Daily Comment
Confluence INVESTMENT MANAGEMENT

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: August 7, 2025 — 9:30 AM ET] Global equity markets are mostly higher this morning. In Europe, the Euro Stoxx 50 is up 1.6% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 1.9%. Chinese markets were mixed, with the Shanghai Composite up 0.2% from its previous close and the Shenzhen Composite down 0.1%. US equity index futures are signaling a higher open.

With 419 companies having reported so far, S&P 500 earnings for Q2 are running at $66.50 per share, compared to estimates of $64.65, which is up 5.0% from Q2 2024. Of the companies that have reported thus far, 80.4% have exceeded expectations while 15.0% 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 President Trump's recent tariff announcement. We will then turn to other key stories shaping the market, including our thoughts on a potential meeting between President Trump and Russian President Vladimir Putin, an update on the president's search for a new chair and governor to reshape the Federal Reserve, and recent changes to 401(k) retirement plans. We will conclude by assessing other major international and domestic developments impacting financial markets.

Trump Tariffs: President Trump has announced plans to impose a 100% tariff on all imported chips and semiconductors, with an important exception. The tariffs will not apply to companies that have committed to or are actively increasing their semiconductor manufacturing presence within the United States. This policy highlights a key aspect of the Trump administration's trade strategy: using tariffs as a powerful incentive to drive both foreign and domestic companies to expand their production capabilities in the US.

- The president's decision to expand carve-outs will likely bolster market confidence, as these tariffs are now expected to be less disruptive than initially feared. Furthermore, this decision indicates that the administration may be shifting toward a policy model that favors companies focused on strengthening US industrial capacity.
- That said, we continue to assess the potential economic impact of these tariffs. While we remain cautiously optimistic that the economy can absorb the shocks, we are closely monitoring consumer spending and corporate earnings to gauge how businesses and households are adjusting.

Putin-Trump Meeting: The White House announced that Russian President Vladimir Putin and President Trump may hold a meeting as early as next week. This decision to hold talks follows President Trump's recent threats to impose secondary sanctions on countries like India and China that purchase Russian goods. The administration hopes the meeting will lead to greater progress in ending the war in Ukraine.

- Trump is pushing for an end to the conflict in Ukraine, citing a desire to reduce US funding for conflicts without direct involvement. The conflict's resolution would likely restore stability to the European continent, potentially boosting regional equities. It could also lead to Russian energy returning to the market, which may put downward pressure on commodity prices.
- We will be paying close attention to how Europe navigates the end of the conflict. If Europe seeks rapprochement with Russia, it could provide another significant boost to the region's equities, given its proximity and ongoing need for more energy. While many in the region have pushed back against trusting Russia, it is possible that sentiment could shift, especially as Europe looks to reduce its dependency on the US.

Temporary Fed Governor: President Trump may appoint a temporary official to fill the vacant Fed governor seat. The position became open after Adriana Kugler resigned early, even though her term was set to expire in January. This temporary appointment could calm fears of a "shadow Fed chair" and simultaneously increase pressure on Chair Powell to cut rates at the upcoming meeting. That said, the two leading contenders to take over the Fed are Kevin Warsh and Kevin Hassett.

Saving Social Security: There is a bipartisan effort underway to improve the solvency of Social Security. Senators Bill Cassidy (R-LA) and Tim Kaine (D-VA) are spearheading a proposal to create a $1.5 trillion investment fund over the next five years, which would then be given 70 years to grow. This plan marks the second major proposal in recent years that considers investing in financial markets to help fund future benefits. It follows a similar concept to the "Trump accounts" that were included in the One Big Beautiful Bill Act.

Japan Auction Success: The country's sale of 30-year bonds was met with solid demand, with a bid-to-cover ratio consistent with its yearly average. This strong showing is likely to reaffirm confidence in the demand for its long-term debt, despite political uncertainty and concerns over increased stimulus spending. However, this robust interest is likely the result of low issuance, as the country has been shifting toward selling lower-duration debt to finance its spending.

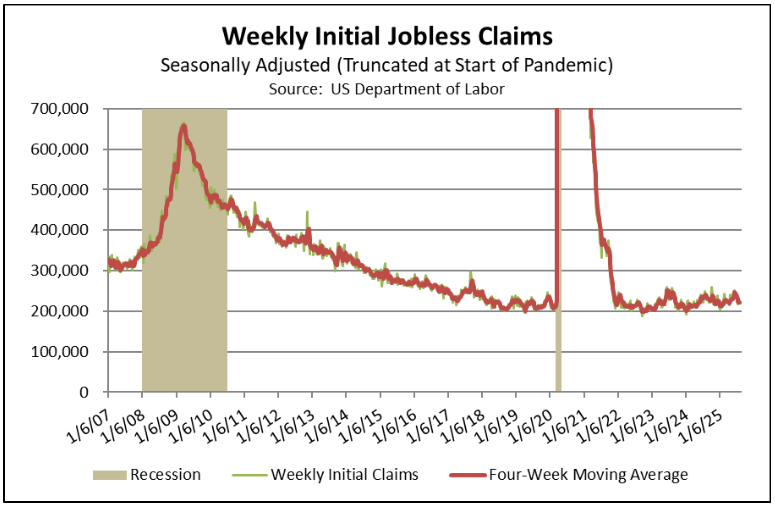
Bank of England Cuts: The central bank lowered its policy rate by 25 basis points to 4.00% on Thursday. While the rate cut was widely anticipated, the decision was contentious and required a second vote after one member switched their stance from advocating for a deeper cut to supporting the 25 bps reduction, while other policymakers maintained their hold positions. This hesitancy suggests that while monetary policy is on a downward trajectory, the easing cycle is likely to proceed more gradually when compared to some of its peers.

China Crackdown: In an effort to curb bureaucracy, Beijing has mandated that officials reduce the frequency of meetings and limit official documents to 5,000 words. The move aims to allow the government to focus on supporting the economy, which is grappling with a weakening trade environment and a property slump. The policy follows a recent warning from Chinese President Xi Jinping to local governments about over-investing in AI and electric vehicles, which may signal a new anti-corruption investigation into those areas.

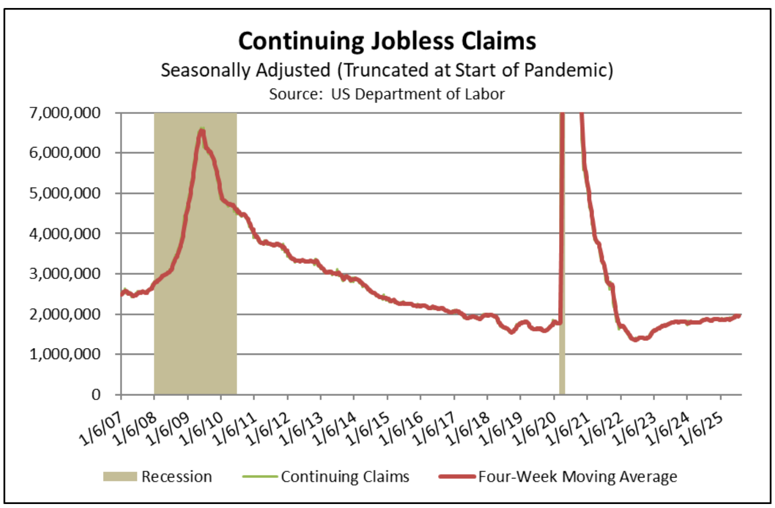
401K Gets a Boost: President Trump will sign an executive order enabling alternative assets in retirement accounts, directing the Labor Department to review ERISA guidelines on private equity, real estate, and cryptocurrency investments. The move could unlock trillions in retirement funds for non-traditional assets while raising questions about risk exposure for 401(k) participants.

US Economic Releases

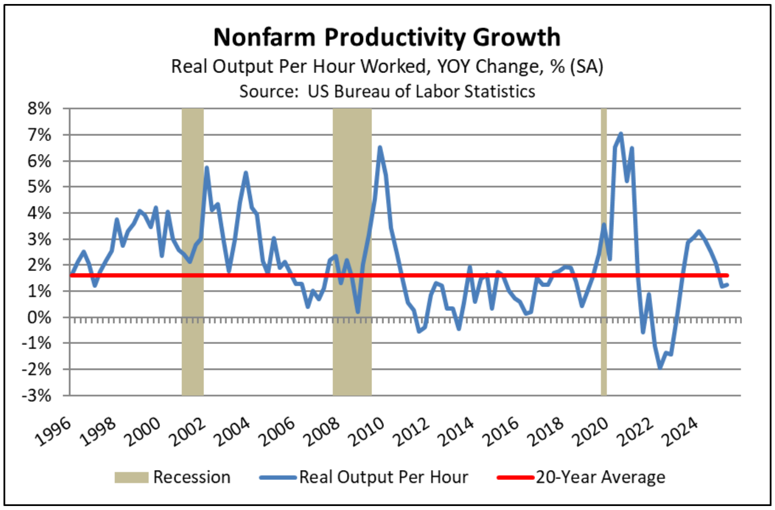
In the week ended August 2, ***initial claims for unemployment benefits*** rose to a seasonally adjusted 226,000, above both the expected level of 222,000 and the previous week's revised level of 219,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, nevertheless fell to a very modest 220,750. 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.



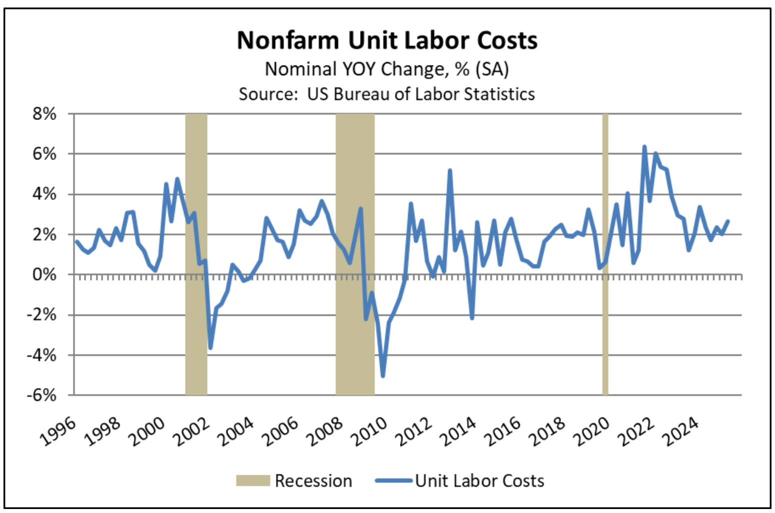
In the week ended July 26, the number of ***continuing claims for unemployment benefits*** (people continuing to draw benefits) rose to a seasonally adjusted 1.974 million, above both the anticipated reading of 1.950 million and the prior week's revised reading of 1.936 million. The four-week moving average of continuing claims rose to an elevated 1,951,750. As a whole, the figures in the report remain consistent with the current "no fire/no hire" labor market. 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.



Another report today focused on the productivity of US workers, defined as the average value of output per hour worked. After stripping out price changes and normal seasonal fluctuations, second-quarter ***nonfarm productivity*** rose at an annualized rate of 2.4%, well above the expected growth rate of 2.0% and more than enough to reverse the first quarter's revised rate of decline of 1.8%. Taking into account the fluctuations in each of the last four quarters, productivity in the second quarter was up a weak 1.3% from the same period one year earlier. The chart below shows the year-over-year growth in real productivity over the last quarter-century or so.



Second-quarter ***unit labor costs*** rose at an annualized rate of 1.6%, slightly above the anticipated rate of 1.5% but still much tamer than the revised growth rate of 6.9% in the first quarter. Unit labor costs in the second quarter were up a modest 2.6% year-over-year. The chart below shows the year-over-year growth in unit labor costs since 1996.



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	Wholesale Trade Sales	m/m	Jun	0.1%	-0.3%	*
10:00	Wholesale Inventories	m/m	Jun F	0.2%	0.2%	**
15:00	Consumer Credit	m/m	Jun	$7.500b	$5.102b	*
Federal Reserve						
EST	**Speaker or Event**	**District or Position**				
10:00	Raphael Bostic Speaks on Monetary Policy	President of the Federal Reserve Bank of Atlanta				

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	Expected
ASIA-PACIFIC								
Japan	Japan Buying Foreign Bonds	w/w	1-Aug	-¥526.3	-¥326.3		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	1-Aug	-¥752.1b	¥207.3		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	1-Aug	-¥87.5b	-¥184.6b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	1-Aug	¥193.0b	¥743.3b		*	Equity and bond neutral
	Coincident Index	y/y	Jun P	116.8	116.0	116.6	**	Equity and bond neutral
	Leading Economic Index	m/m	Jun P	106.1	104.8	106.0	*	Equity and bond neutral
Australia	Trade Balance	m/m	Jun	A$5365	A$1604m	A$3000m	***	Equity and bond neutral
	Exports	m/m	Jun	6.0%	-3.0%		*	Equity and bond neutral
	Imports	m/m	Jun	-3.1%	-3.3%		*	Equity and bond neutral
New Zealand	2-Year Inflation Expectations	q/q	3Q	2.28%	2.29%		**	Equity and bond neutral
South Korea	BoP Current Account Balance	m/m	Jun	$14265.0m	$10141.5m		**	Equity and bond neutral
	BoP Goods Balance	m/m	Jun	$13160.5m	$10664.9m		*	Equity and bond neutral
China	Foreign Reserves	m/m	Jul	$3292.24b	$3317.42b	$3281.00b	**	Equity and bond neutral
	Trade Balance	m/m	Jul	$98.24b	$114.77b	$104.70b	***	Equity and bond neutral
	Exports	y/y	Jul	7.2%	5.8%	5.6%	**	Equity bullish, bond bearish
	Imports	y/y	Jul	4.1%	1.1%	-1.5%	**	Equity and bond neutral
EUROPE								
Germany	Industrial Production WDA	y/y	Jun	-3.6%	-0.2%	-1.0%	**	Equity bearish, bond bullish
	Trade Balance SA	m/m	Jun	14.9b	18.4b	17.3b	*	Equity and bond neutral
	Exports SA	m/m	Jun	0.8%	-1.4%	0.4%	*	Equity and bond neutral
	Imports SA	m/m	Jun	4.2%	-3.8%	0.8%	*	Equity bullish, bond bearish
France	Trade Balance	m/m	Jun	-7623m	-7633m		*	Equity and bond neutral
	Current Account Balance	m/m	Jun	-3.4b	-2.6b		*	Equity and bond neutral
Switzerland	Unemployment Rate	m/m	Jul	2.7%	2.7%	2.7%	**	Equity and bond neutral
	Foreign Currency Reserves	m/m	Jul	€716.4b	€713.1b		*	Equity and bond neutral
AMERICAS								
Canada	S&P Global Canada Services PMI	m/m	Jul F	49.3	44.3		*	Equity and bond neutral
	S&P Global Canada Composite PMI	m/m	Jul	48.7	44.0		*	Equity and bond neutral
Mexico	CPI	y/y	Jul	3.51%	4.32%	3.53%	***	Equity and bond neutral
	Core CPI	y/y	Jul	4.23%	4.24%	4.23%	**	Equity and bond neutral
	Vehicle Production	y/y	Jul	309453	361047		*	Equity and bond neutral
Brazil	Trade Balance	m/m	Jul	$7075m	$5709m	$5,800	**	Equity and bond neutral
	Exports	m/m	Jul	$32310m	$28974m	$31800m	*	Equity and bond neutral
	Imports	m/m	Jul	$25236m	$23265m	$25999m	*	Equity and bond neutral
	FGV Inflation IGP-DI	y/y	Jul	2.91%	3.83%	2.86%	**	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)	412	414	-2	Up
U.S. Sibor/OIS spread (bps)	423	423	0	Down
U.S. Libor/OIS spread (bps)	419	420	-1	Down
10-yr T-note (%)	4.25	4.24	0.01	Flat
Euribor/OIS spread (bps)	198	197	1	Down
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 England Bank Rate	4.00%	4.25%	4.00%	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	$67.20	$66.89	0.46%	
WTI	$64.64	$64.35	0.45%	
Natural Gas	$3.08	$3.08	0.19%	
Crack Spread	$26.05	$25.78	1.06%	
12-mo strip crack	$23.25	$23.20	0.24%	
Ethanol rack	$1.87	$1.87	0.31%	
Metals				
Gold	$3,376.88	$3,369.33	0.22%	
Silver	$38.34	$37.83	1.33%	
Copper contract	$442.15	$441.30	0.19%	
Grains				
Corn contract	$404.00	$401.25	0.69%	
Wheat contract	$514.25	$508.50	1.13%	
Soybeans contract	$984.25	$984.50	-0.03%	
Shipping				
Baltic Dry Freight	1,994	1,921	73	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	-3.03	0.00	-3.03	
Gasoline (mb)	-1.32	-1.00	-0.32	
Distillates (mb)	-0.57	0.81	-1.38	
Refinery run rates (%)	1.5%	-0.4%	1.9%	
Natural gas (bcf)		11		

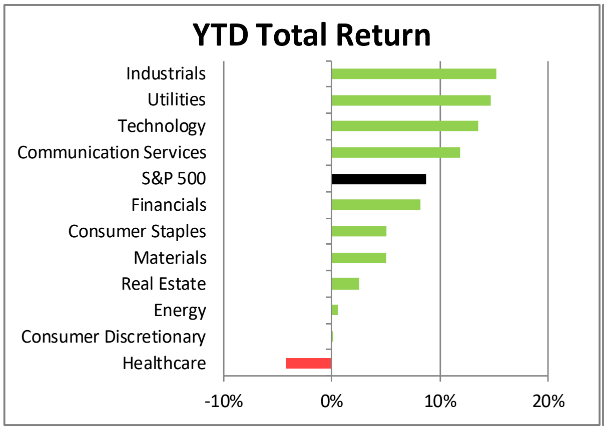
Weather

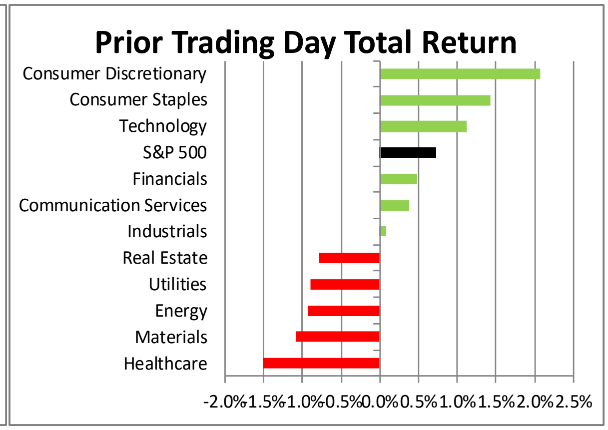
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures everywhere except northern Idaho and northwestern Montana, where temperatures will be near normal. The forecasts call for wetter-than-normal conditions in the Northern Tier states, the Midwest, and the Deep South,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

Three tropical disturbances are now present in the Atlantic Ocean area. Tropical Storm Dexter is located in the central Atlantic and moving eastward, so it isn't expected to affect the US. Another disturbance off the East Coast is moving northeasterly, and in any case, it is assessed to have only a 30% chance of forming a cyclone in the next seven days. A final 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 8/6/2025 close)

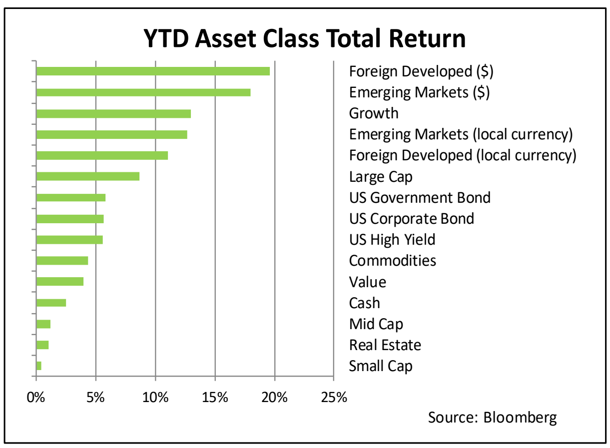




(Source: Bloomberg)

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 8/6/2025 close)

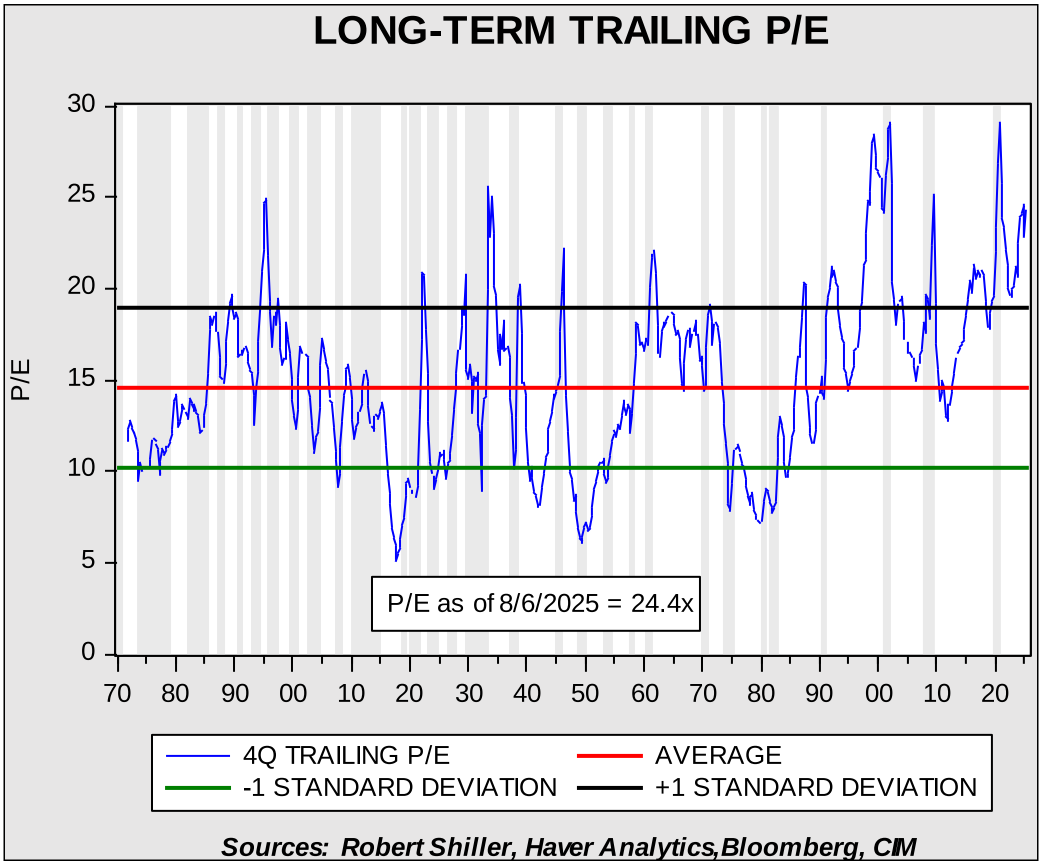


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 7, 2025



Based on our methodology,[1] the current P/E is 24.4x, down 0.1 from our last report. The drop was due to the increase in earnings outweighing the increase in the stock price index.

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.

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[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.