Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: June 17, 2025 — 9:30 AM ET] Global equity markets are mostly lower 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 up 0.6%. Chinese markets were mildly lower, with the Shanghai Composite down very slightly from its previous close and the Shenzhen Composite down 0.1%. 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) + 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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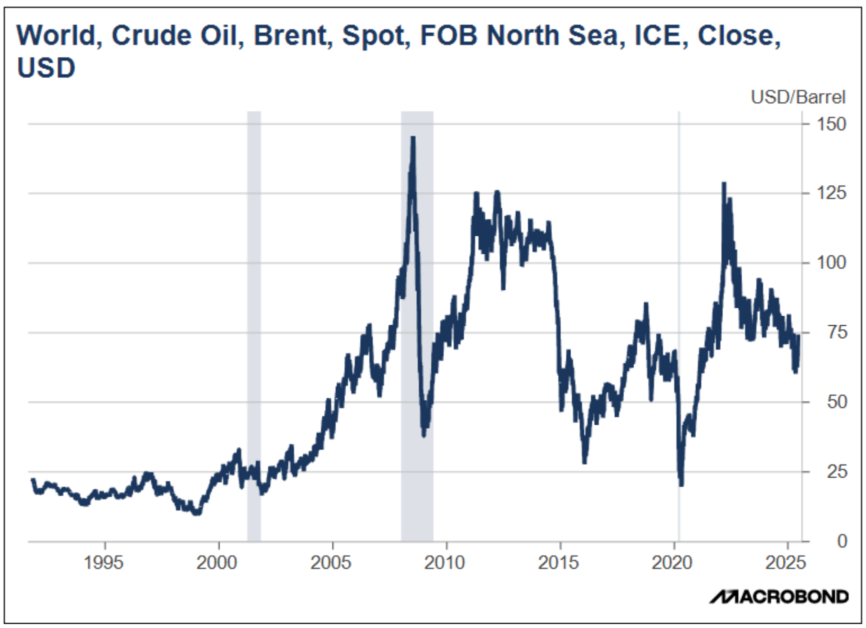
Our *Comment* today opens with the latest developments in the Israel-Iran conflict. We next review several other international and US developments with the potential to affect the financial markets today, including new forecasts of excess supply in the world oil market despite the conflict in the Middle East and new details on US fiscal policy as envisioned by Republicans in the Senate in their proposed version of President Trump's "big, beautiful" tax-and-spending bill.

Israel-Iran Conflict: After reports surfaced that President Trump vetoed an Israeli plan to kill Iranian Supreme Leader Ayatollah Ali Khamenei in recent days, Prime Minister Netanyahu yesterday insisted that killing Khamenei would end the current conflict. Other Israeli officials have echoed Netanyahu's stance. That raises the possibility that Israel will ultimately decide to ignore Trump, kill Khamenei, and pursue regime change in Iran, leaving the country and region even more politically unstable and potentially upending global financial markets.

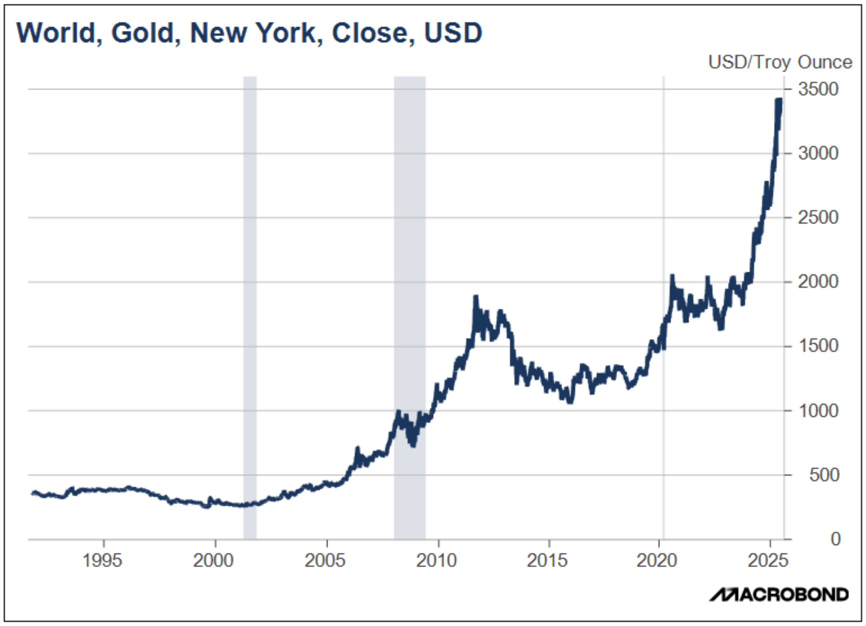
- Many Iran critics who support regime change reportedly believe that Khamenei and his top officials could be replaced by former Crown Prince Reza Pahlavi, the eldest son of the former shah. Pahlavi reportedly has high name recognition among Iranians and has called for the country to transition to a secular democracy. However, it isn't clear whether Iranians would rally around him if Khamenei were to be assassinated.

- In any case, President Trump spooked the markets late yesterday when he said he would leave early from the Group of 7 summit in Alberta, Canada, first warning that Tehran should be evacuated but then hinting that he should be back in Washington for talks about a ceasefire.
- Separately, as Israel and Iran continued to strike each other overnight, global investors worry that Israel could attack Iran's oil export hubs or Iran could make a full-throated effort to close the Strait of Hormuz, through which much of the world's oil exports pass. In either scenario, a key victim could be China, which currently takes more than 90% of all Iranian crude oil exports.

Global Oil Market: In its annual report, the International Energy Agency today forecast that global oil supplies will substantially outstrip demand in 2025, despite escalating conflict in the Middle East. The agency predicts that world oil production this year will rise by 1.8 million barrels per day to 104.9 million bpd, while demand rises by just 720,000 bpd to 103.8 million bpd, largely reflecting weakness in the US and China. As a result, the agency expects rising inventories and weaker pricing.



Global Gold Market: In a new survey of world central bankers, the World Gold Council found that a record 95% of respondents expect their institution's gold holdings to rise over the next 12 months. As we have argued before, central banks are likely to continue being avid gold buyers amid today's geopolitical tensions, sanction risks, and growing concern about the value of the US dollar. We therefore believe that gold prices will continue to march upward in at least the near term.



Japan: The Bank of Japan today held its benchmark short-term interest rate unchanged at 0.50%, as widely expected. Perhaps more important, BOJ Governor Ueda announced that the central bank will move more slowly on cutting back its purchases of Japanese government bonds starting next April. The move follows recent volatility in the market for JGBs, which has pushed longer-term bond yields higher, boosted the value of the yen, and created economic headwinds.

- The BOJ is currently buying 4.1 trillion JPY ($28.3 billion) of Japanese government bonds each month, with the purchases being reduced by 400 billion JPY ($2.7 billion) every three months.
- Under Ueda's plan, the BOJ will start tapering its purchases by just 200 billion JPY ($1.3 billion) every three months starting next April, with the aim of reaching a monthly purchase level of 2.1 trillion JPY ($14.5 billion) by March 2027.

US Monetary Policy: The Fed starts its latest policy meeting today, with its decision due on Wednesday at 2:00 PM ET. Based on futures trading, investors widely expect the policymakers to hold their benchmark fed funds interest rate at its current range of 4.25% to 4.50%. Investors 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 Fiscal Policy: Republicans in the Senate yesterday released details on their version of President Trump's "big, beautiful" tax-and-spending bill. The basic contours of the bill duplicate what the House passed in May, but the proposal also includes significant differences that will be tough to reconcile with the delicate compromises agreed by Republicans in the lower chamber. That suggests that US fiscal policy will probably remain up in the air for at least a few more weeks, and passage of the final bill may not meet Trump's preferred July 4 deadline.

- For example, the Senate bill includes more permanent business tax breaks, deeper cuts to Medicaid, slower phaseouts for clean-energy tax credits, and a much lower cap on the state and local tax deduction.
- The *Wall Street Journal* provides a handy summary of the main policy differences between the Senate and House bills here.

US Tariff Policy: President Trump's decision to make an early departure from the G7 summit in Canada, mentioned above, has precluded most of his bilateral meetings with other leaders that many investors thought would lead to trade deals and reduced trade tensions. He did meet with Canadian Prime Minister Carney, but that meeting ended only with an agreement to work toward a deal in the next 30 days. The lack of any meetings or deals with other leaders is likely one reason for the weakness in US stock prices so far this morning.

US Immigration Policy: Following reports that US Immigration and Customs Enforcement leaders had directed agents to ease up on immigration raids at farms, meatpacking plants, restaurants, and hotels, as we noted in our *Comment* yesterday, reports yesterday revealed that Department of Homeland Security Secretary Kristi Noem has overridden the decision and ordered that "[W]e must dramatically intensify arrest and removal operations nationwide."

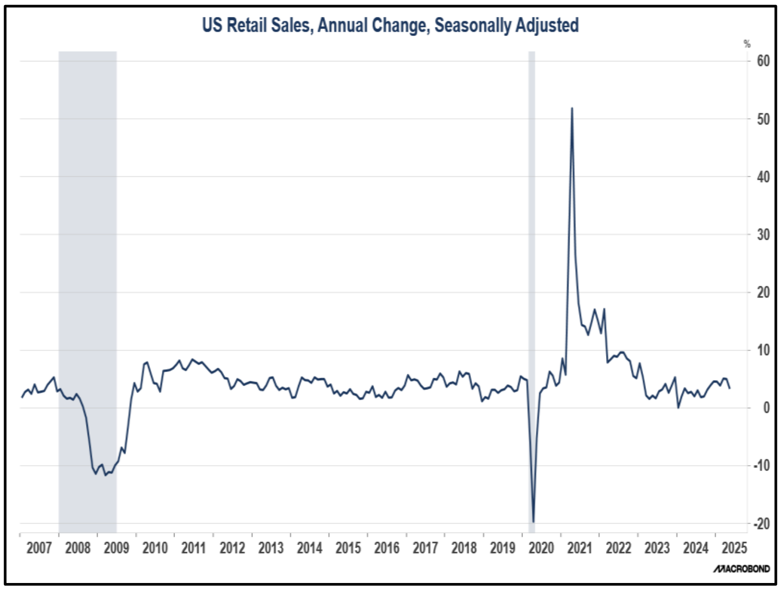
- The reversal highlights growing disagreement within the Trump administration on whether to go full-bore on the president's immigration raids even if they disrupt economic activity.
- Some top Trump officials are reportedly more sensitive to business concerns and argue for taking a softer, slower approach to removing illegal migrants.

US Commercial Real Estate Industry: New data from CBRE shows that the supply of office space is now on track to fall for the first time in 25 years, as developers hold off on building new work space and office-to-residential conversions accelerate. Conversions have been especially encouraged by rapid price declines for obsolete office buildings, changes to zoning rules that allow for more residential construction, and government incentives that help bring down costs.

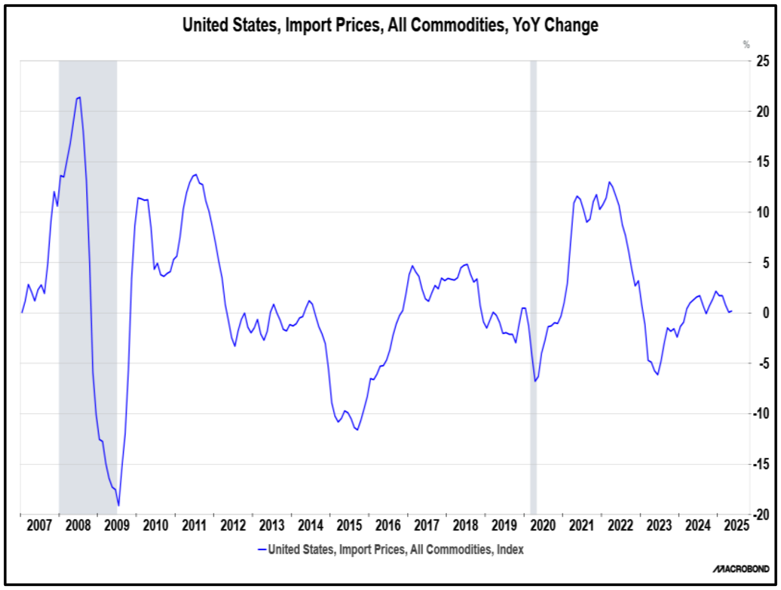
- According to CBRE, conversions and other losses will reduce available US office space by about 23.2 million square feet in 2025, while developers are only expected to build about 12.7 million square feet of new offices.
- At the same time, corporate return-to-work policies are boosting the demand for office space.
- The result will likely help support office rents and the value of office buildings going forward.

US Economic Releases

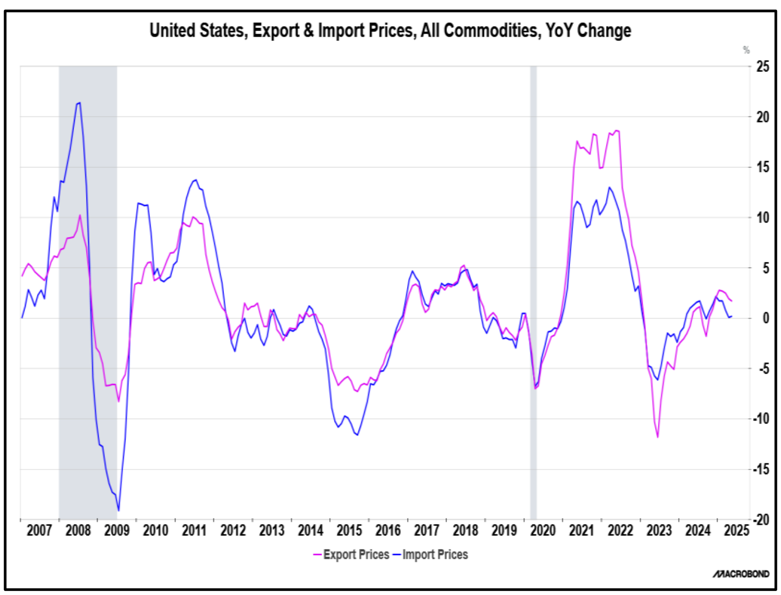
May ***retail sales*** fell by a seasonally adjusted 0.9%, a larger drop than the expected drop of 0.6% and an acceleration from the previous month's 0.1% decline. Of course, overall retail sales are often driven by the volatile auto and auto parts sector, which makes up almost one-fifth of the total. May ***retail sales excluding autos and auto parts*** fell 0.3%, versus an expected rise of 0.2% and the previous month's unchanged result. Overall retail sales in May rose 3.3% from the same month one year earlier, while sales excluding autos and auto parts rose 3.5. The chart below shows how retail sales have changed since just before the Global Financial Crisis.



May ***import prices*** were unchanged from the previous month, compared to an expected decline of 0.2% and the prior month's rise of 0.1%. Of course, import prices are often driven by volatility in the petroleum fuels category. May ***import prices excluding fuels*** rose 0.2%, exceeding the expected rise of 0.1% but falling short of the previous month's rise of 0.4%. Overall import prices in May rose 0.2% year-over-year, exceeding the expectation of no change and the previous month's rise of 0.1%. The chart below shows the year-over-year change in import prices since just before the Global Financial Crisis.



According to the report, ***export prices*** in May rose 1.7% from one year earlier, falling short of the expected rise of 2.5% and the previous month's rise of 1.9%. Comparing the annual change in export prices versus import prices provides a sense of the US "terms of trade," or the relative advantage or disadvantage the country is facing because of trends in international trade prices. The chart below shows the year-over-year change in US export and import prices since just before the Great Financial Crisis.



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

Economic Releases						
No economic releases for the rest of today						
EST	Indicator			Expected	Prior	Rating
10:00	Business Inventories	m/m	Apr	0.0%	0.1%	*
10:00	NAHB Housing Market Index	m/m	Jun	36	34	*
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								
New Zealand	Food Prices	m/m	May	0.5%	0.8%		***	Equity and bond neutral
South Korea	Export Price Index	y/y	May	-2.4%	0.4%		*	Equity and bond neutral
	Import Price Index	y/y	May	-5.0%	-2.6%		*	Equity and bond neutral
EUROPE								
Eurozone	ZEW Survey Expectations	m/m	Jun	35.3	11.6		**	Equity and bond neutral
Germany	ZEW Survey Expectations	m/m	Jun	47.5	25.2	35.0	**	Equity and bond neutral
	ZEW Survey Current Situation	m/m	Jun	-72.0	-82.0	-75.0	**	Equity and bond neutral
Russia	Gold and Forex Reserves	m/m	8-Apr	$687.3b	$678.7b		***	Equity and bond neutral
AMERICAS								
Canada	Housing Starts	m/m	May	279.5k	280.2k	247.5k	**	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)	420	421	-1	Up
U.S. Sibor/OIS spread (bps)	432	433	-1	Up
U.S. Libor/OIS spread (bps)	432	434	-2	Flat
10-yr T-note (%)	4.41	4.45	-0.04	Down
Euribor/OIS spread (bps)	200	200	0	Down
Currencies	**Direction**			
Dollar	Up			Down
Euro	Down			Up
Yen	Up			Up
Pound	Down			Up
Franc	Down			Up
Central Bank Action	**Current**	**Prior**	**Expected**	
BOJ Target Rate	0.50%	0.50%	0.50%	On Forecast

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	$74.78	$73.23	2.12%	
WTI	$73.15	$71.77	1.92%	
Natural Gas	$3.80	$3.75	1.31%	
Crack Spread	$24.41	$23.89	2.14%	
12-mo strip crack	$23.50	$23.14	1.56%	
Ethanol rack	$1.83	$1.83	-0.12%	
Metals				
Gold	$3,395.25	$3,385.23	0.30%	
Silver	$37.14	$36.31	2.28%	
Copper contract	$487.35	$489.25	-0.39%	
Grains				
Corn contract	$436.50	$435.00	0.34%	
Wheat contract	$554.75	$552.25	0.45%	
Soybeans contract	$1,059.75	$1,060.50	-0.07%	
Shipping				
Baltic Dry Freight	1,975	1,968	7	
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)		108		

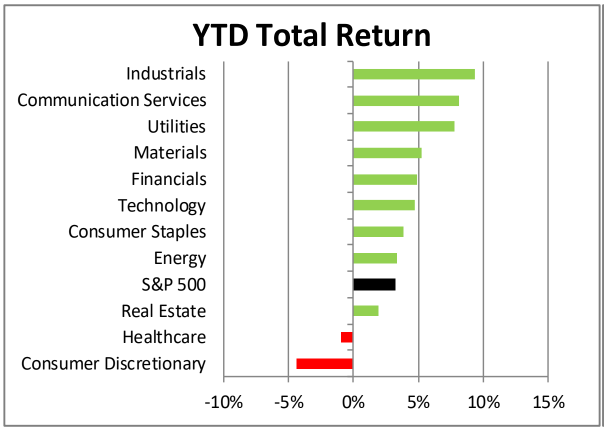
Weather

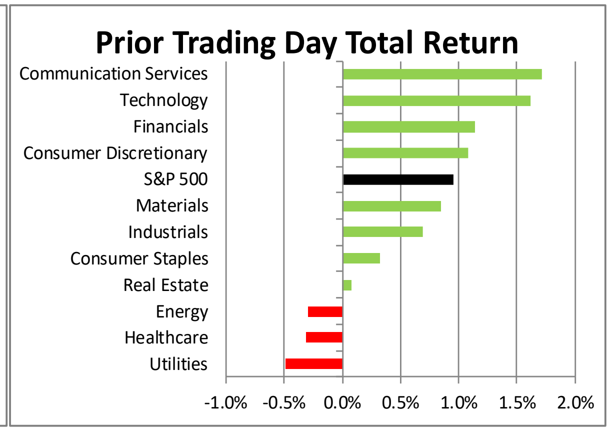
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for the eastern half of the country, with cooler-than-normal temperatures for the Southwest and the northern Great Plains. The outlook calls for wetter-than-normal conditions for most of the country, with drier-than-normal conditions on the East Coast.

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 6/16/2025 close)

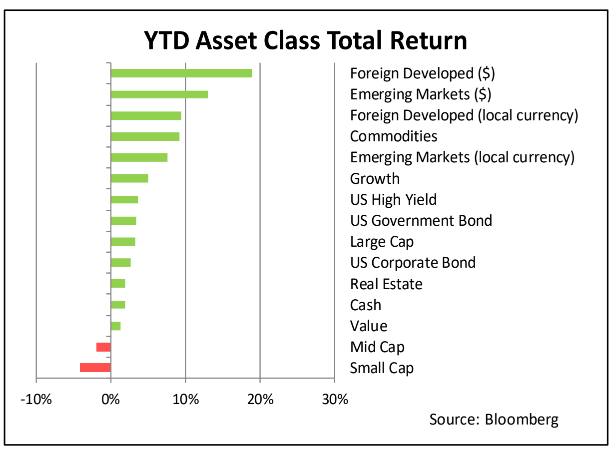




(Source: Bloomberg)

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 6/16/2025 close)

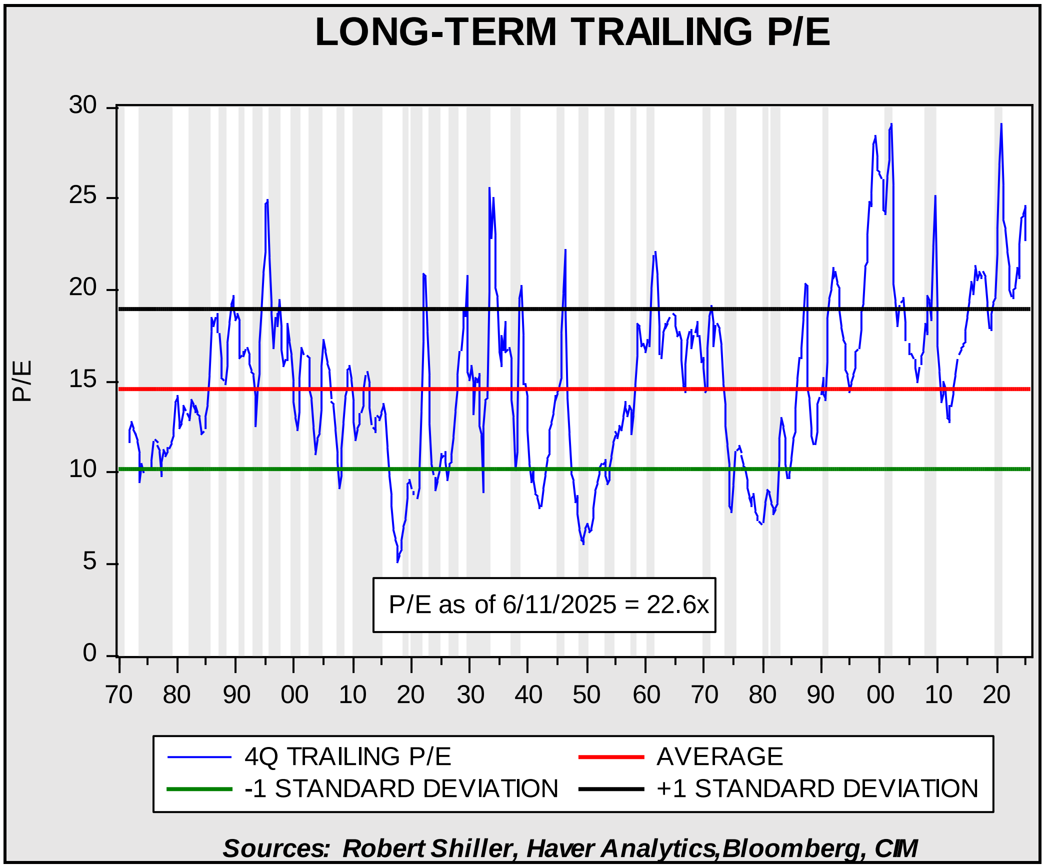


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.