Daily Comment

Confluence INVESTMENT MANAGEMENT

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[Posted: August 12, 2025 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is down 0.3% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.2%. Chinese markets were higher, with the Shanghai Composite up 0.5% from its previous close and the Shenzhen Composite up 0.3%. US equity index futures are signaling a lower 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
"Update on US and China Defense Spending" **(8/11/25)** **+ 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 President Trump's extension yesterday of the US-China trade truce, along with additional issues in the bilateral relationship. We next review several other international and US developments with the potential to affect the financial markets today, including another interest-rate cut by the Australian central bank and personnel topsy-turvy at the Food and Drug Administration that has had a big impact on US pharmaceutical stocks.

United States-China: President Trump yesterday signed an executive order extending the current US-China tariff truce for another 90 days until mid-November. With the extension, US tariffs on most Chinese goods will remain at 30% rather than jumping to 145%, and China will continue to allow unfettered exports of its rare-earth minerals (at least in theory). While the extension provides some stability for US-China trade relations, it also likely reflects tough sledding in the trade negotiations between the two countries. Nevertheless, Asian stock prices have soared today in response, with the Japanese and Australian indexes hitting record highs.

- Separately, just a day after reports that Trump struck a deal with chip giant Nvidia allowing the firm to sell its lower-technology H20 semiconductors to China in return for the US getting 15% of the associated revenues, the president said he will discuss a new deal allowing the company to sell more advanced chips to Chinese customers.
- Trump suggested the chips sold to China under the new deal wouldn't use cutting-edge technology. However, they would be a step up from the H20 chips. That suggests the president may succumb to Chinese pressure for the more advanced chips despite the risk that they could be used for military purposes against the US, so long as Nvidia pays enough to the US Treasury.
- According to the reports, some US national security officials are considering resigning to protest the sale of such advanced technologies to the Chinese.
- At the same time, reports today say Beijing has asked China's major tech companies to justify their orders of Nvidia's chips rather than domestic alternatives. The request suggests Beijing is now focusing more on the fact that China's reliance on chips from Nvidia makes it vulnerable to a US embargo. While the Chinese government may still pressure the US to allow shipments of the chips in the near term, it is probably working hard to reduce or end its use of them in the future.

Russia-Ukraine: Just days before President Trump meets with Russian President Putin in Alaska to try to end his war against Ukraine, reports say Russian forces have broken through Ukraine's defense lines in its eastern region of Donetsk. The Russian breach is reportedly the most dangerous for the Ukrainians in the last year and may show that the Kremlin is desperately grabbing for territory to improve its position in the Trump-Putin talks on Friday.

Europe: New satellite data confirms that European rhetoric and budget moves to rearm are now leading to actual factory construction and expansion. The data shows European defense firms have broken ground on about 2.8 million square meters of new facilities since the start of 2024, more than three times their groundbreaking in 2020-2021. At the risk of beating a dead (cavalry) horse, we think the figures confirm our long-held view that Europe's defense rebuilding will be at least a short-term spur for the region's economy and further boost its defense stocks.

United Kingdom: Chancellor of the Exchequer Rachel Reeves has ordered officials to plan for a further overhaul of the UK's planning rules to speed up critical infrastructure projects, including construction of a third runway at Heathrow Airport in London. The order comes even though a less ambitious deregulation law is already making its way through parliament. In our view, the initiative is consistent with "YIMBY" moves to ease construction obstacles in the US and other Western countries, all of which could be positive for housing and construction firms.

Australia: The Reserve Bank of Australia today cut its benchmark short-term interest rate by 25 basis points to 3.60%, for its third rate cut this year. To justify the new cut, the central bank cited a modest weakening in the labor market and further evidence that consumer price inflation in Australia is falling back toward the midpoint of its target range of 2.0% to 3.0%. The move appeared to give a further boost to Australian stocks today, while the Australian dollar weakened by a slight 0.1% to $0.6505.

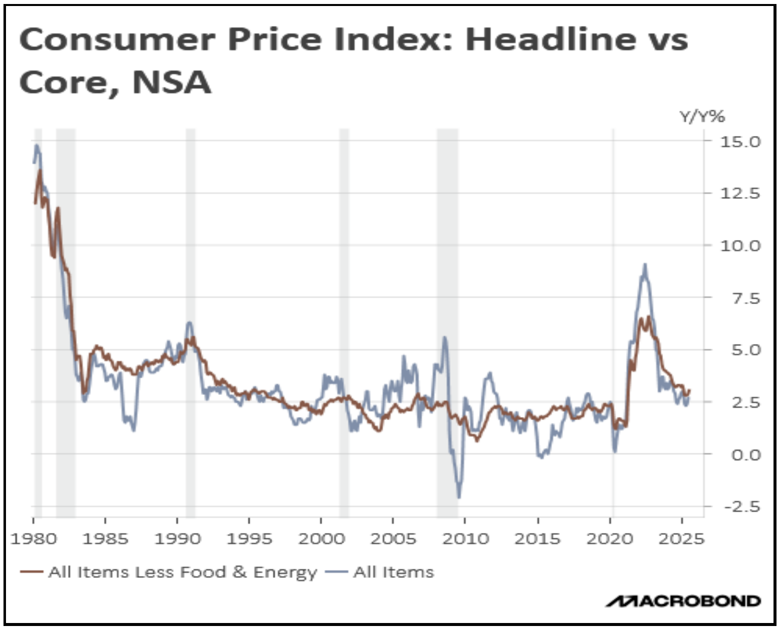
US Economic Data: President Trump last night said he will nominate the Heritage Foundation's chief economist, AJ Antoni, to head the Bureau of Labor Statistics. Antoni has been a long-time critic of the BLS's data collection methods, so he is expected to push for updated and improved processes. Nevertheless, since his nomination comes shortly after Trump fired the previous BLS leader for publishing weak job creation numbers, there may be concerns that future BLS reports could be manipulated to make the data appear more favorable.

US Pharmaceutical Industry: The Food and Drug Administration over the weekend said it has reinstated Vinay Prasad as head of the agency's division for vaccines and other medicines, just weeks after he left the agency in response to pressure from right-wing influencer Laura Loomer. Prasad's unexpected return has raised the prospect of further policy turmoil at the FDA, driving stock prices sharply lower yesterday for major biotechnology firms.

US Gold Market: President Trump yesterday confirmed that he did not mean to impose tariffs on imported gold, despite administration announcements to that effect last week. Gold prices declined about 1.2% on the news, ending at about $3,400 per ounce.

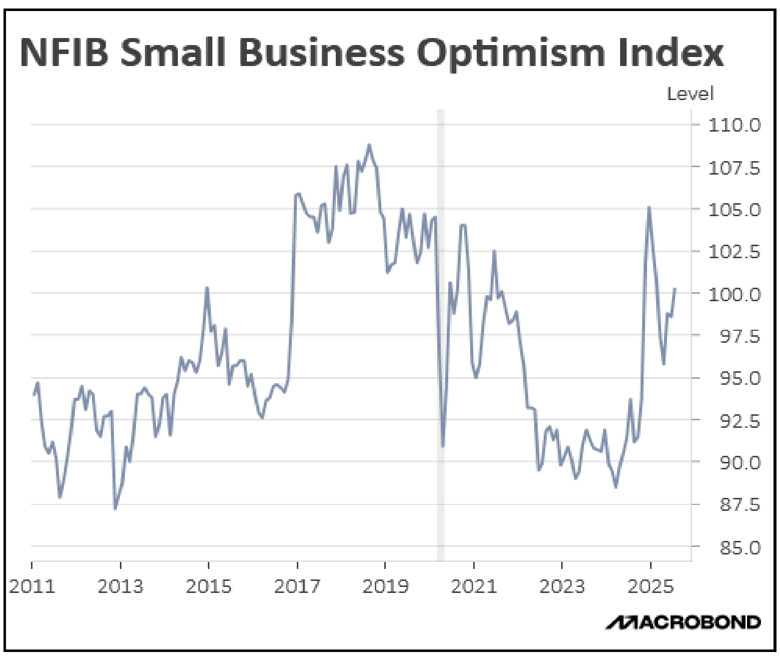
US Economic Releases

The July *consumer price index* (CPI) rose by a seasonally adjusted 0.3%, matching expectations and rising from the previous month's gain of 0.2%. Excluding the volatile food and energy components, the July "core" CPI rose 0.3%, in line with expectations and also above the previous month's rise of 0.2%.



The chart above shows the year-over-year change in the CPI and the core CPI since 1980. The overall CPI in July rose 2.7% from the same month one year earlier, unchanged from the previous, while the core CPI rose 3.1%, exceeding the previous month's rise of 2.9%.

The NFIB Small Business Optimism Index rose sharply in July, climbing from 98.6 to 100.3, exceeding expectations of no change. The uptick reflects growing confidence among business owners, driven by improved economic conditions and expanded opportunities for growth. Key factors behind the increase include the passage of favorable tax legislation and progress on trade deals.



As the chart above illustrates, the index has experienced fluctuations since 2011, but the latest reading shows that upward momentum remains as trade fears have started to ease.

The table below lists the economic releases and Fed events scheduled for the rest of the day.

Economic Releases							
EST	Indicator			Expected	Prior	Rating
14:00	Federal Budget Balance	m/m	Jul	-239.2b	$27.0b	**
Federal Reserve						
EST	Speaker or Event	District or Position				
10:00	Thomas Barkin Speaks on the Economy	President of the Federal Reserve Bank of Richmond				
10:30	Jeffrey Schmid Speaks on Monetary Policy and Economic Outlook	President of the Federal Reserve Bank of Kansas City				

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	Money Stock M2	y/y	Jul	1.0%	0.9%		**	Equity and bond neutral
	Money Stock M3	y/y	Jul	0.6%	0.4%		**	Equity and bond neutral
Australia	NAB Business Confidence	m/m	Jul	7	5		***	Equity and bond neutral
	NAB Business Conditions	m/m	Jul	5	7		***	Equity and bond neutral
India	CPI	y/y	Jul	1.55%	2.10%	1.40%	***	Equity and bond neutral
EUROPE								
Eurozone	ZEW Survey Expectations	m/m	Aug	25.1	36.1		**	Equity and bond neutral
Germany	ZEW Survey Expectations	m/m	Aug	34.7	52.7	39.5	**	Equity and bond neutral
	ZEW Survey Current Situation	m/m	Aug	-68.6	-59.5	-67.0	**	Equity and bond neutral
UK	Average Weekly Earnings 3M/YoY	m/m	Jun	4.60%	5.00%	4.70%	**	Equity and bond neutral
	ILO Unemployment Rate 3Mths	m/m	Jun	4.70%	4.70%	4.70%	**	Equity and bond neutral
	Claimant Count Rate	m/m	Jul	4.40%	4.40%		**	Equity and bond neutral
	Jobless Claims Change	m/m	Jul	-6.2k	-15.5k		**	Equity and bond neutral
Russia	Trade Balance	m/m	Jun	9.3b	8.7b		**	Equity and bond neutral
	Exports	m/m	Jun	32.8b	33.1b		*	Equity and bond neutral
	Imports	m/m	Jun	23.6b	24.4b		*	Equity and bond neutral
AMERICAS								
Brazil	IBGE Inflation IPCA	y/y	Jul	5.23%	5.35%	5.33%	***	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)	413	414	-1	Up
U.S. Sibor/OIS spread (bps)	424	424	0	Down
U.S. Libor/OIS spread (bps)	420	420	0	Down
10-yr T-note (%)	4.29	4.29	0.00	Flat
Euribor/OIS spread (bps)	203	202	1	Down
Currencies	**Direction**			
Dollar	Up			Down
Euro	Down			Up
Yen	Up			Flat
Pound	Down			Up
Franc	Down			Up
Central Bank Action	**Current**	**Prior**	**Expected**	
RBA Cash Rate Target	3.60%	3.85%	3.60%	On Forecast

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	$66.54	$66.63	-0.14%	
WTI	$63.79	$63.96	-0.27%	
Natural Gas	$2.94	$2.95	-0.58%	
Crack Spread	$26.10	$26.29	-0.69%	
12-mo strip crack	$23.26	$23.45	-0.78%	
Ethanol rack	$1.91	$1.90	0.11%	
Metals				
Gold	$3,343.50	$3,342.37	0.03%	
Silver	$37.69	$37.61	0.20%	
Copper contract	$446.80	$444.00	0.63%	
Grains				
Corn contract	$404.25	$407.75	-0.86%	
Wheat contract	$509.00	$515.00	-1.17%	
Soybeans contract	$998.50	$1,011.25	-1.26%	
Shipping				
Baltic Dry Freight	2,038	2,051	-13	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		-1.00		
Gasoline (mb)		-1.00		
Distillates (mb)		0.50		
Refinery run rates (%)		-7.0%		
Natural gas (bcf)		11		

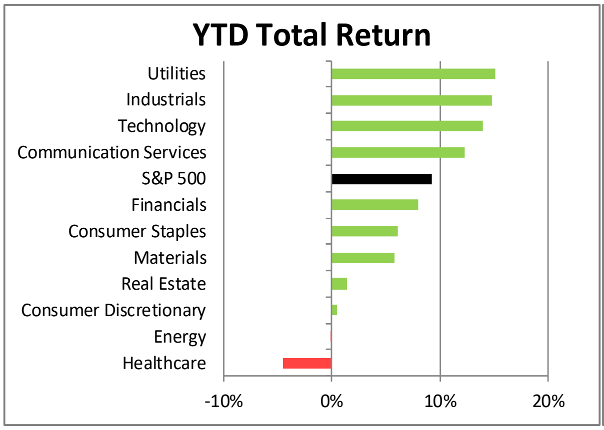
Weather

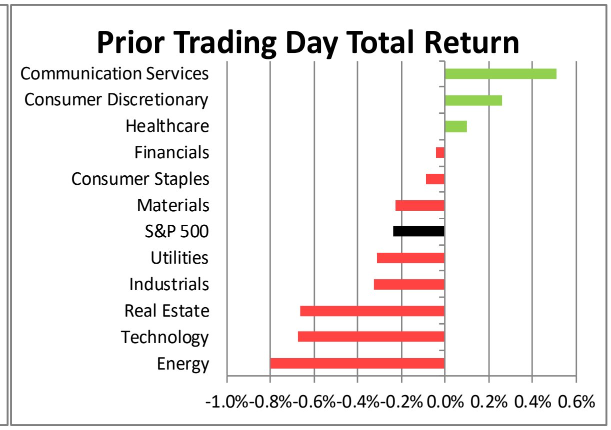
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for most of the country, with cooler-than-normal temperatures expected in the New England region. The precipitation forecast shows wetter-than-normal conditions for most of the country, with dry conditions expected in the Pacific Northwest, Midwest, and Great Lakes in the latter half of the forecast period.

The Atlantic is currently active with three tropical disturbances. One disturbance in the north central Gulf is projected to make landfall in the US, but it's not expected to develop into a tropical cyclone within the next seven days. Further out, there is a second disturbance in the northern Atlantic with only a 10% chance of cyclone formation. The third disturbance, which has moved away from West Africa, has developed into Tropical Storm Erin. This storm poses no immediate threat to the US.

Data Section

US Equity Markets – (as of 8/11/2025 close)

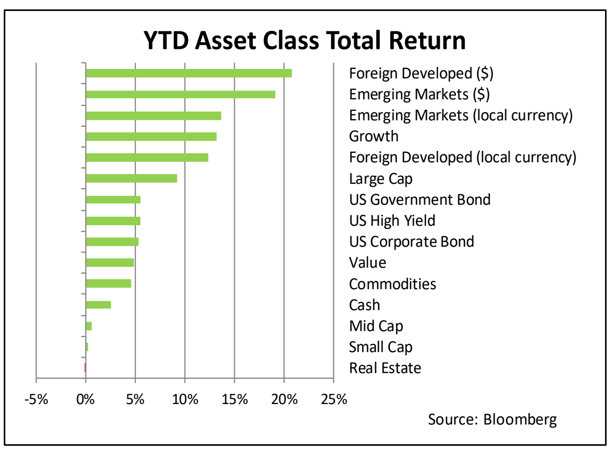




(Source: Bloomberg)

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 8/11/2025 close)

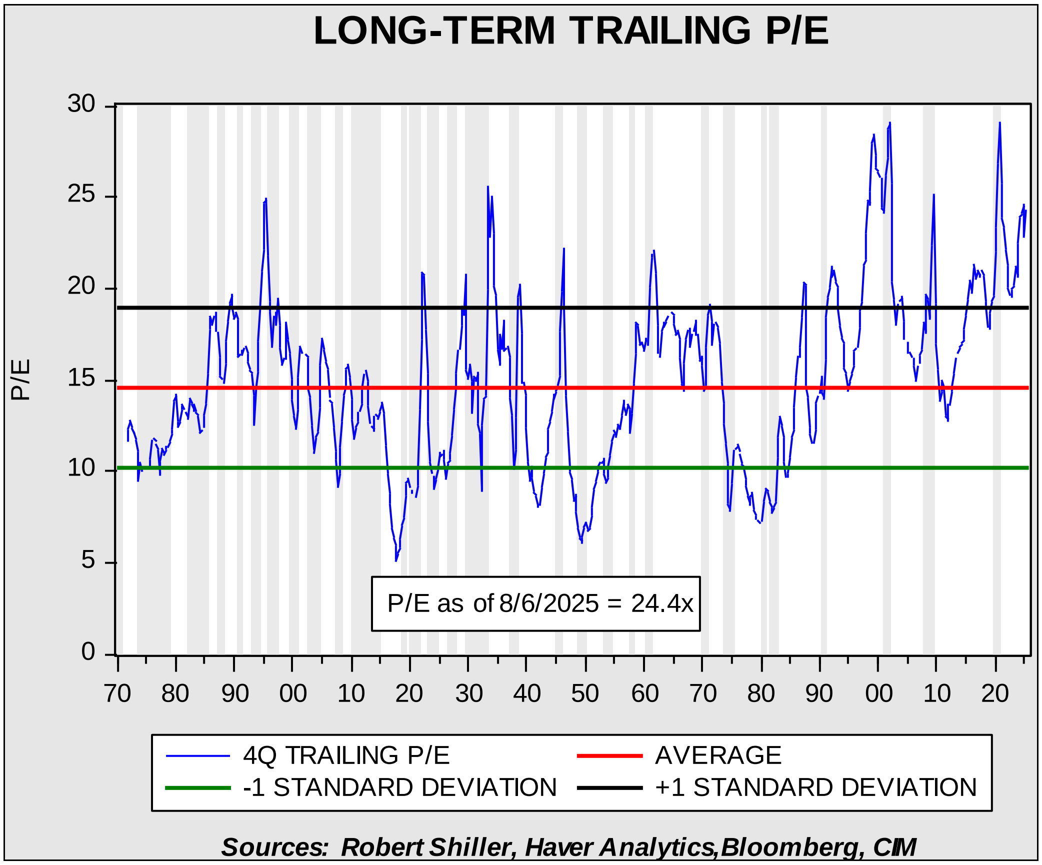


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.

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[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.