the powerful Central Military Commission](#). Miao had been ousted from the National People's Congress earlier this year, after the government said he was being investigated for corruption last November. Separately, the Party [also kicked the navy's chief of staff and a top nuclear scientist out of the NPC](#). The moves suggest the Chinese military remains in the grip of corruption, which is a problem some observers think has hurt military readiness.

China-Japan: The Chinese government yesterday [said it will allow the partial resumption of seafood imports from Japan](#). Beijing had banned all Japanese seafood imports in mid-2023, after Tokyo's release of wastewater from the wrecked Fukushima No. 1 nuclear power plant. Given that fishing and aquaculture are important industries in Japan, the partial lifting of the ban is likely an effort by Beijing to curry favor with Japan and discourage it from cooperating with the US's effort to isolate China militarily and economically.

Thailand: The Constitutional Court today [suspended Prime Minister Shinawatra from power as it considers her handling of a border crisis with neighboring Cambodia](#). As we noted in an earlier

Comment, the country's powerful royalist-military elites have targeted Shinawatra after a leaked recording of a phone call with former Cambodian leader Hun Sen showed her castigating the Thai military. In its final decision, the court could well force Shinawatra from power, adding to the political uncertainty in the country.

United States-Iran: According to the *Washington Post*, the US intelligence agencies have intercepted a communication between senior Iranian officials in which they are heard [saying the US military attacks on Iranian nuclear sites last month were not as devastating as they expected](#). The Trump administration admitted the existence of the intercept but continues to insist that the attacks largely "obliterated" key sites related to Iran's nuclear program. The report adds to the evidence that the attacks did not destroy Iran's program but merely disrupted and delayed it.

US Fiscal Policy: As of this writing, the Senate [is still trudging through the voting on its version of President Trump's "big, beautiful" tax-and-spending bill](#). Most of the floor amendments voted on so far have failed, but the senators [have voted to strip the bill of its moratorium on the states regulating artificial intelligence](#). As we've noted before, the Republican majority is struggling to limit defections, and passage of the bill is not yet ensured.

- Of course, if the bill does pass the Senate, it will then need to go back to the House. The two chambers would then have to quickly negotiate a reconciled bill and have it pass both chambers if the Republican leadership is to meet its goal of sending the bill to Trump by July 4.
- Although more amendments could still alter the bill, the results so far suggest any legislation that is finally signed into law will significantly expand the federal budget deficit over the next decade. That will likely provide some stimulus to the economy in the near term, but bond investors could well look askance at the rising deficits, become even less avid in their purchases of Treasury debt, and drive interest rates higher over time.

US Housing Policy: The California legislature [last night approved two bills reining in the state's stringent environmental regulations](#), and Governor Gavin Newsom promptly signed them into law. Newsom, who is considered a likely Democratic candidate for president in 2028, had demanded the bills be passed to help spur real estate development and address the state's critical shortage of housing. If the legislation achieves that, California's large size means that homebuilders and related firms could see a noticeable increase in future business.

US Economic Releases

There were no economic releases prior to the publication of this report. The table below lists the economic releases and/or 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	52.0	52.0	***
10:00	ISM Manufacturing	m/m	Jun	48.8	48.5	**
10:00	ISM Prices Paid	m/m	Jun	69.5	69.4	**
10:00	ISM New Orders	m/m	Jun	48.1	47.6	**
10:00	ISM Employment	m/m	Jun	47.1%	46.8	*
10:00	Construction Spending	m/m	May	-0.2%	-0.4%	**
10:00	JOLTS Job Openings	m/m	May	7300k	7391k	*
10:30	Dallas Fed Services Activity	m/m	Jun		-10.1	**
	Wards Total Vehicle Sales	m/m	Jun	15.30m	15.65m	*
Federal Reserve						
EST	Speaker or Event	District or Position				
9:30	Lagarde, Powell, Bailey, Carstens speak in Policy panel in Sintra	Heads of central banks in the Europe, US, Japan, and Korea				
9:30	Jerome Powell participates in Panel with Lagarde, Bailey, Ueda	Heads of central banks in the US, Europe, UK, and Mexico				

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 change 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	13	12	10	***	Equity bullish, bond bearish
	Tankan Large Manufacturing Outlook	q/q	2Q	12	12	9	***	Equity bullish, bond bearish
	Tankan Large Non-Manufacturing Index	q/q	2Q	34	35	34	***	Equity and bond neutral
	Tankan Large Non-Manufacturing Outlook	q/q	2Q	27	28	29	***	Equity bearish, bond bullish
	Tankan Large All-Industry Capex	q/q	2Q	11.5%	3.1%	10.0%	***	Equity bullish, bond bearish
	S&P Global Japan PMI Mfg	y/y	Jun F	50.1	50.4		***	Equity and bond neutral
	Consumer Confidence Index	m/m	Jun	34.5	32.8	33.5	*	Equity bullish, bond bearish
Australia	S&P Global Australia Manufacturing PMI	m/m	Jun F	50.6	51.0		***	Equity and bond neutral
New Zealand	Building Permits	m/m	May	10.4%	-14.6%		**	Equity and bond neutral
South Korea	Trade Balance	m/m	Jun	\$9076m	\$6931m	\$8400m	*	Equity and bond neutral
	Exports	y/y	Jun	4.3%	-1.3%	5.1%	***	Equity bearish, bond bullish
	Imports	y/y	Jun	3.3%	-5.3%	5.6%	**	Equity bearish, bond bullish
	S&P Global South Korea PMI Manufacturing	m/m	Jun	48.7	47.7		***	Equity and bond neutral
China	Caixin Manufacturing PMI	m/m	Jun	50.4	48.3	49.3	***	Equity and bond neutral
India	HSBC India PMI Mfg	m/m	Jun F	58.4	58.4		***	Equity and bond neutral
EUROPE								
Eurozone	HCOB Eurozone Manufacturing PMI	m/m	Jun F	49.5	49.4	49.4	***	Equity and bond neutral
	CPI	y/y	Jun P	2.0%	1.9%	2.0%	***	Equity and bond neutral
	Core CPI	y/y	Jun P	2.3%	2.3%	2.3%	**	Equity and bond neutral
Germany	Unemployment Change	m/m	Jun	11.0k	33.0k	16.5k	***	Equity and bond neutral
	Unemployment Claims Rate	m/m	Jun	6.3%	6.3%	6.4%	**	Equity and bond neutral
	HCOB Germany Manufacturing PMI	m/m	Jun F	49.0	49.0	49.0	***	Equity and bond neutral
France	HCOB France Manufacturing PMI	m/m	Jun F	48.1	47.8	47.8	***	Equity and bond neutral
Italy	HCOB Italy Manufacturing PMI	m/m	Jun	48.4	49.2	49.5	***	Equity bearish, bond bullish
UK	Nationwide House Price Index	y/y	Jun	2.1%	3.5%	3.1%	***	Equity and bond neutral
	S&P Global UK Manufacturing PMI	m/m	Jun F	47.7	47.7	47.7	***	Equity and bond neutral
Switzerland	Real Retail Sales	y/y	May	0.0%	0.9%		**	Equity and bond neutral
	PMI Manufacturing	m/m	Jun	49.6	42.1	44.0	***	Equity and bond neutral
	PMI Services	m/m	Jun	48.5	56.3		***	Equity and bond neutral
Russia	Current Account Balance	q/q	1Q F	17727m	19800m		**	Equity and bond neutral
	S&P Global Russia Manufacturing PMI	m/m	Jun	47.5	50.2		***	Equity and bond neutral
AMERICAS								
Brazil	Formal Job Creation Total	m/m	May	148992	237377	176000	*	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)	423	422	1	Up
U.S. Sibor/OIS spread (bps)	430	430	0	Up
U.S. Libor/OIS spread (bps)	428	428	0	Down
10-yr T-note (%)	4.19	4.23	-0.04	Down
Euribor/OIS spread (bps)	194	194	0	Down
Currencies	Direction			
Dollar	Up			Down
Euro	Down			Up
Yen	Up			Up
Pound	Down			Up
Franc	Down			Up

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	\$67.19	\$66.74	0.67%	
WTI	\$65.62	\$65.11	0.78%	
Natural Gas	\$3.39	\$3.46	-2.03%	
Crack Spread	\$24.68	\$24.84	-0.65%	
12-mo strip crack	\$22.53	\$22.59	-0.24%	
Ethanol rack	\$1.82	\$1.82	-0.25%	
Metals				
Gold	\$3,353.63	\$3,303.14	1.53%	
Silver	\$36.53	\$36.11	1.18%	
Copper contract	\$515.15	\$508.25	1.36%	
Grains				
Corn contract	\$403.00	\$409.25	-1.53%	
Wheat contract	\$544.25	\$538.25	1.11%	
Soybeans contract	\$1,018.75	\$1,027.00	-0.80%	
Shipping				
Baltic Dry Freight	1,489	1,521	-32	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-3.51		
Gasoline (mb)		1.00		
Distillates (mb)		-0.16		
Refinery run rates (%)		0.3%		
Natural gas (bcf)		87		

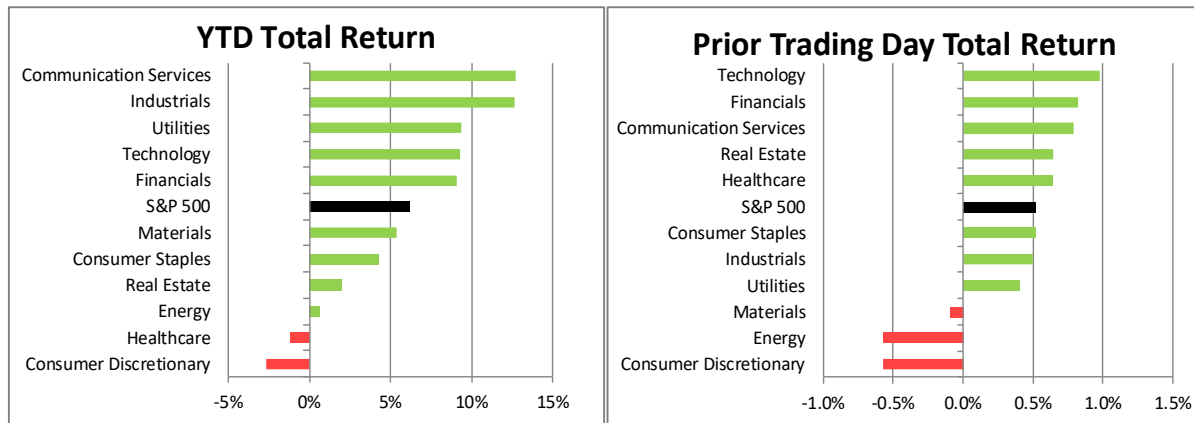
Weather

The latest 6-to-10-day and 8-to-14-day forecasts indicate warmer-than-normal conditions in the northwestern quadrant of the country and the Southeast. The forecasts indicate wetter-than-normal conditions for most of the country.

The latest 7-day tropical weather outlook indicates an area of disturbance straddling Florida with a 30% chance of cyclonic formation.

Data Section

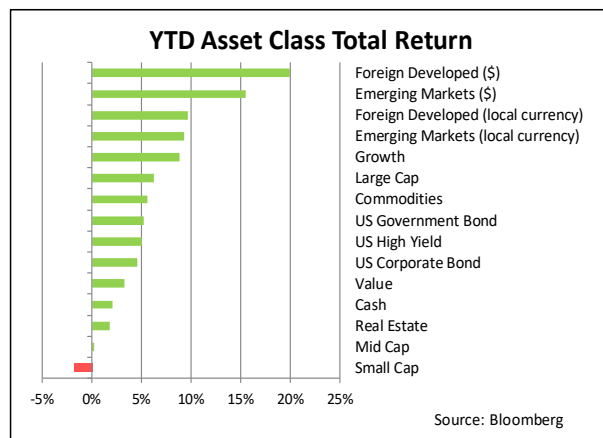
US Equity Markets – (as of 6/30/2025 close)



(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 6/30/2025 close)

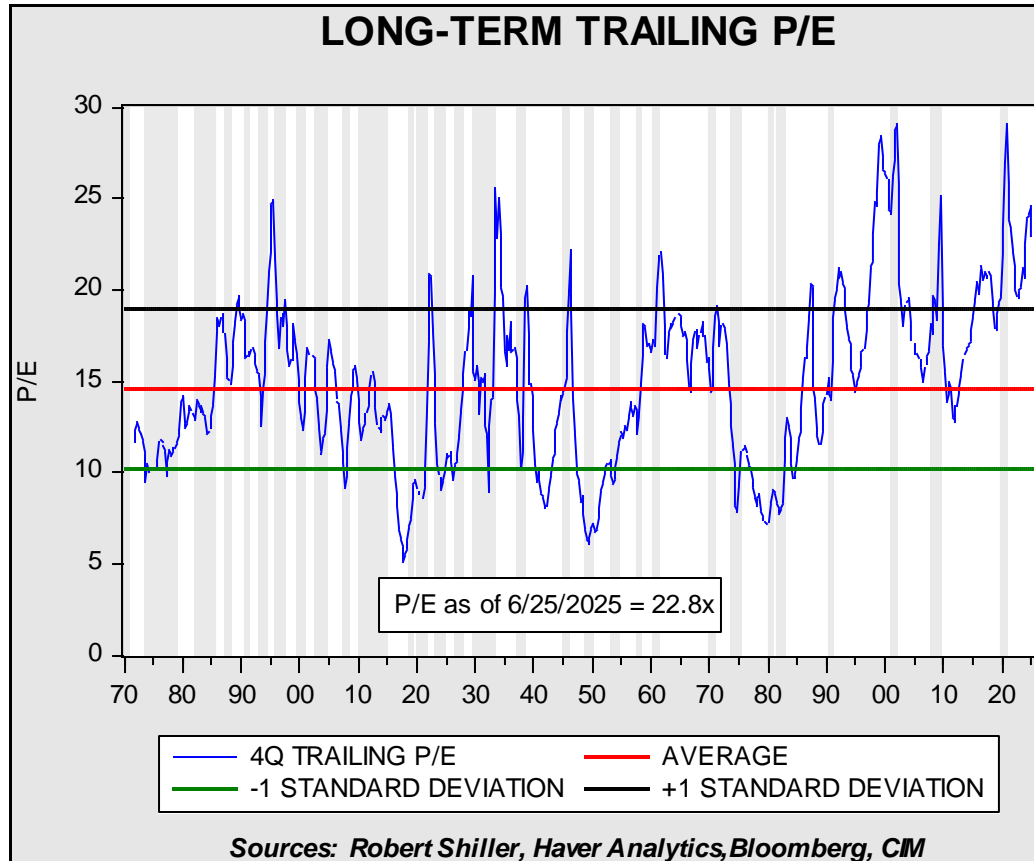


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 26, 2025



Based on our methodology,¹ the current P/E is 22.8x, up 0.1 from our last report. The increase in the multiple was due to a rise in the stock price index.

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 (Q2, Q3, and Q4) and one estimate (Q1). 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.