Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: June 16, 2025 — 9:30 AM ET] Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 is up 0.6% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.5%. Chinese markets were higher, with the Shanghai Composite up 0.4% from its previous close and the Shenzhen Composite up 0.6%. 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
"NATO's Baltic Vulnerability" (6/9/25) + podcast	**"The Economy That Won't Die" (6/16/25) + podcast**	Q2 2025 Report Q2 2025 Rebalance Presentation	NEW: The Confluence Mailbag Podcast The Renewed Case for Active and Value

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Our *Comment* today opens with the latest developments in the Israel-Iran conflict. We next review several other international and US developments with the potential to affect the financial markets today, including signs that the US and China remain susceptible to new military and economic tensions and President Trump's partial reversal on some of his immigration crackdowns.

Israel-Iran: Both Israel and Iran continued to strike each other with air and missile attacks throughout the weekend, following Tel Aviv's initial attacks on Friday. Israel's attacks, mostly using aircraft, have broadened beyond the initial focus on nuclear sites, military leadership, and air defenses and now include strikes on Iran's energy infrastructure. Israel has also conducted at least one attack on the Iran-supported Houthi rebels in Yemen. All told, dozens of Israelis and Iranians have now been killed in the conflict.

- By expanding its attacks on Iran's oil industry, Israel could potentially spark further investor concern about the world's energy supplies, especially if Iran takes the cue to launch retaliatory attacks on energy facilities throughout the region. Nevertheless, as of this writing, oil prices have fallen about 1% so far today, with Brent trading at $73.64 per barrel and WTI at $72.27.

- Importantly, reports over the weekend said the Israeli government has pressured the US to participate in the attacks. Since the US has powerful "bunker buster" munitions that Israel doesn't possess, Tel Aviv apparently wants the US to help take out the Iranian nuclear facilities that are buried in deep underground bunkers. So far, President Trump has refused the request. However, if he changes his mind, fear of Iranian retaliation against the US could well lead to even greater concern among investors.

China-United States: According to two officials involved in the latest US-China trade truce last week in London, the Chinese side would not commit to re-starting exports of some specialized rare-earth magnets that US military suppliers need for fighter jets and missile systems. According to the officials, the Chinese negotiators hinted they wouldn't take that step unless the US eases up on its limits on sending advanced artificial-intelligence chips to China.

- The US officials also suggested they are looking to extend the US's existing 30% reciprocal tariffs on China for a further 90 days beyond the August 10 deadline agreed in Geneva last month. That indicates that a more permanent trade deal between the US and China is unlikely to happen before late 2025.
- Earlier reporting suggested the London deal merely re-established the interim cooling-off deal reached in Geneva in May. However, after China reneged on its Geneva promise to ease up on rare-earth exports, the end result of the London meeting appears to be that China has only eased up on its civilian rare-earth exports. That suggests US-China trade tensions could easily flare up again and further delay any deal. Investors will therefore have to deal with heightened trade uncertainty for some time to come.

Chinese Military: In its latest yearbook, the Stockholm International Peace Research Institute (SIPRI) said China's nuclear arsenal has now risen to 600 warheads, up from 500 last year. Beijing's nuclear arsenal remains far below those of the US and Russia, which each have more than 5,000 warheads, but it remains on track to match the 1,700 or so the US has deployed by 2035.

- While the Trump administration's tariff policies can make it seem that today's US-China tensions are all about economics, the new SIPRI data on Beijing's rapid nuclear build-up is a reminder that geopolitical and military tensions remain a key part of the relationship.
- As we noted in our *Bi-Weekly Asset Allocation Report* from April 15, 2024, China's nuclear build-up is likely also boosting the price of uranium. SIPRI's estimate that China built 100 new warheads over the last year isn't far off from the 115 warheads we projected in our report. We estimated that such a level would require more than 10% of the world's 2023 uranium production, which almost certainly would put upward pressure on prices.

Chinese Economy: Total industrial production in January through May was up 5.8% from the same period one year earlier, slowing from its gain of 6.1% in January through April. Fixed investment in the first five months of the year was up 3.7% on the year, after a gain of 4.0% in the first four months. This weak data was partially offset by a stronger-than-expected rise in May retail sales, but that gain likely only reflected the government's temporary buying incentives. In sum, the figures suggest Chinese economic growth remains weak.

Australia: The Securities and Investments Commission today said it will open a probe into the country's stock exchange operator, the Australian Securities Exchange, over its governance and risk management practices. The investigation stems from recent mishaps, including a botched upgrade to the exchange's clearing and settlements systems and a prolonged outage late last year. The exchange is also suffering from a long drought in initial public offerings. The probe could potentially help boost Australian stock prices and new offerings going forward.

Eurozone: In a speech today, Bundesbank leader Joachim Nagel said the European Central Bank shouldn't rush in cutting interest rates further, given that consumer price inflation in the region has already fallen to the targeted level. The statement comes after the ECB cut its benchmark short-term interest rates for the eighth straight time earlier this month, leaving it at 2.00%. The hawkish statement has given a boost to the euro so far today, with the currency now up about 0.2% to $1.1579,

G7 Summit: Leaders from the US, Japan, Germany, France, Italy, the UK, and Canada today begin their annual "Group of 7" summit in Alberta, Canada, along with invited leaders from a range of other countries, such as Mexico. While the forum will allow the leaders to discuss many key topics, such as the Israel-Iran and Russia-Ukraine conflicts, key trading partners are also reportedly eager to finalize commercial deals with the US at the meeting. Any announcements could potentially affect the global financial markets this week.

US Monetary Policy: The Fed will hold its latest policy meeting starting tomorrow, with its decision due on Wednesday at 2:00 PM ET. Based on interest-rate futures trading, investors widely expect the policymakers to hold their benchmark fed funds rate at a range of 4.25% to 4.50%. Investors currently expect the next rate cut to come only in September, with perhaps one more cut by the end of the year. We agree with that assessment, but we'll also be looking for more clues on the direction of rate cuts at Chair Powell's Wednesday press conference.

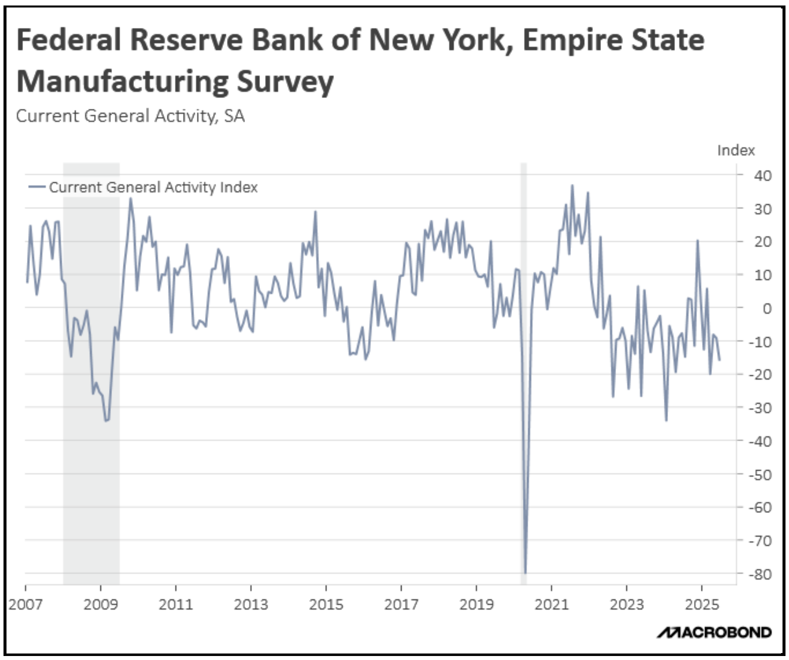
US Labor Market: Reports say President Trump late last week ordered US Immigration and Customs Enforcement to mostly pause its immigration raids on farms, meatpacking plants, hotels, and restaurants. According to one source, Trump was not aware of the extent of the enforcement push he had unleashed, and "once it hit him, he pulled it back." Under his new directive, enforcement raids on the designated business types would focus only on arresting immigrants accused of serious crimes.

- As we have long surmised, any large-scale immigration crackdown would run the risk of creating labor shortages and driving up wage rates, especially in industries heavily dependent on immigrant labor.
- Trump's quick pullback on the raids helps confirm that our concerns were valid. We suspect Trump was hearing an earful of complaints from backers in the business community.

- In any case, the president's climbdown on the raids is a reminder that the actual policies he leaves in place on trade, immigration, fiscal policy, or regulation might be much less dramatic, and less disruptive for the economy or the financial markets, than his rhetoric or initial steps.

US Economic Releases

The New York FRB said its June ***Empire State Manufacturing Index*** fell to a seasonally adjusted -16.0, worse than both the expected level of -5.5 and May's revised level of -9.2. This index is designed so that positive readings point to expanding factory activity in New York state. At its current level, the index suggests New York manufacturing has now contracted for four straight months. The chart below shows how the index has fluctuated since before the GFC.



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								
South Korea	Money Supply L SA	m/m	Apr	0.5%	0.4%		*	Equity and bond neutral
	Money Supply M2 SA	m/m	Apr	0.2%	-0.1%		*	Equity and bond neutral
China	New Home Prices	m/m	May	-0.22	-0.12		***	Equity and bond neutral
	Retail Sales	y/y	May	6.4%	5.1%	4.9%	**	Equity and bond neutral
	Industrial Production	y/y	May	5.8%	6.1%	6.0%	***	Equity and bond neutral
	Fixed Assets Ex Rural YTD	y/y	May	3.7%	4.0%	4.0%	**	Equity and bond neutral
India	Wholesale Prices	m/m	May	0.39%	0.85%	0.70%	*	Equity and bond neutral
	Exports	y/y	May	-2.2%	9.0%		**	Equity and bond neutral
	Imports	y/y	May	-1.7%	19.1%		**	Equity and bond neutral
	Trade Balance	m/m	May	-$251880m	-$26420m	-$25000m	*	Equity and bond neutral
EUROPE								
Italy	CPI, EU Harmonized	y/y	May F	1.7%	1.9%	1.9%	***	Equity and bond neutral
	CPI NIC Including Tobacco	y/y	May F	1.6%	1.7%	1.7%	**	Equity and bond neutral
Switzerland	Producer & Import Prices	y/y	May	-0.7%	-0.5%		**	Equity and bond neutral
	Domestic Sight Deposits CHF	w/w	13-Jun	426.7b	426.3b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	13-Jun	434.8b	438.1b		*	Equity and bond neutral
AMERICAS								
Canada	Manufacturing Sales	m/m	Apr	-2.8%	-1.4%	-2.0%	**	Equity bearish, bond bullish
	Wholesale Sales ex Petroleum	m/m	Apr	-2.3%	0.0%	-0.9%	**	Equity bearish, bond bullish
	Capacity Utilization Rate	m/m	1Q	80.1%	79.7%	79.8%	**	Equity and bond neutral
Brazil	FGV Inflation IGP-10	m/m	Jun	5.62%	7.54%		**	Equity and bond neutral
	Econimic Activity	y/y	Apr	2.46%	3.49%	2.30%	**	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	425	0	Up
U.S. Sibor/OIS spread (bps)	432	431	1	Up
U.S. Libor/OIS spread (bps)	433	432	1	Flat
10-yr T-note (%)	4.44	4.40	0.04	Down
Euribor/OIS spread (bps)	200	198	2	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	$73.43	$74.23	-1.08%	
WTI	$72.10	$72.98	-1.21%	
Natural Gas	$3.71	$3.58	3.49%	
Crack Spread	$23.35	$22.62	3.23%	
12-mo strip crack	$22.93	$22.57	1.59%	
Ethanol rack	$1.83	$1.83	0.28%	
Metals				
Gold	$3,414.93	$3,432.34	-0.51%	
Silver	$36.30	$36.30	-0.01%	
Copper contract	$485.25	$486.85	-0.33%	
Grains				
Corn contract	$438.25	$443.00	-1.07%	
Wheat contract	$553.00	$559.25	-1.12%	
Soybeans contract	$1,057.50	$1,054.75	0.26%	
Shipping				
Baltic Dry Freight	1,968	1,904	64	

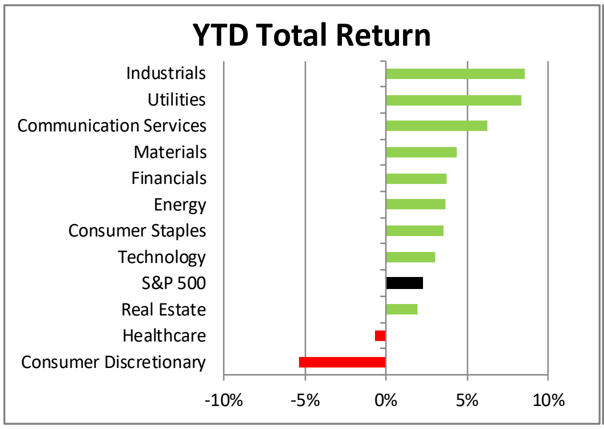
Weather

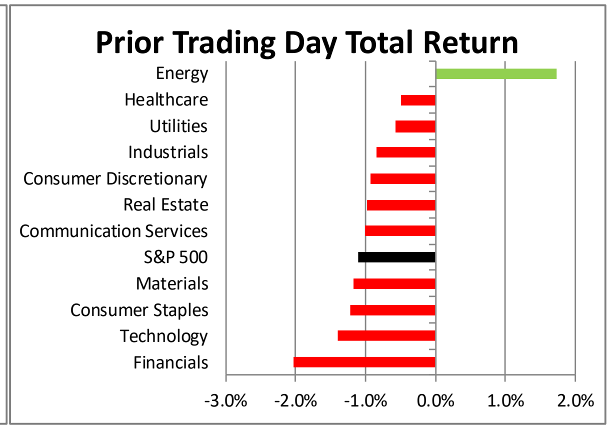
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for every state west of the Great Plains, with cooler temperatures for the rest of the country. The precipitation outlook calls for wetter-than-normal conditions for most of the country, with dry conditions in 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 6/13/2025 close)

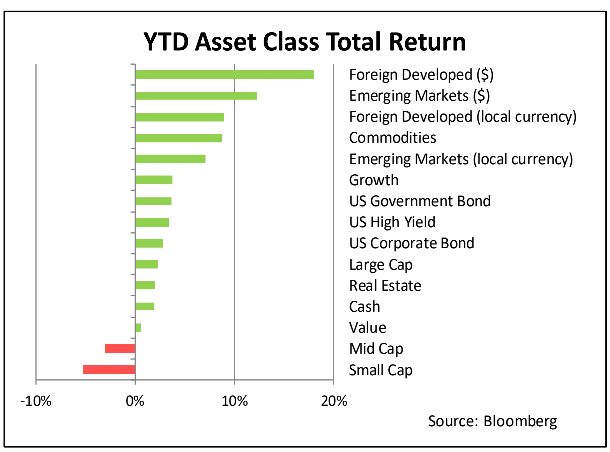




(Source: Bloomberg)

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 6/13/2025 close)

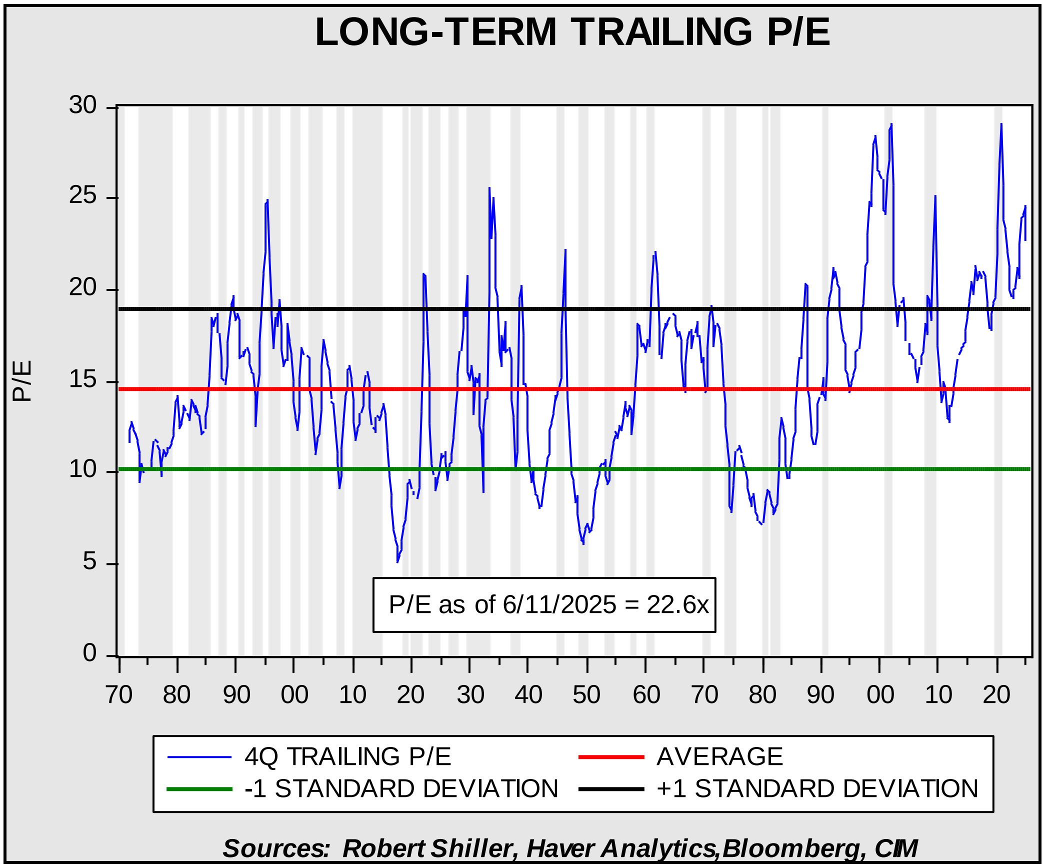


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.