



June 18, 2025

## Morning Briefing

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### Oil, Housing & Stablecoins

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Check out the accompanying [chart collection](#).

**Executive Summary:** The escalation of war in the Middle East has caused oil prices to spike and thrown prior oil price forecasts out the window. Jackie takes a look at the dynamics affecting oil pricing in light of the recent hostilities. ... Also: Rising housing market inventories have been doing a number on homebuilders' financial results, as Lennar's Q2 earnings shortfall attests. But better revenues and earnings are expected next year, and the beaten down stocks look poised soon to recover. ... And: Is stablecoin the currency of the future? Both US lawmakers and major US banks are preparing for its widespread adoption.

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**Energy: A Middle East Scare.** Israel's strikes on Iran have the world on edge and oil prices rising. The nation's bombings have killed many senior Iranian leaders, but a lengthier attack reportedly would be necessary to achieve Israeli Prime Minister Benjamin Netanyahu's goals of wiping out Iran's nuclear capabilities and destroying its ballistic missiles.

Iran's response has been tepid—so far. The country's leaders reportedly have told Arab officials they would be willing to resume negotiations with Israel as long as the US doesn't join the attack, a June 16 *WSJ* [article](#) reported. The US has bombs theoretically powerful enough to destroy Iran's nuclear facilities located under mountains.

Conversely, if talks don't resume, Iran could accelerate its nuclear program and expand the scope of the war. A cornered Iran might resort to using unconventional weapons, like biological or chemical weapons that the US has accused the country of having. President Trump's comments Tuesday calling for Iran's "UNCONDITIONAL SURRENDER" and a "real end" to the conflict didn't ease tensions in the region.

The price of Brent oil futures has risen 5.0% since the war began on June 13 ([Fig. 1](#)). We had expected the price of oil to rise—but because of declining US production and resilient economic growth, not because of a war in the Middle East (see our [Morning Briefing](#) dated

May 8, 2025).

Here's an update on how the war has impacted the state of the Oil Patch:

(1) *US production starts to slow.* With oil prices in the low 60s earlier this year, US oil producers started to slowly reduce the number of drilling rigs in use. The number of US oil rigs recently peaked at 627 in December 2022 and since has fallen to 439 rigs. It's only recently that the amount of oil being produced has dropped modestly, from a peak of 13.6 million in April to a recent 13.4 million ([Fig. 2](#)).

Offsetting US production declines are OPEC+ oil production increases. The organization is expected to put more than two million barrels a day (mbd) of oil back on the market by this fall as it reverses the production cuts it had voluntarily agreed to in hopes of bolstering the price of oil. Prior to the war's outbreak, the US Energy Information Administration (EIA) [believed](#) global production would exceed global consumption through 2026, which was expected to keep the Brent crude oil price average at \$66 this year and \$59 in 2026. Israel's attacks will likely throw those forecasts out the window.

(2) *War's impact on oil production & transportation.* So far, Israel hasn't inflicted any major damage on Iran's oil production facilities. But if it does, it could take a substantial amount of oil off the market. Iran's oil production has rebounded over the past five years to 4.2 mbd, up from the pandemic lows below 3 mbd ([Fig. 3](#)).

There's also some concern that Iran could shut the Strait of Hormuz, the waterway between Iran and Oman. Roughly 20 mbd of crude oil, condensate, and petroleum products travels through the narrow passage to get to end markets, the EIA [estimates](#). That's roughly 20% of global petroleum daily consumption. China, India, Japan, and South Korea purchase about 69% of the oil that travels through the Strait and would be the most affected if a closure occurred, the EIA reports. The US imports from Gulf countries only a minimal amount of oil transported through the Strait.

Yesterday, two oil tankers were on fire after colliding in the Gulf of Oman, near the Strait of Hormuz. The collision was due to navigational issues, not airstrikes. Maritime officials warned that navigational systems were being jammed in the Middle East due to the fighting between Israel and Iran.

We're hopeful that the war will be short lived and the price of a barrel of oil will slip back into the \$60s sooner rather than later.

(3) *Earnings rebound expected.* The S&P 500 Oil & Gas Exploration & Production industry was having a tough time before the war caused oil prices to spike. The industry's stock price index is up 1.7% ytd through Monday's close but 19.0% below its April 10, 2024 peak of 711.28 ([Fig. 4](#)). The industry's forward revenues per share and forward operating earnings per share have been trending downward for three years ([Fig. 5](#) and [Fig. 6](#)). Analysts are expecting the industry's forward earnings per share to fall 12.3% this year and climb 12.2% in 2026 ([Fig. 7](#)).

**Consumer Discretionary: Homebuilders' Cracks Are Showing.** The combined pressure of high mortgage rates, low affordability, and rising inventories has taken a toll on the homebuilding industry over recent quarters. Yesterday, Lennar reported earnings that missed analysts' forecasts and were sharply lower than last year.

We've been watching homebuilders' rising inventory levels for a while. Here's a quick look at how higher inventories have eroded homebuilders' results as well as why their stock prices might have stopped declining, having discounted the tougher environment:

(1) *Lennar disappoints.* Lennar, one of the nation's largest home builders, reported \$1.90 of adjusted EPS for Q2, missing analysts' forecast of \$1.94 and well undershooting the year-earlier \$3.38. Lennar continues to see "softness in the housing market due to affordability challenges and a decline in consumer confidence," said co-CEO Stuart Miller in a [press release](#).

Lennar's average home sale price, net of incentives, fell to \$389,000 in Q2, down 8.7% y/y, but its deliveries rose 2.2% y/y to 20,131 homes. This quarter should continue that trend, with the average sale price dropping further to \$380,000-\$385,000 and deliveries rising to 22,000-23,000. Down more than 40% from their September peak, Lennar's shares already reflect much of the industry's difficulties and have moved mostly sideways since April.

(2) *Fighting against the tide.* The selling environment has been tough for homebuilders since mortgage rates started climbing in summer 2021. The 30-year mortgage rate, at a recent 6.84%, is more than twice those of the pandemic years and north of the more "normal" rates around 4.00% in the years prior to the pandemic. Lofty mortgage rates have sharply undercut housing affordability despite the strength in consumers' incomes ([Fig. 8](#) and [Fig 9](#)).

Mortgage rates tend to track the 10-year Treasury bond yield, which climbed during the

Federal Reserve's last interest-rate tightening cycle. Some fear that the high federal deficit may keep both bond yields and mortgage rates elevated whether or not the Fed resumes rate-cutting this year or next.

As mortgage rates have risen, the inventory of homes on the market has also climbed. The months' supply of existing homes on the market rose to 4.4 in April, up from a low of 1.9 in January 2022. But that's nowhere near the 10-month-plus inventories during the Great Financial Crisis ([Fig. 10](#)). New home inventories are more concerning, at 8.1 months of supply in April, the US Census Bureau [reported](#) ([Fig. 11](#)).

Given this backdrop, it's not surprising that homebuilder sentiment dropped to 32 in June, down two points from the prior month and well below the 50 marker that separates positive and negative sentiment.

(3) *Industry data.* The S&P 500 Homebuilding stock price index has fallen 33.5% from its October 18 record high ([Fig. 12](#)). While the industry has managed to keep revenue flattish, operating EPS have fallen sharply, reflecting homebuilders' willingness to offer buyers financial incentives to keep homes moving off their lots ([Fig. 13](#) and [Fig. 14](#)).

The industry's revenue is expected to drop 3.9% this year but rise 3.3% in 2026 ([Fig. 15](#)). Likewise, earnings are forecast to tumble 22.6% this year but rebound 10.2% in 2026 ([Fig. 16](#)). If mortgage rates moderate and the economy remains on sound footing, the drop in homebuilders' share prices may be over, and they may even start building off their new, lower base.

**Disruptive Technology: Are Stablecoins Coming?** The market capitalization of stablecoins has surged more than 12-fold over the past five years, to almost \$250 billion from only \$20 billion in 2020. Stablecoins are cryptocurrencies whose value is tied to another asset. The stablecoin issuer typically holds that asset, often US Treasuries or gold, in reserve. For example, Tether issues stablecoin tokens called "USDT." If USDT's market cap is \$150 billion, Tether has in reserves very liquid cash or cash-like assets, such as US Treasury bonds, valued at \$150 billion.

About 83% of stablecoins are pegged to the US dollar, the largest of which is Tether's USDT. President Trump's family's company, World Liberty Financial, launched a stablecoin, USD1, in June.

Since the introduction of stablecoins in 2014, they've generally remained a niche product

used only by investors involved in the cryptocurrency markets. That soon could change: There's a bill working its way through Congress that establishes federal regulations regarding stablecoins.

Here's a look at the stablecoin bill and proposed regulations being hashed out in Congress and the companies hoping to take stablecoins mainstream in the near future:

(1) *What's the Genius Act?* If passed, the Guiding and Establishing National Innovation for US Stablecoins Act, more commonly known as "the Genius Act," would establish federal regulations for stablecoins with market caps over \$10 billion. The bill includes a requirement that issuers hold a reserve of assets underlying the stablecoin and requires issuers to grant coin holders priority for repayment in the event of a bankruptcy.

While expected to pass, the bill has gotten some pushback. Critics would like the bill to include more stringent monitoring of stablecoin purchases to prevent illegal activity, such as money laundering, as well as evasion of government sanctions.

(2) *Banks coming to market?* Once federal regulations are in place, establishing the rules of the road, stablecoin issuance is expected to jump. Traditional financial institutions are expected to issue stablecoins. Banks could use stablecoins to process some plain-vanilla transactions, like cross-border payments, more swiftly and less expensively. Banks also want to issue stablecoins to prevent customers (and their deposits and transactions) from defecting to other institutions that do offer stablecoins.

Some of the nation's largest banks—including JPMorgan Chase, Bank of America, Citigroup, and Wells Fargo—reportedly have discussed issuing a stablecoin together, a May 22 *WSJ* [article](#) reported. The issuer would be Early Warning Services, the operator of peer-to-peer payment system Zelle, and Clearing House, a real-time payment network.

(3) *Is bank competition coming, too?* Banks are correct to be worried about the competition from crypto firms entering traditional banking markets. A group of crypto firms including Circle and BitGo plans to apply for bank charters or licenses, and Paxos is considering similar moves, an April 21 *WSJ* [article](#) reported.

Likewise, Walmart, Amazon, and Expedia Group reportedly are evaluating their ability to issue stablecoins. Doing so might let them sidestep banks and the interchange fee they pay to payment processing companies Visa and Mastercard. Even if they decide not to issue their own stablecoins, retailers could decide to accept the stablecoins of others, like Circle's

USDC or PayPal's PYUSD. By year-end, Shopify's retailer [clients](#) will be able to offer their customers the option of paying with Circle's USDC stablecoin. Customers who do will receive 1% cash back in local currency on their purchases.

The Genius Act legislation may limit stablecoin issuance to US-regulated financial companies. But Mastercard and Visa investors aren't waiting to find out: On Friday, they sent the stocks of both payment processors toppling 5% (versus the S&P 500's 1% decline) when the *WSJ* reported Walmart's and Amazon's interest in selling stablecoins.

(4) *If you build it, will they come?* If the Genius legislation becomes law, the next question is whether consumers will trade in their credit cards and debit cards for stablecoins? Doing so would require consumers to trust their stablecoin issuer, because stablecoins aren't federally insured like bank deposits. It would also require that consumers take the time to learn how to establish crypto accounts and transfer funds using the system.

In the US and other developed nations, the transition might require incentives like stablecoin issuers offering higher interest rates than banks do or retailers offering rebates on purchases made with stablecoins. For folks in countries that are not stable or are fighting high inflation, buying stablecoins backed by US dollars might make sense.

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## Calendars

**US: Wed:** Housing Starts & Building Permits 1.36mu/1.43mu; MBA Mortgage Applications; Initial Claims; Fed Interest Rate Decision 4.50%; FOMC Economic Projections. **Thurs:** Juneteenth Federal Holiday. (Source: FX Street)

**Global: Wed:** Eurozone Headline & Core CPI 1.9% & 2.3%/y/y; UK Headline & Core CPI 1.9% & 2.3%/y/y; UK Headline & Core CPI 3.4% & 3.6%/y/y; De Guindos; Elderson; Villeroy; Knot; Escriva. **Thurs:** BoE Interest Rate Decision 4.25%; UK Gfk Consumer Confidence - 19; Japan Core CPI 3.6% y/y; Lagarde; De Guindos; Nagel; Buch. (Source: FX Street)

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## Strategy Indicators

**S&P 500/400/600 Forward Earnings** ([link](#)): During the June 13 week, forward earnings rose simultaneously for all three of these indexes for a third straight week. LargeCap's

forward earnings rose for a sixth time in seven weeks since it bottomed during the April 25 week. MidCap's rose for a fourth week after bottoming during the May 16 week, the sixth time in nine weeks, and SmallCap's rose for a third week since it bottomed during the May 23 week. LargeCap's forward earnings rose 0.3% w/w to its second record high since the April 4 week. MidCap's rose 0.3% w/w to 2.6% below its record high, also during the April 4 week. SmallCap's rose 0.3% w/w to 14.1% below its June 2022 record. LargeCap's forward earnings is up 24.0% from its 54-week low during the week of February 1, 2023; MidCap's is just 6.3% above its 55-week low during the week of March 10, 2023; but SmallCap's has lagged considerably and is up just 0.6% from a 42-month low during the May 23 week. These three indexes' forward earnings downtrend from mid-2022 to early 2023 was relatively modest compared to their deep double-digit percentage declines during the Great Virus Crisis and the Great Financial Crisis. Here are the latest consensus earnings growth rates for 2024, 2025, and 2026: LargeCap (9.7%, 8.4%, 14.0%), MidCap (0.4, 2.6, 17.5), and SmallCap (-10.2, 2.5, 18.5).

**S&P 500/400/600 Valuation ([link](#)):** Valuations eased lower for the first time in three weeks for these three indexes during the June 13 week. LargeCap's forward P/E ticked down 0.1pt to 21.4 from a 14-week high of 21.5. It's now 0.9pt below its 43-month high of 22.3 during the December 6 week and 4.4pts above the seven-month low of 17.0 during the October 27, 2023 week. That compares to a 30-month low of 15.1 at the end of September 2022 and an 11-year low of 11.1 during March 2020. MidCap's forward P/E fell 0.3pt w/w to 15.4. It's now 1.7pts below its 40-month high of 17.1 during the November 29 week and 3.2pts above the 12-month low of 12.2 in October 2023. That compares to a record high of 22.9 in June 2020 when forward earnings was depressed, and an 11-year low of 10.7 in March 2020. SmallCap's forward P/E fell 0.3pt w/w to 14.7. It's 1.8pts above its 17-month low of 12.9 during the April 4 week and 4.1pts above its 14-year low of 10.6 in September 2022, but remains 2.4pts below its 41-month high of 17.1 during the November 29 week. That compares to a record high of 26.7 in early June 2020 when forward earnings was depressed, and a record low of 10.2 in November 2009 during the Great Financial Crisis. The forward P/Es for the SMidCaps have been mostly below LargeCap's since August 2018. MidCap's P/E is at 28% discount to LargeCap's P/E, not much above its 25-year-low 29% discount during the July 5, 2024 week. That compares to a 19% discount during the March 2, 2023 week, which matched its best reading since October 14, 2021. SmallCap's P/E is now at a 30% discount to LargeCap's P/E, up from a nine-month-low 31% discount during the May 30 week. That compares to a 23% discount during the November 29 week, which was its best reading since the March 2, 2023 week. It's now 4ppts above its 24-year-low 34% discount during the July 5, 2024 week. SmallCap's P/E is at a 6% discount to MidCap's, up from a 20-year low 10% discount in late 2021. Prior to that, from 2003 to

2018, SmallCap's P/E had been mostly above MidCap's, and both were above LargeCap's.

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## US Economic Indicators

**Retail Sales** ([link](#)): Retail sales in May was weaker than expected, with both headline and nonauto retail sales in the red during the month, though sales in the control group posted a gain last month. Headline retail sales sank 0.9%, steeper than the consensus estimate of a 0.6% shortfall, while retail sales ex autos contracted 0.3%, weaker than the expected 0.1% uptick. Meanwhile, sales in the control group—which excludes autos, gasoline, building materials, and food services—used in calculating GDP climbed 0.4% during the month. Of the 13 nominal retail sales categories, six rose in May, while seven fell, though there were several strong year-over-year comparisons. May sales performance versus that of a year ago: miscellaneous store retailers (2.9% m/m & 7.5% y/y), sporting goods & hobby stores (1.3 & 1.8), furniture & home furnishings (1.2 & 8.8), non-store retailers (0.9 & 8.3), clothing & accessories stores (0.8 & 3.7), general merchandise stores (0.1 & 2.2), motor vehicles & parts (-3.5 & 2.5), building materials & garden equipment (-2.7 & -1.1), gasoline stations (-2.0 & -6.9), food services & drinking places (-0.9 & 5.3), food & beverage stores (-0.7 & 2.2), electronics & appliance stores (-0.6 & -1.9), and health & personal care stores (-0.1 & 7.7).

**Industrial Production** ([link](#)): Industrial production was weak again in May as manufacturing production continues to face headwinds from a shifting tariff policy. Headline production fell 0.2% in May, following a 0.1% uptick and a 0.2% downtick the prior two months. Manufacturing output inched up 0.1% in May, following April's 0.5% loss after March's 0.6% gain. In May, durable goods production rose 0.4%, while nondurable goods production fell 0.2%. Within durable goods, output for both motor vehicles & parts (4.9%) and aerospace & miscellaneous transportation equipment (1.1) posted strong gains, though were partially offset by declines in machinery (-1.0%), fabricated metal products (-1.2), and nonmetallic mineral products (-1.6). Within nondurable goods, indexes for printing & support (-1.7), petroleum & coal product (-1.4), and food, beverage, and tobacco products (-0.3) were all in the red. Excluding autos, manufacturing production dipped 0.3%. By market group, most consumer durable goods categories posted gains, led by a 3.9% jump in automotive products, while the index for consumer nondurable goods fell 0.8%, reflecting a 3.2% drop in energy; output for non-energy goods ticked up during the month. Meanwhile, business equipment output climbed 0.8%, led by a 6.4% jump in output of transit equipment, while production of industrial & other equipment (-0.7%), information processing equipment (-0.4), and defense & space equipment (-0.4) declined during the month.

**Capacity Utilization ([link](#)):** The headline capacity utilization rate fell to 77.4% in May, from 77.7% in both April and March. May's rate was 2.2ppts below its long-run (1972-2024) average. The manufacturing utilization rate remained at 76.7% in May, after climbing from 76.8% in February to 77.2% in March, with May's rate 1.5ppts below its long-run (1972-2024) average. The utilization rate for mining ticked up to 91.1% in May, after slipping from 91.4% to 91.0% in April, while the utilities rate fell from 70.8% in April to 68.5% in May. The rate for mining was 4.6ppts above its long-run average, while the rate for utilities continued to remain substantially below its long-run average.

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