Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: July 3, 2025 — 9:30 AM ET] Global equity markets are mostly higher 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 0.1%. Chinese markets were higher, with the Shanghai Composite up 0.2% from its previous close and the Shenzhen Composite up 1.0%. 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
"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.

Note: There will not be a* Daily Comment *tomorrow due to the holiday.

Our *Comment* today opens with an important sign that foreign central banks may be preparing to support the dollar and drive their currencies back down — a move that could have a big impact on the relative prospects of foreign stocks versus US stocks. We next review other international and US developments with the potential to affect the financial markets today, including fiscal policy turmoil in the UK that has sparked volatility in British bond markets and the latest on today's House vote regarding President Trump's "big, beautiful" tax-and-spending bill.

Eurozone: Several officials at the European Central Bank's international policy conference in Portugal this week signaled that the euro may have appreciated too much versus the dollar this year and that the ECB may need to take action to push it down. Of course, ECB jawboning or policy actions may fail to lift the dollar now that many global investors have become skittish about economic and political stability in the US. Still, any major effort to push down the dollar would risk undermining the current case for foreign stocks versus US stocks.

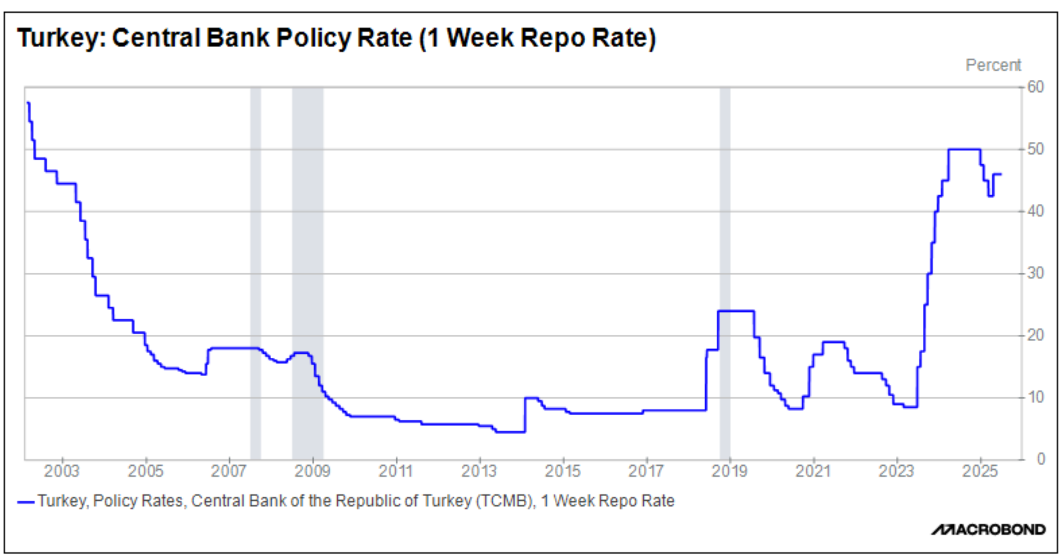
France: Anyone flying to Europe this week for the Independence Day holiday should be aware that a strike by French air traffic controllers is reportedly disrupting flights and causing delays across Europe. Regulators have asked airlines to cancel about half the flights into and out of Paris today and tomorrow, when the strike is scheduled to end.

UK Fiscal Policy: Prime Minister Starmer has capitulated to a rebellion by his Labour Party's parliament members and gutted an important welfare reform aimed at reining in costs in the coming years. The failure to cut disability payments has sparked intense concern that the government will have to hike taxes and/or cut other spending.

- In response, investors yesterday aggressively sold off the British pound and UK government bonds. The currency depreciated by about 0.8% to $1.3632, while the yield on 10-year gilts rose to approximately 4.62%.
- So far this morning, however, British markets have stabilized and even rebounded modestly.

UK Stock Market: The chief executive of pharmaceutical giant AstraZeneca is reportedly mulling a transfer of the firm's stock listing from London to New York, largely due to concerns about oppressive regulation and shallow financial markets in the UK. If the firm does move, its price/earnings ratio could well rise toward the US average. In addition, the FTSE stock price index would lose its largest component, British stocks in general could face increased challenges, and the government of Prime Minister Starmer would suffer a political black eye.

Turkey: The June consumer price index was up 35.1% from the same month one year earlier, marking a slightly cooling from the 35.4% rise in the year to May. Inflation is now only about half the 71.6% rate reached last year, so the renewed cooling at the beginning of summer could encourage the central bank to resume cutting interest rates.



United States-Vietnam: President Trump yesterday said Washington and Hanoi have struck a deal under which Vietnam will charge no tariffs on US imports, while the US will impose 20% tariffs on Vietnamese imports. The deal also calls for a US tariff of 40% on imports from third countries (including China) that are transshipped through Vietnam.

- The agreed tariff rate on Vietnamese imports is less than half the 46% "reciprocal" tariff Trump announced in early April. However, we judge that it is probably still high enough to have a noticeable negative impact on Vietnamese exports and economic growth.
- Given that so many companies have tried in recent years to skirt the US-China trade spat by setting up operations and transshipment operations in Vietnam, the deal could also potentially weigh on exports from China and other countries.

United States-South Korea: President Lee Jae Myung of South Korea said that his country's trade negotiations with the US are proving "very difficult" and that the two sides are unlikely to reach a deal before President Trump's July 9 deadline. If the deadline is missed, South Korea would be at risk of Trump reimposing his 25% "reciprocal" tariff on the country. Given that the South Korean economy relies heavily on exports, any such snapback in US tariffs would likely weigh on growth and hurt South Korean stock prices.

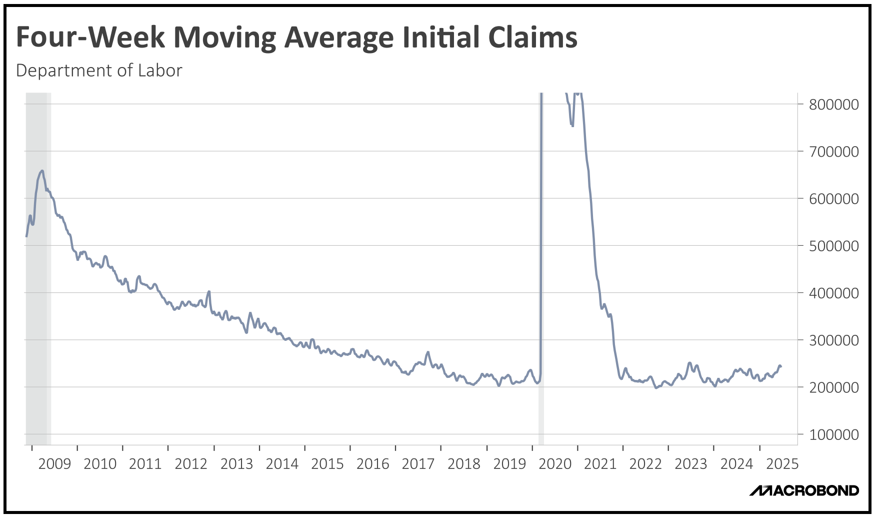
United States-Iran: A spokesman for the Department of Defense yesterday said the US attack on Iran last month only set back the country's nuclear weapons program by about two years, despite President Trump's assertion that the attack "obliterated" the effort. If the statement is correct, it highlights the risk that Iran will now double down on its effort to build a nuclear weapon, likely leading to renewed tensions with the West in short order.

US Fiscal Policy: Dozens of Republican fiscal hawks in the House pushed back against the newly-passed Senate version of President Trump's "big, beautiful" tax-and-spending bill yesterday, but arm twisting by Trump, House Speaker Johnson, and their aides has apparently turned the tide, and a final vote is set for later today. If it passes, the bill will go to Trump to be signed into law by his July 4 deadline.

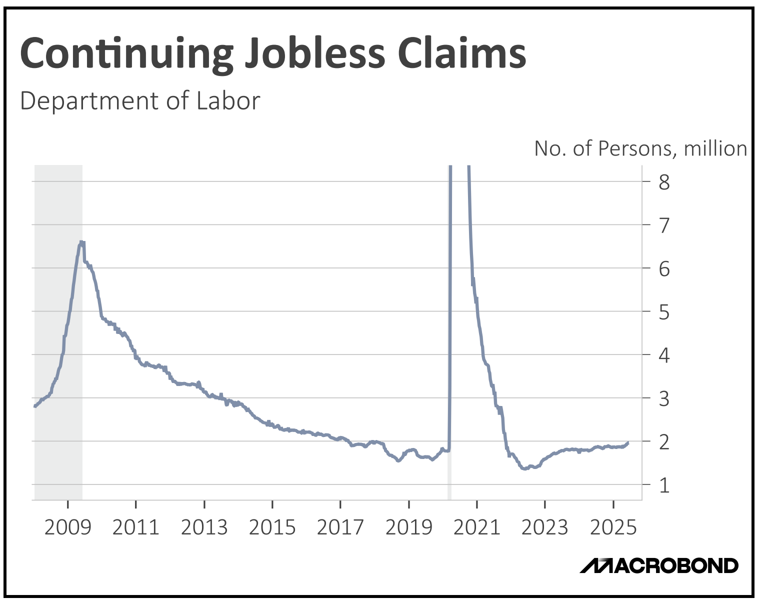
- There is probably still some chance that the House could vote down the Senate's bill, in which case a reconciliation committee would have to negotiate a compromise.
- The outlook for US tax and spending policies in the near term therefore remains unclear as of this moment. Nevertheless, the longer-term outlook still probably calls for continued big budget deficits, rising federal debt, and higher interest rates or even a potential fiscal crisis at some point in the future.

US Economic Releases

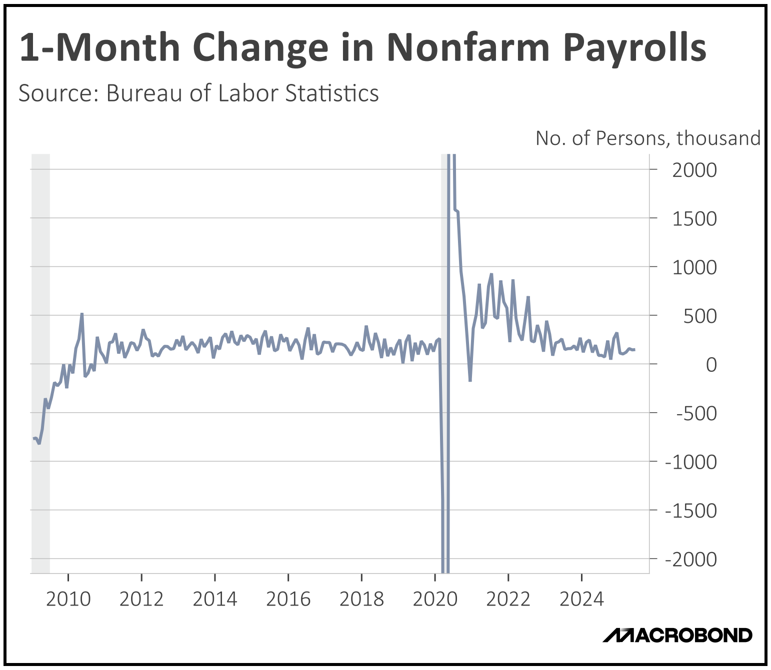
In the week ended June 28, ***initial claims for unemployment benefits*** fell from a seasonally adjusted 237,000 to 233,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, fell from 245,250 to 241,500. The chart below shows how initial jobless 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.



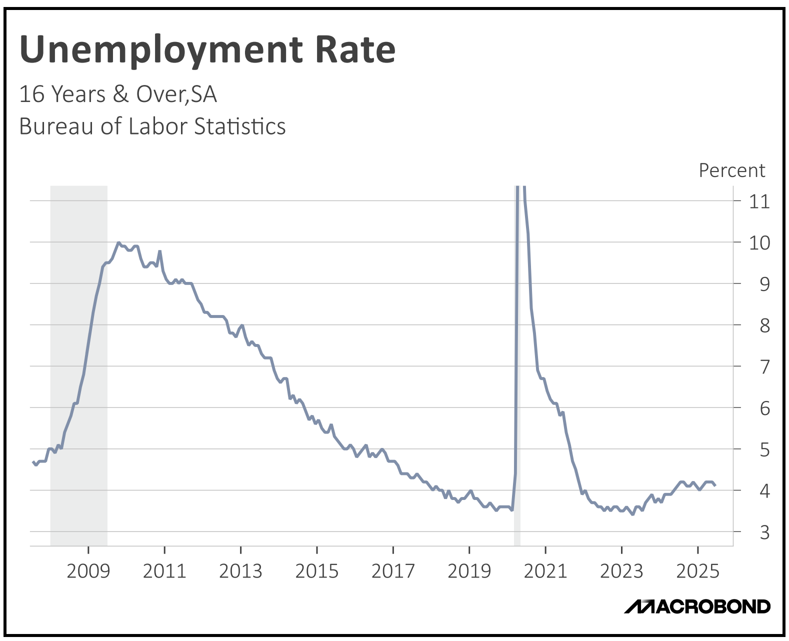
In the week ended June 21, the number of ***continuing claims for unemployment benefits*** (people continuing to draw benefits) rose from a seasonally adjusted 1,960,000 to 1,964,000. The chart below shows how continuing claims have fluctuated since the GFC. It is also truncated during the pandemic period because of the high level of claims at the time.



Separately, June ***nonfarm payrolls*** rose by a seasonally adjusted 147,000. The chart below shows the change in nonfarm payrolls since shortly before the Great Financial Crisis.



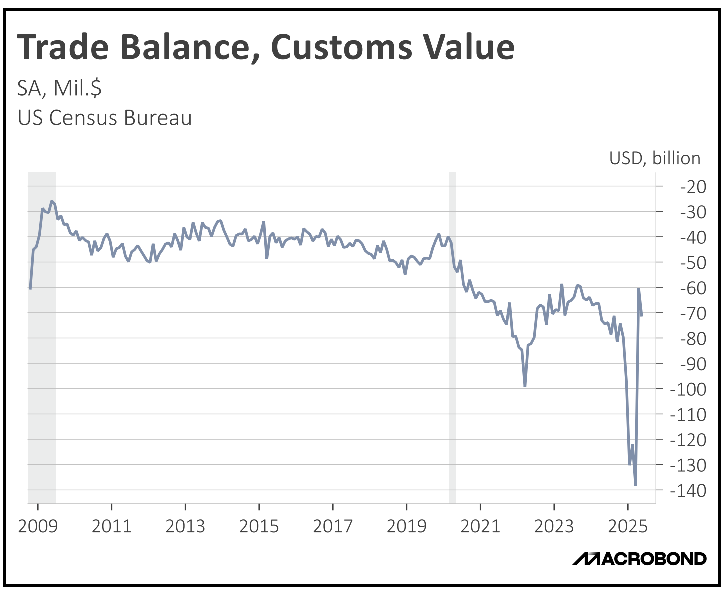
The June ***unemployment rate*** fell from a seasonally adjusted 4.2% to 4.1%. The chart below shows how the unemployment rate has evolved since just before the GFC.



With the demand for labor high and the "inventory" of unemployed workers low, it should be no surprise that wage rates remain high. ***Average hourly earnings*** in June rose to a seasonally adjusted $35.00, up 3.7% from the same month one year earlier. The chart below shows the year-over-year growth in average hourly earnings for production and nonsupervisory workers since just before the GFC.

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 rate of 62.4% to 62.3%.

Finally, the May ***trade balance*** showed a seasonally adjusted deficit of $71.5 billion. According to the data, total ***exports*** declined 3.9%, while ***imports*** rose 0.1%. Compared with the same month one year earlier, exports in May were up 5.9%, while imports were up 3.3%. The chart below shows the US trade balance.



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 Services PMI	m/m	Jun F	53.1	53.1	***
9:45	S&P Global US Composite PMI	m/m	Jun F	52.8	52.8	***
10:00	Factory Orders	m/m	May	8.2%	-3.7%	***
10:00	Factory Orders Ex Transportation	m/m	May	0.2%	-0.5%	**
10:00	ISM Services Index	m/m	Jun	50.6	49.9	**
10:00	ISM Services Prices Paid	m/m	Jun	68.9	68.7	***
10:00	ISM ServicesNew Orders	m/m	Jun	48.2	46.4	***
10:00	ISM Services Employment	m/m	Jun	49.5	50.7	*
10:00	Durable Goods Orders	m/m	May F	16.4%	16.4%	***
10:00	Durable Goods Orders ex Transportation	m/m	May F	0.5%	0.5%	**
10:00	Cap Goods Orders Nondef Ex Air	m/m	May F	1.7%	1.7%	*
10:00	Cap Goods Ship Nondef Ex Air	m/m	May F	0.5%	0.5%	*
Federal Reserve						
EST	**Speaker or Event**	**District or Position**				
11:00	Raphael Bostic Gives Speech on Monetary Policy	President of the Federal Reserve Bank of Atlanta				

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	Japan Buying Foreign Bonds	w/w	27-Jun	¥182.8b	¥615.1b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	27-Jun	¥190.6b	-¥88.3b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	27-Jun	¥1052.6b	-¥369.2b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	27-Jun	¥651.3b	-¥524.1b		*	Equity and bond neutral
	S&P Global Japan PMI Composite	m/m	Jun F	51.5	51.4		**	Equity and bond neutral
	S&P Global Japan PMI Services	y/y	Jun F	51.7	51.5		**	Equity and bond neutral
Australia	S&P Global Australia Composite PMI	m/m	Jun F	51.6	51.2		*	Equity and bond neutral
	S&P Global Australia Services PMI	m/m	Jun F	51.8	51.3		*	Equity and bond neutral
	Trade Balance	m/m	May	A$2238m	A$4859m	A$5000m	***	Equity and bond neutral
	Exports	m/m	May	-2.7%	-1.7%		*	Equity and bond neutral
	Imports	m/m	May	3.8%	1.6%		*	Equity and bond neutral
New Zealand	ANZ Commodity Price	m/m	Jun	-2.3%	1.9%		**	Equity and bond neutral
South Korea	Foreign Reserves	m/m	Jun	$410.20b	404.60b		**	Equity and bond neutral
China	Caixin Services PMI	m/m	Jun	51.3	51.1	50.9	**	Equity and bond neutral
	Caixin Composite PMI	m/m	Jun	50.6	49.6		**	Equity and bond neutral
India	HSBC India PMI Composite	m/m	Jun F	61.0	61.0		**	Equity and bond neutral
	HSBC India PMI Services	m/m	Jun F	60.4	60.7		**	Equity and bond neutral
EUROPE								
Eurozone	HCOB Eurozone Services PMI	m/m	Jun F	50.5	50.0	50.0	**	Equity and bond neutral
	HCOB Eurozone Composite PMI	m/m	Jun F	50.6	50.2	50.2	*	Equity and bond neutral
Germany	HCOB Germany Services PMI	m/m	Jun F	49.7	49.4	49.4	**	Equity and bond neutral
	HCOB Germany Composite PMI	m/m	Jun F	50.4	50.0	50.4	**	Equity and bond neutral
France	HCOB France Services PMI	m/m	Jun F	49.6	4.0	48.7	**	Equity bullish, bond bearish
	HCOB France Composite PMI	m/m	Jun F	49.2	48.5	48.5	**	Equity bullish, bond bearish
Italy	HCOB Italy Services PMI	m/m	Jun	52.1	53.2	52.5	**	Equity and bond neutral
	HCOB Italy Composite PMI	m/m	Jun	51.1	52.5	51.7	**	Equity and bond neutral
UK	S&P Global UK Services PMI	m/m	Jun F	52.8	51.3	51.3	**	Equity bullish, bond bearish
	Official Reserves Changes	m/m	Jun	$1221m	-$372m		*	Equity and bond neutral
	S&P Global UK Composite PMI	m/m	Jun F	52.0	50.7	50.7	**	Equity bullish, bond bearish
Switzerland	CPI	y/y	Jun	0.1%	-0.1%	-0.1%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Jun	0.2%	-0.2%		*	Equity and bond neutral
	Core CPI	y/y	Jun	0.6%	0.5%	0.6%	*	Equity and bond neutral
Russia	Retail Sales	m/m	May	1.80%	1.90%		***	Equity and bond neutral
	Unemployment Rate	m/m	May	2.20%	2.30%		***	Equity and bond neutral
	GDP	y/y	1Q F	1.4%	1.4%		**	Equity and bond neutral
	S&P Global Russia Composite PMI	m/m	Jun	48.5	51.4		**	Equity and bond neutral
	S&P Global Russia Services PMI	m/m	Jun	49.2	52.2		**	Equity and bond neutral
AMERICAS								
Canada	S&P Global Canada Manufacturing PMI	m/m	Jun	45.6	46.1		***	Equity and bond neutral
Mexico	Gross Fixed Investment NSA	y/y	Apr	-12.5%	-0.3%	-9.1%	**	Equity bearish, bond bullish

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	423	-1	Up
U.S. Sibor/OIS spread (bps)	428	428	0	Up
U.S. Libor/OIS spread (bps)	425	426	-1	Flat
10-yr T-note (%)	4.26	4.28	-0.02	Up
Euribor/OIS spread (bps)	196	196	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	$69.06	$69.11	-0.07%	
WTI	$67.43	$67.45	-0.03%	
Natural Gas	$3.53	$3.49	1.15%	
Crack Spread	$25.93	$25.70	0.88%	
12-mo strip crack	$23.44	$23.32	0.52%	
Ethanol rack	$1.85	$1.84	0.46%	
Metals				
Gold	$3,345.63	$3,357.45	-0.35%	
Silver	$36.86	$36.55	0.84%	
Copper contract	$517.00	$519.75	-0.53%	
Grains				
Corn contract	$421.50	$418.00	0.84%	
Wheat contract	$564.25	$564.00	0.04%	
Soybeans contract	$1,052.25	$1,048.00	0.41%	
Shipping				
Baltic Dry Freight	1,443	1,458	-15	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	3.85	-2.70	6.55	
Gasoline (mb)	4.19	0.80	3.39	
Distillates (mb)	-1.71	-1.20	-0.51	
Refinery run rates (%)	0.2%	0.4%	-0.2%	
Natural gas (bcf)		49		

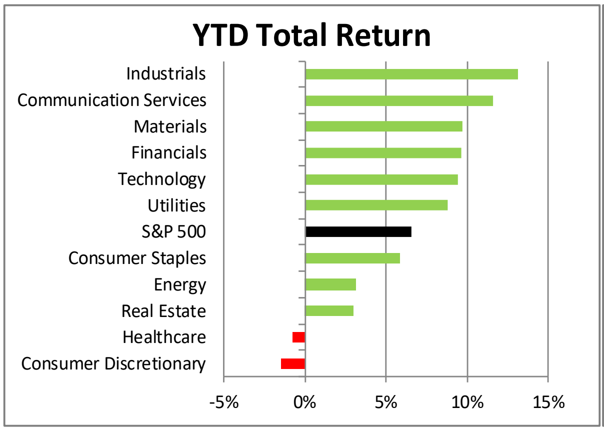
Weather

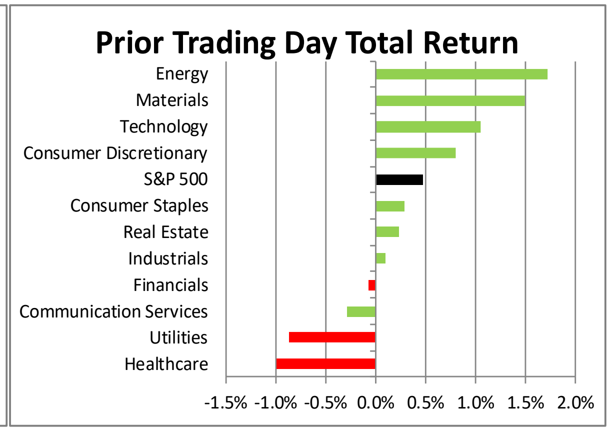
The latest 6-to-10-day and 8-to-14-day forecasts indicate warmer-than-normal conditions for most of the country, with cooler temperatures in the South Central states. The precipitation outlook calls for wetter-than-normal conditions for most of the country.

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

Data Section

US Equity Markets – (as of 7/2/2025 close)

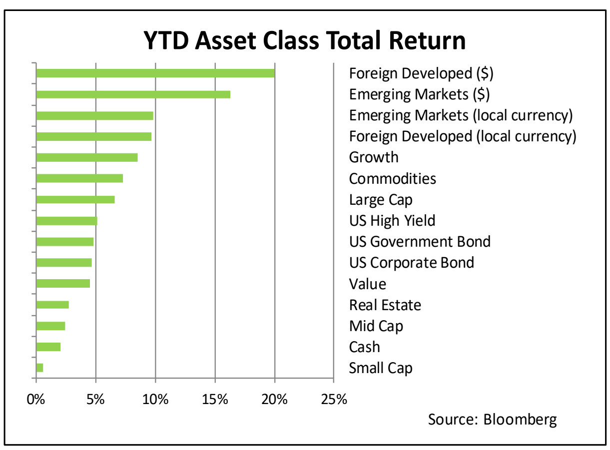




(Source: Bloomberg)

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 7/2/2025 close)

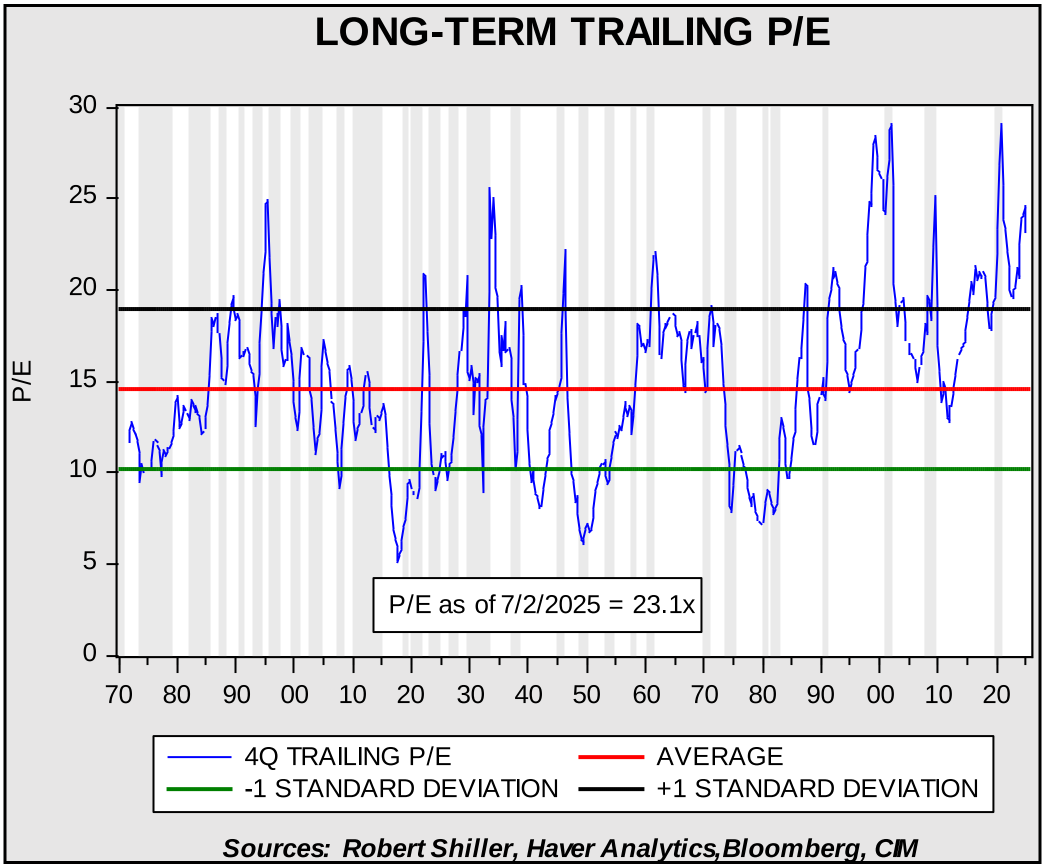


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

July 3, 2025



Based on our methodology,[1] the current P/E is 23.1x, up 0.3 from our last report. The increase in the multiple was due to a rise in the stock price index as well as a drop in the earnings estimate for the current quarter.

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