



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

**Posted: August 21, 2025 — 9:30 AM ET** Global equity markets are mostly lower this morning. In Europe, the Euro Stoxx 50 is down 0.5% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.1%. Chinese markets were mixed, with the Shanghai Composite up 0.1% from its previous close and the Shenzhen Composite down 0.2%. US equity index futures are signaling a lower open.

With 469 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, 81.8% have exceeded expectations, while 14.1% 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
<a href="#">“Update on US and China Defense Spending”</a> (8/11/25) + <a href="#">podcast</a>	<a href="#">“Navigating the Waves of BLS Revisions”</a> (8/18/25) + <a href="#">podcast</a>	<a href="#">Q3 2025 Report</a>  <a href="#">Q3 2025 Rebalance Presentation</a>	<a href="#">The Confluence Mailbag Podcast</a>  <a href="#">Value Equities Quarterly Update</a>

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](mailto:mailbag@confluenceim.com).

Our *Comment* will first explore the divisions among Fed officials regarding the path of monetary policy. We will then examine other critical market developments, including China's clampdown on purchases of Nvidia chips, the obstacles to a Russia-Ukraine agreement, and progress on EU-US trade talks. We will conclude with an overview of additional global and domestic factors shaping the financial landscape.

**Fed Divided:** [Policymakers were deeply divided on the path of monetary policy](#) due to concerns surrounding tariffs. Some Fed officials expressed concern that the tariffs would lead to increased inflation. Others, however, argued that more action was needed to support the economy, citing

signs of a deteriorating labor market. A third group remained undecided on whether inflation or the labor market presented a greater risk to the economy. Despite the disagreement, the majority of officials ultimately concluded that inflation posed the more significant threat.

- The disagreement among policymakers comes at a critical time, as both aspects of the central bank's dual mandate — maximum employment and price stability — appear to be at risk. Recent revisions to job payroll data have shown significantly slower job growth than initially reported. Concurrently, a higher-than-expected monthly rise in the Producer Price Index (PPI) has fueled concerns that input prices may soon translate into higher consumer prices.
- This monetary policy uncertainty is compounded by growing concerns over the central bank's independence, following intense presidential pressure to lower interest rates. The situation escalated on Wednesday when President Trump called for Lisa Cook to resign over allegations that she falsified loan documents. This follows the president's previous attempt to force Fed Chair Powell to step down amid accusations of misleading Congress about renovations to the Federal Reserve building.
- We maintain our expectation for the Fed to cut rates this year, with a September move appearing increasingly probable. The upcoming jobs report will be crucial as any confirmation of slowing job growth could tilt the committee toward a cut. Conversely, further signs of labor market strength would likely cause the Fed to keep rates on hold.

**China and Nvidia:** Chinese officials [are seeking to curb domestic companies' reliance on NVIDIA AI chips](#), following controversial remarks by US Commerce Secretary Howard Lutnick. Last month, Lutnick stated that US chipmakers were withholding their highest-quality chips from China, with the goal of making the country "addicted" to American semiconductors.

- In response, Chinese regulators have begun intensifying their scrutiny of domestic firms' US chip purchases, aiming to encourage domestic alternatives. This action is a response to ongoing US efforts to secure concessions from trading partners through tariffs and restrictions. Earlier this week, the US Treasury secretary noted that China paid the most in tariff revenue. Furthermore, the US is reportedly negotiating a deal that would force chipmakers to pay a percentage of their revenue from their China sales to the US government.
- The ongoing US-China conflict is not merely an economic competition but also a clash of narratives. Beijing seeks to avoid any perception of submission to the US, an objective that runs counter to the Trump administration's desire to demonstrate American dominance in its trade relationships. Although this dynamic will likely result in contentious discussions, it is unlikely to derail the possibility of a comprehensive agreement.

**Eurozone Surprise Growth:** Economic activity in the eurozone picked up in August, according to the latest PMI data. The [key business sentiment indicator registered 51.1](#), exceeding expectations of 50. A reading above 50 indicates economic expansion, while a reading below 50 suggests contraction. This better-than-expected growth suggests the broader eurozone economy

is on firmer footing, making it likely that the ECB will refrain from lowering interest rates at its next meeting.

**Russia-Ukraine:** US Vice President JD Vance hinted that a potential deal to end the war in Ukraine faces two major obstacles: [providing security guarantees for Ukraine and resolving Russia's claim over Ukrainian territory it does not currently control](#). Russia has rejected the initial proposal, demanding [to be included in any security arrangement](#). Meanwhile, Ukrainian President Zelensky remains opposed to ceding any territory. As diplomatic talks continue, the US has hinted at future air support for Ukraine, even as Russia intensifies its offensive.

**EU-US Trade Deal:** The White House and the [European Union have formally moved to implement a preliminary trade agreement](#), as outlined in a newly released joint statement. The agreement, which follows weeks of negotiation, links relief from US sectoral tariffs (on autos, pharmaceuticals, and semiconductors) to the EU's meeting of specific benchmarks. A key component is a framework to address long-standing US objections to the EU's digital services regulations. The agreement is likely to provide support to US and European stock markets.

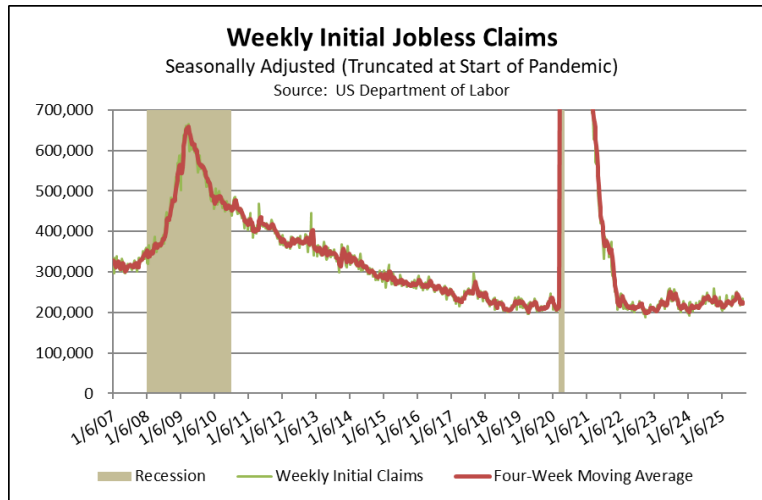
**AI Spook:** Meta has reportedly [paused hiring in its AI division](#). While the freeze has been attributed to changes in the company's organizational planning, it follows reports that its AI initiatives have failed to deliver solid revenue and productivity gains. Investors had already expressed concern that tech firms were prioritizing capital expenditure (CAPEX) at the expense of shareholder value. This tension is particularly acute given its elevated valuation, a situation that may fuel broader skepticism toward high-spending tech firms.

**Walmart Confidence:** Walmart, the [largest US retailer, has raised its financial guidance](#), signaling strong confidence in the resilience of the American consumer. This optimistic forecast comes as the company reports success in mitigating price pressures from higher tariffs. While Walmart has absorbed some of these costs and passed others on to consumers, it has cautioned that price increases may become more noticeable as it replenishes inventory. Nevertheless, Walmart's confidence is a positive indicator for the broader economy.

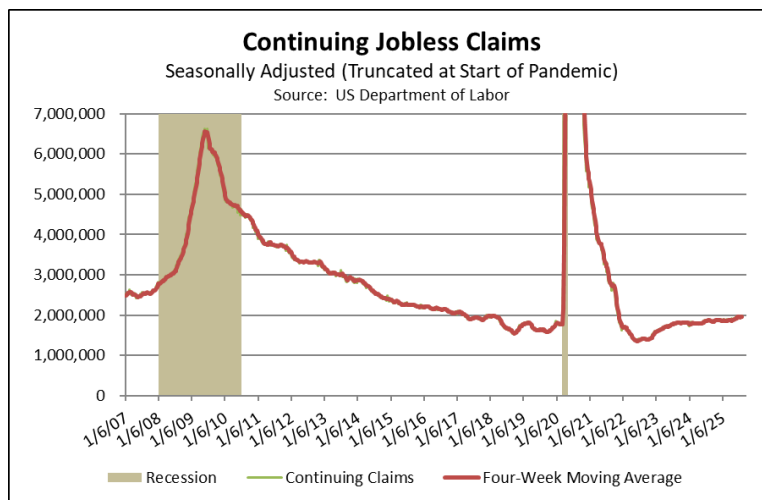
---

## US Economic Releases

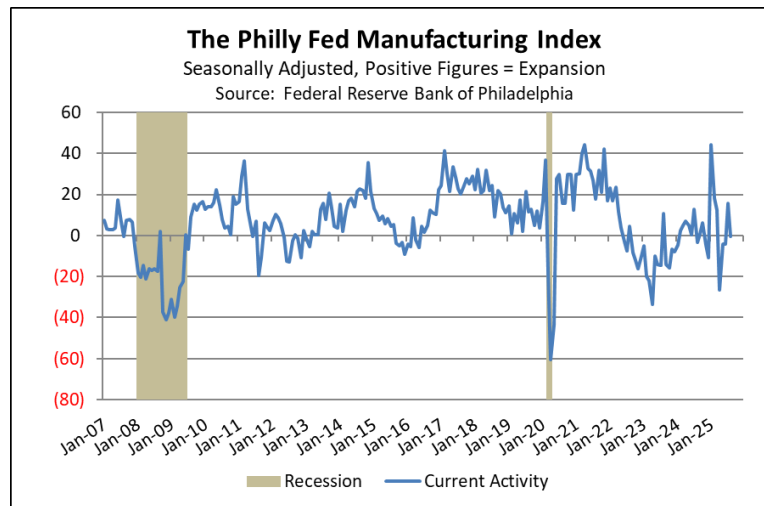
In the week ended August 16, *initial claims for unemployment benefits* rose to a seasonally adjusted 235,000, well ahead of both the expected level of 225,000 and the prior week's level of 224,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, rose to 226,250 but remained relatively modest. 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 9, the number of *continuing claims for unemployment benefits* (people continuing to draw benefits) rose to a seasonally adjusted 1.972 million, above both the anticipated reading of 1.960 million and the previous week's revised reading of 1.942 million. The four-week moving average of continuing claims rose to an elevated 1,954,500. Taken together, the initial and continuing claims data suggest the current “no fire/no hire” dynamic in the labor market remains in place. 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 Philadelphia FRB said its August *Philly Fed Index* fell to a seasonally adjusted -0.3, far short of the expected reading of 6.5 and the strong July reading of 15.9. The index, officially known as the Philadelphia FRB Manufacturing Activity Index, is designed so that positive readings point to expanding factory activity in the mid-Atlantic region. At its current level, the index suggests mid-Atlantic manufacturing has stagnated again after a jump in July. The chart below shows how the index has fluctuated 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
9:45	S&P Global US Manufacturing PMI	m/m	Aug P	49.7	49.8	***
9:45	S&P Global US Services PMI	m/m	Aug P	54.2	55.7	***
9:45	S&P Global US Composite PMI	m/m	Aug P	53.5	55.1	***
10:00	Leading Economic Index	m/m	Jul	-0.1%	-0.3%	***
10:00	Existing Home Sales	m/m	Jul	3.92m	3.93m	***
10:00	Existing Home Sales MoM	m/m	Jul	-0.3%	-2.7%	*
Federal Reserve						
EST	Speaker or Event		District or Position			
7:30	Raphael Bostic Shares Brief Remarks on Economy		President of the Federal Reserve Bank of Atlanta			

## 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
<b>ASIA-PACIFIC</b>								
<b>Japan</b>	Japan Buying Foreign Bonds	w/w	15-Aug	-¥313.6b	¥254.7b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	15-Aug	-¥395.0b	-¥225.63b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	15-Aug	¥197.9b	¥733.2b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	15-Aug	¥1161.7b	¥495.5b		*	Equity and bond neutral
	S&P Global Japan Composite PMI	m/m	Aug P	51.9	51.6		*	Equity and bond neutral
	S&P Global Japan Manufacturing PMI	m/m	Aug P	49.9	48.9		***	Equity and bond neutral
	S&P Global Japan Services PMI	m/m	Aug P	52.7	53.6		*	Equity and bond neutral
	Machine tool orders	y/y	Jul F	3.6%	3.6%		**	Equity and bond neutral
<b>Australia</b>	S&P Global Australia Composite PMI	m/m	Aug P	54.9	53.8		*	Equity and bond neutral
	S&P Global Australia Manufacturing PMI	m/m	Aug P	52.9	51.3		***	Equity and bond neutral
	S&P Global Australia Services PMI	m/m	Aug P	55.1	54.1		*	Equity and bond neutral
<b>New Zealand</b>	Trade Balance NZD	m/m	Jul	-578n	203m		**	Equity and bond neutral
	Exports NZD	m/m	Jul	6.71b	6.53b		**	Equity and bond neutral
	Imports NZD	m/m	Jul	7.28b	6.33b		**	Equity and bond neutral
<b>South Korea</b>	PPI	y/y	Jul	0.5%	0.5%		**	Equity and bond neutral
<b>India</b>	HSBC India PMI Composite	m/m	Aug P	65.2	61.1		**	Equity and bond neutral
	HSBC India PMI Mfg	m/m	Aug P	59.8	59.1		***	Equity and bond neutral
	HSBC India PMI Services	m/m	Aug P	65.6	60.5		**	Equity and bond neutral
<b>EUROPE</b>								
<b>Eurozone</b>	HCOB Eurozone Manufacturing PMI	m/m	Aug P	50.5	49.8	49.5	***	Equity bullish, bond bearish
	HCOB Eurozone Services PMI	m/m	Aug P	50.7	51.0	50.8	**	Equity and bond neutral
	HCOB Eurozone Composite PMI	m/m	Aug P	51.1	50.9	50.6	*	Equity and bond neutral
<b>Germany</b>	HCOB Germany Manufacturing PMI	m/m	Aug P	49.9	49.1	48.8	***	Equity bullish, bond bearish
	HCOB Germany Services PMI	m/m	Aug P	50.1	50.6	50.3	**	Equity and bond neutral
	HCOB Germany Composite PMI	m/m	Aug P	50.9	50.6	50.2	**	Equity bullish, bond bearish
<b>France</b>	HCOB France Manufacturing PMI	m/m	Aug P	49.9	48.2	48.1	***	Equity bullish, bond bearish
	HCOB France Services PMI	m/m	Aug P	49.7	48.5	48.5	**	Equity bullish, bond bearish
	HCOB France Composite PMI	m/m	Aug P	49.8	48.6	48.5	**	Equity bullish, bond bearish
<b>UK</b>	Public Finances (PSNCR)	m/m	Jul	3.0b	-16.4b		*	Equity and bond neutral
	Public Sector Net Borrowing	m/m	Jul	1.1b	22.6b		*	Equity and bond neutral
	PSNB ex Banking Groups	m/m	Jul	1.1b	22.6b		**	Equity and bond neutral
	S&P Global UK Manufacturing PMI	m/m	Aug P	47.3	48.0		***	Equity and bond neutral
	S&P Global UK Composite PMI	m/m	Aug P	53.6	51.8		**	Equity and bond neutral
<b>Switzerland</b>	S&P Global UK Services PMI	m/m	Aug P	53.0	51.5		**	Equity and bond neutral
	Real Exports	m/m	Jul	-2.7%	7.3%		*	Equity and bond neutral
	Real Imports	m/m	Jul	-0.3%	0.9%		*	Equity and bond neutral
<b>Russia</b>	M3 Money Supply	y/y	Jul	4.7%	4.3%		**	Equity and bond neutral
	PPI	y/y	Jul	-0.3%	0.1%		***	Equity and bond neutral
<b>AMERICAS</b>								
<b>Mexico</b>	Retail Sales	y/y	Jun	2.5%	2.7%	2.5%	***	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)	411	412	-1	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 (%)	4.32	4.29	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
<b>Energy Markets</b>				
Brent	\$67.19	\$66.84	0.52%	
WTI	\$63.09	\$62.71	0.61%	
Natural Gas	\$2.78	\$2.75	1.02%	
Crack Spread	\$23.95	\$28.15	-14.92%	Rolling Contract
12-mo strip crack	\$23.45	\$23.78	-1.37%	
Ethanol rack	\$1.94	\$1.92	0.67%	
<b>Metals</b>				
Gold	\$3,336.30	\$3,348.43	-0.36%	
Silver	\$37.74	\$37.90	-0.42%	
Copper contract	\$449.10	\$451.05	-0.43%	
<b>Grains</b>				
Corn contract	\$406.00	\$404.00	0.50%	
Wheat contract	\$533.00	\$528.25	0.90%	
Soybeans contract	\$1,036.00	\$1,036.00	0.00%	
<b>Shipping</b>				
Baltic Dry Freight	1,927	1,964	-37	
<b>DOE Inventory Report</b>				
	Actual	Expected	Difference	
Crude (mb)	-6.01	-0.85	-5.16	
Gasoline (mb)	-2.72	-0.32	-2.40	
Distillates (mb)	2.34	1.48	0.87	
Refinery run rates (%)	0.2%	-1.0%	1.2%	
Natural gas (bcf)		18		

## **Weather**

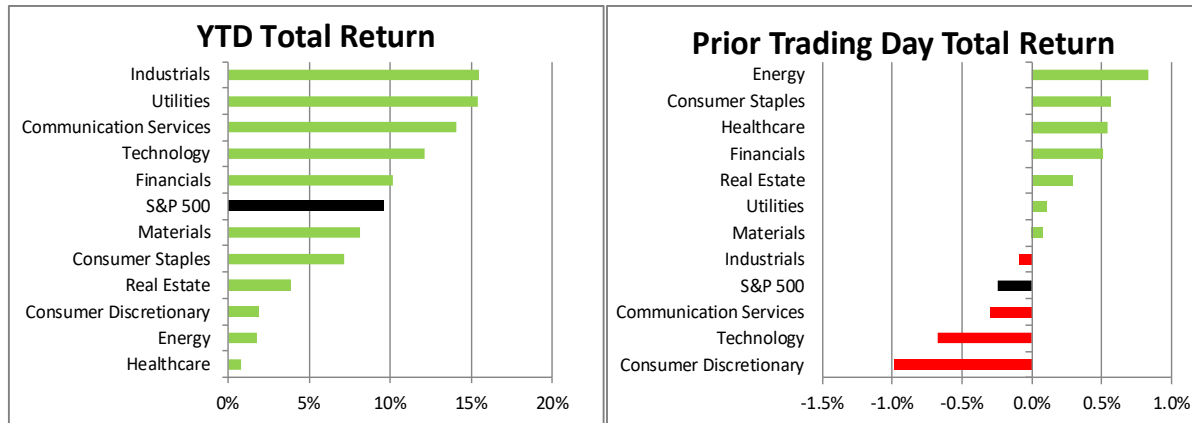
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in the Pacific Northwest, southern Texas, and Florida, with cooler-than-normal temperatures in the northern Great Plains, the Midwest, the non-coastal areas of the South, and in the Northeast. The forecasts call for wetter-than-normal conditions in the Rocky Mountains, the southern Great Plains, and along the East Coast, with dry conditions in the Midwest.

There are now four tropical disturbances in the Atlantic Ocean area. Hurricane Erin is off North Carolina and moving northeasterly out to sea. There is also a tropical disturbance east of the Leeward Islands that is moving northwesterly toward the US and is assessed to have a 70% chance of developing into a cyclone within the next week. A third tropical disturbance off the western coast of Africa is moving westerly and is assessed to have a 40% chance of cyclone formation in the next week, and a fourth disturbance is sitting right in the middle of the Atlantic with a 30% chance of cyclone formation in the same period.



## Data Section

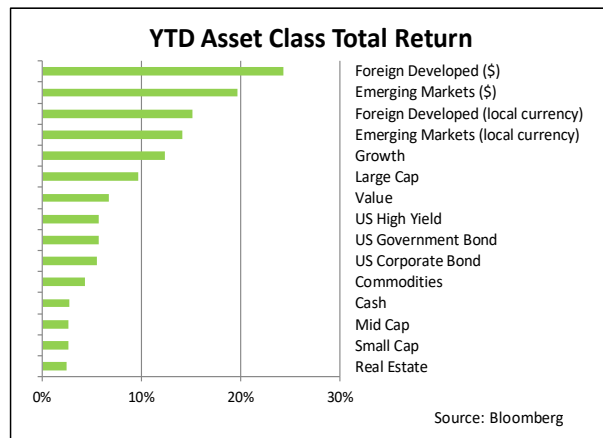
### US Equity Markets – (as of 8/20/2025 close)



(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 8/20/2025 close)

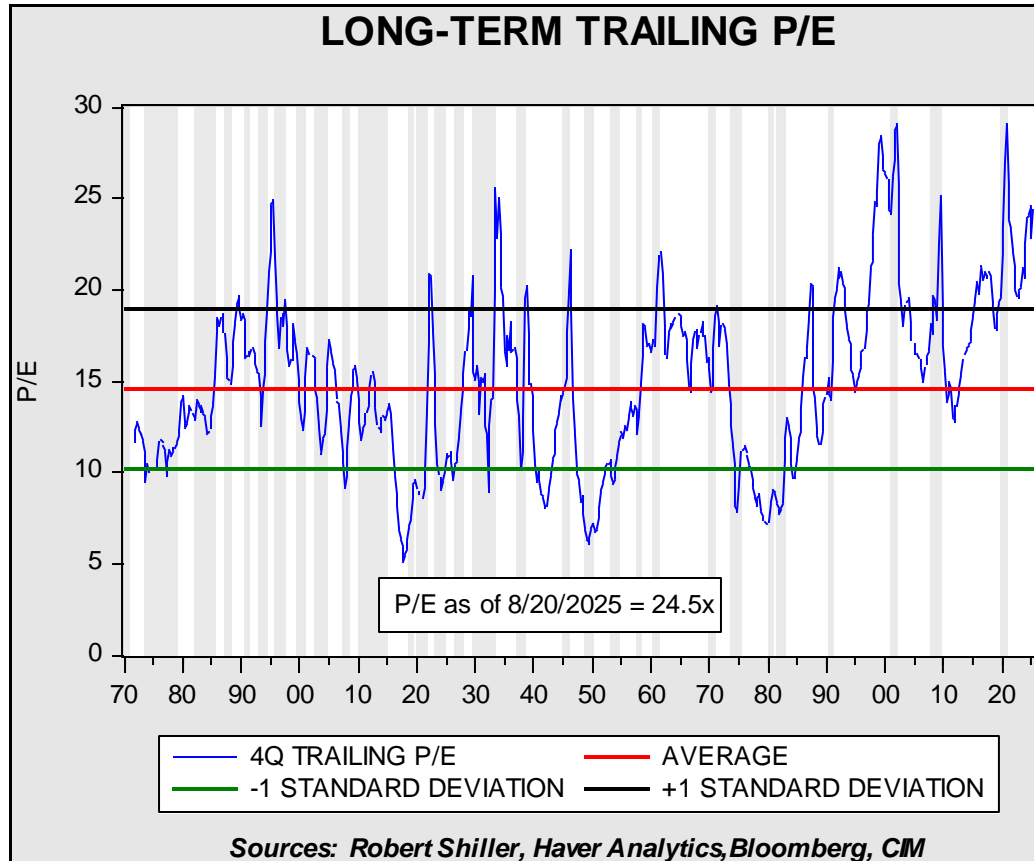


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 21, 2025



Based on our methodology,<sup>1</sup> the current P/E is 24.5x, is unchanged from our last report.

*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.*

<sup>1</sup> 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.