Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: September 4, 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 down 0.5%. Chinese markets were lower, with the Shanghai Composite down 1.3% from its previous close and the Shenzhen Composite down 2.1%. 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.

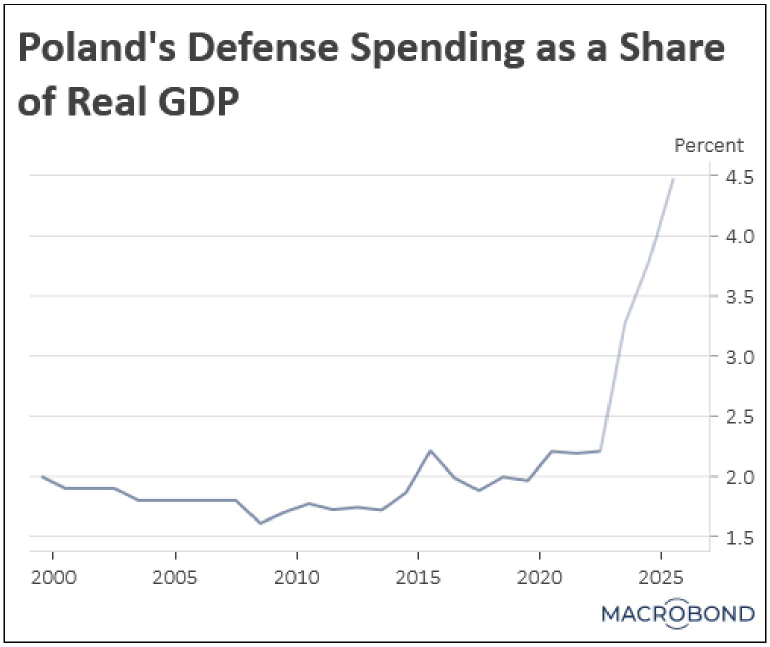
Our *Comment* opens by analyzing the market's growing anticipation of a rate cut at the upcoming FOMC meeting. We then pivot to critical global developments, including rising discontent within the EU Parliament over the US trade deal, the bond market's concerns regarding the potential rollback of tariffs, and signals that China may intervene to cool its overheated equity market. We conclude with a briefing on other key factors influencing the global financial landscape.

Rate Cut Optimism: Equities received a boost on Wednesday as economic data and recent statements from Fed officials have fueled expectations of an interest rate cut, boosting market confidence. This shift in focus reflects the market's pivot from trade policy concerns, such as tariffs, to the potential for monetary policy to stimulate investor and consumer sentiment. This is a direct reaction to the belief that a rate cut can more immediately and broadly impact economic activity and offset headwinds from tariffs.

- The latest JOLTS report signifies a cooling labor market, with unemployed workers now outnumbering job openings for the first time since 2021. This hiring slowdown aligns with unemployment insurance data, which shows modest initial claims but a steady rise in continuing claims. Together, these metrics suggest a cautious "slow-hire, slow-fire" environment where firms are neither aggressively recruiting nor conducting large-scale layoffs, opting instead to maintain their current workforce size.
- Furthermore, signs of economic pessimism are emerging. The Federal Reserve's latest Beige Book reported stagnant or slightly negative economic activity across most districts. The primary concern cited was flat-to-declining consumer spending, as household wages failed to keep pace with rising prices. Notably, the report indicated that inflation pressures were now being felt more acutely by firms than by consumers.
- In response to this weakening trend, Fed Governor Christopher Waller has signaled openness to multiple rate cuts, while Atlanta Fed President Raphael Bostic and St. Louis Fed President Alberto Musalem have both advocated for at least one, possibly as soon as this fall.
- We maintain our view that the Federal Reserve perceives current inflationary impacts as transitory and will favor its maximum employment objective. Consequently, we anticipate impending rate cuts. Given the economy's resilient position, further bolstered by increasingly clear trade policy, these cuts should provide a broad lift to equity markets. We expect this tailwind to benefit risk-sensitive assets most prominently, while also providing support to established large-cap names.

EU Friction: Opposition to the proposed EU-US trade deal is broadening within the European Parliament, with parties across the spectrum demanding changes like a sunset clause. While the deal is still expected to pass, its current criticism — from the left's claim of "capitulation" to the far-right's charge of weakness — highlights a lack of political enthusiasm. That said, time will tell if the White House is open to making more concessions.

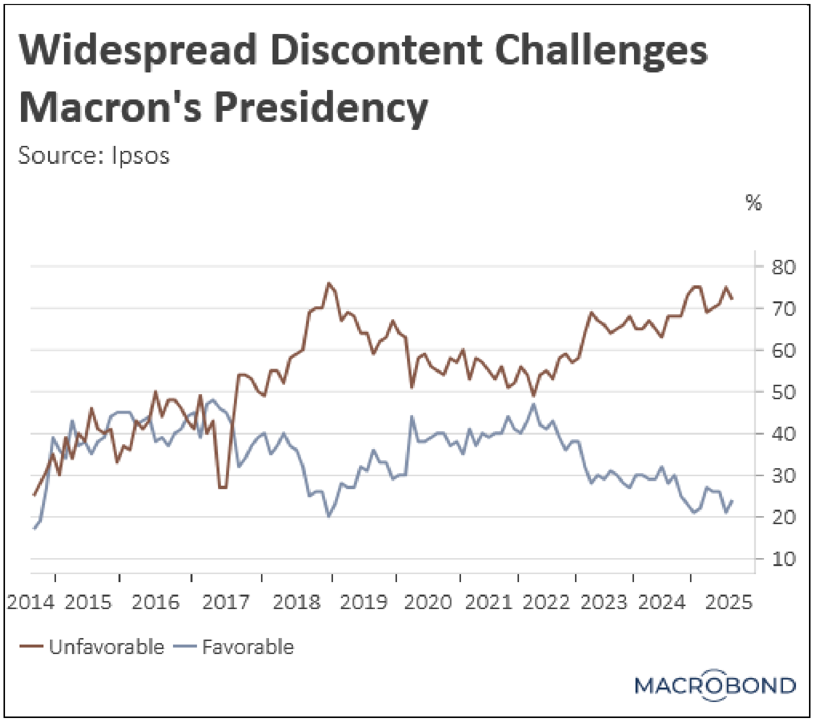
More US Troops in Poland?: The US is considering increasing its troop presence in Poland to help secure the country's defense. This decision follows meetings between the White House and Polish leaders to discuss assurances of support, likely anticipating a wind-down of Russia's war in Ukraine. Notably, these assurances may be driven by Poland's aggressive pursuit of its defense spending targets, signaling that the US is more willing to bolster nations that commit to developing their own military capabilities.



Tariff Fight: The White House has asked the Supreme Court to intervene to maintain a broad set of tariffs that a lower court ruled illegal. This move underscores the crucial importance of this revenue stream for debt reduction, particularly during a period of heightened fiscal spending. Consequently, a ruling against the government could introduce fresh volatility and contribute to ongoing turmoil in the bond market.

China Stock Rally? Chinese regulators are growing concerned about the resurgence in domestic equities. Much of this rise in valuations appears to be driven by speculation from retail investors and hedge funds, rather than a fundamental rebound in economic activity. These investors, seeking higher returns from abroad, have been drawn to the market by relatively lower interest rates elsewhere. This has led to speculation that regulators may intervene to cool the rally to prevent a speculative bubble from forming.

Macron Under Pressure: French President Emmanuel Macron will resist calls for a snap election if his prime minister loses a no-confidence vote next week, an outcome that is widely expected. The potential appointment of a fifth prime minister since 2024 could be interpreted as a sign of declining confidence in his leadership. Macron's hesitation to call for new elections stems from the political pressure he faces to implement unpopular budget cuts, as he works to stabilize the country's finances.

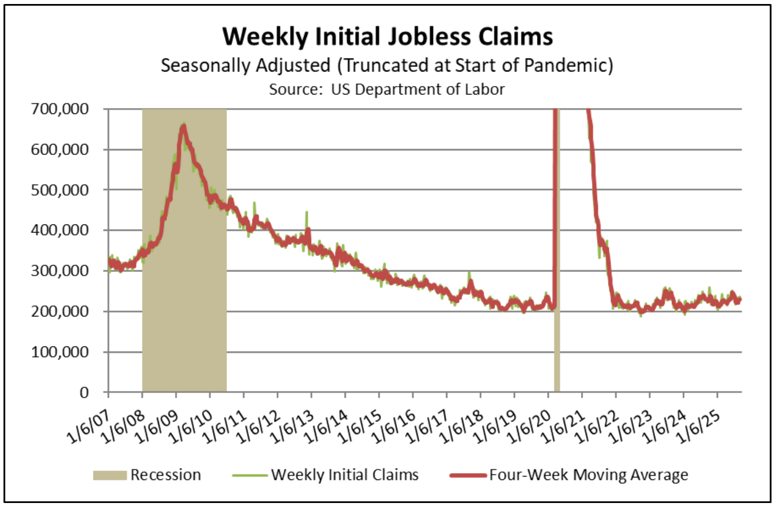


Abraham Accords: The United Arab Emirates [has warned the White House that Israel's planned annexation of the West Bank]() could jeopardize the Abraham Accords. This marks a new diplomatic phase, as the UAE, a key participant to the accords, has linked its future cooperation to Israel's policies toward Palestinians. This warning, which follows renewed Israeli statements on annexation, suggests that Israel's actions could undermine US relationships with its allies, potentially creating an opening for rivals such as China.

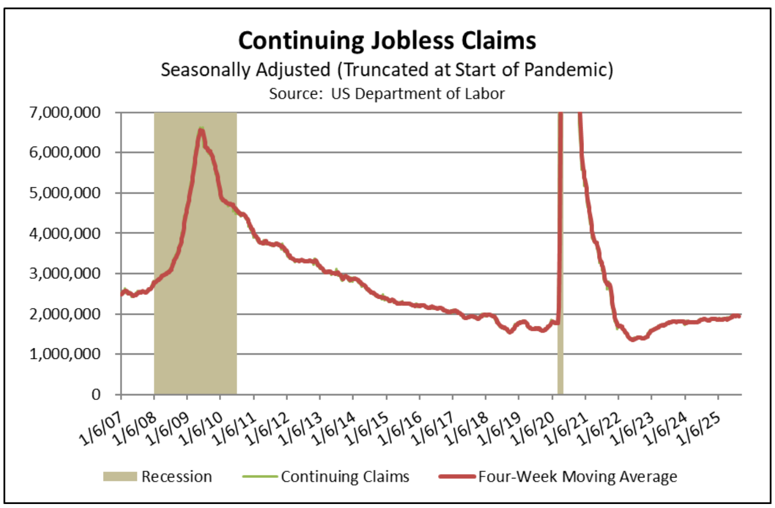
Silicon Valley to Capitol Hill: A [consortium of top tech executives will meet at the White House]() for an AI summit, reflecting the sector's deep integration into US efforts to maintain a competitive edge against China. This gathering is the latest example of a broader, enduring shift towards public-private cooperation, which is moving away from an adversarial dynamic and toward a collaborative model for tackling complex issues. We believe companies that support national security goals will be well-positioned to thrive in this new era of cooperation.

US Economic Releases

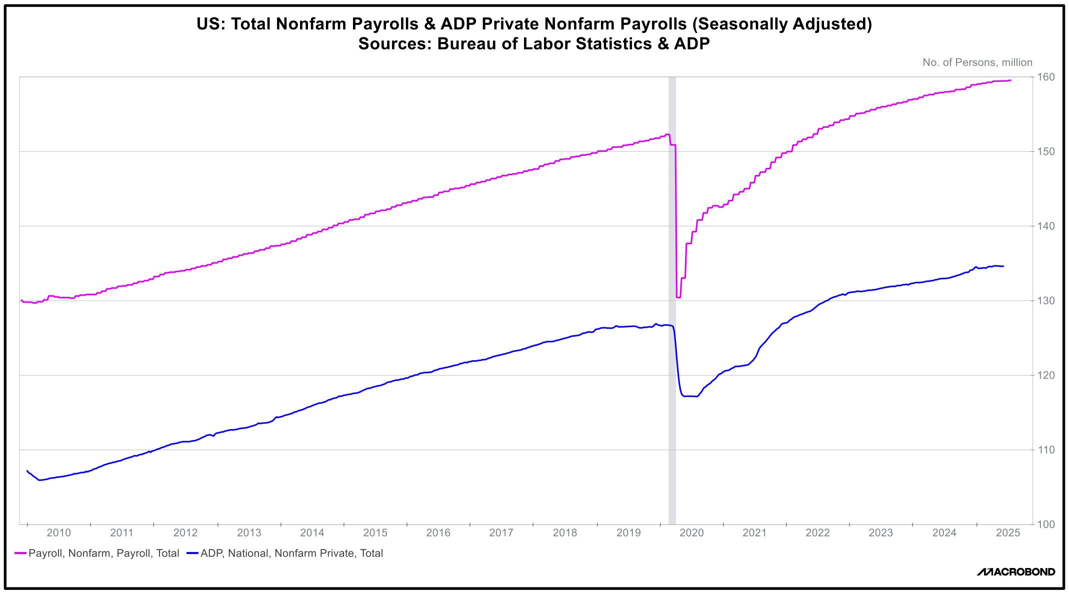
In the week ended August 30, ***initial claims for unemployment benefits*** rose to a seasonally adjusted 237,000, well above the expected level of 230,000 and the previous week's level of 229,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, rose to 231,000. 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.



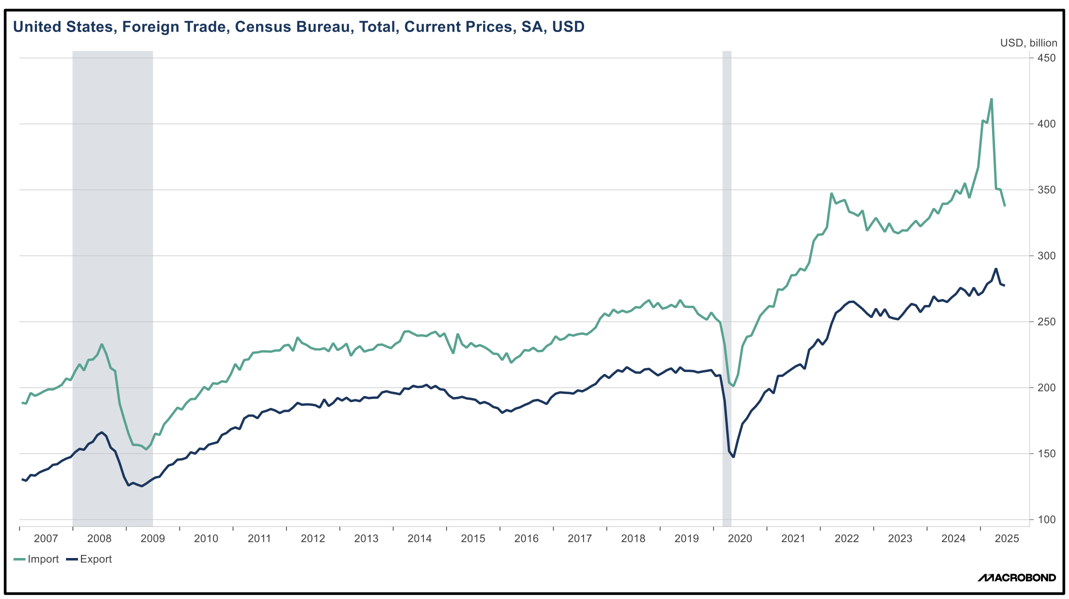
In the week ended August 23, the number of ***continuing claims for unemployment benefits*** (people continuing to draw benefits) edged down to a seasonally adjusted 1.940 million, below the anticipated reading of 1.959 million and the prior week's revised reading of 1.944 million. The four-week moving average of continuing claims fell to 1,946,750. 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.



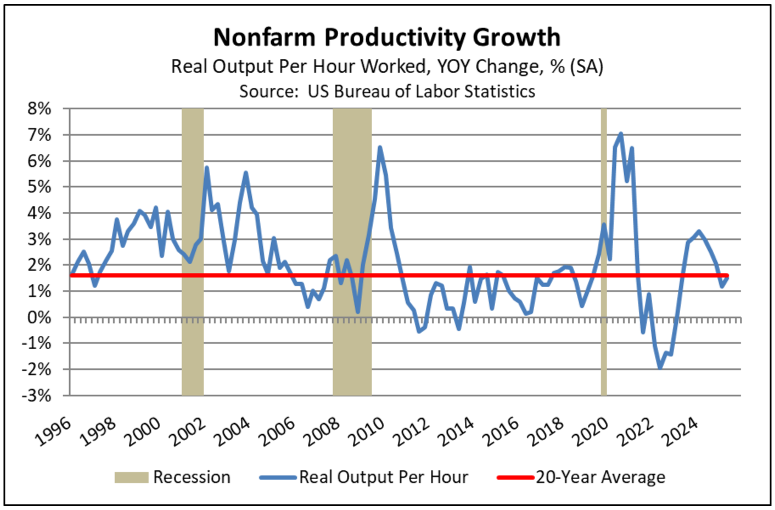
Separately, the ADP Research Institute estimated that ***private payroll employment*** rose in August by a seasonally adjusted 54,000, short of both the expected gain of 68,000 and the revised July increase of 106,000. ADP's estimate is widely seen as an indicator of what to expect when the Labor Department releases its measure of nonfarm payrolls on Friday. The chart below shows the Labor Department's figures for total nonfarm payrolls and ADP's estimates of private payrolls since 2010.



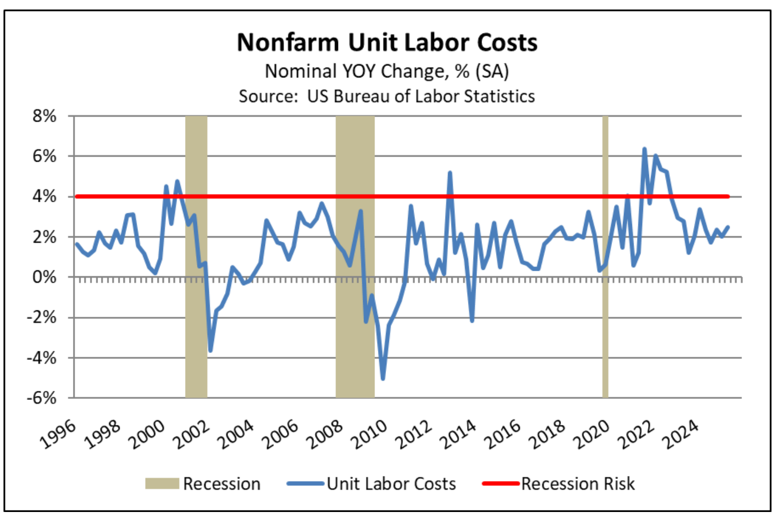
In still another release early today, the July ***trade balance*** showed a seasonally adjusted deficit of $78.3 billion, wider than the expected shortfall of $77.9 billion and the revised June deficit of just $59.1 billion. According to the data, total ***exports*** rose 0.3% in July, while ***imports*** jumped 5.9%. The chart below shows the monthly value of US exports and imports since just before the previous recession.



A final report so far this morning 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, final second-quarter ***nonfarm productivity*** rose at an annualized rate of 3.3%, far outstripping the anticipated growth rate of 2.7% and more than enough to erase the revised rate of decline of 1.8% in the first quarter. The figures suggest that many companies have focused on boosting productivity to hold down costs and accommodate the US's big, new import tariffs. Nevertheless, taking into account the fluctuations in each of the last four quarters, productivity in the second quarter was up just 1.5% from the same period one year earlier. The chart below shows the year-over-year growth in real productivity over the last few decades.



Reflecting the jump in productivity in the period, second-quarter ***unit labor costs*** rose at an annualized rate of just 1.0%, below the expected growth rate of 1.2% and just a fraction of the first quarter's growth rate of 6.9%. Unit labor costs in the second quarter were up 2.5% year-over-year, below the 4.0% or so that has sometimes coincided with recessions. 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
9:45	S&P Global US Services PMI	m/m	Aug F	55.4	55.4	***
9:45	S&P Global US Composite PMI	m/m	Aug F	55.3	55.4	***
10:00	ISM Services Index	m/m	Aug	51.0	50.1	***
10:00	ISM Services Prices Paid	m/m	Aug	69.5	69.9	*
10:00	ISM ServicesNew Orders	m/m	Aug	51.1	50.3	*
10:00	ISM Services Employment	m/m	Aug	46.7	46.4	*
Federal Reserve						
EST	Speaker or Event	District or Position				
12:05	John Williams Speaks on Economic Outlook and Monetary Policy	President of the Federal Reserve Bank of New York				
19:00	Austan Goolsbee Appears in a Moderated Q&A	President of the Federal Reserve Bank 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	Japan Buying Foreign Bonds	w/w	29-Aug	¥1419.8b	-¥167.2b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	29-Aug	¥481.8b	-¥306.1b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	29-Aug	¥397.4b	-¥105.8b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	29-Aug	-¥785.7b	-¥496.2b		*	Equity and bond neutral
Australia	Trade Balance	m/m	Jul	A$7310m	A$5366m	A$4900m	***	Equity and bond neutral
	Exports	m/m	Jul	3.3%	6.3%		*	Equity and bond neutral
	Imports	m/m	Jul	-1.5%	-3.1%		*	Equity and bond neutral
	Household Spending	m/m	Jul	5.1	4.6	5.0	***	Equity and bond neutral
South Korea	BoP Current Account Balance	m/m	Jul	$10778.7m	$14265.0m		**	Equity and bond neutral
	BoP Goods Balance	m/m	Jul	$10269.9m	$13160.5m		*	Equity and bond neutral
EUROPE								
Eurozone	Retail Sales	y/y	Jul	2.2%	3.1%	2.3%	*	Equity and bond neutral
Germany	HCOB Germany Construction PMI	m/m	Aug	46.0	46.3		*	Equity and bond neutral
UK	New Car Registrations	y/y	Aug	-2.0%	-5.0%		*	Equity and bond neutral
	S&P Global UK Construction PMI	m/m	Aug	45.5	44.3	45.0	**	Equity and bond neutral
Switzerland	CPI	y/y	Aug	0.2%	0.2%	0.2%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Aug	0.0%	0.1%		*	Equity and bond neutral
	Core CPI	y/y	Aug	0.7%	0.8%	0.8%	*	Equity and bond neutral
	Unemployment Rate	m/m	Aug	2.8%	2.7%	2.8%	**	Equity and bond neutral
AMERICAS								
Mexico	Gross Fixed Investment NSA	y/y	Jun	-6.4%	-7.1%	-4.6%	**	Equity bearish, bond bullish
	Vehicle Domestic Sales	y/y	Aug	124167	124482		***	Equity and bond neutral
	Leading Indicators	y/y	Jul	0.19	0.17		**	Equity and bond neutral
Brazil	S&P Global Brazil Composite PMI	m/m	Aug	48.8	46.6		***	Equity and bond neutral
	S&P Global Brazil Services PMI	m/m	Aug	49.3	46.3		***	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)	401	402	-1	Down
U.S. Sibor/OIS spread (bps)	412	414	-2	Down
U.S. Libor/OIS spread (bps)	408	409	-1	Down
10-yr T-note (%)	4.19	4.22	-0.03	Down
Euribor/OIS spread (bps)	208	208	0	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	$67.04	$67.60	-0.83%	
WTI	$63.45	$63.97	-0.81%	
Natural Gas	$3.11	$3.06	1.34%	
Crack Spread	$25.37	$25.49	-0.46%	
12-mo strip crack	$24.22	$24.48	-1.06%	
Ethanol rack	$2.21	$2.22	-0.20%	
Metals				
Gold	$3,549.26	$3,559.42	-0.29%	
Silver	$40.98	$41.21	-0.56%	
Copper contract	$456.05	$463.00	-1.50%	
Grains				
Corn contract	$417.25	$418.00	-0.18%	
Wheat contract	$515.00	$522.00	-1.34%	
Soybeans contract	$1,026.00	$1,031.50	-0.53%	
Shipping				
Baltic Dry Freight	1,940	1,986	-46	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		-1.90		
Gasoline (mb)		-1.40		
Distillates (mb)		-1.74		
Refinery run rates (%)		-0.8%		
Natural gas (bcf)		55		

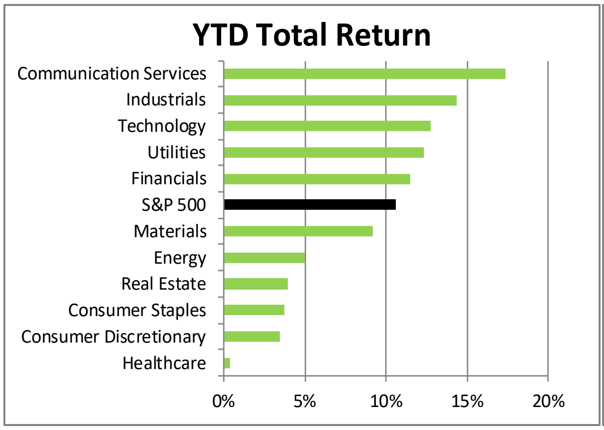
Weather

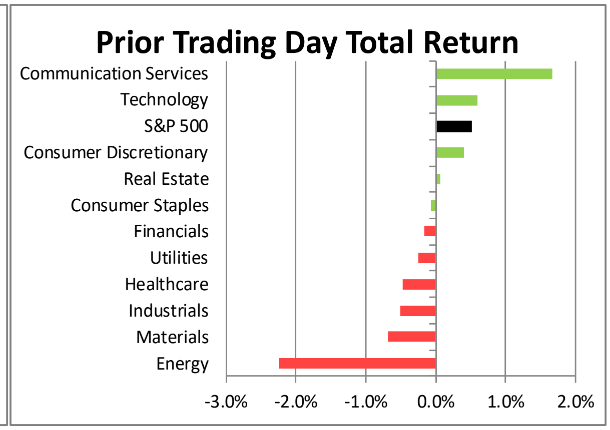
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in the Rocky Mountain region and along the West Coast and Gulf Coast, with cooler-than-normal temperatures in inland California and along the East Coast from the Carolines northward. The forecasts call for wetter-than-normal 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 9/3/2025 close)

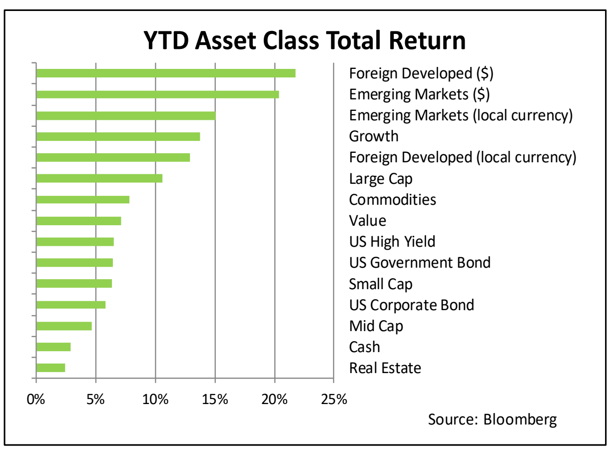




(Source: Bloomberg)

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 9/3/2025 close)

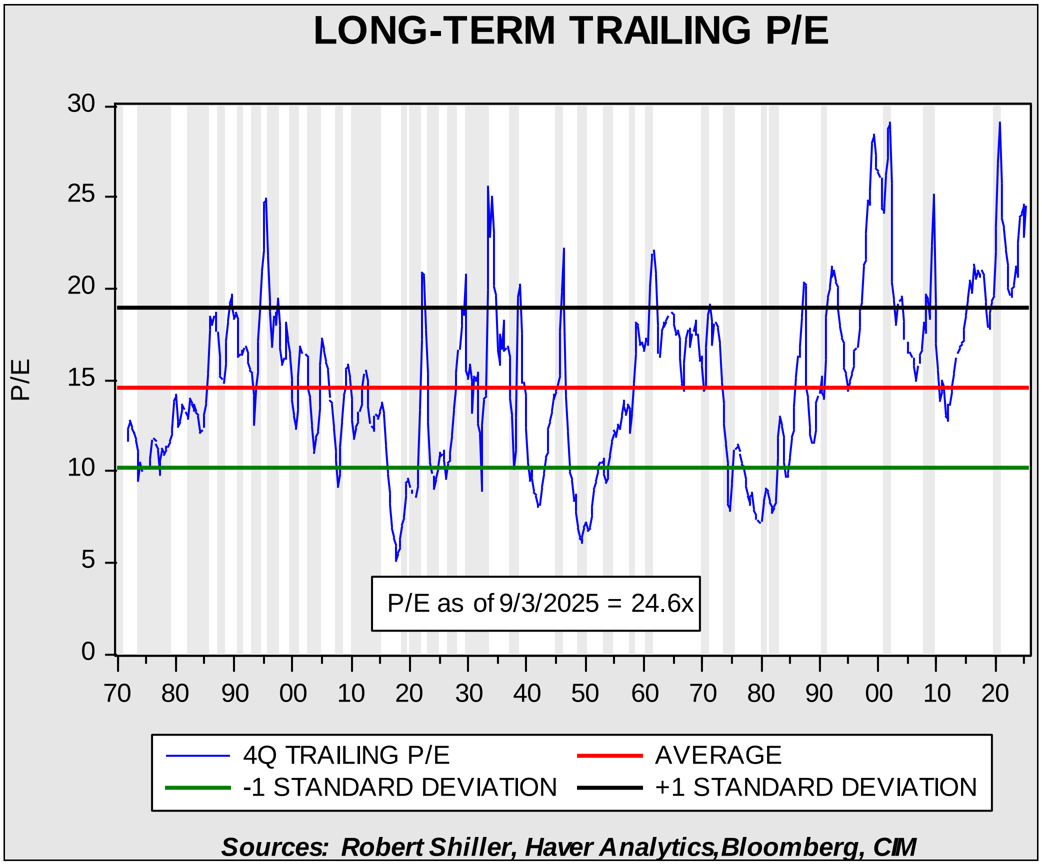


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 4, 2025



Based on our methodology,[1] the current P/E is 24.6x, which is unchanged from the previous report. The increase in the stock price index was offset by an 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.