

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: August 14, 2025 — 9:30 AM ET Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 0.6% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.6%. Chinese markets were lower, with the Shanghai Composite down 0.5% from its previous close and the Shenzhen Composite down 1.2%. US equity index futures are signaling a mildly higher open.

With 454 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, 81.6% have exceeded expectations while 14.2% 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* will begin by exploring how a potential Fed leadership shakeup could influence monetary policy. From there, we turn to other critical market developments, including the implications of the Trump-Putin talks, Poland’s investor-friendly reforms to spur domestic equity demand, and fresh signs of AI’s accelerating momentum. We wrap up with an overview of additional global and domestic factors shaping the financial landscape.

The New FOMC: President Trump has [indicated that he is nearing a decision on nominating a new Federal Reserve chair to succeed Jerome Powell](#), whose term expires in May — or potentially sooner. Among the leading candidates under consideration are Kevin Hassett (chair

of the Council of Economic Advisers), former Fed Governor Kevin Warsh, and current Fed Governor Christopher Waller. Other potential contenders may include FOMC members Michelle Bowman and Philip Jefferson.

- The president's upcoming selection for Federal Reserve chair will mark his second appointment to the FOMC. His recent nomination of Stephen Miran to replace Adriana Kugler on the Federal Reserve Board represents his first FOMC selection this term. During his previous administration, he appointed Michelle Bowman and Christopher Waller to the committee.
- If elected, President Trump's Fed chair nominee would fill one of four vacant governor seats on the seven-member board, giving his appointees voting control over monetary policy. This shift could significantly influence the central bank's decision making and potentially reshape its policy approach.
- A potential theme emerging from this shift is a return to a more accommodative monetary policy. Treasury Secretary Scott Bessent has mentioned that the Fed should consider a 50-basis-point rate cut in September, with an additional 150 basis points of cuts expected by the end of the easing cycle.
- The potential for the Federal Reserve to adopt a more accommodating policy, with the possibility of rate cuts, would typically be a positive signal for bond prices. However, a long-term rally — especially for bonds with longer maturities — may be hampered by investor uncertainty about future inflation.

Trump-Putin Meeting: Trump has issued a warning to the Russian president, stating that [Putin will face severe consequences if he does not agree to a ceasefire](#). These remarks follow the US president's meeting with European leaders, where they discussed his upcoming one-on-one meeting with Putin. The discussion reportedly focused on ensuring that any potential agreement would be fair to all parties including Ukraine.

- Ahead of the meeting, reports indicate that [Russian forces have been making tactical advances in eastern Ukraine](#). This battlefield momentum may be influencing Putin's negotiating position, as some analysts believe he will use these gains to seek favorable terms for a peace agreement.
- However, Russia's tactical advances on the battlefield have come at a significant cost to its economy. While the country's GDP has grown, this expansion has been heavily reliant on military spending. The [budget deficit has widened considerably](#), driven by increased defense outlays and a recent decline in oil and gas revenues. This has led some analysts to express concerns about a looming debt crisis.
- Although the [White House has tempered expectations for the meeting](#), we remain cautiously optimistic that President Trump's upcoming talks with President Putin in Alaska may establish a pathway toward a ceasefire. We believe that progress in the conflict would likely be supportive of European asset prices.

Pharmaceutical Tariffs: The US could [impose tariffs on pharmaceutical imports within weeks](#), according to Commerce Secretary Howard Lutnick. This follows a Section 232 investigation

launched by the Trump administration, which cited national security risks due to reliance on foreign drug suppliers. While President Trump has floated rates as high as 250%, the plan may begin with lower initial tariffs and gradually escalate them over time.

Polish Reforms: The Polish government is seeking to generate interest in its domestic equity markets to boost economic growth. A recent proposal, the [Personal Investment Account \(OKI\), would introduce a new savings account](#) that eliminates the 19% capital gains tax on investments up to 100,000 PLN (\$27,350). The initiative aims to encourage a greater number of households to invest in the country's equities.

China Property Crisis: Beijing is [considering a plan for central government-run firms to purchase unsold homes](#) from property developers. This move is the latest attempt by China to support its struggling real estate market, which has been a major drag on the economy. The initiative underscores the ongoing challenges that China faces as it tries to rebalance its economy away from a reliance on debt-fueled property development.

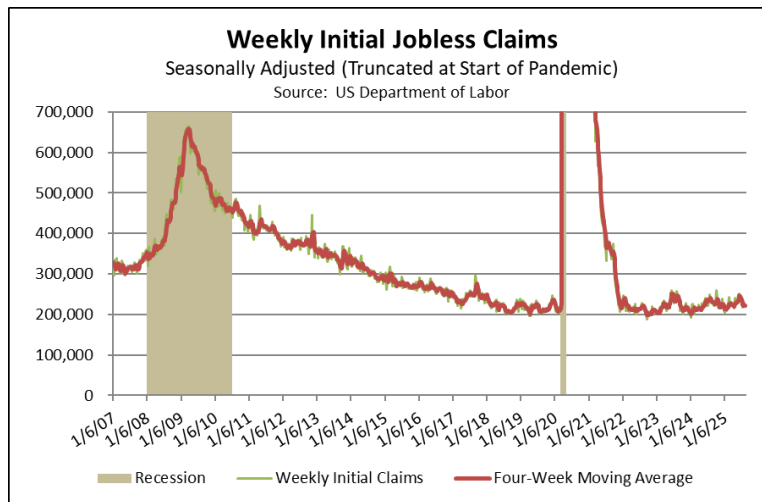
France Debt: Investors are growing concerned about France's widening deficit, which has caused the interest rate on French bonds to rise. This has led [to a narrowing of the spread between French and Italian bonds](#), as Italy has simultaneously improved its own debt outlook, making its bonds more attractive. We are closely watching these interest rates in Europe to understand how the region will adapt to the coming era of increased government debt.

Wealthy Stay in UK: The UK's [crackdown on non-dom tax status hasn't caused the mass departure](#) of wealthy foreigners that many had feared. Early payroll numbers show that Chancellor Rachel Reeves's budget plan didn't scare away as many people as some stories suggested. This is good news for the UK as it tries to fix its budget.

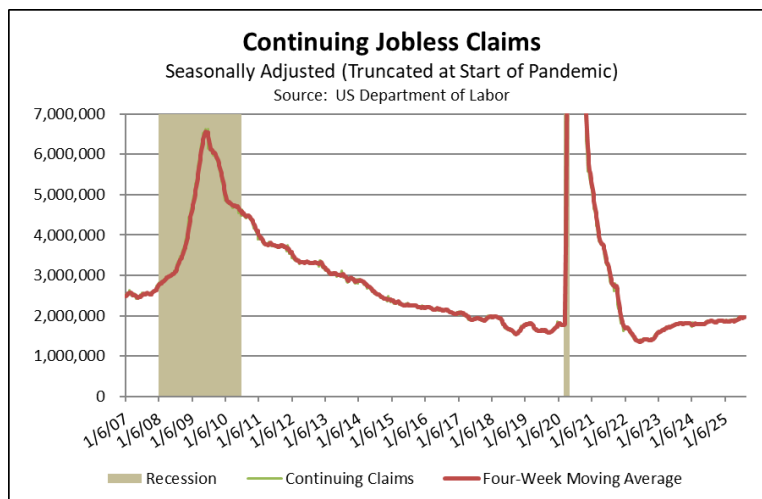
AI Demand: Foxconn, a Taiwanese equipment manufacturer, has [forecast that its server business will generate more revenue than its smart electronics division](#) in the third quarter. This projected shift underscores the resilience of the AI rally, as optimism around technology continues to outweigh trade concerns. This strong demand for AI-related hardware will likely lead to a further increase in tech stock valuations.

US Economic Releases

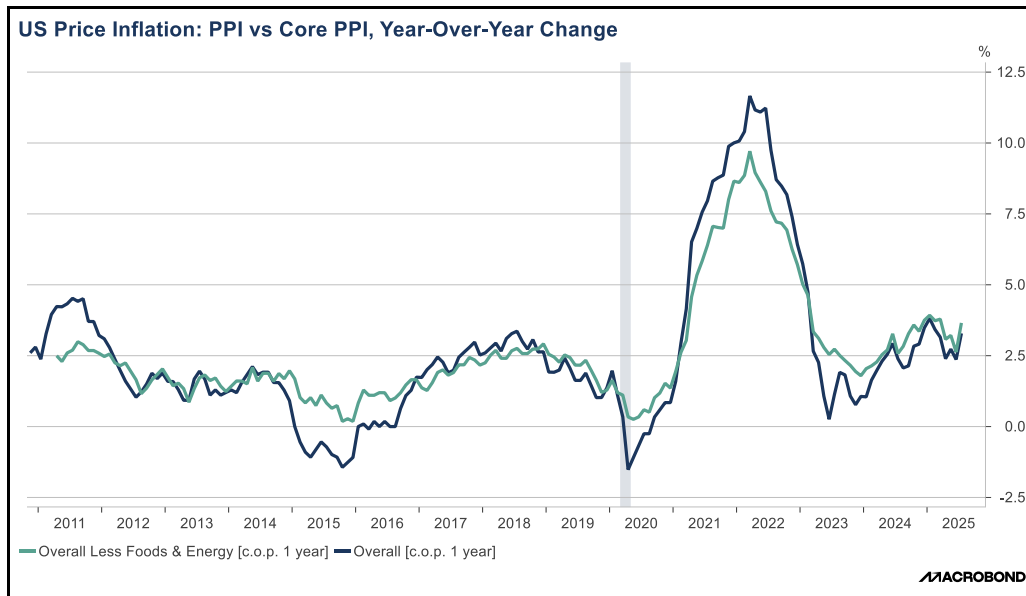
In the week ended August 9, *initial claims for unemployment benefits* fell to a seasonally adjusted 224,000, slightly below both the expected level of 225,000 and the prior week's revised level of 227,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, rose to 221,750. The chart below shows how initial jobless claims have fluctuated since just before the Great Financial Crisis. The chart is truncated through much of the pandemic period because of the extremely high level of claims at that time.



In the week ended August 2, the number of *continuing claims for unemployment benefits* (people continuing to draw benefits) fell to a seasonally adjusted 1.953 million, below the anticipated reading of 1.967 million and the previous week's revised reading of 1.968 million. The four-week moving average of continuing claims rose to 1,950,750. The chart below shows how continuing claims have fluctuated since the GFC. It is also truncated during the pandemic period because of the high level of claims at the time.



Separately, the July *producer price index (PPI)* jumped by a seasonally adjusted 0.9%, well above the expected reading of 0.2% and the flat reading in June. Excluding the volatile food and energy components, the July *“core” PPI* also jumped 0.9%, beating its anticipated reading of 0.2% and the flat reading in the previous month. The overall PPI in July was up 3.3% from the same month one year earlier, while the core PPI was up 3.7%. The chart below shows the year-over-year change in the PPI and the core PPI over the last decade or so.



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

Economic Releases		
No economic releases for the rest of today		
Federal Reserve		
EST	Speaker or Event	District or Position
10:00	Alberto Musalem Appears on CNBC	President of the Federal Reserve Bank of St. Louis
14:00	Thomas Barkin Speaks in NABE Webinar	President of the Federal Reserve Bank of Richmond

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								
Australia	Employment Change	m/m	Jul	24.5k	1.k	25.0k	***	Equity and bond neutral
	Unemployment Rate	m/m	Jul	4.2%	4.3%	4.2%	***	Equity and bond neutral
	Participation Rate	m/m	Jul	67.0%	67.0%	67.1%	**	Equity and bond neutral
South Korea	Export Price Index	y/y	Jul	-4.3%	-4.5%		*	Equity and bond neutral
	Import Price Index	y/y	Jul	-5.9%	-6.2%		*	Equity and bond neutral
China	New Yuan Loans	m/m	Jul	12870.0b	12920.0b	13220.0b	**	Equity and bond neutral
	Money Supply M2	y/y	Jul	8.8%	8.3%	8.3%	***	Equity and bond neutral
	Money Supply M1	y/y	Jul	5.6%	4.6%	5.2%	*	Equity and bond neutral
	Money Supply M0	y/y	Jul	11.8%	12.0%		*	Equity and bond neutral
India	Wholesale Prices	m/m	Jul	-0.58%	-0.13%	-0.48%	*	Equity and bond neutral
India	Exports	y/y	Jul	7.3%	-0.1%		**	Equity and bond neutral
	Imports	y/y	Jul	8.6%	-3.7%		**	Equity and bond neutral
	Trade Balance	m/m	Jul	-\$27350m	-\$18773m	-\$20300m	**	Equity and bond neutral
EUROPE								
Eurozone	GDP	y/y	Q2 S	1.4%	1.4%	1.4%	***	Equity and bond neutral
	Industrial Production WDA	y/y	Jun	0.2%	3.1%	1.5%	**	Equity bearish, bond bullish
	Employment	y/y	2Q P	0.7%	0.7%		*	Equity and bond neutral
France	CPI	y/y	Jul F	1.0%	1.0%	1.0%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Jul F	0.9%	0.9%	0.9%	**	Equity and bond neutral
	CPI Ex-Tobacco Index	q/q	Jul F	120.49	120.23	120.49	*	Equity and bond neutral
UK	GDP	y/y	2Q P	1.2%	1.3%	1.0%	***	Equity and bond neutral
	Industrial Production	y/y	Jun	0.2%	-0.2%	-0.2%	***	Equity and bond neutral
	Manufacturing Production	y/y	Jun	0.0%	1.0%	-0.8%	**	Equity bullish, bond bearish
	Index of Services 3M/3M	m/m	Jun	0.4%	0.5%	0.2%	**	Equity and bond neutral
	Trade Balance GBP/Mn	m/m	Jun	-£5015m	-£4548m	-£5800m	**	Equity and bond neutral
	Visible Trade Balance GBP/Mn	m/m	Jun	-£22156m	-£22051m	-£21875m	**	Equity and bond neutral
UK	RICS House Price Balance	y/y	Jul	-13%	-7%	-5%	**	Equity and bond neutral
Switzerland	Producer & Import Prices	y/y	Jul	-0.9%	-0.7%		**	Equity and bond neutral
Russia	GDP	y/y	2Q A	1.1%	1.4%	1.5%	**	Equity and bond neutral
Russia	CPI	y/y	Jul	8.79%	9.40%	8.90%	***	Equity and bond neutral
	Core CPI	y/y	Jul	8.53%	8.70%		**	Equity and bond neutral
AMERICAS								
Brazil	IBGE Services Volume	y/y	Jun	2.8%	3.8%	2.0%	*	Equity bullish, bond bearish

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)	410	411	-1	Down
U.S. Sibor/OIS spread (bps)	418	419	-1	Down
U.S. Libor/OIS spread (bps)	415	415	0	Down
10-yr T-note (%)	4.21	4.23	-0.02	Down
Euribor/OIS spread (bps)	204	203	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	\$65.91	\$65.63	0.43%	
WTI	\$62.95	\$62.65	0.48%	
Natural Gas	\$2.79	\$2.83	-1.27%	
Crack Spread	\$26.76	\$26.82	-0.23%	
12-mo strip crack	\$23.31	\$23.48	-0.74%	
Ethanol rack	\$1.89	\$1.89	0.04%	
Metals				
Gold	\$3,356.36	\$3,355.86	0.01%	
Silver	\$38.30	\$38.50	-0.54%	
Copper contract	\$454.20	\$455.90	-0.37%	
Grains				
Corn contract	\$393.50	\$397.25	-0.94%	
Wheat contract	\$524.25	\$528.25	-0.76%	
Soybeans contract	\$1,039.25	\$1,044.25	-0.48%	
Shipping				
Baltic Dry Freight	2,025	2,017	8	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)	3.04	-0.91	3.95	
Gasoline (mb)	-0.79	-0.72	-0.07	
Distillates (mb)	0.71	1.25	-0.54	
Refinery run rates (%)	-0.5%	-0.7%	0.2%	
Natural gas (bcf)		54		

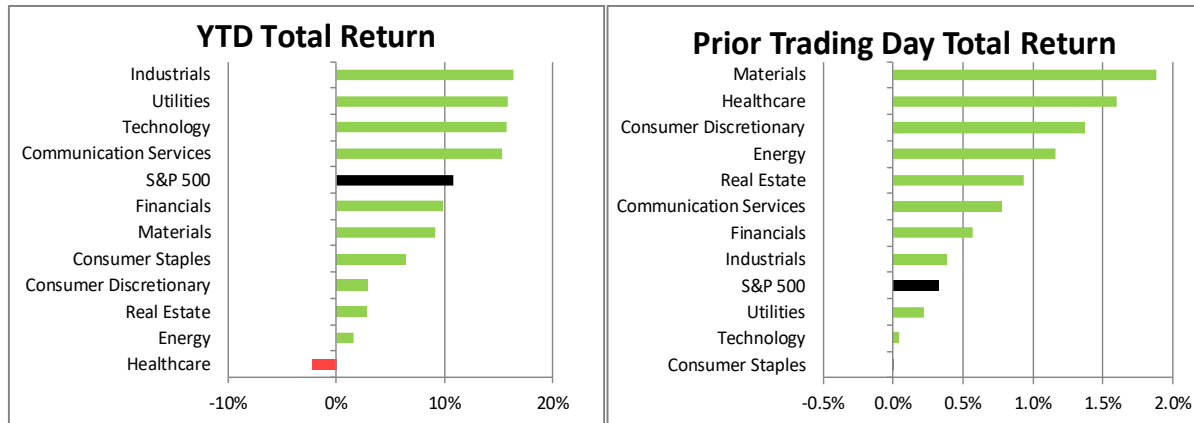
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures throughout the entire western half of the country and the Southeast, with cooler-than-normal temperatures in the Northeast. The forecasts call for wetter-than-normal conditions in the southern Rocky Mountains, the central and northern Great Plains, and the Southeast, with dry conditions in the Pacific Northwest and the Midwest.

There are now two tropical disturbances in the Atlantic area. One disturbance is located in the Gulf of Campeche and is expected to move westward across Mexico, but it is assessed to have only a 20% chance of developing into a cyclone within the next seven days. Meanwhile, Tropical Storm Erin is in the central Atlantic and moving westward slowly. The storm poses no immediate threat to the US.

Data Section

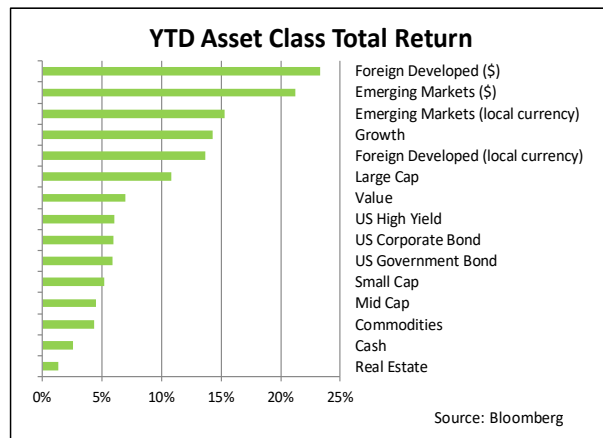
US Equity Markets – (as of 8/13/2025 close)



(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 8/13/2025 close)

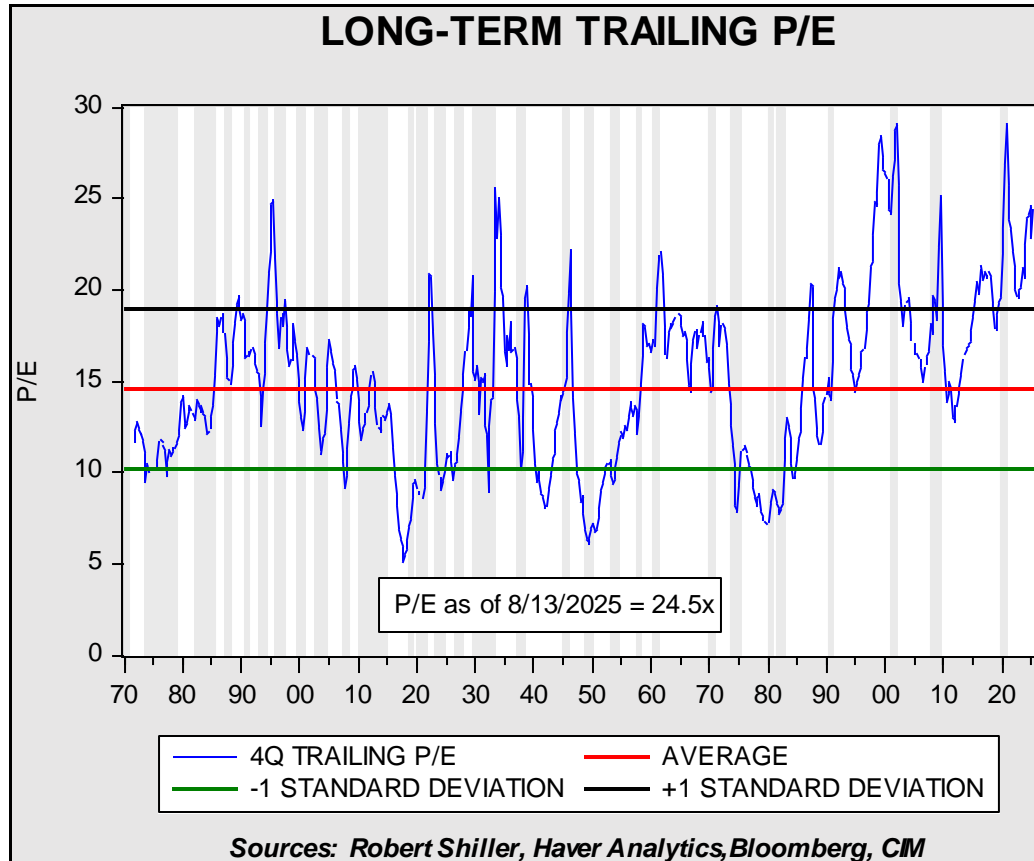


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 14, 2025



Based on our methodology,¹ the current P/E is 24.5x, up 0.1 from our last report. The increase was due to the rise in the stock price index outweighing the increase in earnings.

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.