Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: July 7, 2025 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 0.6% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.4%. Chinese markets were relatively flat, with the Shanghai Composite up 0.02% from its previous close and the Shenzhen Composite down 0.1%. 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. **Note: The next *Bi-Weekly Geopolitical Report* will be our Mid-Year Outlook and will be published July 14.**

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 more evidence of growing friction between the European Union and China. We next review several other international and US developments that could affect the financial markets today, including plans for an unexpectedly large output boost by a key group of oil exporters and news of another major US tech company succumbing to Trump administration pressure for lower prices on its services to the federal government.

European Union-China-Russia: New reports say Beijing wants to cancel the second half of a two-day summit with EU officials scheduled for later this month in China. The souring Chinese mood on the summit provides added evidence that the short-lived EU-China rapprochement has now run its course. As we have argued before, Brussels and Beijing had hoped that the rapprochement would insulate them from President Trump's trade policy pressures, but the effort has faltered due to the two sides' own economic and political frictions.

- One key political dispute between Brussels and Beijing is China's continued support for Russia in its invasion of Ukraine.
- Signaling that Beijing won't back down on that issue, Trade Minister Wang Yi said on a trip to Europe this week that China doesn't want Russia to lose its war against Ukraine because if it did, the US could shift its diplomatic and military energy toward the broad Asia-Pacific region and China. Wang insisted Beijing isn't helping Russia militarily or financially, but at the very least, it is providing the Kremlin with political support and dual-use goods with both military and civilian uses.
- Separately, China implemented its threatened import tariffs against EU brandy on Friday. Those tariffs are widely seen as retaliation for the EU's own various anti-dumping tariffs and investigations against Chinese imports.

US Tariff Policy: President Trump on Friday said he would send his "take-it-or-leave-it" tariff rate offers to 12 countries on Monday, although he declined to name the countries or the offered rates. The unilateral offers would come just two days before Trump's July 9 deadline for trade deals to be completed before his big "reciprocal" tariffs snap back into place. Trump also threatened to impose an additional 10% duty on imports from the BRICS countries, which have called for policies to reduce the dominance of the dollar in world markets.

- Resorting to the take-it-or-leave-it approach suggests that Trump now sees that his boast to strike dozens of trade deals over the 90-day suspension period was overly ambitious. As we and other observers noted at the time the reciprocal tariffs were suspended and the dozens of trade negotiations kicked off, history has shown that trade deals typically require many months or even years of detailed talks.
- An important question now is what Trump may have learned from his inability to push through all the trade deals he promised. His inability to force the EU, Japan, China, and India to quickly capitulate could give Trump a better sense of the US's relative economic power. That could change Trump's calculus in future disputes and/or force him to take a broader view of the US's "cards" in future negotiations.

Global Oil Market: Saudi Arabia, Russia, the United Arab Emirates, and five other members of the "OPEC+" group of major oil exporters on Saturday said they will collectively boost output by 548,000 barrels per day starting in August. The group has been gradually reversing its output cut of 2.2 million bpd from two years ago, but the announced production increase for next month was bigger than expected. The increase will raise concerns about excess supply and potentially cap or push down global oil prices in the second half of 2025.

China: The Chinese government has reportedly been buying up huge amounts of nickel to boost its state reserves amid growing trade tensions with the US. According to the reports, Beijing has bought up to 100,000 tons of the metal since December, essentially doubling its reserves as it seeks to ensure supplies for the production of stainless steel, electric-vehicle batteries, and other products. The report underscores Beijing's strategy to secure its supplies of key minerals and leverage those minerals, such as rare earths, where it has a near monopoly on global production.

South Korea: At the behest of the newly installed center-left president, Lee Jae-myung, the National Assembly has approved new fiscal stimulus measures valued at about $20 billion. The new measures include cash handouts and coupons for citizens to spur private consumption, financial aid for troubled households or small businesses, and new investments in infrastructure for AI. The aim is to arrest a worsening slowdown in economic growth, but by our calculations, the new spending will only amount to about 1.1% of last year's gross domestic product.

US Politics: On Saturday, Tesla CEO and former Trump ally Elon Musk said he's formed a new "America Party" aimed at slashing government spending and reining in the national debt. It's not clear how much Musk will really focus on the new party, but with his vast financial resources, he and the party could affect the 2026 mid-term elections, where he's vowed to challenge the Republican lawmakers who voted for Trump's deficit-expanding "big, beautiful" budget bill. Fearing retaliation by Trump, investors have driven Tesla shares sharply lower so far today.

US Fiscal Policy: The *Wall Street Journal* today says Oracle has agreed to give the federal government a 75% discount on its database and analytics software licenses through November, as well as a "substantial" discount on its cloud services. That makes Oracle the latest tech firm to succumb to Trump administration pressure for lower prices. That administration initiative has been much quieter than the "Department of Government Efficiency" effort to shed government workers, but it has notched some significant successes.

US Treasury Market: The *Financial Times* today reports that crypto companies and investors are rapidly buying up tokenized versions of money market and US Treasury mutual funds. Total assets held in tokenized Treasury products have reportedly jumped to $7.4 billion, up 80% so far this year. The surge in part reflects the interest of crypto traders, who find the funds a better place to park funds than stablecoins. Other investors like the product as an easy-to-trade form of collateral in crypto derivatives transactions.

US Venture Capital Industry: New data from PitchBook shows that fully 64% of all US venture capital investments in the first half of 2025 went to artificial-intelligence firms. Globally, 53% of all venture investment in the period went to AI. Even more striking, these investments have been extremely concentrated, with one-third of US investments going to just five firms in the first half. The figures underscore how investors of all stripes continue to expect extraordinary returns from AI in the future.

US Economic Releases

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	Household Spending	y/y	May	4.7%	-0.1%	1.2%	**	Equity bullish, bond bearish
	Labor Cash Earnings	y/y	May	1.0%	2.3%	2.4%	**	Equity bearish, bond bullish
	Real Cash Earnings	m/m	May	-2.9%	-1.8%	-1.7%	*	Equity bearish, bond bullish
	Leading Economic Index	m/m	May P	105.3	104.2	105.2	**	Equity and bond neutral
	Coincident Index	y/y	May P	115.9	116.0	115.9	**	Equity and bond neutral
Australia	Household Spending	y/y	May	4.2%	3.8%	3.5%	***	Equity and bond neutral
	ANZ-Indeed Job Advertisements	m/m	Jun	1.8	-0.6		*	Equity and bond neutral
South Korea	BoP Current Account Balance	m/m	May	$10141.5m	$5701.7m		**	Equity and bond neutral
	BoP Goods Balance	m/m	May	$10664.9m	$8988.8m		*	Equity and bond neutral
China	Foreign Reserves	m/m	Jun	$3317.42b	$3285.26b	$3313.00b	**	Equity and bond neutral
EUROPE								
Eurozone	PPI	y/y	May	0.3%	0.7%	0.3%	**	Equity and bond neutral
	Retail Sales	y/y	May	1.8%	2.7%	1.4%	*	Equity and bond neutral
Germany	Factory Orders WDA	y/y	May	5.3%	5.8%	5.7%	***	Equity and bond neutral
	HCOB Germany Construction PMI	m/m	Jun	44.8	44.4		*	Equity and bond neutral
	Industrial Production WDA	y/y	May	1.0%	-2.1%	-0.3%	**	Equity bullish, bond bearish
France	Industrial Production	y/y	May	-0.9%	-1.9%	0.1%	***	Equity and bond neutral
	Manufacturing Production	y/y	May	-0.1%	-1.4%		**	Equity and bond neutral
Italy	Retail Sales	y/y	May	1.3%	3.8%		**	Equity and bond neutral
UK	S&P Global UK Construction PMI	m/m	Jun	48.8	47.9	48.5	**	Equity and bond neutral
Switzerland	Foreign Currency Reserves	m/m	Jun	713.0b	703.6b		*	Equity and bond neutral
	Domestic Sight Deposits CHF	w/w	4-Jul	424.4b	425.8b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	4-Jul	459.8b	460.7b		*	Equity and bond neutral
	Unemployment Rate	m/m	Jun	2.7%	2.7%		**	Equity and bond neutral
Russia	Gold and Forex Reserves	m/m	27-Jun	$687.7b	$687.2b		***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	27-Jun	18.26t	18.33t		*	Equity and bond neutral
AMERICAS								
Canada	International Merchandise Trade	m/m	May	-5.86b	-7.60b	-5.98b	*	Equity and bond neutral
Mexico	Leading Indicators	y/y	May	0.09	0.03		**	Equity and bond neutral
Brazil	S&P Global Brazil Composite PMI	m/m	Jun F	48.7	49.1		***	Equity and bond neutral
	S&P Global Brazil Services PMI	m/m	Jun	49.3	49.6		***	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)	425	425	0	Up
U.S. Sibor/OIS spread (bps)	433	433	0	Up
U.S. Libor/OIS spread (bps)	430	430	0	Up
10-yr T-note (%)	4.35	4.35	0.00	Up
Euribor/OIS spread (bps)	198	194	4	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	$68.67	$68.30	0.54%	
WTI	$66.94	$67.00	-0.09%	
Natural Gas	$3.31	$3.41	-2.90%	
Crack Spread	$26.40	$26.50	-0.40%	
12-mo strip crack	$23.48	$23.48	0.00%	
Ethanol rack	$1.86	$1.87	-0.07%	
Metals				
Gold	$3,301.75	$3,337.15	-1.06%	
Silver	$36.19	$36.93	-2.00%	
Copper contract	$503.55	$514.15	-2.06%	
Grains				
Corn contract	$407.75	$420.25	-2.97%	
Wheat contract	$545.00	$556.75	-2.11%	
Soybeans contract	$1,028.50	$1,049.25	-1.98%	
Shipping				
Baltic Dry Freight	1,436	1,434	2	

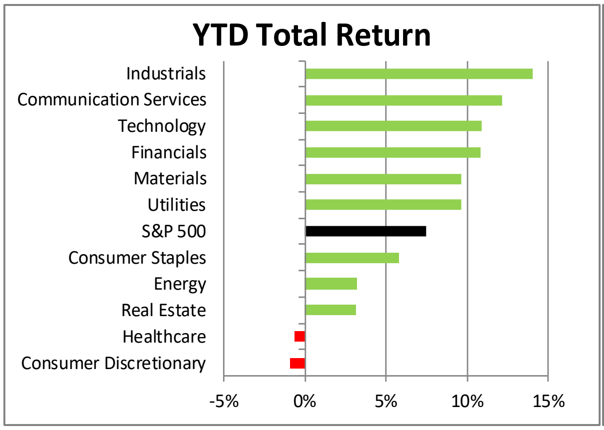
Weather

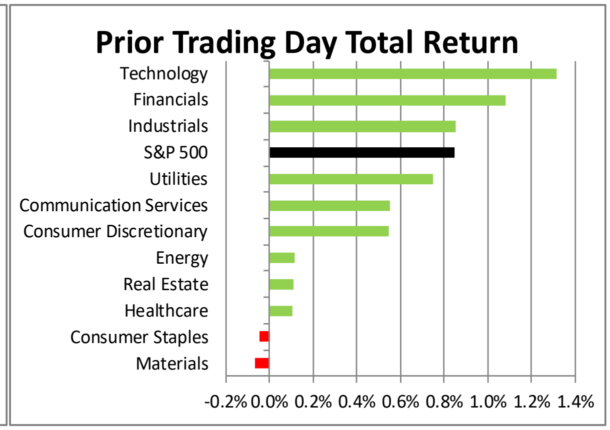
The latest 6-to-10-day and 8-to-14-day forecasts indicate warmer-than-normal conditions for most of the country. The precipitation outlook calls for wetter-than-normal conditions throughout the southern states, with dry conditions expected in the Rocky Mountain and Great Lake regions.

The latest 7-day tropical weather outlook shows that Tropical Depression Chantal has made landfall in North Carolina and is expected to move northward.

Data Section

US Equity Markets – (as of 7/3/2025 close)

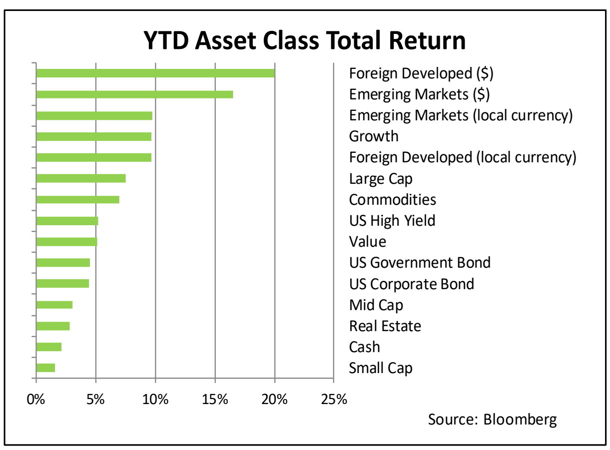




(Source: Bloomberg)

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 7/3/2025 close)

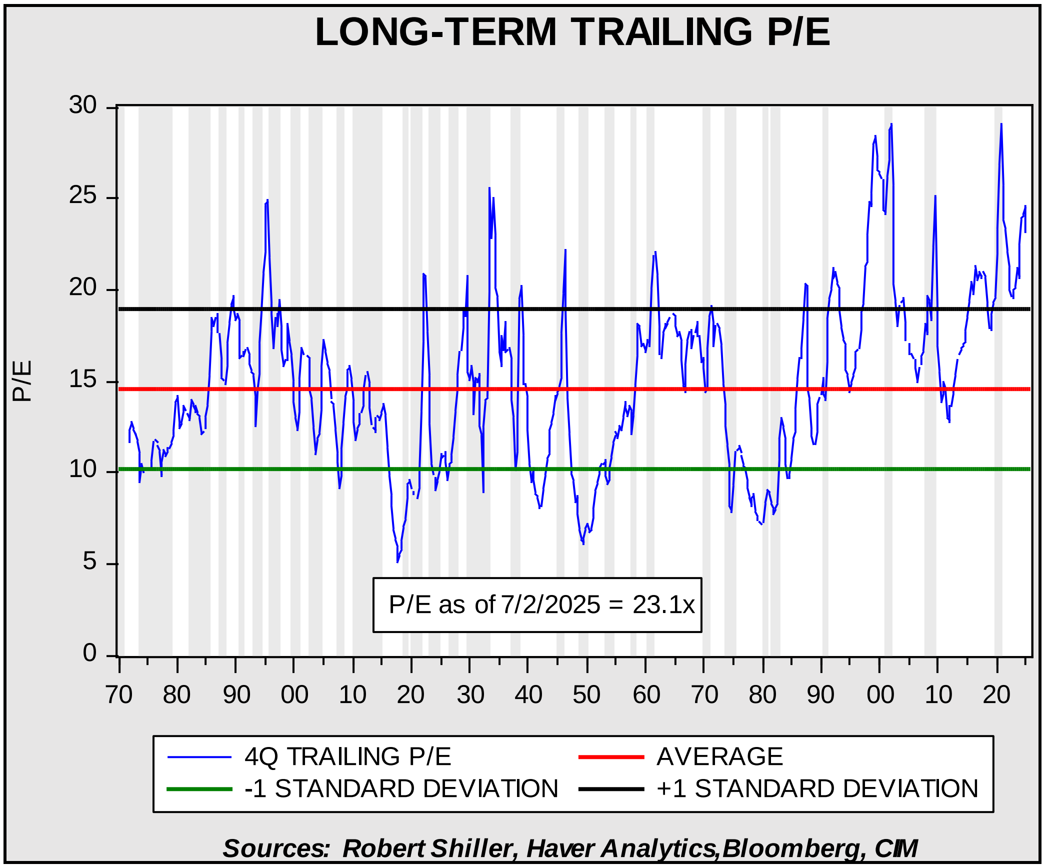


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.