Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: June 12, 2025 — 9:30 AM ET] Global equity markets are somewhat mixed this morning. In Europe, the Euro Stoxx 50 is down 1.0% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.8%. Chinese markets were mildly higher, with the Shanghai Composite relatively unchanged from its previous close and the Shenzhen Composite up 0.2%. 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.

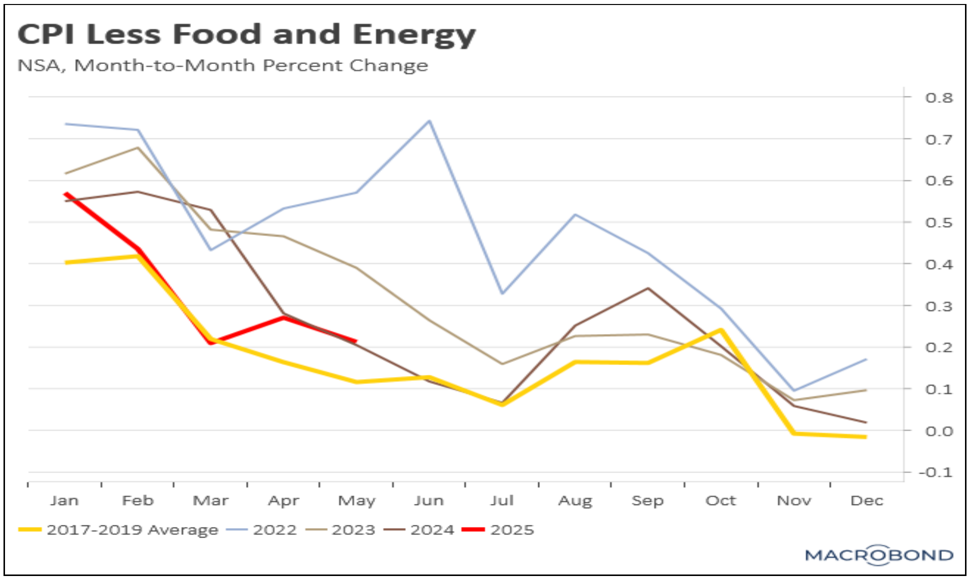
Bi-Weekly Geopolitical Report	Asset Allocation Bi-Weekly	Asset Allocation Quarterly	Of Note
"NATO's Baltic Vulnerability" (6/9/25)	"The Japan Problem" (6/2/25) + podcast	Q2 2025 Report Q2 2025 Rebalance Presentation	NEW: The Confluence Mailbag Podcast **The Renewed Case for Active and Value**

Good morning! The market's attention is firmly on the latest Producer Price Index data. In today's *Comment*, we'll analyze the implications of the recent inflation figures, discuss new developments in Trump-era trade policies, and cover other key market-moving stories. As always, we'll also provide a concise summary of today's domestic and international economic data releases.

CPI Cool Streak: Inflation continues to trend lower, as many tariffs have yet to fully impact consumer prices.

- According to the BLS, consumer price growth in May fell short of expectations, signaling ongoing caution among businesses in raising prices. While many had forecast an uptick in inflation, both headline and core inflation slowed month-over-month, declining from 0.2% to 0.1%. The modest increase pushed the annual inflation rate up slightly, from 2.3% to 2.4%. Meanwhile, core inflation held steady at 2.8% year-over-year, unchanged from the previous month.
- The subdued price pressures were primarily driven by ongoing moderation in services inflation. Shelter prices, which account for over a third of the index, continued to normalize, having fallen to fresh post-pandemic lows. Meanwhile, energy prices

remained a downward force on overall inflation as consumers benefited from lower gasoline prices.

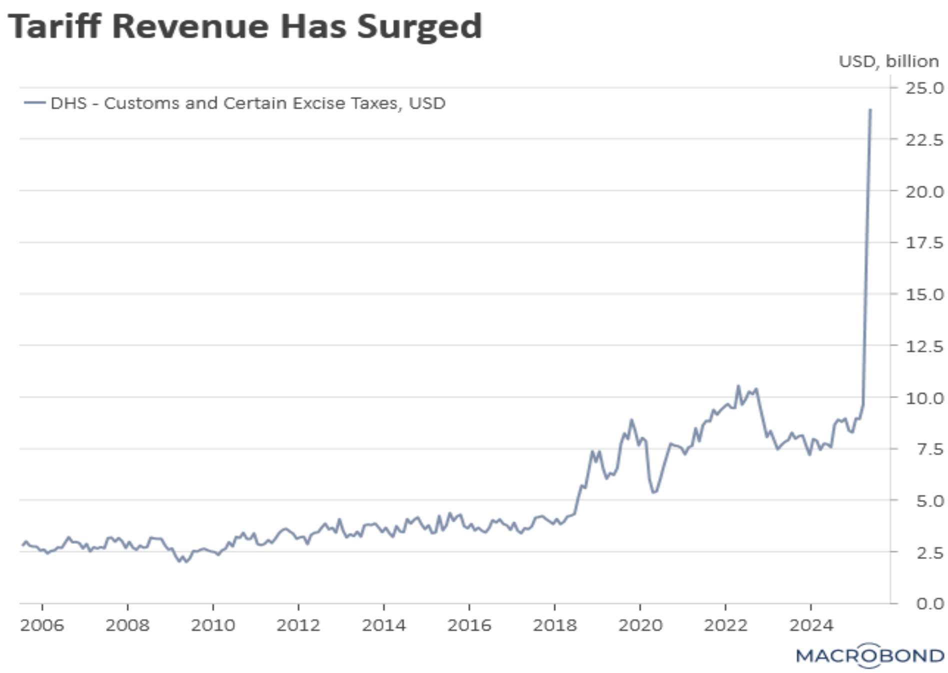


- While most of the inflation report was positive, there were some signs of emerging price pressures. The month-over-month percentage changes compared to the previous year suggest inflation momentum may be building. Although January saw an acceleration driven by rising insurance costs, inflation had largely stabilized at pre-pandemic levels before the tariff announcement. Since then, however, inflation appears to have accelerated to match last year's pace.
- The continued moderation of the rise in inflation remains a welcome surprise, though it may be too early to tell whether this trend will persist. As noted in previous reports, much of the recent moderation appears attributable to inventory accumulation ahead of tariff implementations. While we expect this effect may soon fade, we believe a structural downward trend in services inflation should help prevent a return to the peak seen following the pandemic.

Trump's Trade Tactics: The president's trade truce with China eased fears of resource shortages but sparked speculation about potential new tariffs.

- During yesterday's briefing, the president has confirmed a trade truce that will enable China to resume shipping critical rare earths and magnets for another six months. This agreement, however, requires the final go-ahead from Chinese President Xi Jinping. Although the precise concessions made by the US haven't been fully disclosed, the president indicated that reinstating student visas for Chinese nationals attending American universities might have been a component of the deal.
- While markets welcomed signs of easing tensions between the US and its largest trading partner, the president reaffirmed his commitment to maintaining tariffs regardless of any new arrangements. After announcing what he called a "done deal" with China, he

suggested that Chinese imports could still face total tariffs of 55% — a combination of the 30% imposed under the new agreement and the existing 25% from before his term.



- The president's economic strategy of consistently leveraging tariffs as a dual-purpose tool to influence trade policy and generate revenue for deficit reduction may be paying off. A record $23 billion in tariff revenue last month played a significant role in narrowing the budget deficit from $341 billion to $316 billion, representing a 17% year-over-year decrease. This substantial increase in government receipts was primarily the result of tariffs enacted in April, showing that tariffs are a legitimate revenue tool.
- That said, the president is preparing to issue unilateral tariff notices to multiple trading partners within the next one to two weeks, reinforcing his stance against complacency in trade negotiations. This move echoes his mid-May ultimatum that yielded only partial progress, and critical disagreements are still blocking deals with Japan and the EU.
- With the trade deadline approaching, we anticipate the president will escalate his rhetoric to strengthen his negotiating position. Thus far, markets appear confident that the worst of the trade war has passed, with investors pricing in expectations that tariffs will remain at current levels or decrease. However, should this sentiment shift, we could see a rapid reduction in risk exposure from market participants.

Iran Defies Calls: The Islamic republic appears poised to advance its nuclear expansion plans, disregarding renewed diplomatic pressure and raising the prospect of war with Israel.

- Tehran has announced plans to establish a new uranium enrichment facility following its censure by the International Atomic Energy Agency (IAEA) for noncompliance with nuclear safeguards. The covert site will operate alongside the ongoing modernization of centrifuges at the Fordow nuclear plant. This development, particularly the refusal to disclose the facility's location, constitutes a further violation of Iran's nonproliferation obligations.

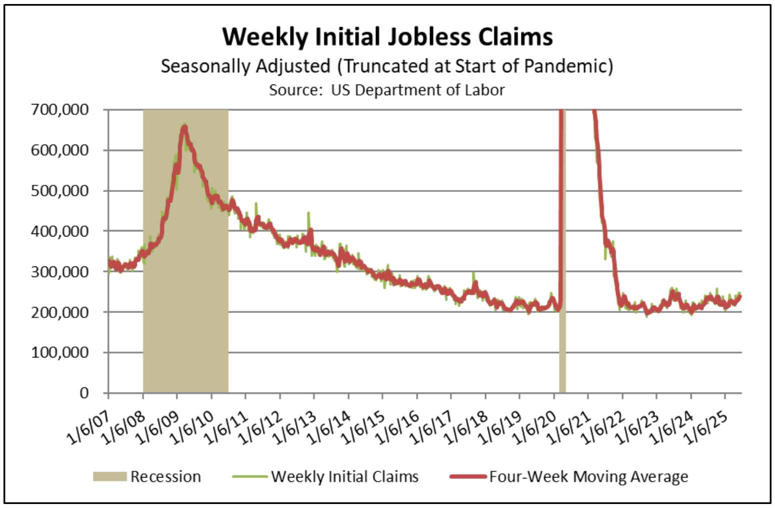
- Iran's move to accelerate its nuclear program comes amid a collapse in diplomatic efforts to address its nuclear activities. Although Washington and Tehran maintain open channels for dialogue, negotiations have stalled without meaningful breakthroughs. The prospects for Sunday's planned talks now appear uncertain after President Trump denounced Iran's negotiating stance as "unacceptable," casting doubt on whether discussions can proceed productively.
- The lack of diplomatic progress has led to concerns that Israel may launch an attack on Iran in the near future. In response, Iran has warned it could retaliate by targeting US military assets across the Middle East. These escalating tensions prompted Washington to order partial evacuations at its Baghdad embassy amid security concerns. Israel's resolve was further demonstrated by parliamentary proceedings following the controversial elimination of military conscription exemptions, a move that nearly triggered the government's collapse.
- The risk of conflict over Iran's nuclear program has risen significantly, and will more so if Israel launches a full-scale attack. A major regional war would likely spill over into global markets, driving up commodity prices. A key factor will be Iran's response. If Tehran adopts a "now or never" approach, the conflict could escalate dramatically, potentially drawing in neighboring countries.

Boeing Problems: The aircraft manufacturer is likely to face renewed scrutiny after one of its planes crashed in India.

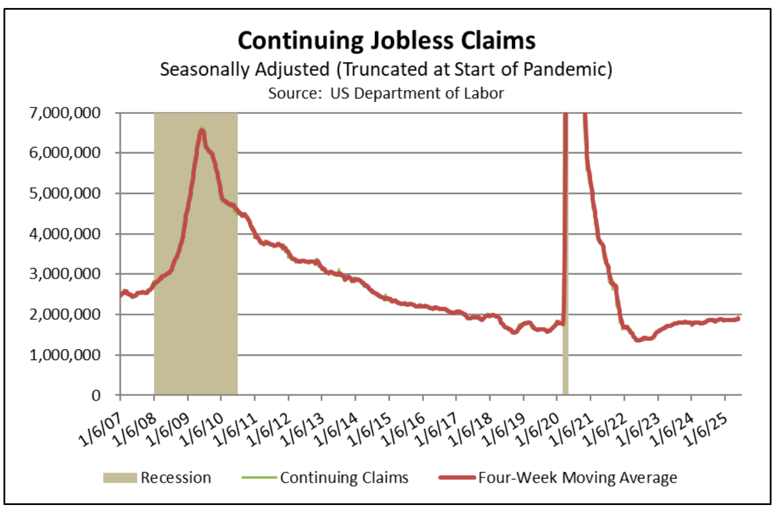
- An Air India Boeing Dreamliner crashed shortly after takeoff, killing an unknown number of people. The aircraft was carrying 242 passengers and plunged into a residential area, raising fears of a high death toll. The incident is likely to fuel further skepticism about aviation safety, particularly Boeing's aircraft quality, following a series of mishaps over the past six years — most notably the 737 Max crisis in 2019.
- Boeing aircraft are among the most valuable US exports, and orders for these planes have often been leveraged in trade negotiations to secure favorable terms. However, the public relations fallout from this incident could have far-reaching consequences if countries grow hesitant to purchase Boeing jets due to mounting safety concerns.

US Economic Releases

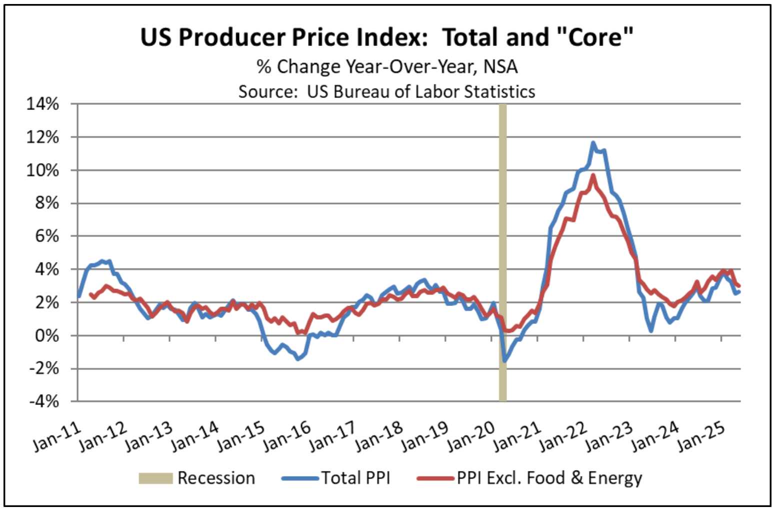
In the week ended June 7, ***initial claims for unemployment benefits*** held steady at a seasonally adjusted 248,000, essentially matching expectations. All the same, the four-week moving average of initial claims, which helps smooth out some of the volatility in the series, rose all the way to a 21-month high of 240,250, providing some evidence of a material softening in the demand for labor. 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 May 31, the number of ***continuing claims for unemployment benefits*** (people continuing to draw benefits) rose to a seasonally adjusted 1.956 million, compared with a revised 1.902 million in the previous week. The four-week moving average of continuing claims rose to 1,914,500. Excluding the pandemic era, the four-week average of continuing claims is now at its highest level since early 2018, providing more evidence of weaker labor demand. 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.



Separately, the May ***producer price index (PPI)*** rose by a seasonally adjusted 0.1%, slightly less than expected but still partially reversing the 0.2% decline in April. Excluding the volatile food and energy components, the May ***"core" PPI*** also rose 0.1%, short of expectations but reversing its 0.2% fall in April. The overall PPI in May was up 2.6% from the same month one year earlier, while the core PPI was up 3.0%. The chart below shows the year-over-year change in the PPI and the core PPI over the last decade or so.



There are no economic releases or Fed events scheduled for the rest of the day.

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	Japan Buying Foreign Bonds	w/w	6-Jun	-¥458.6b	-¥118.0b	--	*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	6-Jun	-¥1498.0b	-¥1144.1b	--	*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	6-Jun	¥219.8b	¥1165.4b	--	*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	6-Jun	¥180.2b	¥336.1b	--	*	Equity and bond neutral
India	CPI	y/y	May	2.8%	3.2%	3.0%	***	Equity and bond neutral
EUROPE								
Italy	Unemployment Rate	q/q	1Q	6.1%	6.1%	6.0%	**	Equity and bond neutral
UK	RICS House Price Balance	y/y	May	-8%	-3%	-3%	**	Equity bearish, bond bullish
	Monthly GDP	m/m	Apr	-0.3%	0.2%	-0.1%	*	Equity and bond neutral
	Industrial Production	y/y	Apr	-0.3%	-0.7%	-0.2%	***	Equity and bond neutral
	Manufacturing Production	y/y	Apr	0.4%	-0.8%	0.5%	**	Equity and bond neutral
	Index of Services 3M/3M	m/m	Apr	0.6%	0.7%	0.7%	**	Equity and bond neutral
	Construction Output	y/y	Apr	3.3%	1.4%	2.5%	*	Equity and bond neutral
	Visible Trade Balance GBP/Mm	m/m	Apr	-£23.206b	-£19.869b	-£20.700b	**	Equity and bond neutral
	Trade Balance GBP/Mn	m/m	Apr	-£4.475b	-£3.696b	-£4.475b	**	Equity and bond neutral
Russia	Trade Balance	m/m	Apr	9.0b	11.8b		**	Equity and bond neutral
	Exports	m/m	Apr	33.1b	34.6b		*	Equity and bond neutral
	Imports	m/m	Apr	24.0 b	22.8b		*	Equity and bond neutral
	CPI	y/y	May	9.9%	10.2%	9.8%	***	Equity and bond neutral
	Core CPI	y/y	May	8.9%	9.2%		**	Equity and bond neutral
AMERICAS								
Canada	Building Permits	m/m	Apr	-6.6%	-5.3%	2.00	**	Equity bearish, bond bullish
Brazil	Retail Sales	y/y	Apr	4.8%	-0.8%	3.6%	***	Equity bullish, bond bearish

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	425	0	Up
U.S. Sibor/OIS spread (bps)	431	431	0	Up
U.S. Libor/OIS spread (bps)	432	433	-1	Up
10-yr T-note (%)	4.37	4.42	-0.05	Down
Euribor/OIS spread (bps)	195	195	0	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	$68.51	$69.77	-1.81%	
WTI	$66.87	$68.15	-1.88%	
Natural Gas	$3.60	$3.51	2.62%	
Crack Spread	$23.11	$23.27	-0.70%	
12-mo strip crack	$21.59	$21.87	-1.26%	
Ethanol rack	$1.82	$1.82	-0.21%	
Metals				
Gold	$3,380.90	$3,355.12	0.77%	
Silver	$36.23	$36.25	-0.08%	
Copper contract	$480.40	$481.45	-0.22%	
Grains				
Corn contract	$442.00	$439.75	0.51%	
Wheat contract	$535.75	$534.25	0.28%	
Soybeans contract	$1,049.00	$1,050.50	-0.14%	
Shipping				
Baltic Dry Freight	1,738	1,680	58	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	-3.64	-2.60	-1.04	
Gasoline (mb)	1.50	0.75	0.75	
Distillates (mb)	1.25	0.70	0.55	
Refinery run rates (%)	0.9%	0.0%	0.9%	
Natural gas (bcf)		108		

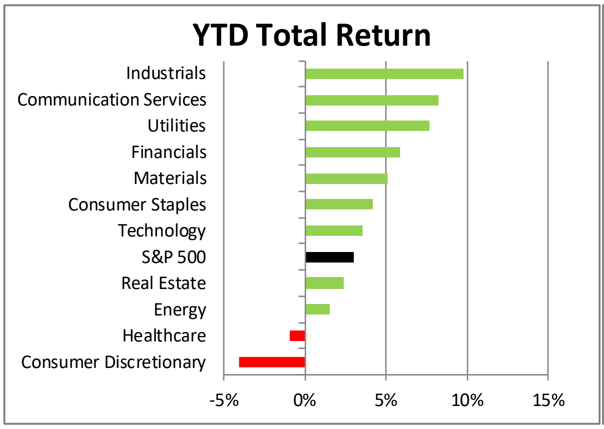
Weather

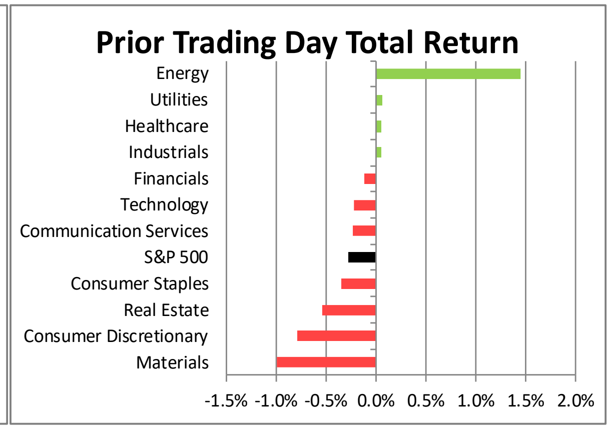
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for all of the country except the Pacific Northwest, where cooler-than-normal temperatures are expected. The outlook calls for wetter-than-normal conditions in the Pacific Northwest and from the Great Plains eastward, with dry conditions in the central Rocky Mountains.

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

Data Section

US Equity Markets – (as of 6/11/2025 close)

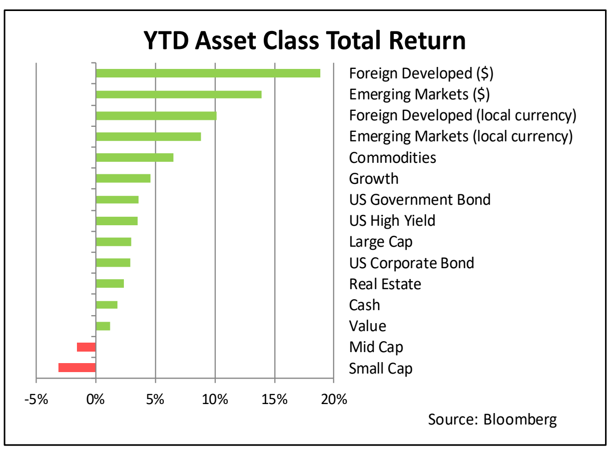




(Source: Bloomberg)

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 6/11/2025 close)

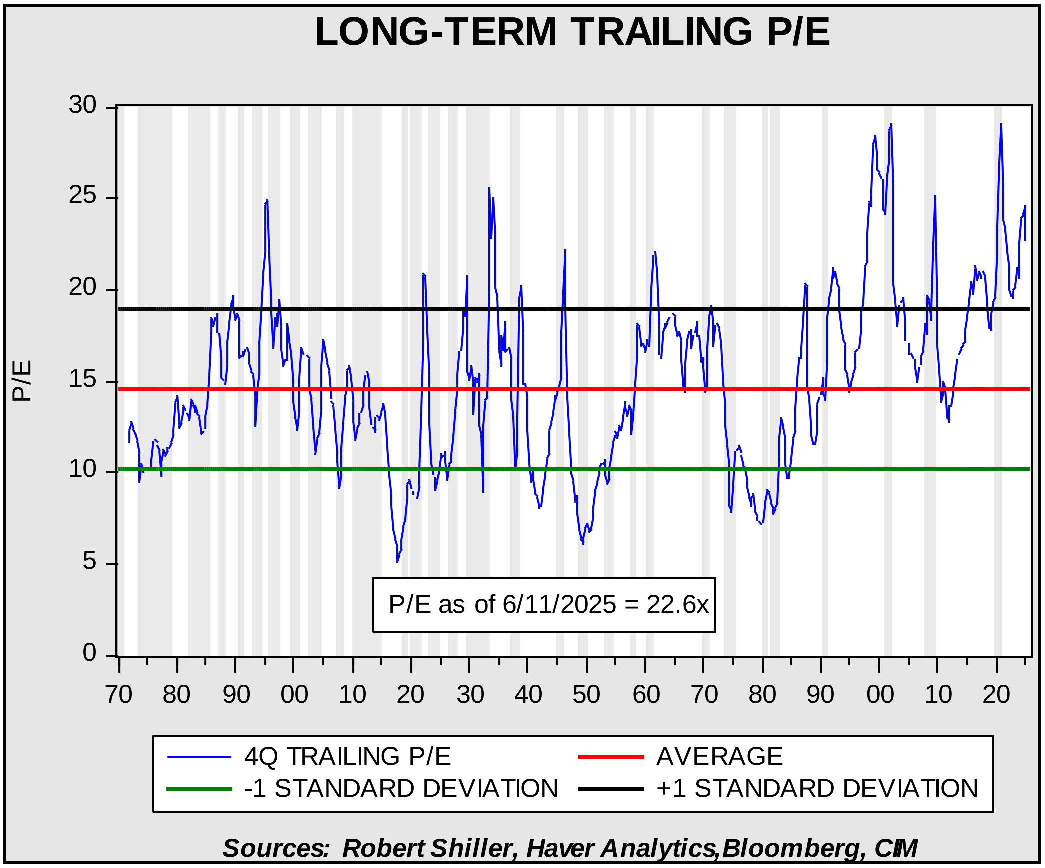


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 12, 2025



Based on our methodology,[1] the current P/E is 22.6x, up 0.2 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.