Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: June 24, 2025 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 1.3% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 2.7%. Chinese markets were higher, with the Shanghai Composite up 1.2% from its previous close and the Shenzhen Composite up 1.8%. 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
"Introducing Friedrich Merz" **(6/23/25)** + **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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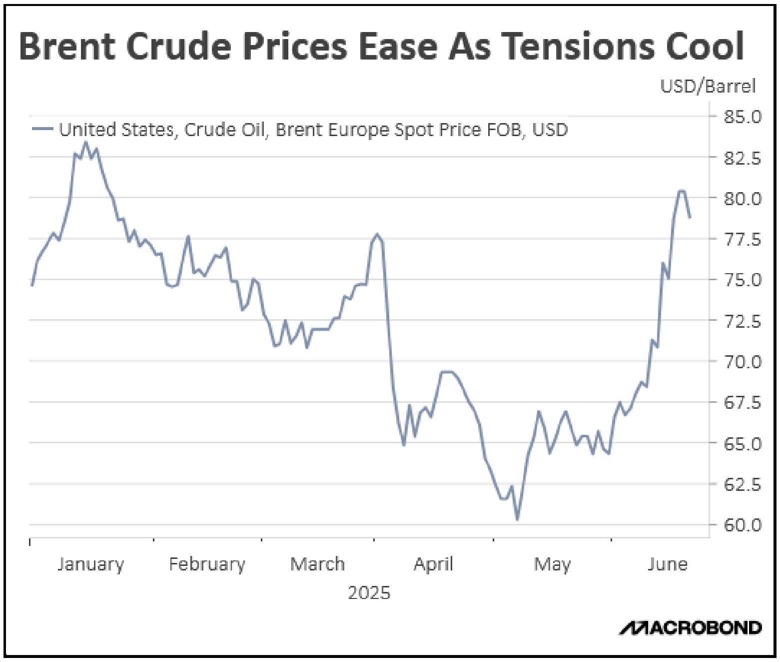
Good morning! The markets are carefully assessing the implications of the latest truce between Iran and Israel. In today's *Comment*, we'll analyze the ongoing Middle East conflict and its potential market impact, examine why a Fed rate cut at next month's FOMC meeting is now a realistic possibility, and highlight other key developments shaping the financial landscape. As always, we'll conclude with a concise overview of today's most important domestic and international economic data releases.

Respond and Relax: Iran's retaliation to the US attack on its nuclear facility has paved the way for de-escalation.

- Iran launched an attack on a US military base in Qatar, home to the US Central Command's headquarters. The initial strikes sparked market concerns over a widening conflict. However, reports indicated that most of the missile attacks were intercepted, resulting in relatively limited damage and no reported casualties, which helped ease fears. Additionally, it was later revealed that Iran had provided advance warning of the strike, suggesting the move may have been more for show than a genuine escalation.
- Following the attack, Iran moved to de-escalate tensions by announcing it planned no further strikes and agreed to a tentative ceasefire with Israel and the US. This sentiment

echoed Washington's stance after its own strikes on Iranian nuclear facilities, when the US similarly declared it sought no additional attacks and had no intention of pursuing regime change.

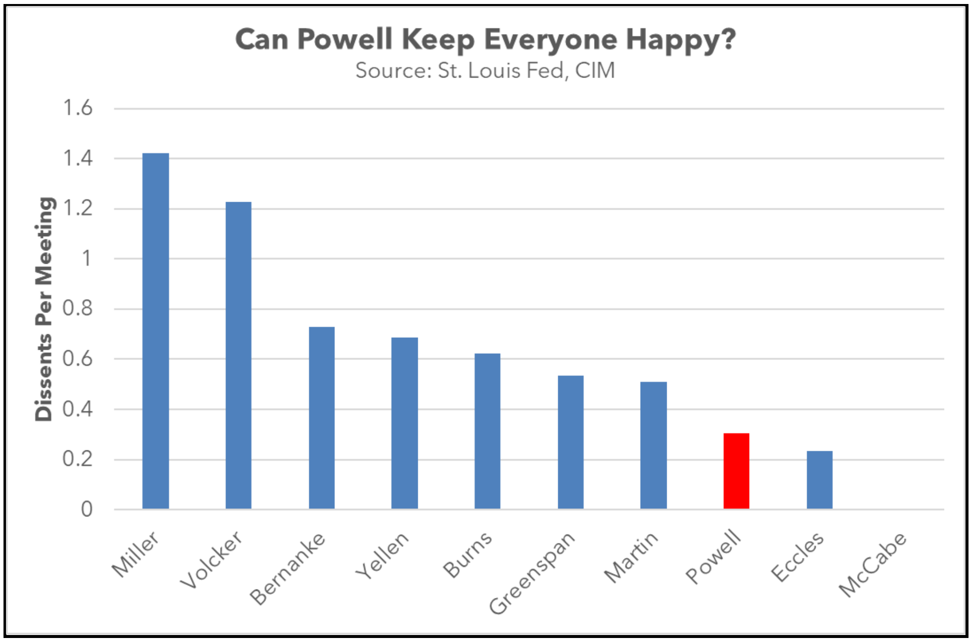


- Assuming the dust will settle soon, the two sides appear poised to resume nuclear talks. However, it remains unclear who holds the upper hand, as the full impact of US strikes on Iran's nuclear program is still uncertain. For instance, there are no traces of the 400kg of enriched uranium, suggesting Iran may have relocated it to a secure facility before the attack. Moreover, initial assessments indicate that while targeted sites sustained severe damage, they may not have been fully destroyed.
- So far, the ceasefire remains in place but is fragile. Israel has accused Iran of violating the truce — a claim Tehran denies. Meanwhile, Iran's refusal to allow IAEA inspections of its nuclear facilities is likely to heighten international concerns. That said, the attacks appear to have significantly degraded Iran's nuclear enrichment capabilities, reducing the immediate threat level. Barring a renewed escalation, we expect minimal disruption to financial markets in the short term.

July Rate Cut: Nearly a week after the Federal Reserve concluded its two-day meeting, there are signs that Fed officials may now be favoring a rate cut.

- On Monday, Fed Vice Chair for Supervision Michelle Bowman said she would support easing monetary policy if inflation demonstrates sustained progress toward the 2% target and labor market conditions deteriorate meaningfully. Her comments align with recent remarks from Fed Governor Christopher Waller, who emphasized that future rate decisions should be based on incoming data rather than speculation. Waller also noted the likely temporary nature of tariff-related inflationary pressures.

- Their comments on future monetary policy follow the latest Summary of Economic Projections (SEP), which revealed growing divergence among policymakers regarding the path of policy rates. While the median federal funds target rate for year-end remained unchanged from the March meeting at 3.9%, projections for the next two years showed one fewer rate cut anticipated for both years. This suggests that despite dovish rhetoric from some Fed officials, the FOMC's overall stance has turned slightly more hawkish.



- That said, despite diverse views among FOMC members, the committee has maintained remarkable unity in actual policy rate decisions. Fed Chair Jerome Powell has presided over one of the lowest dissent rates in modern Fed history compared to his predecessors. We believe this reflects Powell's leadership approach — allowing members to voice differing opinions publicly while maintaining consensus in formal policy votes.
- Moreover, this consensus may come under increasing pressure as the president continues to urge the central bank to lower interest rates, both to mitigate the economic impact of tariffs and reduce government debt servicing costs. We expect these pressures could prompt the Fed to deliver roughly 50 basis points of rate cuts this year if economic conditions remain stable. However, a material deterioration in labor market conditions might necessitate more aggressive easing.

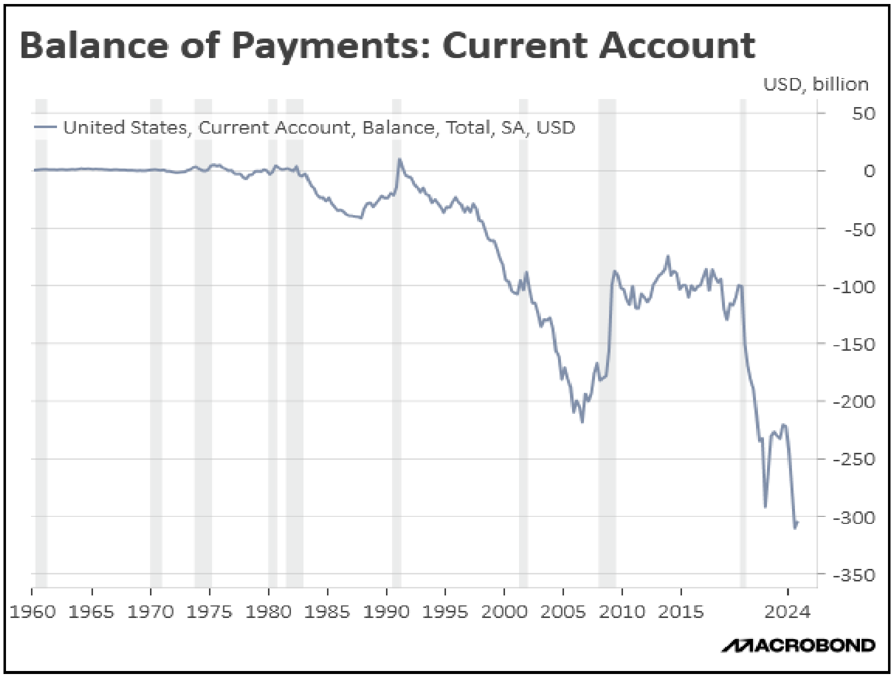
NATO Defense Spending: At its two-day summit, the Western military alliance is set to address key issues, including Iran and defense spending.

- The central topic of the summit will be Europe's plan to raise defense spending to 5% of GDP by 2035. While most member states broadly agree on this target, Spain has emerged as a key dissenter. Prime Minister Pedro Sánchez has called the goal disproportionate, arguing that Spain can fulfill all its NATO commitments, in terms of personnel and equipment, by spending just 2.1% of GDP. Its decision to hold out has called into question whether or not all countries will be able to meet spending obligations.

- That said, the larger European countries appear to be on track to ramp up spending and meet the ambitious target. The UK has pledged to increase defense spending to 5% of GDP, allocating 3.5% to core defense and an additional 1.5% to other defense-related expenditures. France's President Emmanuel Macron has long advocated for the bloc to boost its military spending. Meanwhile, Germany has accelerated its military buildup, with plans to increase defense spending by two-thirds by 2029.
- Beyond defense spending, divisions are emerging among European allies over US involvement in the Iran and Ukraine conflicts. While Germany and NATO's leadership have backed President Trump's decision to strike Iranian nuclear facilities, France and others have denounced the move as a violation of international law. Separately, discussions are expected on bolstering Ukraine's defense against Russia, with the bloc pushing for Kyiv's potential NATO membership, a prospect Trump continues to resist.
- While tensions over defense spending and foreign policy priorities will dominate the summit, financial markets remain acutely attuned to any signs of alliance fragmentation. A deepening rift between European members and the US has become increasingly apparent, driven by Washington's desire to shift away from providing Europe with security towards countering China in the Indo-Pacific. This shift has sparked concerns about a premature reduction of US forces in Europe before continental allies are ready.
- Although no immediate withdrawal announcement is expected, even subtle indications of such a move could exacerbate geopolitical anxieties. Market reactions would likely manifest through a rotation out of European sovereign bonds and into defense-sector equities, as investors anticipate accelerated military spending. Such a shift would pressure government balance sheets through increased borrowing while boosting revenues for aerospace and defense contractors.

US Economic Releases

The ***US current account deficit*** widened to $450.2 billion in Q1 2025, exceeding both market expectations of $443.3 billion and the revised Q3 2024 shortfall of $312.0 billion. Since the early 1980s — when globalization began accelerating — the current account has remained almost persistently in deficit, driven largely by the US trade imbalance. The recent expansion in the deficit likely stems from a surge in imports during the first quarter, as businesses rushed to stockpile goods ahead of anticipated tariff increases.



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	Richmond Fed Manufact. Index	m/m	Jun	-10	-9	**
10:00	Conf. Board Consumer Confidence	m/m	Jun	99.8	98.0	***
Federal Reserve						
EST	Speaker or Event	District or Position				
9:15	Beth Hammack Speaks on Monetary Policy	President of the Federal Reserve Bank of Cleveland				
10:00	Jerome Powell to Delivers Semiannual Policy Testimony	Chairman of the Board of Governors				
12:30	John Williams Gives Keynote Remarks	President of the Federal Reserve Bank of New York				
13:45	Neel Kashkari Participates in Town Hall Event	President of the Federal Reserve Bank of Minneapolis				
14:00	Susan Collins Speaks on State of Nation's Housing	President of the Federal Reserve Bank of Boston				
16:00	Michael Barr Gives Wecoming Remarks	Members of the Board of Governors				
20:15	Jeffrey Schmid Speaks on the Economic Outlook	President of the Federal Reserve Bank of Kansas City				

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	Nationwide Dept Sales	y/y	May	-7.00%	-4.50%		***	Equity and bond neutral
South Korea	Consumer Confidence	m/m	Jun	108.7	101.8		*	Equity and bond neutral
EUROPE								
Germany	IFO Business Climate	m/m	Jun	88.4	87.5	88.0	***	Equity and bond neutral
	IFO Current Assessment	m/m	Jun	86.2	86.1	86.5	**	Equity and bond neutral
	IFO Expectations	m/m	Jun	90.7	89.0	89.9	**	Equity and bond neutral
AMERICAS								
Brazil	FGV Consumer Confidence	y/y	Jun	85.9	86.7		*	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)	416	414	2	Up
U.S. Sibor/OIS spread (bps)	430	431	-1	Flat
U.S. Libor/OIS spread (bps)	430	431	-1	Down
10-yr T-note (%)	4.34	4.35	-0.01	Down
Euribor/OIS spread (bps)	203	203	0	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	$68.97	$71.48	-3.51%	
WTI	$66.12	$68.51	-3.49%	
Natural Gas	$3.64	$3.70	-1.57%	
Crack Spread	$25.25	$26.23	-3.76%	
12-mo strip crack	$22.80	$23.44	-2.75%	
Ethanol rack	$1.80	$1.80	-0.28%	
Metals				
Gold	$3,322.57	$3,368.48	-1.36%	
Silver	$36.11	$36.10	0.03%	
Copper contract	$497.70	$490.25	1.52%	
Grains				
Corn contract	$433.00	$433.75	-0.17%	
Wheat contract	$560.75	$569.50	-1.54%	
Soybeans contract	$1,042.25	$1,046.75	-0.43%	
Shipping				
Baltic Dry Freight	1,674	1,689	-15	
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		

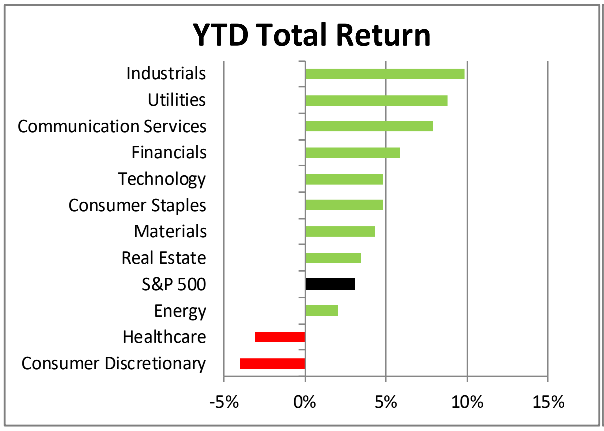
Weather

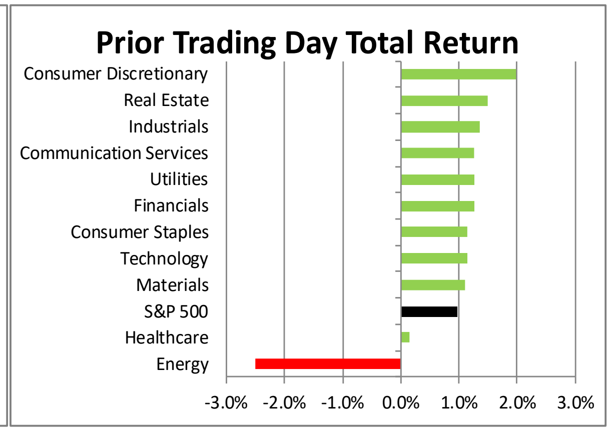
The latest 6-to-10-day and 8-to-14-day forecasts indicate warmer-than-normal temperatures across most of the US, though this warmth will gradually retreat to the Northern Rockies and Southeast later in the period. Southern New Mexico, however, is expected to remain cooler-than-normal throughout both forecast windows. Meanwhile, the precipitation outlook suggests wetter-than-normal conditions for much of the country.

A tropical disturbance has formed in the central Atlantic Ocean, but it is not expected to make landfall in any country.

Data Section

US Equity Markets – (as of 6/23/2025 close)

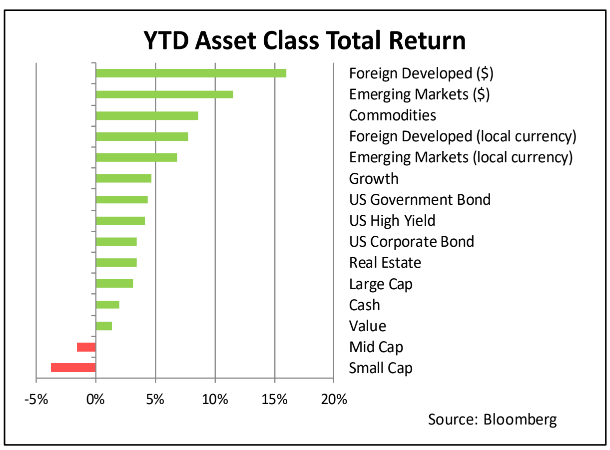




(Source: Bloomberg)

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 6/23/2025 close)

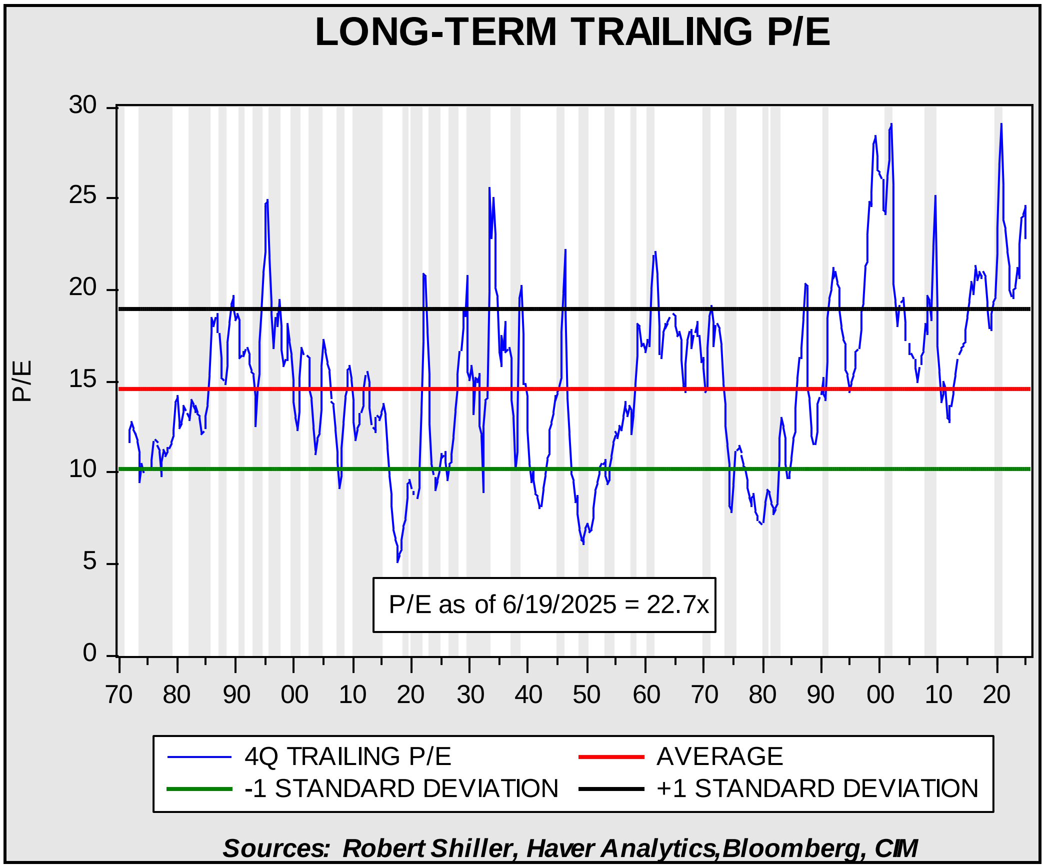


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 23, 2025



Based on our methodology,[1] the current P/E is 22.7x, up 0.1 from our last report. The increase in the multiple was due to a rise in the stock price index outweighing the rise in the earnings.

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.