



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: August 25, 2025 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is down 0.4% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 2.4%. Chinese markets were higher, with the Shanghai Composite up 1.5% from its previous close and the Shenzhen Composite up 1.8%. US equity index futures are signaling a lower open.

With 473 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, 81.7% 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 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* today opens with a couple of notes on the global supply of rare-earth minerals, which are critical for many of today’s advanced technologies, weapons systems, and economic prospects. We next review several other international and US developments with the potential to affect the financial markets today, including growing tensions between China and Vietnam in the South China Sea and Federal Reserve Chair Powell’s notable speech last Friday.

China: In a little-noticed announcement on Friday, the Chinese government [further tightened its control over the country’s rare-earth mining and processing industry](#). Most important, China’s system of export quotas for rare-earth materials will now apply not only to materials produced

domestically, but also to those coming from abroad for refining. For example, companies in the rare-earth supply chain will face detailed new reporting requirements every month regarding their flows of rare-earth materials from both domestic and foreign mines.

- It is widely recognized that China holds extensive rare-earth reserves and has many large, productive mines, but its stranglehold over the world's supply of rare-earth materials comes mostly from its near monopoly on rare-earth refining. Even when countries in the West or elsewhere can mine rare earths, the bulk of the ore must be shipped to China for processing.
- With the new reporting requirements for importing, processing, and re-exporting foreign rare earths, Beijing will be able to strategically clamp down on the business and further crimp global supplies of the critical minerals, if it so chooses.
- It can't be stressed enough that the US-China trade war this year has brought into high relief the enormous economic leverage that Beijing enjoys from its control over global rare-earth supplies. In our view, the new administration in Washington has rightly recognized the broad economic leverage that the US derives from the fact that so many countries are dependent on exporting to it. Now that it is facing Beijing's concentrated leverage with rare earths, a key question is how the US will shift its approach to China.

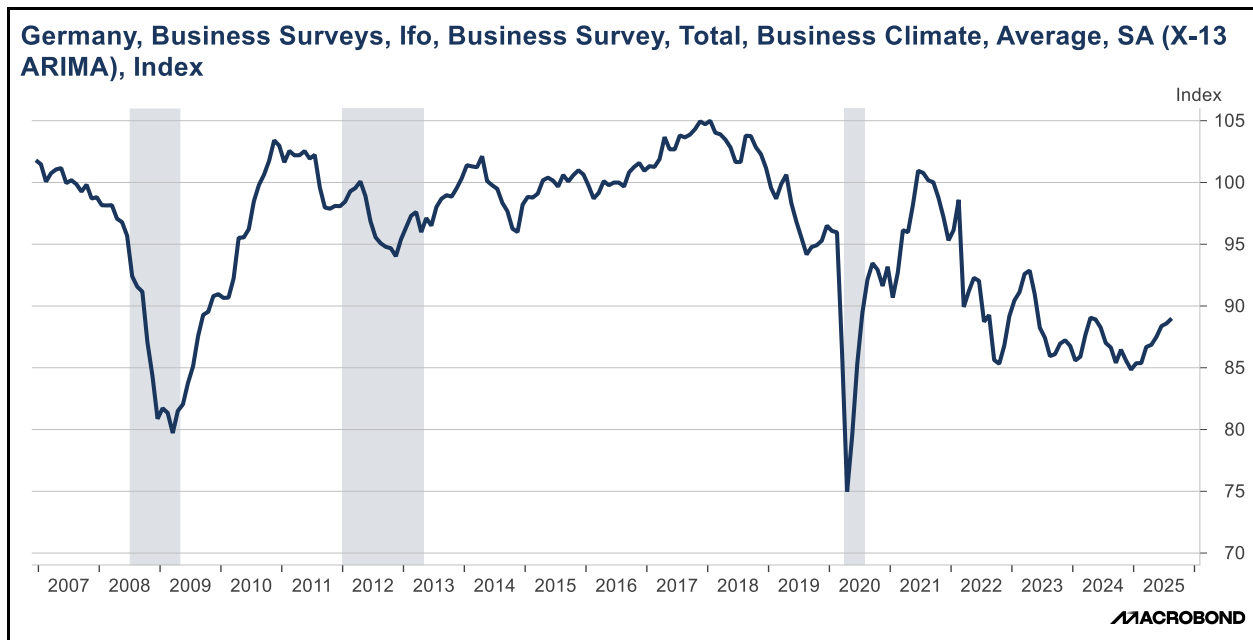
Malaysia: In another little-reported announcement last week, Malaysia [said it will ban the export of unprocessed rare-earth minerals to help spur the development of its processing industries](#). The government said it would instead encourage foreign investment in downstream facilities if the projects involve local mineral processing, job creation, and technology transfers. It also said the export of processed rare-earth metals would be encouraged. The development illustrates the growing rush of countries and firms into the rare-earth business.

Vietnam: Based on recent satellite imagery, the Center for Strategic and International Studies says Vietnam [has significantly expanded its effort to build artificial islets on reefs and outcrops in disputed areas of the South China Sea](#). Importantly, the report claims Vietnam's effort will likely surpass China's controversial island-building activity in the area. The news portends sharper territorial tensions between the countries and greater potential for a future military conflict that could disrupt global financial markets.

Japan-South Korea: At a summit in Tokyo at the weekend, Japanese Prime Minister Ishiba and South Korean President Lee [promised each other that they would work to deepen their recent cooperation on military and economic issues](#), putting their World War II acrimony behind them. Reflecting the two countries' new warmth, Lee's visit marked the first time a new South Korean president has gone to Japan before the US since Tokyo and Seoul normalized diplomatic ties in 1965. Lee now heads to the US for a meeting with President Trump.

Germany: The IFO Institute today said its August business-sentiment index [rose to a seasonally adjusted 89.0, beating expectations and marking its eighth straight monthly gain](#). The index of German businesses' optimism about the future is now at its highest level since April 2024, despite the pressure from China's excess capacity, the strong euro, slowing economic growth,

and new US tariffs. The uptrend in optimism probably stems at least in part from Germany's recent increase in defense spending and broader fiscal loosening.



United States-China: New reporting says Shan Liang, an award-winning HIV researcher and tenured professor at Washington University in St. Louis, [will leave that institution to work in the Shenzhen Medical Academy of Research and Translation](#) as director of its Institute of Human Immunology. Liang is the latest in a growing list of high-profile scientists leaving the US to return to his native China.

- We can't confirm that the returns are more than in years past, but the large number of recent reports raises concerns about a widescale loss of talent to China that could threaten the US position in advanced science and technology. In turn, that could slow US economic growth and reduce investment opportunities over time.
- It also isn't clear why more Chinese researchers might be returning to China. With the US-China geopolitical rivalry intensifying, some might feel less welcome here. China's continued economic development could also be a draw. Other potential reasons could be more insidious. For example, Beijing may be pressuring or paying off Chinese researchers to contribute their talents to their home country. Some of the researchers could even be Chinese intelligence assets being repatriated to avoid arrest.

Canada-United States: Prime Minister Carney on Friday [said he will remove Canada's 25% retaliatory tariffs on a wide range of US food and other consumer goods](#), which were imposed by his predecessor. The US goods will enter Canada tariff-free starting September 1, so long as they comply with the standards of the US-Mexico-Canada trade deal. Removal of the tariffs should help reduce US-Canada trade tensions. The action is also expected to ease economic pressure on many of Canada's small businesses.

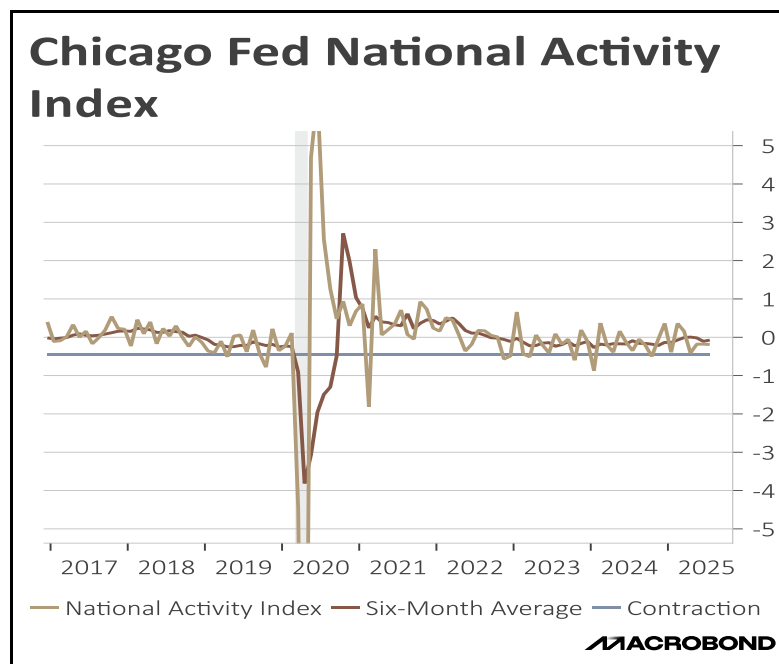
US Monetary Policy: At the Fed's annual symposium in Jackson Hole, Wyoming, last Friday, Chair Powell [cautiously opened the door to a cut in the benchmark fed funds interest rate at the next policy meeting in September](#). As a result, futures trading suggests investors now see an 83.3% chance that the policymakers will implement a 25-basis-point cut next month and a high likelihood of at least one more cut by the end of the year.

- We think investors' expectations for at least two rate cuts by the end of the year are reasonable, so long as incoming economic data cooperates.
- Importantly, the increased certainty of rate cuts appears to be broadening the stock market. For example, small-cap stocks saw out-sized price gains on Friday after Powell's speech, while lagging large-cap sectors also performed well.

US Cryptocurrency Market: Banking lobbies such as the American Bankers Association [have reportedly started warning US lawmakers that a loophole in the recent Genius Act could prompt bank customers to pull](#) as much as \$6 trillion of deposits from the banking system, tightening credit and raising interest rates. The provision in question allows crypto exchanges to pay interest to customers holding third-party stablecoins. The bankers' complaint highlights the risk that stablecoins will draw funds from the banking system and potentially destabilize it.

US Economic Releases

The Chicago Fed said its June *National Activity Index (CFNAI)* worsened to -0.19, though it beat the expected level of -0.20 but was down from June's revised level of -0.18. The CFNAI, which encompasses dozens of separate indicators to capture all aspects of current economic activity, is designed so that a reading of 0.00 reflects the economy growing at trend.



Our analysis shows that when the six-month moving average of the CFNAI falls below -0.45, it suggests the economy is in recession. With the latest reading, this indicator suggests the economy is now growing only slightly below trend. The chart above shows how the six-month moving average of the CFNAI has fluctuated over the last several decades.

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	New Home Sales	m/m	Jul	630k	627k	***
10:00	New Home Sales MoM	m/m	Jul	0.5%	0.6%	**
10:30	Dallas Fed Manufacturing Activity	m/m	Aug	-1.7	0.9	**
	Building Permits	m/m	Jul F		1354k	**
Federal Reserve						
EST	Speaker or Event	District or Position				
15:15	Lorie Logan speaks at Bank of Mexico Centennial Conference	President of the Federal Reserve Bank of Dallas				
19:15	John Williams Gives Keynote Remarks	President of the Federal Reserve Bank of New York				

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	Leading Economic Index	m/m	Jun F	105.6	106.1		**	Equity and bond neutral
	Coincident Index	y/y	Jun F	116.7	116.8		*	Equity and bond neutral
	Nationwide Dept Sales	y/y	Jul	-6.20%	-7.80%		**	Equity and bond neutral
New Zealand	Retail Sales Ex Inflation	q/q	2Q	0.50%	0.80%	-0.30%	***	Equity bullish, bond bearish
EUROPE								
Germany	IFO Business Climate	m/m	Aug	89.0	88.6	88.8	***	Equity and bond neutral
	IFO Current Assessment	m/m	Aug	86.4	86.5	86.7	**	Equity and bond neutral
	IFO Expectations	m/m	Aug	91.6	90.7	90.5	**	Equity and bond neutral
Switzerland	Domestic Sight Deposits CHF	w/w	22-Aug	442.5b	439.1b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	22-Aug	469.5b	465.7b		*	Equity and bond neutral
AMERICAS								
Canada	Retail Sales	m/m	Jun	1.5%	-1.2%	1.5%	**	Equity and bond neutral
	Retail Sales Ex-Autos	m/m	Jun	1.9%	-0.3%	0.8%	**	Equity bullish, bond bearish

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)	409	409	0	Down
U.S. Sibor/OIS spread (bps)	421	420	1	Down
U.S. Libor/OIS spread (bps)	415	415	0	Down
10-yr T-note (%)	4.27	4.25	0.02	Down
Euribor/OIS spread (bps)	202	203	-1	Down
Currencies	Direction			
Dollar	Up			Down
Euro	Down			Up
Yen	Up			Down
Pound	Down			Down
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	\$68.20	\$67.73	0.69%	
WTI	\$64.15	\$63.66	0.77%	
Natural Gas	\$2.64	\$2.70	-2.11%	
Crack Spread	\$24.40	\$24.28	0.50%	
12-mo strip crack	\$24.07	\$23.79	1.16%	
Ethanol rack	\$2.02	\$2.00	0.67%	
Metals				
Gold	\$3,368.03	\$3,371.86	-0.11%	
Silver	\$38.75	\$38.89	-0.37%	
Copper contract	\$454.30	\$452.75	0.34%	
Grains				
Corn contract	\$414.25	\$411.50	0.67%	
Wheat contract	\$529.75	\$527.25	0.47%	
Soybeans contract	\$1,057.75	\$1,058.50	-0.07%	
Shipping				
Baltic Dry Freight	1,944	1,893	51	

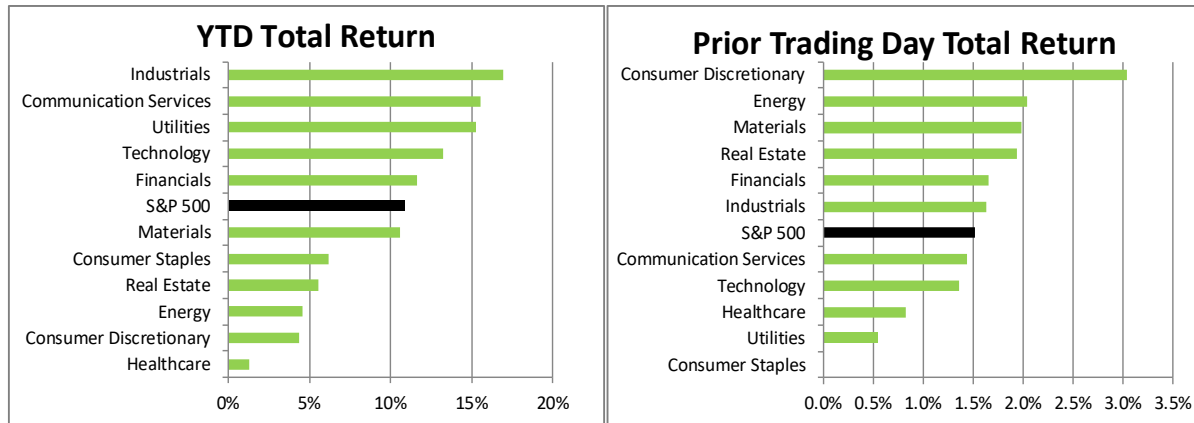
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in the Pacific region and the Northern Rockies, with cooler-than-normal temperatures for the rest of the country. The precipitation forecasts call for wetter-than-normal conditions in most states, with dry conditions in the Great Lakes and New England regions.

There are now two tropical disturbances in the Atlantic Ocean area. Tropical Storm Fernand remains far from land, while a system off the coast of South America is currently not forecast to develop into a cyclone within the next seven days.

Data Section

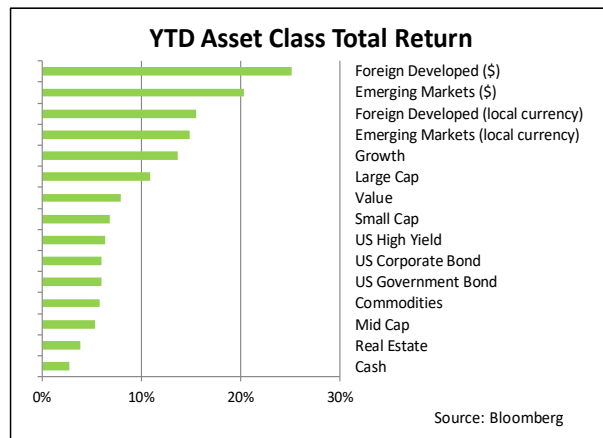
US Equity Markets – (as of 8/22/2025 close)



(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 8/22/2025 close)

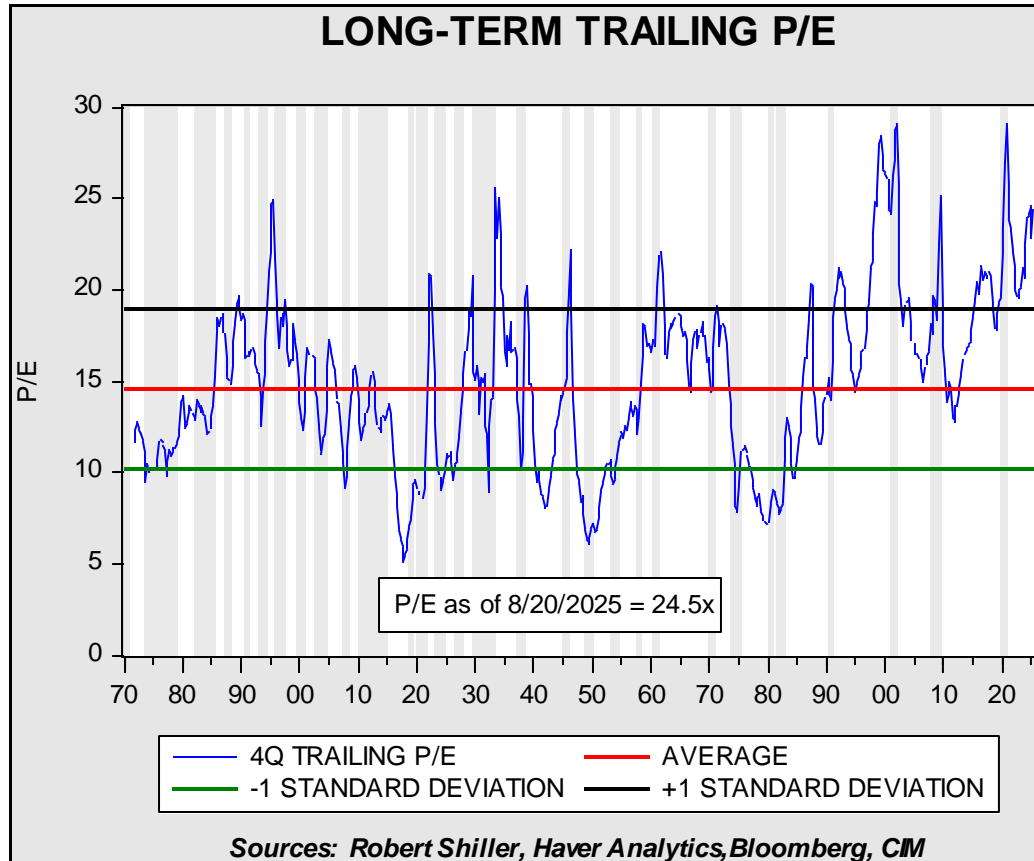


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.