Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: October 1, 2025 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 0.4% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.7%. Chinese markets are closed today in observance of National Day and the Golden Week holiday. US equity index futures are signaling a lower open.

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
"US Influence on the Wane: New Evidence" (9/29/25) + podcast	"Stopping the Bond Vigilante" (9/22/25) + 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.

Our *Comment* starts with an analysis of the government shutdown and the evolving strategy of the White House in restructuring US healthcare to fight chronic disease. We then pivot to global topics, including the UK's move to establish a regulatory framework for stablecoin, the dynamics driving the Argentine peso's current pressure, and Saudi Arabia's massive $55 billion acquisition of Electronic Arts as part of its gaming push. Finally, we provide a summary of recent economic indicators from the US and global markets.

Government Shutdown: A government shutdown began at midnight as a deep political divide prevented Democrats and Republicans from agreeing on a stopgap spending bill. The breakdown occurred when lawmakers failed to reconcile the Democratic demand to extend Affordable Care Act subsidies with Republican opposition to tying that provision to ongoing government funding. While there is some hope that the government shutdown will be limited, there are some signs that each side is willing to hold out to prevent the other side from gaining an edge.

- While a government shutdown can cause significant public inconvenience, its economic impact is typically minimal, especially when it lasts for only a few days. For instance, the longest shutdown on record, which ran for 35 days, was estimated to have reduced that year's GDP by only 0.4%, meaning it had a rough economic cost of 0.15% per week that it was in effect.

- A major concern for financial markets regarding a government shutdown is the potential delay in the release of critical economic data. For instance, the shutdown would halt the publication of the Bureau of Labor Statistics' (BLS) jobs report, leaving the underlying health of the labor market in doubt. This delay is particularly problematic because Federal Reserve officials have stated that future interest rate cuts likely hinge on the outlook for employment.
- We believe a potential government shutdown is unlikely to derail market sentiment. Although it would deprive investors of crucial economic data, the market has looked past this risk so far, positioning for a positive outcome that should mitigate near-term downside. In the absence of official reports, however, market participants will likely assign greater weight to private data sources like the ADP employment report.

Healthcare: The White House has unveiled a new initiative aimed at lowering healthcare costs. On Tuesday, the president announced an agreement with Pfizer to cut certain drug prices by up to 85%, facilitated by tariff reductions. The administration expects other major pharmaceutical companies to follow suit. In a separate move, the president directed $50 million toward AI research to advance pediatric cancer treatments, signaling a strategic shift to leverage technology for more efficient medical breakthroughs.

- These drug price cuts are part of a larger administration strategy to incentivize the pharmaceutical industry to reshore its manufacturing base. This follows the president's threats earlier this year to impose higher tariffs on companies that refuse. Despite some willingness from players like Eli Lilly, significant cost concerns remain a primary barrier for a sector facing thin profit margins. In this context, reduced drug prices seem to be a concession offered to secure industry cooperation on reshoring.
- Additionally, a longer-term goal appears to be shifting reliance from university-led research toward tech companies. The White House believes that leveraging technology could make achieving breakthrough research more cost-effective than relying on academic institutions.
- Overall, we view the government's increased economic involvement as a potential stabilizer for equity markets, offering crucial support during downturns and funding for long-term development. The primary risk, however, is a reduction in corporate autonomy, which could lead to market inefficiencies. Consequently, we believe this environment favors a more active investment management approach to hedge against these potential risks.

Stablecoin Future: In a clear sign of a shifting regulatory landscape, Bank of England Governor Andrew Bailey endorsed stablecoins as a tool to reduce commercial lending reliance. This move aligns with a wider Western effort to catch up to the United States, which has taken a lead with its pro-digital asset legislation. As part of this race, both the UK and EU are exploring the development of their own stablecoins. Despite this accelerating acceptance, the fundamental concern that stablecoins could threaten financial stability remains unresolved.

Hybrid War? The prime minister of Denmark has warned that NATO must do more to counter Russian aggression. She argued that last week's drone incursions, which led to the shutdown of Denmark's main airport, appear to be part of a broader strategy by Moscow to divide Europe and represent a form of hybrid warfare. In her remarks, she advocated for increased supplies of defense equipment to shore up regional defenses. While we believe the risk of direct conflict remains low, this risk is currently underpriced by financial markets.

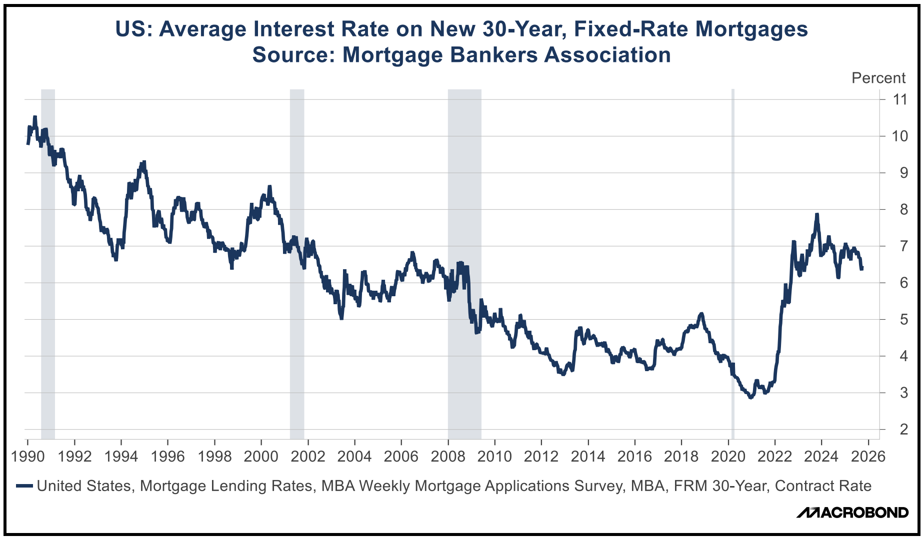
Argentine Bailout: The Argentine central bank intervened on Tuesday to defend the peso after a sharp sell-off. This was triggered by market fears that the US may be unable to follow through on its pledge of support, especially with a looming government shutdown. These concerns were ignited by a lack of detail from US Treasury Secretary Scott Bessent, who had vowed to do "whatever it takes" to bolster confidence after weak regional election results.

Basel Talks: The US is pushing for changes to the Basel framework that would no longer treat the EU as a single market for regulatory purposes. This move is likely to cause significant friction with EU regulators and institutions, as it would increase the risk weighting for many banks in the region and undermine the fundamental EU principle of a unified single market. This push for a rule change exemplifies the increasingly frosty state of transatlantic relations.

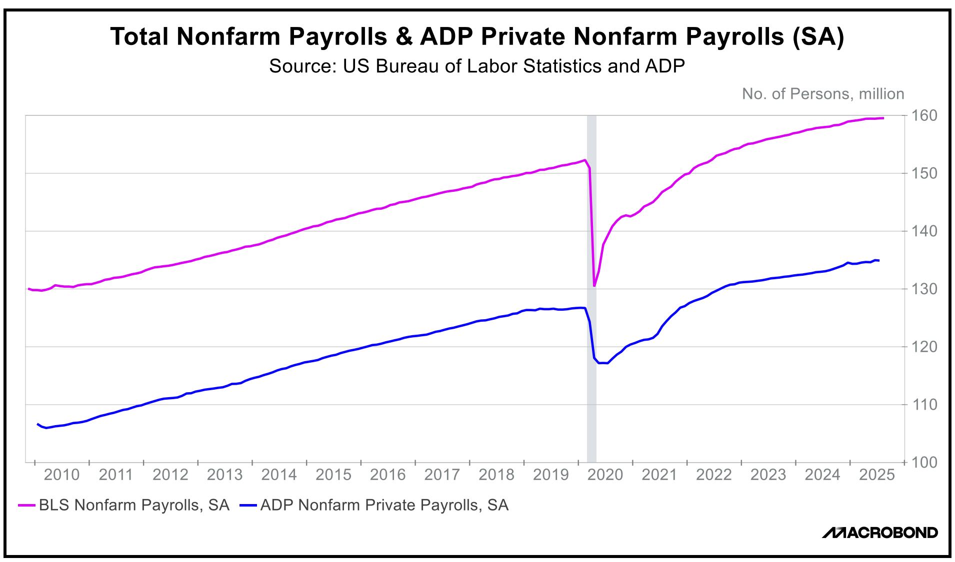
The EA Takeover: The game maker went private following the largest leveraged buyout in history. The $55 billion takeover was backed by the investment fund Silver Lake and Saudi Arabia's Public Investment Fund (PIF). This acquisition serves as a potent reminder of the growing economic ties between the United States and Saudi Arabia, as the oil exporter seeks to diversify away from hydrocarbons and into technology. The move signals that Riyadh is poised to expand its global reach by adding more major companies to its investment portfolio.

US Economic Releases

The Mortgage Bankers Association said ***mortgage applications*** in the week ended September 27 fell 12.7%, easily wiping out their 0.6% rise in the previous week. Applications for home purchase mortgages fell 1.0%, after a rise of 0.3% in the prior week, while applications for refinancing mortgages dropped 20.6%, reversing their 0.8% gain the week before. Why did these declines happen? According to the report, the average interest rate on a 30-year, fixed-rate mortgage rose 12 basis points to 6.46%. The chart below shows how mortgage rates have changed over time.



Separately, the ADP Research Institute estimated that ***private payroll employment*** declined in September by a seasonally adjusted 32,000, and August private payrolls were revised sharply downward to show a decline of 3,000. ADP's estimate is widely seen as an indicator of what to expect when the Labor Department releases its measure of nonfarm payrolls on Friday, but the government shutdown this week may mean the Labor Department's data doesn't get released on schedule. The chart below shows the Labor Department's figure for total nonfarm payrolls and ADP's estimate of private payrolls since 2010.



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

Economic Releases						
EST	**Indicator**			**Expected**	**Prior**	**Rating**
9:45	S&P Global US Manufacturing PMI	m/m	Sep F	52.0	52.0	***
10:00	ISM Manufacturing	m/m	Sep	49.0	48.7	**
10:00	ISM Prices Paid	m/m	Sep	62.7	63.7	**
10:00	ISM New Orders	m/m	Sep	50.0	51.4	**
10:00	ISM Employment	m/m	Sep	44.3	43.8	*
10:00	Construction Spending	m/m	Aug	-0.1%	-0.1%	**
	Wards Total Vehicle Sales	m/m	Sep	16.20m	16.07m	*
Federal Reserve						
EST	**Speaker or Event**	**District or Position**				
12:15	Thomas Barkin Speaks on Economy	President of the Federal Reserve Bank of Richmond				
17:00	Austan Goolsbee Speaks on Marketplace	President of Federal Reserve Banks of Chicago				

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	Tankan Large Manufacturing Index	q/q	3Q	14	13	14	***	Equity and bond neutral
	Tankan Large Manufacturing Outlook	q/q	3Q	12	12	13	***	Equity and bond neutral
	Tankan Large Non-Manufacturing Index	q/q	3Q	34	34	34	***	Equity and bond neutral
	Tankan Large Non-Manufacturing	q/q	3Q	28	27	28	***	Equity and bond neutral
	Tankan Large All-Industry Capex	q/q	3Q	12.5%	11.5%	11.3%	***	Equity bullish, bond bearish
	S&P Global Japan Manufacturing PMI	m/m	Sep F	48.5	48.4		***	Equity and bond neutral
Australia	S&P Global Australia Manufacturing	m/m	Sep F	51.4	51.6		***	Equity and bond neutral
New Zealand	Building Permits	m/m	Aug	5.8%	5.3%		**	Equity and bond neutral
South Korea	Exports	y/y	Sep	12.7%	1.2%	7.8%	***	Equity and bond neutral
	Imports	y/y	Sep	8.2%	-4.1%	5.6%	**	Equity and bond neutral
	Trade Balance	m/m	Sep	$9558m	$6512m	$8000m	*	Equity and bond neutral
	S&P Global South Korea PMI	m/m	Sep	50.7	48.3		***	Equity and bond neutral
China	BoP Current Account	q/q	2Q F	$128.7b	$135.1b		**	Equity and bond neutral
India	HSBC India PMI Mfg	m/m	Sep F	57.7	58.5		***	Equity and bond neutral
EUROPE								
Eurozone	HCOB Eurozone Manufacturing PMI	m/m	Sep F	49.8	49.5	49.5	***	Equity and bond neutral
	CPI	y/y	Sep P	2.2%	2.0%	2.2%	***	Equity and bond neutral
	Core CPI	y/y	Sep P	2.3%	2.3%	2.3%	**	Equity and bond neutral
Germany	HCOB Germany Manufacturing PMI	m/m	Sep F	49.5	48.5	48.5	***	Equity and bond neutral
France	HCOB France Manufacturing PMI	m/m	Sep F	48.2	48.1	48.1	***	Equity and bond neutral
Italy	HCOB Italy Manufacturing PMI	m/m	Sep	49.0	50.4	50.0	***	Equity and bond neutral
UK	Nationwide House Price Index	y/y	Sep	2.2%	2.1%	1.8%	***	Equity and bond neutral
	S&P Global UK Manufacturing PMI	m/m	Sep F	46.2	46.2	46.2	***	Equity and bond neutral
Switzerland	Real Retail Sales	y/y	Aug	-0.2%	0.9%		**	Equity and bond neutral
	PMI Manufacturing	m/m	Sep	46.3	49.0	48.0	***	Equity and bond neutral
	PMI Services	m/m	Sep	51.3	43.9		***	Equity and bond neutral
Russia	Current Account Balance	q/q	2Q F	4013m	7300m		**	Equity and bond neutral
	S&P Global Russia Manufacturing PMI	m/m	Sep	48.2	48.7		***	Equity and bond neutral
AMERICAS								
Mexico	International Reserves Weekly	w/w	26-Sep	$246832m	$246528m		*	Equity and bond neutral
	Net Outstanding Loans	m/m	Aug	7098b	7063b		*	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)	384	385	-1	Down
U.S. Sibor/OIS spread (bps)	396	397	-1	Down
U.S. Libor/OIS spread (bps)	389	390	-1	Down
10-yr T-note (%)	4.13	4.15	-0.02	Down
Euribor/OIS spread (bps)	203	202	1	Up
Currencies	**Direction**			
Dollar	Up			Up
Euro	Down			Down
Yen	Up			Down
Pound	Down			Down
Franc	Down			Down
Central Bank Action	**Current**	**Prior**	**Expected**	
RBI Repurchase Rate	5.50%	5.50%	5.50%	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	$65.85	$66.03	-0.27%	
WTI	$62.21	$62.37	-0.26%	
Natural Gas	$3.38	$3.30	2.36%	
Crack Spread	$23.77	$23.88	-0.45%	
12-mo strip crack	$24.15	$24.32	-0.69%	
Ethanol rack	$2.11	$2.11	-0.27%	
Metals				
Gold	$3,881.00	$3,858.96	0.57%	
Silver	$47.26	$46.65	1.31%	
Copper contract	$486.80	$485.65	0.24%	
Grains				
Corn contract	$413.00	$415.50	-0.60%	
Wheat contract	$503.50	$508.00	-0.89%	
Soybeans contract	$997.00	$1,001.75	-0.47%	
Shipping				
Baltic Dry Freight	2,134	2,220	-86	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		-0.05		
Gasoline (mb)		-0.08		
Distillates (mb)		-1.65		
Refinery run rates (%)		-0.3%		
Natural gas (bcf)		64		

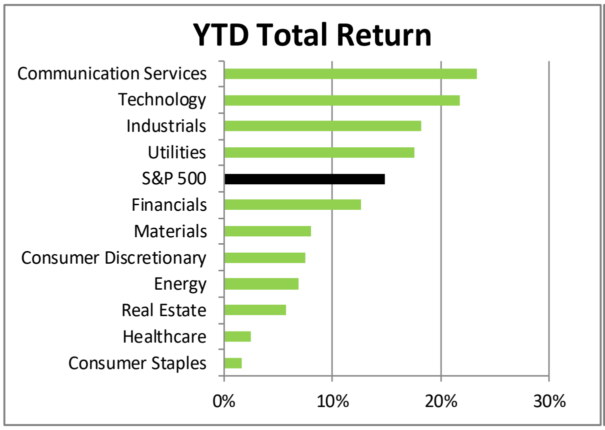
Weather

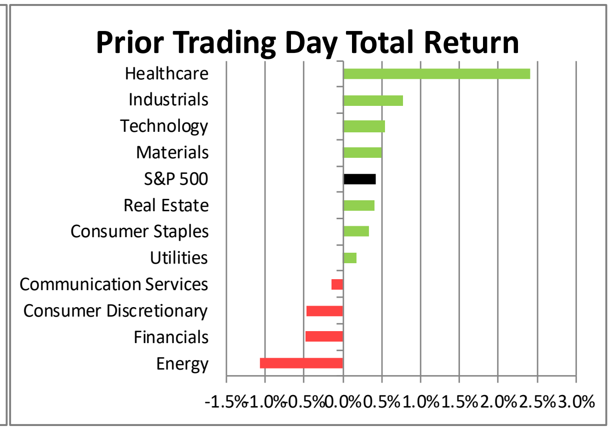
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for the entire country. The forecasts call for wetter-than-normal conditions in the southern reaches of the Rocky Mountains, the southern Great Plains, and the Southeast, with dry conditions in the Pacific Northwest.

There are now two tropical disturbances in the Atlantic Ocean. Hurricane Imelda is off the Carolinas, but it is moving northeasterly toward Bermuda and is not expected to hit the US mainland. Hurricane Humberto is off the coast of Virginia and moving slowly north, with no current expectation that it will hit the US mainland.

Data Section

US Equity Markets – (as of 9/30/2025 close)

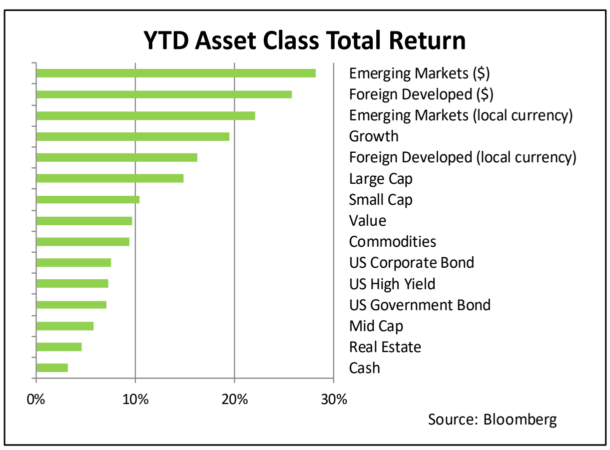




(Source: Bloomberg)

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 9/30/2025 close)

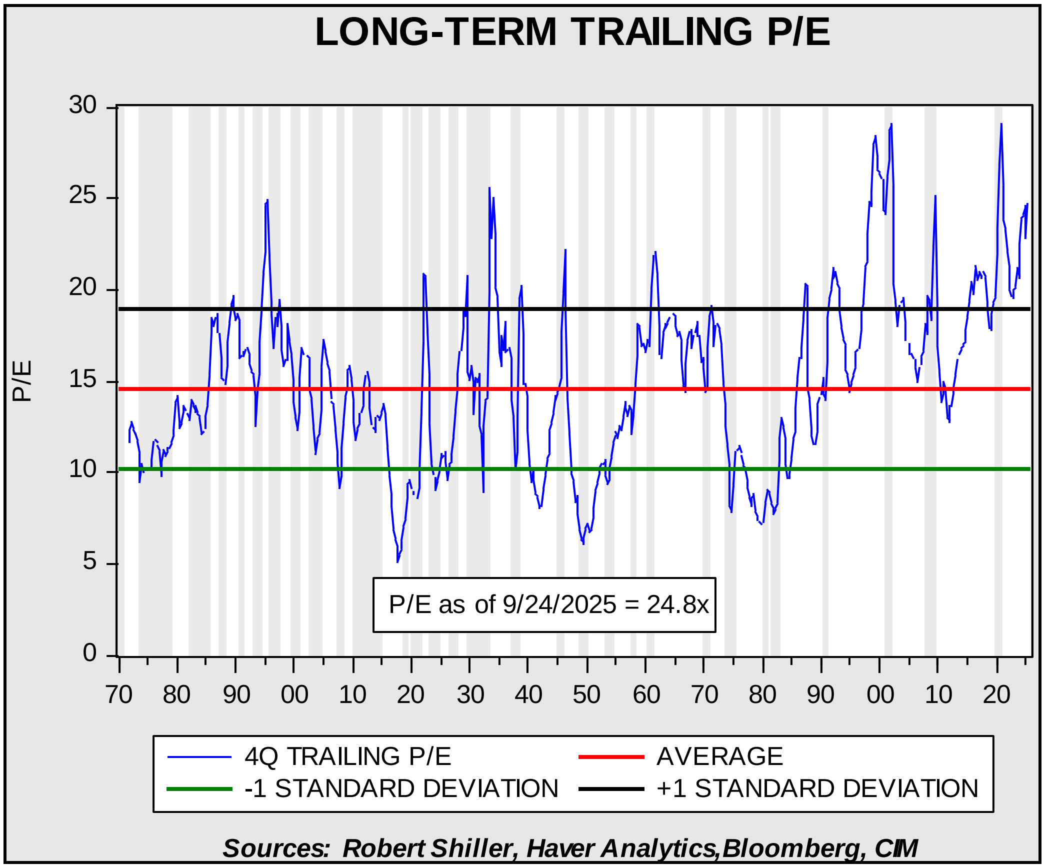


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

September 25, 2025



Based on our methodology,[1] the current P/E is 24.8x, which is up 0.3 from the previous report. The gain was attributable to an appreciation in the stock price index, whereas earnings remained flat relative to the previous week.

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.