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Posted: August 29, 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 down 0.1%. Chinese markets were higher, with the Shanghai Composite up 0.4% from its previous close and the Shenzhen Composite up 0.5%. US equity index futures are signaling a lower open.

With 488 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, 81.5% have exceeded expectations, while 14.4% 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 Business Cycle Report

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.

Note: There will be no Comment or Asset Allocation Bi-Weekly report published on Monday due to holiday.

Our *Comment* opens with an analysis of the recent upward revisions to US GDP data. We then explore several pivotal global developments, including Japan's potential shift away from long-duration bond issuance, Canada's concession on US tariffs, and the sell-off in British bank shares. Finally, we conclude with an overview of other essential domestic and international factors shaping the financial landscape.

GDP Surprise: The US economy grew even faster than initially thought in the second quarter, with GDP revised up to a robust 3.3% annualized rate. This upgrade was fueled by strong consumer spending, solid net exports, and increased business investment, which more than offset a slight dip in government outlays. Crucially, underlying domestic demand — measured by Final Sales to Private Domestic Purchasers — remained sturdy, growing at a steady pace and signaling that the economy retained its momentum from the start of the year.

- The stronger-than-expected GDP data bolsters the argument that the economy is not in recession. The solid expansion in the second quarter effectively offsets the prior quarter's contraction, signaling resilience rather than a downward trend. A key driver of this performance was household spending on durable goods, with orders for motor vehicles providing a significant lift to overall sales figures.
- Although the data is positive, it warrants cautious optimism. The labor market's stagnation, characterized by a hiring freeze amid a lack of layoffs, indicates that firms view the economic softness as transitory. For investors, we believe this environment presents an opportunity to increase risk exposure. We advise focusing on companies with strong profitability and domestic supply chain reliability, which are critical differentiators in the current climate.

Japan Reducing Long Bond Supply: The [Ministry of Finance in Japan has reportedly surveyed primary dealers](#) regarding a potential reduction in the issuance of long-term government bonds. This action is a strategic move to address the upward pressure on domestic interest rates. It comes as the Bank of Japan (BOJ) begins to unwind its extensive quantitative easing program, and the government continues with its own fiscal expansion.

- By reducing the supply of these longer-dated bonds, the Ministry aims to stabilize the bond market and help prevent a sharp increase in government borrowing costs, which have been rising due to weak demand and the BOJ's reduced market presence.
- This trend is indicative of a deteriorating appetite for debt among bond investors. While we have not yet witnessed a failed auction, the clear pushback from the market is a cause for vigilance. In response, major sovereign debt issuers like Japan, the US, and the UK have indicated a strategic pivot towards shortening the maturity of their debt issuance to accommodate investor demand.

Jumbo Cut in September? Fed Governor Christopher Waller [stated he is prepared to cut interest rates aggressively if upcoming jobs data](#) shows further labor market softening. His comments come amid growing market expectations for a September rate cut, fueled by recent downward revisions to payrolls that have raised doubts about the labor market's strength. This highlights the ongoing tension within the Fed over whether to prioritize its price stability or maximum employment mandates.

Brazil Response: In response [to recent US tariffs that imposed duties as high as 50% on Brazilian exports](#), the administration of President Lula da Silva is preparing retaliatory measures. The Brazilian Chamber of Foreign Trade has been tasked with assessing the tariffs' economic impact and developing a list of potential countermeasures. The government is scheduled to

officially announce this retaliatory investigation later today. The rise in trade tensions between the two countries will likely impact Brazilian equities more than their US counterparts.

Canadian Tariffs: The [Canadian government now concedes that it will not secure the complete removal of US tariffs on its exports](#). This pessimistic outlook follows Canada's commitment to unilaterally lift its retaliatory tariffs on American goods by September 1, among other concessions made to ease trade tensions. Although the majority of bilateral trade flows freely, persistent US tariffs on Canadian steel continue to inflict economic damage.

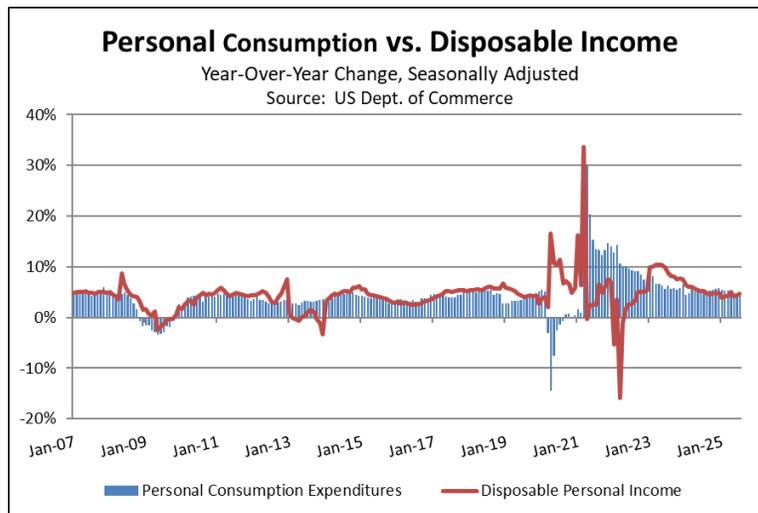
Taiwan-US: Two US senators have reignited [the debate over America's commitment to Taiwan](#). Mississippi Senator Roger Wicker and Nebraska Senator Deb Fischer have voiced strong support for the island's freedom and its right to self-determination. Their statements come during a fact-finding trip to the region, aimed at assessing the security situation amid heightened military pressure from China, which seeks to assert its control over Taiwan.

UK Banks Under Fire: [Shares of British financial services firms are facing selling pressure](#) due to investor concerns over potential tax increases. The government is exploring options to address a 20 billion GBP (\$26.9 billion) budget deficit, and a recent think tank proposal to raise taxes on bank profits has fueled fears that the sector will bear a significant burden. This approach signals a potential policy shift, as the governing party appears to be moving away from the idea of a wealth tax to instead concentrate fiscal measures on specific industries.

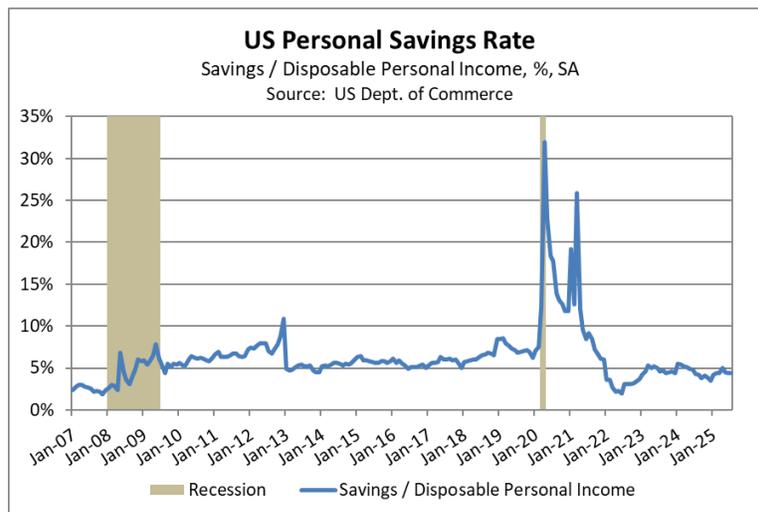
Taliban-Pakistan: The [Taliban has warned of retaliation against Pakistan](#) after airstrikes hit two provinces in Afghanistan. The strikes, which Pakistan is believed to have conducted, threaten to escalate tensions between the two Muslim nations. Pakistan has accused Afghanistan of sheltering militants responsible for recent terrorist attacks on its soil. While the conflict is likely to remain localized, it contributes to the broader instability that has kept global oil markets on edge.

US Economic Releases

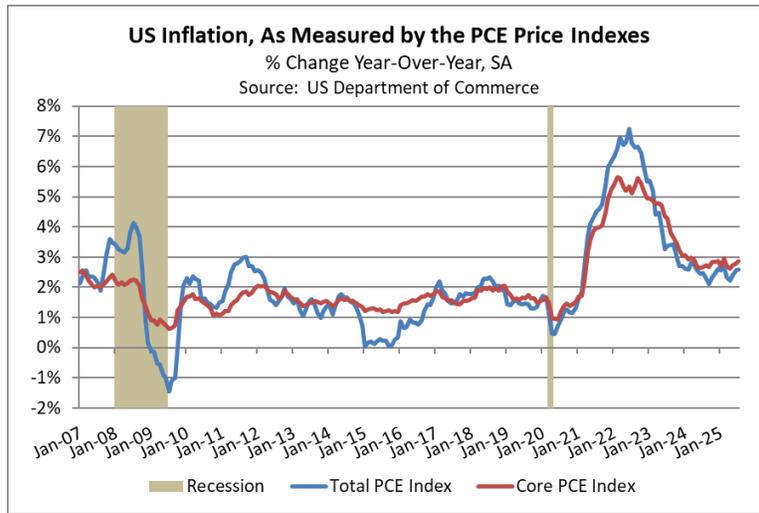
July *personal income* rose by a seasonally adjusted 0.4%, precisely matching expectations and accelerating slightly from the June increase of 0.3%. Meanwhile, the report also showed that July *personal consumption expenditures (PCE)* rose 0.5%, matching the expected increase and accelerating slightly from the revised June gain of 0.4%. Personal income in July was up 5.0% from the same month one year earlier, while PCE was up 4.7%. The chart below shows the year-over-year change in personal income and PCE since just before the Great Financial Crisis.



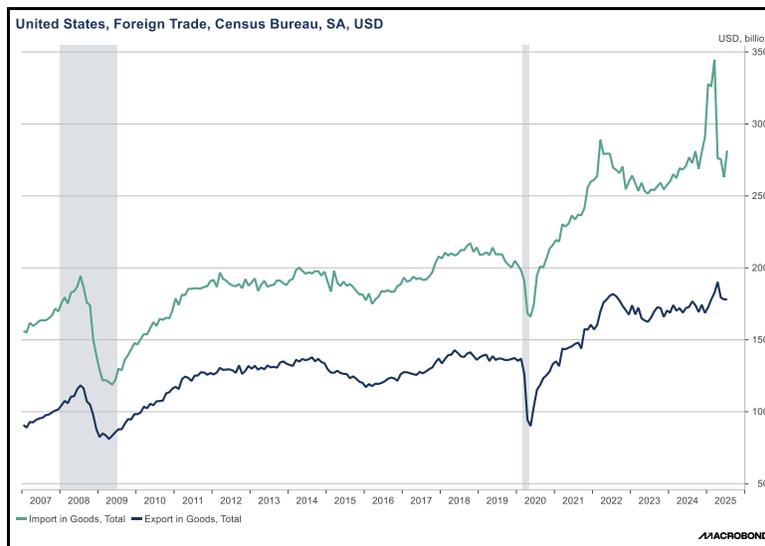
The personal income and spending report also includes a measure of personal saving, defined as disposable (after tax) income less consumption spending on goods and services. The July *personal savings rate* held steady at a seasonally adjusted 4.4%. The chart below shows how the personal savings rate has fluctuated since just before the GFC.



Finally, the income and spending report includes the Fed’s preferred measure of consumer price inflation. After stripping out the volatile food and energy components, the *Core PCE Deflator* for July was up 2.9% from the same month one year earlier, accelerating from a rise of 2.8% in the year to June. The chart below shows the year-over-year change in the Core PCE Deflator since just before the GFC.



In a separate report today, an advance estimate of the July **trade balance** showed a seasonally adjusted deficit of \$103.6 billion, much wider than the anticipated shortfall of \$90.2 billion and the revised June shortfall of \$84.9 billion. According to the data, total **exports** fell 0.1%, while **imports** rose 7.1%. Compared with the same month one year earlier, exports in July were up 3.0%, while imports were up 1.7%. The chart below shows the monthly value of US exports and imports since just before the previous recession.



The table below lists the economic releases and Fed events scheduled for the rest of the day.

Economic Releases						
EST	Indicator			Expected	Prior	Rating
9:45	MNI Chicago PMI	m/m	Aug	46.0	47.1	***
10:00	U. of Michigan Consumer Sentiment	m/m	Aug F	58.6	58.6	***
10:00	U. of Michigan Current Conditions	m/m	Aug F	60.8	60.9	**
10:00	U. of Michigan Future Expectations	m/m	Aug F	57.5	57.2	**
10:00	U. of Michigan 1-Year Inflation Expectation	m/m	Aug F	5.0%	4.9%	*
10:00	U. of Michigan 5-10 Year Inflation Expectation	m/m	Aug F	3.9%	3.9%	*
11:00	Kansas City Fed Services Index	m/m	Aug		-5	*
Federal Reserve						
No Fed speakers or events for the rest of today						

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	Jobless Rate	m/m	Jul	2.3%	2.5%	2.5%	***	Equity and bond neutral
	Job-To-Applicant Ratio	m/m	Jul	1.2%	1.2%	1.2%	***	Equity and bond neutral
	Tokyo CPI	y/y	Aug	2.6%	2.9%	2.6%	**	Equity and bond neutral
	Tokyo CPI Ex-Fresh Food	y/y	Aug	2.5%	2.9%	2.5%	***	Equity and bond neutral
	Tokyo CPI Ex-Fresh Food & Energy	y/y	Aug	3.0%	3.1%	3.0%	*	Equity and bond neutral
	Industrial Production	y/y	Jul P	-0.9%	4.4%	-0.6%	***	Equity and bond neutral
	Retail Sales	y/y	Jul	0.3%	2.0%	1.6%	**	Equity and bond neutral
	Depart. Store & Supermarket Sales	y/y	Jul	0.4%	-0.1%		*	Equity and bond neutral
	Housing Starts	y/y	Jul	-9.7%	-15.6%	-9.8%	**	Equity and bond neutral
	Annualized Housing Starts	y/y	Jul	0.712m	0.647m	0.700m	*	Equity and bond neutral
	Consumer Confidence Index	m/m	Aug	34.9	33.7	34.2	*	Equity and bond neutral
Australia	Private Sector Credit	y/y	Jul	7.2%	6.9%		**	Equity and bond neutral
New Zealand	ANZ Consumer Confidence Index	m/m	Aug	92.0	94.7		*	Equity and bond neutral
South Korea	Industrial Production	y/y	Jul	5.0%	1.6%	3.9%	***	Equity bullish, bond bearish
India	GDP	y/y	2Q	7.8%	7.4%	6.7%	**	Equity bullish, bond bearish
EUROPE								
Germany	Import Price Index	y/y	Jul	-1.4%	-1.4%	-1.2%	**	Equity and bond neutral
	Retail Sales	y/y	Jul	2.3%	2.4%	2.5%	*	Equity and bond neutral
	Unemployment Change	m/m	Aug	-9.0k	2.0k	10.k	***	Equity and bond neutral
	Unemployment Claims Rate	m/m	Aug	6.3%	6.3%	6.3%	**	Equity and bond neutral
	CPI	y/y	Aug P		7.3%	7.2%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Aug P		7.6%	7.6%	**	Equity and bond neutral
France	CPI	y/y	Aug P	0.9%	1.0%	1.0%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Aug P	0.8%	0.9%	0.9%	**	Equity and bond neutral
	GDP	y/y	2Q F	0.8%	0.7%	0.7%	**	Equity and bond neutral
	PPI	y/y	Jul	0.4%	0.3%		*	Equity and bond neutral
Italy	GDP WDA	y/y	Q2 F	0.4%	0.4%	0.4%	**	Equity and bond neutral
	CPI, EU Harmonized	y/y	Aug P	1.7%	1.7%	1.8%	***	Equity and bond neutral
	CPI NIC Including Tobacco	y/y	Aug P	1.6%	1.7%	1.7%	**	Equity and bond neutral
Russia	Gold and Forex Reserves	m/m	22-Aug		\$682.8b	\$686.5b	***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	22-Aug		18.73t	18.74t	*	Equity and bond neutral
AMERICAS								
Canada	Current Account Balance	m/m	2Q	-\$21.16b	-\$1.32b	-\$19.30b	**	Equity and bond neutral
Brazil	Net Debt % GDP	m/m	Jul	63.70%	62.90%	63.40%	**	Equity and bond neutral
	Central Govt Budget Balance	m/m	Jul	-59.1b	-44.1b	-58.7b	*	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	417	0	Down
U.S. Libor/OIS spread (bps)	413	412	1	Down
10-yr T-note (%)	4.23	4.21	0.02	Down
Euribor/OIS spread (bps)	205	203	2	Up
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	\$68.14	\$68.62	-0.70%	
WTI	\$64.30	\$64.60	-0.46%	
Natural Gas	\$2.98	\$2.94	1.05%	
Crack Spread	\$23.37	\$23.42	-0.22%	
12-mo strip crack	\$23.61	\$23.64	-0.15%	
Ethanol rack	\$2.08	\$2.06	0.92%	
Metals				
Gold	\$3,409.65	\$3,417.08	-0.22%	
Silver	\$38.87	\$39.05	-0.48%	
Copper contract	\$457.30	\$453.90	0.75%	
Grains				
Corn contract	\$411.75	\$410.00	0.43%	
Wheat contract	\$528.00	\$529.00	-0.19%	
Soybeans contract	\$1,043.00	\$1,048.00	-0.48%	
Shipping				
Baltic Dry Freight	2,017	2,046	-29	
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)	18	27	-9	

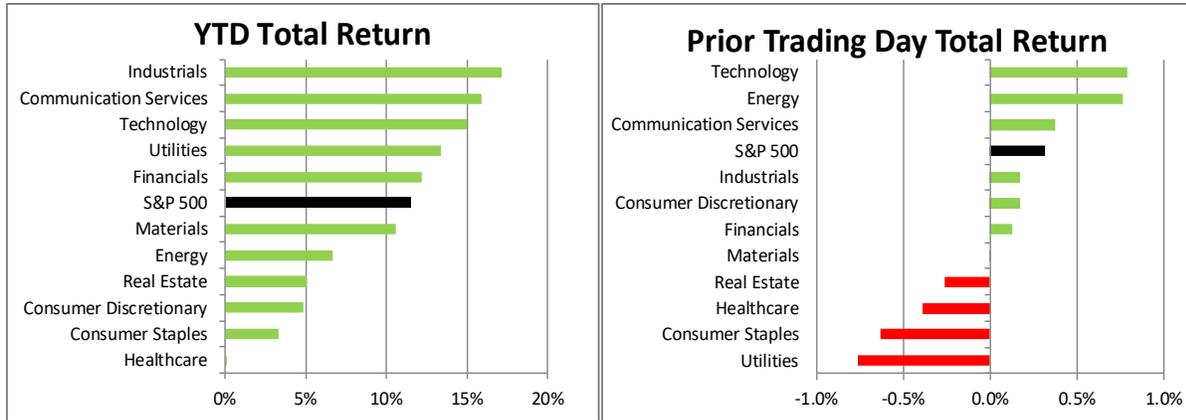
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in the Far West and Florida, with cooler-than-normal temperatures in most areas ranging from the Great Plains eastward. The forecasts call for wetter-than-normal conditions in the Far West and on the Eastern Seaboard, with dry conditions in the northern Great Plains.

There is now only one tropical disturbance in the Atlantic Ocean area. It is currently sitting off the western coast of Africa and is assessed to have a 30% chance of cycle formation in the next seven days.

Data Section

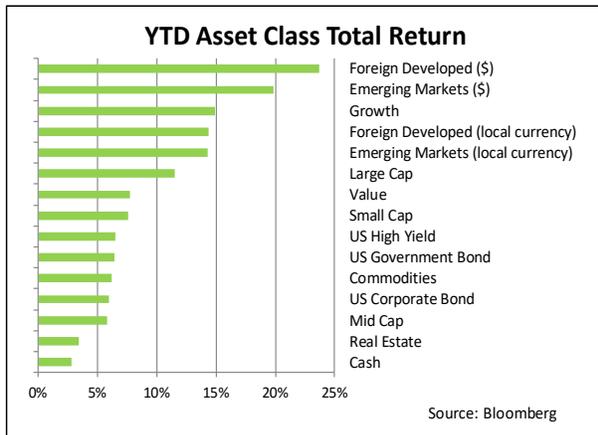
US Equity Markets – (as of 8/28/2025 close)



(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 8/28/2025 close)

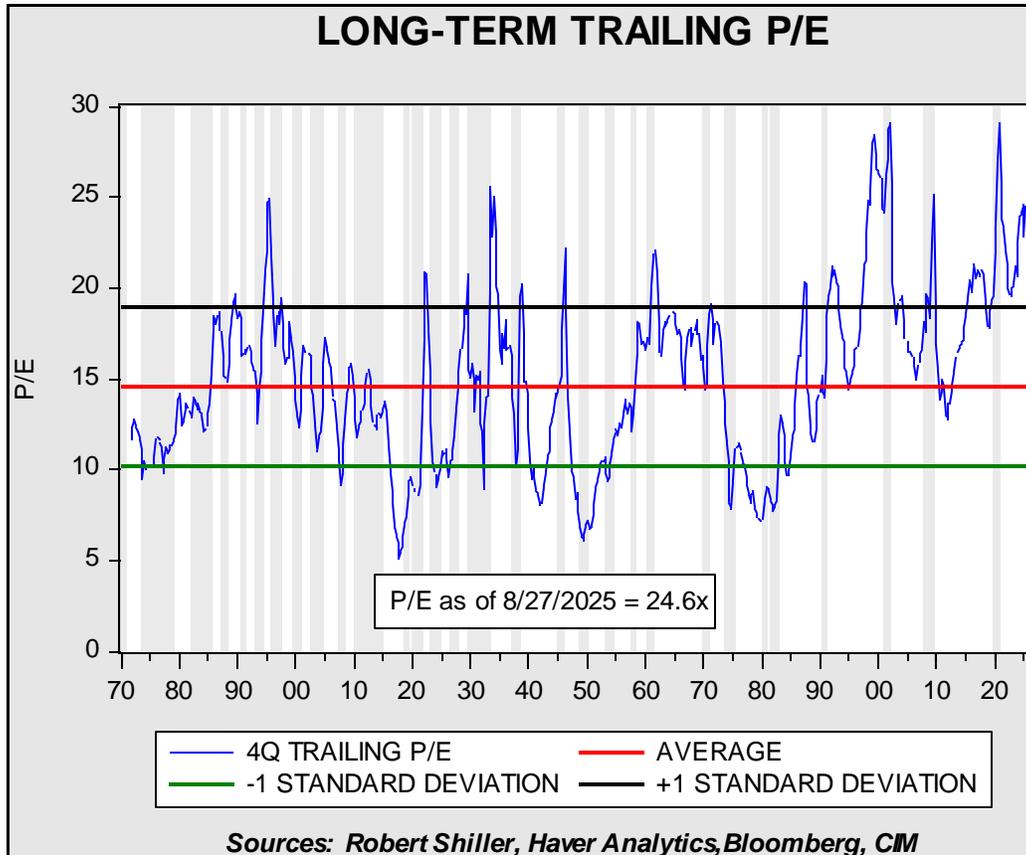


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.