



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: June 11, 2025 — 9:30 AM ET Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is down 0.2% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 1.1%. Chinese markets were higher, with the Shanghai Composite up 0.5% from its previous close and the Shenzhen Composite up 0.7%. 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.

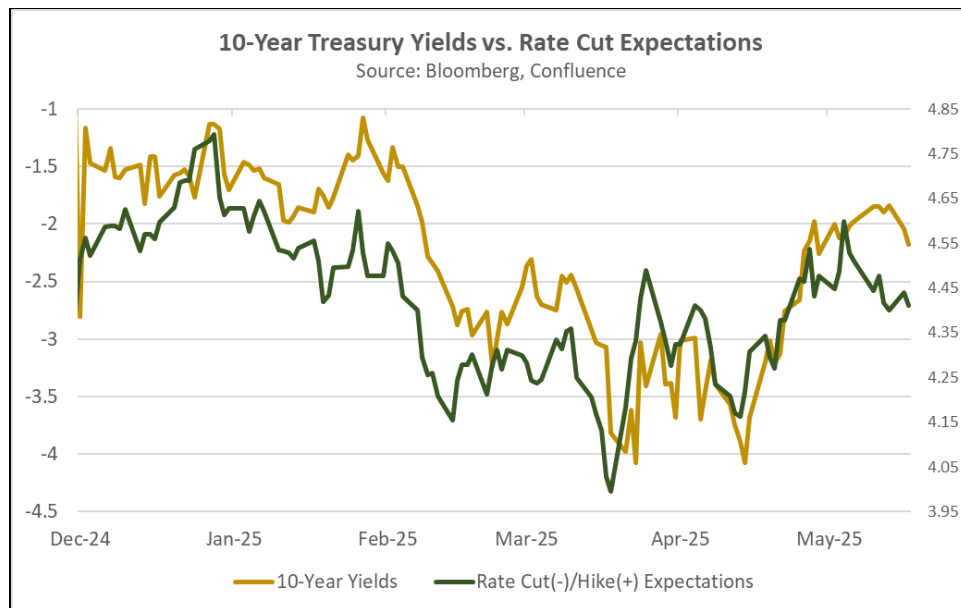
Bi-Weekly Geopolitical Report	Asset Allocation Bi-Weekly	Asset Allocation Quarterly	Of Note
“NATO’s Baltic Vulnerability” (6/9/25)	“The Japan Problem” (6/2/25) + podcast	Q2 2025 Report Q2 2025 Rebalance Presentation	NEW: The Confluence Mailbag Podcast

Good morning. The market's primary focus today is the latest Consumer Price Index release. Today's *Comment* will delve into a new contender that President Trump might consider to succeed Federal Reserve Chair Jerome Powell, discuss signs of progress in US trade negotiations, and review other key market-related news. As always, we will conclude with a summary of today's domestic and international economic data releases.

Bessent Fed Chair? While the Trump administration has abandoned the idea of ousting the Fed chair, it has not stopped its attempt at influencing monetary policy decisions.

- [Treasury Secretary Scott Bessent has emerged as a potential nominee](#) to succeed Fed Chair Powell when his term expires in 2026. The administration has reportedly begun considering candidates well in advance, aiming to shape market expectations for future policy rates. This move comes amid the Fed's reluctance to cut rates in 2025, following a 100-basis-point reduction the previous year.
- Bessent has long been one of the most trusted and loyal figures in the Trump administration. While investors have viewed him as a steady hand, his potential nomination as Fed chair could face skepticism given his proximity to the president.

Although Bessent has publicly downplayed interest in the role, he was reportedly the architect of [the so-called "shadow Fed" strategy](#).



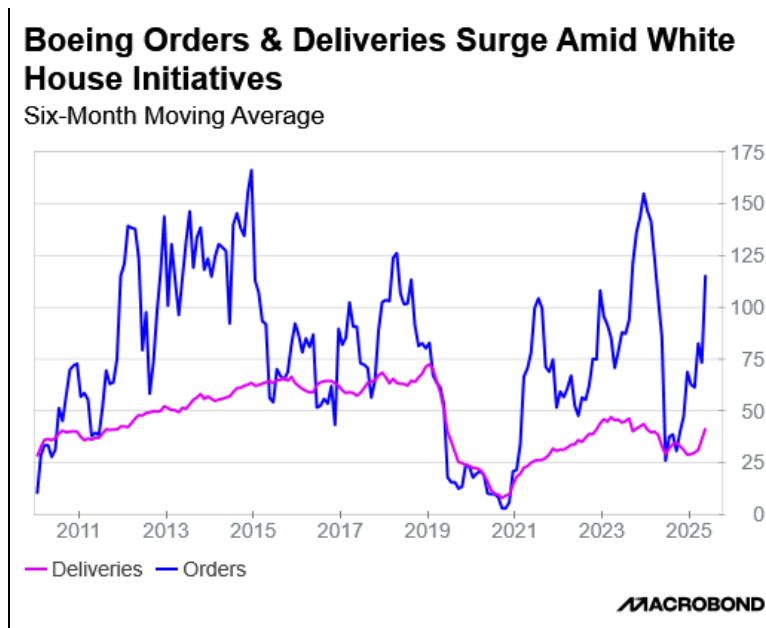
- Since the start of the year, the 10-year Treasury yield has been highly sensitive to shifting expectations around Fed rate cuts. The yield has largely fluctuated within a range of 4.20% to 4.50% as investors attempt to gauge the Fed’s next moves. When economic data signals weakness, markets price in more aggressive rate cuts, pushing the yield lower. Conversely, signs of resilience have led traders to scale back rate-cut bets, driving the yield higher.
- That said, it would be disingenuous to claim that the Fed is the only factor influencing the 10-year yield. Concerns over the national debt and shifting expectations around US Treasury demand have also played a role. For instance, even after the Fed cut rates by 100 bps last year, the 10-year yield reached peaks higher than any level seen in 2024, and unlike last September, it has yet to dip comfortably below 4%.
- The potential nomination of Bessent — or, as we’ve previously noted, former Fed Governor Kevin Warsh — to Fed chair could raise concerns about the central bank’s independence. While this might clear the path for lower short-term rates, we believe it could also increase volatility in long-term rates. Ultimately, the push to appoint a new Fed chair may lead to more accommodative monetary policy but at the cost of heightened bond market instability.

Trade Progress: The Trump administration has advanced trade framework negotiations to de-escalate tensions before the critical July 9 deadline.

- [China and the US have reached a tentative agreement](#) aimed at easing bilateral trade tensions amid a row over compliance with the “Geneva Deal.” While details have not been released, trade talks seem to focus on export restrictions as opposed to import

tariffs. Particularly, the Trump administration has agreed to relax some technology export controls in return for accelerated shipments of critical rare earth minerals from China.

- Building on its China negotiations, the administration has achieved parallel breakthroughs in other trade talks. Most notably, [US-Mexico negotiations have yielded a proposed steel agreement](#) establishing duty-free access within defined limits on imports. Additionally, the [US and India are close to a “phased trade deal,”](#) which will include market access in India and reduced non-trade barriers such as quality control.
- However, mounting evidence suggests several key trading partners may fail to meet the administration's July deadline. [European negotiators are currently advocating for an interim agreement](#) to maintain negotiations beyond the cutoff date, while preserving ongoing dialogue. This follows [South Korea's formal request earlier this month for an extension](#) to its bilateral trade terms.



- While the president is focused on long-term trade deals, he is also securing short-term economic boosts. For instance, recent Boeing sales solidified during his trip to the Middle East are expected to further stimulate growth. In May, [Boeing secured 303 new bookings and delivered 38 new 737 MAX jets](#), marking its sixth-highest monthly order tally in company history. As one of the nation's largest exporters, [Boeing's performance can have a significant impact on overall economic growth](#).

Gold Climbing: Central banks are accumulating gold at a pace not witnessed since the post-war Bretton Woods era.

- [A significant shift in global reserve holdings has occurred](#), with gold now officially ranking as the second most important reserve asset for central banks, surpassing the euro.

This increased accumulation of gold is a strategic move by central banks to diversify their portfolios, given the perceived heightened risk of dollar-denominated assets due to recent US trade and political measures.

- According to the report, gold currently comprises 20% of global official reserves, significantly exceeding the euro's 16% share but still well below the US dollar's dominant 46%. In 2024, central banks collectively acquired over 1,000 tons of gold for the third consecutive year, representing approximately one-fifth of total global production. This accumulation has increased global gold reserves to 36,000 tons, nearing the record 38,000-ton peak last seen in the mid-1960s.
- Notably, the largest gold buyers included India, Poland, Turkey, and China — countries that have often faced US and EU sanctions or penalties, particularly in response to alleged human rights abuses. We suspect this surge in gold acquisition is largely driven by the dollar's weaponization against Russia post-Ukraine invasion, alongside a broader ambition to diminish trade dependence.
- The accumulation of gold by central banks likely signals potential weakening for the dollar. While strong indicators suggest the US will maintain its role as the dominant reserve currency, supported by its robust, diverse economy and deep, liquid markets, it is evident that markets may begin exploring alternative options. Although it is premature to predict a dollar bear market, this trend clearly suggests a potential softening of demand.

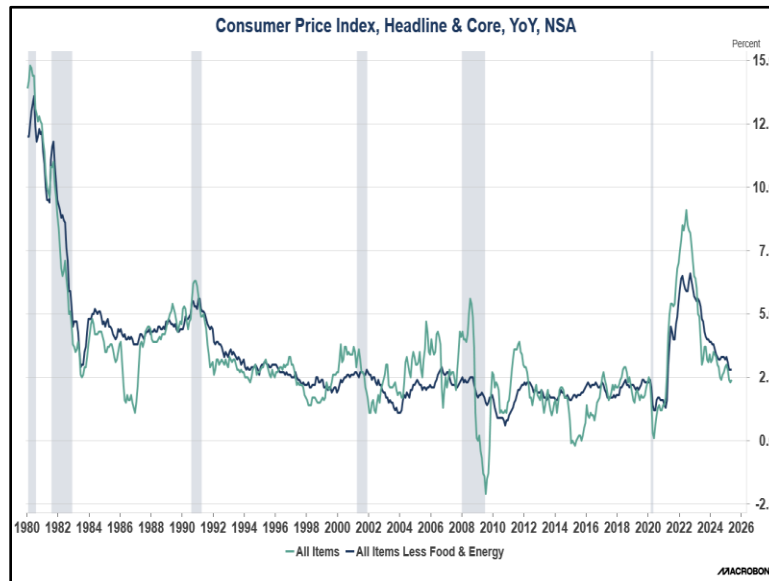
Netanyahu in Trouble? The Israeli parliament may dissolve over disagreements about military exemptions.

- A vote is scheduled for Wednesday [regarding the exemption for religious students from military service](#). An ultra-Orthodox party, allied with Prime Minister Netanyahu's Likud Party, has threatened to dissolve parliament if the measure fails. This development risks exacerbating political uncertainty as the nation simultaneously navigates tensions with its territorial rivals.
- It appears that lawmakers are seeking to postpone any final vote until after the parliamentary session concludes in July. However, it is widely believed that a new vote could significantly complicate [PM Netanyahu's efforts to establish a governing coalition](#). This political uncertainty could, in turn, hinder efforts to reach a resolution in the two ongoing conflicts in which the country is involved.

US Economic Releases

The Mortgage Bankers Association today said *mortgage applications* for the week ended June 6 rose 12.5%, after falling 3.9% the previous week. This reverses a three-week trend of declines. Applications for home purchase mortgages rose 10.3%, after falling 4.4% the previous week. Applications for refinancing mortgages rose 15.6%, reversing a four-week trend of declines. Meanwhile, the average interest rate on a 30-year mortgage rose 1 basis point to 6.93%.

The May **consumer price index (CPI)** rose by a seasonally adjusted 0.1%, falling short of the expected 0.2% and the previous month's 0.2%. Excluding the volatile food and energy components, the **"core" CPI** also rose 0.1%, falling short of the expected 0.3% and the previous month's 0.2%. The overall CPI in May rose 2.4% from the same month one year earlier, while the core CPI rose 2.8%. These numbers essentially matched expectations while holding steady with the previous readings. The chart below shows the year-over-year change in the CPI and the core CPI since 1980.



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

Economic Releases						
EST	Indicator			Expected	Prior	Rating
14:00	Federal Budget Balance	m/m	May	-\$314.0b	-\$347.1b	**
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	PPI	y/y	May	3.2%	4.1%	3.5%	***	Equity and bond neutral
South Korea	Unemployment Rate	m/m	May	2.7%	2.7%	2.7%	***	Equity and bond neutral
EUROPE								
Russia	Money Supply, Narrow Definition	w/w	6-Jun	18.15t	18.03t		*	Equity and bond neutral
AMERICAS								
Mexico	International Reserves Weekly	y/y	6-Jun	\$240443m	\$239982m		**	Equity and bond neutral
	Industrial Production	y/y	Apr	-4.0%	1.9%	-3.5%	***	Equity bearish, bond bullish
	Manufacturing Production	y/y	Apr	-2.6%	3.1%	-2.4%	*	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)	425	423	2	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 (%)	4.49	4.47	0.02	Up
Euribor/OIS spread (bps)	195	196	-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	\$67.70	\$66.87	1.24%	
WTI	\$65.94	\$64.98	1.48%	
Natural Gas	\$3.58	\$3.53	1.42%	
Crack Spread	\$23.27	\$23.63	-1.53%	
12-mo strip crack	\$21.66	\$21.72	-0.25%	
Ethanol rack	\$1.83	\$1.83	0.12%	
Metals				
Gold	\$3,331.01	\$3,323.69	0.22%	
Silver	\$36.24	\$36.54	-0.80%	
Copper contract	\$478.75	\$490.00	-2.30%	
Grains				
Corn contract	\$443.50	\$438.75	1.08%	
Wheat contract	\$538.00	\$534.50	0.65%	
Soybeans contract	\$1,061.00	\$1,057.75	0.31%	
Shipping				
Baltic Dry Freight	1,680	1,691	-11	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-2.60		
Gasoline (mb)		0.75		
Distillates (mb)		0.70		
Refinery run rates (%)		0.0%		
Natural gas (bcf)		107		

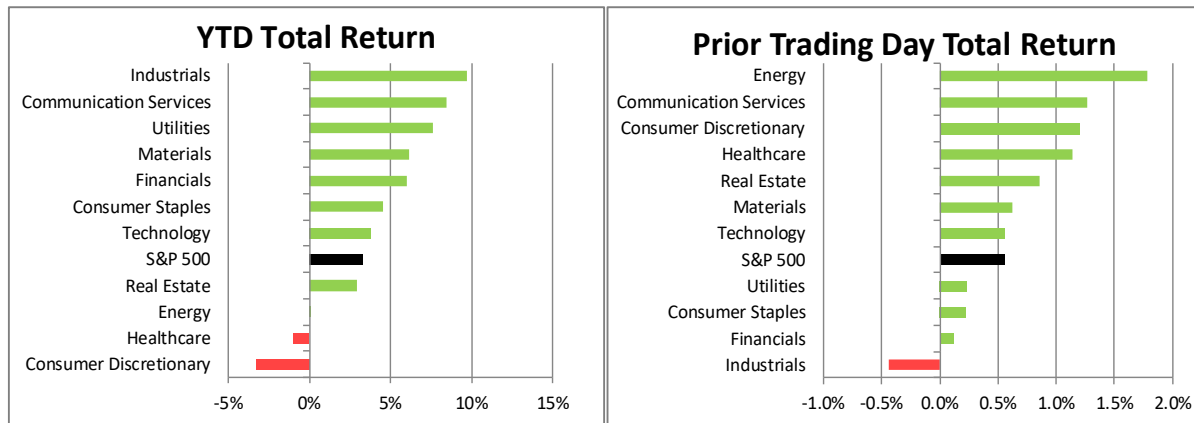
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for all of the country except the Pacific Northwest, where cooler-than-normal temperatures are expected. The outlook calls for wetter-than-normal conditions for all most of the country, with drier-than-normal conditions expected in Nevada, Idaho, and Utah.

There are currently no tropical disturbances in the Atlantic Ocean, and no tropical cyclone activity is expected during the next 7 days.

Data Section

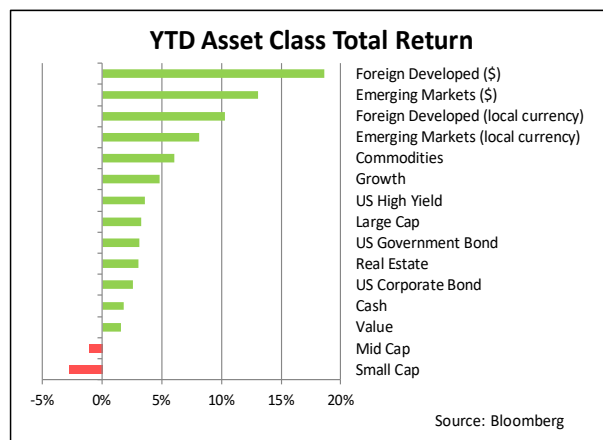
US Equity Markets – (as of 6/10/2025 close)



(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 6/10/2025 close)

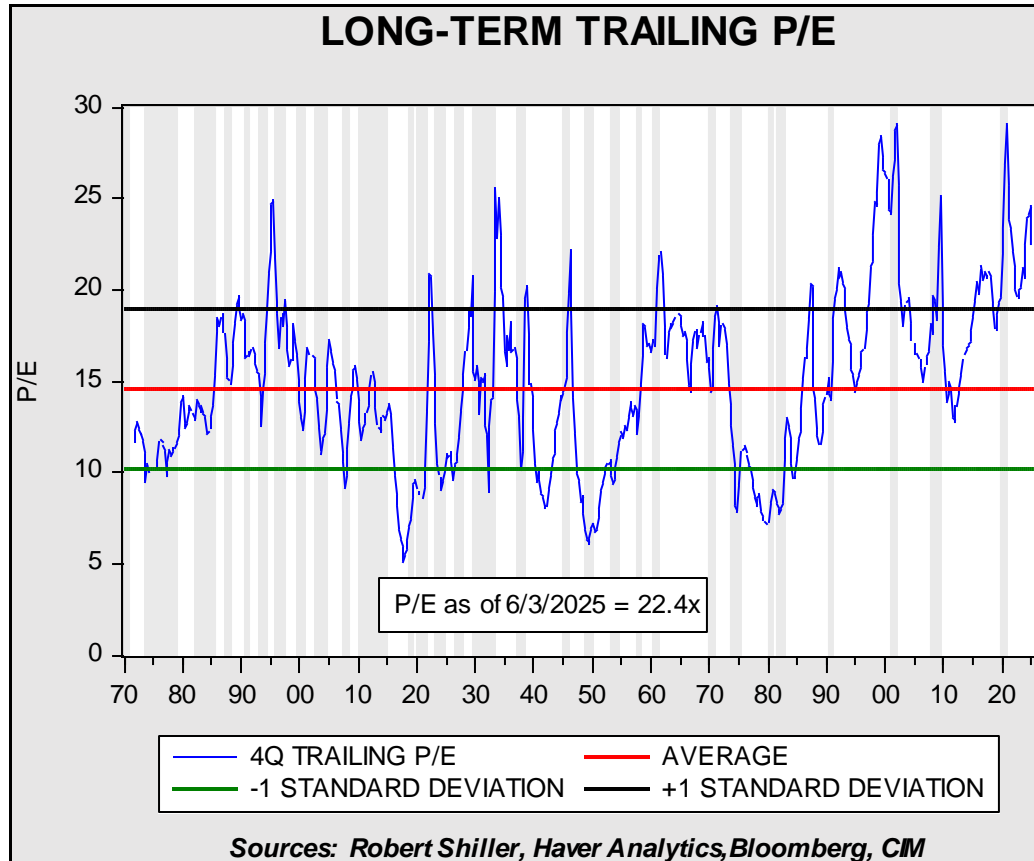


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.