

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

**Posted: August 27, 2025 — 9:30 AM ET** Global equity markets are mixed 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 down 0.3%. Chinese markets were lower, with the Shanghai Composite down 1.8% from its previous close and the Shenzhen Composite down 1.9%. US equity index futures are signaling a higher 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.

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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="#">“Tariff Trilemma: The Three Rs Driving US Trade Policy”</a> (8/25/25)	<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).

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Our *Comment* begins with an analysis of the escalating feud between the White House and the Federal Reserve. Next, we examine key global developments, including an unexpectedly strong consumer confidence reading for August, new US commitments for supporting Ukraine in its post-war security, and the imposition of fresh tariffs on Indian goods. We conclude with an overview of other critical domestic and international factors shaping the current financial landscape.

**Reshaping the Fed:** Uncertainty over monetary policy is causing the yield curve to steepen. Increased expectations of rate cuts have pushed down the short-term yields, while growing

concerns about a potential shift away from inflation control has lifted long-term yields. This sentiment follows [President Trump's announcement that he will seek a replacement for Fed Governor Lisa Cook](#) due to allegations of mortgage fraud. Although her departure is considered unsettled, the move signals that the administration intends to reshape the Federal Reserve.

- The administration is reportedly considering former World Bank Group President David Malpass as a potential nominee to replace Cook on the Federal Reserve Board. This effort coincides with the upcoming [Senate confirmation hearing for Stephen Miran](#) to fill a separate vacancy left by Adriana Kugler's resignation. If he fills both positions, then the president would have appointed a majority of the sitting Federal Reserve Board governors, potentially giving him more control of its objectives.
- [Lisa Cook's lawyer has stated that she will file a lawsuit to challenge her removal](#) by the president, arguing that the action is unlawful. This legal battle could allow her to remain in her seat and participate in upcoming Federal Open Market Committee (FOMC) meetings, including the one scheduled for September 16-17. The Federal Reserve has issued a statement on the matter stating that it will comply with any judicial ruling on the matter.
- By appointing loyalists to the Federal Reserve Board of Governors, the White House appears to be pressuring Chair Jerome Powell. This strategy has a historical basis as a chair's role becomes untenable without the board's support. The last significant resignation of this kind was in 1979 when G. William Miller stepped down after reportedly failing to mesh with his fellow governors.<sup>1</sup>
- Increased executive branch control over the Federal Reserve would likely have a ripple effect on both the dollar and the bond market. Doubt about the central bank's ability to independently combat inflation could prompt foreign investors to reduce their exposure to US assets. Such a move would be a strategic effort to mitigate risk in a potentially inflationary environment.

**Consumer Confidence:** The Conference Board's August [consumer confidence index surpassed expectations, despite a month-over-month decline](#). This more optimistic reading was influenced by an upward revision of the previous month's report, indicating that consumers were more confident in July than initially thought. However, there is growing pessimism about the labor market among households. While this could signal consumers becoming more cautious, there is no evidence of widespread layoffs.

**Chip Wars:** Chinese [chipmakers are set to triple their production of AI processors](#) by next year, a strategic move by Beijing to lessen its dependence on advanced US chips. This aggressive expansion follows the US government's decision to tighten restrictions on chip sales to China, which has significantly impacted companies like NVIDIA. The escalating competition for AI supremacy is expected to be a major factor shaping market trends in both the US and China.

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<sup>1</sup> Greider, William. (1987). *Secrets of the Temple: How the Federal Reserve Runs the Country*. New York, NY: Simon & Schuster, p. 66.

**Energy Strain:** The rise in utility prices, [driven in part by energy-intensive data centers](#), is impacting a growing number of households. As electricity costs escalate, an increasing number of regions are voicing concerns. In response to these pressures, some companies are exploring alternative energy strategies. For example, [Meta is reportedly investing in a new \\$50 billion data center and developing its own energy plan](#) to help mitigate these rising costs. We think this could present opportunities for energy companies in the future.

**Ukraine Postwar Backing?** The US has [announced its readiness to contribute to a European-led defense shield](#) in a post-war Ukraine. This commitment would include providing intelligence assets and offering battlefield oversight. This agreement is part of what appears to be an intensified US effort to broker a deal that could end the conflict between Ukraine and Russia. The shift in US policy follows recent statements from [Vice President J.D. Vance, who indicated that Russia's President Putin has also made some concessions](#).

**India Tariffs:** On Wednesday, [the US imposed secondary tariffs on goods from India](#), a move that has put pressure on the Indian economy. The tariffs, set at 50%, are designed to penalize India for its continued purchase of Russian oil. In response, Indian firms are seeking government support to manage the financial burden of these new levies. India's prime minister has encouraged citizens to "buy domestically" to mitigate the economic impact, but it remains uncertain whether this strategy will be sufficient without additional government aid.

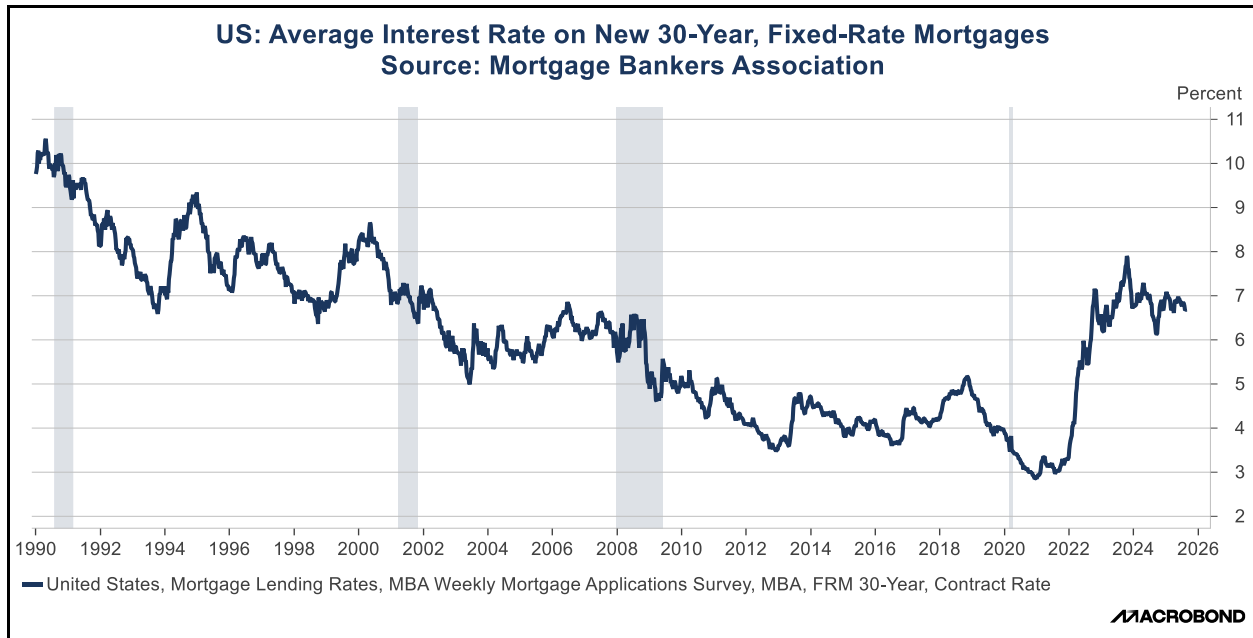
**EU Removing Tariffs?** EU officials are reportedly [preparing to pass legislation that would eliminate tariffs on all US industrial goods](#). This move is intended to persuade the US to lower its current 27.5% tariff on European automobile exports to a more favorable rate of 15%. The automotive industry, which is a key export for the European Union (particularly for Germany), has been under significant pressure from the elevated US tariffs. If the legislation is approved, the new 15% tariff on autos could be applied retroactively.

**Spy Allegations:** Danish authorities have contacted US diplomats to address concerns that [American individuals associated with the Trump administration are conducting influence operations](#) in Greenland. The alleged objective of these campaigns is to rupture the relationship between Greenland and Denmark. This move aligns with the president's publicly stated interest in bringing the strategically crucial Arctic Island under US influence. The allegations risk triggering significant diplomatic friction between the US and the EU.

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## US Economic Releases

The Mortgage Bankers Association said *mortgage applications* in the week ended August 23 fell 0.5%, after declining 1.4% in the previous week. Applications for home purchase mortgages rose 2.2%, after a rise of just 0.1% in the prior week. However, applications for refinancing mortgages slumped 3.5%, following their 3.2% drop the week before. According to the report, the average interest rate on a 30-year mortgage rose 1 basis point to 6.69%. The chart below shows how mortgage rates have changed over time.



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
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>								
<b>Australia</b>	Westpac Leading Index	m/m	Jul	0.14%	-0.03%		**	Equity and bond neutral
	CPI	y/y	Jul	2.8%	1.9%	2.3%	**	Equity and bond neutral
<b>South Korea</b>	Retail Sales	y/y	Jul	9.1%	7.3%		**	Equity and bond neutral
	Depart. Store Sales	y/y	Jul	5.1%	-0.9%		*	Equity and bond neutral
	Discount Store Sales	y/y	Jul	-2.4%	-2.8%		*	Equity and bond neutral
<b>China</b>	Industrial Profits	y/y	Jul	-1.5%	-4.3%		*	Equity and bond neutral
<b>EUROPE</b>								
<b>Germany</b>	GfK Consumer Confidence	m/m	Sep	-23.6	-21.7	-21.5	**	Equity bearish, bond bullish
<b>AMERICAS</b>								
<b>Mexico</b>	International Reserves Weekly	w/w	22-Aug	\$243363m	\$243109m		*	Equity and bond neutral
	Trade Balance	m/m	Jul	47.0m	514.4m		**	Equity and bond neutral
	Exports	m/m	Jul	56708m	54002m		*	Equity and bond neutral
	Imports	m/m	Jul	56724m	53487m		*	Equity and bond neutral
<b>Brazil</b>	Total Outstanding Loans	m/m	Jul	6716b	6691b		**	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)	409	408	1	Down
U.S. Sibor/OIS spread (bps)	419	419	0	Down
U.S. Libor/OIS spread (bps)	414	414	0	Down
10-yr T-note (%)	4.27	4.26	0.01	Down
Euribor/OIS spread (bps)	202	202	0	Down
<b>Currencies</b>	<b>Direction</b>			
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	\$67.23	\$67.22	0.01%	
WTI	\$63.29	\$63.25	0.06%	
Natural Gas	\$2.68	\$2.72	-1.51%	
Crack Spread	\$23.36	\$23.51	-0.62%	
12-mo strip crack	\$23.46	\$23.56	-0.44%	
Ethanol rack	\$2.02	\$2.03	-0.28%	
<b>Metals</b>				
Gold	\$3,376.25	\$3,393.57	-0.51%	
Silver	\$38.24	\$38.61	-0.96%	
Copper contract	\$448.20	\$453.30	-1.13%	
<b>Grains</b>				
Corn contract	\$408.75	\$409.50	-0.18%	
Wheat contract	\$527.25	\$531.75	-0.85%	
Soybeans contract	\$1,052.75	\$1,049.50	0.31%	
<b>Shipping</b>				
Baltic Dry Freight	2,041	1,944	97	
<b>DOE Inventory Report</b>				
	<b>Actual</b>	<b>Expected</b>	<b>Difference</b>	
Crude (mb)		-2.00		
Gasoline (mb)		-1.60		
Distillates (mb)		0.50		
Refinery run rates (%)		-0.4%		
Natural gas (bcf)		27		

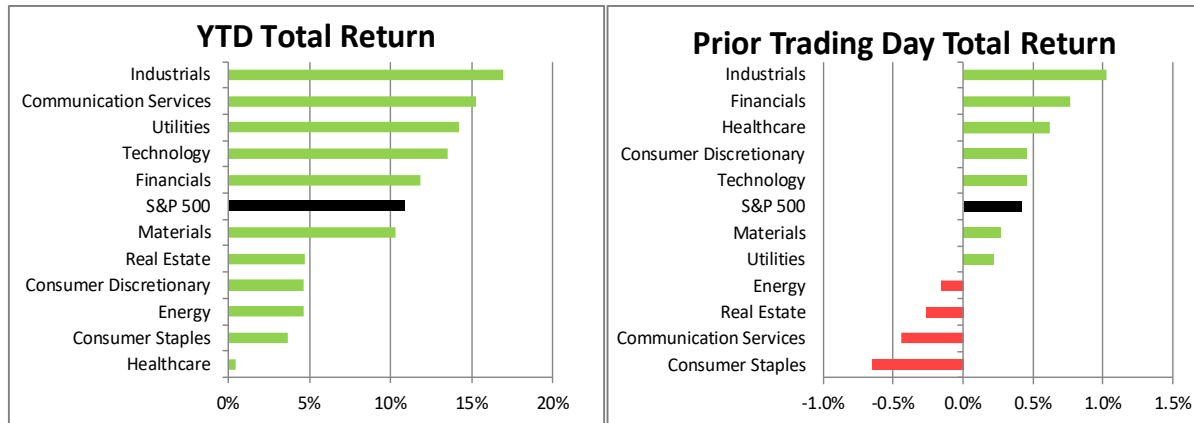
## Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in the Far West, along the Gulf Coast, and in New England, with cooler-than-normal temperatures in most areas from the Great Plains eastward. The forecasts call for wetter-than-normal conditions everywhere except the Pacific Northwest, southern California, and in the Appalachians, where conditions will be dry.

There is now only one tropical disturbance in the Atlantic Ocean area. Tropical Storm Fernand is currently in the central Atlantic and traveling northeasterly. It is not expected to make landfall within the next seven days.

## Data Section

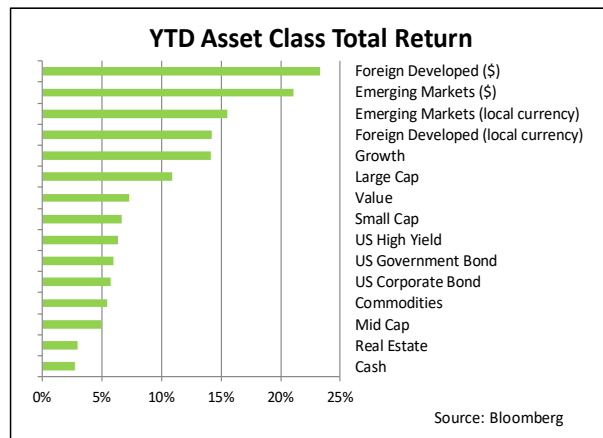
### US Equity Markets – (as of 8/26/2025 close)



(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 8/26/2025 close)

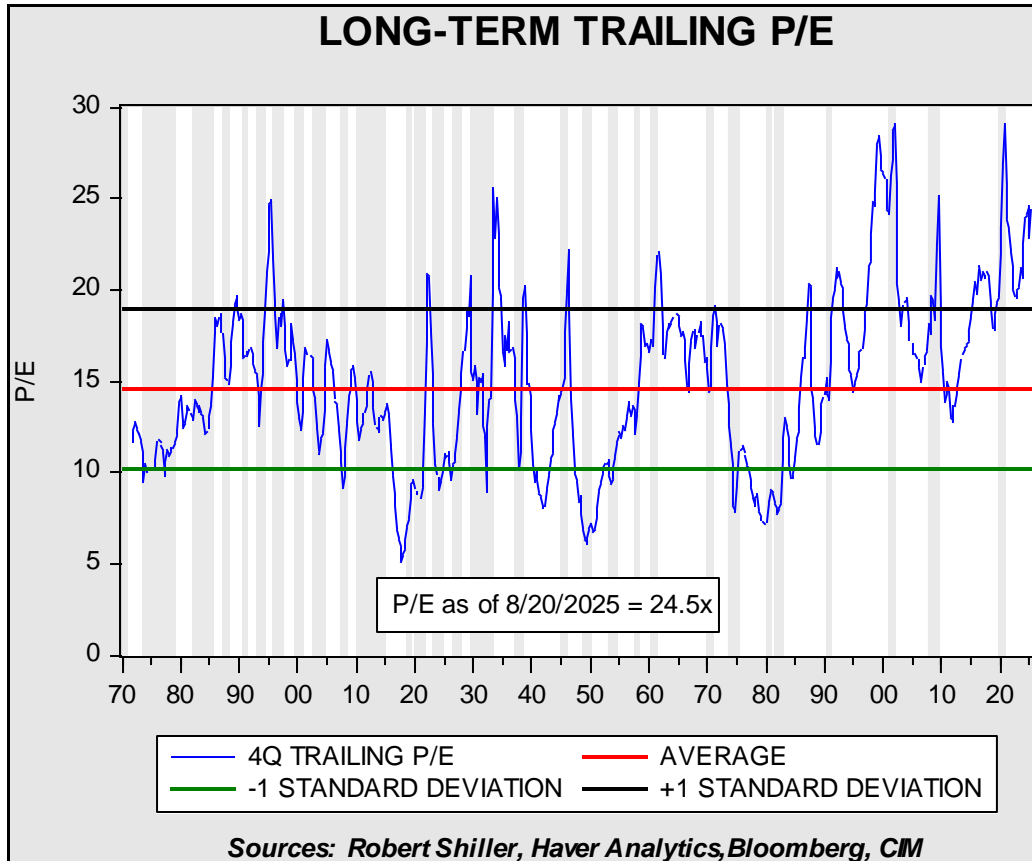


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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>2</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>2</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.