Daily Comment

Confluence INVESTMENT MANAGEMENT

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: June 30, 2025 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is down 0.1% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 1.5%. Chinese markets were higher, with the Shanghai Composite up 0.6% from its previous close and the Shenzhen Composite up 1.1%. 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
"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

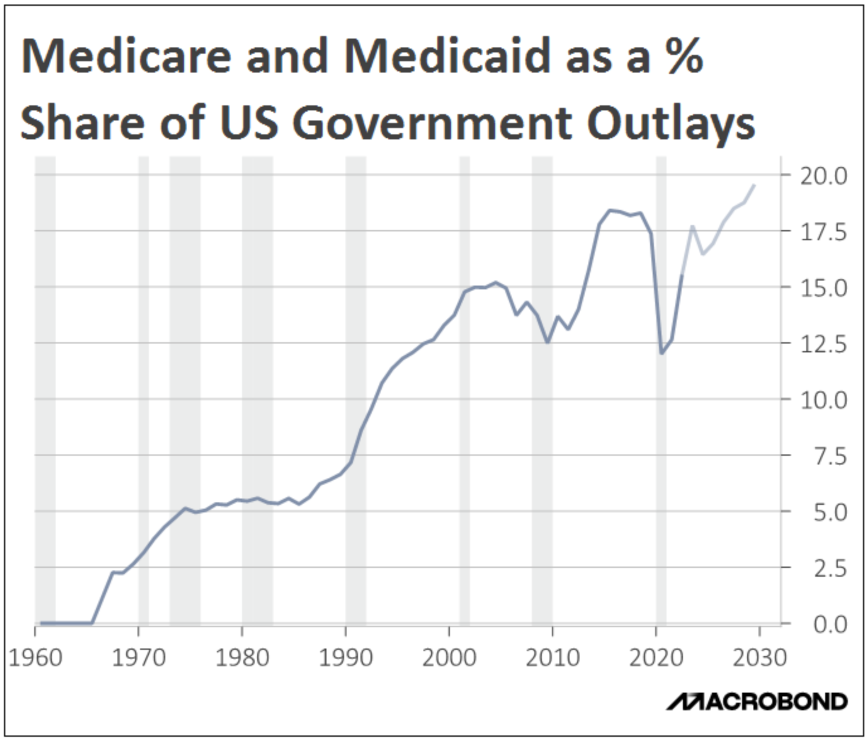
Have a question on the economy, markets, geopolitics, or other important topics? You can submit your queries to our new monthly podcast, *Confluence Mailbag*! Submit your question to mailbag@confluenceim.com.

Good morning. Markets remain squarely focused on the "One Big, Beautiful Bill." Today's *Comment* will begin with an analysis of the latest progress on President Trump's tax bill, followed by an overview of recent trade developments. We'll also examine other stories moving markets today. As usual, we'll conclude with a summary of today's key domestic and international economic data releases.

The Tax Bill Progresses: Senate Republicans advanced legislation on the president's tax agenda over the weekend, aiming to meet an ambitious July 4 deadline for passage.

- The Senate voted 51-49 to advance debate on the bill after two Republicans sided with Democrats. Lawmakers are now finalizing the legislation ahead of a decisive vote, with negotiations centering on three key issues: the budget deficit impact, regulatory changes, and proposed cuts to investment and social spending programs.

- The latest Congressional Budget Office estimates project that the bill would increase the national deficit by $3.3 trillion over the next decade. This figure excludes additional borrowing costs, which could substantially worsen the shortfall. The legislation combines $4.5 trillion in reduced revenues with $1.2 trillion in spending cuts.
- The legislation modifies a controversial AI moratorium provision from the House bill, reducing restrictions on state-level AI regulations from 10 years to five years as a condition for accessing $500 billion in infrastructure funding. It also includes exemptions for AI rules concerning child protections and incorporates a Tennessee law banning the unauthorized use of musicians' likenesses by AI systems.

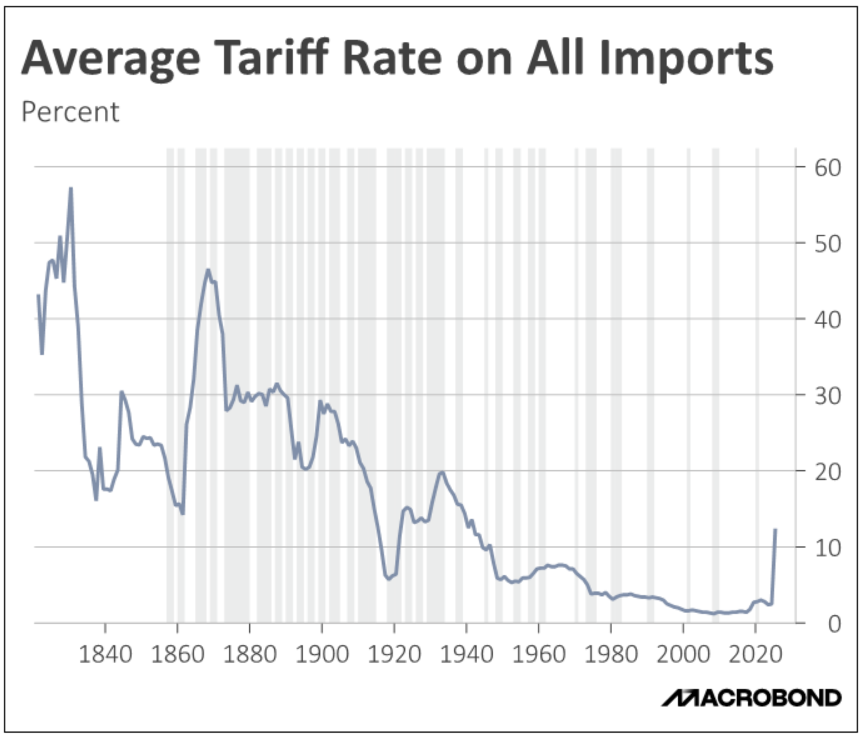


- The legislation also introduces significant changes to the social safety net, including new work requirements of 80 hours per month to qualify for benefits, along with restrictions on Medicaid provider taxes. While the new work requirements also apply to parents, exemptions are provided for those with children under 14. Additionally, the bill modifies food assistance programs by requiring states to contribute funding.
- The final bill contained several significant omissions. Most notably, the Senate removed the controversial "revenge tax" provision. Additionally, the Senate parliamentarian ruled that key provisions violated the Byrd Rule, forcing the removal of major healthcare, immigration, and financial reform as well as other measures
- While clear signs indicate that the bill remains unfinished, it appears to have strong momentum. We anticipate the legislation will likely pass within the coming days, with final approval expected by week's end. Although the bill should provide a near-term

boost to equities, investors will probably quickly shift their focus to earnings reports once it's enacted.

Trump Trade Policy: President Trump is expected to send out his trade letters this week, which may lead to market volatility

- With just over a week remaining until the president's July 9 deadline, significant uncertainty persists regarding the tariff rates that will be imposed on key countries. The president has already begun drafting letters to affected nations outlining the specific tariff rates for their exports, while dismissing speculation that he might extend the deadline.
- On Friday, the Trump administration announced a new trade agreement with China that guarantees continued access to critical resources for US manufacturers. While existing tariffs will mostly remain in place, the deal alleviates concerns about potential shortages of key industrial inputs like rare earth minerals. The administration also revealed that it has successfully negotiated 10 additional trade agreements that it plans to roll out this week.

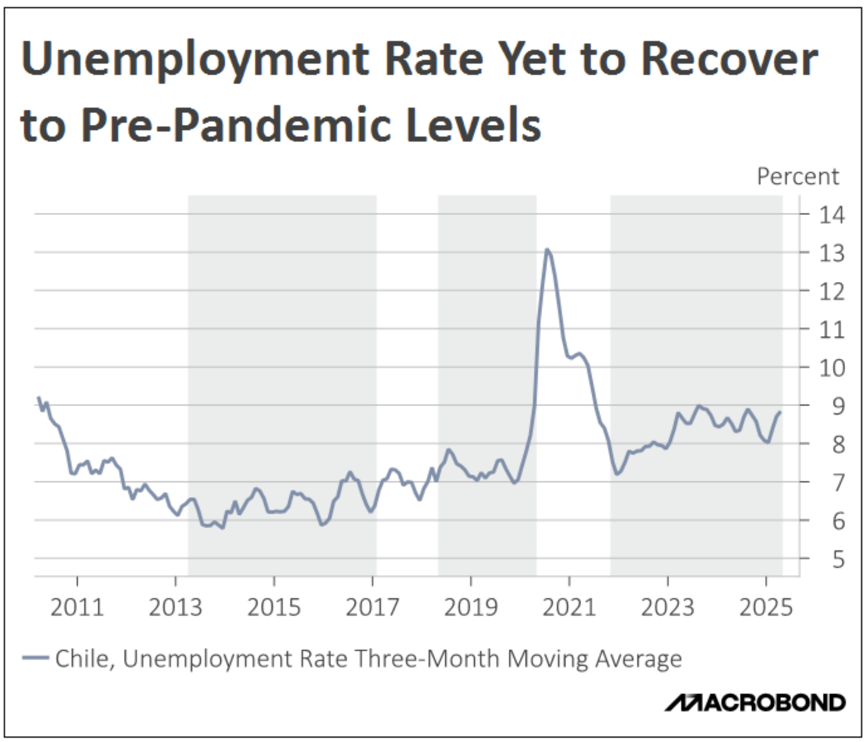


- In a weekend breakthrough, the president secured Canada's agreement to scrap its digital services tax just before it was set to take effect Monday. This came after Friday's hardline stance, when the administration suspended trade talks until the tax was withdrawn. The White House has consistently opposed these digital levies across multiple nations, with senior officials deriding them as attempts to use American tech firms as "piggy banks."
- Markets will scrutinize the details of the Trump administration's trade agreements, with particular focus on tariff provisions. Signs that rates will remain stable or decrease would

likely reassure investors, while any unexpected increases in import taxes could prompt a reduction in risk exposure across financial markets.

Chile Nominated Communist: One of South America's wealthiest economies was rocked by a surprise victory, as a Communist candidate triumphed in the country's primary elections.

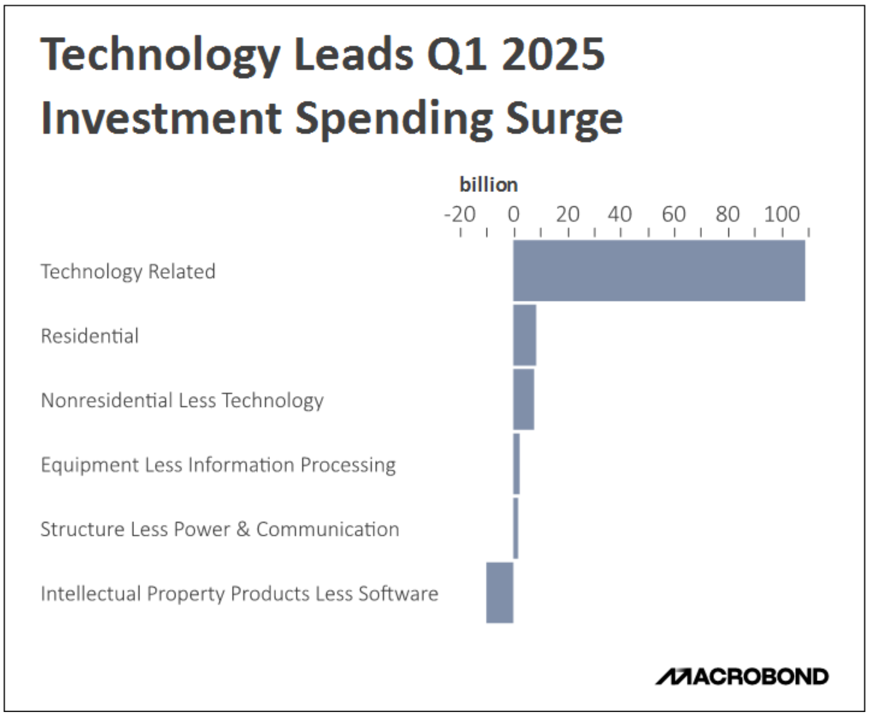
- Jeannette Jara secured a landslide victory, emerging as the left-wing presidential candidate. The former labor minister's win is likely to unsettle markets, which had hoped for a more moderate nominee. She will now face a consolidated field of right-wing candidates who bypassed their primary process amid strong polling numbers for far-right conservatives.
- Chile faces mounting economic headwinds as sluggish GDP growth and rising unemployment strain the economy. Public discontent is growing over surging immigration and crime rates, adding pressure on policymakers. Despite these challenges, markets had remained resilient — until now — and were buoyed by expectations that the incoming administration would pursue business-friendly reforms.



- South American economies have demonstrated notable resilience to the trade tensions currently roiling Asia and Europe. However, the region's political landscape presents risks, with a growing trend of anti-establishment candidates gaining traction. While markets typically view far-right politicians as more favorable than their far-left counterparts, this polarization introduces new uncertainties for investors.

US Energy Spending: More companies are investing in power plants and transmission lines to meet the electricity demands of AI.

- Utilities companies are projected to boost capital expenditures to $212.1 billion in 2025 and will reach a record high of $228.1 billion by 2027. This sharp increase is driven largely by surging investments in energy-intensive data centers, fueled by the AI boom. However, the rapid growth in power demand has raised concerns that AI-driven energy consumption could lead to higher electricity prices, potentially exacerbating inflationary pressures.
- US electricity demand has rebounded strongly since the pandemic and is now growing faster than overall inflation. This surge is primarily demand driven, with projections showing consumption increasing 25% by 2030 and 78% by 2050. To mitigate household cost impacts, regulators have implemented solutions requiring major hyperscale developers, including Amazon, Microsoft, and Meta, to contribute through either direct capacity investments or special tariff arrangements.



- We are closely tracking technology-investment trends due to their pivotal role in the broader economy. Last quarter, tech spending accounted for the largest share of capital expenditure, solidifying its position as a key engine of economic growth. That said, we note that a slowdown in the AI boom could trigger widespread spillover effects, with potential repercussions across financial markets and the broader economy.

US Economic Releases

There were no economic 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	MNI Chicago PMI	m/m	Jun	42.9	40.5	***
10:30	Dallas Fed Manufacturing Activity	m/m	Jun	-12.0	-15.3	**
Federal Reserve						
EST	**Speaker or Event**	**District or Position**				
10:00	Raphael Bostic Speaks on the Economic Outlook	President of the Federal Reserve Bank of Atlanta				
13:00	Austan Goolsbee Speaks in a Moderated Discussion	President of the Federal Reserve Bank of Chicago				

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	Industrial Production	y/y	May P	-1.8%	0.5%	1.6%	***	Equity and bond neutral
	Housing Starts	y/y	May	-34.4%	-26.6%	-14.3%	**	Equity bearish, bond bullish
	Annualized Housing Starts	y/y	May	0.529	0.626m	0.723m	*	Equity and bond neutral
Australia	Melbourne Institute Inflation	y/y	Jun	2.4%	2.6%		***	Equity and bond neutral
	Private Sector Credit	y/y	May	6.9%	6.7%		**	Equity and bond neutral
New Zealand	ANZ Activity Outlook	m/m	Jun	40.9	34.8		*	Equity and bond neutral
	ANZ Business Confidence	m/m	Jun	46.3	36.6		**	Equity and bond neutral
South Korea	Industrial Production	y/y	May	0.2%	5.1%	3.0%	***	Equity bearish, bond bullish
China	Official Manufacturing PMI	m/m	Jun	49.7	49.5	49.6	***	Equity and bond neutral
	Official Services PMI	m/m	Jun	50.5	50.3	50.3	**	Equity and bond neutral
	Official Composite PMI	m/m	Jun	50.7	50.4		*	Equity and bond neutral
India	Industrial Production	y/y	May	1.2%	2.6%	2.3%	***	Equity bearish, bond bullish
EUROPE								
Eurozone	M3 Money Supply	y/y	May	3.9%	3.9%	4.0%	***	Equity and bond neutral
Germany	Import Price Index	y/y	May	-1.1%	-0.4%	-0.8%	**	Equity and bond neutral
	Retail Sales NSA	y/y	May	3.6%	4.6%	3.6%	*	Equity and bond neutral
	CPI	y/y	Jun P	2.0%	2.1%	2.2%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Jun P	2.0%	2.1%	2.2%	**	Equity and bond neutral
Italy	CPI NIC Including Tobacco	y/y	Jun P	1.7%	1.6%	1.7%	**	Equity and bond neutral
	CPI, EU Harmonized	y/y	Jun P	1.7%	1.7%	1.8%	***	Equity and bond neutral
UK	GDP	y/y	1Q F	1.3%	1.3%	1.3%	***	Equity and bond neutral
	Current Account Balance	y/y	1Q	-23.5b	-21.0b	-20.3b	***	Equity and bond neutral
	Net Lending Sec. on Dwellings	m/m	May	2.1b	-0.8b	2.5b	*	Equity and bond neutral
	Mortgage Approvals	m/m	May	63.0k	60.7k	60.8k	***	Equity and bond neutral
	M4 Money Supply	y/y	May	3.5%	3.2%		*	Equity and bond neutral
Switzerland	KOF Leading Indicator	m/m	Jun	96.1	98.6	99.3	**	Equity and bond neutral
	Domestic Sight Deposits CHF	w/w	27-Jun	425.8b	430.0b	--	*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	27-Jun	460.7b	442.5b	--	*	Equity and bond neutral
AMERICAS								
Canada	GDP	y/y	Apr	1.3%	1.7%	1.3%	**	Equity and bond neutral
Brazil	Primary Budget Balance	y/y	May	-33.7b	14.2b	-42.7b	*	Equity and bond neutral
	Net Debt % GDP	m/m	May	62.0%	61.5%	62.4%	**	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)	420	420	0	Up
U.S. Sibor/OIS spread (bps)	430	430	0	Up
U.S. Libor/OIS spread (bps)	428	429	-1	Down
10-yr T-note (%)	4.25	4.28	-0.03	Down
Euribor/OIS spread (bps)	194	198	-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	$67.74	$67.77	-0.04%	
WTI	$65.35	$65.52	-0.26%	
Natural Gas	$3.58	$3.74	-4.28%	
Crack Spread	$24.28	$23.90	1.58%	
12-mo strip crack	$22.29	$22.15	0.65%	
Ethanol rack	$1.82	$1.80	0.69%	
Metals				
Gold	$3,281.90	$3,274.33	0.23%	
Silver	$35.91	$35.99	-0.24%	
Copper contract	$508.10	$512.30	-0.82%	
Grains				
Corn contract	$406.75	$411.50	-1.15%	
Wheat contract	$537.50	$540.75	-0.60%	
Soybeans contract	$1,027.75	$1,024.75	0.29%	
Shipping				
Baltic Dry Freight	1,521	1,553	-32	

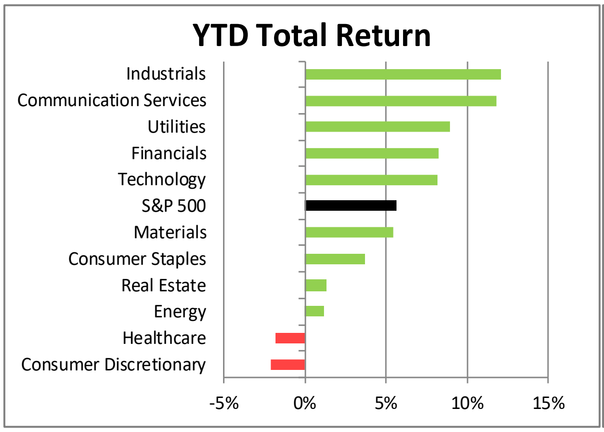
Weather

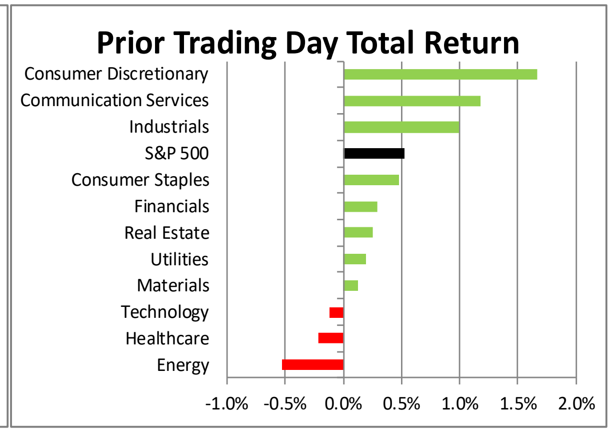
The latest 6-to-10-day and 8-to-14-day forecasts indicate warmer-than-normal conditions for most of the country, with cooler-than-normal conditions in the Southwest. The precipitation outlook shows wetter-than-normal conditions for most of the country.

The 7-day tropical weather outlook highlights two tropical disturbances. The first and more active system is Post-Tropical Storm Barry, currently tracking across northern Mexico. The second disturbance, located near Florida, remains relatively tame and is unlikely to develop into a cyclone within the next week.

Data Section

US Equity Markets – (as of 6/27/2025 close)

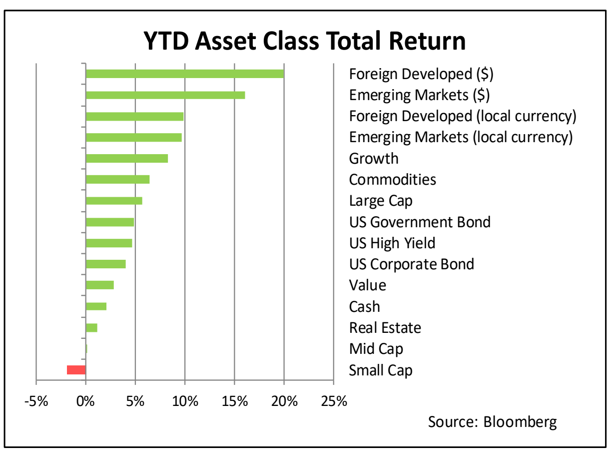




(Source: Bloomberg)

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 6/27/2025 close)

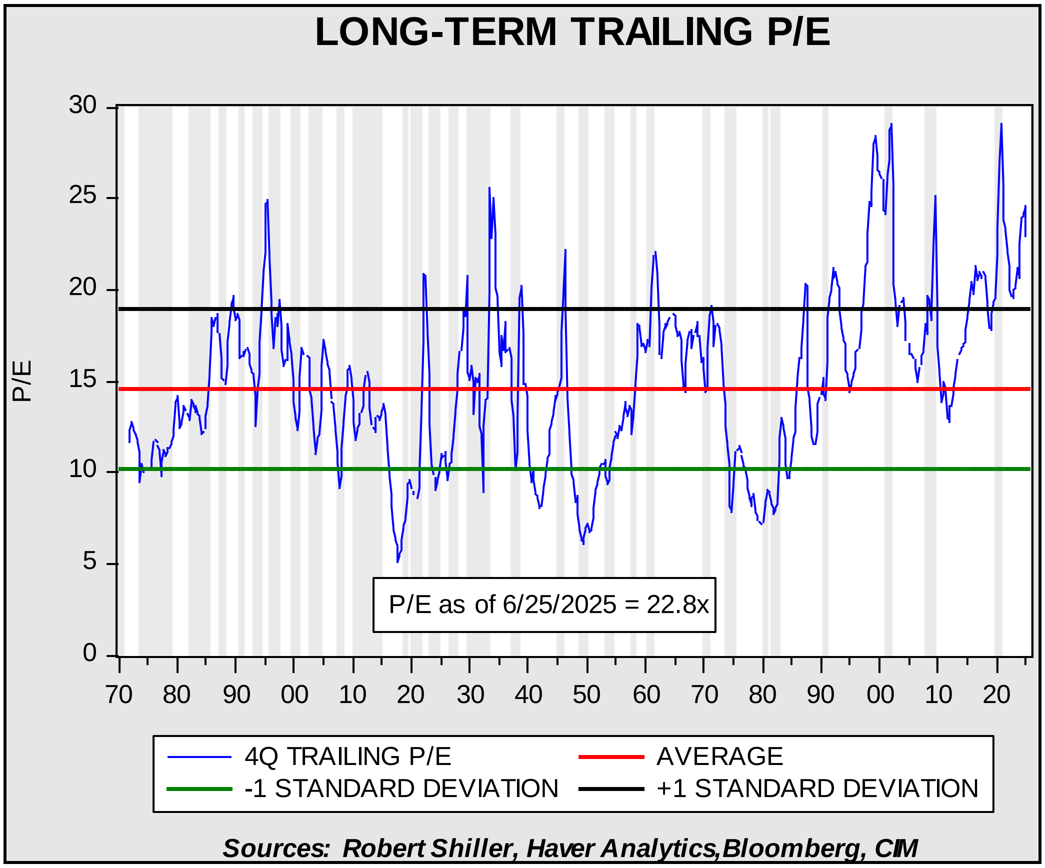


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 26, 2025



Based on our methodology,[1] the current P/E is 22.8x, 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.

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[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.