



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: June 25, 2025 — 9:30 AM ET Global equity markets are mostly higher this morning. In Europe, the Euro Stoxx 50 is down 0.4% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 1.4%. Chinese markets were higher, with the Shanghai Composite up 1.0% from its previous close and the Shenzhen Composite up 1.4%. 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.

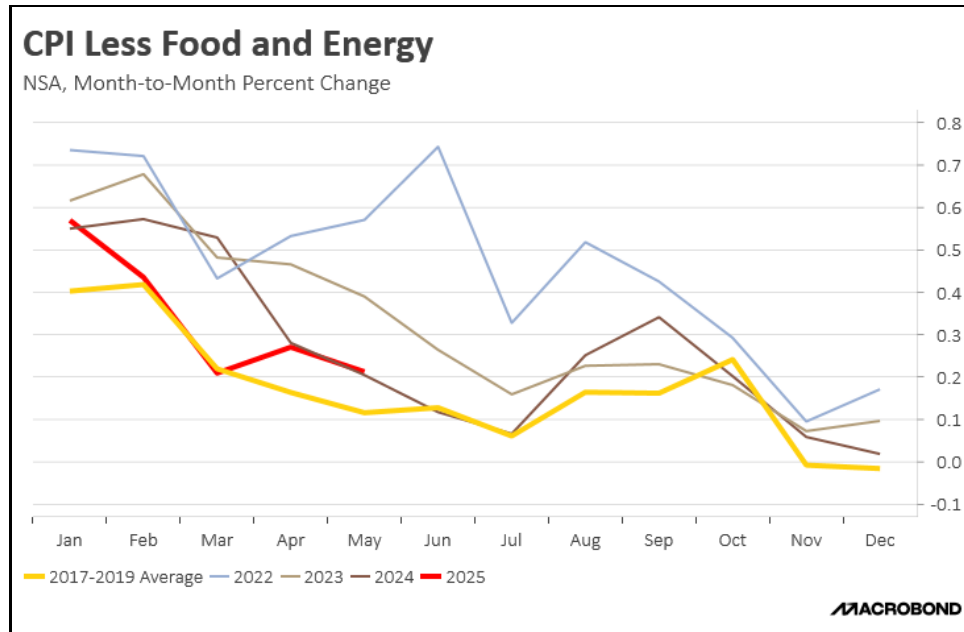
Bi-Weekly Geopolitical Report	Asset Allocation Bi-Weekly	Asset Allocation Quarterly	Of Note
“Introducing Friedrich Merz” (6/23/25) + podcast	“The Economy That Won’t Die” (6/16/25) + podcast	Q2 2025 Report Q2 2025 Rebalance Presentation	NEW: The Confluence Mailbag Podcast The Renewed Case for Active and Value

Good morning! Markets are breathing a sigh of relief as tensions in the Middle East show signs of easing, helping stabilize risk sentiment. In today’s *Comment*, we’ll break down the key takeaways from Fed Chair Jerome Powell’s first day of congressional testimony, analyze the latest drop in consumer confidence, and cover other market-moving headlines you need to know. As always, we’ll wrap up with a snapshot of today’s most important domestic and international data releases.

Powell Speaks: Fed Chair Powell addressed markets regarding the timeline for interest rate cuts but stopped short of offering any clear signals on when the first reduction might occur.

- During his congressional testimony, [Fed Chair Powell pushed back against calls for an immediate rate cut](#) but left the door open to potential easing in September. He stressed that the central bank would first need to evaluate June and July inflation data before considering any policy adjustments later this year. His remarks follow recent criticism from the president, who has accused the Fed of lagging behind other major central banks in lowering interest rates.
- The decision to cut rates appears to have deepened divisions within the FOMC, as Fed officials grapple with how to interpret inflation data amid recent tariff impacts. As

highlighted in Tuesday's report, Fed Governor Waller has advocated a data-dependent approach, arguing the central bank should act on incoming figures rather than wait for full confirmation. Meanwhile, [Kansas City Fed President Jeffrey Schmid has endorsed Chair Powell's more cautious "wait-and-see" stance.](#)

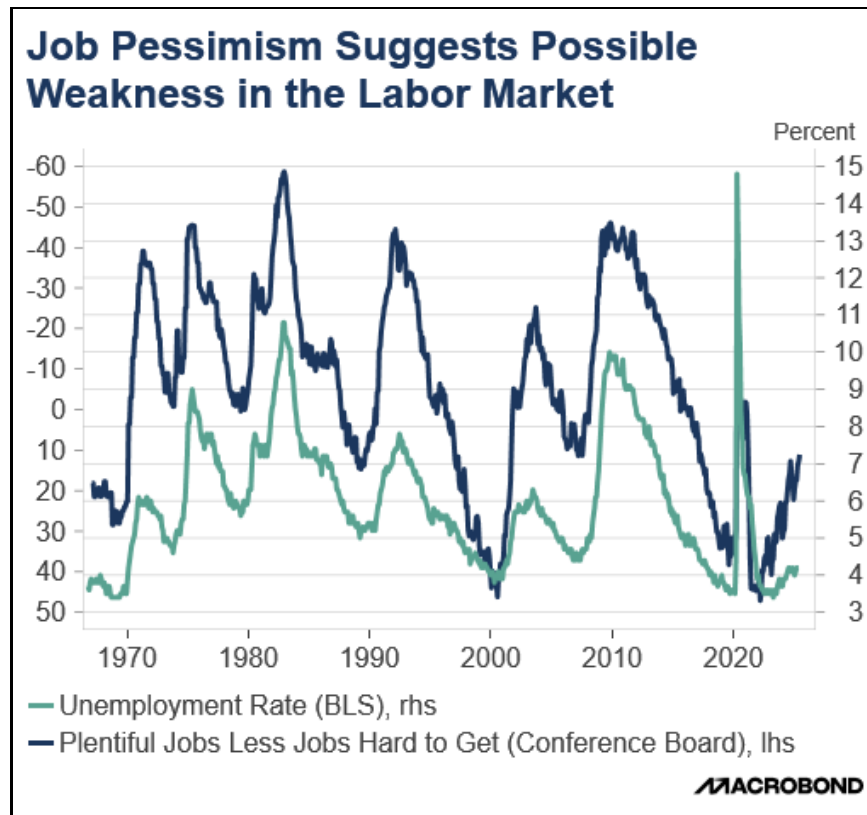


- Despite the Fed's ongoing debate over whether to cut rates now or later, its hesitancy to act without confirmation has been a consistent pattern. In 2024, even though the Fed ultimately cut rates by 100 basis points, it initially resisted calls for earlier reductions. This cautious approach stems partly from inflation's seasonal patterns, as historically, price growth slows most during summer months. If incoming data aligns with this trend, the Fed will likely conclude inflation is converging toward its target.
- The key factor we're monitoring closely is data quality. Over the past three months, the proportion of inflation components derived from estimates rather than actual measurements has surged from 10% to 30%. This increase suggests we may see significant revisions later this year. While we maintain confidence in the overall accuracy of these figures, the growing reliance on estimates could prompt the Fed to exercise additional caution before implementing its first rate cut of the year.

Confidence Slips: While inflation expectations have eased, households are now worried that tariffs could hurt their job prospects.

- [Consumer confidence unexpectedly declined in June](#) amid growing household concerns about the potential impact of tariffs on employment. The Conference Board's index dropped to 93.0 from 98.4 in May, significantly missing economists' consensus forecast of 100. The deterioration was primarily driven by the present situation component, which fell to its lowest level this year, while the expectations index declined further below the 80-point threshold typically indicative of impending recession.

- A closer examination reveals a nuanced shift in consumer sentiment. Respondents reported easing inflation concerns and growing confidence in equity markets. Yet this optimism is tempered by emerging labor market anxieties, with fewer consumers perceiving abundant job availability compared to early 2024. The survey also detected early warning signs of deteriorating household perceptions regarding business conditions.



- The divergence between labor market expectations and equity market performance reflects how financial markets have discounted uncertainty while households remain cautious. This suggests that despite the stock market rebound, consumers are maintaining vigilance against potential economic volatility.
- There's often a disconnect between consumer sentiment and actual spending behavior. While declining confidence surveys might suggest economic pessimism, most hard indicators still point to continued expansion. That said, the weakening outlook does signal potential caution among households, who may begin restraining discretionary spending in coming months. This divergence warrants attention but doesn't yet justify significant concern.

Damaged, Not Destroyed: New information has surfaced concerning the US bombing of an Iranian facility, indicating remaining persistent risks that were perhaps not entirely diffused.

- A recently [leaked intelligence report suggests that the impact from the US strike on Iran's nuclear program was limited](#), estimating a setback of only a few months. This assessment directly contradicts the president's assertion that the Iranian nuclear facility was

"obliterated" and fuels concerns about the conflict escalating. Defense Secretary Pete Hegseth [acknowledged the report's existence but stated that the intelligence community had "low confidence"](#) in its accuracy.

- Despite these tensions, diplomatic progress appears underway as Iran and Washington have agreed to resume negotiations regarding Tehran's nuclear program. The White House's Middle East envoy [Steve Witkoff confirmed preliminary discussions are promising](#), with both sides working toward a comprehensive peace agreement. In a conciliatory gesture, the [US has eased sanctions on Chinese vessels involved in Iranian oil purchases](#), signaling a potential openness to economic concessions.
- The primary challenge facing both parties will be determining a path forward. Israeli intelligence operatives who surveyed the Fordow enrichment facility reported mixed operational results, [with one source characterizing the outcome as "really not good."](#) The assessment noted troubling signs that Iran may have relocated enriched uranium prior to the strike, while the operational status of many centrifuges remains uncertain.
- While the president has recently warned that the US would conduct additional strikes if Iran resumes its nuclear enrichment program, we view this as an unlikely near-term outcome given ongoing negotiations. However, should another strike occur, markets would likely focus less on the military action itself and more on whether Washington intends to pursue regime change — a scenario that currently appears off the table, suggesting limited market volatility for now.

Populist Takeover: The New York mayoral race provided more evidence of a shift in sentiment concerning the established norms.

- In a surprising upset, [33-year-old democratic socialist Zohran Mamdani defeated former New York Governor Andrew Cuomo](#) for the Democratic nomination. A relative unknown, Mamdani built a winning coalition across Queens, Brooklyn, and Manhattan, even making inroads in the Bronx, where Cuomo had believed his support was strongest. Mamdani's victory signals a potential shift within the Democratic Party as it seeks to rebrand itself as more progressive and grassroots oriented.
- This election underscores a broader erosion of traditional politicians' ability to maintain power through conventional means. Voters are increasingly rejecting the Washington Consensus that has shaped policy for the past three decades, demanding more disruptive leadership instead. President Trump's populist ascent exemplifies this shift, reflecting a growing appetite for leaders willing to challenge established norms and institutions.
- Broadly speaking, shifts in sentiment can be viewed through the lens of the equality-efficiency trade-off, a concept famously articulated by economist Arthur Okun. He argued that an inherent tension exists between maintaining robust productivity and ensuring that no segments of society are left behind. While policies promoting greater equality may lead to inefficiencies due to disincentives for production or misallocation of capital, a sole focus on efficiency can exacerbate wealth and income inequality.
- We have experienced a prolonged era of policymaking that prioritized productivity over social welfare, fueling aggregate wealth but exacerbating income inequality in the

process. The dynamics of the New York mayoral race appear to reflect a broader shift away from this efficiency-driven paradigm, which could introduce greater uncertainty into markets. In such an environment — where monetary policy and inflation are likely to remain volatile — we believe active investing will outperform passive in the long term.

US Economic Releases

The Mortgage Bankers Association today said *mortgage applications* for the week ended June 20 rose 1.1%, after falling 2.6% the previous week. Applications for home purchase mortgages fell 0.4%, extending the previous week's decline of 3.0%. Applications for refinancing mortgages rose 3.0%, after falling 2.1% the previous week. The average interest rate on a 30-year mortgage rose 4 basis points to 6.88%.

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	New Home Sales	m/m	May	693k	743k	***
10:00	New Home Sales MoM	m/m	May	-6.7%	10.9%	**
	Building Permits	m/m	May F	1393k	1393k	**
Federal Reserve						
EST	Speaker or Event	District or Position				
9:30	Jerome Powell Testifies Before Senate Committee	Chairman of the Board of Governors				

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	PPI Services	y/y	May	3.3%	3.4%	3.1%	*	Equity and bond neutral
	Leading Economic Index	m/m	Apr F	104.2	103.4		**	Equity and bond neutral
	Coincident Index	y/y	Apr F	116.0	115.5		**	Equity and bond neutral
	Machine tool orders	y/y	May F	3.4%	3.4%		**	Equity and bond neutral
Australia	CPI	y/y	May	2.1%	2.4%	2.3%	**	Equity and bond neutral
New Zealand	Exports NZD	m/m	May	7.68b	7.70b		**	Equity and bond neutral
	Imports NZD	m/m	May	6.44b	6.41b		**	Equity and bond neutral
	Trade Balance NZD	m/m	May	1235m	1285m		**	Equity and bond neutral
South Korea	Retail Sales	y/y	May	7.0%	7.0%		**	Equity and bond neutral
	Depart. Store Sales	y/y	May	2.3%	-2.9%		*	Equity and bond neutral
	Discount Store Sales	y/y	May	0.2%	-3.1%		*	Equity and bond neutral
EUROPE								
Eurozone	EU27 New Car Registrations	y/y	May	1.6%	1.3%		*	Equity and bond neutral
France	Consumer Confidence	m/m	Jun	88	88	89	***	Equity and bond neutral
AMERICAS								
Canada	CPI	y/y	Apr	1.7%	1.7%	1.7%	***	Equity and bond neutral
Mexico	International Reserves Weekly	w/w	20-Jun	\$241300m	\$241212m		*	Equity and bond neutral
Brazil	Current Account Balance	m/m	May	-2930m	-\$1865m	-\$3200m	**	Equity and bond neutral
	Foreign Direct Investment	m/m	May	\$3662m	\$5491m	\$4632m	**	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)	419	417	2	Up
U.S. Sibor/OIS spread (bps)	430	431	-1	Down
U.S. Libor/OIS spread (bps)	430	431	-1	Down
10-yr T-note (%)	4.30	4.30	0.00	Down
Euribor/OIS spread (bps)	200	203	-3	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	\$67.72	\$67.14	0.86%	
WTI	\$64.96	\$64.37	0.92%	
Natural Gas	\$3.52	\$3.54	-0.57%	
Crack Spread	\$25.07	\$25.27	-0.80%	
12-mo strip crack	\$22.85	\$22.86	-0.01%	
Ethanol rack	\$1.80	\$1.79	0.07%	
Metals				
Gold	\$3,324.31	\$3,323.67	0.02%	
Silver	\$35.74	\$35.92	-0.49%	
Copper contract	\$494.45	\$492.45	0.41%	
Grains				
Corn contract	\$425.50	\$429.00	-0.82%	
Wheat contract	\$549.25	\$552.00	-0.50%	
Soybeans contract	\$1,031.50	\$1,037.00	-0.53%	
Shipping				
Baltic Dry Freight	1,681	1,674	7	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-1.10		
Gasoline (mb)		0.50		
Distillates (mb)		1.00		
Refinery run rates (%)		0.7%		
Natural gas (bcf)		88		

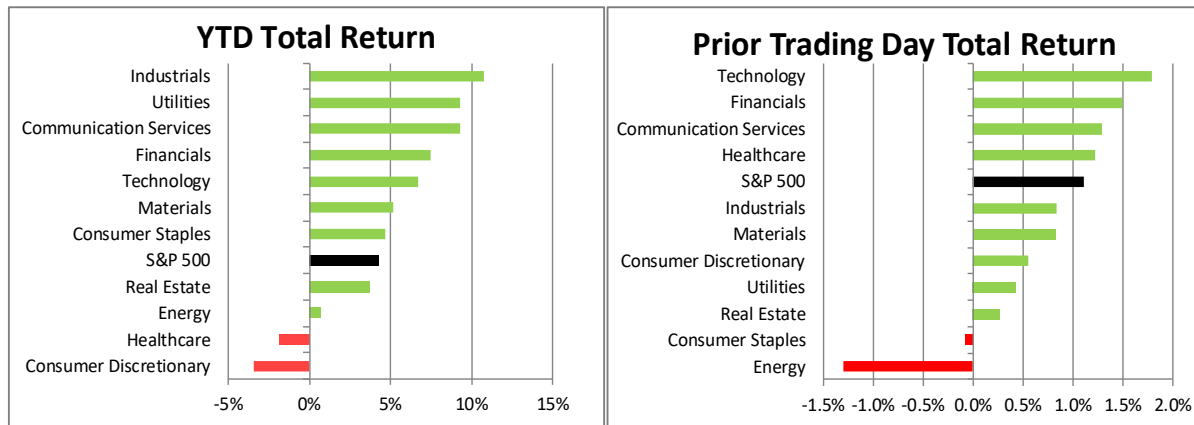
Weather

The latest 6-to-10-day and 8-to-14-day forecasts indicate warmer-than-normal conditions in the northwestern quadrant of the country and the Southeast, with cooler-than-normal conditions in New Mexico and West Texas. The forecasts indicate wetter-than-normal conditions for most of the country.

The 7-day tropical weather outlook indicates no expected cyclonic activity.

Data Section

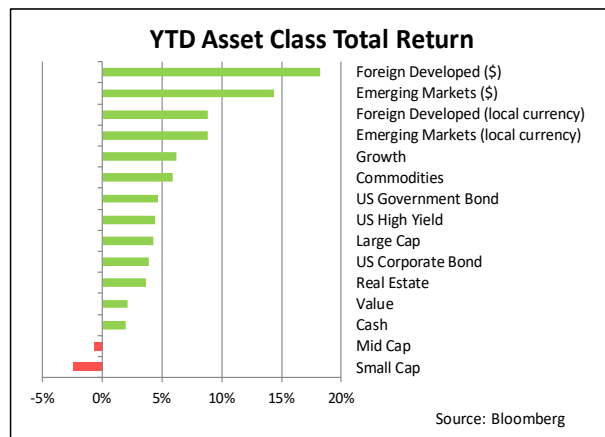
US Equity Markets – (as of 6/24/2025 close)



(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 6/24/2025 close)

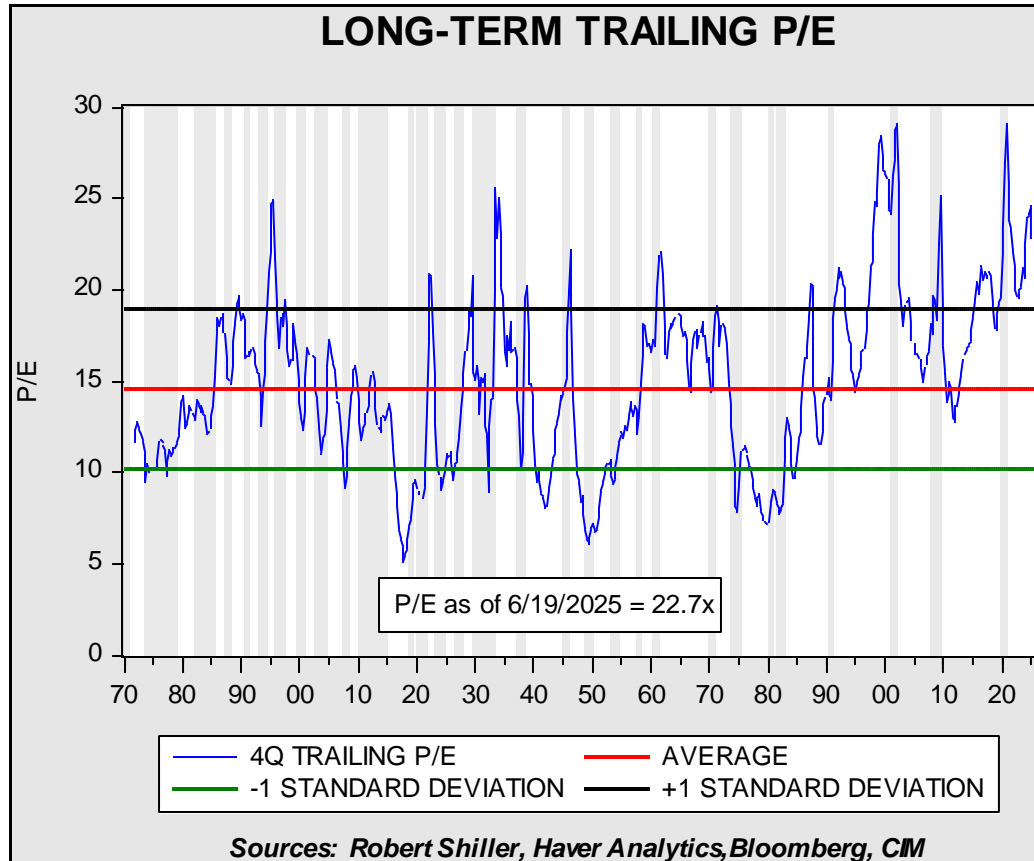


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.

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.