



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: August 6, 2025 — 9:30 AM ET Global equity markets are generally higher this morning. In Europe, the Euro Stoxx 50 is up 0.2% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.5%. Chinese markets were higher, with the Shanghai Composite up 0.5% from its previous close and the Shenzhen Composite up 0.7%. US equity index futures are signaling a higher open.

With 383 companies having reported so far, S&P 500 earnings for Q2 are running at \$66.40 per share, compared to estimates of \$64.65, which is up 5.0% from Q2 2024. Of the companies that have reported thus far, 81.2% 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
“Implications of the Israel-Iran Conflict” (7/28/25) + podcast	“No Country for Recessions” (8/4/25)	Q3 2025 Report Q3 2025 Rebalance Presentation	The Confluence of Ideas 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.

Our *Comment* begins with an examination of why a degree of optimism about the economy remains warranted despite recent subpar economic data. We then turn to other key stories shaping the market, including our analysis of Tuesday's Treasury auction, the president's push to end the conflict in Ukraine, and the factors behind the recent surge in investment-grade bond issuance. Finally, we assess other major international and domestic developments impacting financial markets.

US Services Stagnate: A survey of purchasing managers revealed that firms are still adjusting to the impact of tariffs. According to the Institute for Supply Management, [services activity](#)

[remained relatively unchanged from the previous month](#). Much of the weakness stemmed from a slowdown in employment growth as companies scaled back hiring. Additionally, the survey indicated that input prices continued to rise, while export orders showed signs of weakening.

- The recent report has dampened market sentiment, as uncertainty persists regarding the potential impact of tariffs on the economy. However, the economy continues to show resilience, suggesting that the current market rally still has significant momentum. This perspective is further [supported by strong earnings from Disney](#), which reflect robust consumer spending in the travel and leisure sectors.
- That said, we maintain a risk-neutral stance for now, as we continue to assess the economic impact of tariffs. While we do not foresee an imminent recession, some signs of weakness may persist temporarily before fading as the fiscal stimulus takes full effect. Once there is clearer evidence of sustained economic resilience, we believe shifting to a more risk-on position would be warranted.

US Bond Auction: The first of three [Treasury auctions saw tepid demand](#). The \$58 billion sale of 3-year notes closed at a yield of 3.669%, slightly above pre-auction levels. The results suggest that the supply of bonds is exceeding demand. This outcome may be a reflection of current market concerns, including inflation and US deficit spending, which can influence the appetite for government debt.

- This week will be crucial in gauging market appetite for US Treasuries. While auction performance can fluctuate, any sustained signs of weaker investor demand could pressure yields higher, reflecting diminished absorption of Treasury issuance.
- While a single auction does not define overall demand, sustained weak performance could establish a floor for yields, particularly if the Fed begins cutting rates. Should auctions consistently underperform, it may even prompt the Fed to halt balance sheet tightening earlier than expected.

Italy's Defense Bridge: Italian Prime Minister Giorgia Meloni is poised [to approve construction of a bridge linking Sicily to mainland Italy](#), framing the 13 billion EUR (\$15.1 billion) project as a boost to defense spending. However, the move has drawn criticism. While proponents argue the bridge would help NATO counter Russia's expanding influence in the Mediterranean, detractors contend the funds would be better spent directly enhancing military readiness, such as upgrading ports, airports, and roads, to prepare for potential Russian aggression.

- Italy's move to classify certain infrastructure projects as defense spending illustrates how European governments may redirect military budgets to fund domestic infrastructure priorities.
- We maintain confidence that the EU's increased defense spending will provide a meaningful boost to the broader economy and, by extension, equity markets. This reinforces our constructive outlook on international stocks.

Pharmaceutical Tariffs: The White House [has unveiled plans to impose tariffs on pharmaceutical imports](#) that could eventually reach 250%. While the duties would start at lower levels, they would gradually increase over 18 months until reaching the full rate. This move is

part of the administration's broader effort to incentivize domestic drug manufacturing and reduce reliance on foreign production.

Russia Ready to Talk: Moscow has indicated its [willingness to consider a potential air ceasefire in Ukraine](#) as a means of meeting the White House's demand for progress toward peace. This conciliatory gesture appears to be an attempt to persuade Washington against implementing secondary sanctions, particularly tariff hikes for countries that continue to purchase Russian energy. This potential action coincides with the imminent threat of tariff increases for India and China if a ceasefire agreement is not secured.

Mexico and Canada Team Up: The two [North American nations are exploring deeper trade integration](#) to reduce their economic dependence on the United States. Their leaders have agreed to develop a joint strategy aimed at aligning supply chains and fostering collaboration in AI development. This initiative reflects a broader global reassessment of economic strategies, as Washington signals its retreat from the role of global importer of last resort.

AI Boom: Siemens, the German industrial giant specializing in gas turbines and power grid equipment, [reported that its order backlog has surged to a record high](#), driven by soaring electricity demand from data centers. This sharp increase reflects a wave of facility upgrades as companies worldwide modernize infrastructure to support expanding data center capacity. Notably, the AI boom appears to be insulating certain sectors from tariff concerns, as businesses increasingly view advanced technology investments as essential for future competitiveness.

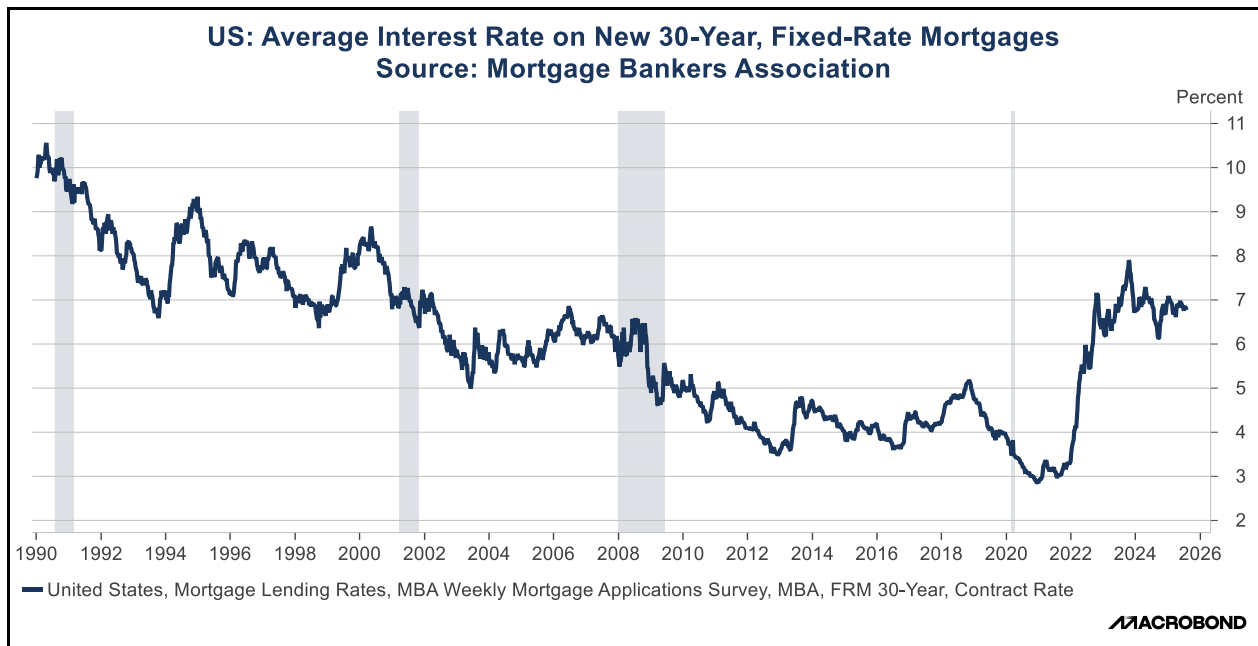
Investment Grade Surge: US companies [have issued more debt in the first half of this year than in any comparable period since 2020](#), when the Federal Reserve aggressively cut rates to address the pandemic. This surge in corporate borrowing comes as growing optimism about recent trade deals has helped ease global economic uncertainty. Notably, much of this new issuance has skewed toward shorter maturities. Although demand may soften in the coming months, credit spreads are expected to stay relatively tight.

Poland Infighting: Newly inaugurated [Polish President Karol Nawrocki has indicated that he will slow down judicial reform](#) efforts. This stance contrasts with the conditions set by the European Union regarding the rule of law that Poland must meet to unblock earmarked funds. His position is likely to create friction with the EU, and it highlights a broader trend of growing influence for right-wing political figures, particularly in Eastern Europe.

US Economic Releases

The Mortgage Bankers Association said *mortgage applications* in the week ended August 2 rose 2.9%, erasing most of the previous week's 3.8% decline. Applications for home purchase mortgages rose 1.3%, after a 5.5% drop in the previous week. Applications for refinancing mortgages rose 5.2%, erasing both their 1.1% decline in the previous week and their 2.6% drop in the week before that. According to the report, the average interest rate on a 30-year, fixed-rate

mortgage fell 6 basis points to 6.77%. The chart below shows how mortgage rates have changed over the last several decades.



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
14:00	Lisa Cook and Susan Collins Participate in Panel Event	Fed Governor and Boston Fed President
16:10	Mary Daly Speaks at Anchorage Economic Summit	President of the Federal Reserve Bank of San Francisco

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	Real Cash Earnings	m/m	Jun	-1.3%	-2.9%	-0.7%	*	Equity bearish, bond bullish
	Labor Cash Earnings	y/y	Jun	2.5%	1.0%	3.1%	**	Equity and bond neutral
New Zealand	Unemployment Rate	q/q	2Q	5.2%	5.1%	5.3%	***	Equity and bond neutral
	Employment Change	y/y	2Q	-0.9%	-0.7%	-0.9%	**	Equity and bond neutral
	Participation Rate	y/y	2Q	70.7%	70.7%	70.5%	*	Equity and bond neutral
EUROPE								
Eurozone	Retail Sales	y/y	Jun	3.1%	1.9%	2.6%	*	Equity bullish, bond bearish
Germany	Factory Orders WDA	y/y	Jun	0.8%	6.1%	2.1%	***	Equity bearish, bond bullish
	HCOB Germany Construction PMI	m/m	Jun	46.3	44.8		*	Equity and bond neutral
Italy	Industrial Production WDA	y/y	Jun	-0.9%	-1.0%		***	Equity and bond neutral
UK	S&P Global UK Construction PMI	m/m	Jul	44.3	48.8	48.9	**	Equity bearish, bond bullish
AMERICAS								
Canada	International Merchandise Trade	m/m	Jun	-5.86b	-5.49b	-6.30b	*	Equity and bond neutral
Mexico	International Reserves Weekly	w/w	1-Aug	\$242,516	\$242,344m		*	Equity and bond neutral
Brazil	S&P Global Brazil Composite PMI	m/m	Jul F	46.6	48.7		***	Equity and bond neutral
	S&P Global Brazil Services PMI	m/m	Jul	46.3	49.3		***	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)	415	414	1	Up
U.S. Sibor/OIS spread (bps)	424	425	-1	Down
U.S. Libor/OIS spread (bps)	420	421	-1	Down
10-yr T-note (%)	4.23	4.21	0.02	Down
Euribor/OIS spread (bps)	197	199	-2	Down
Currencies	Direction			
Dollar	Up			Down
Euro	Down			Up
Yen	Up			Down
Pound	Down			Down
Franc	Down			Up
Central Bank Action	Current	Prior	Expected	

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	\$68.72	\$67.64	1.60%	
WTI	\$66.25	\$65.16	1.67%	
Natural Gas	\$2.96	\$3.01	-1.59%	
Crack Spread	\$25.42	\$24.89	2.12%	
12-mo strip crack	\$23.16	\$22.81	1.55%	
Ethanol rack	\$1.86	\$1.86	0.00%	
Metals				
Gold	\$3,366.19	\$3,380.60	-0.43%	
Silver	\$37.84	\$37.82	0.06%	
Copper contract	\$441.80	\$438.60	0.73%	
Grains				
Corn contract	\$401.00	\$402.00	-0.25%	
Wheat contract	\$507.50	\$508.25	-0.15%	
Soybeans contract	\$994.00	\$990.75	0.33%	
Shipping				
Baltic Dry Freight	1,921	1,970	-49	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		0.00		
Gasoline (mb)		-1.00		
Distillates (mb)		0.81		
Refinery run rates (%)		-0.4%		
Natural gas (bcf)		9		

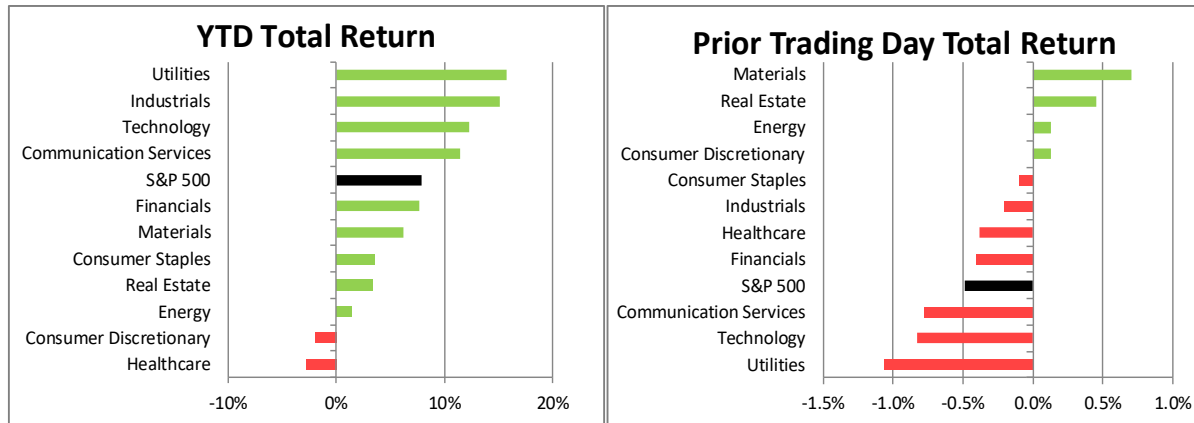
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures everywhere except northern Idaho and western Montana, where temperatures will be near normal. The forecasts call for wetter-than-normal conditions in the Northern Tier states, the Midwest, and the Deep South, with dry conditions in the central Rocky Mountains.

Three tropical disturbances are now present in the Atlantic Ocean area. Tropical Storm Dexter is located northeast of Bermuda and moving eastward, so it isn't expected to affect the US. However, there is a disturbance just off the Carolinas that is moving northeasterly and is assessed to have a 40% chance of forming a cyclone in the next seven days. There is also a disturbance off the western coast of Africa that is moving westward toward the central Atlantic, and it is assessed to have a 60% chance of cyclonic formation within the next week.

Data Section

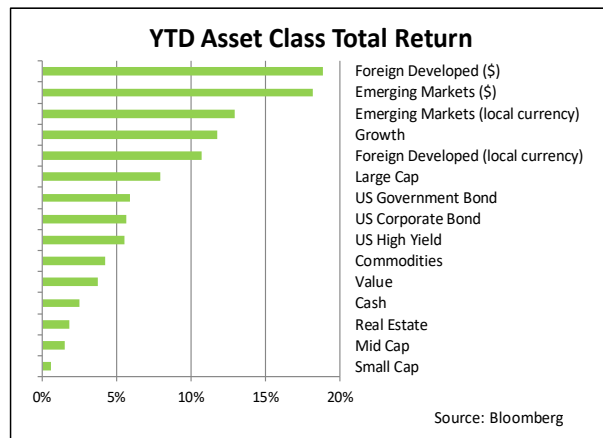
US Equity Markets – (as of 8/5/2025 close)



(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 8/5/2025 close)

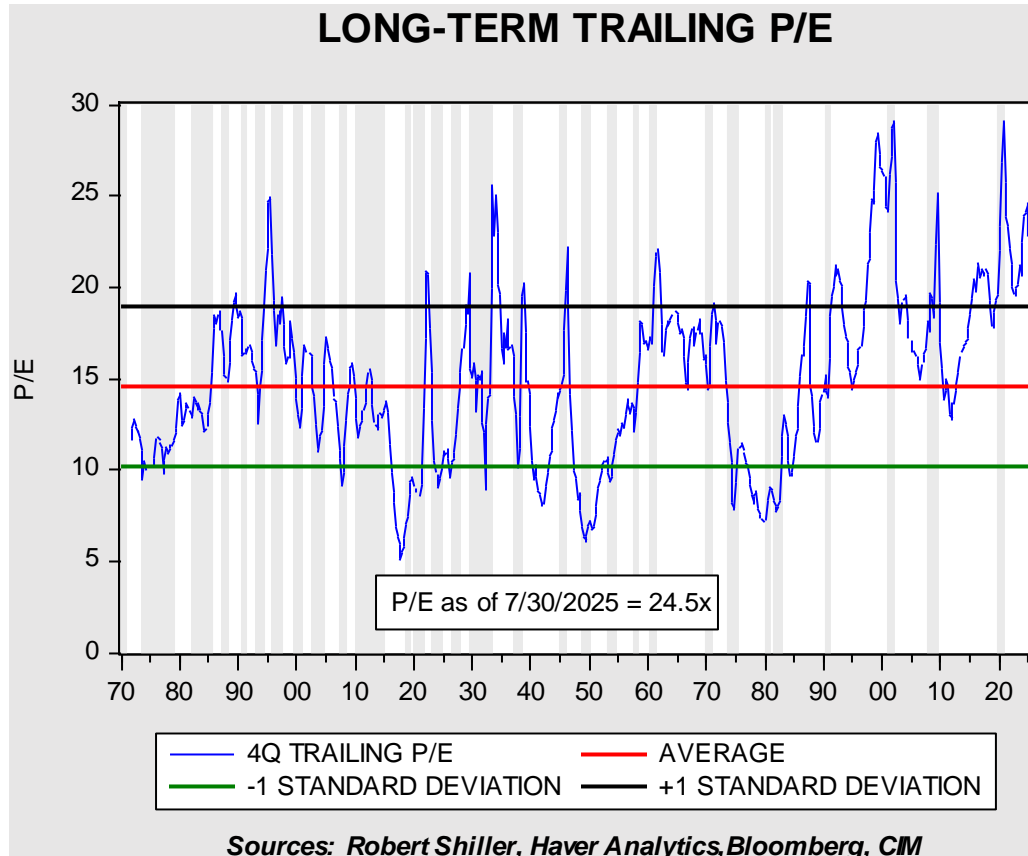


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

July 31, 2025



Based on our methodology,¹ the current P/E is 24.5x, 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.