



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

**Posted: August 26, 2025 — 9:30 AM ET]** Global equity markets are generally lower this morning. In Europe, the Euro Stoxx 50 is down 0.7% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.8%. Chinese markets were mixed, with the Shanghai Composite down 0.45% from its previous close and the Shenzhen Composite up 0.2%. 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
<a href="#">“<b>Tariff Trilemma: The Three Rs Driving US Trade Policy</b>” (8/25/25)</a>	<a href="#">“<b>Navigating the Waves of BLS Revisions</b>” (8/18/25) + <a href="#">podcast</a></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).

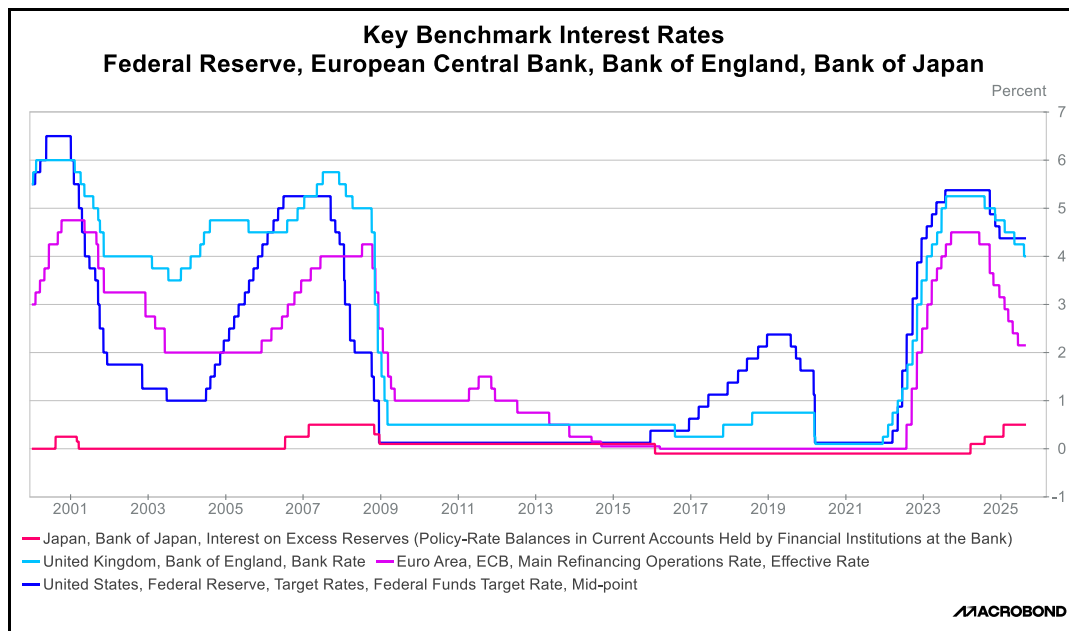
---

Our *Comment* today opens with a quick overview of President Trump’s move to oust Federal Reserve Governor Lisa Cook. We next review several other international and US developments with the potential to affect the financial markets today, including the French government’s risky call for a confidence vote in September and new evidence that artificial intelligence is weighing on the US labor market.

**US Monetary Policy:** In a letter posted to social media last night, President Trump [informed Federal Reserve board member Lisa Cook that he was immediately firing her for cause](#), citing allegations by Federal Housing Finance Agency Director Bill Pulte that she claimed two

different properties as her “primary residence” in nearly simultaneous mortgage applications in 2021.

- Cook is likely to contest her firing in the courts. Nevertheless, if the firing stands, the president would be able to take a large step toward quickly reshaping the Fed policy board to his liking.
- If so, the Fed may start accelerating its interest-rate cuts relatively soon, helping bring US interest rate policy in line with the recent cuts from other major central banks, such as the European Central Bank and the Bank of England. That would probably give a boost to small-cap stocks, REITs, dividend payers, and cyclical equities.
- At the same time, the loss of Fed independence would likely be taken poorly by many investors, as it could portend excessively loose monetary policy and higher price inflation in the future. That could eventually push up longer-term bond yields and cap the positive impact on stocks.



**France:** Prime Minister Bayrou yesterday [called a confidence vote on his government for September 8, in hopes that it will help push his deficit-cutting budget proposal through the divided parliament](#). However, the vote could also prompt the government’s downfall, paralyze policymaking, and/or usher in a right-wing populist government. French stocks and bonds are therefore selling off sharply for the second straight day.

**United Kingdom:** The leader of the populist Reform UK party, Nigel Farage, [said in a major policy speech today that if his party comes to power, it will seek to take the UK out of the European Convention on Human Rights](#) and start mass deportations of asylum seekers. Since Reform UK has been leading both the Conservatives and the Labour party in opinion polls, the statement suggests any future Reform UK government would enact a tough anti-immigration policy similar to that of the US government.

**Russia-Ukraine Conflict:** New reports say Ukraine's stepped-up drone strikes on Russia oil refineries [have led to gasoline shortages, rationing, and price spikes in some regions](#). The jump in gasoline prices comes just as Ukrainian attacks on Russia's airports and railroads have forced more of the country's citizens to travel by auto. There is no sign that the hardships will force Russia to scale back its war against Ukraine, but the situation does suggest potential political problems for President Putin down the line.

**United States-China:** President Trump yesterday [said he is prepared to allow 600,000 students from China to study in the US each year, more than double the current quota](#). The statement came one day after the Chinese Embassy in Washington warned that students should be wary about intrusive immigration checks when arriving through Houston. The new quota of 600,000 student visas could be a negotiating offer to help achieve a new US-China trade deal, reflecting the administration's new-found appreciation for China's strong leverage in the negotiations.

**US Trade Policy-Digital Services:** In a social media post last night, President Trump [warned that he will impose "substantial additional Tariffs" and restrict US advanced technology exports to any country](#) "with Digital Taxes, Legislation, Rules, or Regulations," which he said are discriminatory against US tech firms. Separately, reports say the White House [is mulling the imposition of visa restrictions and other sanctions on EU officials enforcing such rules](#).

- The president's warning comes despite previous indications that the new US-EU trade deal didn't touch Europe's digital services tax or other technology regulations.
- Therefore, it will likely rekindle investor concerns about the unpredictability of policy changes coming from the administration.

**US Trade Policy-Lumber and Wood Products:** The White House yesterday [clarified that furniture is included in its probe of dumped lumber, wood, and derivative products, which was announced March 1](#). The clarification followed a statement by President Trump on Friday that the investigation would soon lead to unspecified tariffs on imported furniture. In response, furniture importers such as Wayfair and Williams-Sonoma experienced sharp drops in their share prices yesterday.

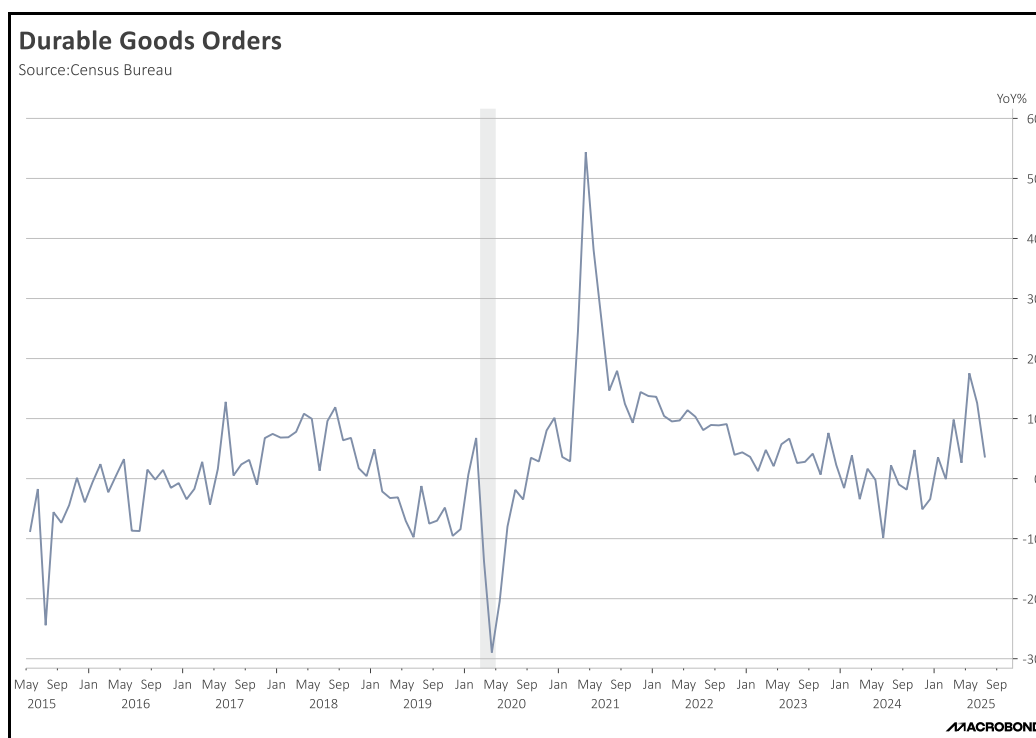
**US Labor Market:** New research from Bank of America shows that workers who switched jobs in the last year [are now seeing no better wage growth than workers who stayed in their positions](#). For both cohorts, average wages are now up 4.3% from a year ago. As recently as early 2023, job switchers' wages were up almost 8.0% year-over-year, while job stayers' wages were up only about 5.5%. The changed dynamics are additional evidence of weaker labor demand, which could help ensure the Fed cuts interest rates in September.

- Separately, three Stanford economists today [released a study showing "clear" evidence that artificial intelligence is crimping the demand for young workers](#) in particular fields.
- Based on anonymized data related to millions of employees at tens of thousands of firms, the research finds that younger workers now make up a much smaller share of total employment in heavily AI-exposed occupations, such as software development. That is

consistent with other recent reports suggesting firms are cutting their hiring of younger workers with college degrees.

## US Economic Releases

July ***durable goods orders*** fell by a seasonally adjusted 2.8%, much better than the expected decline of 4.0% and the revised June drop of 9.5%. Of course, durable goods orders are often driven by transportation equipment, where just a few airliner orders can have a big impact. July ***durable goods orders excluding transportation*** rose 1.1%, beating their anticipated rise of 0.2% and the revised June gain of 0.3%. Finally, the durable goods report also includes a key proxy for corporate capital investment. In July, nondefense capital goods orders ex-aircraft fell 2.5% much better than the expected decline of 3.6% but below June's revised drop of 0.6%.



The chart above shows the progression of nondefense capital goods orders ex-aircraft since just before the Great Financial Crisis. Compared with the same month one year earlier, overall durable goods orders in July were up 3.5%, while durable orders ex-transport were up 1.9%. Nondefense capital goods orders ex-aircraft were up 2.3%.

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	Richmond Fed Manufact. Index	m/m	Aug	-11	-20	**
10:00	Conf. Board Consumer Confidence	m/m	Aug	96.5	97.2	***
10:00	Conf. Board Present Situation	m/m	Aug		131.5	*
10:00	Conf. Board Expectations	m/m	Aug		74.4	*
10:30	Dallas Fed Servies Activity	m/m	Aug		2.0	*
Federal Reserve						
EST	Speaker or Event	District or Position				
TBD	Thomas Barkin Repeats Remarks on the Economy	President of the Federal Reserve Bank of Richmond				

## 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>								
Japan	PPI Services	y/y	Jul	2.9%	3.2%	3.2%	*	Equity and bond neutral
South Korea	Consumer Confidence	m/m	aug	111.4	110.8		*	Equity and bond neutral
<b>EUROPE</b>								
France	Consumer Confidence	m/m	Aug	87.0	88.0	89.0	***	Equity and bond neutral
<b>AMERICAS</b>								
Mexico	Current Account Balance	q/q	2Q	\$206m	-11171m	\$5361m	*	Equity and bond neutral
Brazil	Current Account Balance	m/m	Jul	-7067m	-\$5131m	-\$5500m	**	Equity and bond neutral
	Foreign Direct Investment	m/m	Jul	\$8324m	\$2810m	\$5000m	**	Equity and bond neutral
	IBGE Inflation IPCA-15	m/m	Aug	4.95%	4.89%		***	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)	406	408	-2	Down
U.S. Sibor/OIS spread (bps)	420	421	-1	Down
U.S. Libor/OIS spread (bps)	415	416	-1	Down
10-yr T-note (%)	4.28	4.28	0.00	Down
Euribor/OIS spread (bps)	202	202	0	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
<b>Energy Markets</b>				
Brent	\$67.78	\$68.80	-1.48%	
WTI	\$63.73	\$64.80	-1.65%	
Natural Gas	\$2.71	\$2.70	0.63%	
Crack Spread	\$23.82	\$23.91	-0.38%	
12-mo strip crack	\$23.94	\$24.01	-0.29%	
Ethanol rack	\$2.03	\$2.02	0.50%	
<b>Metals</b>				
Gold	\$3,376.53	\$3,365.89	0.32%	
Silver	\$38.48	\$38.57	-0.25%	
Copper contract	\$451.30	\$454.85	-0.78%	
<b>Grains</b>				
Corn contract	\$411.75	\$412.25	-0.12%	
Wheat contract	\$529.00	\$529.75	-0.14%	
Soybeans contract	\$1,053.25	\$1,047.75	0.52%	
<b>Shipping</b>				
Baltic Dry Freight	1,944	1,893	51	
<b>DOE Inventory Report</b>				
	Actual	Expected	Difference	
Crude (mb)		-0.85		
Gasoline (mb)		-0.32		
Distillates (mb)		1.48		
Refinery run rates (%)		-1.0%		
Natural gas (bcf)		18		

## **Weather**

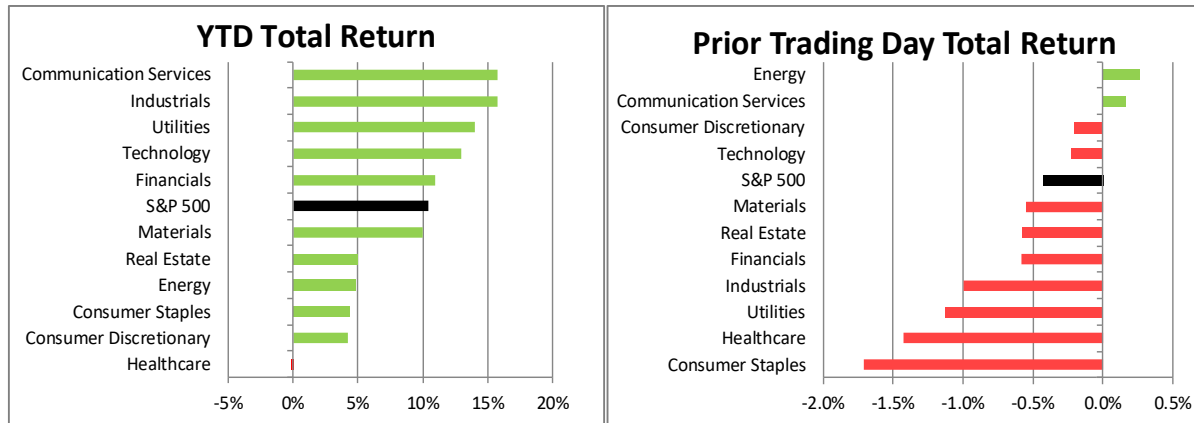
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in the Pacific region and the Northern Rockies that will spread into the Southwest, with cooler-than-normal temperatures for the rest of the country. The precipitation forecast calls for wetter-than-normal conditions in most states, with dry conditions in the New England region.

The Atlantic Ocean has one tropical disturbance, Tropical Storm Fernand, which is expected to remain in the deep Atlantic and is not a threat to make landfall within the next seven days.



## Data Section

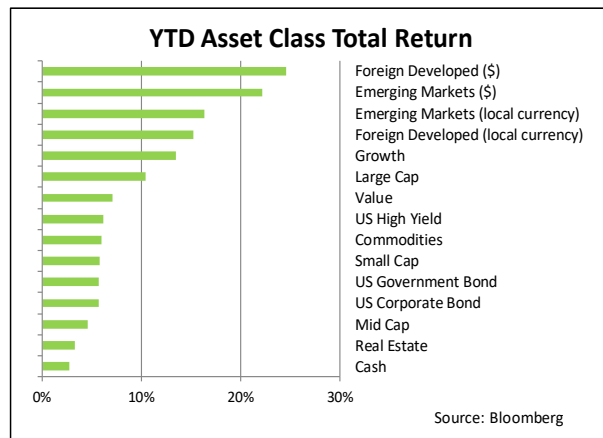
### US Equity Markets – (as of 8/25/2025 close)



(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 8/25/2025 close)



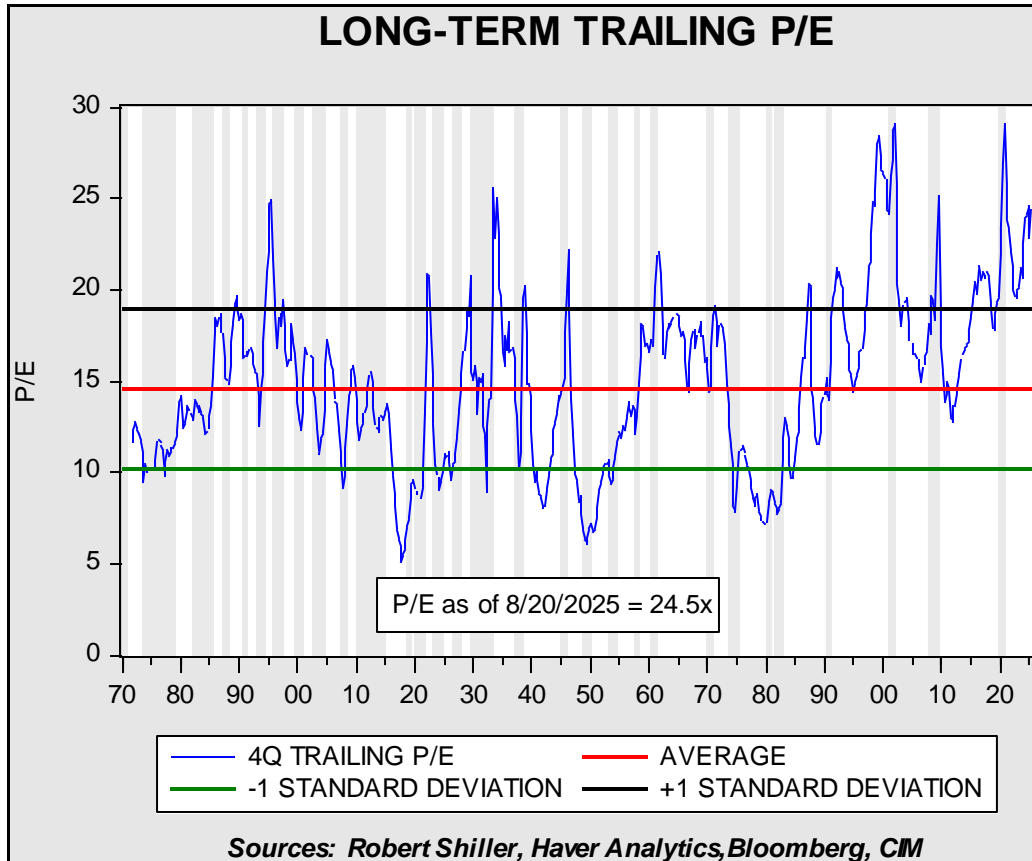
This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.