



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: June 4, 2025 — 9:30 AM ET] Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 closed up 0.4% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 1.7%. Chinese markets were higher, with the Shanghai Composite up 0.4% from its previous close and the Shenzhen Composite up 0.9%. Conversely, 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.

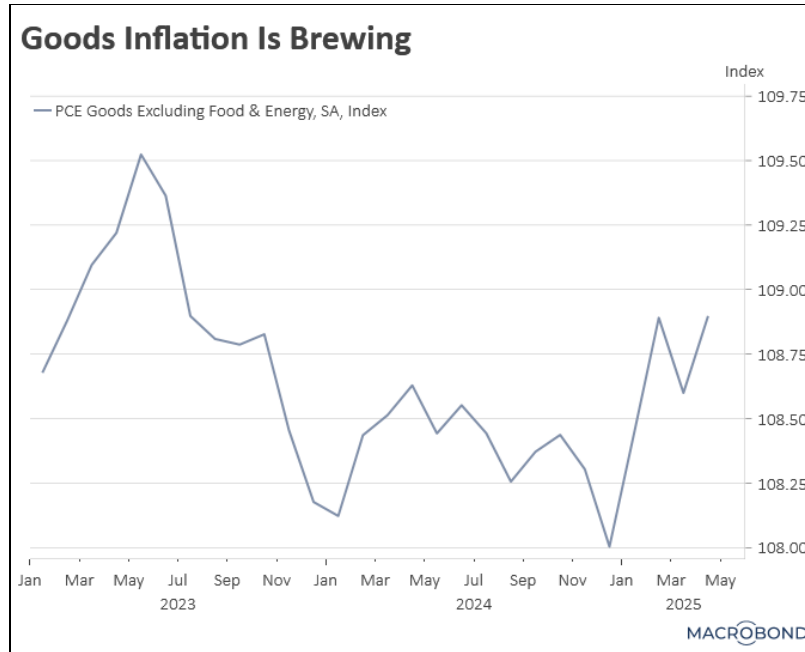
Bi-Weekly Geopolitical Report	Asset Allocation Bi-Weekly	Asset Allocation Quarterly	Of Note
“Why Greenland Matters” (5/27/25) + podcast	“The Japan Problem” (6/2/25) + podcast	Q2 2025 Report Q2 2025 Rebalance Presentation	Confluence of Ideas Podcast Value Equity Quarterly Update Business Cycle Report

Good morning! The market remains laser-focused on any signals that the US and China may resume trade talks. In today’s *Comment*, we’ll explore how a strong labor market could lead the Fed to postpone rate cuts, analyze why the new US steel tariffs represent a double-edged sword for global markets, and highlight other key, market-moving developments. As always, we’ll wrap up with a detailed breakdown of the latest domestic and international economic data releases.

Optimism Boost Hawks: The recent wave of positive economic data will likely keep the Fed from adjusting its monetary policy in the near term.

- The April Job Openings and Labor Turnover Survey (JOLTS) report pointed to stronger hiring activity, underscoring the labor market’s continued resilience. Job openings rose to 7.4 million, up from a revised 7.2 million. The rise was driven largely by increased demand in professional and business services as well as healthcare and social assistance sectors. Alongside the rise in vacancies, hiring also increased by 169,000. However, layoffs edged up by 191,000, signaling some offsetting pressures in the labor market.
- The strong job openings data is likely to discourage Fed officials from supporting interest rate cuts at their upcoming meeting. Atlanta Fed President Raphael Bostic [recently](#)

[emphasized that the central bank feels no urgency](#) to lower rates as inflation remains above the 2% target. Meanwhile, Fed Governor Lisa Cook noted that recent [tariffs are further complicating the Fed's ability to ease monetary policy](#).

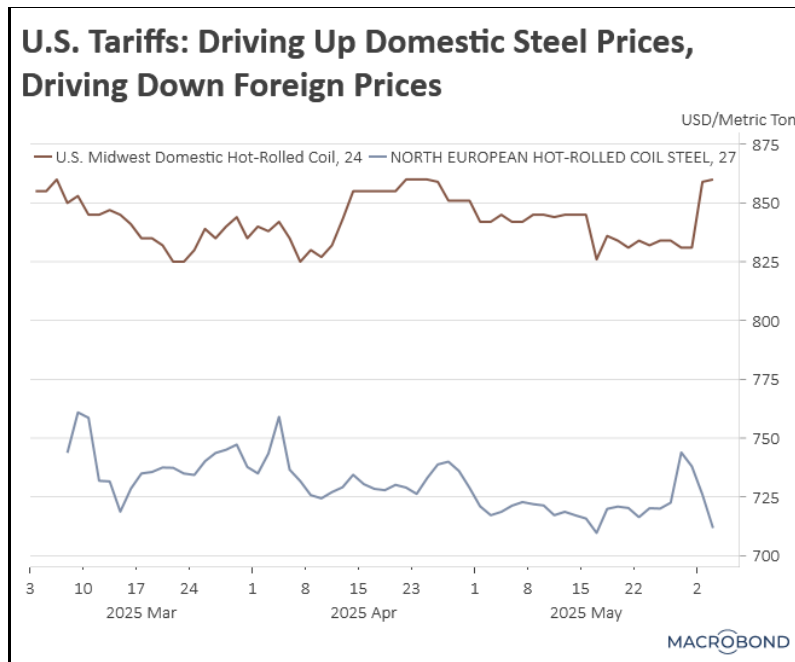


- While the Fed's reluctance to cut rates has sparked considerable debate, emerging evidence may justify its cautious approach. The latest PCE report, showing inflation at its lowest level since 2021, provided positive signals, particularly regarding services inflation. However, this positive headline likely overshadowed subtle signs of accelerating prices on goods. Furthermore, it remains unclear how firms will manage pricing once they exhaust their existing inventory.
- The strong labor market is a key indicator for the Federal Reserve as it weighs the optimal timing for interest rate cuts. A major concern among Fed officials is the uncertain impact of tariffs on the economy. As a result, the central bank plans to wait until at least mid-summer before deciding on rate cuts. This delay should provide a clearer understanding of the economic effects from tariffs and more certainty regarding overall tariff policy.

Tariff Update: While the president's steel tariffs aim to protect domestic industry, their global economic impact may be mixed — both beneficial and disruptive.

- [Fifty percent tariffs on US steel officially went into effect on Wednesday](#) under an executive order signed by the president. The new tariff rate effectively doubles the previous rate. The move follows the White House [signaling its approval of the acquisition of US Steel by Japan's Nippon Steel](#) as the president seeks to demonstrate that the proposed merger will not weaken his commitment to bringing more manufacturing back to the US.
- Following these actions, the UK, which was the first to reach an initial agreement on future trade talks, [has been granted an exemption from the tariff hike](#) — keeping its rate

at 25% — along with a new five-week deadline to finalize a deal. However, the accelerated timeline could complicate efforts for the country to secure favorable terms for the domestic metals industry, which British lawmakers worry is on the brink of collapse.



- Following the president’s announcement of steel tariffs, US and foreign steel prices have moved in opposite directions. Futures prices for US steel have surged, contrasting with a decline in foreign steel prices. This disparity exemplifies the significant influence tariffs can exert on particular commodities. In essence, such tariffs contribute to domestic inflationary pressures, while simultaneously alleviating them in international markets.
- This inverse relationship will likely present both benefits and challenges for international markets. In the short term, it could facilitate other countries’ efforts to meet their inflation targets, given their probable increase in supply. However, in the long term, this dynamic is likely to contribute to higher unemployment in key sectors. Consequently, we suspect that international firms heavily reliant on raw materials could benefit from this deflation, while their suppliers might require additional government assistance to remain viable.

US and China Bickering: The two economic powerhouses remain at odds in trade negotiations, each determined to project strength rather than compromise.

- In a recent late-night post on his Truth Social account, President Donald Trump stated his [belief that Chinese President Xi Jinping is “extremely hard to make a deal with.”](#) This comment suggests Trump’s likely weariness regarding the prospects of a trade deal, especially given his efforts in recent days to secure face-to-face trade talks with his Chinese counterpart. The president’s remarks are likely to raise concerns about the fragility of the recent truce between the two sides in May.
- In another sign of heightening tensions between the two economic powers, China has announced plans to consider purchasing hundreds of [Airbus aircraft during upcoming](#)

[meetings with European leaders](#). While no final decision has been made, analysts suggest this move could target specific US companies — particularly Boeing — as strategic leverage in ongoing trade negotiations.

- Renewed tensions threaten to undermine confidence that the two sides will be able to avert a damaging trade war. Markets have largely priced in expectations that the administration will seek to roll back any trade measures that could negatively impact equities. This outlook has encouraged many investors to adopt a “buy the dip” mentality, anticipating that near-term disruptions may lead to favorable policy responses.
- This trend has helped push the market back to levels seen at the start of the year, though not enough to reach new highs. The true test will come ahead of the July 9 deadline, when the president announces whether he will: (1) maintain current tariff rates, (2) grant extensions to certain countries, or (3) implement the higher rates proposed on April 2. Market analysts anticipate the third option would likely trigger the most negative reaction from investors.

Russia Expands: Following its invasion of Ukraine, there is speculation that Russia may try to expand its influence in other countries.

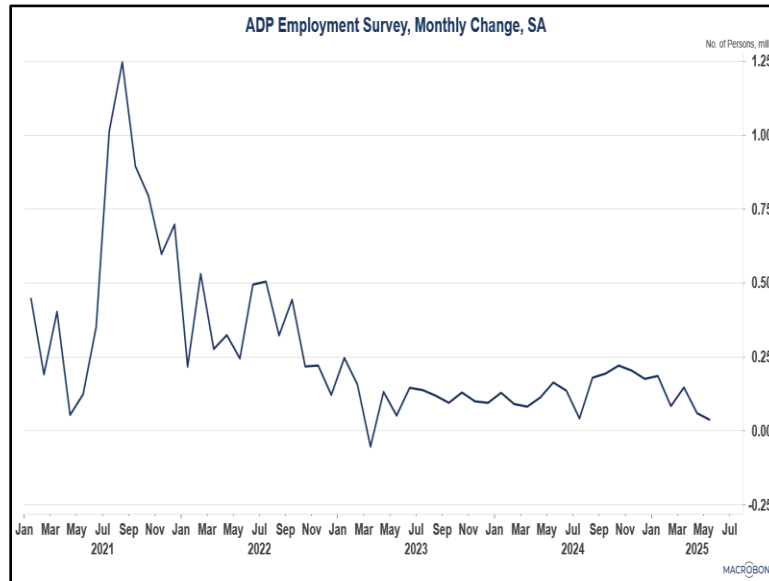
- The [Moldovan prime minister has accused Russia of attempting to interfere in Moldova’s elections](#), aiming to install a government more sympathetic to Moscow. He warned that Russia could exploit a pro-Moscow political party to legitimize the deployment of over 10,000 troops in the region. His remarks are a reminder that countries feel they could be a target after the conflict ends in Ukraine.
- Furthermore, the Kremlin appears to be actively working to undermine Bulgaria's EU accession process. [While Bulgaria is set to adopt the euro on January 1, 2026](#), a surging populist movement that is widely believed to be backed by Moscow is advocating for a referendum that could block the currency transition. Analysts suggest Russia aims to maintain Bulgaria within its sphere of influence through these efforts.
- The alleged interferences in Bulgaria and Moldova highlight Moscow’s potential strategy of shifting focus to other countries once it reaches a resolution in its war with Ukraine. Such actions are likely to prompt EU leaders to increase defense spending as they seek to counter Russia’s growing influence.

US Economic Releases

The Mortgage Bankers Association today said *mortgage applications* for the week ended May 30 fell 3.9%, the third consecutive week of declines. Applications for home purchase mortgages fell 4.4%, after rising 2.7% the previous week. Applications for refinancing mortgages fell 3.5%, marking the fourth consecutive decline for this component of the index. Meanwhile, the average interest rate on a 30-year mortgage fell 7 basis points to 6.92%, reversing the change from the previous week.

The ADP Research Institute estimated that *private payroll employment* rose in May by a seasonally adjusted 37,000, falling short of the expected 114,000 increase and the previous

month's 60,000 gain. This marks the lowest monthly increase in two years. ADP's estimate is widely seen as an indicator of what to expect when the Labor Department releases its measure of nonfarm payrolls on Friday. The chart below shows the monthly change in ADP's estimate of private payrolls since the beginning of 2021.



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
10:00	ISM Services Index	m/m	May	52.0	51.6	**
10:00	ISM Services Prices Paid	m/m	May	65.0	65.1	***
10:00	ISM Services New Orders	m/m	May	51.6	52.3	***
10:00	ISM Services Employment	m/m	May	49.0	49.0	*
Federal Reserve						
EST	Speaker or Event	District or Position				
8:30	Raphael Bostic and Lisa Cook Moderate Fed Listens Events	President of the Atlanta Fed and Member 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
ASIA-PACIFIC								
Japan	Jibun bank Composite PMI	m/m	May F	50.2	49.8		**	Equity and bond neutral
	Jibun Bank Services PMI	m/m	May F	51.0	50.8		**	Equity and bond neutral
Australia	S&P Global Australia Composite PMI	m/m	May F	50.5	50.6		*	Equity and bond neutral
	S&P Global Australia Services PMI	m/m	May F	50.6	50.5		**	Equity and bond neutral
	GDP	y/y	Q1	1.3%	1.3%	1.5%	**	Equity and bond neutral
South Korea	CPI	m/m	May	1.9%	2.1%	2.1%	***	Equity and bond neutral
India	HSBC India PMI Composite	m/m	May F	59.3	61.2		**	Equity and bond neutral
	HSBC India PMI Services	m/m	May F	58.8	61.2		**	Equity and bond neutral
EUROPE								
Eurozone	HCOB Eurozone Services PMI	m/m	May F	49.7	48.9	48.9	**	Equity and bond neutral
	HCOB Eurozone Composite PMI	m/m	May F	50.2	49.5	49.5	*	Equity and bond neutral
Germany	HCOB Germany Services PMI	m/m	May F	47.1	47.2	47.2	**	Equity and bond neutral
	HCOB Germany Composite PMI	m/m	May F	48.5	48.6	48.6	**	Equity and bond neutral
France	HCOB France Services PMI	m/m	May F	48.9	47.4	47.4	**	Equity bullish, bond bearish
	HCOB France Composite PMI	m/m	May F	49.3	48.0	48.0	**	Equity bullish, bond bearish
Italy	HCOB Italy Services PMI	m/m	May	53.2	52.9	52.0	**	Equity bullish, bond bearish
	HCOB Italy Composite PMI	m/m	May	52.5	52.1	51.4	**	Equity bullish, bond bearish
	New Car Registrations	y/y	May	-0.2%	2.7%		*	Equity and bond neutral
UK	Official Reserves Changes	m/m	May	-\$372m	\$4115m		*	Equity and bond neutral
	S&P Global UK Composite PMI	m/m	May F	50.3	49.4	49.4	**	Equity and bond neutral
	S&P Global UK Services PMI	m/m	May F	50.9	50.2	50.2	**	Equity and bond neutral
Russia	S&P Global Russia Composite PMI	m/m	May	51.4	49.8	50.3	**	Equity bullish, bond bearish
	S&P Global Russia Services PMI	m/m	May	52.2	50.1	50.3	**	Equity bullish, bond bearish
AMERICAS								
Mexico	Gross Fixed Investment	y/y	Mar	-0.2%	-7.3%	-0.5%	**	Equity and bond neutral
	International Reserves Weekly	w/w	30-May	119961	108298		*	Equity and bond neutral
Brazil	Industrial Production	y/y	Apr	-0.3%	3.2%	0.4%	***	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)	424	423	1	Up
U.S. Sibor/OIS spread (bps)	431	432	-1	Up
U.S. Libor/OIS spread (bps)	432	432	0	Up
10-yr T-note (%)	4.45	4.46	-0.01	Down
Euribor/OIS spread (bps)	197	198	-1	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.

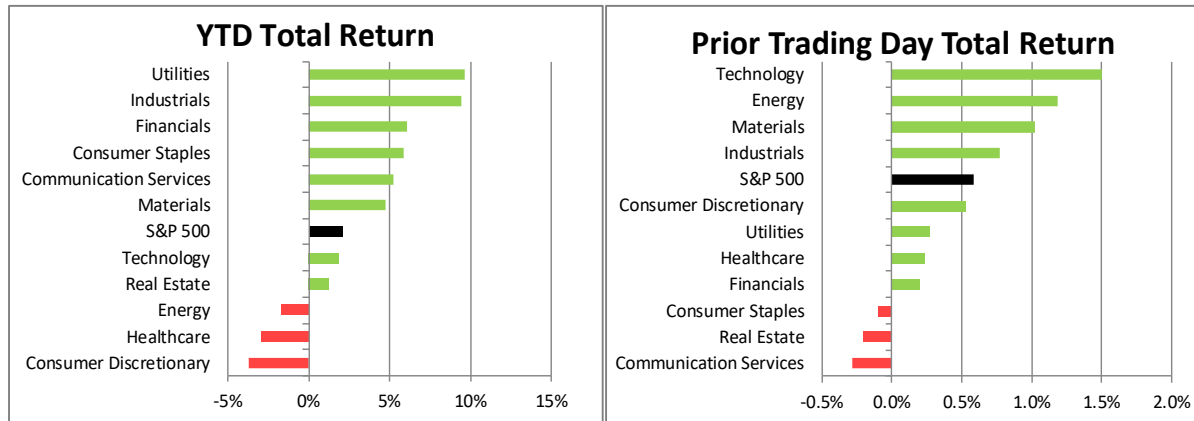
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$65.69	\$65.63	0.09%	
WTI	\$63.48	\$63.41	0.11%	
Natural Gas	\$3.70	\$3.72	-0.48%	
Crack Spread	\$23.97	\$24.09	-0.51%	
12-mo strip crack	\$21.34	\$21.37	-0.12%	
Ethanol rack	\$1.86	\$1.87	-0.36%	
Metals				
Gold	\$3,349.42	\$3,353.43	-0.12%	
Silver	\$34.39	\$34.52	-0.38%	
Copper contract	\$486.70	\$483.40	0.68%	
Grains				
Corn contract	\$444.50	\$438.50	1.37%	
Wheat contract	\$541.00	\$536.00	0.93%	
Soybeans contract	\$1,047.50	\$1,040.75	0.65%	
Shipping				
Baltic Dry Freight	1,430	1,422	8	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-3.13		
Gasoline (mb)		-0.50		
Distillates (mb)		0.17		
Refinery run rates (%)		1.0%		
Natural gas (bcf)		101		

Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures from the Rocky Mountains to the West Coast and the East and Gulf Coasts, with cooler-than-normal temperatures in a central pocket of the country. The outlook calls for wetter-than-normal conditions in the Southeast and southern Great Plains, with normal conditions elsewhere.

Data Section

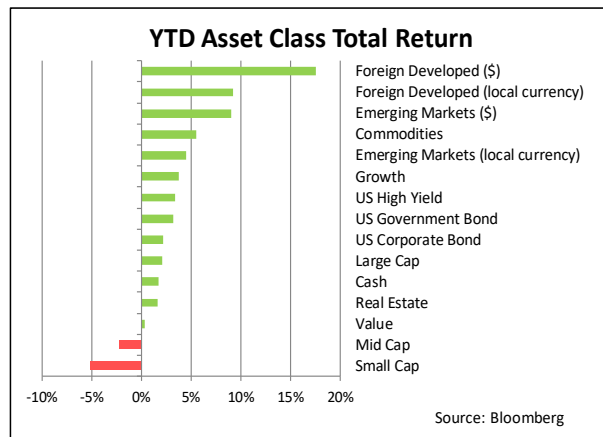
US Equity Markets – (as of 6/3/2025 close)



(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 6/3/2025 close)

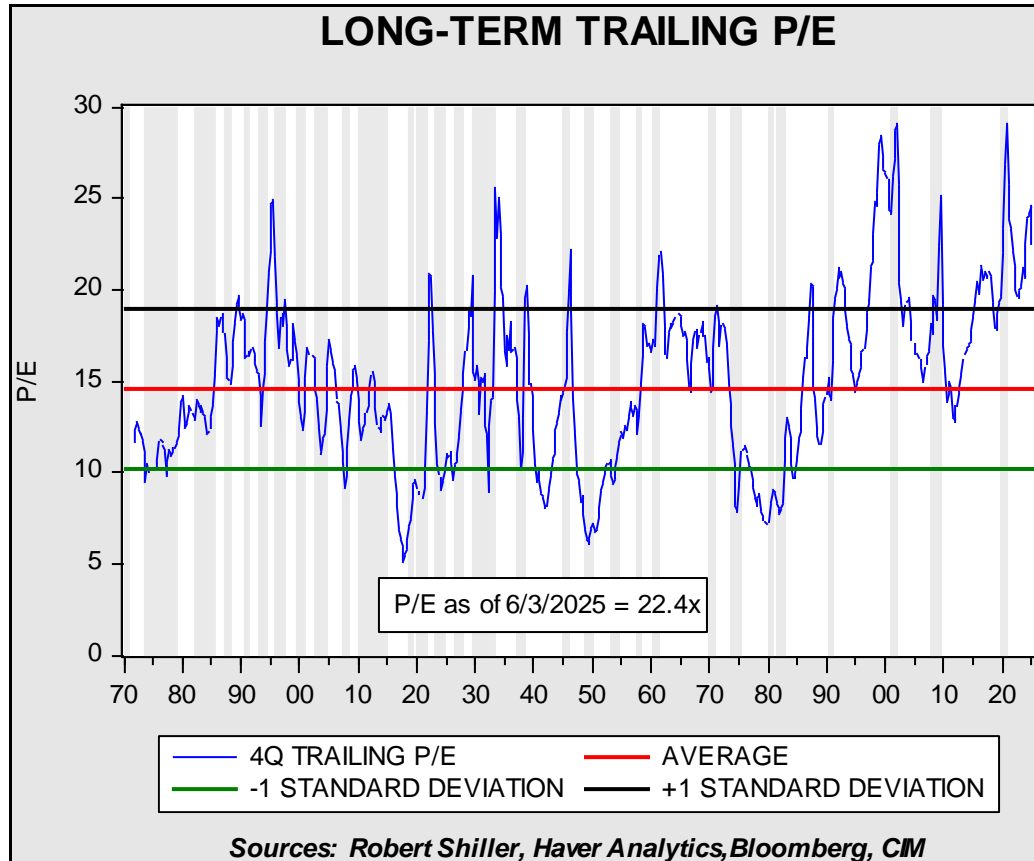


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

June 4, 2025



Based on our methodology,¹ the current P/E is 22.4x, 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.