



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: August 18, 2025 — 9:30 AM ET Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is down 0.6% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.3%. Chinese markets were higher, with the Shanghai Composite up 0.9% from its previous close and the Shenzhen Composite up 1.8%. US equity index futures are signaling a lower 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	“Navigating the Waves of BLS Revisions” (8/18/25) + 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 few words on the Trump-Putin summit in Alaska late Friday. We next review several other international and US developments with the potential to affect the financial markets today, including a new intra-day record high for Japanese stock prices and a short preview of the Federal Reserve’s annual symposium in Jackson Hole, Wyoming, which starts later this week.

United States-Russia-Ukraine: President Trump today [will meet Ukrainian President Zelensky and top European leaders at the White House to hash out next steps](#) to end Russia’s war against Ukraine, after Friday’s summit between Trump and Russian President Putin yielded meager

results. Reports over the weekend suggested the main goal of the White House meeting will be to flesh out the US security guarantees for Ukraine that Trump seems to have embraced of late. The leaders are also expected to discuss possible land swaps as the basis for a peace deal.

- All presidents and their administrations continually learn as they conduct US foreign policy, even in their second term. Recent months have highlighted President Trump's evolving awareness of the relative power and goals of China and Russia, the world's other two "Great Powers."
- Although Trump and his administration had rightly focused on China's dependence on exports to the US as a source of leverage, the US-China trade war in recent months has shown that China also has an important source of leverage in its near-monopoly over critical mineral supplies. Putin's intransigence in prosecuting his war against Ukraine has brought into high relief his maximalist geopolitical goals and duplicity.
- As US officials come to terms with these learnings about the other Great Powers and their relative leverage versus the US, it is possible they will partially back off their populist, isolationist inclinations. If Trump really has swung behind US security guarantees for Ukraine, we would have strong evidence of such a shift, even though his abandonment of a ceasefire goal and embrace of land swaps may look like he has embraced Putin's perspective on the war.
- Any such shift back toward a more traditional US foreign policy focused on support for allies would likely help ensure the survival of the US geopolitical and economic bloc, which we have argued is an attractive investment space for US investors. However, such a shift would also likely generate plenty of pushback from much of the administration's political base.

United States-European Union: A planned joint US-EU statement fleshing out the terms of the two sides' July 27 trade deal [continues to be delayed by disagreements over reforms to the EU's Digital Services Act](#), which US officials claim is an unfair hinderance of US tech companies. The joint statement was originally expected to be issued within days of that trade deal.

Japan: The Nikkei 225 stock price index today [reached its third all-time high in the last five trading days](#), illustrating how factors such as market momentum, a renewed weakening of the yen, decent economic growth, and optimism over the war in Ukraine have been boosting Japanese stock values.

China: As Chinese economic officials seek new resources to fund fiscal stimulus measures, they [are reportedly starting to crack down on domestic investors' foreign investment income](#). Chinese residents investing onshore are currently exempt from tax. However, foreign investment income is subject to a 20% tax, and many individuals fail to report their gains. A new crackdown could theoretically limit Chinese demand for a range of investments around the world, hurting returns.

Bolivia: In the first round of the presidential election yesterday, centrist Senator Rodrigo Paz [came in first with about 32% of the vote, and conservative former President Jorge Quiroga came in second with 27%](#). Paz and Quiroga will now compete in the October run-off, ensuring that Bolivia will once again be led by a pro-US, market-friendly president after 20 years of almost

uninterrupted rule by the leftist Movement Toward Socialism party. The prospect of better economic policies has given a further boost to Bolivian bond values and other assets.

Canada: The Canadian Union of Public Employees, which represents 10,000 of Air Canada's flight attendants, [launched a strike against the airline over the weekend](#), ignoring a government order for binding arbitration and grounding hundreds of flights. The main issue for the union is compensation. Since Air Canada is tightly integrated with the Star Alliance (which also includes United Airlines, Lufthansa, Turkish Airlines, and Singapore Airlines), the strike threatens to disrupt air travel and freight shipments across North America and beyond.

US Monetary Policy: The Fed's annual symposium in Jackson Hole, Wyoming, [starts this Thursday, with the official theme of "Labor Markets in Transition: Demographics, Productivity, and Macroeconomic Policy."](#) Chair Powell will give his keynote speech on Friday, and investors will be looking for confirmation that the central bank will cut its benchmark fed funds interest rate in September as expected. Investors will also be hoping that Powell will provide guidance on future rate cuts through the end of the year.

US Corporate Bond Market: Little noticed amid the recent rally in stock prices, surging prices for company bonds [have driven the corporate yield spread over 10-year Treasuries to a 27-year low of just 0.75%](#). The ultra-low credit spread appears to reflect investors' continued strong optimism about the US economy, even as they also expect slowing economic growth and cooler inflation to allow the Fed to cut interest rates multiple times before the end of the year.

US Economic Releases

There were no economic releases prior to the publication of this report. 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	NAHB Housing Market Index	m/m	Aug	34	33	*
Federal Reserve						
EST	Speaker or Event	District or Position				
12:45	Michelle Bowman	Member of the Board of Governors				

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	Tertiary Industry Index	m/m	Jun	0.50%	0.30%	0.20%	***	Equity and bond neutral
New Zealand	Non Resident Bond Holdings	m/m	Jul	62.8%	62.7%		*	Equity and bond neutral
India	Unemployment Rate	m/m	Jul	5.2	5.6%		*	Equity and bond neutral
EUROPE								
Eurozone	Trade Balance SA	m/m	Jun	2.8b	15.6b		**	Equity and bond neutral
UK	Rightmove House Prices	y/y	Aug	0.3%	0.1%		**	Equity and bond neutral
Switzerland	Industrial Output WDA	y/y	Q2 F	-0.1%	8.9%	0.7%	*	Equity bearish, bond bullish
	Domestic Sight Deposits CHF	w/w	15-Aug	439.1b	437.1b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	15-Aug	465.7b	724.9b		*	Equity and bond neutral
AMERICAS								
Canada	Manufacturing Sales	m/m	Jun	0.3%	-1.5%	0.4%	**	Equity and bond neutral
	Wholesale Sales ex Petroleum	m/m	Jun	0.7%	0.0%	0.70	**	Equity and bond neutral
Brazil	FGV Inflation IGP-10	m/m	Aug	2.84%	3.42%		**	Equity and bond neutral
	Economic Activity	y/y	Jun	1.4%	3.5%	1.2%	**	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)	410	412	-2	Down
U.S. Sibor/OIS spread (bps)	421	421	0	Down
U.S. Libor/OIS spread (bps)	417	417	0	Down
10-yr T-note (%)	4.29	4.32	-0.03	Up
Euribor/OIS spread (bps)	203	203	0	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	\$66.20	\$65.85	0.53%	
WTI	\$63.23	\$62.80	0.68%	
Natural Gas	\$2.82	\$2.92	-3.33%	Oversupply Builds
Crack Spread	\$26.13	\$26.32	-0.72%	
12-mo strip crack	\$23.06	\$23.24	-0.77%	
Ethanol rack	\$1.90	\$1.90	0.20%	
Metals				
Gold	\$3,345.03	\$3,336.19	0.26%	
Silver	\$38.06	\$38.00	0.14%	
Copper contract	\$452.80	\$455.55	-0.60%	
Grains				
Corn contract	\$403.25	\$405.25	-0.49%	
Wheat contract	\$523.75	\$527.00	-0.62%	
Soybeans contract	\$1,037.50	\$1,042.50	-0.48%	
Shipping				
Baltic Dry Freight	2,044	2,039	5	

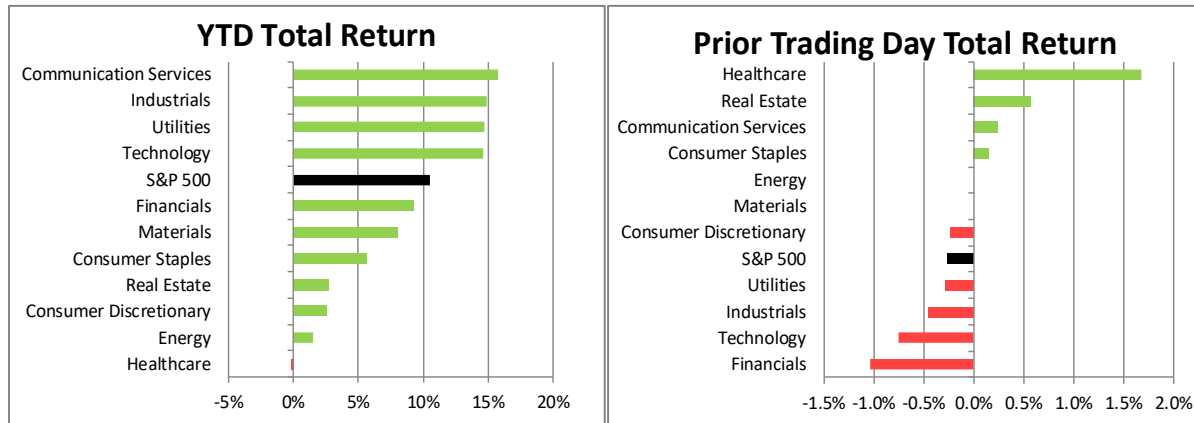
Weather

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 precipitation forecast calls for wetter-than-normal conditions in most states west of the Mississippi River and on the East Coast, with dry conditions in the Great Lakes region.

There are two tropical disturbances in the Atlantic. Hurricane Erin is moving through the Caribbean Sea and is expected to hit the East Coast within the next several days. Additionally, a disturbance deep in the Atlantic has a 50% chance of developing into a cyclone within the next seven days.

Data Section

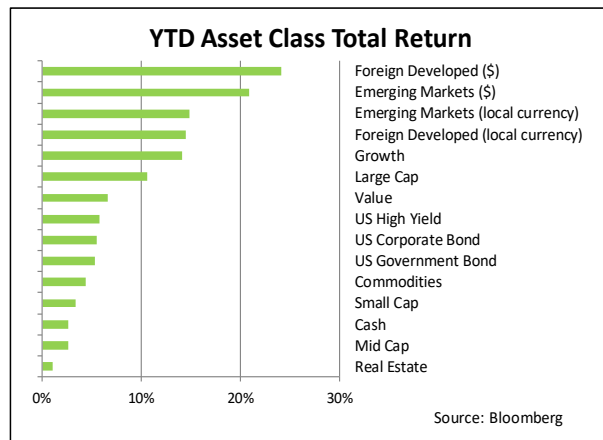
US Equity Markets – (as of 8/15/2025 close)



(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 8/15/2025 close)

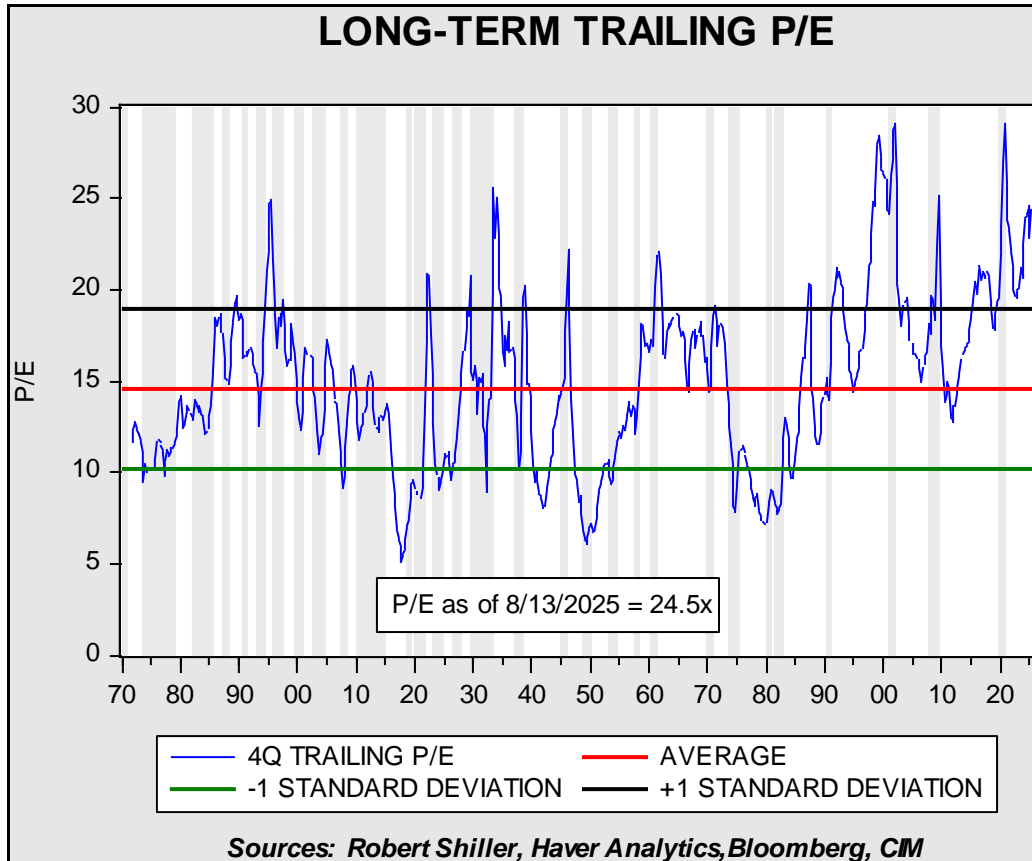


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.