



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: August 15, 2025 — 9:30 AM ET Global equity markets are generally higher this morning. In Europe, the Euro Stoxx 50 is up 0.2% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.4%. Chinese markets were higher, with the Shanghai Composite up 0.8% from its previous close and the Shenzhen Composite up 1.7%. US equity index futures are signaling a higher open.

With 458 companies having reported so far, S&P 500 earnings for Q2 are running at \$66.80 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 14.3% 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 analyzing how a potential US government stake in Intel could signify a shift in economic models. We’ll then examine other critical market developments, including China’s economic slowdown, India’s push for stimulus, and the Democratic Party’s potential rebrand. We will conclude with an overview of other global and domestic factors shaping the financial landscape.

Intel State-Owned: The Trump administration is reportedly [exploring a stake purchase in a struggling chipmaker](#) — a move that comes after the president previously pressured the company’s CEO to resign over alleged ties to China. The potential investment would deliver a

much-needed cash infusion as the company races to construct a new US-based semiconductor plant. This signals a notable shift in US economic policy, marking a departure from the traditional hands-off approach to private industry.

- The potential US investment reflects the government's growing willingness to influence corporate operations, as evidenced earlier this year when the Trump administration secured a "golden share" in the Nippon-US Steel merger. That deal granted Washington veto power over key decisions, including worker layoffs, and signaled a more interventionist approach to domestic industry.
- US government investment in equities could bolster share prices, particularly in strategic industries. However, such intervention may also constrain corporate decision-making and potentially limit value-creating moves that are politically unpopular. As a result, investors are likely to scrutinize these companies more closely, ensuring they maintain operational efficiency despite political constraints.
- That said, we believe companies closely aligned with the government's agenda could benefit from protective measures aimed at shielding them from foreign competition. Such policies may also help ensure these firms remain viable in the long run, offering domestic businesses a potential competitive advantage over time.

China Slowdown: The world's second-largest economy [is experiencing a widespread slowdown](#), with the effects of the trade war becoming increasingly apparent. Retail sales, factory activity, and fixed-asset investment have all decelerated, while the real estate sector has continued to decline. Additionally, unemployment has risen, increasing from 5.0% to 5.2%.

- The country's sharp slowdown in growth suggests that the economy's early resilience was short-lived, largely due to a temporary surge from businesses trying to get ahead of new tariffs.
- While this [economic weakness could prompt further policy stimulus](#), there are clear signs that the Chinese economy may be in more serious trouble, especially since Beijing has reportedly told firms to resist absorbing the cost of tariffs.

India Stimulus: In his Independence Day speech, Prime Minister Narendra Modi pledged [additional economic stimulus measures to bolster India's self-reliance and insulate the economy](#) from the impact of global tariffs. Among the proposed steps is a reduction in sales taxes on goods and services. His announcement comes as India and the US continue trade negotiations, with lingering disagreements over American farm and dairy product imports.

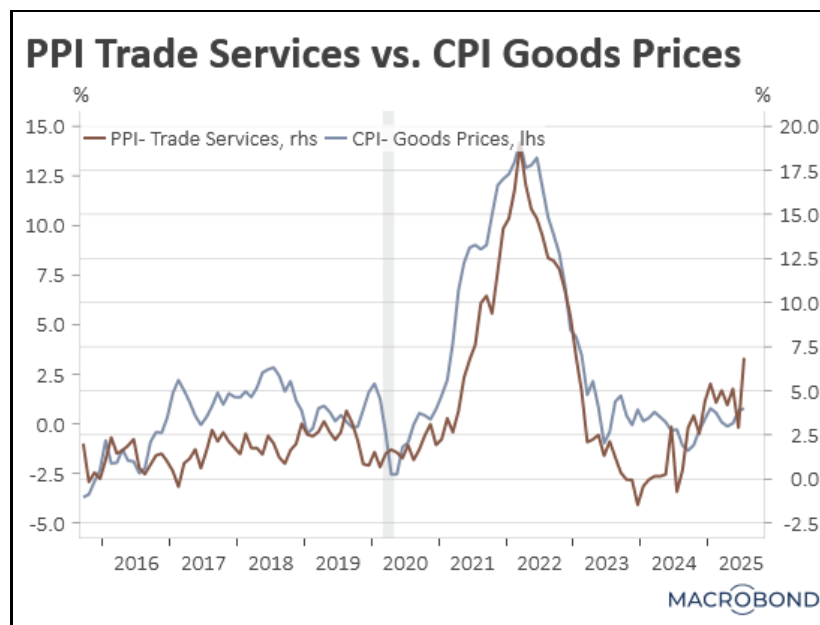
Rare Earths: China continues to solidify its stranglehold on global rare earths production, currently controlling approximately 90% of the world's supply. [Authorities have recently warned domestic firms that excessive stockpiling](#) may result in reduced allocations, signaling tighter central control over these strategic resources. The irreplaceable role of these minerals in tech manufacturing strengthens China's market control, exposing AI-dependent firms to serious supply chain risks.

Japan: Japan's economy expanded for a second consecutive quarter, reducing fears of a potential recession. In the second quarter, [real GDP grew by 0.3%, following an upward revision](#)

[of the prior quarter's growth](#). This stronger-than-expected performance is likely to pave the way for the Bank of Japan (BOJ) to consider a rate hike. A move toward tighter Japanese monetary policy, combined with sustained economic growth, would likely put downward pressure on the US dollar by strengthening the Japanese yen.

PPI Surprise: In July, supplier prices surged beyond expectations, pointing to mounting input cost pressures. The Producer Price Index (PPI) jumped to 3.3% year-over-year, up sharply from 2.3% in the prior year and significantly exceeding the 2.5% consensus forecast. A similar trend emerged in the core PPI, which climbed from 2.6% to 3.7%. The acceleration was largely fueled by trade services; excluding this category, the increase was more moderate, rising from 2.5% to 2.8%.

- Trade services are a measurement of the margins between wholesalers and retailers. They represent the change in the difference between the price that wholesalers and retailers pay for a good and the price at which they sell that same good. When this component increases, it's a signal that wholesalers and retailers are either passing on higher input costs to their customers or widening their profit margins.
- Earlier this year, [we singled out trade services](#) as being an important indicator for understanding the “pass-through” effect of tariffs on consumers. During the pandemic, as trade services began to pick up, there was a corresponding and notable increase in consumer prices. We interpret this as firms using that period to exert their pricing power and protect profit margins in the face of rising costs.



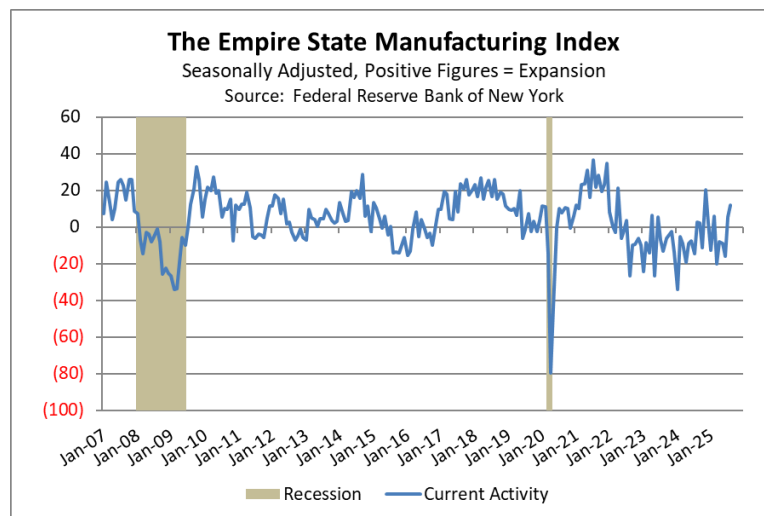
- The biggest unknown now is whether this is a one-time event or a symptom of a longer-term problem. If trade services continue to increase, we would be very concerned that inflationary pressures could start to build, especially if households continue to show the ability to absorb them.

- That said, these surprising readings in both the PPI and employment payrolls are why we believe this is a time for prudent risk-taking as we work to understand the full impact of tariffs on the economy.

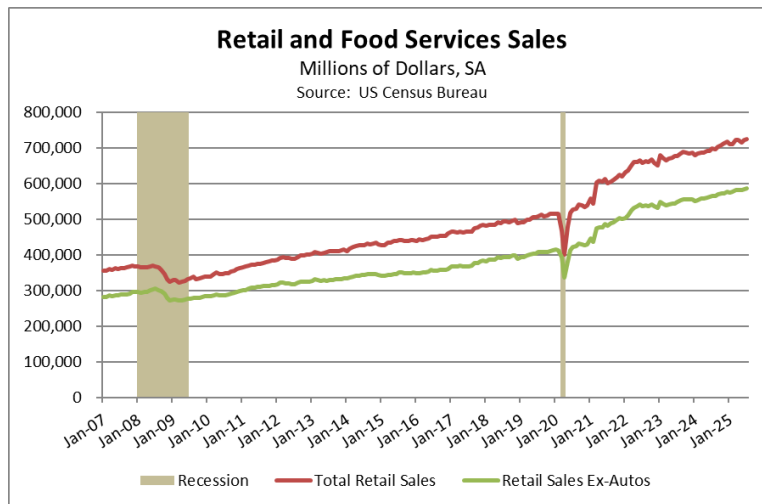
Democrat Abundance: As the party prepares for mid-term elections, a [new push for deregulation is emerging as part of a broader redefinition of its platform](#). This shift in sentiment is partly influenced by [Ezra Klein's book, *Abundance*](#), which argues that overregulation has hindered urban progress. While not universally embraced, the book's growing influence suggests a change in thinking, with an increasing number of policymakers advocating for less red tape. This pivot could benefit companies seeking to expand and take advantage of government programs.

US Economic Releases

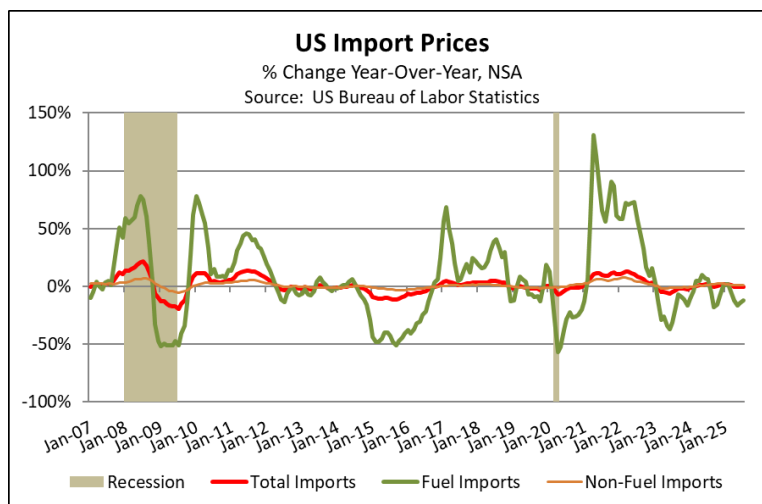
The New York FRB said its August ***Empire State Manufacturing Index*** rose to a seasonally adjusted 11.9, beating both the expected reading of 0.0 and the July reading of 5.5. This index is designed so that positive readings point to expanding factory activity in New York State. At its current level, the index suggests New York manufacturing is now growing at its best rate since late last year. The chart below shows how the index has fluctuated since just before the Great Financial Crisis (GFC).



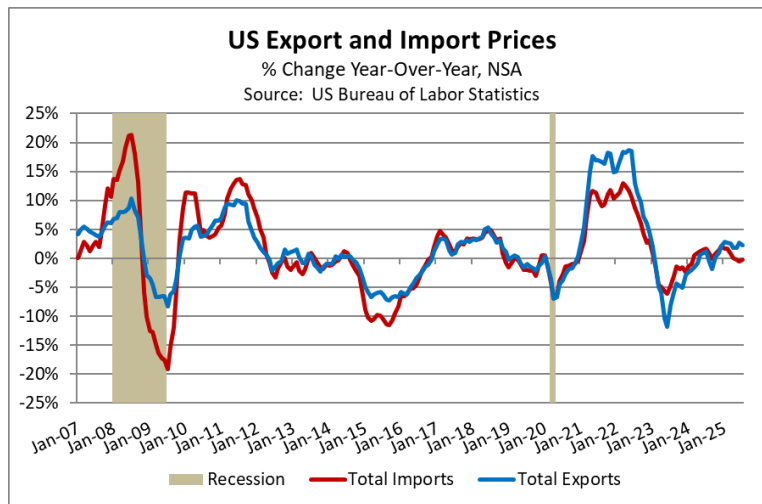
Separately, July ***retail sales*** rose by a seasonally adjusted 0.5%, slightly worse than their expected gain of 0.6% and weaker than their June rise of 0.9%. Of course, overall retail sales are often driven by the volatile auto and auto parts sector, which makes up almost one-fifth of the total. July ***retail sales excluding autos and auto parts*** were up a more modest 0.3%, matching expectations but slowing from their 0.8% rise in the previous month. Overall retail sales in July were up 4.3% from the same month one year earlier, while sales excluding autos and auto parts were up 4.2%. The chart below shows how retail sales have changed since just before the GFC.



Finally, July **import prices** jumped 0.4% from the previous month, far worse than their expected rise of 0.1% and more than enough to reverse their revised decline of 0.1% in June. Import prices are often driven by volatility in the petroleum fuels category, but that wasn't much of an issue this time. July **import prices excluding fuels** were up 0.3%, above their anticipated increase of 0.1% and enough to reverse their 0.2% fall in June. Overall import prices in July were down 0.2% year-over-year, while import prices excluding fuels were up 0.9%. The chart below shows the year-over-year change in import prices since just before the GFC.



According to the report, **export prices** in July were up 2.2% from one year earlier, in large part because of the key agriculture category. Comparing the annual change in export prices versus import prices provides a sense of the US "terms of trade," or the relative advantage or disadvantage the country is facing because of trends in international trade prices. The chart below compares the year-over-year change in US export and import prices since just before the GFC.



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

Economic Releases						
EST	Indicator			Expected	Prior	Rating
10:00	Business Inventories	m/m	Jun	0.2%	0.0%	*
10:00	U. of Michigan Consumer Sentiment	m/m	Aug P	62.0	61.7	***
10:00	U. of Michigan Current Conditions	m/m	Aug P	67.5	68.0	**
10:00	U. of Michigan Future Expectations	m/m	Aug P	58.4	57.7	**
10:00	U. of Michigan 1-Year Inflation Expectation	m/m	Aug P	4.4%	4.5%	*
10:00	U. of Michigan 5-10 Year Inflation Expectation	m/m	Aug P	3.4%	3.4%	*
16:00	Net Long-Term TIC Flows	m/m	Jun		\$259.4b	**
16:00	Total Net TIC Flows	m/m	Jun		\$311.1b	**
Federal Reserve						
EST	Speaker or Event	District or Position				
8:30	Austan Goolsbee Appears on CNBC	President of the Federal Reserve Bank of Chicago				

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	GDP SA	q/q	2Q P	0.30%	0.10%	0.10%	***	Equity and bond neutral
	GDP Deflator	q/q	2Q P	3.00%	3.30%	3.20%	***	Equity and bond neutral
	Japan Buying Foreign Bonds	w/w	8-Aug	¥254.9b	-¥527.0b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	8-Aug	-¥225.5b	-¥752.1b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	8-Aug	¥733.2b	-¥92.7b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	8-Aug	¥489.3b	¥193.9b		*	Equity and bond neutral
	Industrial Production	y/y	Jun F	4.4%	4.0%		***	Equity and bond neutral
	Capacity Utilization	y/y	Jun	-1.8%	2.0%		**	Equity and bond neutral
	BusinessNZ Manufacturing PMI	m/m	Jul	52.8	49.2		***	Equity and bond neutral
New Zealand	Food Prices	m/m	Jul	0.7%	1.2%		***	Equity and bond neutral
	Retail Sales	y/y	Jul	3.7%	4.8%	4.6%	**	Equity bearish, bond bullish
China	Industrial Production	y/y	Jul	5.7%	6.8%	6.0%	***	Equity and bond neutral
	Fixed Assets Ex Rural YTD	y/y	Jul	1.6%	2.8%	2.7%	**	Equity bearish, bond bullish
EUROPE								
Russia	Current Account Balance	q/q	2Q P	7300m	16700m	9400m	**	Equity and bond neutral
	Gold and Forex Reserves	m/m	8-Aug	\$646.4b	\$676.4b		***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	8-Aug	18.64t	18.48t		*	Equity and bond neutral
AMERICAS								
Canada	Existing Home Sales	m/m	Jul	3.8%	2.8%		*	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)	410	412	-2	Down
U.S. Sibor/OIS spread (bps)	420	420	0	Down
U.S. Libor/OIS spread (bps)	416	417	-1	Down
10-yr T-note (%)	4.29	4.29	0.00	Up
Euribor/OIS spread (bps)	203	204	-1	Down
Currencies	Direction			
Dollar	Up			Down
Euro	Down			Up
Yen	Up			Down
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	\$66.42	\$66.84	-0.63%	
WTI	\$63.50	\$63.96	-0.72%	
Natural Gas	\$2.86	\$2.84	0.70%	
Crack Spread	\$26.34	\$26.48	-0.52%	
12-mo strip crack	\$23.23	\$23.41	-0.77%	
Ethanol rack	\$1.89	\$1.89	-0.13%	
Metals				
Gold	\$3,340.86	\$3,335.39	0.16%	
Silver	\$37.84	\$38.01	-0.45%	
Copper contract	\$453.50	\$454.35	-0.19%	
Grains				
Corn contract	\$399.00	\$397.25	0.44%	
Wheat contract	\$524.25	\$524.50	-0.05%	
Soybeans contract	\$1,032.00	\$1,028.50	0.34%	
Shipping				
Baltic Dry Freight	2,039	2,025	14	
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)	56	54	2	

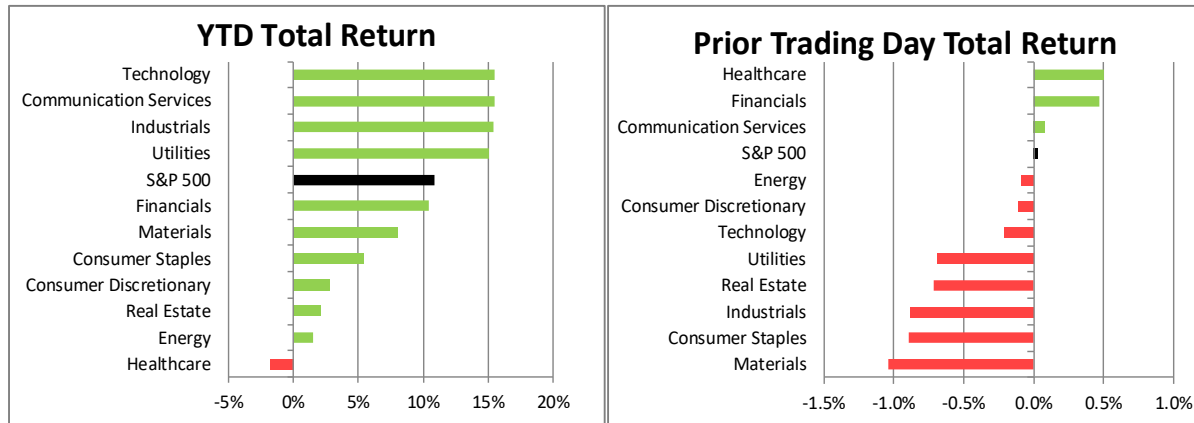
Weather

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 Midwest and 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 hugging the Gulf Coast near the border of Texas and Mexico; it is expected to move inland today or tomorrow and is assessed to have a 50% chance of developing into a cyclone within the next seven days. Meanwhile, Tropical Storm Erin is in the central Atlantic and moving westward slowly toward the Caribbean Sea. The storm poses no immediate threat to the US.

Data Section

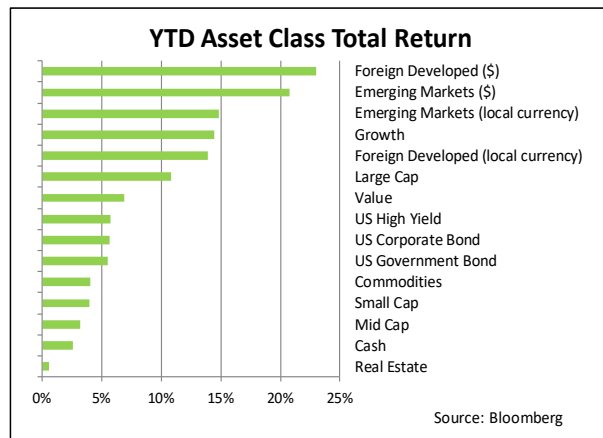
US Equity Markets – (as of 8/14/2025 close)



(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 8/14/2025 close)

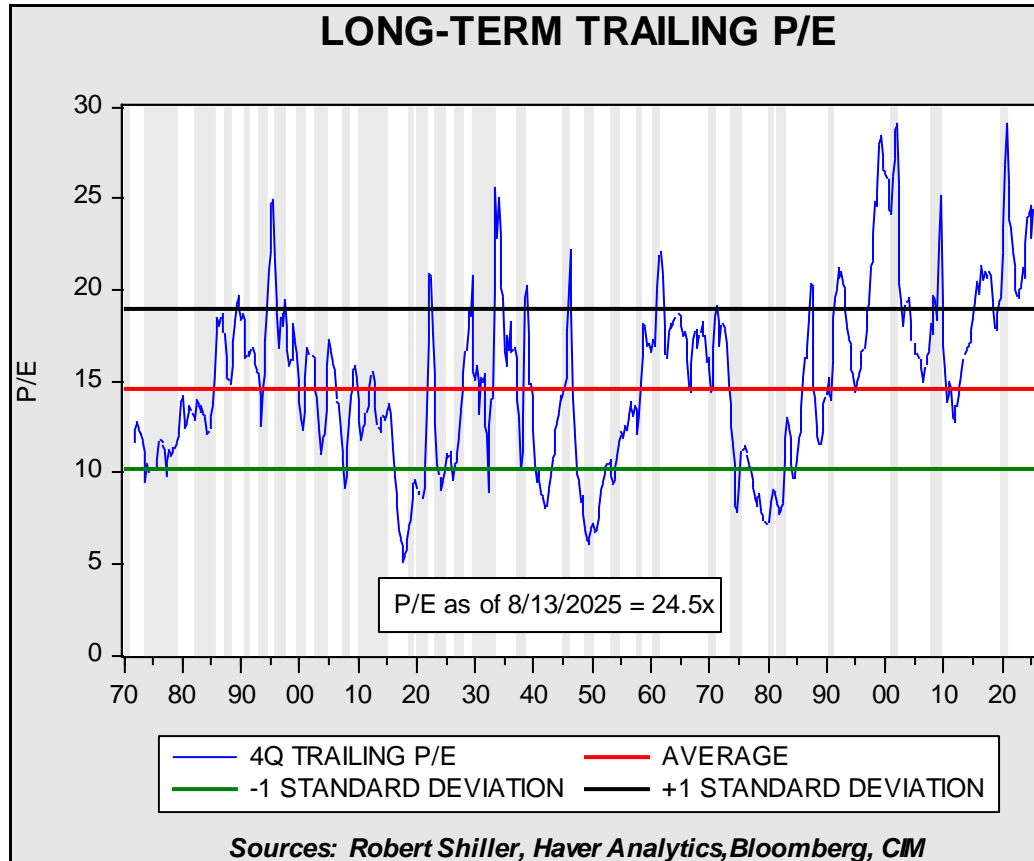


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.