Daily Comment

Confluence INVESTMENT MANAGEMENT

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Posted: June 20, 2025 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 1.1% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 1.6%. Chinese markets were lower, with the Shanghai Composite down 0.1% from its previous close and the Shenzhen Composite down 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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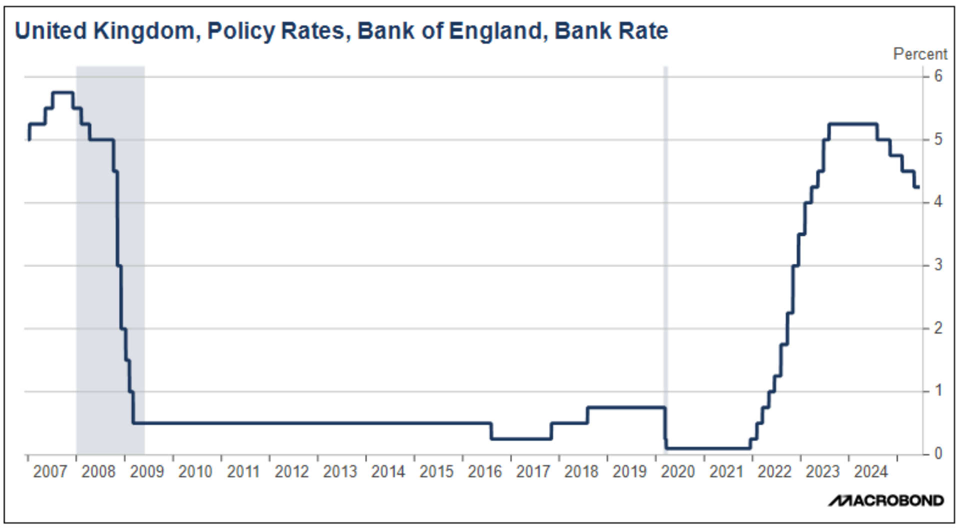
Our *Comment* today opens with the latest on the Israel-Iran conflict. President Trump is reportedly prepared to have the US join in Israel's attack against Iran, but he still wants to give diplomacy more time before making the final decision. We next review other international and US developments with the potential to affect the financial markets today, including a slew of monetary policy decisions around the world and worsening projections about the health of the US's social security system.

United States-Iran-Israel: Reports late Wednesday, before yesterday's Juneteenth holiday, said President Trump had approved final US attack plans on Iran, but hadn't yet given the final green light. Other reports say the US attack would likely come as early as this weekend, involving US stealth bombers dropping massive "bunker buster" bombs on Iran's underground nuclear facilities to help put a final end to the country's drive for a nuclear weapon. Meanwhile, both Israel and Iran continue to stage air and missile attacks against each other.

- One senior official close to Trump indicated that he is leaning heavily toward launching the operation because of what he sees as a rare window of opportunity to end the Iranian nuclear threat and cement his legacy, even though the attack would likely undermine the support of isolationists in his political base.

- Of course, the signals from the White House could merely aim to scare the Iranians into a deal to voluntarily end their nuclear program. Trump has reportedly blessed a plan by the German, French, and UK foreign ministers to meet with their Iranian counterpart on Friday, and if that meeting is productive, the president could forego the military attack.
- In any case, even if the attack proceeds, it's not certain that it will totally end Iran's nuclear program. Eradicating the program could well require regime change and/or Israeli special forces operations at Iran's deep-underground Fordow facility and elsewhere.

United Kingdom: The Bank of England yesterday held its benchmark interest rate unchanged at 4.25%, as expected. Importantly, BOE Governor Andrew Bailey confirmed that rates are likely to remain on a downward slope, but he cautioned that the pace of decline may be slowed by sticky inflation, including as a result of higher energy prices following Israel's attack on Iran.



Other Foreign Monetary Policy: Besides the Bank of England, several other major central banks had their policy meetings over the last 48 hours. Taken together, the policy decisions largely reflected concern or complacency about the domestic economic impact of the US's aggressive tariff policies, as follows:

- The Swiss National Bank cut its benchmark rate by 25 basis points to 0.00% to counter the surging currency, slowing economic growth, and a return to deflation.
- In Sweden, the Riksbank cut its benchmark rate by 25 basis points to 2.00% as consumer price inflation weakens and economic growth recovers more slowly than anticipated.
- In Turkey, the central bank held its benchmark rate at 46% amid concerns about economic instability and rising price pressures. After starting to cut rates late last year, the central bank hiked its policy rate in April amid political upheaval.
- In Taiwan, the central bank held its benchmark rate at 2.00%, marking the fifth consecutive policy meeting with no change. According to Taiwan's monetary policymakers, the uncertainty surrounding geopolitics and US tariff policy argues for steady policy, as opposed to preemptive rate cuts.

- In the Philippines, the central bank cut its benchmark rate by 25 basis points to 5.25%, marking its second cut of 2025 and bringing its total cut to 1.25% since last August.

European Union-China: The European Commission today confirmed that it will bar Chinese medical devices from EU government procurement tenders. The move was widely expected after a formal probe by the Commission found China to be unfairly blocking EU medical devices from its government procurement programs. Although the EU has flirted with the idea of improving ties with China to make up for the Trump administration's tough trade policies, the new ban on medical devices will likely exacerbate EU-China tensions and please US officials.

Germany: Steel giant ArcelorMittal has announced that it will turn down 1.3 billion EUR ($1.5 billion) in public subsidies to convert its furnaces in Bremen and Eisenhüttenstadt to use hydrogen rather than coal. The company also warned it may close its flagship ethanol plant in Belgium because of overly restrictive regulations. The announcement is the latest sign that firms around the world are pulling back from green programs, even as some governments are also rolling back their support.

Thailand: Prime Minister Paetongtarn Shinawatra is on the verge of losing her parliamentary majority and facing new elections after a leaked recording of her recent call with former Cambodian leader Hun Sen showed her disparaging the Thai military. The scandal has sparked anger among Thailand's military-royalist establishment, and one conservative party has already withdrawn from Shinawatra's governing coalition. Analysts give her only a slim chance of staying in power.

Canada: Prime Minister Carney yesterday said that his government has imposed 100% tariffs on all non-US steel and aluminum imports and would adjust its tariffs on US imports of the metals on July 21, depending on the state of US-Canada tariff negotiations at the time. The move illustrates how the Trump administration's tariff policies have set off a wave of protectionist measures around the globe, which could well lead to disrupted supply chains, higher costs, and reduced profitability for companies around the world over time.

US Monetary Policy: As widely expected, the Fed on Wednesday held its benchmark fed funds interest rate unchanged at a range of 4.00% to 4.25%. Moreover, Chair Powell suggested that policymakers are still in wait-and-see mode as they look for evidence of a possible rekindling of consumer price inflation due to the Trump administration's increase in import tariffs or an economic slowdown. That stance would seem to preclude a cut in rates at the next policy meeting in July.

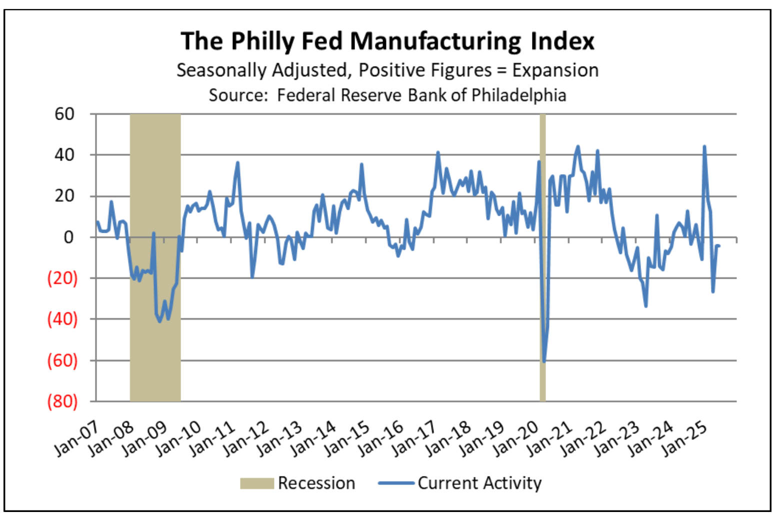
- All the same, the accompanying "dot plot" of the policymakers' economic projections was instructive. Compared with the policymakers' last projections in March, the new projections show they expect weaker economic growth through 2026, higher unemployment, and faster price increases.
- Against this environment of "staglation," the policymakers expect the fed funds rate to decline more slowly than they did in March. That's consistent with our long-held view that investors are too optimistic about future rate cuts.

US Social Security Program: In their annual report on Wednesday, the Social Security trustees [projected that the program will run out of resources to pay promised benefits by 2034, one year earlier than projected last year]. The worsening situation reflects multiple issues, including more baby boomers retiring, falling birth rates, and a recent law extending Social Security retirement benefits to certain public-sector workers.

- If the Social Security trust fund is depleted and payroll taxes don't increase, the report finds that benefits would have to be cut about 19% in 2034.
- It is widely believed that Congress would step in to top up the trust fund, increase payroll taxes, or otherwise make good on promised benefit. However, such action is not guaranteed.

US Economic Releases

The Philadelphia FRB said its June ***Philly Fed Index*** held steady at a seasonally adjusted -4.0, matching the May reading and thwarting expectations that it would improve to -1.5. The index, officially designated as the Philadelphia FRB Manufacturing Activity Index, is designed so that positive readings point to expanding factory activity in the mid-Atlantic region. At its current level, the index suggests mid-Atlantic manufacturing continues to contract moderately. The chart below shows how the index has fluctuated 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						
EST	Indicator			Expected	Prior	Rating
10:00	Leading Economic Index	m/m	May	-0.1%	-1.0%	***
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	Japan Buying Foreign Bonds	w/w	13-Jun	-¥1571.3b	-¥453.6b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	13-Jun	-¥84.5b	-¥1489.0b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	13-Jun	¥434.5b	¥220.4b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	13-Jun	¥473.4b	¥179.8b		*	Equity and bond neutral
	National CPI	y/y	May	3.5%	3.6%	3.5%	***	Equity and bond neutral
	National CPI Ex-Fresh Food	y/y	May	3.7%	3.5%	3.6%	**	Equity and bond neutral
	National CPI Ex-Fresh Food & Energy	y/y	May	3.3%	3.0%	3.2%	*	Equity and bond neutral
Australia	Employment Change	m/m	May	-2.5k	87.6k	21.2k	***	Equity bearish, bond bullish
	Unemployment Rate	m/m	May	4.1%	4.1%	4.1%	***	Equity and bond neutral
	Participation Rate	m/m	May	67.0%	67.1%	67.1%	**	Equity and bond neutral
New Zealand	GDP	y/y	Q1	-0.7%	-1.3%	-0.8%	***	Equity and bond neutral
South Korea	PPI	y/y	May	0.3%	0.8%		**	Equity and bond neutral
EUROPE								
Eurozone	Construction Output	y/y	Apr	3.0%	-1.3%		*	Equity and bond neutral
Germany	PPI	y/y	May	-1.2%	-0.9%	-1.2%	**	Equity and bond neutral
France	Business Confidence	m/m	Jun	96	96	96	**	Equity and bond neutral
	Manufacturing Confidence	m/m	Jun	96	97	98	*	Equity and bond neutral
Italy	Current Account Balance	m/m	Apr	359m	1757m		*	Equity and bond neutral
UK	Public Finances (PSNCR)	m/m	May	20.9b	9.3b		*	Equity and bond neutral
	Public Sector Net Borrowing	m/m	May	17.7b	20.1b	18.0b	*	Equity and bond neutral
	PSNB ex Banking Groups	m/m	May	17.7b	20.1b		**	Equity and bond neutral
	GfK Consumer Confidence	m/m	May	-18	-20	-20	***	Equity bearish, bond bullish
	Retail Sales	y/y	May	-1.3%	5.0%	1.7%	***	Equity bearish, bond bullish
	Retail Sales Ex-Auto Fuel	y/y	May	-1.3%	5.2%	1.8%	**	Equity bearish, bond bullish
Switzerland	Real Exports	m/m	Feb	-10.2%	-3.7%		*	Equity and bond neutral
	Real Imports	m/m	Feb	0.5%	-10.4%		*	Equity and bond neutral
Russia	GDP	y/y	1Q P	1.4%	1.4%	1.4%	**	Equity and bond neutral
	Gold and Forex Reserves	m/m	13-Jun	$682.8b	$6867.3b		***	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)	422	423	-1	Up
U.S. Sibor/OIS spread (bps)	433	433	0	Up
U.S. Libor/OIS spread (bps)	433	433	0	Up
10-yr T-note (%)	4.42	4.39	0.03	Up
Euribor/OIS spread (bps)	204	201	3	Down
Currencies	**Direction**			
Dollar	Up			Down
Euro	Down			Up
Yen	Up			Up
Pound	Down			Up
Franc	Down			Up
Central Bank Action	**Current**	**Prior**	**Expected**	
FOMC Rate Decision (Upper Bound)	4.50%	4.50%	4.50%	On Forecast
FOMC Rate Decision (Lower Bound)	4.25%	4.25%	4.25%	On Forecast
Bank of England Bank Rate	4.25%	4.25%	4.25%	On Forecast
Swiss National Bank Policy Rate	0.00%	0.25%	0.00%	On Forecast
PBOC 1-Year Loan Prime Rate	3.00%	3.00%	3.00%	On Forecast
PBOC 5-Year Loan Prime Rate	3.50%	3.50%	3.50%	On Forecast
Brazil Selic Rate	15.00%	14.75%	14.75%	Above 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	$76.93	$78.85	-2.44%	
WTI	$76.02	$75.14	1.17%	
Natural Gas	$4.13	$3.99	3.46%	
Crack Spread	$25.97	$25.65	1.22%	
12-mo strip crack	$24.51	$24.94	-1.76%	
Ethanol rack	$1.81	$1.81	0.00%	
Metals				
Gold	$3,353.27	$3,370.90	-0.52%	
Silver	$36.05	$36.38	-0.91%	
Copper contract	$488.25	$490.60	-0.48%	
Grains				
Corn contract	$445.75	$444.00	0.39%	
Wheat contract	$586.50	$590.50	-0.68%	
Soybeans contract	$1,072.25	$1,068.25	0.37%	
Shipping				
Baltic Dry Freight	1,751	1,874	-123	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	-11.47	-2.50	-8.97	
Gasoline (mb)	0.21	1.12	-0.91	
Distillates (mb)	0.51	1.00	-0.49	
Refinery run rates (%)	-1.1%	-0.5%	-0.6%	
Natural gas (bcf)	95	97	-2	

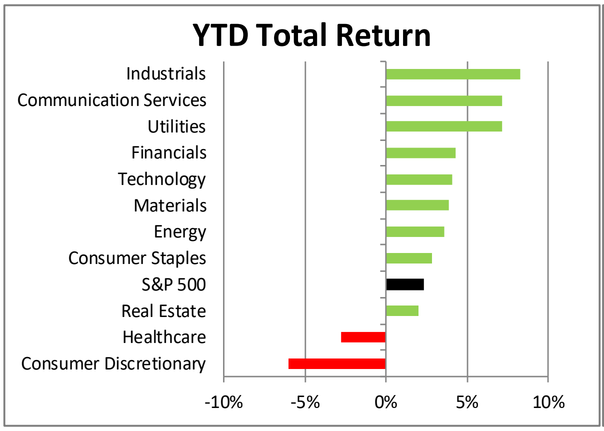
Weather

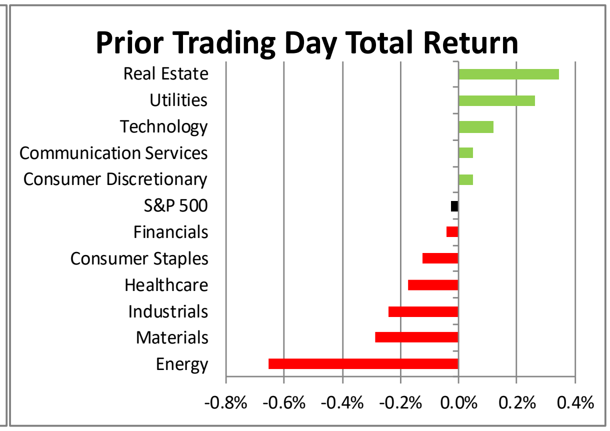
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in the Pacific Northwest and from the Great Plains to the East Coast, with cooler-than-normal temperatures in Arizona and New Mexico. The outlook calls for wetter-than-normal conditions everywhere except California, Nevada, and the coastal regions of the Carolinas, where conditions will be near normal.

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 6/18/2025 close)

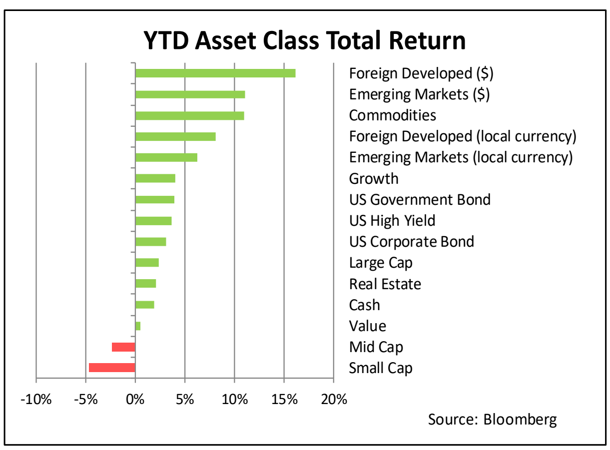




(Source: Bloomberg)

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 6/18/2025 close)

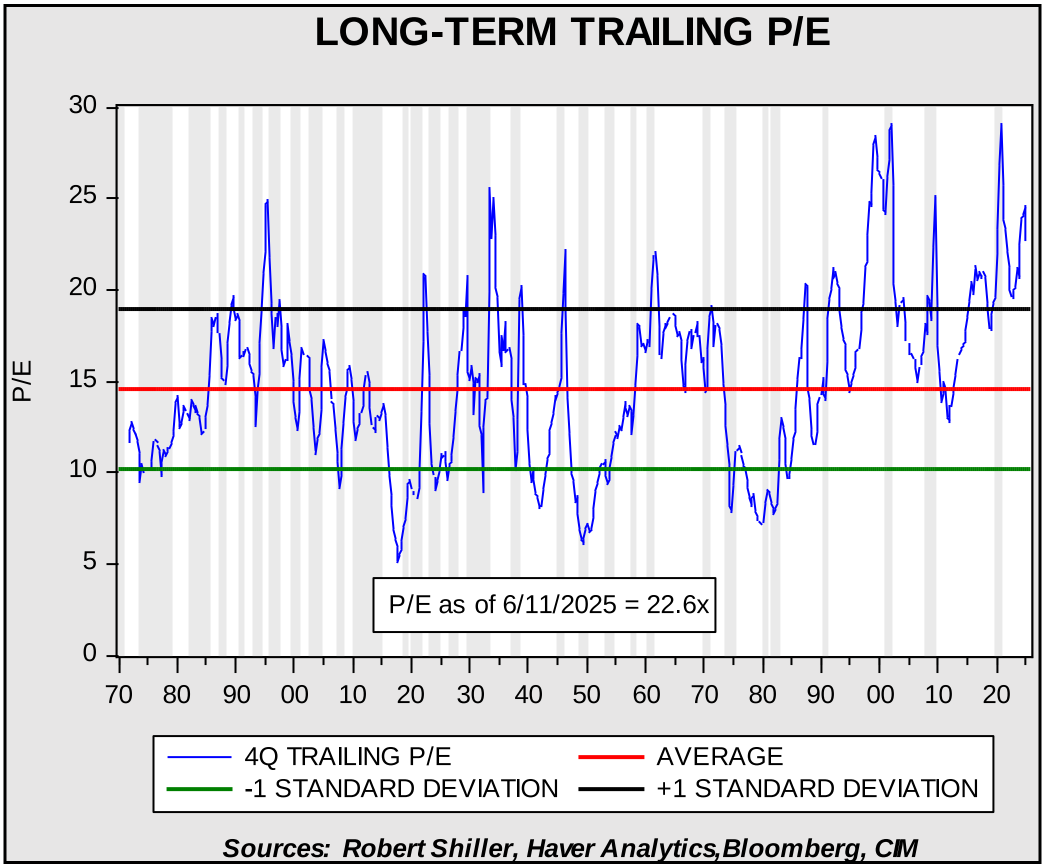


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.