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Posted: August 22, 2025 — 9:30 AM ET] Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 is up 0.3% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.2%. Chinese markets were higher, with both the Shanghai and the Shenzhen Composites up 1.5% from their previous close. US equity index futures are signaling a higher open.

With 470 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 Mailbag 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* begins with new data that is showing a resurgence in US economic activity this month. Next, we delve into several pivotal global developments including the EU's push to create a digital euro, the growing trend of tariff evasion through transshipment, and the mounting pressure on postal services to implement new trade rules. We will conclude with an overview of additional global and domestic factors shaping the financial landscape.

Stronger Growth: On Thursday, the [S&P Global PMI data revealed that US economic activity accelerated in August](#), exceeding market forecasts and fueling optimism for a strong third quarter. The composite PMI, a key indicator of business sentiment, rose to 55.4 from July's

reading of 55.1. A value above 50 signifies economic expansion, while a reading below 50 indicates contraction. The growth is likely to add to optimism that the economy is in good shape despite tariffs.

- The most notable surprise came from the manufacturing sector, where the PMI surged to 53.3 from 49.8, far surpassing expectations of 49.5. Similarly, the services PMI also beat forecasts, moderating slightly to 55.2 from 55.7 but still well above the anticipated 54.2.
- Still, there are reasons to be cautious about whether this will last. Much of the recent improvement was driven by companies increasing their inventories. A similar trend was seen in other areas, such as the UK, eurozone, and India, which also showed an increase in economic activity.
- Further compounding economic concerns is the potential for this new inventory buildup to exacerbate price pressures. Evidence from the latest PMI data shows that firms are already raising selling prices in response to increased costs — a trend publicly corroborated by Walmart's announcement of impending price hikes on select products.
- While the resurgence in economic activity is positive, our focus now shifts to the consumer. We believe the key factor for continued corporate success will be their ability to protect margins, whether by passing higher costs to consumers or securing discounts from foreign suppliers. However, we will monitor closely for any signs of consumer resistance. Given the elevated risk level, we maintain our stance that investors should exercise prudence.

EU Digital Stablecoin: The [European Union is accelerating its development of a digital euro](#), driven by a desire to maintain monetary sovereignty and compete with the United States' progress on stablecoins. The US has recently passed the Genius Act, which facilitates the creation of US dollar-denominated stablecoins. This legislation, along with the growing dominance of private, US-backed digital currencies, has prompted the EU to expedite its own digital currency project.

- A key technical distinction between the projects lies in their underlying infrastructure. While the digital euro proposal favors public blockchain technology (such as Ethereum or Solana), which emphasizes transparency and accessibility, the anticipated US approach is expected to utilize a private, permissioned ledger.
- The move to develop a digital euro as a rival to potential US initiatives exemplifies how digital currency is becoming a new arena for global economic influence. A key economic incentive for these stablecoins is their potential to create demand for short-term government bonds. This could, in turn, facilitate the financing of mounting public debt.
- We will closely monitor the development of stablecoins, as they are becoming an integral part of the financial system. Their growth necessitates adaptation and has significant implications for both monetary and fiscal policy. This area demands attention, as it presents opportunities for new rewards but also carries the potential for unforeseen risks.

German Economy: The [German economy contracted by 0.3% in the second quarter](#), a sharper decline than the initially reported 0.1%. This downward revision follows a strong first quarter,

where robust export growth had pushed expansion to 0.3%, suggesting the recent contraction may represent a partial normalization. Nevertheless, persistent weaknesses in manufacturing and investment spending remain a concern, which will likely increase pressure on the government to introduce further stimulus measures.

H20 Chips: Nvidia, the world's largest chipmaker, [has reportedly paused production of its H20 AI chip](#). This move follows increased scrutiny from Chinese officials on companies buying the chips, sparking concerns about weak demand. Nvidia's performance has been a key indicator for the broader AI boom, and its consistent ability to beat expectations has driven market sentiment. As the company prepares to report earnings next Wednesday, any perceived weakness could fuel market uncertainty. Despite this, the broader tech sector still appears to have momentum.

US Transshipments: In a bid to circumvent China's 10% levy on US goods, American metal dealers are reportedly [rerouting China-bound shipments through intermediaries like Vietnam, Mexico, and Canada](#). This strategy has emerged as a direct response to the tariffs, leading to a notable decline in the volume of metal exports shipped directly from the United States to China. While the full extent of this activity remains unclear, it highlights an important and evolving tactic in the ongoing trade dispute.

Global Postal Service: Postal services worldwide are halting certain international shipments to comply with a deadline for ending a key tax exemption. This follows the president's elimination of the de minimis rule, which previously [allowed low-value packages to enter the country without import tariffs](#). While the long-term impact is still unfolding, this change is likely to cause short-term complications and delivery delays as foreign shippers scramble to adapt to the new compliance requirements.

South-North Korea: South Korean President Lee Jae-myung is set to meet with President Trump to discuss a recent trade deal and security agreement. During the meeting, President Lee [plans to urge President Trump to reopen diplomatic dialogue with North Korea](#). This push for renewed talks comes amidst ongoing efforts to address security concerns on the Korean Peninsula.

Chipmakers Safe: The Trump administration [has decided against requiring companies that receive CHIPS Act funding to surrender equity in exchange](#). This decision follows the separate case of the administration offering direct aid to Intel in return for a stake. By removing this requirement, the administration is reducing a key deterrent for foreign companies considering major investments in the US, thereby strengthening the program's economic impact.

US Economic Releases

No major US economic reports have been released so far today. 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
9:00	Susan Collins Appears on Bloomberg Television	President of the Federal Reserve Bank of Boston
10:00	Jerome Powell Speaks on Economic Outlook at Jackson Hole	Chairman of the Board of Governors
11:30	Beth Hammack appears on CNBC	President of the Federal Reserve Bank of Cleveland

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	National CPI	y/y	Jul	3.10%	3.30%	3.10%	***	Equity and bond neutral
	National CPI Ex-Fresh Food	y/y	Jul	3.10%	3.30%	3.00%	**	Equity and bond neutral
	National CPI Ex-Fresh Food & Energy	y/y	Jul	--	3.40%	3.40%	*	Equity and bond neutral
EUROPE								
Eurozone	Consumer Confidence	m/m	Aug P	-15.5	-14.7	-14.7	**	Equity bearish, bond bullish
Germany	GDP NSA	y/y	Q2 F	-0.2%	0.0%	0.0%	**	Equity and bond neutral
	GDP WDA	y/y	Q2 F	0.2%	0.4%	0.4%	**	Equity and bond neutral
France	Business Confidence	m/m	Aug	96	96	97	**	Equity and bond neutral
	Manufacturing Confidence	m/m	Aug	96	96	96	*	Equity and bond neutral
Russia	Gold and Forex Reserves	m/m	15-Aug	\$686.5b	\$686.4b		***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	15-Aug	18.74t	18.64t		*	Equity and bond neutral
AMERICAS								
Canada	Industrial Product Price	m/m	Jul	0.7%	0.5%	0.3%	**	Equity and bond neutral
	Raw Material Prices	m/m	Jul	0.3%	2.8%	-0.6%	*	Equity bullish, bond bearish
Mexico	GDP NSA	y/y	Q2 F	0.0%	0.1%	0.0%	***	Equity and bond neutral
	Economic Activity IGAE	y/y	Jun	1.30%	0.40%	1.40%	**	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)	412	413	-1	Down
U.S. Sibor/OIS spread (bps)	423	423	0	Down
U.S. Libor/OIS spread (bps)	418	418	0	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			Flat
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	\$67.80	\$67.67	0.19%	
WTI	\$63.70	\$63.52	0.28%	
Natural Gas	\$2.79	\$2.83	-1.20%	
Crack Spread	\$24.20	\$24.63	-1.75%	
12-mo strip crack	\$23.65	\$23.92	-1.13%	
Ethanol rack	\$1.98	\$1.96	0.96%	
Metals				
Gold	\$3,329.19	\$3,338.71	-0.29%	
Silver	\$37.96	\$38.15	-0.49%	
Copper contract	\$451.05	\$451.15	-0.02%	
Grains				
Corn contract	\$411.00	\$411.75	-0.18%	
Wheat contract	\$527.00	\$529.75	-0.52%	
Soybeans contract	\$1,058.50	\$1,056.00	0.24%	
Shipping				
Baltic Dry Freight	1,893	1,927	-34	
DOE Inventory Report				
	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)	13	18	-5	

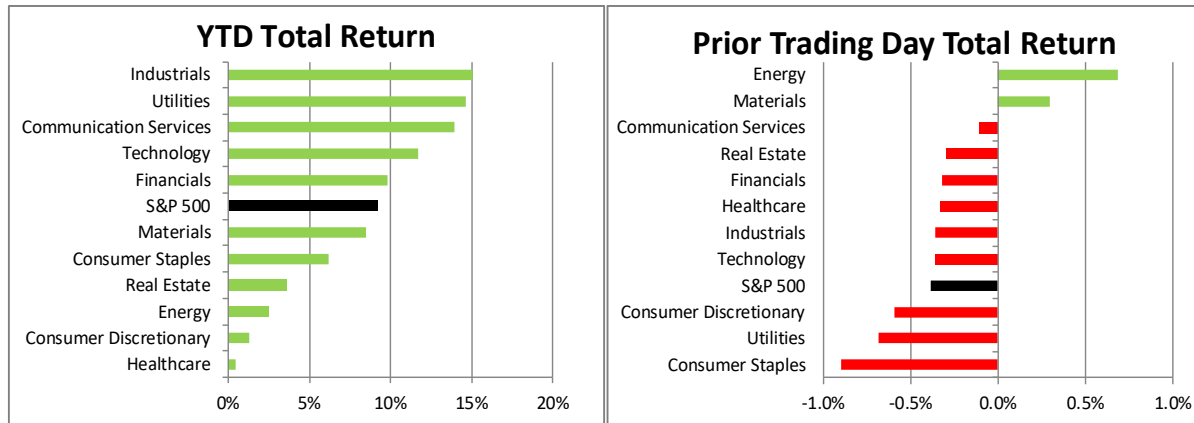
Weather

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 central 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 Pacific Northwest, the Rocky Mountains, the southern Great Plains, and the Deep South, with dry conditions in the Midwest.

There are now four tropical disturbances in the Atlantic Ocean area. Hurricane Erin is off Massachusetts and moving northeasterly out to sea. There is also a tropical disturbance northeast of the Leeward Islands that is moving northwesterly toward the US and is assessed to have a 90% chance of developing into a cyclone within the next week. A third tropical disturbance midway between Africa and the Caribbean is moving westerly and is assessed to have a 50% chance of cyclone formation in the next week, while a fourth disturbance is sitting right in the middle of the Atlantic with no chance of cyclone formation in the same period.

Data Section

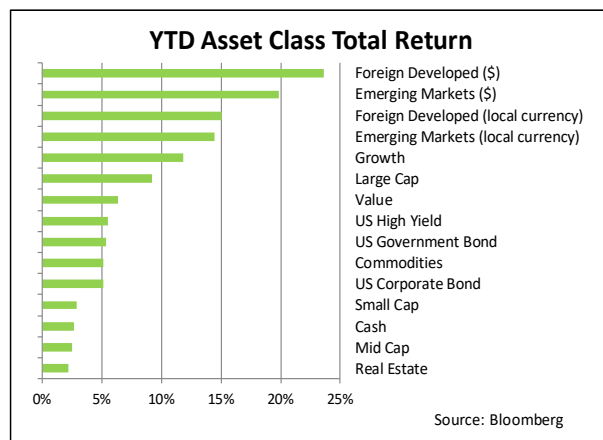
US Equity Markets – (as of 8/21/2025 close)



(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 8/21/2025 close)

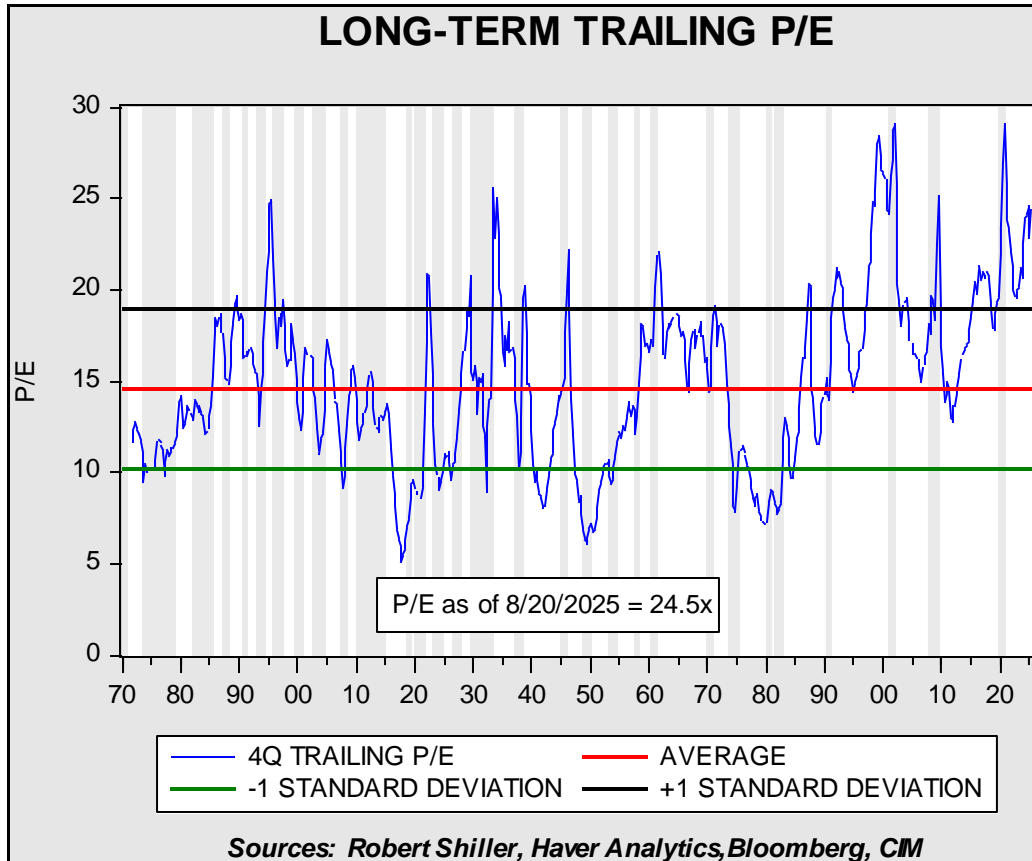


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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,¹ 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.

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.