



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: August 19, 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 up 0.2%. Chinese markets were mixed, with the Shanghai Composite essentially unchanged from its previous close and the Shenzhen Composite up 0.1%. US equity index futures are signaling a lower open.

With 459 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 14.2% 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	“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 recap of yesterday’s White House summit between President Trump, Ukrainian President Zelensky, and top European leaders. We next review several other international and US developments with the potential to affect the financial markets today, including US success in forcing the UK to backtrack on a proposed new regulation against Apple and a reiteration of the US sovereign debt rating by S&P.

United States-Ukraine-Europe: In yesterday’s summit between President Trump, Ukrainian President Zelensky, and top European leaders, it [appears that Trump offered to have the US act as a backstop to any direct security guarantees given by the European countries](#) to Ukraine to

help stop Russia's invasion of the country. Trump also said he is trying to arrange a bilateral summit between Zelensky and Russian President Putin, to be followed by a trilateral summit including Trump himself.

- It isn't clear how the US's backstop security guarantee might look. Nevertheless, as we noted in our *Comment* yesterday, the offer from Trump marks a notable evolution in his foreign-policy understanding and adjustment. Implementing such a backstop guarantee would tilt Trump's foreign policy back toward the US's traditional global engagement, despite his apparent shift toward Putin's position in other war issues, such as the need for land swaps.
- According to the *Financial Times* last night, the Ukrainian government [has offered to buy \\$100 billion of US weapons, financed by European countries, to help secure the US security guarantees](#). Kyiv has also offered to provide the US with \$50 billion in military drones, leveraging the expertise it has gained in the new technology in the heat of war.
- Of course, Trump will likely face some pushback against the idea of any US security guarantees from the more isolationist wing of his political base.

United States-United Kingdom: Under pressure from the Trump administration, the UK [has reportedly agreed to rescind its January directive requiring US tech giant Apple to provide a "back door" to encrypted customer data](#) for investigatory purposes. The incident is the latest example of the administration's strong focus on protecting US digital services firms from burdensome taxation and regulation in foreign markets — a stance that likely will help maintain the US firms' global market dominance going forward.

United States-Brazil: Finance Minister Haddad yesterday [said Washington and Brasilia have reached an impasse over the US's new 50% tariff against Brazil](#), given that the constitution bars the government from trying to force the supreme court to end its prosecution of former right-wing President Bolsonaro, as the US demands. If Haddad's statement is true, it would suggest that Brazil could continue to face debilitating US tariffs for an extended period, likely weighing on the economy and Brazilian asset prices.

Canada: The Canadian Union of Public Employees this morning [said it has struck a tentative labor deal with Air Canada, ending the strike against the airline by 10,000 of its flight attendants](#). As we mentioned in our *Comment* yesterday, the strike had threatened to disrupt air travel and freight shipments across North America and beyond. Reports indicate the flight attendants' main gripe against Air Canada was low wages, but it isn't clear how their compensation would be adjusted under the new labor contract.

US Fiscal Policy: S&P Global Ratings today [said it is keeping its US sovereign credit rating on hold at AA+/A-1+, midway between its second- and third-highest ratings](#), reflecting recent resilience of the US economy and "credible, effective" monetary policy. Importantly, S&P said it expects the US administration's new tariff revenues to largely offset the tax cuts and spending hikes in this summer's "big, beautiful" budget bill. The steady rating will help maintain demand for US Treasury obligations and help keep bond yields in their recent trading range.

US Labor Market: Fresh analysis shows new entrants to the labor force (mostly high school and college graduates with no prior work experience) [now make up 13.4% of all unemployed workers, the highest rate since 1988](#). The jump in the new entrants' share of jobless workers largely reflects the difficulty that Generation Z is having in finding work, as factors such as policy change and artificial intelligence make businesses reluctant to hire. High unemployment among the young is likely one reason for weak buying among lower-income consumers.

US Pharmaceutical Market: Danish drug giant Novo Nordisk yesterday [said it will halve the US price of its Ozempic weight-loss drug for people who can't buy it with health insurance](#). The firm also said it will offer the drug for home delivery. The moves likely aim to stave off tough US tariffs and/or other trade barriers that President Trump has threatened as punishment for high imported drug costs. In response, Novo Nordisk's US-listed share price jumped 3.7% yesterday, ending at a three-week high of \$53.75.

US Semiconductor Industry: Semiconductor giant Intel late yesterday [said it will sell a 2% stake in the company to Japanese technology investor SoftBank for \\$2 billion](#). Intel will sell new common stock to SoftBank at \$23.00 per share, a slight discount to yesterday's closing price of \$23.66. The deal represents a vote of confidence in Intel as the Trump administration also mulls having the federal government buy a 10% stake in the struggling firm to bolster its domestic chip manufacturing. Indeed, SoftBank and the administration may have coordinated on the deal.

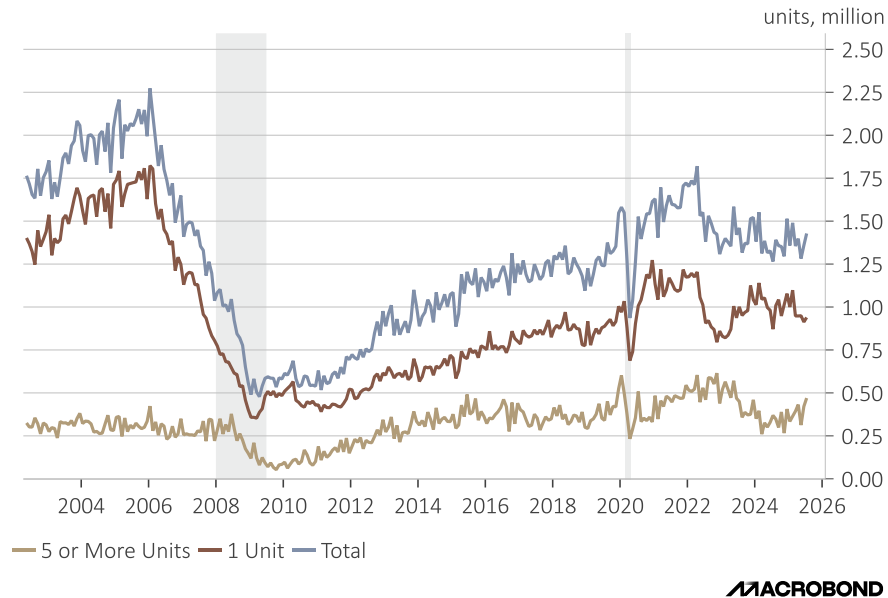
- In response, Intel share prices are up some 5.1% so far today, despite the risk that government ownership could eventually lead to political interference in company management.
- More broadly, the positive market response to the SoftBank deal and the potential federal stake highlight how investors have become comfortable with increasingly aggressive industrial policies, from subsidies under President Biden to outright government ownership under President Trump. One key question is whether investors will eventually get skittish about such policies and sell the associated stocks.

US Economic Releases

July **housing starts** rose to a seasonally adjusted, annualized rate of 1.428 million units, beating the expected rate of 1.290 million units and the revised June rate of 1.358 million. The rate of housing starts in July was up 5.2% from the previous month. Meanwhile, July **housing permits** fell to a rate of 1.354 million units, missing their anticipated rate of 1.390 million units and the revised June rate of 1.393 million units. Permits issued for new housing units in July were down 2.8% from the previous month.

Housing Starts by Type

Seasonally Adjusted Annual Rate
 US Bureau of the Census



Compared with the same month one year earlier, housing starts in July were up 12.9%, while permits were down 5.7%. The chart above shows the growth in new homes start by type of property since just before the Great Financial Crisis.

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	Michelle Bowman Speaks on BTV	Member of the Board of Governors
14:10	Michelle Bowman Speaks at Wyoming Blockchain Symposium 2025	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								
Australia	Westpac Consumer Conf Index	m/m	Aug	98.5	93.1		**	Equity and bond neutral
	Westpac Consumer Conf SA	m/m	Aug	5.7%	0.6%		**	Equity and bond neutral
New Zealand	PPI Output	q/q	2Q	0.6%	2.1%		**	Equity and bond neutral
	PPI Input	q/q	2Q	0.6%	2.9%		**	Equity and bond neutral
EUROPE								
Eurozone	ECB Current Account SA	m/m	Jun	€38.8b	€31.8b		*	Equity and bond neutral
Italy	Current Account Balance	m/m	Jun	5737m	1665m		*	Equity and bond neutral
AMERICAS								
Canada	Housing Starts	m/m	Jul	294.1k	283.5k	258.7k	**	Equity and bond neutral
	Int'l Securities Transactions	m/m	Jul	0.71b	-6.29b		**	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	411	-1	Down
U.S. Sibor/OIS spread (bps)	421	422	-1	Down
U.S. Libor/OIS spread (bps)	417	418	-1	Down
10-yr T-note (%)	4.33	4.33	0.00	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	\$65.83	\$66.60	-1.16%	
WTI	\$62.61	\$63.42	-1.28%	
Natural Gas	\$2.86	\$2.89	-1.14%	
Crack Spread	\$26.92	\$26.71	0.81%	
12-mo strip crack	\$23.45	\$23.52	-0.31%	
Ethanol rack	\$1.91	\$1.90	0.19%	
Metals				
Gold	\$3,341.73	\$3,332.72	0.27%	
Silver	\$38.08	\$38.02	0.15%	
Copper contract	\$452.70	\$453.60	-0.20%	
Grains				
Corn contract	\$403.25	\$406.50	-0.80%	
Wheat contract	\$521.75	\$525.00	-0.62%	
Soybeans contract	\$1,040.75	\$1,041.25	-0.05%	
Shipping				
Baltic Dry Freight	2,022	2,044	-22	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-0.91		
Gasoline (mb)		-0.72		
Distillates (mb)		1.25		
Refinery run rates (%)		-0.7%		
Natural gas (bcf)		54		

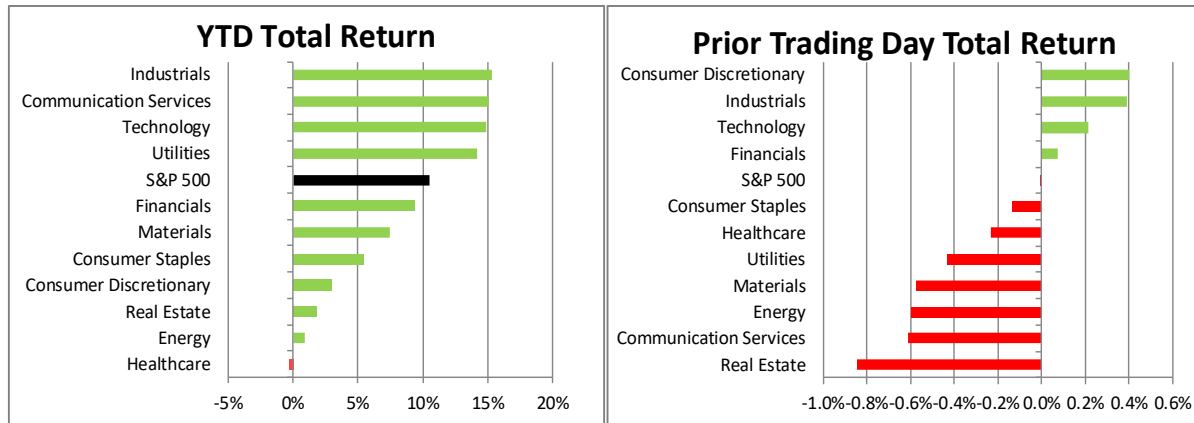
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures throughout most of the western half of the country and the Southeast, with cooler-than-normal temperatures throughout the rest of the country. The precipitation forecasts call for wetter-than-normal conditions in most states west of the Mississippi River and on the East Coast, with dry conditions in South Texas.

There are three 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. There are two additional tropical disturbances in the Atlantic, one with a 60% chance of developing into a tropical cyclone within the next week and another forming off the coast of Africa with a 30% chance of formation in the same period.

Data Section

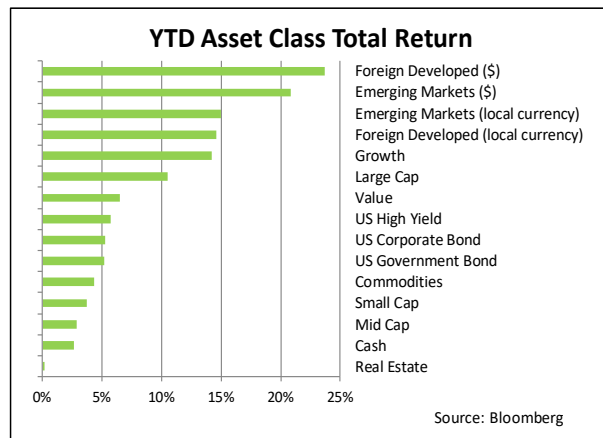
US Equity Markets – (as of 8/18/2025 close)



(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 8/18/2025 close)

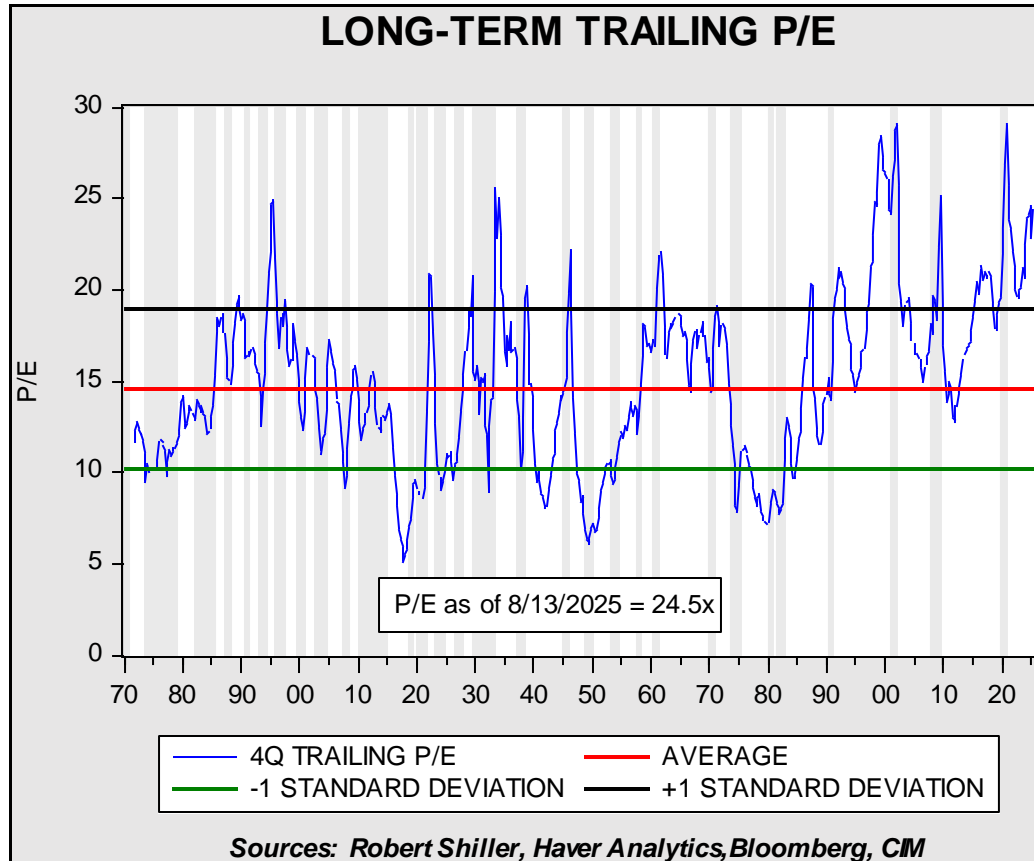


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.