



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

**[Posted: June 25, 2026 – 9:30 AM ET]** Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 is up 0.7% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 2.2%. Chinese markets were higher with the Shanghai Composite up 0.2% and the Shenzhen Composite up 0.7%. 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
<a href="#">“Mid-Year Geopolitical Outlook”</a> (6/22/26)	<a href="#">“China Cuts Its Energy Imports”</a> (6/15/26) + <a href="#">podcast</a>	<a href="#">Q2 2026 Report</a> <a href="#">Q2 2026 Rebalance Presentation</a>	<a href="#">Value Equity: “Déjà vu for Dividends?”</a> <a href="#">Confluence of Ideas Podcast</a>

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Our *Comment* opens with key takeaways from Treasury Secretary Scott Bessent’s remarks at the Economic Club of New York. We then examine rising tensions between the US and its NATO allies and the implications for its strategic positioning against China. Next, we briefly cover the latest Fed stress test results, deepening US-Taiwan ties, and another strong earnings report from a major chipmaker. As always, we include a review of recent domestic and international economic data.

**Bessent Speaks:** During a speech to the Economic Club of New York, US Treasury Secretary Bessent [offered additional insight into how the Trump administration intends to better align economic strategy with national security objectives](#). His remarks shed light on the motivations behind several recent policy initiatives and provide a glimpse of what may lie ahead. Overall, his comments underscore the administration’s broader goal of reshaping the economy to feature a greater role for government involvement.

- Bessent [outlined five principles that define the White House’s economic agenda](#): building national capacity by strengthening US supply-chain resilience, promoting trade reciprocity by ensuring that other countries treat US firms fairly, maintaining economic leadership by helping to shape global trade rules, sustaining financial leadership by protecting the US dollar’s reserve-currency status, and fostering household prosperity by encouraging broader participation in the ongoing economic build-out.
- His comments suggest a significant departure from the traditional US model, under which the US positioned itself as the hub of global trade and the primary provider of international security to reinforce its central role. Instead, the administration appears to be moving toward a more state-centric, inward-looking framework that prioritizes resilience over pure efficiency.
- While he emphasized the need for the US to become more self-reliant, he also made clear that this does not imply a total retreat from global engagement. He noted that it would be unrealistic and unnecessary for the US to do everything from start to finish. However, he also indicated that certain strategic industries — such as critical minerals, pharmaceuticals, semiconductors, artificial intelligence, and quantum computing — will need a strong production base at home due to their strategic importance.
- As we have noted in previous reports, the United States appears to be shifting away from globalization while adopting a more interventionist economic posture. This transition is likely to reduce allocative efficiency and increase inflation volatility. In such an environment, commodities tend to outperform, as heightened competition for resources and supply chain frictions place upward pressure on prices and incentivize inventory accumulation.

**NATO Fracturing:** As the US-China rivalry intensifies, Washington is showing increasing signs of distrust toward its traditional allies. On Wednesday, President Trump criticized NATO members for what he described as a delayed response in supporting US efforts during the Iran conflict, speaking alongside NATO Secretary-General Mark Rutte. The remarks come amid persistently elevated geopolitical tensions, as China continues to expand its espionage activities and military preparedness in pursuit of its challenge to US global leadership.

- President Trump’s criticism comes ahead of next month’s NATO summit, where he has signaled a clear reluctance to attend, [citing the alliance’s failure to provide meaningful support during the Iran war and its failure to adequately increase its defense spending](#). White House officials, such as Peter Hegseth, attending the summit are expected to use the platform to call out specific member states that have fallen short of their commitments as the administration looks to hold allies more accountable.
- As US-NATO tensions simmer, China is leveraging the distraction to fast-track its AI and defense modernization. [Alibaba faces allegations from Anthropic of illicit model scraping](#), a cost-cutting shortcut to AI advancement. At the same time, the Chinese military [has built mock US destroyers to test its anti-ship technology](#). Taken together, these moves reveal a deepening sense of urgency in Beijing as it races to erode America’s military edge.

- The rising competition with China will make it difficult for the US to completely abandon NATO. Even as relations between the US and its European allies grow strained, Washington will likely need to keep Europe within its sphere of influence in order to sustain its technological and military edge over Beijing. That said, the US may be able to leverage these very tensions to extract further concessions. We expect Europe to increase defense spending, not only on its own defense firms, but on US companies as well.

**Fed Stress Tests:** The [Federal Reserve gave passing grades to the largest US banks following its annual stress test of their crisis readiness](#). According to the report, the banks would collectively lose \$708 billion in a severe economic downturn yet would stay above regulatory capital requirements. While the results offer some reassurance that the banking system remains stable, they come at a time when capital rules have been loosened making the findings somewhat less meaningful.

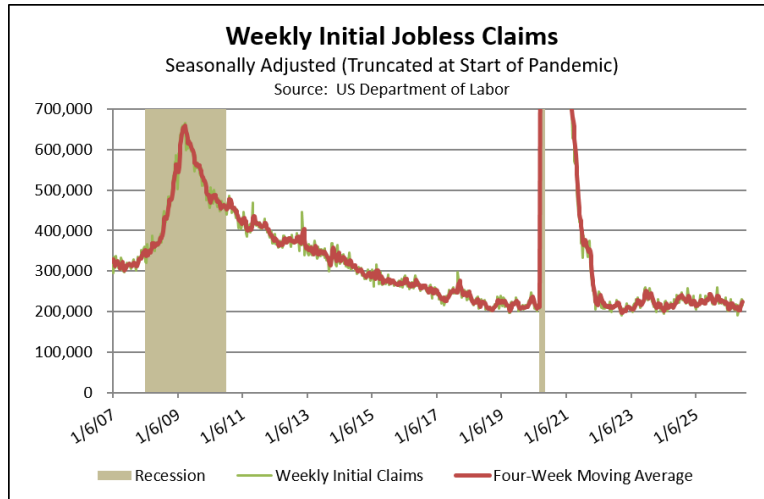
**Taiwan Flights:** [Taiwanese carrier EVA Air will begin direct flights to Washington, DC](#) on Friday. The route is expected to facilitate greater access for Taiwanese officials to US policymakers, a development likely to draw scrutiny from Beijing. The move echoes past episodes of heightened tension, including former House Speaker Nancy Pelosi's 2022 visit to Taiwan, which led to increased Chinese military intimidation of the sovereign island. As engagement between Washington and Taipei expands, friction with China is likely to intensify.

**Chip Rally Lives On!** Micron Technology exceeded sales expectations, helping to drive a broader rally in semiconductor stocks. The [company expects fourth-quarter revenue to be above \\$50 billion](#), well ahead of the \$43.2 billion consensus estimate. It also highlighted 16 strategic partnerships secured over the past three years, reinforcing visibility into sustained demand. The market's reaction underscores the extent to which AI-linked equities are increasingly reliant on continued earnings strength to justify elevated valuations.

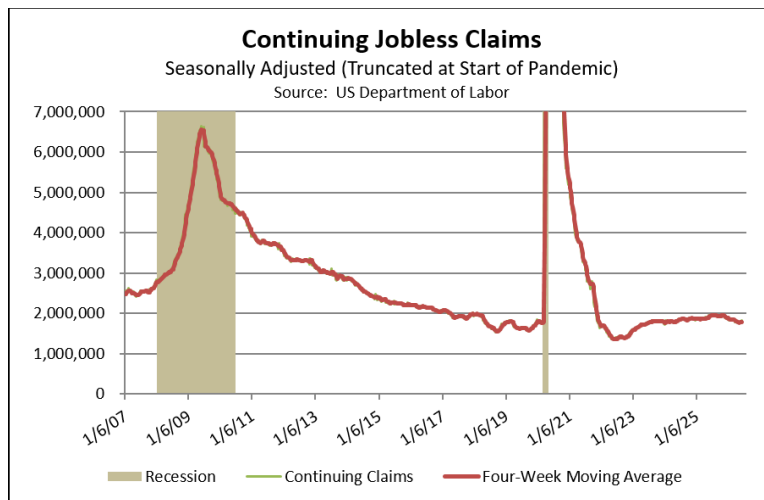
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## US Economic Releases

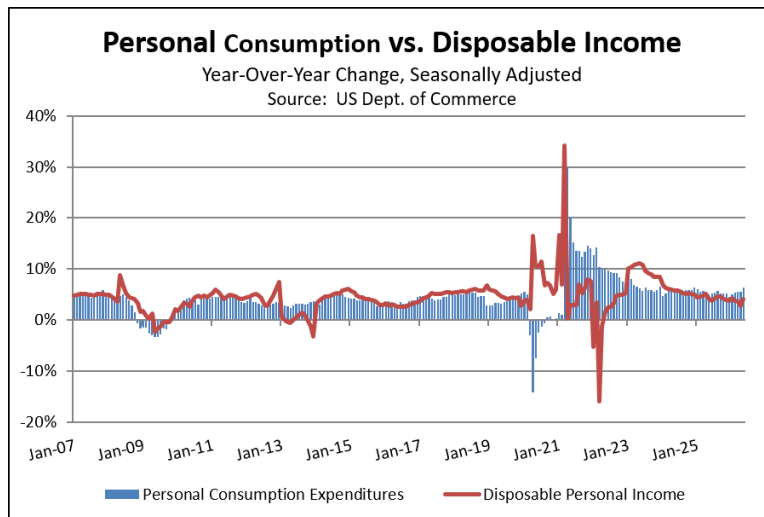
In the week ended June 20, *initial claims for unemployment benefits* fell to a seasonally adjusted 215,000, below both the expected level of 225,000 and the revised level of 227,000 in the previous week. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, nevertheless rose to a still-modest 224,250. The chart below shows how initial jobless claims have fluctuated since just before the Great Financial Crisis. The chart is truncated through much of the pandemic period because of the extremely high level of claims at that time.



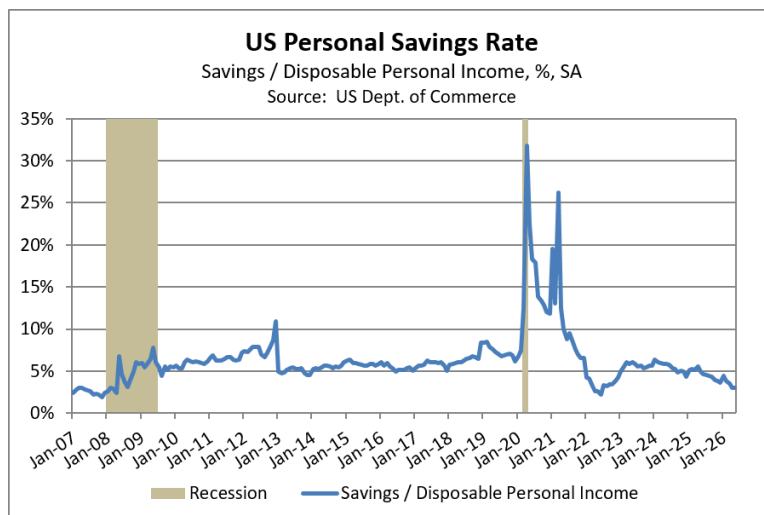
In the week ended June 13, the number of *continuing claims for unemployment benefits* (people continuing to draw benefits) rose to a seasonally adjusted 1.821 million, above both the anticipated reading of 1.802 million and the revised reading of 1.800 million in the prior week. The four-week moving average of continuing claims rose 1,794,500. The chart below shows how continuing claims have fluctuated since the GFC. It is also truncated during the pandemic period because of the high level of claims at the time.



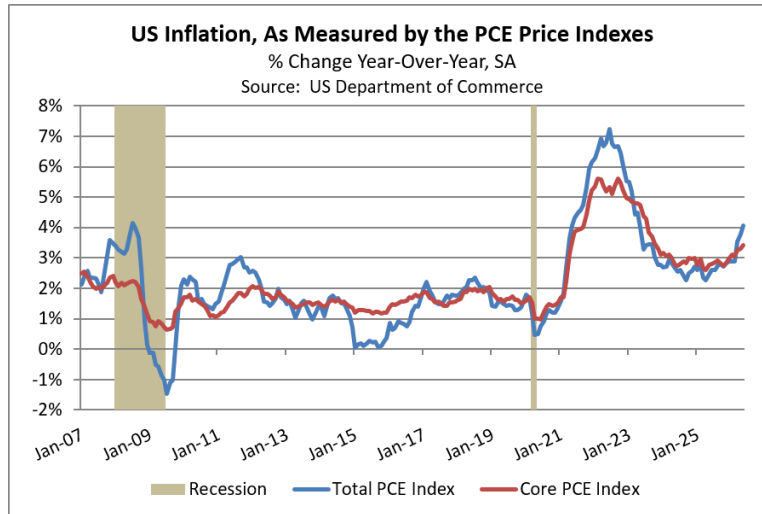
May *personal income* rose by a seasonally adjusted 0.7%, above both the expected rise of 0.4% and the flat reading in April. Meanwhile, May *personal consumption expenditures (PCE)* also rose 0.7%, compared with an anticipated rise of 0.6% and a revised April increase of 0.4%. Personal income in May was up 3.8% from the same month one year earlier, while PCE was up 6.3%. The chart below shows the year-over-year change in personal income and PCE since just before the GFC.



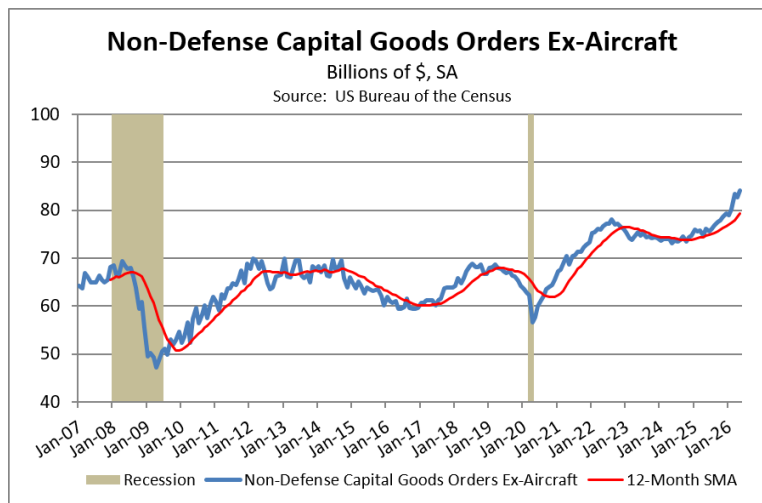
The personal income and spending report also includes a measure of personal saving, defined as disposable (after tax) income less consumption spending on goods and services. The May *personal savings rate* fell to a seasonally adjusted 3.0%, an extreme low. The chart below shows how the personal savings rate has fluctuated since just before the GFC.



Finally, the income and spending report includes the Fed’s preferred measure of consumer price inflation. After stripping out the volatile food and energy components, the *Core PCE Deflator* for May was up 3.4% from the same month one year earlier, matching expectations and marking a slight acceleration from the 3.3% rise in the year to April. The chart below shows the year-over-year change in the Core PCE Deflator since just before the GFC.

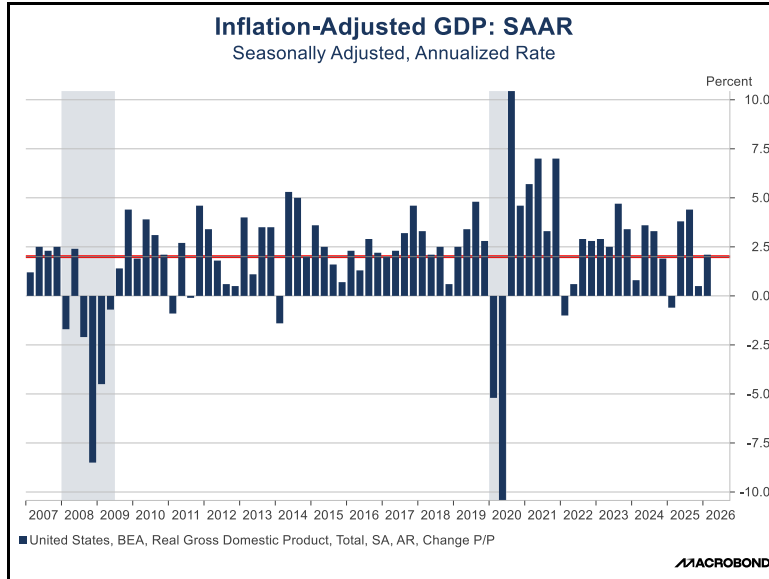


May **durable goods orders** dropped by a seasonally adjusted 4.5%, not quite as bad as the expected decline of 5.0% but still enough to reverse almost half of April's revised increase of 8.5%. Of course, durable goods orders are often driven by transportation equipment, where just a few airliner orders can have a big impact. May **durable goods orders excluding transportation** rose 1.3%, more than twice the expected increase of 0.6% and almost as strong as the revised April increase of 1.4%. Also, the durable goods report also includes a key proxy for corporate capital investment. In May, nondefense capital goods orders ex-aircraft rose 1.6%, beating the anticipated rise of 0.6% and more than enough to reverse their revised 0.7% decline in April. Compared with the same month one year earlier, overall durable goods orders in May were down 4.4%, while durable orders ex-transport were up 9.0%. Nondefense capital goods orders ex-aircraft were up 10.2%. The chart below shows the progression of nondefense capital goods orders ex-aircraft since just before the GFC.

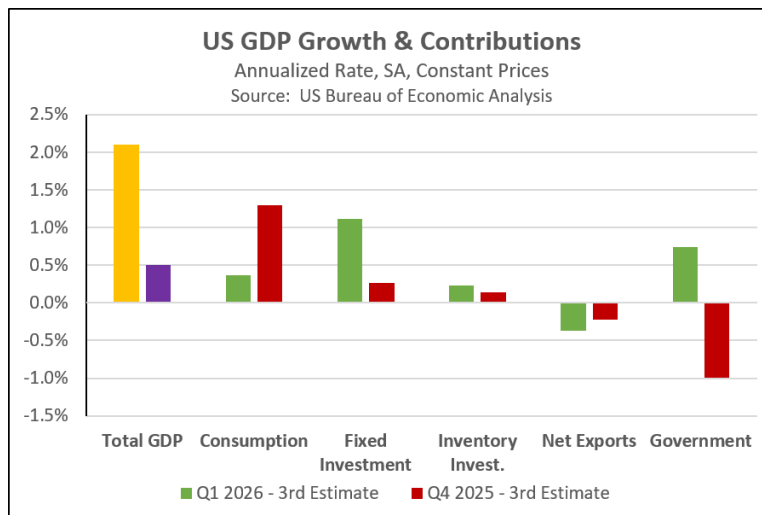


Finally, the Commerce Department released its third and final regular estimate of economic activity in the first quarter. After stripping out seasonal factors and price changes, first-quarter **gross domestic product (GDP)** rose at an annualized rate of 2.1%, above expectations the figure

would be unchanged from the previous estimate of 1.6%. The chart below shows the annualized growth rate of US GDP since just before the Great Financial Crisis; the horizontal red line indicates the average growth rate of about 2.0% over the last two decades.



A close look at the details in the report shows that the main source of growth in the quarter was fixed investment, probably reflecting, at least in part, the on-going boom in data-center construction and related activities for artificial intelligence. The chart below shows the contributions to the annualized growth rate in the first quarter.



The table below lists the economic releases and Fed events scheduled for the rest of the day.

Economic Releases						
EST	Indicator			Expected	Prior	Rating
11:00	Kansas City Fed Manufacturing Index	m/m	Jun	6	8	*
Federal Reserve						
EST	Speaker or Event	District or Position				
8:45	Michelle Bowman Speaks on Small Bank Supervision	Member of the Board of Governors				
14:00	Austan Goolsbee on CNBC	President of the Federal Reserve Bank of Chicago				
15:40	John Williams Gives Keynote Remarks	President of the Federal Reserve Bank of New York				
18:30	Austan Goolsbee in 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 shift 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	Japan Buying Foreign Bonds	w/w	19-Jun	¥199.7b	¥382.5b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	19-Jun	¥426.8b	-¥418.6b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	19-Jun	-¥1057.3b	-¥530.9b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	19-Jun	¥479.4b	-¥785.2b		*	Equity and bond neutral
	Leading Economic Index	m/m	Apr F	116.1	115.9		**	Equity and bond neutral
	Coincident Index	y/y	Apr F	118.1	117.9		**	Equity and bond neutral
	Nationwide Dept Sales	y/y	May	8.30%	5.20%		***	Equity and bond neutral
	Machine tool orders	y/y	May F	37.5%	37.4%		**	Equity and bond neutral
Australia	Employment Change	m/m	May	40.3k	-40.7k	32.5k	***	Equity and bond neutral
	Unemployment Rate	m/m	May	4.4%	4.5%	4.4%	***	Equity and bond neutral
	Participation Rate	m/m	May	66.7%	66.6%	66.7%	**	Equity and bond neutral
	Household Spending	y/y	May	5.5%	5.1%	4.3%	***	Equity bullish, bond bearish
EUROPE								
Germany	GfK Consumer Confidence	m/m	Jul	-29.2	-29.7	-28.0	**	Equity bearish, bond bullish
France	Consumer Confidence	m/m	Jun	84.0	82.0	83.0	***	Equity and bond neutral
Italy	Industrial Sales WDA	y/y	Apr	3.2%	4.2%		*	Equity and bond neutral
Russia	Industrial Production	y/y	May	-0.7%	1.9%	2.5%	***	Equity and bond neutral
	Consumer Confidence Index	q/q	2Q	-13	-12		*	Equity and bond neutral
AMERICAS								
Mexico	Unemployment Rate NSA	m/m	May	2.76%	2.46%	2.60%	***	Equity and bond neutral
Brazil	IBGE Inflation IPCA-15	m/m	Jun	4.80%	4.64%	4.84%	***	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)	368	369	-1	Up
U.S. Sibor/OIS spread (bps)	374	374	0	Up
U.S. Libor/OIS spread (bps)	372	372	0	Up
10-yr T-note (%)	4.41	4.39	0.02	Down
Euribor/OIS spread (bps)	230	232	-2	Up
Currencies	3 Mo			
Dollar	Down	US		Up
Euro	Up	Euro		Down
Yen	Up	Japan		Down
Pound	Up	UK		Down
Franc	Up	Switzerland		Down

## 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	\$72.79	\$73.74	-1.29%	
WTI	\$69.54	\$70.34	-1.14%	
Natural Gas	\$3.27	\$3.22	1.49%	
Crack Spread	\$52.02	\$52.09	-0.13%	
12-mo strip crack	\$38.57	\$39.04	-1.22%	
Ethanol rack	\$2.03	\$2.03	0.09%	
<b>Metals</b>				
Gold	\$3,977.68	\$3,999.41	-0.54%	
Silver	\$57.09	\$57.42	-0.58%	
Copper Contract	\$608.30	\$601.15	1.19%	
<b>Grains</b>				
Corn contract	\$435.50	\$434.75	0.17%	
Wheat contract	\$595.50	\$596.00	-0.08%	
Soybeans contract	\$1,138.50	\$1,135.00	0.31%	
<b>Shipping</b>				
Baltic Dry Freight	2,634	2,667	-33	
<b>DOE Inventory Report</b>				
	Actual	Expected	Difference	
Crude (mb)	-6.09	-3.60	-2.49	
Gasoline (mb)	2.06	-1.10	3.16	
Distillates (mb)	3.06	-1.05	4.11	
Refinery run rates (%)	-0.06%	-0.34%	0.28%	
Natural gas (bcf)		69		

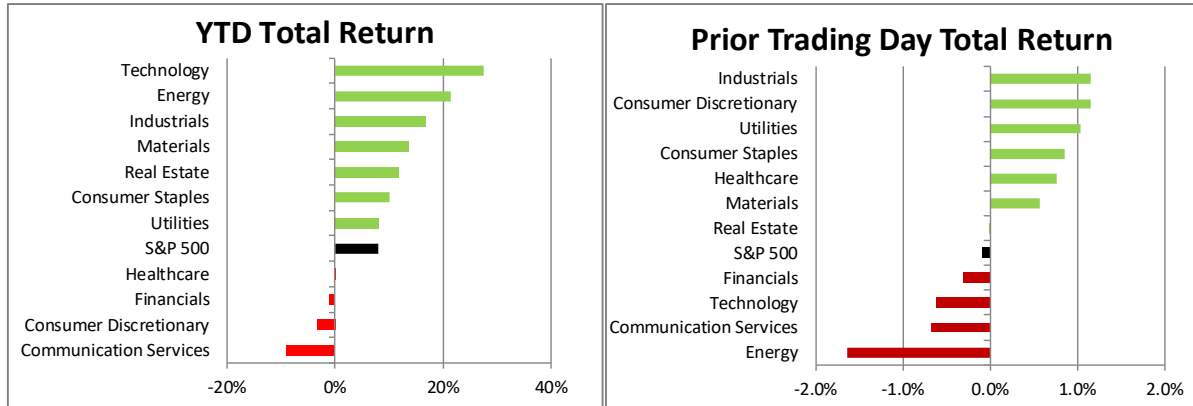
**Weather**

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures from the Great Plains to the East Coast, with near-normal temperatures expected elsewhere. The outlook calls for wetter-than-normal conditions in the Pacific Northwest, the Northeast, the Desert Southwest, and southern Texas, with dry conditions in northern California.

No tropical cyclone activity is expected in the Atlantic region within the next seven days.

## Data Section

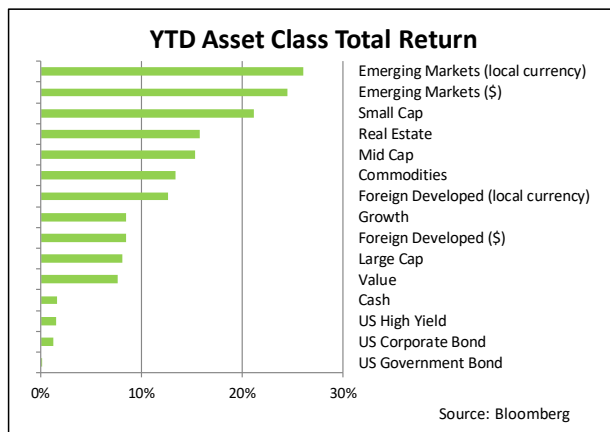
### US Equity Markets – (as of 6/24/2026 close)



(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 6/24/2026 close)

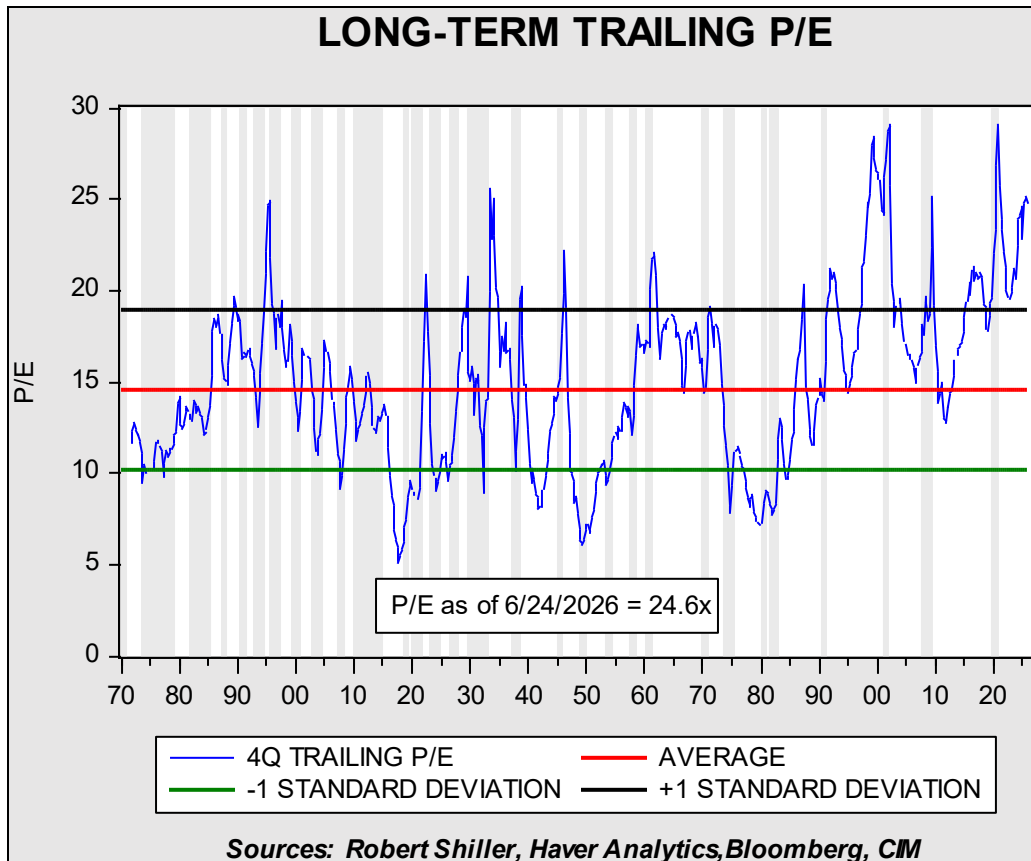


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 25, 2026



Based on our methodology,<sup>1</sup> the current P/E is 24.6x, was unchanged from the previous report. The rise in the stock price index was 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 (Q1, Q2, Q4) and one estimate (Q3). 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.