Daily Comment

Confluence INVESTMENT MANAGEMENT

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: June 26, 2025 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 0.1% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.3%. Chinese markets were lower, with the Shanghai Composite down 0.2% from its previous close and the Shenzhen Composite down 0.3%. 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

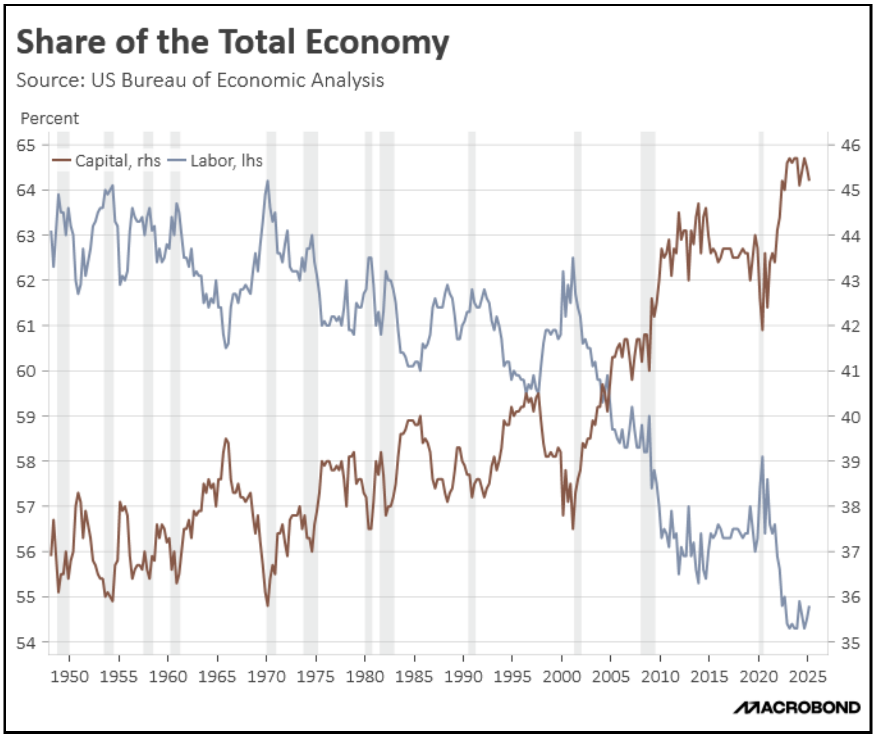
---

Good morning! Markets are intently focused on the latest Fed developments. Today's *Comment* examines the growing conservative support for wealth taxes, the potential White House pressure on Chair Powell, and the new challenge facing the leader of the European Commission. As always, we'll wrap up with a snapshot of today's most important domestic and international data releases.

Taxing the Rich: Some conservative legislators now support raising taxes on top earners as part of efforts to protect low-income households from bearing disproportionate fiscal pressures.

- Senator Susan Collins (R-ME) has proposed raising taxes on individuals earning over $100 million annually. Her plan would allow the Trump-era tax cuts to expire for the wealthiest Americans and redirect the revenue to fund tax relief for middle- and lower-income households. If enacted, the top marginal rate would revert from 37% to 39.6%, matching the rate under the Obama administration.
- Collins' tax proposal emerges as Republicans seek to prevent drastic cuts to essential social programs like Medicaid and Medicare. Previous attempts to reduce funding for these programs raised alarms about potential service disruptions for vulnerable populations. The debate over required funding levels has intensified, with Collins

advocating for $100 billion in allocated funds while Florida Republican Senator Rick Scott has proposed a $6 billion alternative.



- [According to Social Security Administration data](), fewer than 293 taxpayers reported annual incomes above $50 million in 2023. Using this group as the sample, the proposed 2.6 percentage-point increase in their tax rate would theoretically generate an estimated $750 billion in additional revenue over 10 years. While exact figures aren't available for those earning over $100 million specifically, it demonstrates how even a modest tax increase targeting ultra-high earners can yield substantial government revenue.
- As conservative lawmakers deliberate the path forward for the president's $4.2 trillion tax cut proposal, political pressures, including the impending debt ceiling deadline, may ultimately compel passage. While the final legislation may incorporate some revenue-raising measures to reduce long-term costs and support bond markets, the package's overall tax reductions could provide an economic boost, partially offsetting the dampening effects of current tariffs.

Shadow Fed Talks: The president is considering naming a successor for the Fed chair before Powell's term expires in May of next year.

- The president is evaluating three to four potential nominees to lead the Federal Reserve. While no official announcement timeline has been established, speculation suggests a decision may coincide with the September-October window, the same period Chair Powell has indicated could warrant potential rate cuts. This consideration comes amid ongoing tension between the administration and the Fed, which has maintained its rate policy despite pressure for cuts from the White House.

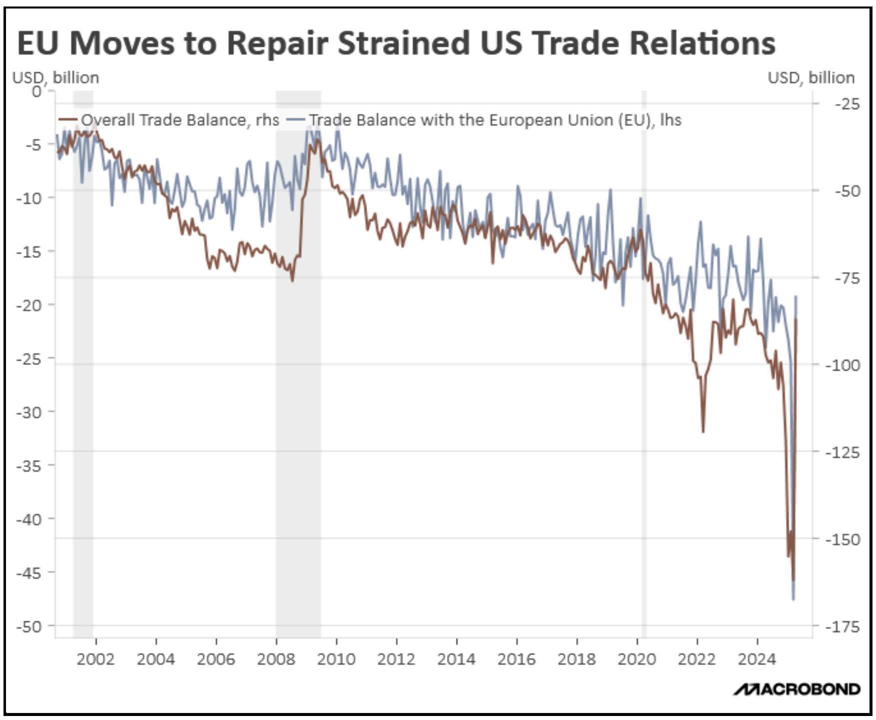
- The president's shortlist for Federal Reserve chair features both administration officials and current Fed leadership. Among the leading candidates are Treasury Secretary Scott Bessent, White House Economic Advisor and former Fed Governor Kevin Warsh, National Economic Council Director Kevin Hassett, and sitting Fed Governor Christopher Waller.

- The Fed leadership race appears increasingly likely to narrow to Warsh and Waller. Warsh, a previous Fed chair finalist, has notably softened his once hawkish stance from his first board tenure, a shift that is likely to raise suspicions about his ability to resist political pressure when setting policy. In contrast, Waller's research correlating job openings with labor demand provides a data-driven case for rate cuts, though his votes this year to maintain current rates could lead Trump to go in another direction.
- That said, the uncertainty with leadership is likely to fuel bond market volatility and weaken the dollar. While Fed policy and long-term interest rates are closely linked, prolonged ambiguity could exacerbate rate swings and even intensify inflationary pressures. Moreover, diminished central bank credibility may reduce the appeal of US assets to foreign investors. One potential hedge against this risk is diversification into international markets, as a weaker dollar could enhance returns for domestic investors.

EU Head in Trouble: A recent ruling may present challenges for European leaders as they work to maintain unity amid growing pressures facing the bloc.

- European Commission President Ursula von der Leyen faces a no-confidence vote following allegations connected to pandemic-era vaccine procurement. Far-right lawmakers have reportedly gathered sufficient signatures to advance a motion — widely referred to as "Pfizergate" — seeking the removal of current leadership. While the motion is expected to fail, it highlights the deepening divisions within the EU.

- The controversy centers on transparency regarding vaccine negotiations. While von der Leyen successfully secured contracts for the bloc, questions persist about missing text messages between her and Pfizer CEO Albert Bourla during critical negotiation periods. The apparent deletion of the messages became a focal point after a European court ruled in May that the Commission must either locate the communications or provide a credible explanation for their absence.
- While the no-confidence vote is unlikely to succeed, its political ramifications could still trigger a parliamentary shake-up. The 1999 precedent of Jacques Santer's Commission, which resigned en masse amid fraud and transparency allegations despite surviving a no-confidence vote, looms large. That said, four subsequent motions failed, underscoring the high threshold for actual removal.

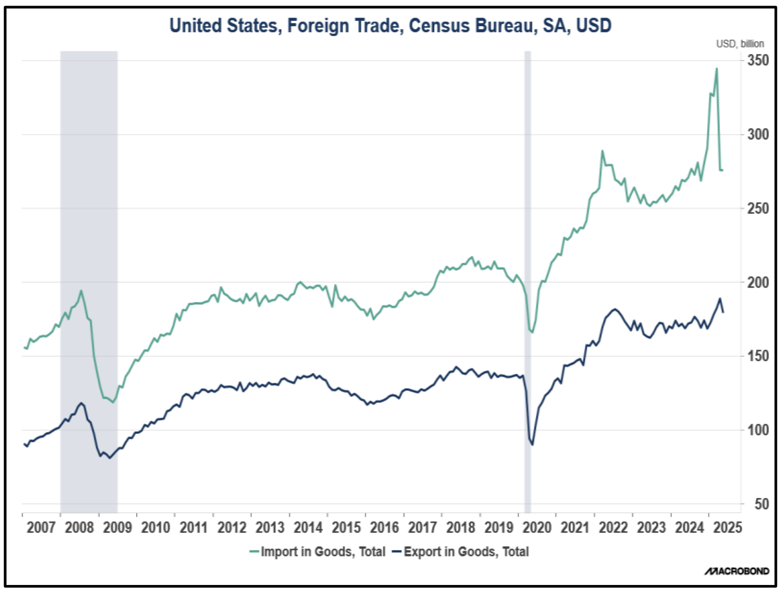


- The broader concern is how the scandal might impact the EU's trade negotiations with the US. Although recent progress includes a provisional deal on non-tariff measures, the bloc remains prepared to retaliate if the US imposes new tariffs, a possibility the Trump administration has floated with rates as high as 50%. The uncertainty risks complicating delicate talks, particularly if the leadership changes disrupt the EU's strategic cohesion.
- That said, we do not expect the controversy to have significant short-term market implications. However, it warrants close monitoring as the EU navigates a delicate balancing act between trade pressures, primarily from the US and, to a lesser extent, China. The White House has historically preferred bilateral negotiations, meaning any

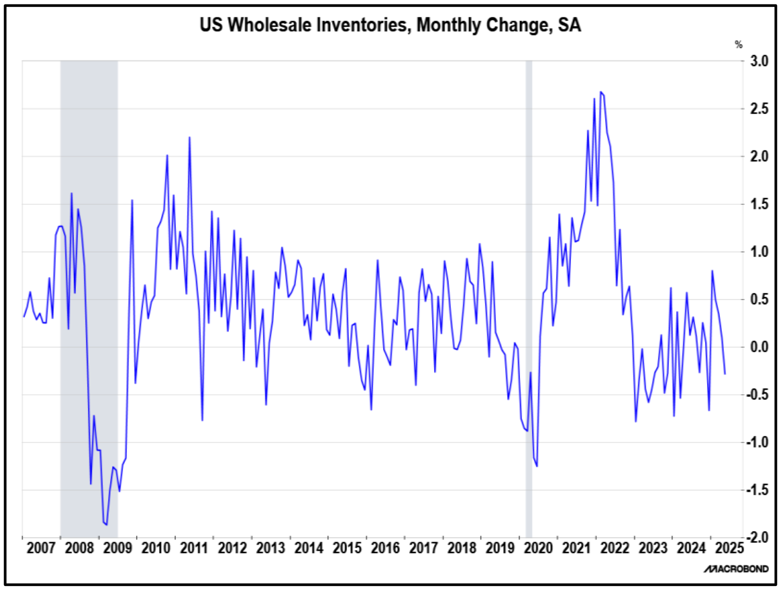
fragmentation within the bloc could strengthen Washington's hand in securing more favorable trade terms.

US Economic Releases

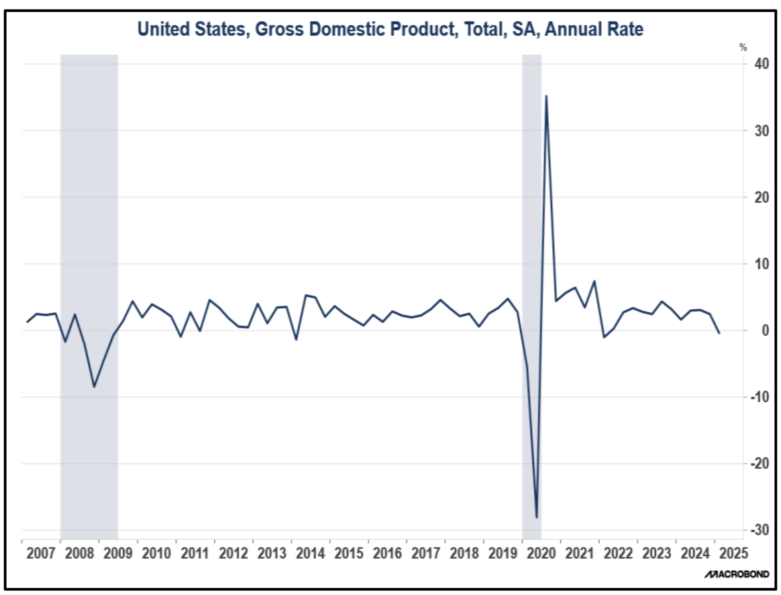
A preliminary estimate showed the US ***merchandise trade balance*** in May came in at a seasonally adjusted deficit of $96.6 billion, compared to an expected deficit of $86.1 billion and the previous month's deficit of $87.0 billion. According to the data, total merchandise exports fell 5.2%, versus the previous month's rise of 3.5%, while imports were unchanged, whereas they declined 19.9% the previous month. Compared with the same month one year earlier, exports in May were up 6.2%, while imports were up 2.8%. The chart below shows the monthly value of US exports and imports since just before the previous recession.



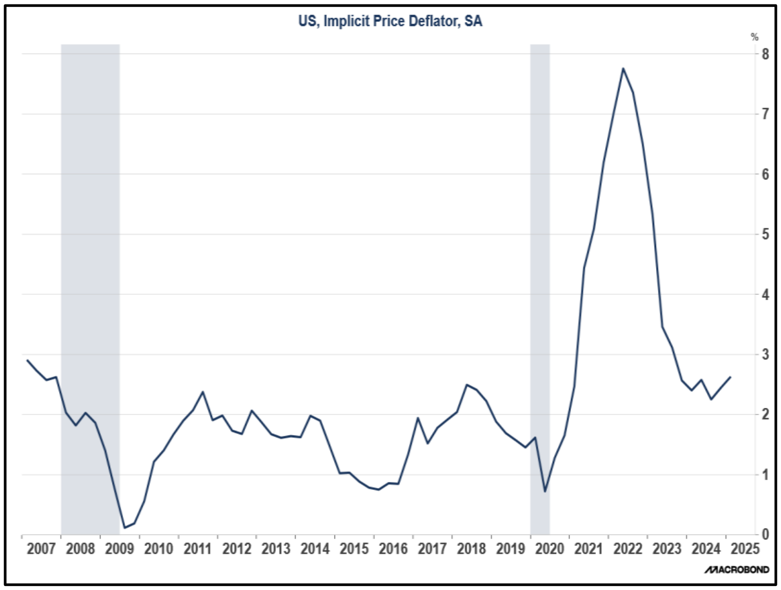
May preliminary ***wholesale inventories*** fell by a seasonally adjusted 0.3%, compared to an expected rise of 0.2% and the previous month's rise of 0.1%. According to the report, ***wholesale sales*** in April rose 0.1%. The wholesale inventory-to-sales ratio remained unchanged at 1.3. Since distributors are in a unique position to understand both production activities and final demand, we think wholesale inventories provide an important perspective on where the economy is heading. The chart below shows the monthly change in wholesale inventories since just before the Global Financial Crisis.



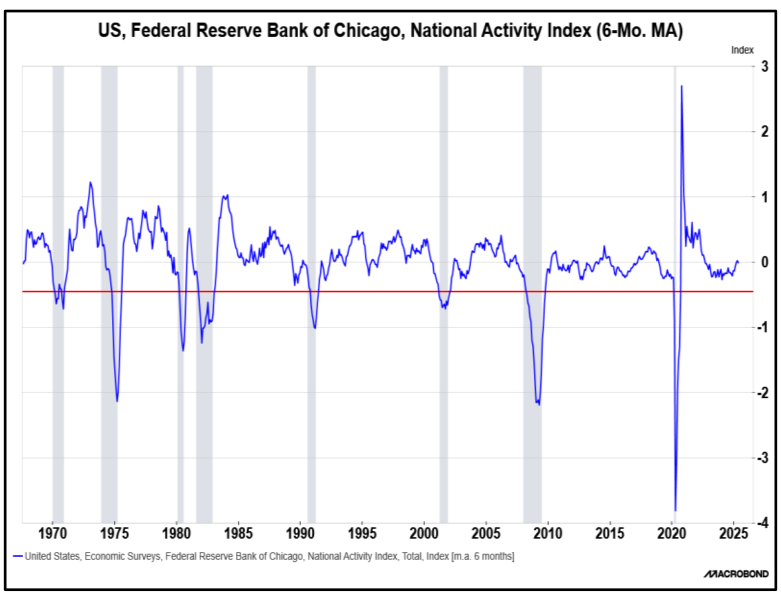
The Commerce Department released its third estimate of economic activity in the first quarter. After stripping out seasonal factors and price changes, first-quarter ***gross domestic product (GDP)*** fell at an annualized rate of 0.5%, compared to an expected decline of 0.2% and the previous quarter's decline of 0.2%. The chart below shows the annualized growth rate of US GDP since just before the Global Financial Crisis.



The GDP report also includes the broadest measure of US inflation. The first-quarter ***GDP Price Index*** rose 3.8%, compared to an expected 3.7% and the prior quarter's rise of 3.7%. The chart below shows the year-over-year change in the GDP Price Index over the last several decades.

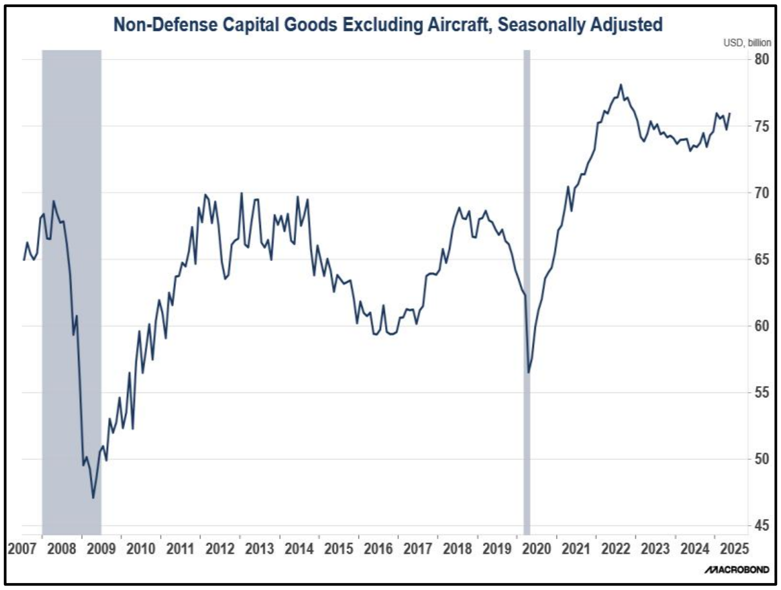


Separately, the Chicago Fed said its May ***National Activity Index*** (CFNAI) came in at -0.28, compared to an expected -0.13 and the prior month's -0.36. The CFNAI, which encompasses dozens of separate indicators to capture all aspects of current economic activity, is designed so that readings above 0.00 reflect the economy growing at trend. Our analysis shows that when the six-month moving average of the CFNAI falls below about -0.45, it suggests the economy is in recession. With the latest reading, the index suggests the economy has weakened but remains in mild expansion. The chart below shows how the CFNAI has fluctuated over the last several decades.

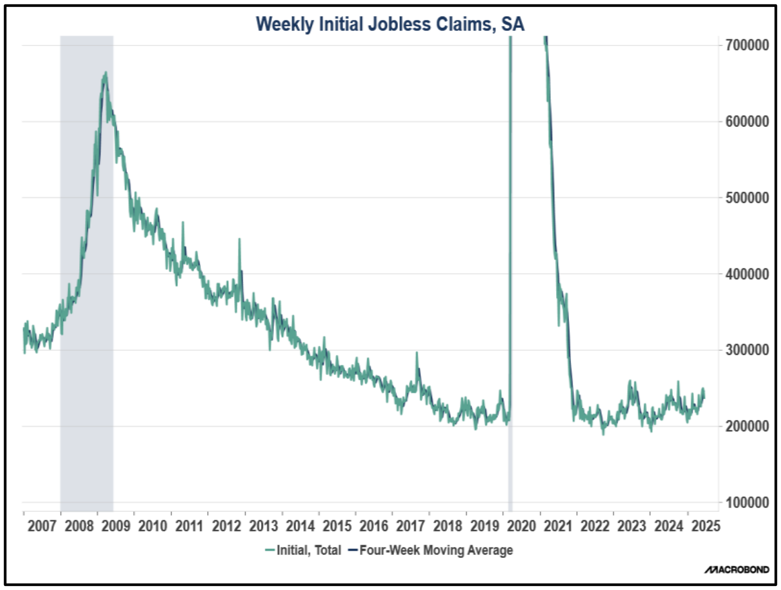


May ***durable goods*** orders rose by a seasonally adjusted 16.4%, compared to an expected 8.5% and the prior month's decline of 6.6%. Durable goods orders are often driven by transportation equipment, where just a few airliner orders can have a big impact. May ***durable goods orders***

excluding transportation rose 0.5%, compared to an expectation for no change and no change the prior month. The durable goods report also includes a key proxy for corporate capital investment. In May, ***nondefense capital goods orders ex-aircraft*** rose 1.7%, compared to an expected rise of 0.1% and the prior month's decline of 1.4%. Compared with the same month one year earlier, overall durable goods orders in May rose 17.5%, while durable orders ex-transport rose 0.3%. Nondefense capital goods orders ex-aircraft rose 3.9%. The chart below shows the progression of nondefense capital goods orders ex-aircraft since just before the Global Financial Crisis.



In the week ended June 21, ***initial claims for unemployment benefits*** fell to a seasonally adjusted 236,000, compared to an expected 243,000 and the prior week's 246,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, fell to 245,000, just slightly less than the previous average of 245,750. Meanwhile, in the week ended June 14, the number of ***continuing claims for unemployment benefits*** (people continuing to draw benefits) rose to 1.974 million, compared to the expected 1.95 million and the previous 1.937 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
10:00	Pending Home Sales	m/m	May	0.1%	-6.3%	**
10:00	Pending Home Sales NSA	y/y	May	-0.4%	-3.5%	**
11:00	Kansas City Fed Manfacturing Index	m/m	Jun	-5	-3	*

Federal Reserve		
EST	Speaker or Event	District or Position
8:00	Austan Goolsbee Appears on CNBC	President of the Federal Reserve Bank of Chicago
8:45	Mary Daly Appreas on Bloomberg TV	President of the Federal Reserve Bank of San Francisco
8:45	Thomas Barkin Speaks on the Economy	President of the Federal Reserve Bank of Richmond
9:00	Beth Hammack Gives Opening Remarks	President of the Federal Reserve Bank of Cleveland
13:15	Michael Barr Speaks on Community Development	Members of the Board of Governors
19:00	Neel Kashkari in Q&A at Montana Chamber Event	President of the Federal Reserve Bank of Minneapolis

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	20-Jun	¥615.5b	¥1567.3b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	20-Jun	-¥88.2b	-¥84.7b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	20-Jun	-¥368.8b	¥436.8b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	20-Jun	-¥524.3b	¥473.3b		*	Equity and bond neutral
EUROPE								
Germany	GfK Consumer Confidence	m/m	Jul	-20.3	-20.0	-19.2	**	Equity bearish, bond bullish
Russia	PPI	y/y	May	-0.3%	2.7%		***	Equity and bond neutral
	Industrial Production	y/y	May	1.8%	1.5%	0.4%	***	Equity bullish, bond bearish
AMERICAS								
Mexico	Trade Balance	m/m	May	1029.4m	-88.1m	365.0m	**	Equity and bond neutral
	Exports	m/m	May	55476m	54296m		*	Equity and bond neutral
	Imports	m/m	May	54447m	54384m		*	Equity and bond neutral
Brazil	IBGE Inflation IPCA-15	m/m	Jun	5.27%	5.40%	5.31%	***	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)	418	419	-1	Up
U.S. Sibor/OIS spread (bps)	429	430	-1	Down
U.S. Libor/OIS spread (bps)	428	429	-1	Down
10-yr T-note (%)	4.28	4.29	-0.01	Down
Euribor/OIS spread (bps)	199	200	-1	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	$67.98	$67.68	0.44%	
WTI	$65.25	$64.92	0.51%	
Natural Gas	$3.35	$3.41	-1.67%	
Crack Spread	$25.17	$24.52	2.66%	
12-mo strip crack	$22.88	$22.56	1.41%	
Ethanol rack	$1.79	$1.79	-0.16%	
Metals				
Gold	$3,335.84	$3,332.33	0.11%	
Silver	$36.53	$36.26	0.72%	
Copper contract	$510.05	$497.15	2.59%	
Grains				
Corn contract	$424.75	$422.50	0.53%	
Wheat contract	$544.75	$544.50	0.05%	
Soybeans contract	$1,020.00	$1,018.50	0.15%	
Shipping				
Baltic Dry Freight	1,665	1,681	-16	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	-5.84	-1.10	-4.74	
Gasoline (mb)	-2.08	0.50	-2.58	
Distillates (mb)	-4.07	1.00	-5.07	
Refinery run rates (%)	1.5%	0.7%	0.8%	
Natural gas (bcf)		87		

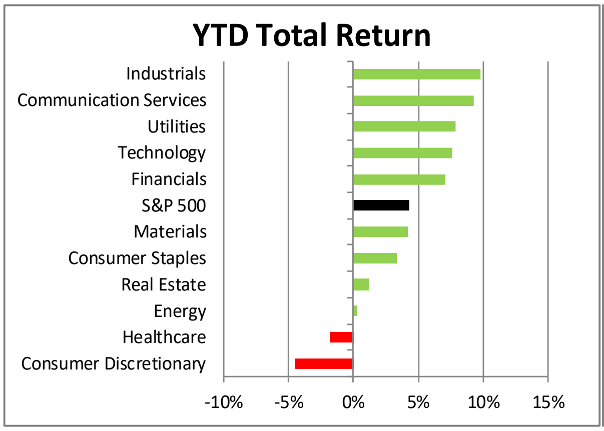
Weather

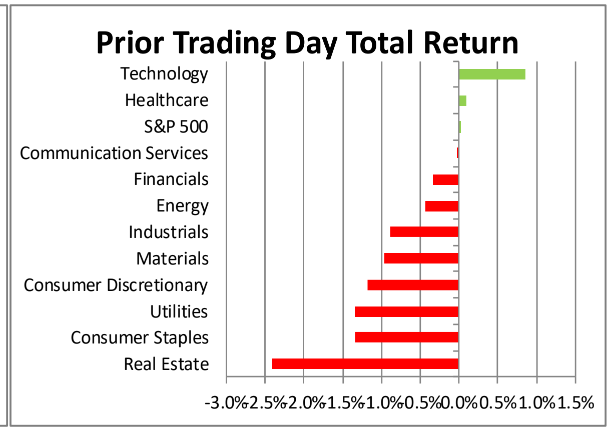
The latest 6-to-10-day and 8-to-14-day forecasts indicate warmer-than-normal conditions in the northwestern quadrant of the country and the Southeast, with cooler-than-normal conditions in New Mexico and West Texas. The forecasts indicate wetter-than-normal conditions for most of the country.

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

Data Section

US Equity Markets – (as of 6/25/2025 close)

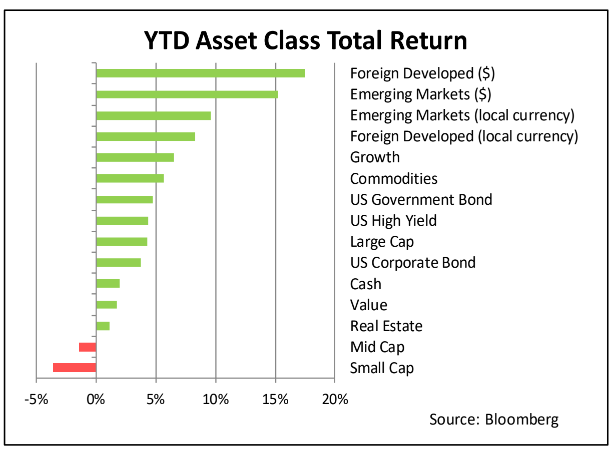




(Source: Bloomberg)

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 6/25/2025 close)

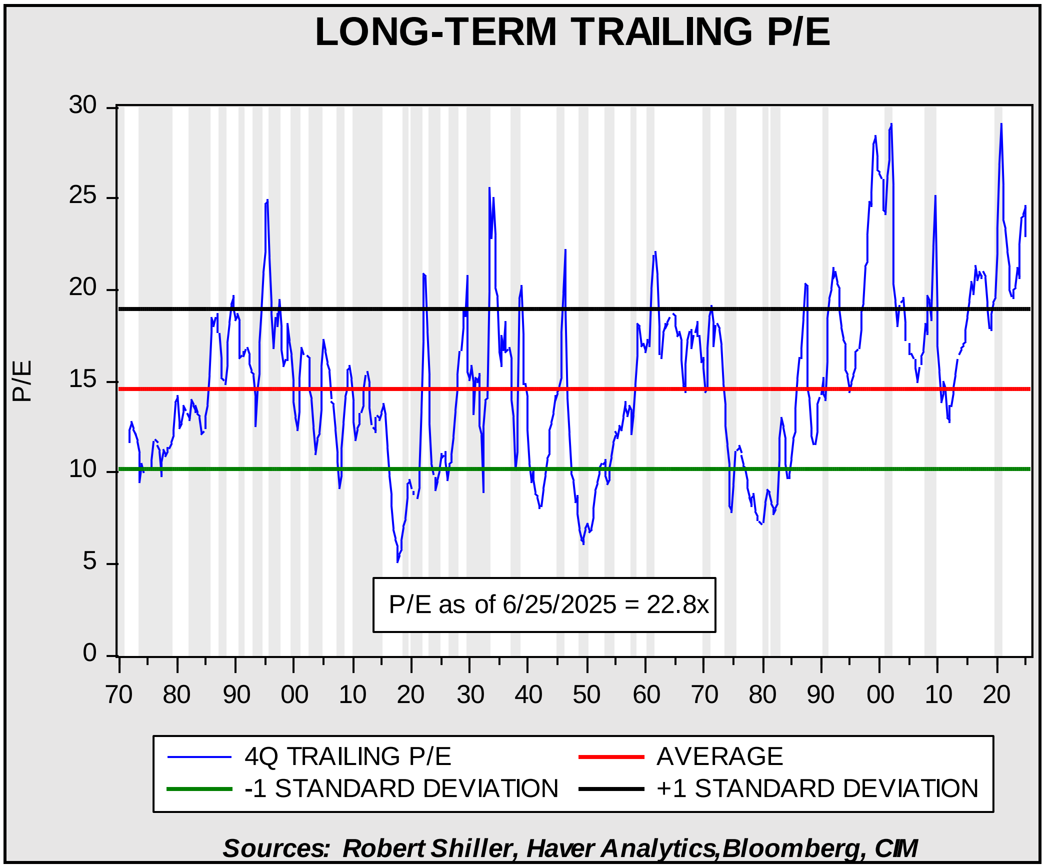


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 26, 2025



Based on our methodology,[1] the current P/E is 22.8x, up 0.1 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.