June 23, 2025

Morning Briefing

Heatwaves

Check out the accompanying chart collection.

Executive Summary: Saturday night, American bombers obliterated three key nuclear sites in Iran. We think Iran won't retaliate and will sue for peace. … Meanwhile in the US, foreign tourists might not be crowding the airports as usual. If Trump's America First blustering is keeping them away, don't worry about the impact on US GDP—it would be too small to drag down the overall economy. … Dr Ed reviews the recent economic data releases, concluding that the resilient US economy is running neither too hot nor too cold. … The Fed made the right decision last week not to ease interest rates, in our opinion. But one FOMC participant and apparent Trump loyalist begs to differ.

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Heatwave I: Back from Spain. My wife and I were on vacation in Spain during the past couple of weeks. We decided to avoid flying out of Newark because of all the delays at that airport. So we flew from LaGuardia to Dulles to Heathrow to Gibraltar. Then we drove to Malaga on the Costa Brava and Alicante on the Costa Blanca. Both are beautiful Spanish towns. We then flew to the island of Majorca, which was much bigger than we expected. The airport was amazingly large for an island, and it was packed with tourists. The locals are not happy about that, and especially not happy about the mammoth cruise ships.

The weather was great in Spain, though a bit hotter than normal. There is a heat wave in Europe currently, and one is coming to the US East Coast on Monday and Tuesday.

When we flew back through Dulles last Wednesday, landing around mid-day, we were surprised to see no lines at passport control. That might confirm the widely held view that Trump's America First blustering is depressing foreign tourism. A few hard-landers think this increases the chances of a recession in the US. We doubt that. Exports of travel services in the US balance of payments rose to a record $223.1 billion (saar) during Q4-2024 (*Fig. 1*). We doubt that any "Trump-drop" would be significant enough to have much impact on the

US’s $23.5 trillion of GDP. By the way, the US has been running a trade surplus in the balance of travel services.

Heatwave II: Boiling in the Middle East. It’s always hot in the Middle East during the summer. It’s even hotter now that Israel and Iran are at war. Israel launched a preemptive strike against Iran early on Friday, June 13, with explosions reported in Tehran around 3:00 a.m. local time. The operation, code-named “Rising Lion,” targeted Iran’s military bases, senior leadership, and nuclear facilities, including the Natanz nuclear enrichment facility. It was described by Israeli officials as a response to an imminent threat from Iran’s nuclear program.

The first direct Israeli attack on Iran occurred on April 19, 2024, when Israel conducted a limited airstrike targeting an air defense radar system near Isfahan, Iran. This was in retaliation for Iran’s missile and drone attack on Israel on April 13, 2024, which itself was a response to an Israeli airstrike on the Iranian consulate in Damascus on April 1, 2024. The April 19 strike was small in scale, intended to deter further aggressions by Iran without escalating into a broader conflict, and targeted a radar system associated with Iran’s S-300 air defense complex.

Israel now has air superiority over Iran and is continuing to attack the country’s military, ballistic missile, and nuclear infrastructures. Iran continues to attack Israel with ballistic missiles.

Iran has enough enriched uranium to produce several nuclear bombs potentially if the uranium were to be enriched further to weapons-grade levels (90% purity). As of mid-2025, the International Atomic Energy Agency (IAEA) reported Iran’s stockpile of 60% enriched uranium at 408.6 kg, sufficient theoretically to yield material for up to nine nuclear warheads if processed further. Estimates suggest that Iran could produce enough weapons-grade uranium for one bomb in about one to two weeks, though weaponizing it into a functional device could take months to a year. However, US intelligence and the IAEA indicate that Iran is not currently engaged in active weaponization efforts, and Iran denies pursuing nuclear weapons, claiming that its program is for peaceful purposes.

President Donald Trump has repeatedly declared that Iran will not have nuclear bombs. He recently stated that he wants Iran to surrender unconditionally. He is hoping that his implied threat that the US might enter the war, if Iran doesn’t surrender, will force the Iranians to capitulate and shut down their nuclear program without the US needing to step in.

On Thursday, June 19, White House Press Secretary Karoline Leavitt read reporters a statement that she said was “directly from the President”: Trump will let negotiations play out longer. “Based on the fact that there’s a substantial chance of negotiations that may or may not take place with Iran in the near future, I will make my decision whether or not to go within the next two weeks,” the message said.

A Friday, June 20 meeting in Geneva of the top diplomats of Iran, Britain, France, Germany, and the European Union ended with no breakthrough. The Europeans pressed Iran to agree to limits on its nuclear program, and the Iranian delegation said it would not negotiate until Israel stops its strikes.

After the meeting in Geneva, Trump said, “Europe is not going to be able to help on this one.” He also said for the second time last week that his Director of National Intelligence Tulsi Gabbard was “wrong” in her recent assessment that there’s no evidence that Iran is building a nuclear weapon.

Also on Friday, Trump told reporters that he wasn’t sure how long he would allow the negotiations to continue with Iran. “We’re going to see what that period of time is, but I’m giving them a period of time,” Trump said. “And I would say two weeks would be the maximum.” So the deadline is right around July 4, though Trump always could postpone it.

To make sure that Iran gets the message, the US has positioned lots more fire power within reach of Iran. B 2 stealth bombers are on alert at Diego Garcia and more are on the way from the US; GBU 57 bunker-buster bombs are being prepped for use if needed to attack Iran’s Fordow nuclear enrichment site, which is buried below a mountain. Tankers and refueling planes have been positioned in Europe to enhance operational reach. Two aircraft carrier strike groups (the USS Carl Vinson and the USS Harry S. Truman) are currently positioned in the eastern Mediterranean and Gulf region. Multiple guided missile destroyers and cruisers, including USS The Sullivans and USS Arleigh Burke, have been deployed to intercept potential missile threats.

The above chronology was written Saturday morning. On Saturday night, the US used that fire power against Iran to attack three nuclear sites in Fordow, Natanz, and Isfahan. Trump announced this in a social media post at 7:50 p.m. EST. In a short speech at 10:00 p.m., he said that Iran’s key nuclear sites were “completely and fully obliterated” by the strikes. He noted that there are many more sites in Iran that could easily be destroyed if the Iranians retaliate.

The next move is up to the Iranians. Our bet is that they will sue for peace. We are assuming that while the Mullahs and their generals (those who haven't been killed by the Israelis) may be fanatics, they aren't crazy. If that's the case, then the price of oil should fall and stock markets around the world should resume their ascents.

Heatwave III: US Economy Is Neither Too Hot nor Too Cold. Despite all the heat generated by Trump's Tariff Turmoil (TTT) and now the war in the Middle East, the US economy continues to display its resilience, as it has over the previous three years when Russia invaded Ukraine and the Fed tightened monetary policy. Trading platform Polymarket.com is showing that the risk of a US recession in 2025 has edged up from a recent low of 20% on June 16 to 29% on June 20 (*Fig. 2*). That's down sharply from a recent peak of 65.5% on May 2.

Here is a brief review of the latest economic indicator releases:

(1) *The Atlanta Fed's GDPNow model* shows that real GDP is tracking at 3.4% (saar) during Q2 (*Fig. 3*). That's up from -0.2% during Q1. Consumer spending during Q2 is up 1.9% so far. Capital spending remains relatively strong. Residential investment was lowered from -2.8% to -4.4% following May's weak housing starts reported on Wednesday (*Fig. 4*). The big swing factor between Q1 and Q2 is imports, which rose sharply during Q1 and fell during Q2 because of TTT (*Fig. 5*). Once the actual GDP growth rate is released, it will probably make sense to average it with Q1's result to gauge the strength of the economy.

(2) *The Citigroup Economic Surprise Index (CESI)* fell to -23.9% on June 20 (*Fig. 6*). It is not a useful indicator of real GDP growth. However, it has been a useful indicator of the short-term direction of the 10-year US Treasury bond yield (*Fig. 7*). Notwithstanding all the angst about an impending US government debt crisis, the bond yield continues to correlate well with the CESI. Nevertheless, we still expect that the yield will remain range bound between 4.25% and 4.75% through the end of the year. It was 4.38% on Friday.

(3) *Initial unemployment claims* remained unchanged at 245,000 during the June 13 week (*Fig. 8*). The four-week moving average of jobless claims was about the same at 245,500, which is consistent with the unemployment rate remaining around 4.2% during June (*Fig. 9*).

Meanwhile, continuing claims remain relatively low, at 1.9 million, but they have been inching higher in recent weeks, suggesting that the duration of unemployment is increasing (*Fig. 10*). Indeed, most of the increase in the unemployment rate over the past four months has been attributable to an increase in the number of unemployed who remained unemployed from the month before (*Fig. 11*).

(4) *The Leading Economic Indicators (LEI) and Coincident Economic Indicators (CEI)* declined 0.1% m/m and increased 0.1% m/m during May (*Fig. 12*). The former has been a misleading indicator for a very long time. It peaked at a record high in December 2021. It has been falling since then, with May's reading the lowest since April 2015. So it has been signaling a recession even though the CEI has been rising to new record highs through May.

Leading the LEI down during May was a 0.3% m/m drop in its consumer expectations component, which has been especially bearish on consumer spending and quite wrong (*Fig. 13*). The S&P 500 stock price index, which is also one of the LEI's 10 components, rose 0.3% m/m during May and has been a more accurate leading indicator of the economy.

Of course, the S&P 500 stock price index is determined by its forward earnings and forward P/E. The former rose to a new record high in May. It is highly correlated with the CEI, which did the same last month (*Fig. 14*).

Heatwave IV: Friction at the Fed. The Federal Open Market Committee (FOMC) met last Tuesday and Wednesday. The Fed's monetary policy-setting committee voted to leave interest rates unchanged. The vote was unanimous. However, in recent months, one FOMC participant has been willing to cut the federal funds rate sooner than the rest. That would be Christopher J. Waller, a Federal Reserve governor appointed by President Trump.

On Friday, Waller said he thought the Fed ought to begin lowering interest rates as early as July, arguing that policymakers should not wait for the labor market to weaken before they reduce borrowing costs. He does not share the consensus view of the FOMC that tariffs and other headwinds could cause prices to rise in the coming months.

In other words, Waller contradicted the basic message conveyed by Fed Chair Jerome Powell in his *press conference* on Wednesday afternoon, just after the two-day meeting of the FOMC. Powell repeatedly stated that inflation is likely to heat up in the coming months because of Trump's tariffs, which is the main reason that he and almost every other FOMC member are in no hurry to lower interest rates.

In our opinion, Waller is angling to have Trump pick him to replace Powell as Fed chair in

May 2026 when Powell's term as the chair expires. Even if Trump manages to get the Senate to approve his nomination of a loyalist like Waller to head the Fed, there are still another 11 voting members on the FOMC who don't seem as gung-ho to fulfill Trump's wish for much lower interest rates.

Trump might have to pick Waller as the next Fed chair if Powell decides to stay on as a Fed governor until his term in this position expires on January 31, 2028. To nominate someone outside of the Federal Reserve Board, such as Treasury Secretary Scott Bessent, as Fed chair, Trump would need a vacancy on the Fed's Board of Governors, which includes seven governors.

Calendars

US: Mon: Existing Home Sales 3.95mu; S&P M-PMI & NM-PMI 51.0 & 52.9; Waller; Bowman; Goolsbee; Kugler. **Tues:** Conference Board Consumer Confidence 99.1; Richmond Fed Manufacturing Index -7; S&P Case-Schiller HPI Composite 4.2%; Powell; Barr; Williams; Collins. (Source: FX Street)

Global: Mon: Eurozone C-PMI, M-PMI & NM-PMI 50.5, 49.7 & 50.0; Germany M-PMI & NM-MI 48.8 & 47.8; Lagarde; Buba Monthly Report; Nagel. **Tues:** Germany Ifo Business Climate Index Total, Current Assessment & Expectations 88.0, 86.5 & 89.5; UK CBI Industrial Trends -28; Lagarde; De Guindos; Mauderer; Ramsden; Lane; Breeden; Bailey; Tamura. (Source: FX Street)

Strategy Indicators

Global Stock Markets (US$ Performance) (*link*): The US MSCI index fell 0.1% during the June 20 week and weakened to 3.0% below its January 23 record high. That compares to a 1.0% decline for the AC World ex-US index, which has been hitting new record highs from May 14 through June 12—the longest streak of record highs since June 15, 2021. The US MSCI has outperformed the AC World ex-US in just six of the past 21 weeks. EM Asia was the best performing region last week, with a gain of 0.2%, ahead of EM (0.0%), EM Latin America (-0.4), and the AC World ex-US. Europe was the worst performer, with a decline of 1.8% last week, followed by EAFE (-1.5), EMEA (-1.4), and EMU (-1.3). The Korea MSCI index performed the best among country indexes last week, with a gain of 4.9%, ahead of

Brazil (1.1), Taiwan (0.9), India (0.4), and Spain (-0.5). The Mexico MSCI index was the worst performer w/w, with a drop of 2.9%, followed by Switzerland (-2.8), Sweden (-2.1), and Hong Kong (-2.0). In terms of ytd performance rankings, the US MSCI index is up 1.5% ytd, but is the worst country performer and trails the 12.8% gain for the AC World ex-US. Among the regional indexes outperforming the AC World ex-US ytd, EM Latin America now leads with a gain of 22.2%, followed by EMU (21.2), Europe (17.4), EAFE (13.9), and the AC World ex-US. EMEA is the worst ytd performer, albeit with a gain of 7.8%, followed by EM Asia (10.1) and EM (10.6). Looking at the major selected country markets that we follow, Spain is the best ytd performer, with a gain of 36.9%, followed by Korea (33.2), Germany (26.5), South Africa (23.8), and Mexico (23.7). The worst performing countries ytd: the US (1.5), India (2.7), Japan (6.0), Taiwan (7.2), and Australia (8.1).

US Stock Indexes (*link*): Thirty of the 48 major US stock indexes that we follow rose during the week ended June 20, up from four indexes rising in the prior week. The S&P 500 LargeCap Pure Growth index was the best performer, with a gain of 1.0%, followed by S&P 600 SmallCap Pure Value (0.9%), S&P 500 LargeCap Pure Value (0.9), and S&P 400 MidCap Pure Value (0.8). The Nasdaq Industrials index, with a decline of 0.5%, was the worst performer, followed by Russell 1000 Growth (-0.4). Twenty-three of the 48 indexes are now higher so far in 2025, down from 47 in mid-February. With a gain of 5.6%, the Dow Jones 15 Utilities index is in the top spot as the best performer so far in 2025, ahead of Russell MidCap Growth (5.3), S&P 500 LargeCap Pure Growth (5.1), S&P 100 Equal Weighted (4.1), and S&P 500 LargeCap Growth (3.1). The worst performing major US stock indexes ytd: S&P 600 SmallCap Value (-10.7), S&P 600 SmallCap Equal Weighted (-8.8), S&P 600 SmallCap Pure Value (-8.6), S&P 600 SmallCap (-7.9), and Dow Jones 20 Transports (-7.1).

S&P 500 Sectors Performance (*link*): Four of the 11 S&P 500 sectors rose during the week ending June 20, and the same four were ahead of the S&P 500's 0.2% decline. That compares to four S&P 500 sectors rising a week earlier, when six sectors were ahead of the S&P 500's 0.4% decline. The outperformers last week: Information Technology (1.2%), Energy (1.1), Financials (0.8), and Communication Services (0.1). The underperformers last week: Health Care (-2.2), Utilities (-1.1), Consumer Staples (-0.9), Materials (-0.6), Consumer Discretionary (-0.5), Industrials (-0.3), and Real Estate (-0.3). The S&P 500 is now up 1.5% ytd, with nine of the 11 sectors positive ytd and the same nine ahead of the index. Industrials still wears the crown as the best ytd performer, with a gain of 7.6%, ahead of Communication Services (5.7), Utilities (5.6), Financials (3.9), Energy (3.3), Materials (3.2), Information Technology (2.2), and Real Estate (1.9). These two sectors are lagging the S&P 500 so far in 2025: Consumer Discretionary (-7.3) and Health Care (-3.6).

US Economic Indicators

Leading Indicators (*link*): Leading indicators in May fell for the sixth consecutive month. The *Leading Economic Indicators* (LEI) slipped 0.1% in May, following a revised 1.4% decline in June—which was the largest monthly decline since spring 2020, when the Covid pandemic was starting. Over the six months through May, the LEI's six-month growth rate fell deeper into negative territory, flashing a recession warning. However, according to the May report, "The Conference Board does not anticipate recession, but we do expect a significant slowdown in economic growth in 2025 compared to 2024, with real GDP growing at 1.6% this year and persistent tariff effects potentially leading to further deceleration in 2026." In May, five of the 10 components of the LEI contributed positively, while four contributed negatively and one was unchanged (the leading credit index). The *biggest drags on the LEI* were consumer expectations for business conditions (-0.25pts), ISM new orders index (-0.17), followed by building permits (-0.06) and initial claims (-0.05). *Five components contributed positively*, with stock prices (+0.33) contributing the most to May's LEI, followed by manufacturers' new orders for nondefense capital goods ex aircraft (+0.06) and average weekly hours (+0.06), while manufacturers' new orders for consumer goods & materials (+0.01) and the interest rate spread (+0.01) were small contributors.

Coincident Indicators (*link*): The Coincident Economic Indicators (CEI) index remains on a steep uptrend, rising to a new record high in May. The CEI advanced 0.1% in May, following gains of 0.2% and 0.3% the prior two months. Three of the four components of May's CEI—personal income less transfer payments (+0.2%), manufacturing & trade sales (+0.2), and payroll employment (+0.1)—once again were positive contributors, while industrial production once again was the weakest component, declining 0.2% during the month. The CEI climbed 1.3% over the six months through May, more than double its 0.5% growth rate over the previous six-month period.

Housing Starts & Building Permits (link): Housing starts sank in May to its lowest level since 2020, as the sector continues to be impacted by high interest rates. *Housing starts* plunged 9.8% in May to 1.256mu (saar)—below the consensus estimate of 1.360mu. Multi-family starts with five units or more tumbled 30.4% to 316,000 units; single-family units edged up 0.4% to 924,000 units from 920,000 units in April. *Versus a year ago*, total starts fell 4.6%, with single-family starts down 7.3%; multi-unit sales were 5.0% above a year ago. *Regionally*, total housing starts in the Northeast (-40.0% m/m & 6.1% y/y), South (-10.5 & -7.2%), and Midwest (-10.2 & 26.0) fell at a double-digit pace in May, while starts were up at a double-digit rate out West (15.1 & -15.4). *Versus a year ago*, starts were above a year ago in the Midwest and Northeast and down in the West and South. Meanwhile, *building permits*, an indicator of future construction, fell 2.0% in May to 1.393mu, with *single-family permits* down 2.7% to 898,000 units, while *multi-family buildings with five or more units*, posted a 1.4% gain to 444,000 units. *Versus a year ago,* total permits were down 1.0%, led by a 6.4% drop in single-family permits, while multi-family permits were 13.0% above a year ago.

NAHB Housing Market Index (*link*): "Buyers are increasingly moving to the sidelines due to elevated mortgage rates and tariff and economic uncertainty," notes NAHB Chairman Buddy Hughes. "To help address affordability concerns and bring hesitant buyers off the fence, a growing number of builders are moving to cut prices." June's *housing market index* (HMI) posted its third lowest reading since 2012, falling 2 points this month to 32. The report notes that "the index has only posted a lower reading twice since 2012—in December 2022 when it hit 32 and April 2020 at the start of the pandemic when it plunged more than 40 points to 30." In June, all three measures fell 2 points: current sales (to 35), sales expectations (40), and traffic of prospective buyers (21)—with the latter posting its lowest reading since November 2023. *Turning to prices*, 37% of homebuilders were cutting prices in June—the highest percentage since NAHB began tracking the metric on a monthly basis in 2022. June's percentage was up from 34% in May and 29% in April. The average price cut held steady at 5%.

Global Economic Indicators

Eurozone CPI (*link*): The *Eurozone's CPI* eased to 1.9% in May, from 2.2% in both April and March; it was at 2.5% at the start of this year. The rate was at 1.7% last September—which was the lowest yearly rate since April 2021. Meanwhile, the core rate eased from 2.7% in April to 2.3% in May—the lowest since January 2022. The headline and core CPIs are down sharply from their recent peaks of 10.6% in October 2022 and 5.7% in March 2023. *Looking at the components*, the *services* rate slowed from 4.0% in April to 3.2% y/y in May, while the rate for energy prices remained at -3.6% in May; it had climbed from a recent low of -6.1% last September to 1.9% by January. Meanwhile, the rate for *food, alcohol & tobacco* accelerated for the fourth month to 3.2% in May, after easing from 2.9% in October to 2.3% at the start of this year. The rate for *non-energy industrial goods* held at 0.6% again in May, fluctuating in a narrow band between 0.5% and 0.6% since last October. May's yearly inflation rate eased in the *largest Eurozone countries*: France (to 0.6% from 0.9% in April), Italy (1.7 from 2.0), Germany (2.1 from 2.2), and Spain (2.0 from 2.2).

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