Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: June 9, 2025 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is down 0.3% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 1.4%. Chinese markets were higher, with the Shanghai Composite up 0.4% from its previous close and the Shenzhen Composite up 0.9%. 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
"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

---

Our *Comment* today opens with the latest in the US-China trade war, with a focus on an apparent effort by China to drive a wedge between the US and its allies. We next review several other international and US developments with the potential to affect the financial markets today, including further evidence that defense rebuilding is affecting the broader European Union economy and more pushback against the punitive foreign-investment taxes in President Trump's budget bill.

China-European Union-United States: In a new sign that Beijing is trying to split the US from its traditional allies, the Chinese commerce ministry announced over the weekend that it is exploring a mechanism to accelerate the approval of rare-earth exports to the EU and some other countries. The move comes as Beijing has imposed strict licensing requirements for rare-earth exports to retaliate for the Trump administration's tough tariff policies against China.

- The crimped supply of rare-earth materials continues to threaten the output of global auto makers and other firms, including US companies.

- One of Washington's goals is to get US allies to present a tough, coordinated wall against Chinese exports. By potentially providing more rare-earth supplies to the EU, it appears that Beijing is trying to discourage the Europeans from taking that stance.
- If Beijing indeed favors EU countries as it releases more rare-earth materials, US auto makers and other firms could find themselves at a further disadvantage in the US-China trade war, putting their stocks at risk.
- Whether that happens could largely depend on the US-China trade talks opening in London today.

China-Russia: As a reminder of on-going tensions between Beijing and Moscow, despite the friendship professed by General Secretary Xi and President Putin, a new report shows Russian counterintelligence officials are increasingly worried about Chinese spying. According to a report in the *New York Times*, the Kremlin has even set up a dedicated counterintelligence cell to fight against the Chinese espionage. The report suggests that the US and its allies could potentially find ways to weaken Russia's adherence to Chinese geopolitical and economic plans.

European Union: In an interview with the *Financial Times*, Chief Market Strategist Malin Norberg of Norway's enormous and highly influential sovereign wealth fund has implored the EU to urgently reform its capital markets to boost the bloc's economic competitiveness. According to Norberg, the key reforms would be to harmonize the EU's tax, bankruptcy, and regulatory rules. She also said that the lack of those reforms has been one reason why the fund's allocation to European equities has fallen from 26% to 15% in just the last decade.

- As we have noted in the past, fractured and shallow financial markets are a key impediment to the EU's competitiveness.
- However, reform proposals such as Norberg's have been made in the past, and there appears to be little significant new momentum toward achieving them.

France: Showing the rising importance of drone production for modern military operations, the French government announced it has asked automaker Renault to help a small French drone firm mass-produce drones for Ukraine. The "completely unprecedented partnership" would have Renault building defense equipment for the first time since World War II. Although a deal hasn't been finalized, we think it is yet another example of the growing impact of defense rebuilding on the European economy.

United Kingdom: Ahead of her annual budget review today, Chancellor of the Exchequer Rachel Reeves announced she will restore the government's winter fuel subsidy for all but the UK's two million or so pensioners with incomes above 35,000 GPB ($47,500). The move is estimated to cost 1.25 billion GPB ($1.69 billion), marking a reversal from the Labour Party government's original austerity effort. It will therefore further weaken the UK's fiscal position and add to the pressure for higher taxes and/or spending cuts in other budget accounts.

India: State-owned energy champion Coal India has said it will reopen 32 shuttered mines and start five new ones to feed the country's electricity generating plants as the renewables sector fails to keep up with rising demand. The news amounts to further evidence that the global coal sector is getting a new lease on life as policymakers and investors begin to back away from investing in renewable systems such as solar and wind.

Colombia: Conservative Senator Miguel Uribe Turbay was shot in the head at a campaign event on Saturday and was rushed to a hospital in critical condition. The shooting has sparked fears of renewed political violence in Colombia as leftist President Gustavo Petro tries to push through controversial labor market reforms amid strong resistance by conservatives. Uribe Turbay is the grandson of a former president and is likely to be a candidate in next year's presidential election.

US Fiscal Policy: According to the *Financial Times*, executives from about 70 of the world's biggest companies will travel to Washington this week to lobby Congress against Section 899 of President Trump's "big, beautiful" tax and spending bill. That section would allow the federal government to impose punitive taxes on foreign-owned companies in the US if their home countries impose what the administration considers unfair taxes on US companies abroad.

- The foreign companies are arguing that Section 899 would disincentivize foreign investment in the US and could even lead to foreign-owned companies shutting down.
- However, it's important to remember that reduced investment from abroad is the logical corollary to the administration's drive to hike import tariffs and cut the US trade deficit. Indeed, some economists have long argued that the most efficient way to rebalance US trade would be to tax incoming foreign investment, including investments in US Treasury obligations. Probable downsides would be higher US interest rates and a weaker dollar.

US Immigration Policy: While most of the focus today will likely be on the big Los Angeles protests against President Trump's immigration raids, we note that press reports show an increasing number of restaurant firms are worrying about a loss of workers. According to the National Restaurant Association, more than 20% of the US's restaurant workers were born abroad, though most are legal citizens. Still, the immigration raids at food-service firms have made both legal and illegal restaurant workers reluctant to go to their jobs.

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
10:00	Wholesale Inventories	m/m	Apr F	0.0%	0.0%	**
10:00	Wholesale Trade Sales	m/m	Apr	0.2%	0.6%	*
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	GDP SA	q/q	1Q F	0.00%	-0.20%	-0.20%	***	Equity and bond neutral
	GDP Deflator	q/q	1Q F	3.30%	3.30%	3.30%	***	Equity and bond neutral
	BoP Trade Balance	m/m	Apr	-¥32.8b	¥516.5b	-¥174.8b	**	Equity and bond neutral
	BoP Current Account Balance	m/m	Apr	¥2258.0b	¥3678.1b	¥2596.41b	***	Equity and bond neutral
New Zealand	Mfg Activity Volume	q/q	1Q	2.4%	1.2%		**	Equity and bond neutral
	Mfg Activity SA	q/q	1Q	5.1%	3.0%		*	Equity and bond neutral
China	Foreign Reserves	m/m	May	$3285.26b	$3281.66b	$3287.00b	**	Equity and bond neutral
	PPI	y/y	May	-3.3%	-2.7%	-3.2%	**	Equity and bond neutral
	CPI	y/y	May	-0.1%	-0.1%	-0.2%	**	Equity and bond neutral
	Exports	y/y	May	4.8%	8.1%	6.0%	**	Equity and bond neutral
	Imports	y/y	May	-3.4%	-0.2%	-0.8%	**	Equity and bond neutral
	Trade Balance	m/m	May	$103.22b	$96.18b	$101.10b	***	Equity and bond neutral
AMERICAS								
Canada	Net Change in Employment	m/m	May	8.8k	7.4k	-10.0k	***	Equity bullish, bond bearish
	Unemployment Rate	m/m	May	7.0%	6.9%	7.0%	***	Equity and bond neutral
	Participation Rate	m/m	May	65.3%	65.3%	65.3%	*	Equity and bond neutral
Mexico	CPI	y/y	May	4.42%	3.93%	4.38%	***	Equity and bond neutral
	Core CPI	y/y	May	4.06%	3.93%	4.03%	**	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	433	0	Up
10-yr T-note (%)	4.50	4.51	-0.01	Up
Euribor/OIS spread (bps)	196	195	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.

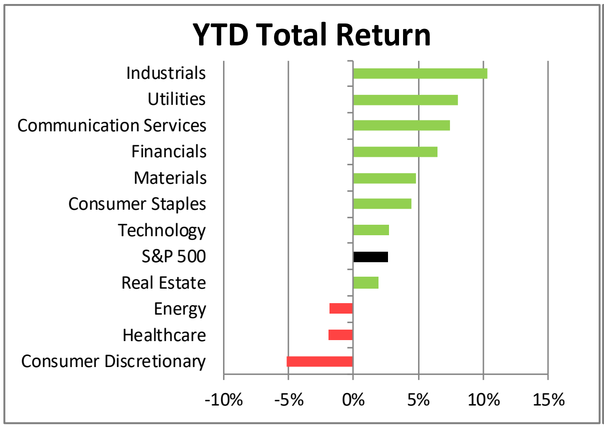
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$66.83	$66.47	0.54%	
WTI	$64.92	$64.58	0.53%	
Natural Gas	$3.72	$3.78	-1.66%	
Crack Spread	$23.47	$23.32	0.66%	
12-mo strip crack	$21.41	$21.36	0.24%	
Ethanol rack	$1.84	$1.83	0.05%	
Metals				
Gold	$3,314.35	$3,310.42	0.12%	
Silver	$36.28	$35.98	0.83%	
Copper contract	$487.30	$484.80	0.52%	
Grains				
Corn contract	$440.75	$442.50	-0.40%	
Wheat contract	$549.75	$554.75	-0.90%	
Soybeans contract	$1,058.25	$1,057.25	0.09%	
Shipping				
Baltic Dry Freight	1,633	1,626	7	

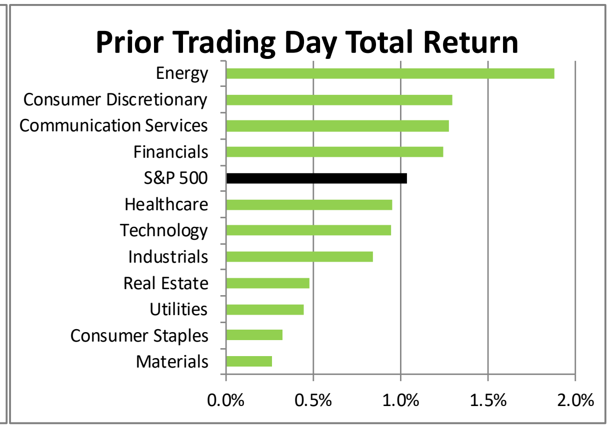
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for most of the country, with cooler temperatures in the New England and the upper West Coast region. The precipitation outlook calls for wetter-than-normal conditions for the Midwest, the Rockies, and extending into the Southwest and parts of the Pacific regions, with dry conditions expected in the Central Pacific region.

Data Section

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

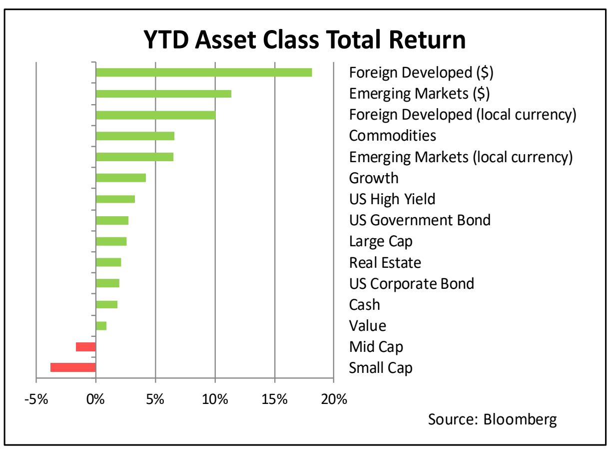




(Source: Bloomberg)

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 6/6/2025 close)

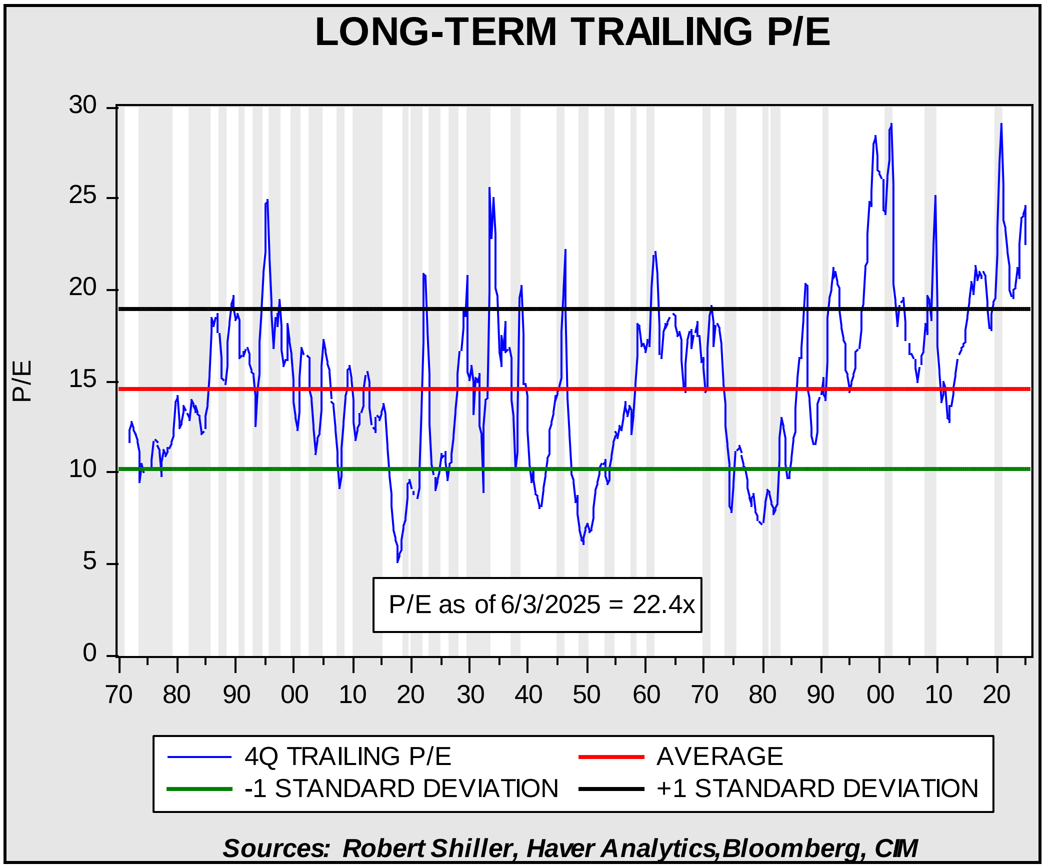


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.