Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: August 28, 2025 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is down 0.2% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 1.2%. Chinese markets were higher, with the Shanghai Composite up 1.1% from its previous close and the Shenzhen Composite up 1.6%. US equity index futures are signaling a mildly lower open.

With 481 companies having reported so far, S&P 500 earnings for Q2 are running at $66.90 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 14.2% 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.

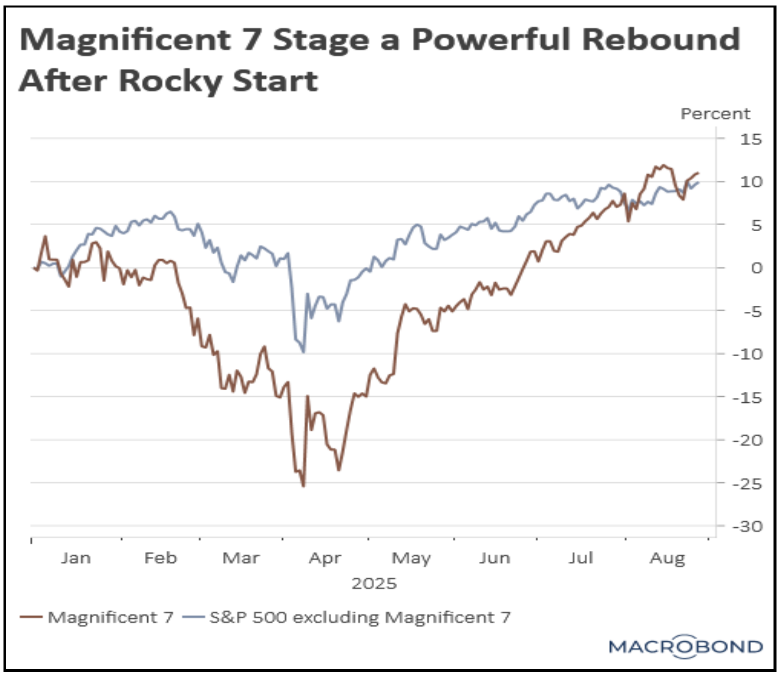
Bi-Weekly Geopolitical Report	Asset Allocation Bi-Weekly	Asset Allocation Quarterly	Of Note
"Tariff Trilemma: The Three Rs Driving US Trade Policy" (8/25/25)	"Navigating the Waves of BLS Revisions" (8/18/25) + podcast	Q3 2025 Report Q3 2025 Rebalance Presentation	The Confluence Mailbag Podcast Value 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 our analysis of Nvidia's recent earnings and what they suggest about the ongoing AI boom. We then examine key global developments, including a strategic move by US allies to boost investment in rare earths production, Mexico's decision to raise tariffs on Chinese goods, and a discussion of a recent Russian attack that damaged buildings housing EU officials. The report concludes with an overview of other critical domestic and international factors shaping the current financial landscape.

Tech Momentum: Nvidia, the world's largest chipmaker by market capitalization, reported another strong quarter, demonstrating that the AI boom continues to offset the headwinds from trade friction. The tech giant's revenue reached $46.7 billion in the previous quarter, a notable increase from $46.1 billion. Despite this success, concerns persist about the sustainability of AI-related spending. There are also doubts surrounding its sales to China due to US government regulations and scrutiny from Beijing.

- Despite strong quarterly results, Nvidia struck a cautious note by forecasting a sales deceleration. This near-term pessimism contrasts with its long-term optimism for AI spending, which it estimates will reach $3-4 trillion by 2030. The warning was underscored by data center revenue of $41.1 billion, which narrowly missed estimates of $41.3 billion, suggesting companies may delay investments in large-scale AI infrastructure if financial returns fail to materialize.
- This cautious outlook raises concerns about the AI boom that has fueled equity markets over the last three years. A recent MIT study showed that 95% of AI deployments fail to significantly boost revenue or productivity, validating concerns that the AI rally may be overdone. While the low success rate has been attributed to poor implementation rather than the technology itself, it suggests infrastructure investment is outpacing companies' ability to use it effectively.



- While it may be too soon to declare the AI rally over, we believe it is prudent to identify opportunities in other market segments. In fact, excluding the Magnificent 7, the broader S&P 500 has performed quite well. This strength is partly due to shifting sentiment around trade policy, but more attractive valuations have also been a key driver. Consequently, we view this as an opportune moment to broaden investment exposure.

US Rare Earths Mining: Lynas, the world's largest rare earths miner outside of China, is planning to raise $500 million to fund an expansion of its operations and acquire a stake in US magnet manufacturers. This strategic move is part of a broader effort by the US and its allies to establish a rare earths supply chain independent of China, which currently dominates the market. The move is another sign of the government's growing involvement in the broader economy.

- In a significant effort to incentivize domestic production and reduce reliance on China, the US government has taken a major step in the rare earths market. Earlier this month, the Department of Defense entered into a public-private partnership with MP Materials, the American company that operates the country's only active rare earth mine. It also established a price floor for key rare earth minerals at nearly double the current market rate.
- The increasing government intervention suggests that companies aligning with US policy objectives may receive preferential treatment. While this could benefit key sectors like industrial materials and technology in the long run by bolstering domestic production, it also makes these industries highly vulnerable to shifts in government leadership and policy changes.

Mexico Takes on China: The Mexican government plans to raise tariffs on Chinese goods, a move that aligns with the recent strategy of the US. Although specific rates are undisclosed, the new levies are expected to target Chinese cars, textiles, and plastics. This decision appears to be part of a broader, long-term strategy to use tariffs to force its allies to present a united front against Beijing. The goal is to counter Chinese export dumping, a practice used to address its domestic industrial overcapacity.

European Sanctions: The EU is prepared to reimpose sanctions on Iran for its failure to hold talks about its nuclear program. This move would allow the EU to penalize Iran under the snapback mechanism in the 2015 Iran Nuclear Deal. Since the attack on its facilities earlier this summer, Iran has been unwilling to resume negotiations and has not allowed access to its nuclear sites or stockpiles of 60% highly enriched uranium. While the sanctions are designed to pressure Iran's economy and may provoke a response, the risk of near-term direct conflict remains low.

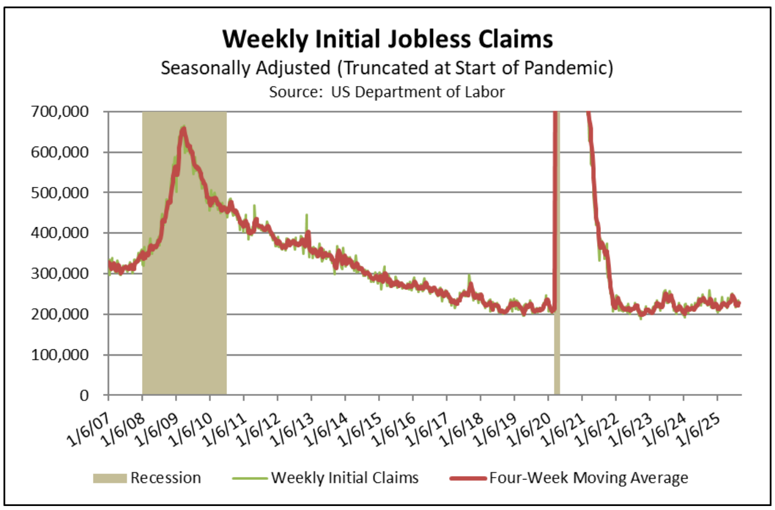
The Three Amigos: In a move signaling a unified front against what they perceive as a US-led international order, North Korean leader Kim Jong Un is set to join Russian President Vladimir Putin and Chinese President Xi Jinping at a major military parade in Beijing. This marks the first time all three leaders will attend an event together. The gathering takes place ahead of anticipated talks between each of these nations and the White House on key issues including trade, conflict, and restoring diplomatic communication.

Russian Attacks Continue: Buildings housing the EU and British Council in Kyiv were damaged in a Russian drone attack that killed at least 10 people and injured 48. Although the buildings may not have been the primary target, the EU and UK are likely to view the incident gravely and could respond with additional sanctions. The attack on diplomatic premises signals a concerning escalation, though it falls short of an action that would provoke a direct military conflict between the EU and Russia.

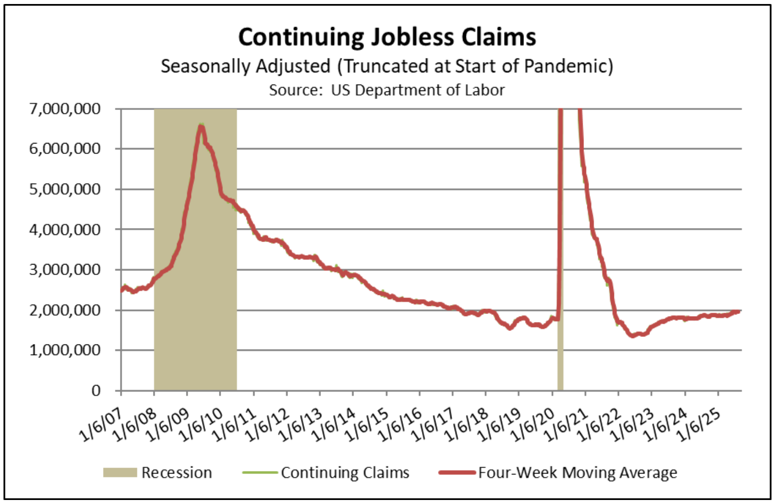
Milei Controversy: Argentine President Javier Milei was forced to abruptly end an election campaign event on Wednesday after protesters threw stones at him. The unrest follows allegations that members of his administration, including his sister, received illegal kickbacks from the drug distributor Suizo Argentina. This controversy has triggered a sell-off in Argentine equities, as investors express concern over the potential impact on the upcoming election scheduled for October 26, 2025.

US Economic Releases

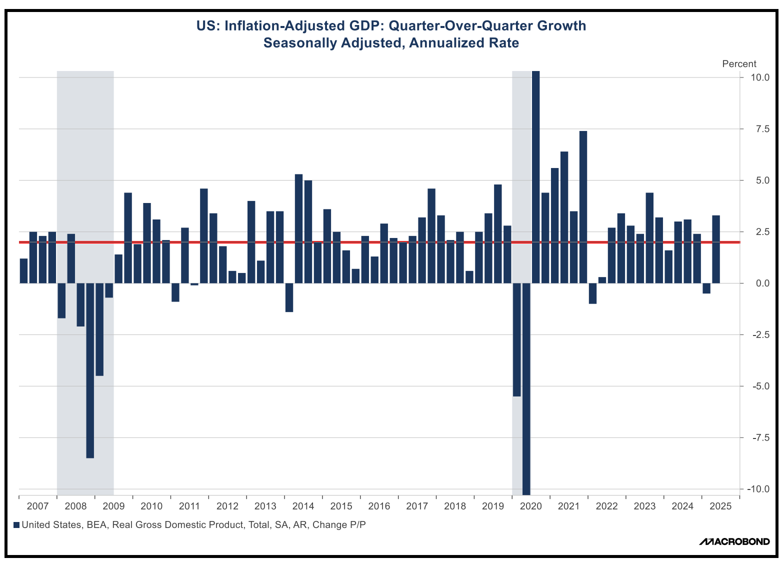
In the week ended August 23, ***initial claims for unemployment benefits*** fell to a seasonally adjusted 229,000, slightly lower than the expected level of 230,000 and down from the revised 234,000 in the previous week. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, rose to a still-modest 228,500. 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.



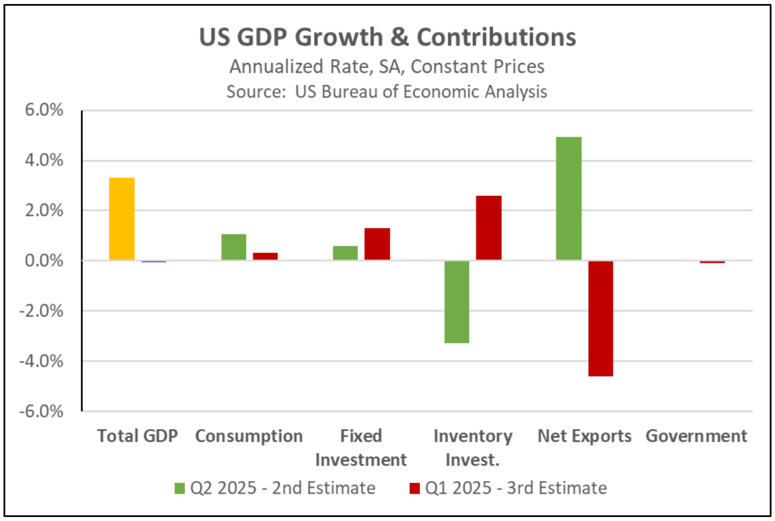
In the week ended August 16, the number of ***continuing claims for unemployment benefits*** (people continuing to draw benefits) fell to a seasonally adjusted 1.954 million, below the anticipated reading of 1.966 million and the prior week's revised reading of 1.961 million. The four-week moving average of continuing claims nevertheless rose to an elevated 1,956,250. Taken together, the claims data suggests the "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.



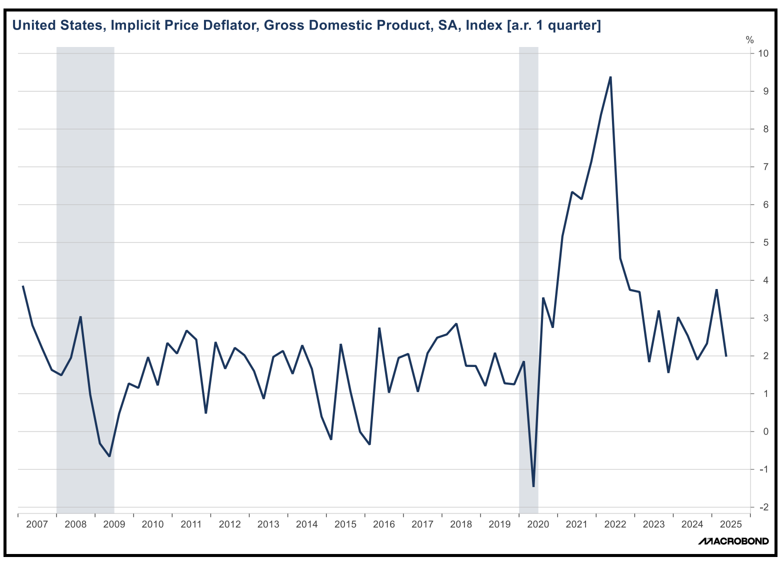
Separately, the Commerce Department released its second regular estimate of economic activity in the second quarter. After stripping out seasonal factors and price changes, second-quarter ***gross domestic product (GDP)*** rose at an annualized rate of 3.3%, beating expectations that the growth rate would be revised up to 3.1% from the initial estimate of 3.0%. The chart below shows the annualized growth rate of US GDP since just before the GFC; the horizontal red line indicates the average growth rate of about 2.0% over the last two decades.



A close look at the details in the report shows that the main source of growth in the quarter was a normalization in net exports, as imports fell back to more normal levels after surging in the first quarter as firms tried to get ahead of the US's new import tariffs. The chart below shows the contributions to the annualized growth rate in the second quarter.



The GDP report also includes the broadest measure of US price inflation. The second-quarter ***GDP Price Index*** rose at an annualized rate of 2.0%, matching both the expected rate and the initial estimate. The chart below shows the year-over-year change in the GDP Price Index since 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**
10:00	Pending Home Sales	m/m	Jul	0.1%	-0.30%	**
11:00	Kansas City Fed Manfacturing Index	m/m	Aug	1	1	*
Federal Reserve						
EST	**Speaker or Event**	**District or Position**				
18:00	Christopher Waller Speaks on Monetary	Member of the Board of Governors				

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	Japan Buying Foreign Bonds	w/w	22-Aug	-¥167.2b	-¥310.9b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	22-Aug	¥306.1b			*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	22-Aug	-¥106.0b	¥200.5b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	22-Aug	-¥496.8b	¥1167.0b		*	Equity and bond neutral
Australia	Private Capital Expenditure	q/q	2Q	0.2%	-0.2%	0.8%	**	Equity bearish, bond bullish
New Zealand	ANZ Business Confidence	m/m	Aug	49.7	47.8		**	Equity and bond neutral
India	Industrial Production	y/y	Jul	3.5%	1.5%	2.2%	***	Equity bullish, bond bearish
EUROPE								
Eurozone	EU27 New Car Registrations	y/y	Jul	7.4%	-7.3%		***	Equity and bond neutral
	M3 Money Supply	y/y	Jul	3.4%	3.3%	3.5%	***	Equity and bond neutral
	Consumer Confidence	m/m	Aug F	-15.5	-15.5		**	Equity and bond neutral
	Economic Confidence	m/m	Aug	95.2	95.7	96.0	***	Equity and bond neutral
	Industrial Confidence	m/m	Aug	-10.3	-10.5	-10.2	***	Equity and bond neutral
	Services Confidence	m/m	Aug	3.6	4.1	3.9	**	Equity and bond neutral
Italy	Consumer Confidence	m/m	Aug	96.2	97.2	97.3	***	Equity bearish, bond bullish
	Economic Sentiment	m/m	Aug	93.6	96.3		**	Equity and bond neutral
	Manufacturing Confidence	m/m	Aug	87.4	87.8	87.6	***	Equity and bond neutral
	Industrial Sales WDA	y/y	Jun	0.3%	-1.8%		*	Equity and bond neutral
Switzerland	GDP	y/y	2Q	1.2%	1.8%	1.3%	**	Equity and bond neutral
Russia	Retail Sales Real	m/m	Jul	2.0%	1.2%	1.3%	***	Equity and bond neutral
	Unemployment Rate	m/m	Jul	2.2%	2.2%	2.3%	***	Equity and bond neutral
	Real Wages	y/y	Jun	5.1%	4.2%	4.3%	**	Equity bullish, bond bearish
	Industrial Production	y/y	Jul	0.7%	1.9%	1.5%	*	Equity bearish, bond bullish
AMERICAS								
Mexico	Unemployment Rate NSA	m/m	Jul	2.77%	2.69%	8.86%	***	Equity bearish, bond bullish
Brazil	FGV Inflation IGPM	y/y	Aug	3.03%	2.96%	2.87%	***	Equity bullish, bond bearish
	Central Govt Budget Balance	m/m	Jul		-44.3b	-58.7b	*	Equity and bond neutral
	Formal Job Creation Total	m/m	Jul	129775	162388	138100	*	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)	407	408	-1	Down
U.S. Sibor/OIS spread (bps)	417	418	-1	Down
U.S. Libor/OIS spread (bps)	412	414	-2	Down
10-yr T-note (%)	4.23	4.24	-0.01	Down
Euribor/OIS spread (bps)	203	202	1	Up
Currencies	**Direction**			
Dollar	Up			Down
Euro	Down			Up
Yen	Up			Down
Pound	Down			Up
Franc	Down			Up
Central Bank Action	**Current**	**Prior**	**Expected**	
Bank of Korea Base Rate	2.50%	2.50%	2.50%	On Forecast

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	$67.96	$68.05	-0.13%	
WTI	$64.10	$64.15	-0.08%	
Natural Gas	$2.87	$2.89	-0.45%	
Crack Spread	$22.94	$23.37	-1.81%	
12-mo strip crack	$23.37	$23.69	-1.34%	
Ethanol rack	$2.04	$2.04	0.28%	
Metals				
Gold	$3,406.23	$3,397.37	0.26%	
Silver	$39.02	$38.60	1.09%	
Copper contract	$450.45	$449.55	0.20%	
Grains				
Corn contract	$406.50	$406.00	0.12%	
Wheat contract	$523.00	$524.25	-0.24%	
Soybeans contract	$1,047.75	$1,047.50	0.02%	
Shipping				
Baltic Dry Freight	2,046	2,041	5	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	-2.39	-2.00	-0.39	
Gasoline (mb)	-1.24	-1.60	0.36	
Distillates (mb)	-1.79	0.50	-2.29	
Refinery run rates (%)	-2.0%	-0.4%	-1.6%	
Natural gas (bcf)		26		

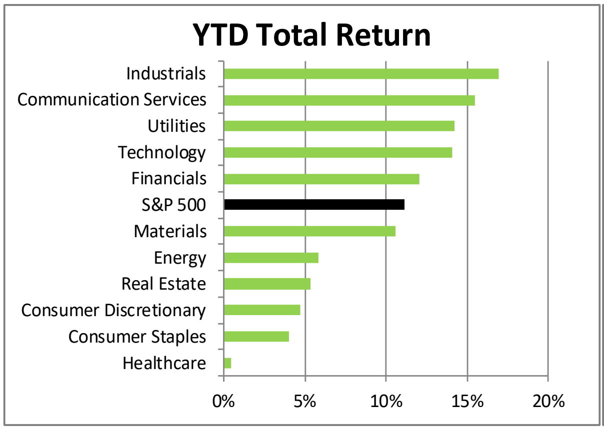
Weather

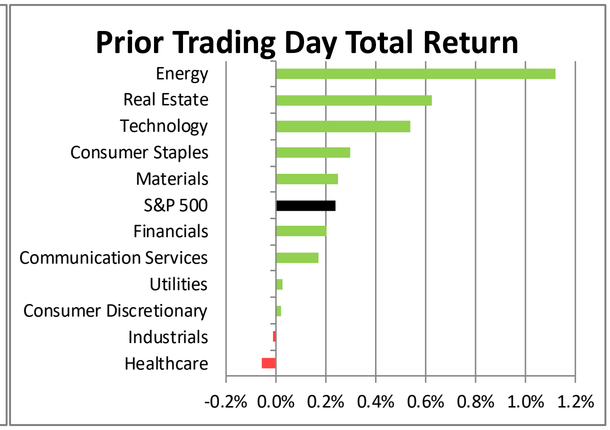
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in the Far West, along the Gulf Coast, and in New England, with cooler-than-normal temperatures in most areas from the Great Plains to the Appalachian Mountains. The forecasts call for wetter-than-normal conditions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

There are now two tropical disturbances in the Atlantic Ocean area. Post-Tropical Cyclone Fernand is currently in the central Atlantic, traveling northeasterly, and slowly dissipating. There is also a new tropical disturbance off the western coast of Africa, which is assessed to have a 20% chance of transforming into a cyclone within the next seven days.

Data Section

US Equity Markets – (as of 8/27/2025 close)

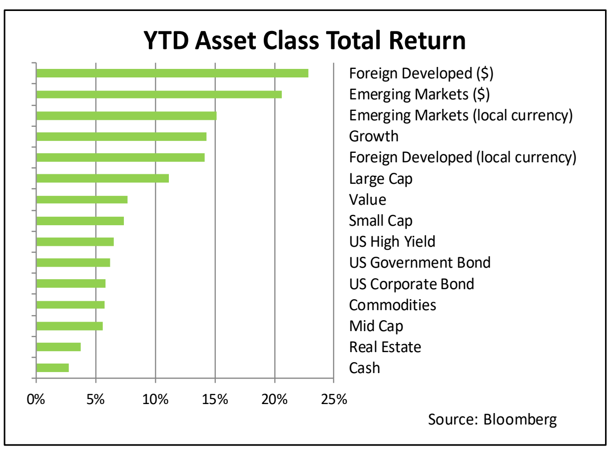




(Source: Bloomberg)

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 8/27/2025 close)

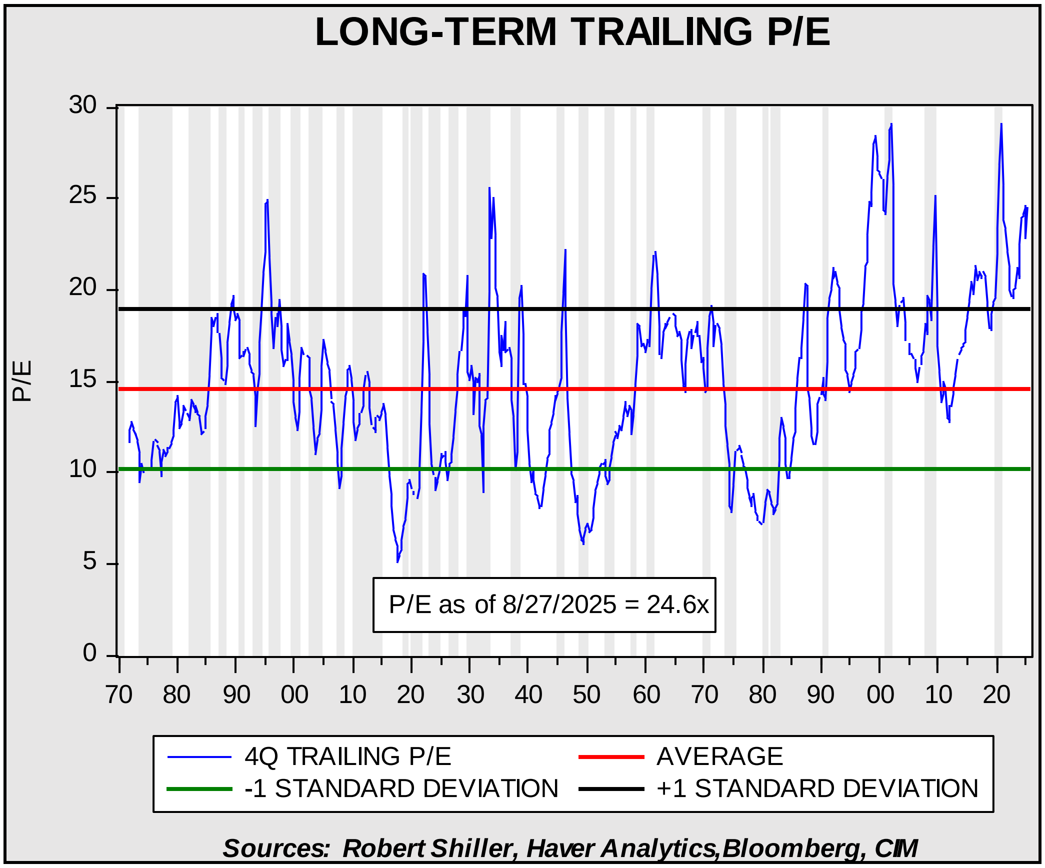


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 28, 2025



Based on our methodology,[1] the current P/E is 24.6x, which is up from 0.1 from the previous report. The increase was driven by a rise in the stock price index outpacing the increase in earnings.

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.