



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: August 11, 2025 — 9:30 AM ET Global equity markets are mostly higher this morning. In Europe, the Euro Stoxx 50 is down 0.2% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.2%. Chinese markets were higher, with the Shanghai Composite up 0.3% from its previous close and the Shenzhen Composite up 1.4%. US equity index futures are signaling a higher open.

With 452 companies having reported so far, S&P 500 earnings for Q2 are running at \$66.70 per share, compared to estimates of \$64.65, which is up 5.0% from Q2 2024. Of the companies that have reported thus far, 81.2% have exceeded expectations while 14.6% have fallen short of expectations.

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
“Implications of the Israel-Iran Conflict” (7/28/25) + podcast	“No Country for Recessions” (8/4/25) + podcast	Q3 2025 Report Q3 2025 Rebalance Presentation	The Confluence of Ideas Podcast Value Equities Quarterly Update

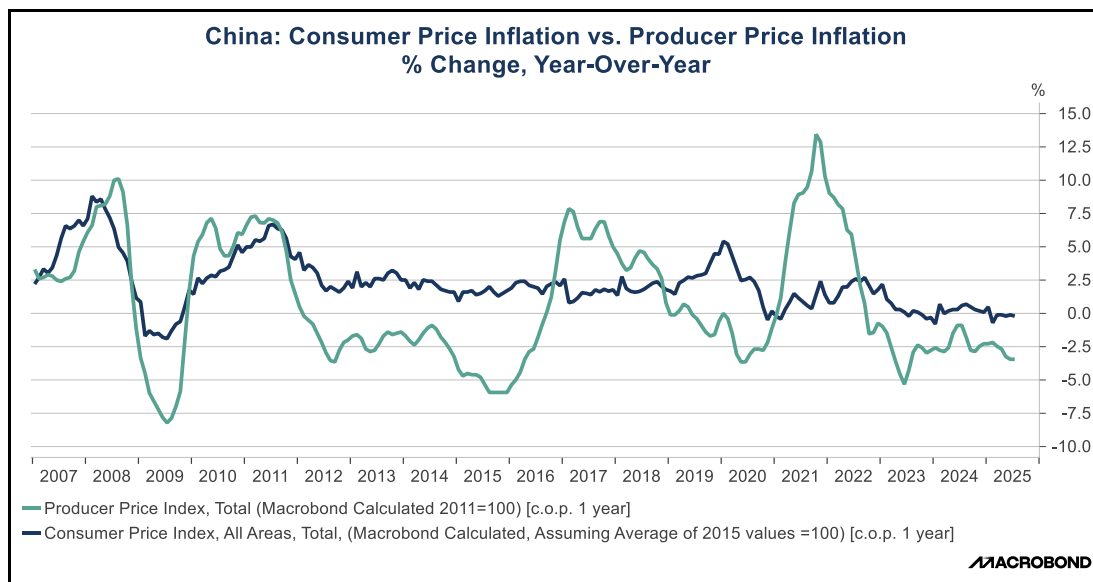
Have a question on the economy, markets, geopolitics, or other important topics? You can submit your queries to our new monthly podcast, *Confluence Mailbag*! Submit your question to mailbag@confluenceim.com.

Our *Comment* today opens with a slew of items on China’s politics and economy. We next review several other international and US developments with the potential to affect the financial markets today, including a new Australia-India deal that aims to boost the latter’s rare-earths industry and an important statement by a Federal Reserve policymaker calling for aggressive interest-rate cuts through the end of the year.

Chinese Politics: Reports yesterday said Chinese authorities [have detained Liu Jianchao, a senior Chinese diplomat widely seen as a potential future foreign minister](#). As of this writing, no further details have been made available. However, Liu could be just the latest in a long series of

military, diplomatic, and industry officials who have been arrested by General Secretary Xi's government on allegations of corruption. In at least some cases, the "corruption" may have involved ties to foreign intelligence services.

Chinese Price Inflation: In a report Saturday, the July consumer price index [was unchanged from one year ago](#), a bit weaker than expectations that CPI inflation would remain at June's rate of 0.1%. Even more concerning, the July producer price index was down 3.6% on the year, for the 34th straight month of deflation in business-to-business prices. The figures reflect China's worsening excess capacity and production coupled with weak consumer demand, which is weighing on prices, hurting corporate profits, and pushing firms to dump exports abroad.



Chinese Industrial Policy: CATL, the world's largest maker of batteries for electric vehicles, [said today that it will suspend operations at one of its key lithium mines in China](#). Against the backdrop of China's massive excess capacity, cutthroat competition, and falling prices, CATL's move is being taken as a sign that Beijing may be starting to take steps to rein in the country's excess production. In response, Chinese lithium prices have risen modestly today, while share prices for global lithium miners have surged.

Australia-India: The *South China Morning Post* yesterday [said Australia and India have launched a program to cooperatively ramp up their output of rare-earth minerals](#). Under the program, Australia's relatively advanced rare-earth miners and processors will boost their investment in India so that country can better leverage its big reserves of the critical minerals. The program shows how officials around the world are reacting after belatedly realizing their vulnerability to China's near monopoly on rare earths.

- Ever since China clamped down on its rare-earth exports to retaliate against the US's new trade and technology policies, the US and other key governments have been working feverishly to develop their own mines and processing facilities.

- Those efforts are likely to create interesting investment opportunities in the rare-earth mining and processing space going forward.

United States-China: The *Financial Times* yesterday scooped that [in return for the right to sell its H2O artificial-intelligence computer chips to China, semiconductor giant Nvidia agreed to pay 15% of the associated revenues](#) to the US government. The report said AMD has also agreed to pay 15% of its AI-chip revenue in China to the US government. The payments, which are essentially an export tariff, suggest the administration could impose similar payments on other exporters in return for looking away from the national security implications of their sales.

United States-Brazil: The US administration [is reportedly preparing further sanctions on Brazil for its persecution of the country's former right-wing populist president, Jair Bolsonaro](#), who is under trial for conspiring to overthrow the democracy. Coming on top of the US's punitive 50% tariff against Brazilian imports, the new sanctions will reportedly be focused on judges involved with the Bolsonaro trial. However, the US's readiness to impose further penalties probably raises the risk of new sanctions on the broader economy as well.

US Monetary Policy: In a speech on Saturday, Fed board member Michelle Bowman [said the recent downward revisions to US payroll counts suggest the central bank should be cutting interest rates](#). Indeed, Bowman said that she expects to support a rate cut at each of the Fed's three remaining policy meetings this year. Despite President Trump's anger at the revised payroll data, Bowman's comments illustrate how signs of a weakening labor market support the president's call for the Fed to cut rates more aggressively.

US Economy: The *Financial Times* [carries an article today highlighting how smaller businesses in St. Louis have begun to sharply hike prices](#) in response to the US's new import tariffs. The article is consistent with other recent data showing that price inflation is picking up for goods more exposed to imports and that smaller firms are more apt to be hiking prices, probably because they have less market power and financial flexibility to absorb the higher tariff costs. What isn't clear is how long those price hikes will continue and how much they'll broaden.

Global Rice Market: Export prices for Thai 5% broken white rice, the global benchmark, [have dropped to \\$372.50 per metric ton in recent days, reaching their lowest level since 2017](#). Prices are now down some 26% since late last year and 13% for 2025 to date, reflecting both bumper harvests and India's recent move to start lifting export curbs. Coupled with today's low prices for crude oil, wheat, and corn, the low rice prices could help keep a lid on consumer price inflation around the world, despite concerns about price hikes from the US's new import tariffs.

US Economic Releases

No major US economic reports have been released so far today. There are no economic releases or Fed events scheduled for the rest of the day.

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								
China	PPI	y/y	Jul	-3.6%	-3.6%	-3.3%	**	Equity and bond neutral
	CPI	y/y	Jul	0.0%	0.1%	-0.1%	**	Equity and bond neutral
EUROPE								
Italy	CPI, EU Harmonized	y/y	Jul F	1.7%	1.7%	1.7%	***	Equity and bond neutral
	CPI NIC Including Tobacco	y/y	Jul F	1.7%	1.7%	1.7%	**	Equity and bond neutral
	Trade Balance EU	y/y	Jun	-69m	716m		*	Equity and bond neutral
Switzerland	Domestic Sight Deposits CHF	w/w	8-Aug	437.1b	439.5b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	8-Aug	465.9b	468.5b		*	Equity and bond neutral
Russia	Retail Sales Real	y/y	Jun	1.20%	1.80%	1.70%	**	Equity and bond neutral
AMERICAS								
Canada	Net Change in Employment	m/m	Jul	-40.8k	83.1k	10.0k	***	Equity bearish, bond bullish
	Unemployment Rate	m/m	Jul	6.9%	6.9%	7.0%	***	Equity and bond neutral
	Participation Rate	m/m	Jul	65.2%	65.4%	65.4%	*	Equity and bond neutral
Mexico	Industrial Production	y/y	Jun	-0.4%	-7.0%	0.2%	***	Equity and bond neutral
	Manufacturing Production	y/y	Jun	0.7%	0.5%	0.2%	*	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)	414	414	0	Up
U.S. Sibor/OIS spread (bps)	424	424	0	Down
U.S. Libor/OIS spread (bps)	419	419	0	Down
10-yr T-note (%)	4.27	4.28	-0.01	Flat
Euribor/OIS spread (bps)	202	200	2	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	\$66.95	\$66.59	0.54%	
WTI	\$64.19	\$63.88	0.49%	
Natural Gas	\$2.94	\$2.99	-1.57%	
Crack Spread	\$26.44	\$26.38	0.23%	
12-mo strip crack	\$23.44	\$23.36	0.31%	
Ethanol rack	\$1.90	\$1.90	0.27%	
Metals				
Gold	\$3,352.86	\$3,397.75	-1.32%	
Silver	\$37.72	\$38.34	-1.63%	
Copper contract	\$442.95	\$447.15	-0.94%	
Grains				
Corn contract	\$408.00	\$405.50	0.62%	
Wheat contract	\$516.00	\$514.50	0.29%	
Soybeans contract	\$1,009.75	\$987.50	2.25%	
Shipping				
Baltic Dry Freight	2,051	2,008	43	

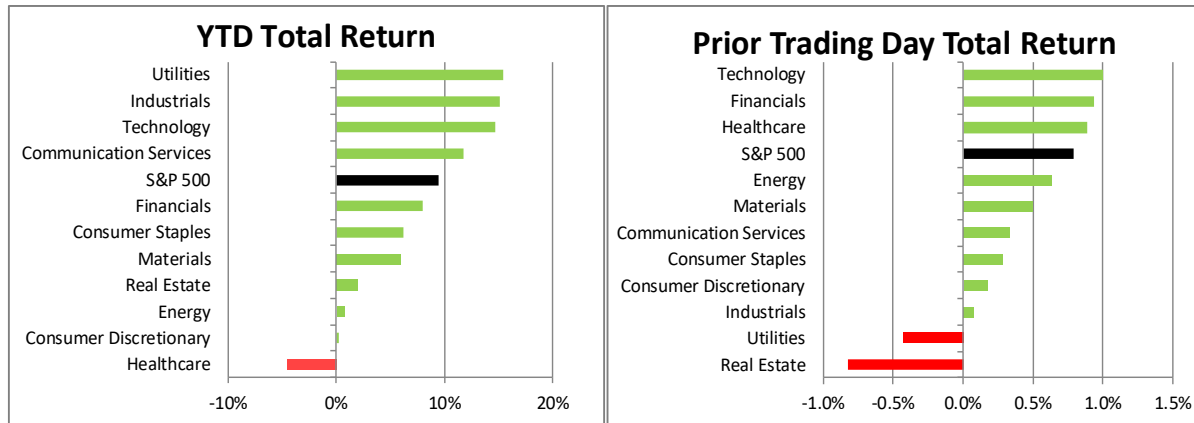
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for most of the country, with cooler-than-normal temperatures expected in the Pacific region. The precipitation forecast shows two distinct patterns. The Rocky Mountains and northern Great Plains are expected to be wetter than normal early in the period, while the Southeast will see increased precipitation later on. Meanwhile, the Pacific Northwest and Great Lakes are predicted to be drier than normal.

The Atlantic currently hosts three tropical disturbances, none of which are forecast to impact the US. Two of the disturbances have a low, 10% chance of developing into a cyclone. The third disturbance, located a few hundred miles west of the African coast, has a high 90% chance of cyclone formation.

Data Section

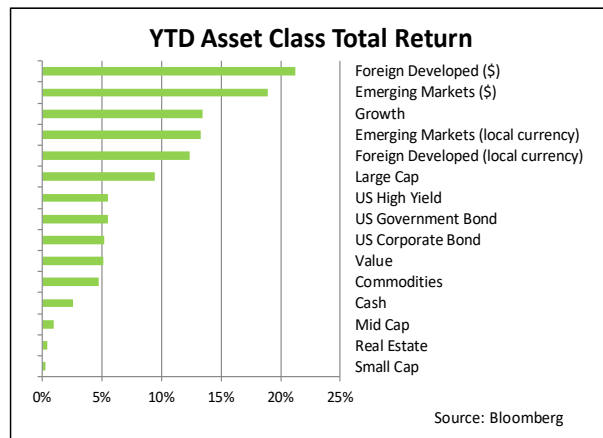
US Equity Markets – (as of 8/8/2025 close)



(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 8/8/2025 close)

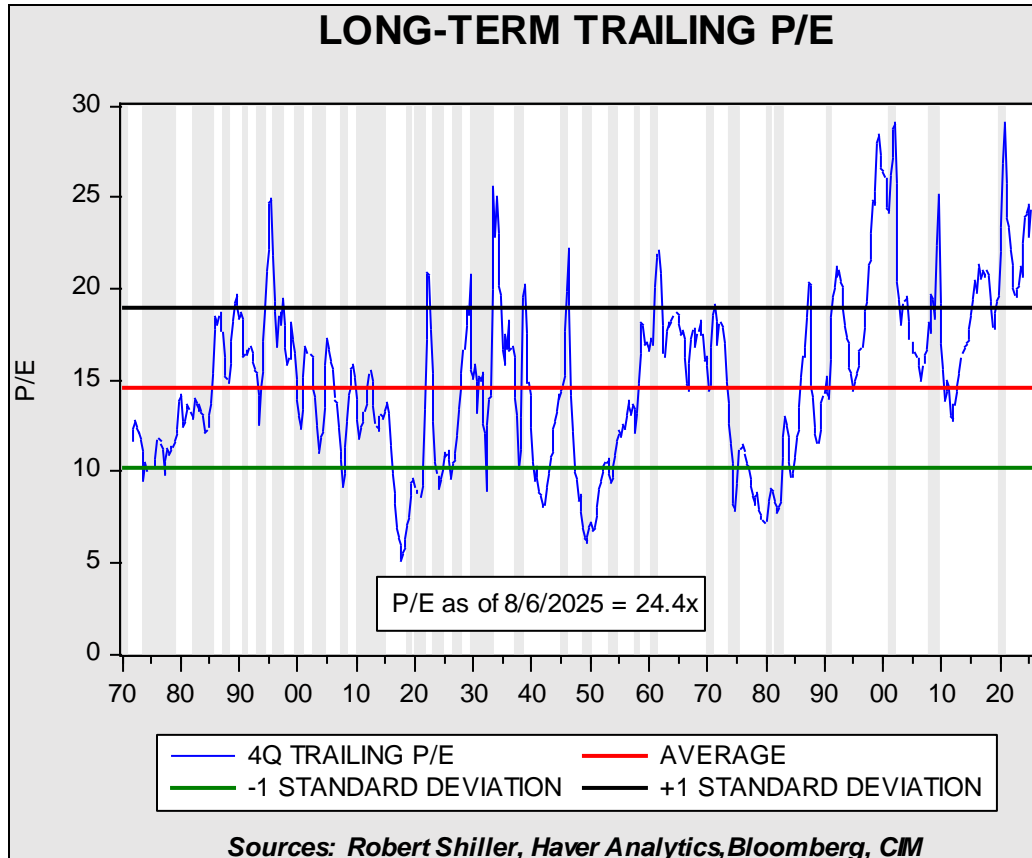


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

August 7, 2025



Based on our methodology,¹ the current P/E is 24.4x, down 0.1 from our last report. The drop was due to the increase in earnings outweighing the increase 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 (Q1, Q3, Q4) and one estimate (Q2). 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.