



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

**Posted: June 2, 2025 — 9:30 AM ET]** Global equity markets are lower this morning. In Europe, the Euro Stoxx 50 closed down 0.5% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.6%. Chinese markets are closed today for the Dragon Boat Festival. 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.

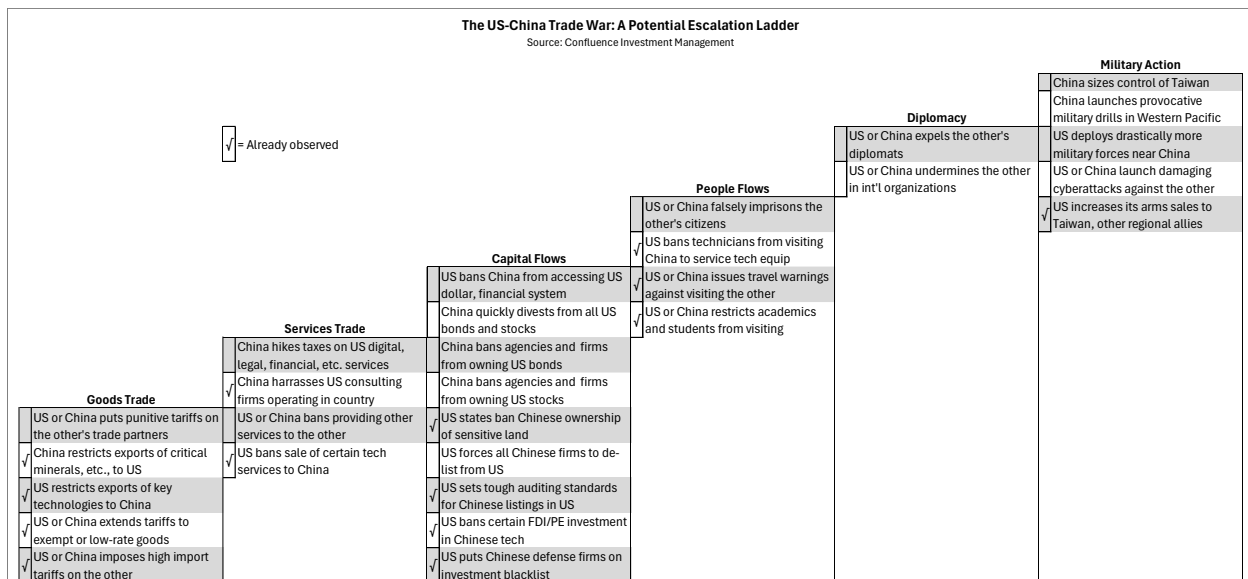
Bi-Weekly Geopolitical Report	Asset Allocation Bi-Weekly	Asset Allocation Quarterly	Of Note
<a href="#">“Why Greenland Matters”</a> (5/27/25) + <a href="#">podcast</a>	<a href="#">“The Japan Problem”</a> (6/2/25) + <a href="#">podcast</a>	<a href="#">Q2 2025 Report</a>  <a href="#">Q2 2025 Rebalance Presentation</a>	<a href="#">Confluence of Ideas Podcast</a>  <a href="#">Value Equity Quarterly Update</a>  <a href="#">Business Cycle Report</a>

Our *Comment* today opens with more evidence that geopolitical and economic tensions may be heating up again between the US and China. We next review several other international and US developments with the potential to affect the financial markets today, including a right-wing victory in Poland’s presidential run-off election and a Federal Reserve policymaker’s suggestion that any rise in price inflation because of President Trump’s tariffs could be short-lived enough to allow the central bank to resume cutting interest rates later this year.

**United States-China-Asian Allies:** At the Shangri-La Dialogue in Singapore on Saturday, Defense Secretary Hegseth [warned that China “seeks to become a hegemonic power” in Asia and is now a real and potentially imminent threat](#) to Taiwan and other US allies in the region. Hegseth pledged US support to help the allies counter China’s threat, but he also argued that they should boost their defense spending to 5% of gross domestic product, as many European countries are now aiming to do in response to the threat of aggression from Russia.

- Investors have naturally focused on trade policy over the last few months, but Hegseth’s statement is a reminder that the US — the reigning global hegemon — still faces a big geopolitical challenge from China.

- China continues to strengthen militarily, economically, and technologically, and we believe that it seeks to become the dominant power not only in Asia but probably globally. President Trump is sensitive to growing isolationist sentiment among many in his base, but some in his administration are still focused on defending US hegemony.
- We still believe that the US and China are in a spiral of increasing tensions. While investors rightly worry about the impact of Trump's trade policies, they should also keep in mind the risk of geopolitical conflict and the many ways in which US-China tensions could increase, as shown in our US-China Escalation Ladder.



**United States-China:** Speaking of the US-China trade war, President Trump [on Friday accused the Chinese government of violating the 90-day truce reached on May 12](#). Although Trump didn't say how Beijing had violated the deal, US Trade Representative Greer later revealed that the violation involved moving too slow to reverse its ban on Chinese rare earth exports.

- In a previously unreleased letter from May 9, global auto firms representing the likes of General Motors, Ford, Toyota, Volkswagen, and Hyundai [warned the administration that China's rare-earths export ban could force the shutdown of auto factories within weeks.](#) Other industries ranging from aerospace and defense to semiconductors would also be at risk.
- Further statements by administration officials confirm that last week's new ban on sending US aerospace and semiconductor technology to China was to retaliate for China's continued restriction on rare-earth exports, [as was the administration's vow to revoke the visas of Chinese students studying in the US.](#)
- The Chinese government today accused the US of "seriously violating" the 90-day trade truce with its actions on technology and visas. It vowed to retaliate strongly, signaling a continued spiraling of tensions between Washington and Beijing.

**United States-Taiwan:** In a little-noticed statement to Congress recently, retired Navy Adm. Mark Montgomery [revealed that the US now has about 500 military trainers in Taiwan](#), more than 10 times the number previously known. Although he didn't say whether the trainers were active-duty troops, reservists, or civilian contractors, Montgomery argued the US should double the size of the team to help Taiwan develop "a true counter-intervention force" that could resist any attempt by China to take control of the island.

- Montgomery's statement suggests the Trump administration has ramped up military support to Taiwan, just as it has for other allies in the region, such as the Philippines.
- To reiterate, US-China geopolitical frictions continue to worsen, even beyond the economic issues involved in their current trade war.

**Poland:** In the second and final round of the country's presidential election yesterday, Karol Nawrocki of the right-wing nationalist Law and Justice Party [narrowly won with 50.9% of the vote, beating the liberal mayor of Warsaw, Rafał Trzaskowski, with 49.1%](#). Poland's president can veto legislation or refer it to the Constitutional Court, so Nawrocki's win ensures that Law and Justice can keep blocking aspects of Prime Minister Tusk's centrist agenda. Nawrocki's win also points to continued gains by Europe's right-wing parties.

**Russia-Ukraine War:** In a surprise drone attack on several key air bases across Russia's territory over the weekend, Ukraine [appears to have destroyed or damaged dozens of Russia's 100 or so long-range Tupolev bombers](#). The attack apparently involved sneaking large numbers of drones into Russia by truck, hiding them in crates that doubled as launching platforms once they got close to the targeted bases.

- The loss of the bombers is expected to crimp both Russia's ability to bomb Ukraine and its ability to project power beyond its borders.
- We also think the Ukrainian attack echoes aspects of [Israel's 2024 attack on hundreds of Hezbollah fighters using hidden explosives in their pagars](#). Kyiv's tactic of hiding and launching the drones [using crates carried by truck](#) is a further sign that countries are now willing to compromise common, everyday products to deliver weapons for long-range, remote attacks outside their borders.

**Global Oil Market:** Saudi Arabia, Russia, and some other members of the OPEC+ grouping [on Saturday said they would boost their collective oil output by 410,000 barrels per day, starting in July](#). That would mark the third straight month of increased production. The increase reflects pressure from President Trump, the Saudis' intent to win back market share, and the group's optimism about future global demand. However, if demand comes in softer than they anticipate, the production increase would likely help keep oil prices near their current modest levels.

**US Monetary Policy:** At a conference in South Korea today, Fed board member Christopher Waller [said any rise in consumer price inflation because of the Trump administration's new tariffs could be short-lived](#), given that there is less fiscal stimulus and the labor market isn't as tight as in 2022. According to Waller, that could still allow the Fed to cut interest rates further in late 2025, not because of economic weakness but because of renewed disinflation.

**US Fiscal Policy:** In a television interview yesterday, Treasury Secretary Bessent [insisted the US “is never going to default,” despite continuing large budget deficits putting it on track to hit its legal debt limit in August.](#) Bessent’s comment was a response to JPMorgan CEO Dimon’s warning on Friday that the US bond market could buckle if the federal government doesn’t contain its debt soon.

- We believe Congress will raise the debt limit in time to avoid a default this summer. Still, Dimon’s statement helps underline the risk that growing federal debt could increasingly hamstring fiscal policy and potentially prompt investors to abandon US obligations.
- It is extremely difficult to predict when investors might decide to dump US debt. Nevertheless, rising long-term yields suggest at least some investors may be getting more concerned.

**US Trade Policy:** Visiting a United States Steel plant on Friday, President Trump [said he would further hike the US tariff on steel and aluminum imports to 50% on June 4, compared with 25% currently.](#) According to Trump, the higher tariff would help protect US steelworkers and support the expected “partnership” deal between Japan’s Nippon Steel and US Steel, in addition to helping the domestic aluminum industry.

## US Economic Releases

There were no domestic 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	Aug	52.3	52.3	***
10:00	ISM Manufacturing	m/m	May	49.5	48.7	**
10:00	ISM Prices Paid	m/m	May	69.0	69.8	**
10:00	ISM New Orders	m/m	May		47.2	**
10:00	ISM Employment	m/m	May		46.5	*
10:00	Construction Spending	m/m	Apr	2.0%	-0.5%	**
Federal Reserve						
EST	Speaker or Event	District or Position				
10:00	Lorie Logan Participates in Moderated Q&A	President of the Federal Reserve Bank of Dallas				
12:40	Austan Goolsbee Participates in Moderated Q&A	President of the Federal Reserve Bank of Chicago				
13:00	Jerome Powell Gives Opening Remarks	Chairman of the Board of Governors				

## 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
<b>ASIA-PACIFIC</b>								
Japan	Capital Spending	y/y	1Q	6.4%	-0.2%	3.8%	**	Equity bullish, bond bearish
	Jibun Bank Manufacturing PMI	m/m	Aug F	49.4	49.0		***	Equity and bond neutral
Australia	Melbourne Institute Inflation	y/y	May	2.6%	3.3%		***	Equity and bond neutral
	ANZ-Indeed Job Advertisements	m/m	May	-1.2%	-0.3%		*	Equity and bond neutral
South Korea	Trade Balance	m/m	May	\$6938m	\$4881m	\$4881m	*	Equity and bond neutral
	Exports	y/y	May	-1.3%	3.7%	-2.4%	***	Equity and bond neutral
	Imports	y/y	May	-5.3%	-2.7%	-1.8%	**	Equity bearish, bond bullish
	S&P Global South Korea PMI	m/m	May	47.7	47.5		***	Equity and bond neutral
China	Official Manufacturing PMI	m/m	May	49.5	49.0	49.5	***	Equity and bond neutral
	Official Services PMI	m/m	May	50.3	50.4	50.5	**	Equity and bond neutral
	Official Composite PMI	m/m	May	50.4	50.2		*	Equity and bond neutral
India	HSBC India PMI Mfg	m/m	May F	57.6	58.3		***	Equity and bond neutral
<b>EUROPE</b>								
Eurozone	M3 Money Supply	y/y	Apr	3.9%	3.7%	3.7%	***	Equity and bond neutral
	HCOB Eurozone Manufacturing PMI	m/m	May F	49.4	49.4	49.4	***	Equity and bond neutral
Germany	HCOB Germany Manufacturing PMI	m/m	May F	48.3	48.8	48.8	***	Equity and bond neutral
France	HCOB France Manufacturing PMI	m/m	May F	49.8	49.5	49.5	***	Equity and bond neutral
Italy	HCOB Italy Manufacturing PMI	m/m	May	49.2	49.3	49.6	***	Equity and bond neutral
UK	Nationwide House Price Index	y/y	Apr	3.5%	3.4%	2.8%	***	Equity bearish, bond bullish
	Net Lending Sec. on Dwellings	m/m	Apr	-0.8b	13.0b	1.4b	*	Equity bearish, bond bullish
	Mortgage Approvals	m/m	Apr	60.5k	63.6k	62.8k	***	Equity and bond neutral
	M4 Money Supply	y/y	Apr	3.2%	3.4%		*	Equity and bond neutral
	S&P Global UK Manufacturing PMI	m/m	Apr	46.4	45.1	45.1	***	Equity and bond neutral
Switzerland	Real Retail Sales	y/y	Apr	13.0%	2.1%		**	Equity and bond neutral
	GDP	y/y	1Q	2.0%	1.6%	1.6%	**	Equity and bond neutral
	PMI Manufacturing	m/m	May	42.1	45.8	48.0	***	Equity bearish, bond bullish
	PMI Services	m/m	May	56.3	52.4		***	Equity and bond neutral
	Domestic Sight Deposits CHF	w/w	30-May	434.3b	435.7b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	30-May	444.9b	443.4b		*	Equity and bond neutral
Russia	S&P Global Russia Manufacturing PMI	m/m	May	50.2	49.3		***	Equity and bond neutral
<b>AMERICAS</b>								
Canada	GDP	y/y	Mar	1.7%	1.6%	1.6%	**	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)	423	424	-1	Up
U.S. Sibor/OIS spread (bps)	432	432	0	Up
U.S. Libor/OIS spread (bps)	433	432	1	Up
10-yr T-note (%)	4.43	4.40	0.03	Down
Euribor/OIS spread (bps)	200	200	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
<b>Energy Markets</b>				
Brent	\$65.15	\$62.78	3.78%	
WTI	\$63.34	\$60.79	4.19%	
Natural Gas	\$3.68	\$3.45	6.82%	
Crack Spread	\$23.83	\$23.61	0.94%	
12-mo strip crack	\$21.28	\$20.78	2.37%	
Ethanol rack	\$1.88	\$1.88	0.12%	
<b>Metals</b>				
Gold	\$3,357.86	\$3,289.25	2.09%	
Silver	\$33.32	\$32.98	1.03%	
Copper contract	\$487.30	\$467.75	4.18%	
<b>Grains</b>				
Corn contract	\$446.25	\$444.00	0.51%	
Wheat contract	\$541.50	\$534.00	1.40%	
Soybeans contract	\$1,036.25	\$1,041.75	-0.53%	
<b>Shipping</b>				
Baltic Dry Freight	1,418	1,353	65	

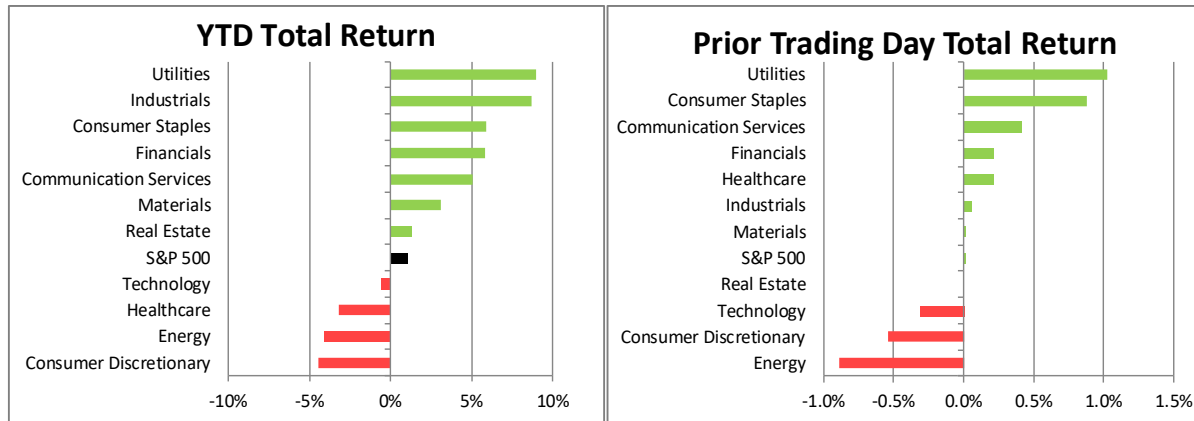
## Weather

The 6-to-10 and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for most of the country, with cooler-than-normal temperatures in the Midwest. The precipitation outlook calls for wetter-than-normal conditions east of the Rockies, with dry conditions in the Northern Pacific region.



## Data Section

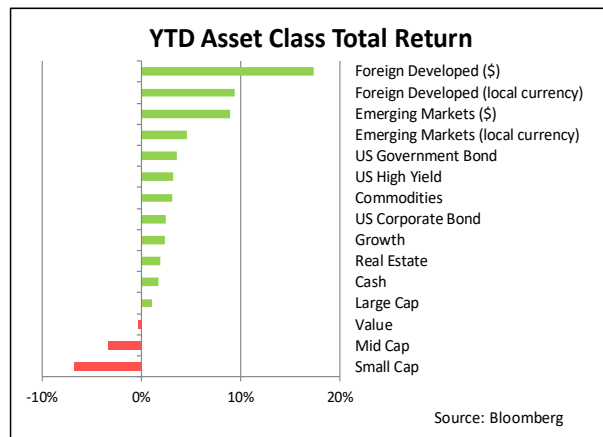
### US Equity Markets – (as of 5/30/2025 close)



(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 5/30/2025 close)

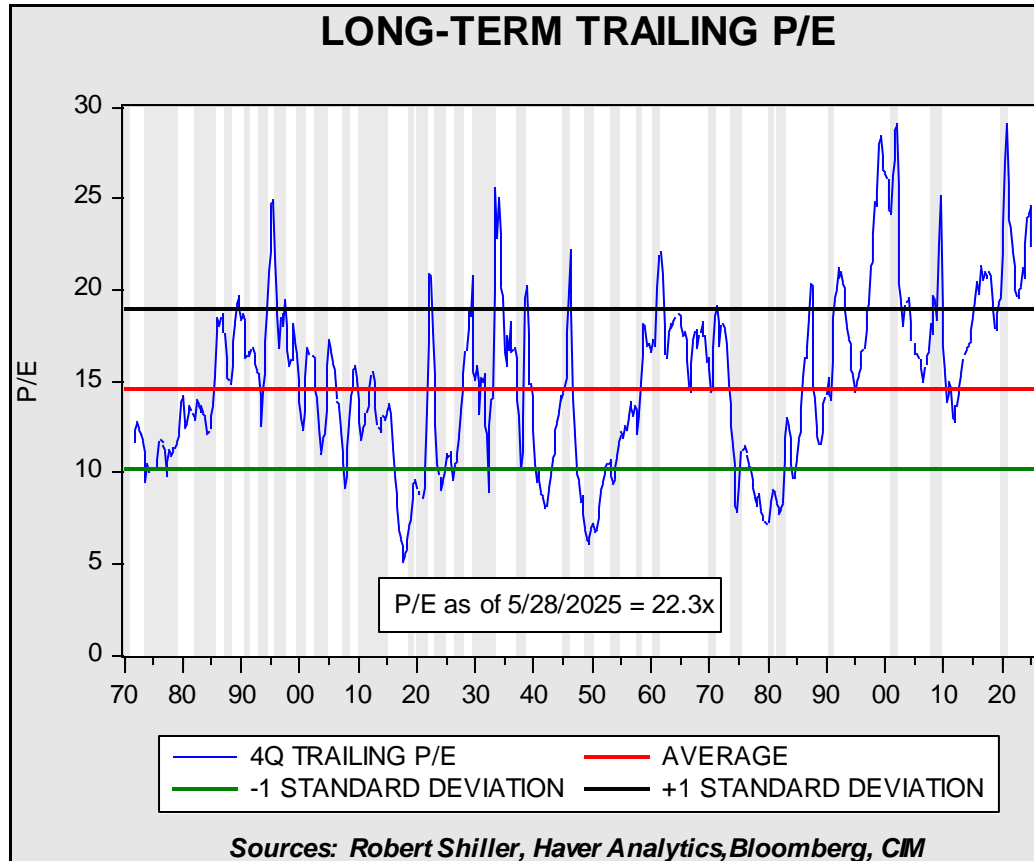


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

May 29, 2025



Based on our methodology,<sup>1</sup> the current P/E is 22.3x, unchanged from our last report. The rise in the stock price index offset by an increase in earnings.

*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.*

<sup>1</sup> 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.