Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: June 18, 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 down 0.3%. Chinese markets were essentially unchanged, with both the Shanghai Composite and the Shenzhen Composite relatively flat. 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

---

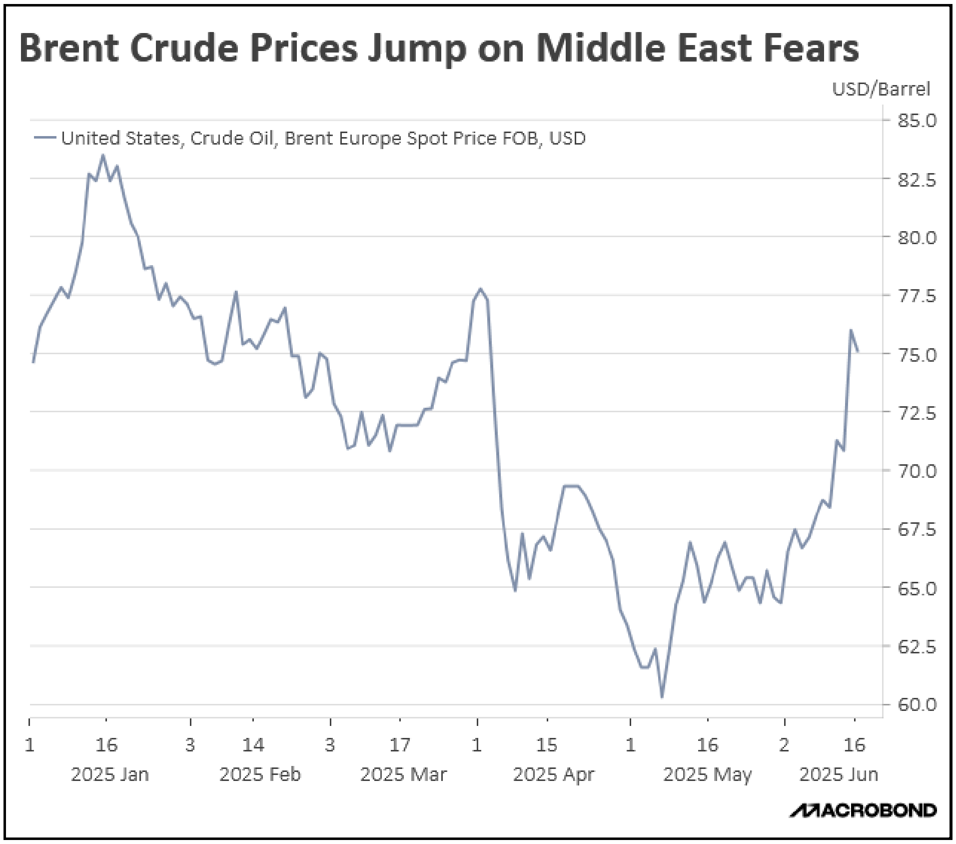
Note: There will not be a Comment tomorrow due to the holiday.

Good morning! The market is focused on the Federal Reserve's pivotal policy rate decision. In today's *Comment*, we'll provide the latest updates on the escalating Israel-Iran conflict, analyze what to expect from the Fed's rate announcement, and highlight other key market-moving developments. As always, we'll include a summary of recent domestic and international economic data releases.

Iran on the Brink? The US is considering escalating its role in the Israel-Iran conflict as part of a strategy to push Tehran back to the negotiating table.

- The White House is reportedly evaluating various policy options toward Iran, including a potential regime change. In a recent social media post, President Trump suggested US intelligence had located Ayatollah Khamenei and implied that an assassination could be considered unless Iran accepts unconditional surrender. These remarks follow failed diplomatic efforts to restart nuclear negotiations, as Iran maintains it will only return to talks after Israel stops its airstrikes.

- Despite sustained Israeli airstrikes targeting critical infrastructure near Iran's nuclear sites, the attacks have failed to achieve their primary objective of fully destroying the facilities. US military involvement could prove decisive, as American forces possess specialized bunker-busting munitions capable of penetrating the fortified mountain locations where Iran's nuclear program is believed to operate.



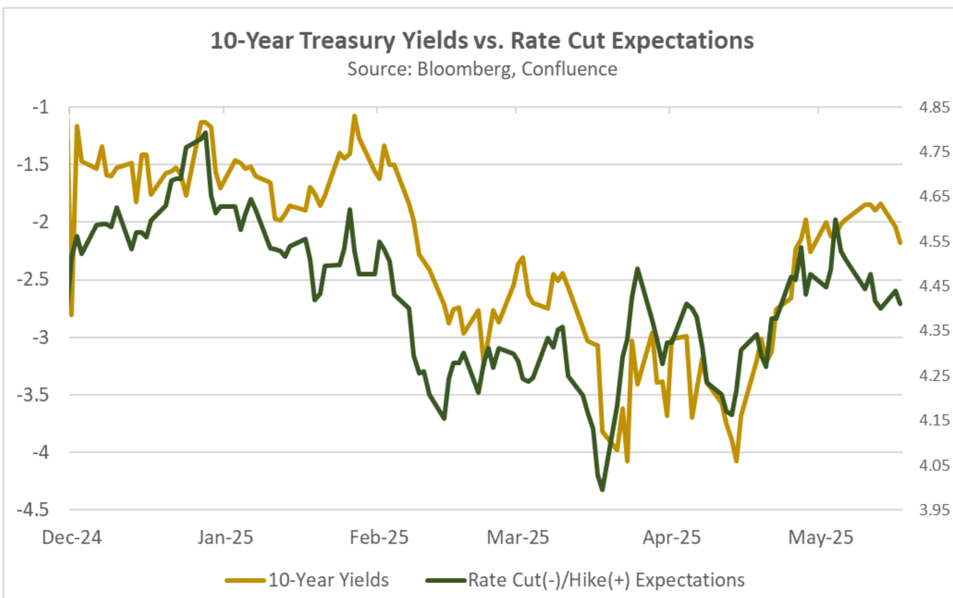
- Heightened fears of an expanding conflict have sent tremors through global markets. Brent crude surged to a six-month high Thursday, driven by anxieties over potential disruptions to oil shipments. Meanwhile, the S&P 500 dropped 0.8% as investors nervously assessed the ripple effects of increased US involvement or the implications of a potential Iranian collapse.

- Iran appears increasingly isolated as key allies offer only limited support. Russia (which has depended on Iranian-made drones for its war in Ukraine) and China have provided nothing beyond verbal backing. Even Lebanon-based Hezbollah — typically a staunch Iranian ally — has remained on the sidelines, still recovering from recent confrontations with Israel and the US.

- The conflict's ultimate resolution will likely hinge on whether the US pursues regime change in Iran. While the White House has indicated an openness to this option, it remains unclear whether such rhetoric represents genuine intent or merely strategic posturing to pressure Tehran into negotiations, particularly given simultaneous signals favoring diplomatic solutions. In the interim, we anticipate market volatility, with risk assets likely facing downward pressure until investors gain clarity on the conflict's trajectory.

Fed Meeting Preview: Fed officials are likely to perform a delicate balancing act, aiming to convince markets that they are weighing both economic growth concerns and inflation risks.

- Fed officials are expected to keep policy rates steady at the target range of 4.25%-4.50% when their two-day meeting concludes today. Several central bank members have signaled that patience remains the preferred approach, as they continue to monitor inflation risks, including those posed by tariffs. Investors will likely scrutinize the updated economic projections, searching for clues on what data the Fed needs to see before considering rate cuts this year.
- Although inflation shows signs of moderation, Fed officials remain unconvinced that the trend will sustain. Richard Clarida, former Federal Reserve Vice Chair now at PIMCO, noted inflation has improved more than expected since January but cautioned that tariff effects may be temporarily hidden by preemptive inventory accumulation. He has argued that the inflation fight may not be over as new shipments from abroad will reflect the new tariff rates.



- A rate hold by the Fed will likely provoke immediate White House criticism, as the president has repeatedly attacked the central bank for maintaining restrictive policy despite easing inflation. His recent social media posts have emphasized that rate cuts could ease the government's debt burden, which is a growing concern following the CBO's revised dynamic scoring model that is now projecting the 10-year deficit at $2.8 trillion, up $400 billion from previous estimates.
- We anticipate that the Fed will maintain current interest rates at this meeting, with market attention squarely focused on future policy signals. Should the Fed indicate an openness to rate cuts, we expect a bond market rally. Conversely, any suggestion that cuts may be

postponed could drive yields higher. The current market pricing already reflects expectations for two cuts for the year. Whether or not this remains will hinge on today's meeting.

Stablecoin Progresses: Legislation governing the digital asset has passed the Senate, moving it closer to becoming law.

- The Senate has approved landmark bipartisan legislation establishing the first federal regulatory framework for dollar-pegged cryptocurrencies. The bill, aptly named the Genius Act, passed with strong support (68-30) and now moves to the House where it may undergo revisions before potential presidential approval. This represents the most significant step yet toward mainstream crypto integration into US financial markets.
- A stablecoin is a cryptocurrency that must maintain dollar-for-dollar reserves in short-term government securities or other approved assets under state or federal oversight. These digital assets have gained traction by: (1) providing liquidity to Treasury markets, (2) facilitating merchant payments, and (3) serving as a potential dollar proxy for users seeking USD exposure without currency conversion.
- However, mass adoption introduces systemic risks. Like money market funds, stablecoins remain vulnerable to bank runs and rapid capital flight during market stress — a danger starkly revealed in 2022 when China's property crisis sparked catastrophic redemptions. One major issuer ultimately "broke the buck," falling below its $1 peg due to reserve failures before collapsing entirely.
- We are closely monitoring stablecoin adoption, particularly given the well-documented historical pattern — articulated by economist Hyman Minsky — linking financial innovation to banking crises. While current risks appear contained, the systemic implications of widespread stablecoin adoption by households, businesses, and financial institutions warrant market attention of a potential threat to financial stability.

AI Job Displacement: Mounting evidence suggests AI adoption may significantly reduce demand for white-collar occupations.

- Amazon, the nation's second-largest private employer, has announced plans to use AI technology to replace some of its corporate workforce. This reflects a broader corporate trend of leveraging artificial intelligence to drive productivity gains and operational efficiencies. Such technological integration may render certain job functions obsolete, particularly roles involving repetitive tasks that AI can automate.
- The growing adoption of AI aligns with the Trump administration's strategy to fight inflation while keeping tariffs in place — a plan that relies heavily on productivity gains. This creates strong incentives for companies to absorb tariff costs by automating more operations and reducing headcount. Walmart's recent elimination of 1,500 corporate jobs, coming just after its warnings about tariff-related price increases, shows this dynamic may already be playing out in the real world.
- Additionally, creating a larger pool of workers could motivate the Trump administration's push to bring manufacturing jobs back to the US. Conservatives have

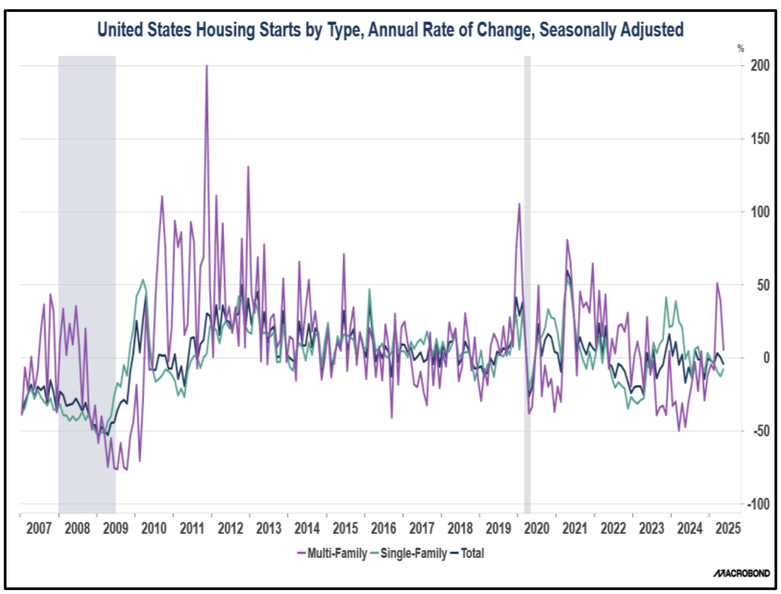
long argued that a strong manufacturing base boosts national security, and they have supported shifting focus from college-educated roles to skilled trades. As JD Vance once quipped, "We have a lot of financial engineers and a lot of diversity consultants, we don't have a lot of people making things."

- Manufacturing currently accounts for just 10% of US employment, but AI-driven productivity gains could help revitalize the sector as the nation shifts toward domestic production. This transformation may attract both recent college graduates struggling in a tight job market and displaced workers seeking new opportunities. However, the inherently cyclical nature of manufacturing work could introduce greater volatility in the labor market.

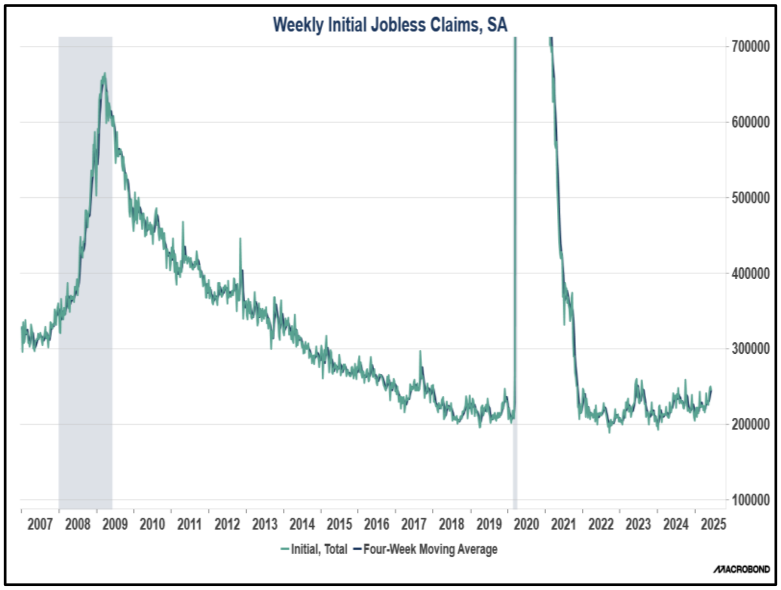
US Economic Releases

The Mortgage Bankers Association today said ***mortgage applications*** for the week ended June 13 fell 2.6%, compared to the previous week's 12.5% rise. Applications for home purchase mortgages fell 3.0%, after rising 10.3% the prior week. Applications for refinancing mortgages fell 2.1%, after rising 15.6% the prior week. This was the first decline in the overall index since May 30. Meanwhile, the average interest rate on a 30-year mortgage fell 9 basis points to 6.84%.

May ***housing starts*** fell to a seasonally adjusted, annualized rate of 1.256 million units, falling short of the expected rate of 1.35 million units and the prior month's 1.392 million units. The rate of housing starts in May fell 9.8% from the rate in the previous month. May ***residential building permits*** fell to a rate of 1.393 million units, falling short of the expected rate of 1.42 million units and the prior month's 1.422 million units. Permits issued for new housing units in May fell 2.0% from the previous month. Compared with the same month one year earlier, housing starts in May fell 4.7%, while permits fell 6.4%. The chart below shows the growth in housing starts by type of property since just before the Global Financial Crisis.



In the week ended June 14, ***initial claims for unemployment benefits*** fell to a seasonally adjusted 245,000, matching the expectation and slightly declining from the previous week's 250,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, rose to 245,500 from 240,750. Meanwhile, in the week ended June 7, the number of ***continuing claims for unemployment benefits*** (people continuing to draw benefits) fell to 1.945 million, slightly more than the expected 1.941 million but slightly less than the previous 1.951 million. The chart below shows how initial jobless claims have fluctuated since just before the Global Financial Crisis. The chart is truncated through much of the pandemic period because of the extremely high level of claims at that time.



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
14:00	FOMC Rate Decision (Upper Bound)	w/w	18-Jun	4.50%	4.50%	***
14:00	FOMC Rate Decision (Lower Bound)	w/w	18-Jun	4.25%	4.25%	***
16:00	Net Long-Term TIC Flows	m/m	Apr		$161.8b	**
16:00	Total Net TIC Flows	m/m	Apr		$254.3b	**
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	Trade Balance	y/y	May	-¥637.6b	-¥115.6b	-¥637.6b	**	Equity and bond neutral
	Exports	y/y	May	-1.70%	2.00%	-3.70%	*	Equity bullish, bond bearish
	Imports	y/y	May	-7.70%	-2.20%	-5.90%	*	Equity bearish, bond bullish
	Core Machine Orders	y/y	Apr	6.6%	8.40%	4.2%	**	Equity and bond neutral
Australia	Westpac Leading Index	m/m	May	-0.06%	-0.01%		**	Equity and bond neutral
New Zealand	Wespac Consumer Confidence	m/m	Q2	91.2	89.2		*	Equity and bond neutral
	BOP Current Account Balance NZD	q/q	Q2	-2.324b	-6.799b	-2.200b	*	Equity and bond neutral
	Non Resident Bond Holdings	m/m	May	61.9%	61.6%		*	Equity and bond neutral
EUROPE								
Eurozone	ECB Current Account SA	m/m	Apr	€19.8b	€50.9b		*	Equity and bond neutral
	CPI	y/y	May F	1.9%	2.2%	1.9%	***	Equity and bond neutral
	Core CPI	y/y	May F	2.3%	2.3%	2.3%	**	Equity and bond neutral
Italy	Current Account Balance	m/m	Apr	359m	1757m		*	Equity and bond neutral
UK	CPI	y/y	May	3.4%	3.5%	3.3%	***	Equity and bond neutral
	CPI Core	y/y	May	3.5%	3.8%	3.5%	***	Equity and bond neutral
	Retail Price Index	m/m	May	402.9	402.2	402.7	**	Equity and bond neutral
	RPI	y/y	May	4.3%	4.5%	4.2%	**	Equity and bond neutral
	RPI Ex Mort Int Payments	y/y	May	4.1%	4.2%		**	Equity and bond neutral
AMERICAS								
Canada	Int'l Securities Transactions	m/m	Apr	-9.36b	-4.21b		**	Equity and bond neutral
Mexico	International Reserves Weekly	w/w	13-Jun	$241212m	$240443m		*	Equity and bond neutral
	Aggregate Supply and Demand	y/y	1Q	-0.2%	1.9%		*	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)	421	421	0	Up
U.S. Sibor/OIS spread (bps)	432	433	-1	Up
U.S. Libor/OIS spread (bps)	432	433	-1	Down
10-yr T-note (%)	4.37	4.39	-0.02	Down
Euribor/OIS spread (bps)	202	200	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	$76.44	$76.45	-0.01%	
WTI	$74.90	$74.84	0.08%	
Natural Gas	$3.90	$3.85	1.25%	
Crack Spread	$24.37	$23.88	2.07%	
12-mo strip crack	$23.55	$23.08	2.02%	
Ethanol rack	$1.82	$1.83	-0.05%	
Metals				
Gold	$3,382.92	$3,388.11	-0.15%	
Silver	$37.14	$37.11	0.08%	
Copper contract	$489.10	$486.40	0.56%	
Grains				
Corn contract	$440.00	$438.75	0.28%	
Wheat contract	$568.50	$565.50	0.53%	
Soybeans contract	$1,067.00	$1,067.75	-0.07%	
Shipping				
Baltic Dry Freight	1,952	1,975	-23	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		-2.50		
Gasoline (mb)		1.12		
Distillates (mb)		1.00		
Refinery run rates (%)		-0.5%		
Natural gas (bcf)		97		

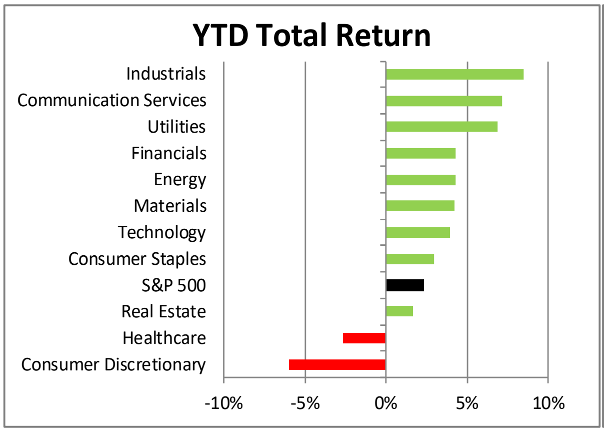
Weather

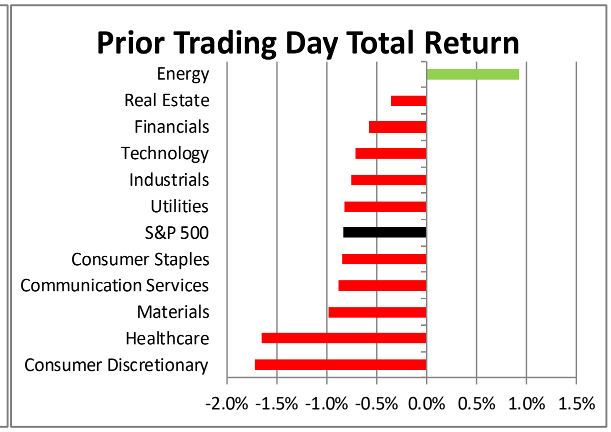
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for the eastern half of the country, with cooler-than-normal temperatures for the Southwest. The outlook calls for wetter-than-normal conditions for most of the country, with drier-than-normal conditions on the 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 6/17/2025 close)

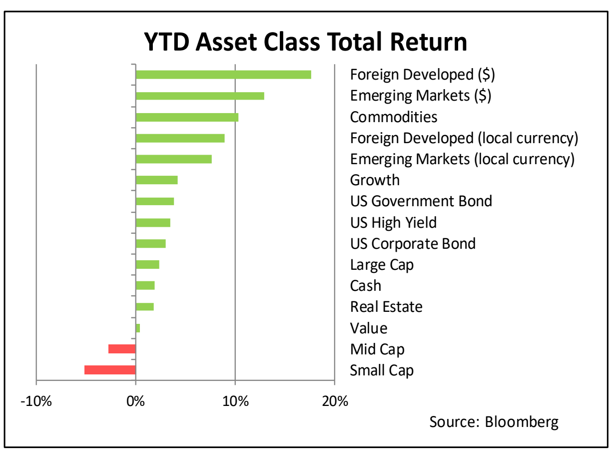




(Source: Bloomberg)

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 6/17/2025 close)

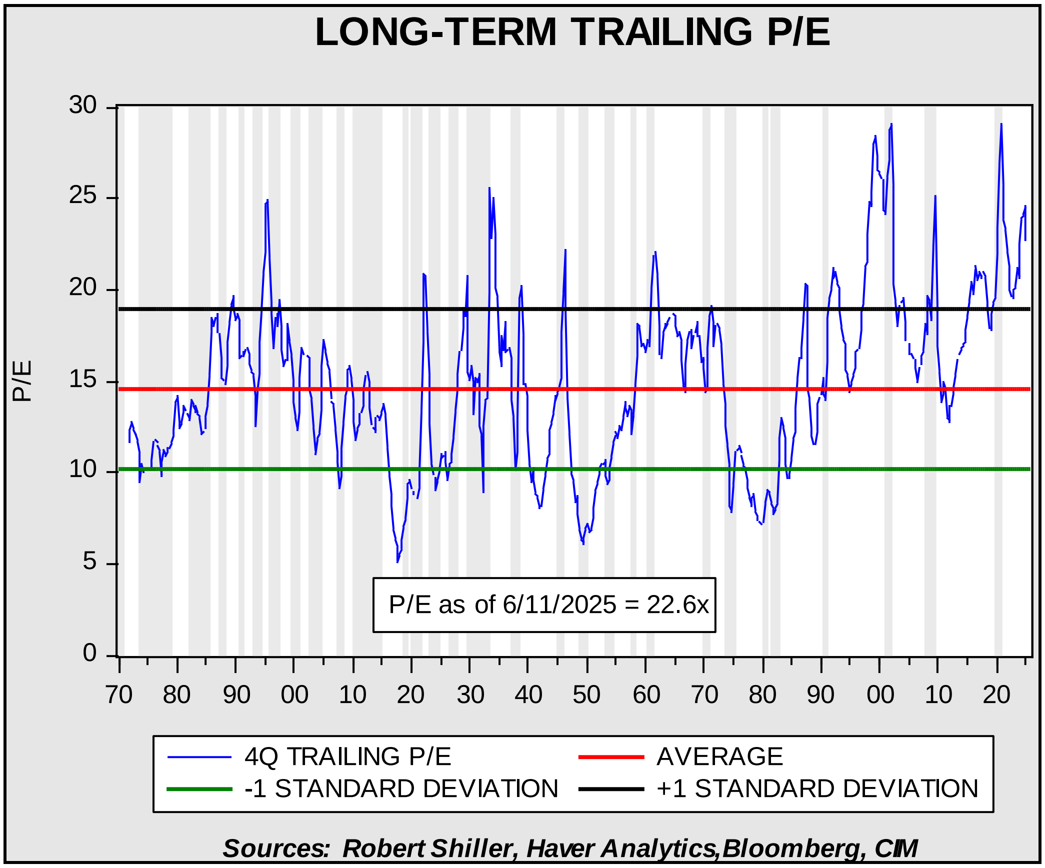


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.

---

[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.