Daily Comment

Confluence INVESTMENT MANAGEMENT

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: June 13, 2025 — 9:30 AM ET] Global equity markets are lower this morning. In Europe, the Euro Stoxx 50 is down 1.2% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 1.1%. Chinese markets were lower, with the Shanghai Composite down 0.8% from its previous close and the Shenzhen Composite down 1.3%. 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

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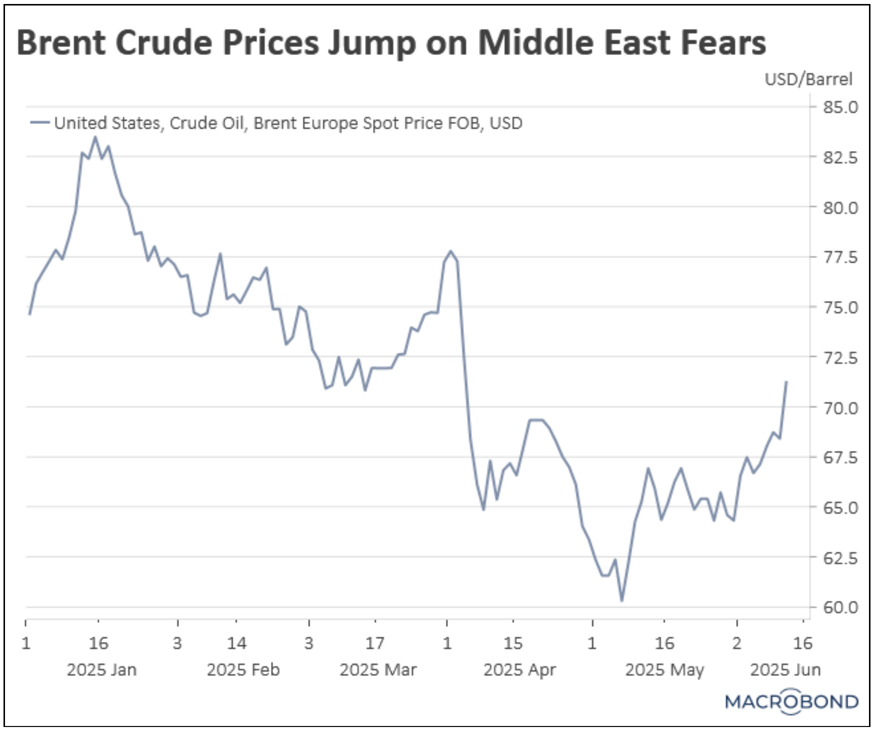
Good morning! Markets are focused squarely on Middle East tensions. Today's *Comment* analyzes the market impact of the Israel-Iran conflict, explores why recent inflation trends have bolstered calls from the president for rate cuts, and highlights other key developments moving global markets. We'll wrap up with our regular overview of today's most important international and domestic economic data releases.

Israel Strikes Iran: As expected, Israel has launched a military attack on sites in Iran as it looks to prevent the country from producing a nuclear weapon.

- The strikes targeted Tehran, with Israel destroying key military installations and killing two of Iran's senior commanders. The operation aimed to cripple the heart of Iran's nuclear program, with the campaign expected to continue for two weeks. Meanwhile, the US denied any involvement in the attacks. Still, it urged Iranian officials to proceed with scheduled nuclear talks on Sunday, seeking to prevent an all-out war from spreading into other parts of the Middle East.
- Iran appears to be in disarray as it scrambles to formulate an effective response. The regime launched over 100 drones in retaliation, many of which were intercepted by Israeli defenses. Meanwhile, reports suggested that the replacement of top military

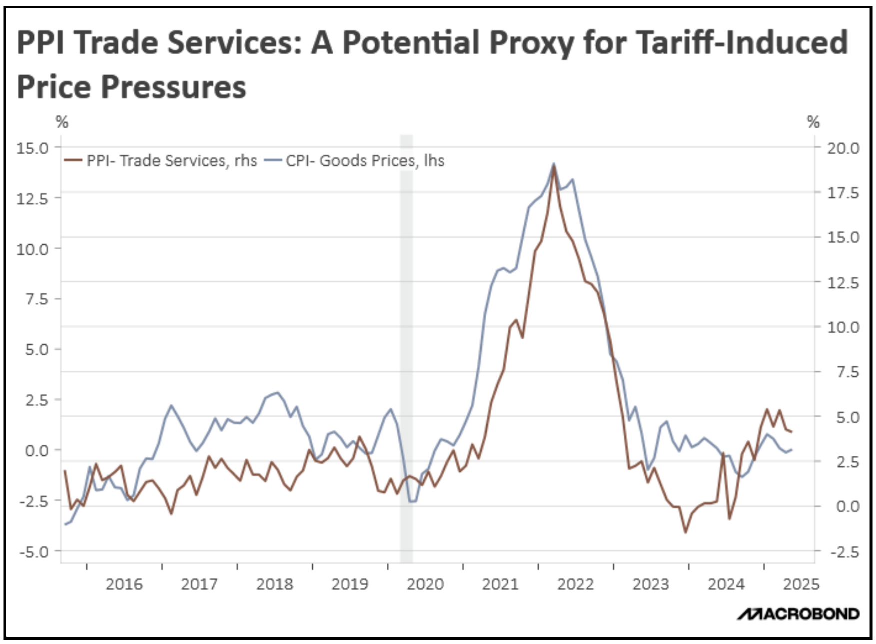
leaders were later retracted, highlighting Tehran's leadership crisis following the attacks. Despite this turmoil, Iran and its proxy forces are planning retaliatory strikes, along with potential blockades of critical shipping lanes in the Red Sea and Strait of Hormuz.



- The escalating conflict in the Middle East threatens to disrupt global trade, with Brent crude prices surging 10% in just five days amid mounting supply concerns. Shipping routes are being redrawn as vessels divert from contested waters, driving freight costs higher. This comes on top of existing supply chain pressures, as global shipping rates had already jumped 52% last week, and companies are racing to stockpile goods before the expiration of the 90-day tariff pause.
- The potential for this conflict to trigger significant global spillover effects hinges primarily on Israel's strategic objectives. If its sole aim is to dismantle Iran's nuclear program, market disruptions may prove temporary. However, should Israel expand its goals to include regime change, the resulting escalation could unleash sustained market volatility as a wider regional conflict would become increasingly likely.
- Current evidence suggests Israel is pursuing the more limited objective, having carefully targeted only key nuclear facilities. However, this restrained approach could shift if Iran refuses to back down despite the attacks. Should tensions escalate further, commodities would likely emerge as safe haven assets, poised to rally amid heightened geopolitical uncertainty.

Trump Fed Pressure: Softer inflation data has led the president to add further pressure on the Federal Reserve to implement rate cuts at its next meeting.

- Supply-side inflation remained subdued in May. The overall Producer Price Index (PPI) rose 2.6% year-over-year, narrowly exceeding estimates of 2.5%, while core inflation edged down from 3.2% to 3.0%. Moreover, key components feeding into the Federal Reserve's preferred inflation gauge — the PCE price index — showed muted growth, indicating that the May reading will likely reflect further progress toward the central bank's 2% target.
- The subdued inflation figures marked the second consecutive report this month showing progress toward the Fed's inflation target, even as new tariffs took effect. The president has seized on these numbers to demand an aggressive 100 basis point rate cut at the Fed's upcoming meeting. While he has stopped short of threatening to dismiss Chair Powell, he has hinted that [the administration may have to "force something"] if the central bank doesn't act.
- The Federal Reserve has pointed to persistent uncertainty around inflation's path as the primary reason for holding rates steady. Policymakers are split on whether businesses will fully pass through tariff-driven cost increases to consumers or partially absorb them, prompting the central bank to adopt a wait-and-see approach. Fed officials have emphasized the need for more time to assess the tariffs' broader economic effects before considering any policy adjustments.



- Recent PPI inflation data suggests businesses have so far resisted passing on higher costs to consumers, instead absorbing the impact of tariffs. Trade services margins, which track wholesaler-to-retailer pricing, indicate firms are currently bearing these additional costs. However, this absorption capacity may stem from inventory stockpiles accumulated before the new tariffs took effect. Consequently, it remains uncertain whether companies can sustain this pricing restraint in coming months as inventories dwindle.

The Golden Share: The proposed acquisition of US Steel by Nippon Steel remains under review as the White House and the Japanese steelmaker continue negotiations.

- On Thursday, the president announced that the proposed Nippon Steel acquisition of US Steel would give the US government veto power over key corporate decisions, though he provided no further details. Nippon Steel swiftly pushed back, insisting it would not accept any deal that compromises its management control. With just days remaining before the June 18 deadline, the standoff underscores the significant gap between the two sides.
- Despite the disagreements, the two sides appear to have reached consensus on key provisions that would grant the US government certain oversight powers. As part of the deal, Nippon Steel is expected to sign a binding national security agreement requiring it to maintain US Steel's headquarters domestically, with severe penalties for non-compliance. The Japanese firm has also committed to providing employee bonuses upon deal completion and investing billions to modernize American steel production.
- Despite ongoing negotiations, optimism remains high that a deal will be reached. The Trump administration has argued that the acquisition could help revitalize America's steel industry, which has struggled against foreign competition in recent years. Meanwhile, Japan views US Steel as a strategic opportunity to diversify its holdings and gain stronger access to North American markets.
- The potential Nippon Steel-US Steel deal may establish important precedents for how the US handles foreign mergers amid rising trade protections. This acquisition could demonstrate whether partnerships and mergers will become viable strategies for foreign firms to navigate America's tariff regime. The terms of this deal may ultimately shape how Washington regulates foreign investment in other strategic domestic industries.

New Tariffs: The president announced new tariffs as he looks to drive more manufacturing back to the US.

- The Trump administration announced that it would expand tariffs to include not only steel products but also steel derivative products, effective June 23. The new tariffs — set at 50% — will apply to goods such as home appliances. This move comes just a week after Trump declared he would increase steel tariffs, aiming to shield American manufacturers from foreign competition by discouraging imports of cheaper steel-based goods.
- The new tariffs are likely to raise concerns, as trade restrictions could force firms to either accept lower profit margins or pass costs on to consumers through higher prices. Additionally, the move suggests that the president may consider additional tariffs in the future. So far, these measures have not disrupted supply chains, and if this stability continues, it should help maintain economic resilience.

US Economic Releases

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	U. of Michigan Consumer Sentiment	m/m	Jun P	53.6	52.2	***
10:00	U. of Michigan Current Conditions	m/m	Jun P	59.3	58.9	**
10:00	U. of Michigan Future Expectations	m/m	Jun P	49.7	47.9	**
10:00	U. of Michigan 1-Year Inflation Expectation	m/m	Jun P	6.4%	6.6%	*
10:00	U. of Michigan 5-10 Year Inflation Expectation	m/m	Jun P	4.1%	4.2%	*
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	Industrial Production	y/y	Apr F	0.5%	0.7%		***	Equity and bond neutral
	Capacity Utilization	y/y	Apr	1.3%	-2.4%		**	Equity and bond neutral
	Tertiary Industry Index	m/m	Apr	0.3%	-1.0%	0.2%	***	Equity and bond neutral
New Zealand	BusinessNZ Manufacturing PMI	m/m	May	47.5	53.3		***	Equity and bond neutral
China	Money Supply M2	y/y	May	7.9%	8.0%	8.1%	***	Equity and bond neutral
	Money Supply M1	y/y	May	2.3%	1.5%	1.7%	*	Equity and bond neutral
	Money Supply M0	y/y	May	12.1%	12.0%	--	*	Equity and bond neutral
	New Yuan Loans CNY	m/m	May	10680.0b	10059.7b	10959.7b	**	Equity and bond neutral
	Aggregate Financing CNY	m/m	May	18630.0b	16342.9b	18673.0b	**	Equity and bond neutral
EUROPE								
Eurozone	Industrial Production WDA	y/y	Apr	0.8%	3.7%	1.2%	**	Equity bearish, bond bullish
	Trade Balance SA	m/m	Apr	14.0b	28.8b	18.3b	**	Equity and bond neutral
Germany	CPI	y/y	May F	2.1%	2.1%	2.1%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	May F	2.1%	2.1%	2.1%	**	Equity and bond neutral
France	CPI	y/y	May F	0.7%	0.7%	0.7%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	May F	0.6%	0.6%	0.6%	**	Equity and bond neutral
	CPI Ex-Tobacco Index	q/q	May F	119.77	119.93	119.76	*	Equity and bond neutral
Italy	Trade Balance EU	m/m	Apr	162m	-1403m		*	Equity and bond neutral
AMERICAS								
Brazil	IBGE Services Volume	y/y	Apr	1.8%	2.0%	1.7%	*	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	427	-2	Up
U.S. Sibor/OIS spread (bps)	431	431	0	Up
U.S. Libor/OIS spread (bps)	432	432	0	Up
10-yr T-note (%)	4.36	4.36	0.00	Down
Euribor/OIS spread (bps)	198	195	3	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	$74.36	$69.36	7.21%	Supply Fears due to attack on Iran
WTI	$73.18	$68.04	7.55%	Supply Fears due to attack on Iran
Natural Gas	$3.53	$3.49	1.00%	
Crack Spread	$21.75	$22.93	-5.14%	
12-mo strip crack	$21.76	$22.02	-1.20%	
Ethanol rack	$1.82	$1.82	-0.03%	
Metals				
Gold	$3,421.11	$3,385.92	1.04%	
Silver	$36.18	$36.34	-0.45%	
Copper contract	$478.80	$488.85	-2.06%	
Grains				
Corn contract	$439.25	$440.50	-0.28%	
Wheat contract	$532.00	$526.50	1.04%	
Soybeans contract	$1,027.50	$1,027.25	0.02%	
Shipping				
Baltic Dry Freight	1,904	1,738	166	
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)	109	108	1	

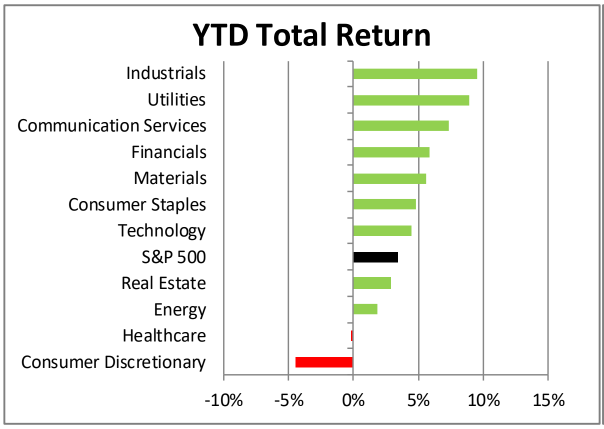
Weather

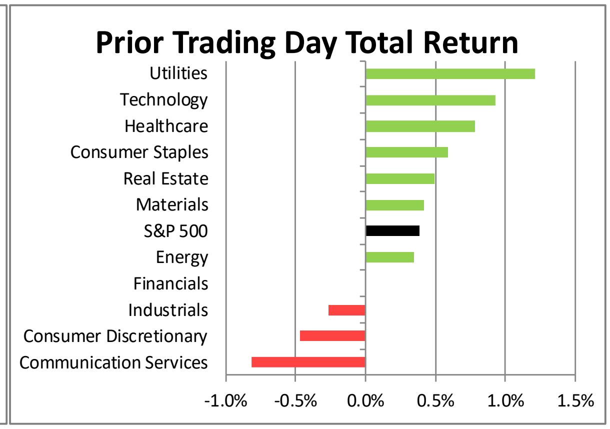
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for all of the country except Washington, Oregon, and Northern California, where cooler-than-normal temperatures are expected. The outlook calls for wetter-than-normal conditions in the Pacific Northwest and from the Great Plains eastward, with dry conditions in California and 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 6/12/2025 close)

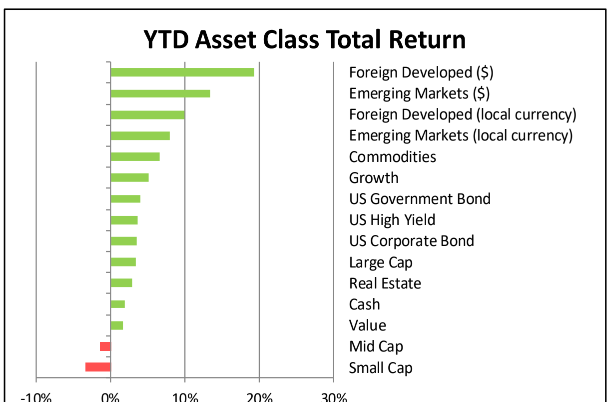




(Source: Bloomberg)

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 6/12/2025 close)



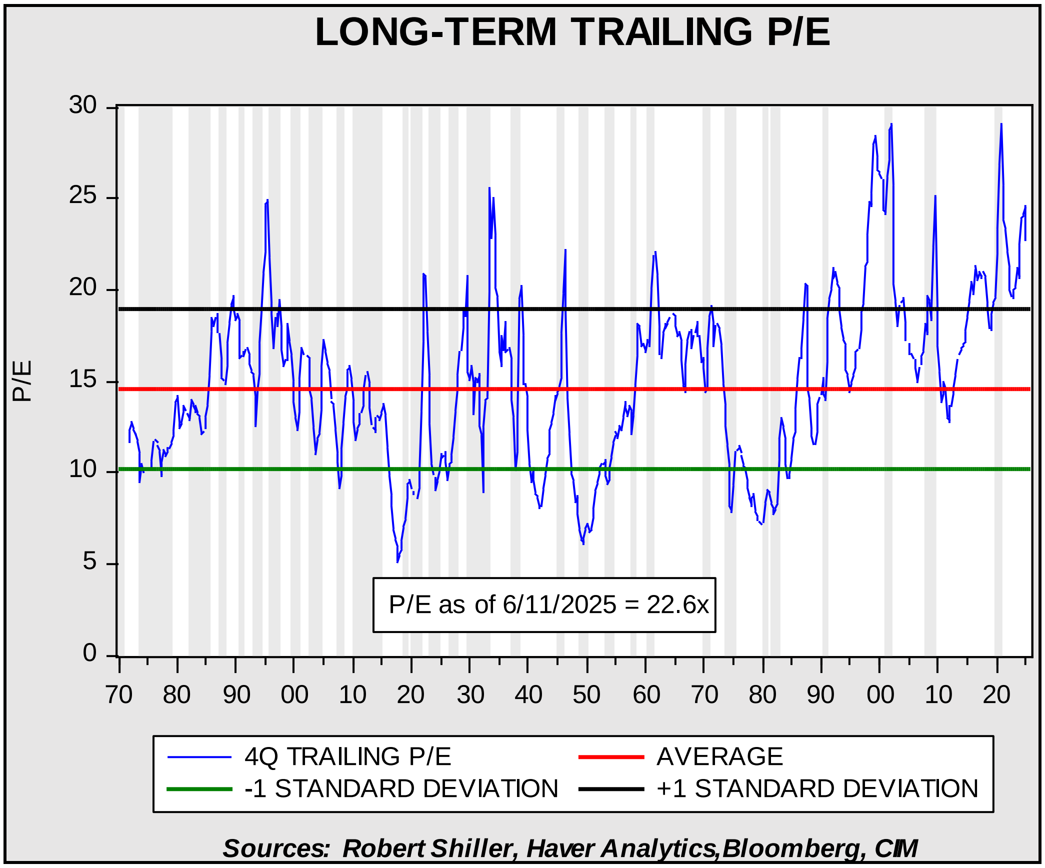
Source: Bloomberg

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.