



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: July 8, 2025 — 9:30 AM ET Global equity markets are higher 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 0.6%. Chinese markets were higher, with the Shanghai Composite up 0.7% from its previous close and the Shenzhen Composite up 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. **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 the latest chapter in President Trump’s tariff war with other countries, including big new tariffs on major trading partners including Japan and South Korea. We next review several other international and US developments with the potential to affect the financial markets today, including a decision by Trump to resume arms exports to Ukraine and a new executive order that will further weigh on the US green energy industry.

US Tariff Policy: As he promised, President Trump [announced major tariff hikes yesterday for multiple countries that have failed to strike trade deals with the US](#) during the 90-day pause that runs out tomorrow. The threatened new tariffs, which will take effect on August 1, include levies of 25% for Japan and South Korea, 30% for South Africa, and 40% for Laos and Myanmar. The high rates reignited concerns about trade wars and economic disruptions, driving risk asset values sharply lower yesterday.

United States-Ukraine-Russia: President Trump yesterday [said the US will resume sending weapons to Ukraine to help it defend against Russian attacks](#). The turnaround follows public and private complaints by Trump that the Kremlin refuses to give up its maximalist territorial and political demands against Ukraine. In Trump's words, "I'm disappointed, frankly, that President Putin hasn't stopped."

- As we and other observers have noted previously, it's been unclear why Trump has long been so deferential to Putin and supportive of Russia, despite the country's authoritarian political system and threats to US interests. Trump's new statements suggest he may be reassessing the nature of Putin's Russia and could potentially adopt a more mainstream view of the regime.
- As we noted in our *Comment* yesterday, Trump's experience with trade negotiations since Inauguration Day also appears to have been a learning experience for him, highlighting the limits of US economic leverage and his own negotiating skill. Going forward, such learnings in geopolitics and economics could subtly shift Trump's foreign policy toward something more akin to traditional US approaches, even if his rhetoric remains just as aggressive.

North Atlantic Treaty Organization: The *Financial Times* yesterday carried an article [showing how the Dutch port of Rotterdam and the Belgian port of Antwerp are preparing for a potential war with Russia](#). The efforts are focused on identifying and reserving the port facilities that would be needed to move large amounts of military cargo from the US, the UK, and Canada onto the Continent in wartime. The planning is further evidence that Europe has gotten serious about rebuilding its defenses in the face of Russian aggression and uncertain US support.

Germany: The Ministry of Defense [is reportedly mulling a massive 25-billion EUR \(\\$29.3 billion\) program to buy thousands of new armored vehicles and tanks](#) to help outfit seven new combat brigades that Berlin has promised to add to the North Atlantic Treaty Organization's defense capability over the coming decade. The plan would include up to 2,500 GTK Boxer infantry fighting vehicles and as many as 1,000 Leopard 2 main battle tanks, all of which would boost sales by top German defense industry firms, such as Rheinmetall.

United Kingdom: Prime Minister Starmer's office yesterday [declined to rule out tax increases on the rich to help fill the hole in public finances](#) after parliamentary backbenchers in Starmer's center-left Labour Party last week forced him to retreat on his planned welfare cuts. Analysts are now increasingly expecting Chancellor of the Exchequer Reeves to announce such tax hikes in her autumn budget statement. Expectations of higher taxes on the wealthy could further exacerbate the recent modest retreat in British stock values.

Japan-Philippines: New reports say Tokyo [is mulling the transfer of one or more of its six Abukuma-class naval destroyers to the Philippines](#). If a deal is struck, it would mark Japan's first transfer of a complete weapon system in decades. Pacifist legal restrictions had barred such transfers for many years, but the contemplated new deal shows how Tokyo is gradually dropping those limits as it tries to bolster its allies' ability to help defend against Chinese aggression.

China: Little noticed amid the global news of war and trade disputes recently, General Secretary Xi and other top officials [have launched a broad campaign against what they call “involution,”](#) meaning excessive price competition arising from excess capacity and production. Excess supply, weak domestic demand, and now greater export barriers have put the country’s producer price inflation in negative territory since late 2022, putting many firms out of business and creating the risk of social disruption.

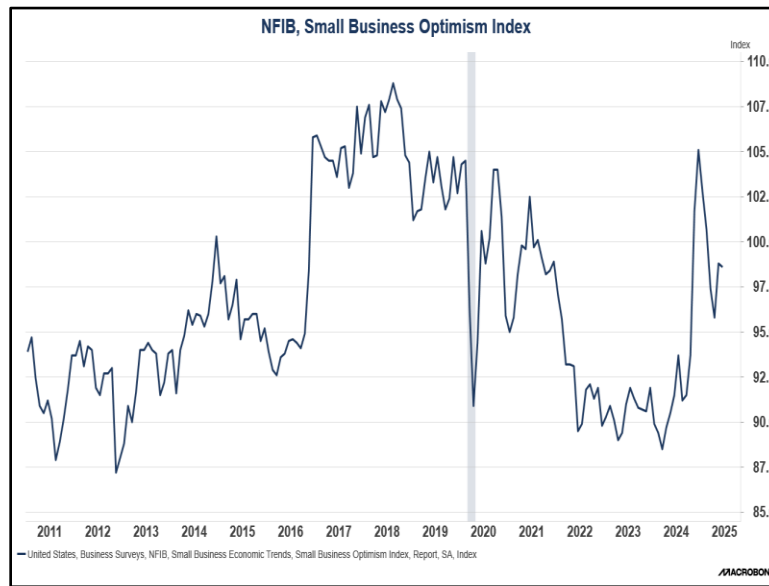
Australia: The Reserve Bank of Australia today [voted 6-3 to keep its benchmark short-term interest rate steady at 3.85%, dashing expectations for a 25-basis point cut](#) to 3.60%. In its policy statement, the RBA said conditions are sufficiently stable and that it can take more time to assess whether consumer price inflation remains on track to fall to the central bank’s 2.5% target. In response, the Australian dollar has appreciated 0.8% so far today, reaching \$0.6544.

US Clean Energy Industry: After his “big, beautiful” tax-and-spending bill signed into law last week curtailed the Biden tax credits for green energy projects, President Trump yesterday [signed an executive order tightening the standards that wind and solar farms must meet to be eligible for the remaining credits.](#) While the law said facilities had to be “under construction” within the next 12 months to be eligible, the order says a “substantial portion” of the facility must be completed by the deadline. In response to the news, green energy stocks are trading lower today.

US Air Travel Industry: In a move that is sure to spark calls for a national day of celebration, the Transportation Security Administration [is reportedly planning to end the rule that most airline passengers take their shoes off for screening before boarding a flight.](#) The requirement is apparently the top complaint that travelers have with TSA. Passengers above the age of 75 and 12 or under are already exempt, as are those in TSA’s PreCheck program.

US Economic Releases

The National Federation of Independent Business’ *Small Business Optimism Index* for June fell slightly to 98.6 from 98.8 the prior month, with concerns about taxes serving as the main headwind. Inventories have also become a concern for small business owners, as shifting tariff policies have made it difficult to manage levels. The chart below shows the course of the index through time.



The following table lists the economic releases or Fed events scheduled for the rest of the day.

Economic Releases						
EST	Indicator			Expected	Prior	Rating
15:00	Consumer Credit	m/m	May	\$17.873b	\$10.550b	*
Federal Reserve						
No Fed speakers or events for the rest of today						

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	BoP Current Account Balance	m/m	May	¥3436.4b	¥2258.0b	¥3006.4b	***	Equity and bond neutral
	BoP Trade Balance	m/m	May	-¥522.3b	-¥32.8b	-¥517.2b	**	Equity and bond neutral
Australia	NAB Business Confidence	m/m	Jun	5	2		***	Equity and bond neutral
	NAB Business Conditions	m/m	Jun	9	0		***	Equity and bond neutral
EUROPE								
Germany	Trade Balance	m/m	May	18.4b	15.7b	15.5b	*	Equity and bond neutral
	Exports	m/m	May	-1.4%	-1.6%	-0.5%	*	Equity bearish, bond bullish
	Imports	m/m	May	-3.8%	2.2%	-1.7%	*	Equity bearish, bond bullish
France	Trade Balance	m/m	May	-7766m	-7689m		*	Equity and bond neutral
Russia	Official Reserve Assets	m/m	Jun	688.7b	680.4b		*	Equity and bond neutral
AMERICAS								
Mexico	Vehicle Production	y/y	Jun	361047	358209		*	Equity and bond neutral
Brazil	Retail Sales	y/y	May	2.1%	5.3%	2.6%	***	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)	421	424	-3	Up
U.S. Sibor/OIS spread (bps)	433	433	0	Up
U.S. Libor/OIS spread (bps)	431	431	0	Up
10-yr T-note (%)	4.41	4.38	0.03	Up
Euribor/OIS spread (bps)	194	198	-4	Down
Currencies	Direction			
Dollar	Up			Down
Euro	Down			Up
Yen	Up			Down
Pound	Down			Up
Franc	Down			Up
Central Bank Action	Current	Prior	Expected	
RBA Cash Rate Target	3.85%	3.85%	3.60%	Above Forecast

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	\$69.54	\$69.58	-0.06%	
WTI	\$67.78	\$67.93	-0.22%	
Natural Gas	\$3.42	\$3.41	0.29%	
Crack Spread	\$26.56	\$26.22	1.29%	
12-mo strip crack	\$23.46	\$23.33	0.55%	
Ethanol rack	\$1.85	\$1.85	-0.18%	
Metals				
Gold	\$3,325.73	\$3,336.50	-0.32%	
Silver	\$36.77	\$36.77	0.00%	
Copper contract	\$503.25	\$502.60	0.13%	
Grains				
Corn contract	\$401.75	\$403.50	-0.43%	
Wheat contract	\$545.00	\$548.50	-0.64%	
Soybeans contract	\$1,018.50	\$1,020.75	-0.22%	
Shipping				
Baltic Dry Freight	1,436	1,436	0	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-3.00		
Gasoline (mb)		-1.00		
Distillates (mb)		-1.50		
Refinery run rates (%)		-0.3%		
Natural gas (bcf)		49		

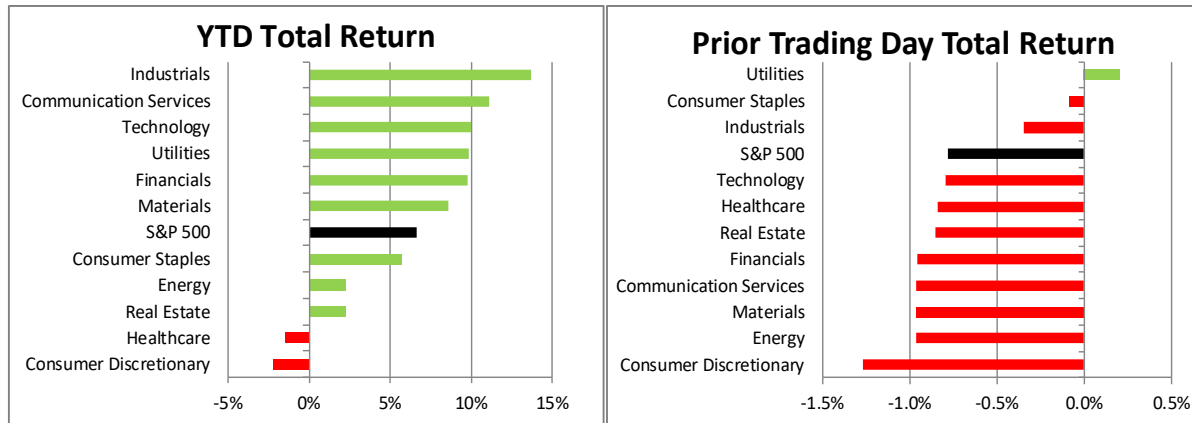
Weather

The latest 6-to-10-day and 8-to-14-day forecasts indicate warmer-than-normal conditions for the eastern and western thirds of the country, with a small patch of cooler-than-normal temperatures in West Texas and Oklahoma. The forecasts indicate wetter-than-normal conditions for the majority of the country, with a small patch of drier-than-normal conditions in Oregon and Idaho.

The latest 7-day tropical weather outlook indicates no cyclonic activity.

Data Section

US Equity Markets – (as of 7/7/2025 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.

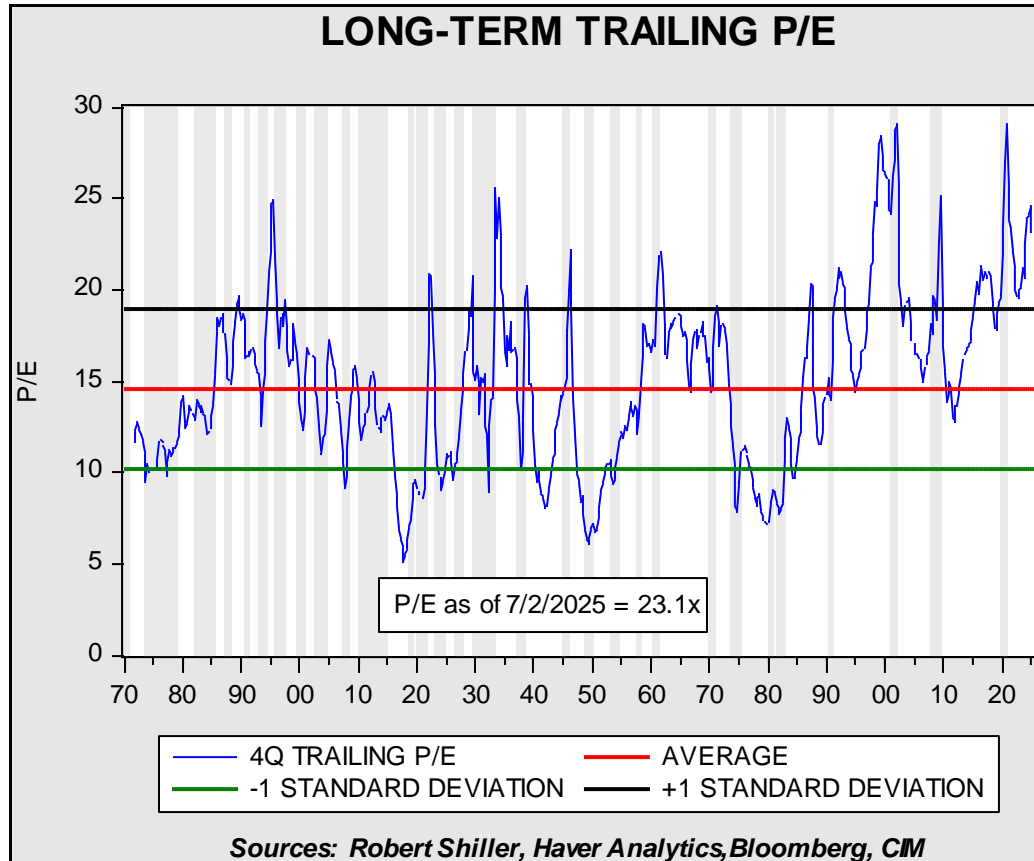
Asset Class Performance – (as of 7/7/2025 close)

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).

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.

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.