Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: September 3, 2025 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 0.8% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.2%. Chinese markets were lower, with the Shanghai Composite down 1.2% from its previous close and the Shenzhen Composite down 1.4%. US equity index futures are signaling a higher 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
"Tariff Trilemma: The Three Rs Driving US Trade Policy" (8/25/25) + podcast	"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.

Our *Comment* opens with our analysis of China's recent military parade and its implications. We then turn to pivotal global developments, such as the ongoing global bond sell-off, the potential digitization of gold, and Moody's optimistic outlook on Europe's private credit markets. Finally, we conclude with an overview of other essential factors shaping the global financial landscape.

China Parade: During its military parade, Beijing unveiled a new arsenal of domestically developed weapons designed to project power and signal its military readiness. The display was a clear signal to the world that China believes it can fend off any attack and possesses the capability to take Taiwan by force if necessary. However, while the technological advancements were impressive, many analysts remain unconvinced of China's overall military capabilities. During the parade there was a sell-off in Chinese defense stocks.

- The exhibition demonstrated key breakthroughs in Chinese military tech, particularly in unmanned platforms such as robotic ground vehicles, four-legged drones, and uncrewed naval and aerial vehicles, though it is uncertain how many are fully operational. The display also served to flex China's advanced capabilities in other domains, including air defense systems, directed-energy weapons (lasers), and its world-leading hypersonic missile program.

- Of the five key categories in which China would need to demonstrate military superiority — long-range strikes, air dominance, amphibious operations, joint-force coordination, and space/counterspace — China leads the US in only two: long-range strikes and space/counterspace. While China could still inflict serious damage in a conflict, the balance of power suggests the US would likely prevail in a direct confrontation.
- The parade also served as a powerful demonstration of China's growing network of strategic partnerships. The presence of Russian President Vladimir Putin and North Korean leader Kim Jong Un alongside Chinese President Xi Jinping was a striking visual symbol. This show of unity signals a deepening alignment among the three countries, which has been particularly apparent in the context of the war in Ukraine, where North Korea has provided military aid to Russia, and China has offered crucial economic support.
- Although we do not view a military conflict between the US and China as imminent, the significant posturing between the two nations creates a tangible risk of escalation. As this strategic competition intensifies (both militarily and economically), we anticipate that companies aligned with national priorities (e.g., defense, semiconductors, AI, and cybersecurity) will be key beneficiaries. Concurrently, this elevated geopolitical friction is likely to bolster demand for traditional safe-haven assets, such as gold.

Long Bond Sell-Off: A significant long bond sell-off is underway, causing global bond yields to rise as markets begin to price in the dual risks of elevated government debt and potential stagflation. This upward pressure is primarily driven by a fundamental shift in supply and demand, where central banks are actively reducing their bond holdings through quantitative tightening (QT) just as governments are significantly increasing debt issuance to fund fiscal deficits.

- Rising bond yields are crippling tech stocks by dramatically increasing their cost of capital. These companies have been rewarded by the market for their potential to generate substantial future profits. However, they are now under scrutiny for the immense scale of their capital expenditures, which threaten to diminish future investor returns. This problem is most acute for companies funding massive data center builds for AI and cloud services.
- We are seeing early signs of a shift toward a regime of fiscal dominance, where central banks may be forced to take a more active role in bond markets to keep government borrowing costs manageable. The primary risk of this policy is that it could require central banks to subordinate their inflation mandates. While this would likely be negative for long-duration bonds, it could simultaneously provide a source of increased demand for short and intermediate-term government securities.

Digital Gold: Efforts are underway to create digital gold. This initiative, often referred to as "pooled gold interest," would enable banks and investors to buy and sell fractional ownership of physical gold, a significant move toward greater accessibility and liquidity. This push for modernization comes as past efforts to create gold-backed stablecoins have failed to gain widespread adoption. That said, new innovations in digital gold ownership are a response to the persistent demand for the asset.

Chrome Stays: A judge ruled against potentially breaking up Google, arguing that the rise of generative AI has weakened the case regarding the company's monopoly power. Prior to the ruling, regulators had considered forcing a sale of Google's Chrome browser business due to concerns over its market dominance. The decision highlights how emerging technologies like AI are rapidly reshaping competitive landscapes, challenging traditional antitrust assumptions, and potentially protecting incumbent tech giants from government intervention.

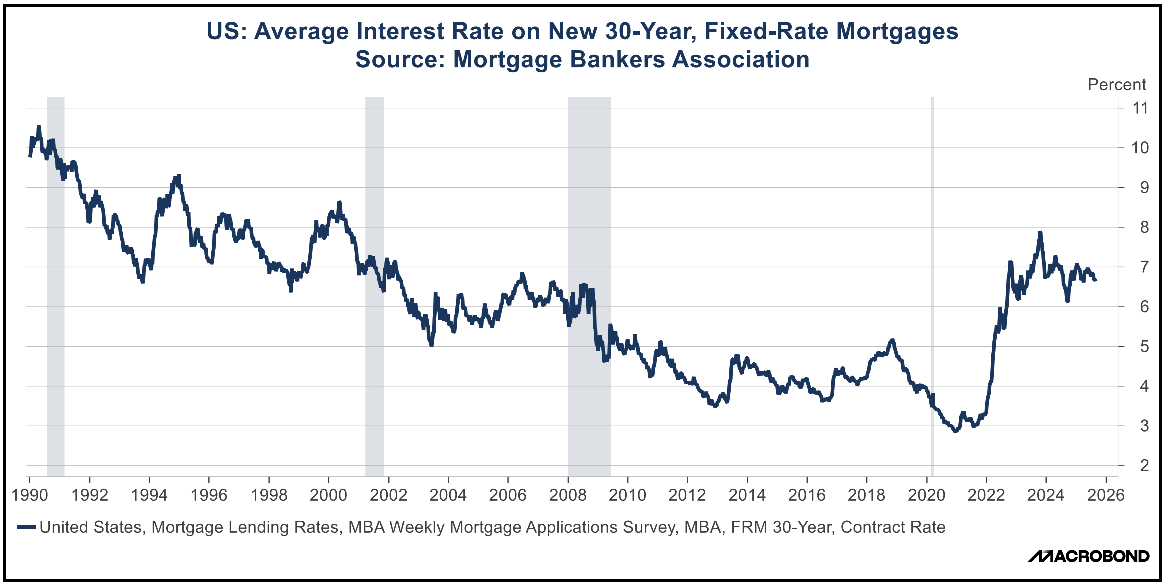
European Credit Markets: Moody's predicts that the European Union's private credit markets are on track to rival those of the US. In a new report, the agency states that the EU's push for strategic autonomy in a fragmenting global economy is a key growth driver. This potential, however, is currently constrained by persistent regulatory and legal challenges. The analysis adds to a growing body of evidence that the rising investor appetite for European assets is not solely a function of a weakening US dollar.

EU-Mercosur: European Union officials are seeking to reassure farmers that they will not be adversely affected by a new trade deal with South American partners. The agreement, announced earlier today, is designed to help the EU reduce its reliance on the United States as an export destination and broaden its overall trade reach. Estimates indicate that the deal could absorb approximately one-third of the export volume the EU is forecast to lose following its separate trade agreement with the US.

Retailers Report: Recent earnings reports from Macy's and Dollar Tree provide a nuanced view of the American consumer. Both companies posted strong earnings but offered a cautious, mixed outlook on future consumer spending. Macy's cited headwinds from new tariffs and expressed wariness about the fickle nature of shoppers, though it expressed confidence in its ability to manage these risks. Similarly, Dollar Tree conveyed a mixed perspective on the upcoming quarters due to tariff related costs. The strong consumer is key for the ongoing market rally.

US Economic Releases

The Mortgage Bankers Association said ***mortgage applications*** in the week ended August 30 fell 1.2%, after edging down 0.5% in the previous week. Applications for home purchase mortgages fell 3.2%, erasing the 2.2% increase in the prior week. In contrast, applications for refinancing mortgages rose 0.9%, after sliding 3.5% in the previous period. The average interest rate on a 30-year mortgage fell 5 basis points to 6.64%. The chart below shows how mortgage rates have changed over time.



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	JOLTS Job Openings	m/m	Jul	7382k	7437k	*
10:00	Factory Orders	m/m	Jul	-1.3%	-4.8%	***
10:00	Factory Orders Ex Transportation	m/m	Jul	0.6%	0.4%	**
10:00	Durable Goods Orders	m/m	Jul F	-2.8%	-2.8%	***
10:00	Durable Goods Orders ex Transportation	m/m	Jul F	1.1%	1.1%	**
10:00	Cap Goods Orders Nondef Ex Air	m/m	Jul F	1.1%	1.1%	*
10:00	Cap Goods Ship Nondef Ex Air	m/m	Jul F	16.1%	0.7%	*
10:00	Wards Total Vehicle Sales	m/m	Aug	16.00m	16.41m	*
Federal Reserve						
EST	**Speaker or Event**	**District or Position**				
9:00	Alberto Musalem Speaks on Economy and Policy at Peterson Institute	President of the Federal Reserve Bank of St. Louis				
14:00	U.S. Federal Reserve Releases Beige Book	Federal Reserve Board				

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	Capital Spending	y/y	2Q	7.6%	6.4%	6.1%	**	Equity bullish, bond bearish
	S&P Global Japan Manufacturing PMI	m/m	Aug F	49.7	49.9		***	Equity and bond neutral
	Monetary Base	y/y	Aug	-4.1%	-3.9%		**	Equity and bond neutral
Australia	S&P Global Australia Manufacturing PMI	m/m	Aug F	53.0	52.9		***	Equity and bond neutral
	Melbourne Institute Inflation	y/y	Aug	2.8%	2.9%		***	Equity and bond neutral
	ANZ-Indeed Job Advertisements	m/m	Aug	0.1	-0.6		*	Equity and bond neutral
	Building Approvals	m/m	Jul	-8.2%	12.2%	-5.0%	***	Equity bearish, bond bullish
	BoP Current Account Balance	q/q	2Q	-A$13.7b	-A$14.1b	-A$16.0b	***	Equity and bond neutral
New Zealand	Building Permits	m/m	Jul	5.4%	-6.0%		**	Equity and bond neutral
	Terms of Trade Index	q/q	2Q	4.1%	1.9%	1.9%	*	Equity bullish, bond bearish
South Korea	Exports	y/y	Aug	1.3%	5.8%	2.3%	***	Equity and bond neutral
	Trade Balance	m/m	Aug	$6514m	$6610m	$5999m	*	Equity and bond neutral
	Imports	y/y	Aug	-4.0%	0.7%	-2.5%	**	Equity bearish, bond bullish
	S&P Global South Korea PMI Manufacturing	m/m	Aug	48.3	48.0		***	Equity and bond neutral
	CPI	m/m	Aug	1.7%	2.1%	1.9%	***	Equity and bond neutral
China	Official Manufacturing PMI	m/m	Aug	49.4	49.3	49.5	***	Equity and bond neutral
	Official Services PMI	m/m	Aug	50.3	50.1	50.2	**	Equity and bond neutral
	Official Composite PMI	m/m	Aug	50.5	50.2		*	Equity and bond neutral
	RatingDog China PMI Mfg	m/m	Aug	50.5	49.5	49.8	***	Equity bullish, bond bearish
India	GDP	y/y	2Q	7.8%	7.4%	6.7%	*	Equity bullish, bond bearish
EUROPE								
Eurozone	HCOB Eurozone Manufacturing PMI	m/m	Aug F	50.7	50.5	50.5	***	Equity and bond neutral
	Unemployment Rate	m/m	Jul	6.2%	6.2%	6.2%	**	Equity and bond neutral
	CPI	y/y	Aug P	2.1%	2.0%	2.1%	***	Equity and bond neutral
	Core CPI	y/y	Aug P	2.3%	2.3%	2.2%	**	Equity and bond neutral
Germany	HCOB Germany Manufacturing PMI	m/m	Aug F	49.8	49.9	49.9	***	Equity and bond neutral
France	HCOB France Manufacturing PMI	m/m	Aug F	50.4	49.9	49.9	***	Equity and bond neutral
	Budget Balance YTD	y/y	Jul	-142.0b	-100.4b		*	Equity and bond neutral
Italy	HCOB Italy Manufacturing PMI	m/m	Aug	50.4	49.8	49.8	***	Equity and bond neutral
	Unemployment Rate	m/m	Jul	6.0%	6.2%		**	Equity and bond neutral
	New Car Registrations	y/y	Aug	-2.7%	-5.1%		*	Equity and bond neutral
	Budget Balance	m/m	Aug	-0.1	14.2b		*	Equity and bond neutral
	PPI	y/y	Jul	2.4%	3.9%		**	Equity and bond neutral
UK	Nationwide House Price Index	y/y	Aug	2.1%	2.4%	2.7%	***	Equity bearish, bond bullish
	Net Lending Sec. on Dwellings	m/m	Jul	4.5b	5.4b	3.5b	*	Equity and bond neutral
	Mortgage Approvals	m/m	Jul	65.4k	64.6k	64.2k	***	Equity and bond neutral
	M4 Money Supply	y/y	Jul	2.9%	3.3%		*	Equity and bond neutral
	S&P Global UK Manufacturing PMI	m/m	Aug F	47.0	47.3	47.3	***	Equity and bond neutral
Switzerland	Real Retail Sales	y/y	Jul	0.7%	3.9%		**	Equity and bond neutral
	PMI Manufacturing	m/m	Aug	49.0	48.8	47.0	***	Equity and bond neutral
	PMI Services	m/m	Aug	43.9	41.8		***	Equity and bond neutral
	Domestic Sight Deposits CHF	w/w	29-Aug	447.7b	442.5b	--	*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	29-Aug	472.3b	469.5b	--	*	Equity and bond neutral
Russia	S&P Global Russia Manufacturing PMI	m/m	Aug	48.7	47.0	47.3	***	Equity and bond neutral
AMERICAS								
Canada	GDP	y/y	Jun	9.0%	1.2%	1.3%	**	Equity and bond neutral
Mexico	S&P Global Mexico Manufacturing PMI	m/m	Aug	50.2	49.1		***	Equity and bond neutral
	IMEF Manufacturing Index SA	m/m	Aug	45.6	45.3		*	Equity and bond neutral
	IMEF Non-Manufacturing Index SA	m/m	Aug	49.9	49.3		*	Equity and bond neutral
Brazil	S&P Global Brazil Manufacturing PMI	m/m	Aug	47.7	48.2		***	Equity and bond neutral
	GDP	y/y	2Q	2.2%	2.9%	2.2%	***	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)	403	401	2	Down
U.S. Sibor/OIS spread (bps)	415	415	0	Down
U.S. Libor/OIS spread (bps)	410	411	-1	Down
10-yr T-note (%)	4.28	4.26	0.02	Up
Euribor/OIS spread (bps)	208	207	1	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	$68.01	$69.14	-1.63%	
WTI	$64.36	$65.59	-1.88%	
Natural Gas	$3.04	$3.01	0.93%	
Crack Spread	$25.07	$24.76	1.25%	
12-mo strip crack	$24.34	$24.29	0.20%	
Ethanol rack	$2.23	$2.19	1.69%	
Metals				
Gold	$3,547.50	$3,533.16	0.41%	
Silver	$40.91	$40.88	0.07%	
Copper contract	$463.05	$464.10	-0.23%	
Grains				
Corn contract	$421.50	$423.00	-0.35%	
Wheat contract	$528.75	$528.25	0.09%	
Soybeans contract	$1,039.00	$1,041.00	-0.19%	
Shipping				
Baltic Dry Freight	1,986	2,024	-38	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		-2.00		
Gasoline (mb)		-1.60		
Distillates (mb)		0.50		
Refinery run rates (%)		-0.4%		
Natural gas (bcf)		27		

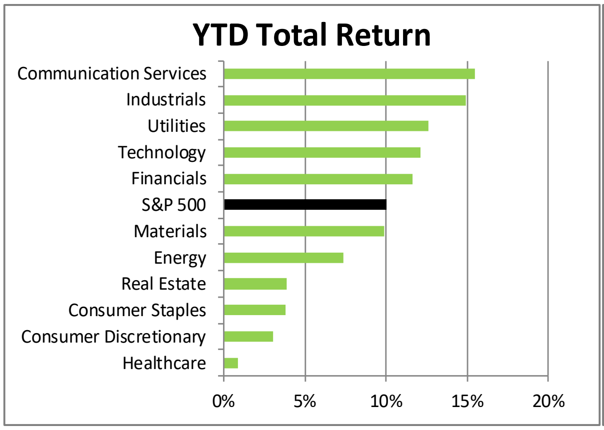
Weather

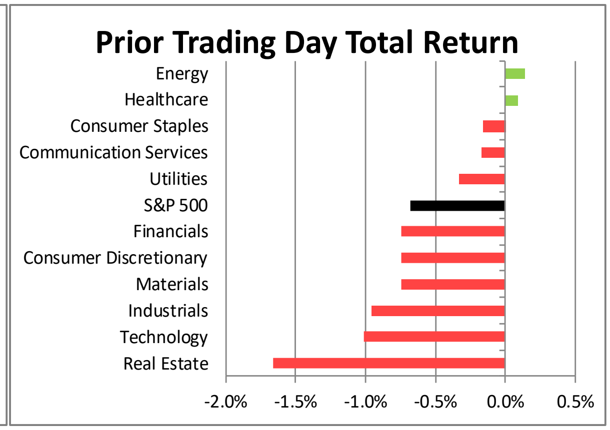
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in the Rocky Mountain region and along the West Coast and Gulf Coast, with cooler-than-normal temperatures in inland California and along the East Coast from the Carolines northward. The forecasts call for wetter-than-normal conditions in the northern stretches of the West Coast, the Rocky Mountains, and the Great Plains, with dry conditions in the Southwest and Great Lakes regions.

There is now only one tropical disturbance in the Atlantic Ocean area. It is currently off the western coast of Africa and moving northwesterly. It is assessed to have a 70% chance of cycle formation in the next seven days.

Data Section

US Equity Markets – (as of 9/2/2025 close)

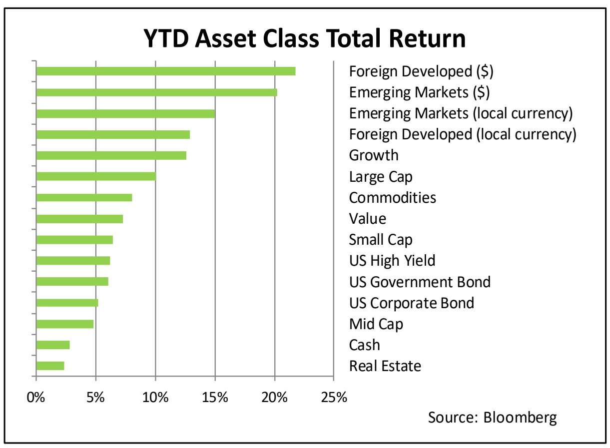




(Source: Bloomberg)

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 9/2/2025 close)

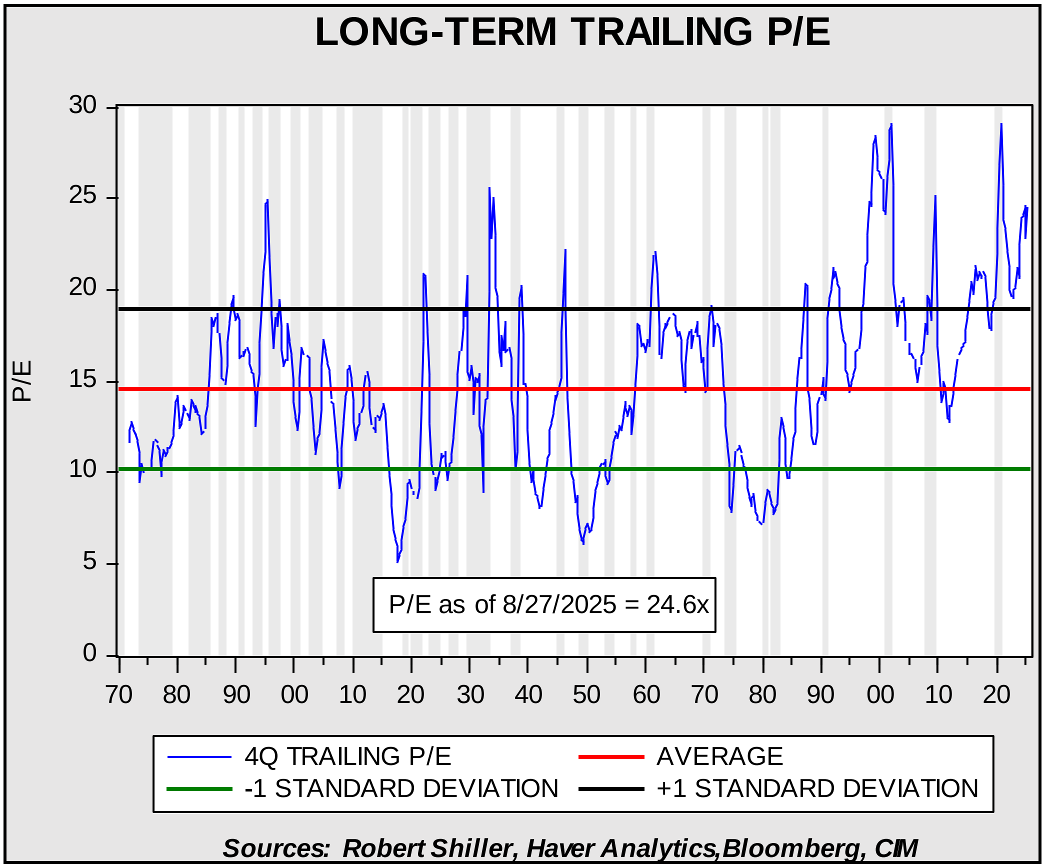


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.

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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.