Daily Comment

Confluence INVESTMENT MANAGEMENT

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Posted: August 8, 2025 — 9:30 AM ET] Global equity markets are mixed 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 0.9%. Chinese markets were mildly lower, with the Shanghai Composite down 0.1% from its previous close and the Shenzhen Composite down 0.2%. 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 $66.70 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 14.6% 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 **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 a discussion of President Trump's pick for the vacant Fed governor seat. We will then turn to other key stories shaping the market, including our thoughts on the ongoing disagreement over the US-Japan trade agreement, OpenAI's latest update, and why tariffs are impacting gold prices today. We will conclude by assessing other major international and domestic developments affecting financial markets.

FOMC Shake Up: President Trump has selected Stephen Miran as his pick to fill the vacant seat on the Federal Reserve Board of Governors. Miran currently serves as the head of the Council of Economic Advisers and is expected to help the president push for lower interest rates. While he still needs Senate confirmation, the chamber is currently controlled by Republicans, which likely improves his chances. Miran was previously confirmed for his current role by a vote of 53-46.

- This move could trigger another FOMC dissent if rates remain unchanged in September. Historically, a Fed Chair facing four dissents from governors is seen as losing confidence and often prompts a resignation. So far, two officials, Christopher Waller and Michelle Bowman, have broken ranks. If Miran joins them, it would mark a critical third vote, edging closer to that symbolic threshold.
- A more dovish Fed is likely to push for additional rate cuts, which should support bond prices in the near term. However, lower rates may also lead to a higher term premium, as investors could demand greater compensation due to rising inflation expectations and the growing supply of bonds from widening deficits. While we remain cautiously bullish on long-term bonds in the short run, the longer term outlook is uncertain, primarily due to fiscal concerns surrounding the deficit.
- That said, in a related development, Fed Governor Christopher Waller has emerged as a leading candidate to succeed Jerome Powell as chair of the Federal Reserve. If nominated, Waller would effectively serve as a "shadow Fed chair," helping to signal the central bank's policy direction to markets ahead of Powell's eventual departure.

Tariff Adjustments: The White House will change its trade agreement to prevent the stacking of tariffs on Japanese imported goods, therefore stopping new tariffs from being added to existing ones. This decision comes at the insistence of Japan, as this provision was explicitly included in the European Union agreement but not in the one with Japan. Excessive tariffs are expected to be refunded.

- A significant amount of the confusion surrounding the agreement is due to the absence of a written document. However, this lack of a written agreement may suggest that trade negotiations could continue.
- Despite announced agreements, we anticipate more closed-door discussions on contentious issues such as each country's investment pledges. These conversations will likely be kept quiet until negotiations are finalized to shield the market from any signs of uncertainty.
- Even so, this informal approach to trade talks doesn't alter our outlook. We anticipate the president will prioritize market stability and avoid any trade policies that could disrupt the economy.

Gold Prices: The US has imposed tariffs on one-kilogram gold bar imports in a move that has contributed to a sharp rise in bullion prices. The tariffs are likely to negatively impact Swiss gold manufacturers, who play a significant role in melting gold for sale in the London and New York markets. Swiss Gold was initially assumed to be exempt from tariffs, similar to other commodities, including certain classifications of bullion. The move highlights the president's push to establish more manufacturing in the US.

Open AI Upgrade: OpenAI has launched the newest version of its language model, GPT-5, in an effort to enhance its competitive standing. The model's primary updates include a focus on improving its code-writing ability, a field where competitors like Anthropic have excelled. It also features new reasoning capabilities designed to reduce hallucinations — the generation of fabricated information. This release is expected to serve as a benchmark for the technology's performance amid growing business interest.

Taiwan AI Exports: Despite a strong currency and a 20% US tariff rate, which is higher than many of its neighbors, Taiwan has surpassed its full-year trade surplus record in just seven months. This surge was largely driven by the export of AI-related goods, for which demand has been exceptionally high, and by customers rushing to place orders ahead of the tariff deadline. While the next few months may see a slowdown for Taiwanese goods, we still believe that exports related to AI will continue to grow, even in the face of trade uncertainty.

Gaza Takeover: Israeli Prime Minister Benjamin Netanyahu has announced plans for the country to take over Gaza City. The decision reportedly goes against the advice of his own military, but Netanyahu has stated that it is essential for driving Hamas out of power and providing security for Israel. His plan includes the return of hostages, the creation of a temporary Gaza administration, and the eventual handover of the region to Arab forces. The move is likely to lead to global criticism but unlikely to impact markets in the short-term.

Armenia-Azerbaijan: President Trump is scheduled to meet with the leaders of Armenia and Azerbaijan to mediate a peace agreement. The two former Soviet countries have a long history of conflict over territory, particularly the Nagorno-Karabakh enclave, which Azerbaijan fully recaptured in 2023. This decision to hold talks underscores the president's preference for managing global tensions through diplomatic deals rather than military intervention.

Redistricting Fight: President Trump continues to play an active role as states prepare their electoral maps for the 2026 midterm elections. Notably, he is advocating for the exclusion of immigrants from census counts — a controversial position that would likely face immediate legal challenges. The redistricting debate has intensified as Texas advances proposals that could create five additional GOP-favorable congressional districts.

US Economic Releases

No major US economic reports have been released so far today. 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**
10:20	Alberto Musalem Speaks on Banking and Credit	President of the Federal Reserve Bank of St. Louis

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	Household Spending	y/y	Jun	1.3%	4.7%	2.7%	**	Equity bearish, bond bullish
	BoP Trade Balance	m/m	Jun	¥469.6b	-¥522.3b	¥402.1b	**	Equity and bond neutral
	BoP Current Account Balance	m/m	Jun	¥1348.2b	¥3436.4b	¥1806.1b	***	Equity and bond neutral
Australia	Foreign Reserves	m/m	Jul	A$102.8b	A$101.9b		**	Equity and bond neutral
China	BoP Current Account	q/q	2Q P	$135.1b	$165.4b		*	Equity and bond neutral
EUROPE								
Russia	Gold and Forex Reserves	m/m	1-Aug	$676.4b	$695.5b		***	Equity and bond neutral
	Official Reserve Assets	m/m	Jul	681.5b	688.7b		*	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	1-Aug	18.48t	18.46t		*	Equity and bond neutral
AMERICAS								
Brazil	FGV CPI IPC-S	m/m	7-Aug	0.38%	0.37%		**	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	419	0	Down
10-yr T-note (%)	4.25	4.25	0.00	Flat
Euribor/OIS spread (bps)	200	198	2	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 Mexico Overnight Rate	7.75%	8.00%	7.75%	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	$66.90	$66.43	0.71%	
WTI	$64.29	$63.88	0.64%	
Natural Gas	$3.05	$3.07	-0.52%	
Crack Spread	$26.42	$26.01	1.58%	
12-mo strip crack	$23.41	$23.18	1.02%	
Ethanol rack	$1.89	$1.88	0.37%	
Metals				
Gold	$3,385.88	$3,396.38	-0.31%	
Silver	$38.33	$38.27	0.16%	
Copper contract	$442.85	$439.85	0.68%	
Grains				
Corn contract	$406.00	$407.00	-0.25%	
Wheat contract	$517.50	$518.25	-0.14%	
Soybeans contract	$991.25	$993.75	-0.25%	
Shipping				
Baltic Dry Freight	2,008	1,994	14	
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)	7	11	-4	

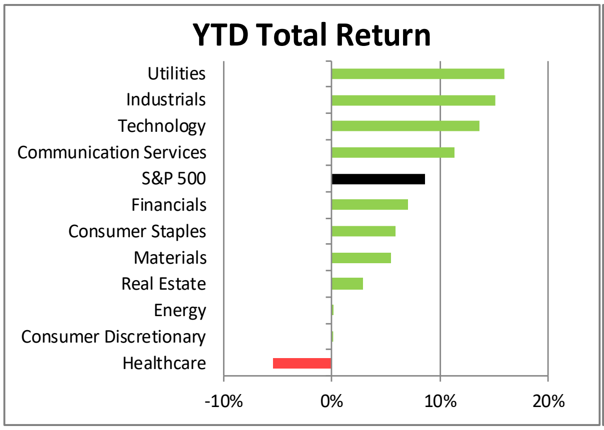
Weather

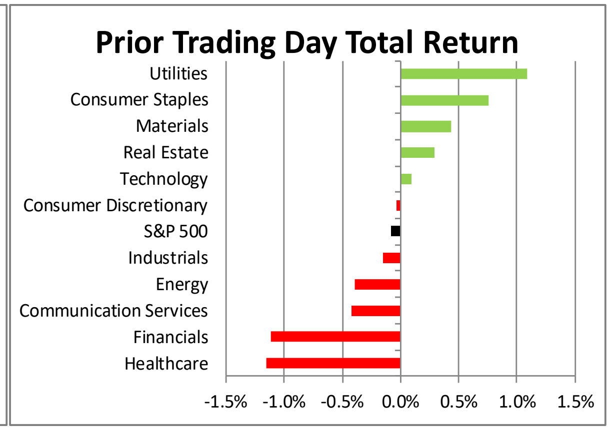
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures from the Rocky Mountains eastward, with cooler-than-normal temperatures in the Pacific Northwest and southern California. The forecasts call for wetter-than-normal conditions in the northern Great Plains, the Upper Midwest, the Southwest, and the Deep South, with dry conditions in the central Rocky Mountains.

There are now two tropical disturbances in the Atlantic Ocean area. One disturbance is several hundred miles off the coast of North Carolina and moving northeasterly; it is assessed to have only a 10% chance of forming into a cyclone in the next seven days. The second disturbance is in the central Atlantic and moving northward; it is assessed to have a 50% chance of cyclonic formation within the next week.

Data Section

US Equity Markets – (as of 8/7/2025 close)

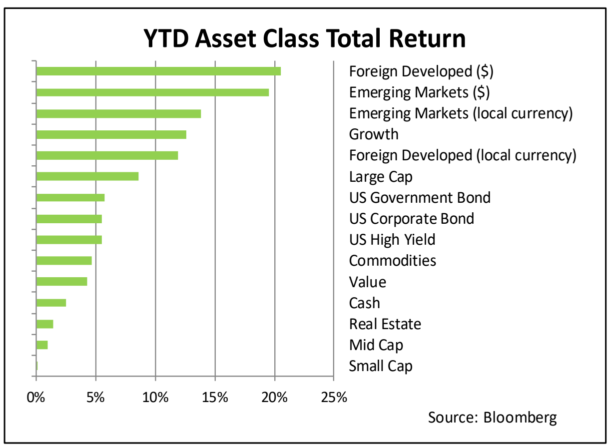




(Source: Bloomberg)

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 8/7/2025 close)

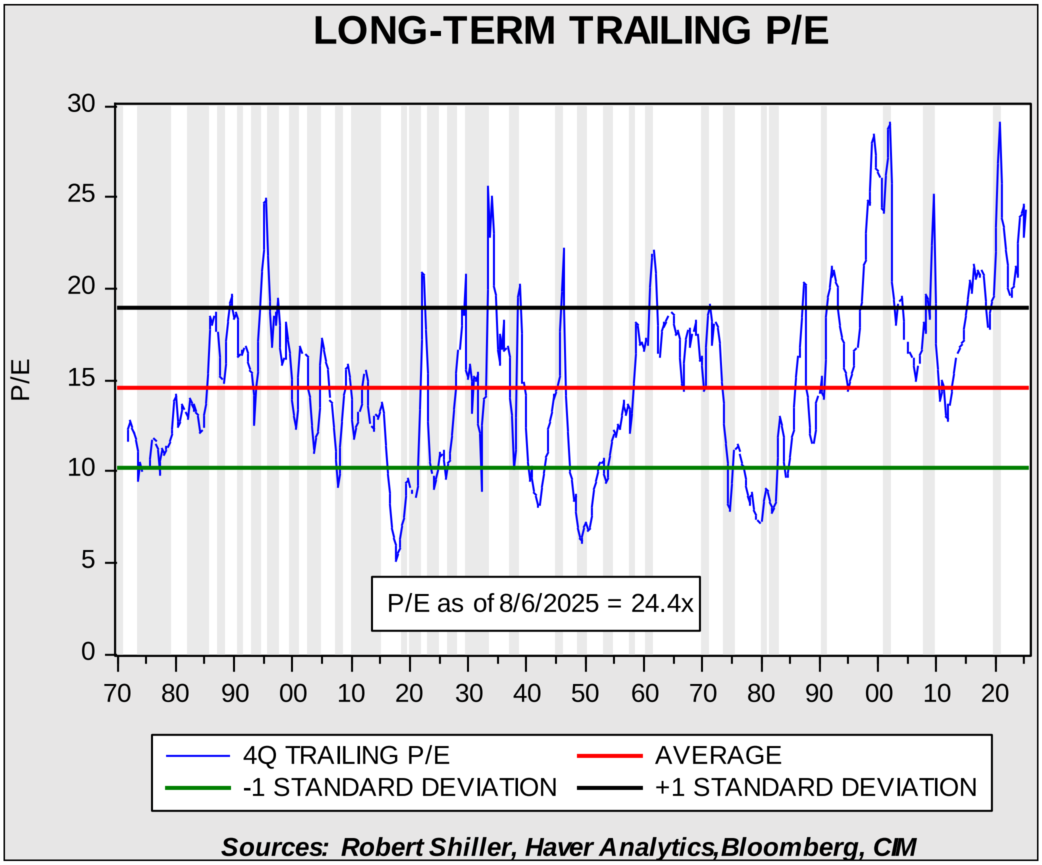


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.

[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.