



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: July 2, 2025 — 9:30 AM ET Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 0.7% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.2%. Chinese markets were lower, with the Shanghai Composite down 0.1% from its previous close and the Shenzhen Composite down 0.7%. 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 US Senate’s passage yesterday of President Trump’s singular “big, beautiful” tax-and-spending bill. We next review several other international and US developments with the potential to affect the financial markets today, including monetary policy discussions by a range of global central bankers and new data pointing to a burgeoning use of robots in a key US firm.

US Fiscal Policy: By the slimmest possible majority, the Senate yesterday [passed its version of President Trump’s “big, beautiful” tax-and-spending bill](#). The final tally was 51-50, with Vice President Vance providing the tie-breaking vote. In broad contours, the bill [would cut spending on Medicaid, food stamps, and green-energy subsidies while hiking defense outlays and extending Trump’s 2017 tax cuts](#). The bill, as passed, is estimated to widen the federal budget deficit by more than \$3 trillion over the coming decade, versus the House bill’s \$2.4 trillion.

- The bill now goes back to the House of Representatives for its approval, but dozens of Republicans in that chamber [have said they can't accept the Senate's changes](#) and will vote no. President Trump, House Speaker Johnson, and his whips are expected to spend the next few days furiously arm-twisting the hold outs to pass the bill
- If the House can't accept the Senate bill as written, the two chambers' leaders would need to hash out a compromise that can be approved by both bodies, in which case the bill probably wouldn't get to Trump's desk for signing until after his deadline of July 4.
- As we've noted previously, the likely expansion of the budget deficit in the final bill would 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.

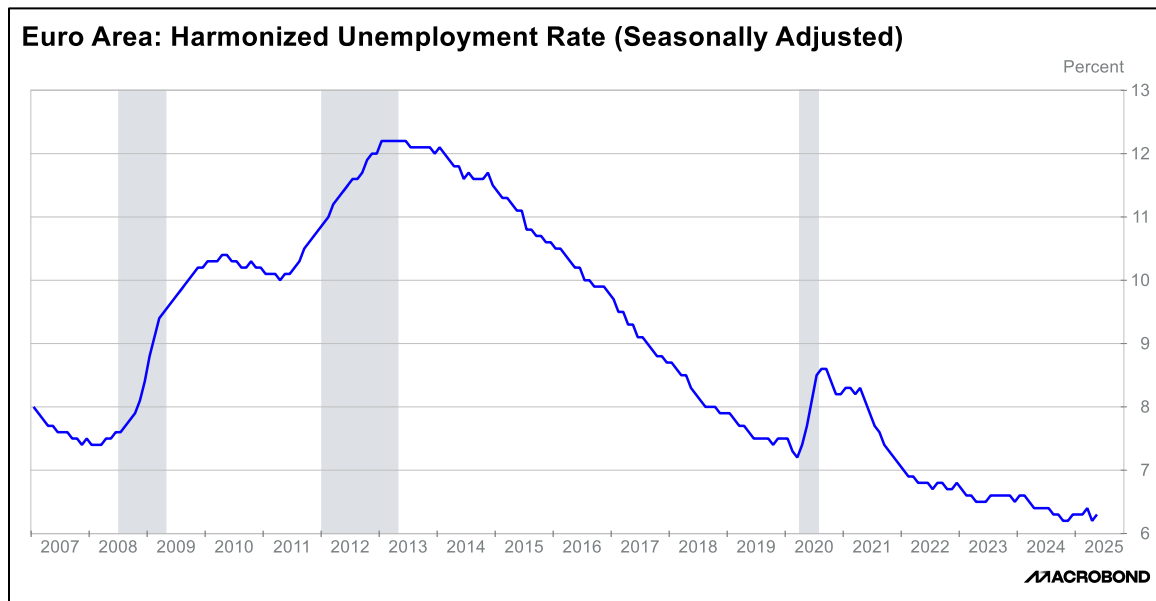
Global Oil Market: According to the *Financial Times* today, at least five oil tankers around the world [have been attacked by limpet mines so far this year, shortly after visiting Russian ports](#). The attacks, which haven't sunk any of the tankers, are suspected of being carried out by Ukrainian operatives as a way to discourage ship owners from helping Russia export its oil. If so, the effort likely aims to reduce Russian oil profits that are helping fund its invasion of Ukraine. The risk is that a high-profile attack or sinking could at some point roil the world's energy markets.

China-United States: In a Fox News interview yesterday, Treasury Secretary Bessent said Chinese rare-earth magnets are again being shipped to the US after last week's agreement on the issue, but they [still aren't flowing in the volumes seen before Trump's announcement of "reciprocal" tariffs in early April](#). In the interview, Bessent expressed confidence that Beijing will further ramp up the critical shipments, but his statement suggests that the Chinese continue to crimp supplies in a way that could spark a new flare-up in tensions in the coming weeks.

United States-Japan: President Trump yesterday [said he doubted the US and Japan could reach a trade deal by his July 9 deadline, so he likely will reinstate his "reciprocal" tariff on Japanese imports](#) at a rate of 30% or more. The tough line on Japan comes despite reports that officials in the administration are now willing to accept narrow interim deals with many countries. As we noted in our *Comment* yesterday, the EU [has also been pushing back strongly](#) against Trump's tariffs, raising the specter of a snap-back of reciprocal duties on it.

Japan: Bank of Japan Governor Ueda yesterday [said his central bank's benchmark short-term interest rate of 0.50% remains below "neutral"](#) and therefore will contribute to increasing consumer price inflation in the near term. The statement suggests that the BOJ's next move will be to raise rates again after holding them steady since late January.

Eurozone: The May unemployment rate [rose to 6.3%, compared with expectations it would remain at the record-low rate of 6.2% in April](#). The increase in joblessness was driven in large part by the volatile Italian unemployment data, but the rebound is still being seen as a sign that European businesses have become more cautious about headcount levels amid modest economic growth and the threat of disruptive tariffs by the US.



United Kingdom: In contrast with the upward trend in Japanese interest rates, Bank of England Governor Bailey [said cooling economic growth and wage rates will likely prompt further rate cuts by his central bank](#). Investors expect the BOE to cut its benchmark short-term rate again in August.

Iran: As widely expected after the US and Israel struck Iran's nuclear sites last month, Tehran today [said it is suspending its cooperation with the International Atomic Energy Agency](#). The announcement means IAEA inspectors and monitoring systems will no longer be able to track Iran's nuclear activities or assess any damage from the US and Israeli attacks. The IAEA will also be inhibited from helping determine the whereabouts of the uranium that Iran has already enriched, which raises the chance of Iran making a dash for a nuclear bomb.

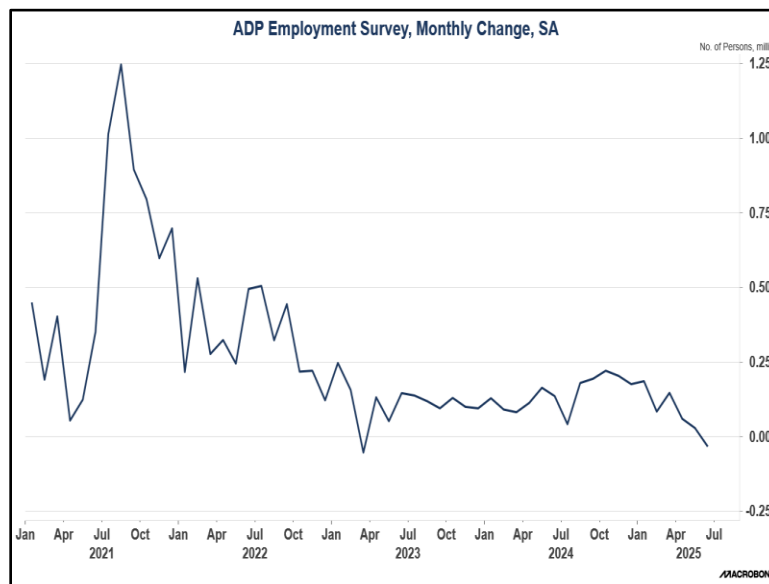
US Monetary Policy: Fed Chair Powell yesterday [said the US economy's continued "solid" growth has allowed the monetary policymakers to hold their benchmark fed funds interest rate steady](#) while they analyze the effect of President Trump's tariff policies. However, despite growing market expectations for a rate cut at the Fed's next policy meeting in late July, Powell gave no hint of what he might be planning for that meeting. We therefore believe that investors may still be too optimistic regarding further monetary easing.

US Technology Industry: According to the *Wall Street Journal*, retail giant Amazon [now has more than one million industrial robots working in its warehouses and other facilities](#), largely focused on dangerous or difficult tasks such as heavy lifting. The firm is reportedly on track to soon have more robots than human employees. The report illustrates the growing demand for robots in the economy, as well as the threats and opportunities for workers as robots take over some jobs.

US Economic Releases

The Mortgage Bankers Association today said ***mortgage applications*** for the week ended June 27 rose 2.7%, extending the previous week's rise of 1.1%. Applications for home purchase mortgages rose 0.1%, after falling 0.4% the previous week. Applications for refinancing mortgages rose 6.5%, extending the previous week's rise of 3.0%. Meanwhile, the average interest rate on a 30-year mortgage fell 9 basis points to 6.79%.

The ADP Research Institute estimated that ***private payroll employment*** fell in June by a seasonally adjusted 33,000, versus an expected rise of 98,000 and the previous month's rise of 29,000. ADP's estimate is widely seen as an indicator of what to expect when the Labor Department releases its measure of nonfarm payrolls. This normally occurs on a Friday, but, due to the Independence Day holiday, the release will occur tomorrow, July 3. The chart below shows the monthly change in ADP's estimate of private payrolls since the beginning of 2021.



There are no economic releases or Fed events scheduled for the rest of the day.

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	Monetary Base	y/y	Jun	-3.5%	-3.4%		**	Equity and bond neutral
	Monetary Base, End of Period	m/m	Jun	¥651.0t	¥654.2t	--	*	Equity and bond neutral
Australia	Building Approvals	m/m	May	3.2%	-4.1%	4.0%	***	Equity bearish, bond bullish
	Retail Sales	m/m	May	0.2%	0.0%	0.5%	***	Equity and bond neutral
South Korea	CPI	m/m	Jun	2.2%	1.9%	2.1%	***	Equity and bond neutral
EUROPE								
Eurozone	Unemployment Rate	m/m	May	6.3%	6.2%	6.2%	**	Equity and bond neutral
France	Budget Balance YTD	y/y	May	-94.0b	-69.3b	--	***	Equity and bond neutral
Italy	Unemployment Rate	m/m	May	6.5%	6.1%	6.0%	**	Equity bearish, bond bullish
AMERICAS								
Mexico	S&P Global Mexico Manufacturing PMI	m/m	Jun	46.3	46.7		***	Equity and bond neutral
	International Reserves Weekly	w/w	27-Jun	\$241480m	\$241300m		*	Equity and bond neutral
	Remittances Total	m/m	May	\$5360.1m	\$4761.2m	\$5269.0m	*	Equity and bond neutral
	IMEF Manufacturing Index SA	m/m	Jun	47.8	47.5	48.0	*	Equity and bond neutral
	IMEF Non-Manufacturing Index SA	m/m	Jun	48.7	49.8	48.9	*	Equity and bond neutral
	Vehicle Domestic Sales	y/y	Jun	116059	119961		***	Equity and bond neutral
Brazil	S&P Global Brazil Manufacturing PMI	m/m	Jun	48.3	49.4		***	Equity and bond neutral
	Industrial Production	y/y	May	3.3%	0.1%	-0.5%	***	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)	422	422	0	Up
U.S. Sibor/OIS spread (bps)	429	430	-1	Flat
U.S. Libor/OIS spread (bps)	427	428	-1	Down
10-yr T-note (%)	4.28	4.24	0.04	Down
Euribor/OIS spread (bps)	196	194	2	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	\$68.06	\$67.11	1.42%	
WTI	\$66.38	\$65.45	1.42%	
Natural Gas	\$3.42	\$3.42	0.18%	
Crack Spread	\$25.82	\$25.90	-0.31%	
12-mo strip crack	\$23.01	\$23.05	-0.19%	
Ethanol rack	\$1.83	\$1.82	0.29%	
Metals				
Gold	\$3,341.77	\$3,338.84	0.09%	
Silver	\$36.31	\$36.04	0.75%	
Copper contract	\$514.10	\$509.95	0.81%	
Grains				
Corn contract	\$404.50	\$406.00	-0.37%	
Wheat contract	\$549.50	\$549.00	0.09%	
Soybeans contract	\$1,032.75	\$1,027.25	0.54%	
Shipping				
Baltic Dry Freight	1,458	1,489	-31	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-3.11		
Gasoline (mb)		0.90		
Distillates (mb)		-0.68		
Refinery run rates (%)		0.4%		
Natural gas (bcf)		87		

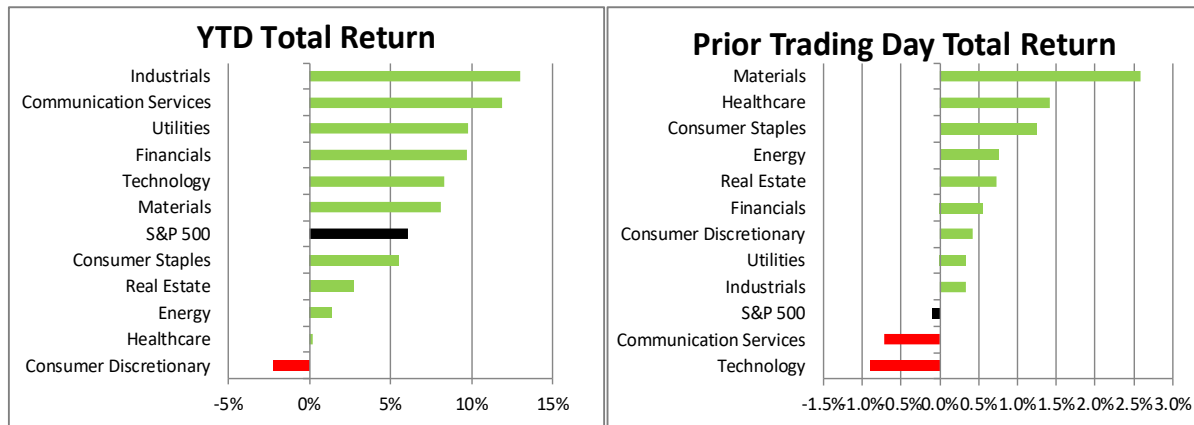
Weather

The latest 6-to-10-day and 8-to-14-day forecasts indicate warmer-than-normal conditions in the northwestern quadrant of the country, New England, and the Southeast. The forecasts indicate wetter-than-normal conditions for all but the western quarter of the country.

The latest 7-day tropical weather outlook indicates an area of disturbance straddling Florida and running along the Carolina coast with a 40% chance of cyclonic formation.

Data Section

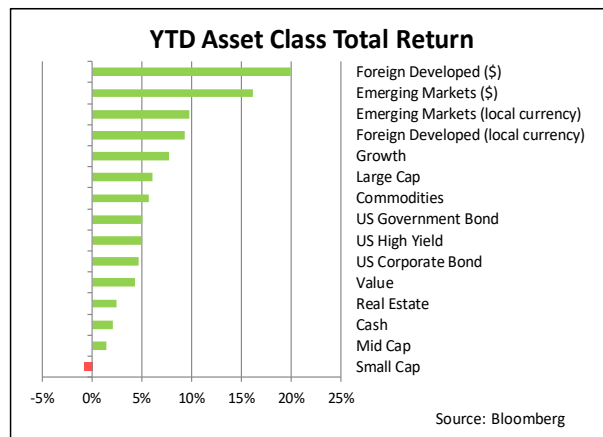
US Equity Markets – (as of 7/1/2025 close)



(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 7/1/2025 close)

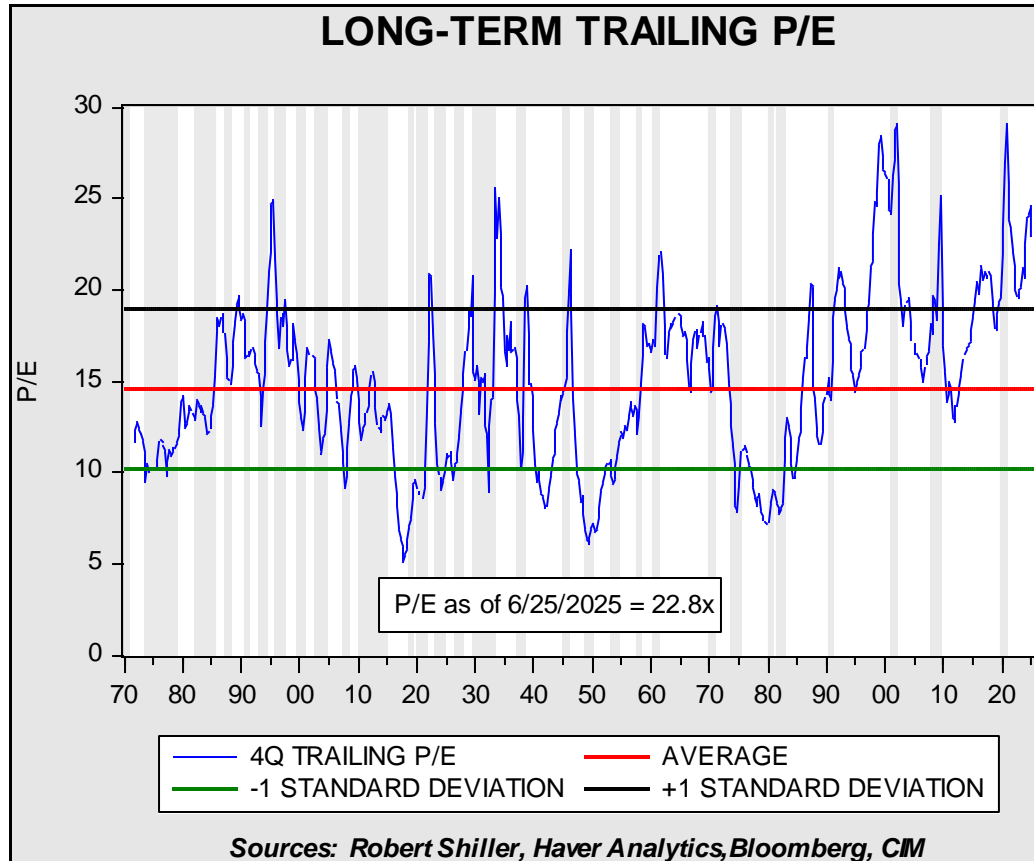


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.