



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

**Posted: September 5, 2025 — 9:30 AM ET]** Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 is up 0.3% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 1.3%. Chinese markets were higher, with the Shanghai Composite up 1.2% from its previous close and the Shenzhen Composite up 3.2%. US equity index futures are signaling a higher open.

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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
<a href="#">“Tariff Trilemma: The Three Rs Driving US Trade Policy”</a> (8/25/25) + <a href="#">podcast</a>	<a href="#">“Navigating the Waves of BLS Revisions”</a> (8/18/25) + <a href="#">podcast</a>	<a href="#">Q3 2025 Report</a>  <a href="#">Q3 2025 Rebalance Presentation</a>	<a href="#">The Confluence Mailbag Podcast</a>  <a href="#">Business Cycle Report</a>

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Our *Comment* opens with a discussion on the deepening relationship between Silicon Valley and Washington by examining recent political and economic developments. Additional key topics to review will include Stephen Miran’s Senate confirmation hearing, China's new tariffs on EU pork imports, and escalating tensions between the US and Venezuela. We'll also provide a summary of recent international and domestic economic data releases to give a complete picture of the current financial landscape.

**United Chip Policy:** The president hosted a dinner for [Silicon Valley leaders in the White House Rose Garden on Thursday](#), where he called on them to increase their spending on AI. He also used the event to announce his intention to impose significant new tariffs on semiconductor chips. In a statement on Thursday, the president said the duties would be "fairly substantial" and that an official announcement with more details would be imminent.

- The dinner served as a clear signal of the government's strategy to deepen its partnership with the private sector in the race for AI dominance. The United States views China as its principal rival and is relying on the expertise and financial strength of Silicon Valley to ensure that it maintains a technological edge, not just for the economy, but for military applications as well. This collaboration is a key component of the nation's effort to secure its dominance in the global AI landscape.
- To enhance US capacity, the government has used its trade policy to incentivize foreign investment in American infrastructure. Most recently, the [president finalized a deal with Japan through an executive order](#). This agreement commits Japan to invest \$550 billion in exchange for a reduction in US tariffs, including a cut on autos tariffs from 25% to 15%. This deal operates under the condition that a failure by Japan to meet the investment goal would result in the re-imposition of higher tariffs.
- Spurred by this trend, a strategic push for supply chain sovereignty is taking shape through key industry partnerships. A prime example is the newly announced [collaboration between OpenAI and US-based Broadcom to co-develop custom AI chips](#), creating a viable domestic alternative to Nvidia. This effort signals more than just competition; it underscores a fundamental shift in corporate strategy toward bolstering US self-sufficiency by prioritizing and nurturing local suppliers in critical technologies.
- The deepening collaboration between the public and private sectors will likely provide support for equities, particularly for large tech companies, as the government acts to mitigate systemic risks. While this environment should allow growth stocks to maintain their momentum, firms will also face new cost pressures as they adapt to this "new normal." Consequently, we believe that complementing a growth strategy with a value approach will be beneficial for diversification.

**Miran Confirmation Hearing:** The White House's nominee for the [Federal Reserve Governor, Stephen Miran, testified before the Senate on Thursday](#), addressing concerns about the president's potential influence. He pushed back against claims that the president would sway his policy decisions, but he also affirmed the president's right to have an opinion. Markets reacted positively to his comments, seeming to grow confident that Miran would be confirmed and be a reliable vote for future rate cuts.

- He faced tough questions on his commitment to Fed independence, particularly in light of his past proposals to overhaul the central bank, which some viewed as undermining to the Fed's autonomy. He also tackled concerns about a potential conflict of interest from his role as head of the Council of Economic Advisors, pledging to remain independent and to resign from the Council if his Fed term is renewed in January.
- Over the past week, growing expectations for a Federal Reserve rate cut have boosted both equity and bond prices. We anticipate this trend will continue, provided upcoming job market data justifies the need for easier monetary policy. A significant risk, however, would be if the Fed cuts rates despite an acceleration in economic growth. Such a scenario could lead to a pullback in long-duration US Treasuries, but it could be supportive of large cap US equities.

**Peace Deal Near?** French President Emmanuel Macron stated that the US [is preparing post-war security guarantees for Ukraine](#), in a signal of confidence that the conflict is nearing its endgame. As part of this strategy, the US [may cut funding for military training in nations bordering Russia](#) to incentivize greater European defense spending. This prospect of resolution is a positive catalyst for European equities, which would benefit from reduced geopolitical and energy security risks.

**ISM Services:** The latest PMI data [confirms the economy remains in expansion](#), rising from 50.1 to 52.0 in August. This increase above the 50.0 threshold indicates a return to growth and a gain in momentum from the previous month. However, the expansion is not without its headwinds; a sharp rise in business activity was accompanied by rising input prices and weak hiring. This combination of robust activity and rising costs presents a challenge for firms, leading us to maintain a cautiously optimistic outlook on the market.

**EU-China Trade War:** [Beijing has implemented 62% tariffs on EU pork](#), citing anti-dumping violations. This move appears to be retaliation for recent EU tariffs on Chinese electric vehicles. While these tariffs will hurt European exporters, who were already seeing declining sales to China, they may ultimately push the EU to prioritize and develop new export markets, such as those in South America.

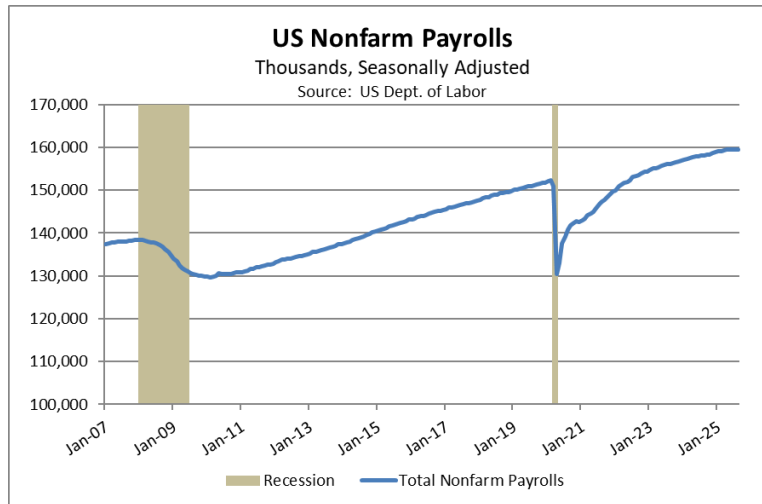
**German Output:** [German factory orders unexpectedly fell 2.9% in July](#), sharply contrasting with forecasts of a 0.5% rise. The decline was driven by a lack of large-scale orders, signaling that firms may be postponing major investments. In response to the weak report, there have been calls for action to address structural challenges, including the country's energy policy, high non-wage labor costs, and burdensome regulatory framework. Nevertheless, optimism about the broader economic outlook remains positive due to expectations for more government stimulus.

**Venezuela-US Tensions:** In a provocative move, [two Venezuelan aircraft flew dangerously close to a US naval ship](#), according to the Department of Defense. This action is widely perceived as a retaliatory response to US military strikes against drug cartel ships in the Caribbean. Although the probability of a full-scale conflict between the US and Venezuela remains low, this incident marks a notable escalation of risk and regional instability.

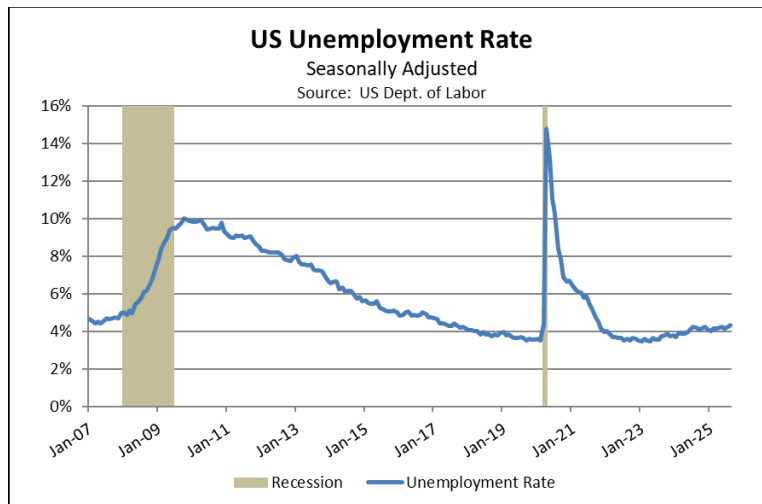
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## US Economic Releases

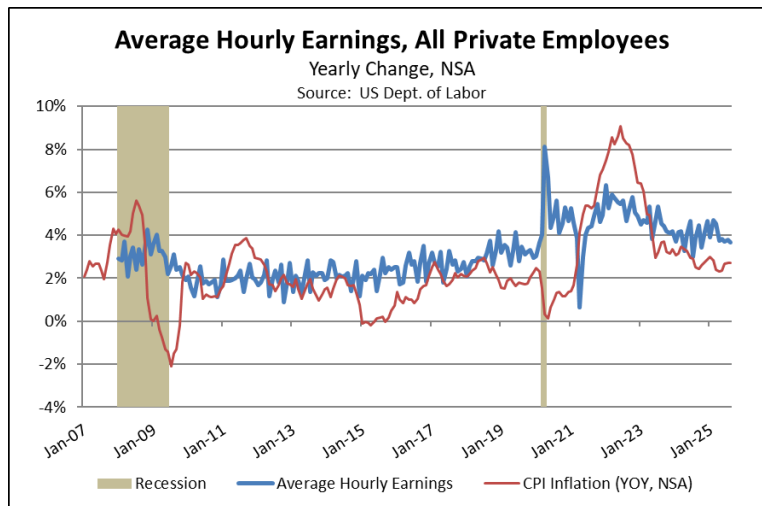
August *nonfarm payrolls* edged up by a seasonally adjusted 22,000, far below the expected gain of 73,000 and the revised July increase of 79,000. In addition, June payrolls were revised downward to show a decline of 13,000 for that month. According to the data, the tiny increase in jobs during August came in the private sector, while public sector jobs fell. Along with the other weak aspects of the report discussed below, the payroll figures should give the Fed plenty of reason to cut interest rates at their policy meeting later this month. The chart below shows the change in nonfarm payrolls since shortly before the Great Financial Crisis.



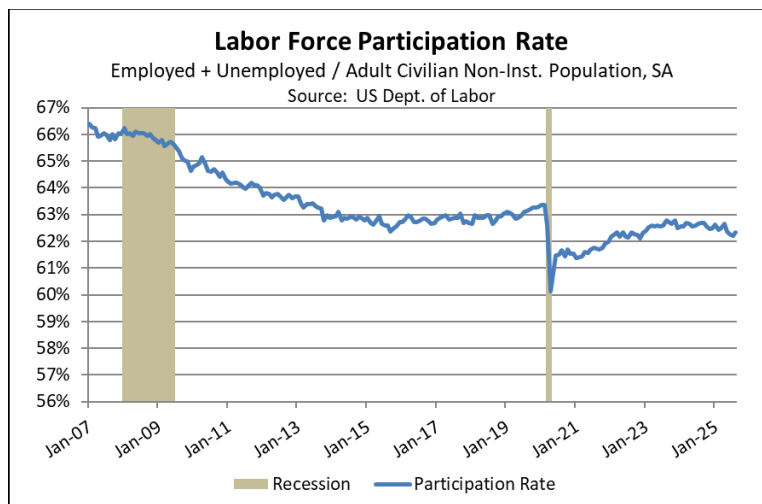
Also in the report, the August **unemployment rate** rose to a seasonally adjusted 4.3%, meeting expectations and increasing from 4.2% in July. The rate of joblessness is now at its highest since October 2021, during the pandemic. Excluding the pandemic era, the unemployment rate is now at its highest since September 2017. The chart below shows how the unemployment rate has evolved since just before the GFC.



With the demand for labor weakening, the rate of wage gains also softened considerably. **Average hourly earnings** in August rose to a seasonally adjusted \$36.53, up just 3.7% from the same month one year earlier. That was short of the expected annual gain of 3.8% and the rise of 3.9% in the year to July. The chart below shows the year-over-year growth in average hourly earnings since just before the GFC.



A final key indicator in the monthly employment report focuses on the share of the adult, civilian, noninstitutionalized population that is either working or looking for work. The August **labor force participation rate (LFPR)** rose to a seasonally adjusted 62.3%, versus expectations that it would be unchanged at July's 62.2%. The chart below shows how the LFPR has changed over the last several decades.



There are no economic releases or Fed events scheduled for the rest of the day.

## 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.

ASIA-PACIFIC								
<b>Japan</b>	Labor Cash Earnings	y/y	Jul	4.1%	2.5%	3.0%	**	Equity and bond neutral
	Real Cash Earnings	m/m	Jul	0.5%	-1.3%	-0.6%	*	Equity and bond neutral
	Household Spending	y/y	Jul	1.4%	1.3%	2.3%	**	Equity and bond neutral
	Coincident Index	y/y	Jul P	113.3	115.9	105.8	**	Equity and bond neutral
	Leading Economic Index	m/m	Jul P	105.9	105.1	114.1	**	Equity and bond neutral
<b>Australia</b>	Foreign Reserves	m/m	Aug	A\$103.9b	A\$102.8b	--	*	Equity and bond neutral
EUROPE								
<b>Eurozone</b>	GDP	y/y	2Q T	1.5%	1.4%	1.4%	***	Equity and bond neutral
	Employment	y/y	2Q F	0.6%	0.7%		***	Equity and bond neutral
<b>Germany</b>	Factory Orders WDA	y/y	Jul	-3.4%	1.7%	-0.6%	***	Equity bearish, bond bullish
<b>France</b>	Trade Balance	m/m	Jul	-5558m	-7159m		*	Equity and bond neutral
	Current Account Balance	m/m	Jul	-2.5b	-32.3b		*	Equity and bond neutral
<b>Italy</b>	Retail Sales	y/y	Jul	1.8%	1.1%		**	Equity and bond neutral
<b>UK</b>	Retail Sales Ex-Auto Fuel	y/y	Jul	1.3%	1.3%	1.1%	**	Equity and bond neutral
	Retail Sales	y/y	Jul	1.1%	0.9%	1.3%	***	Equity and bond neutral
<b>Switzerland</b>	Foreign Currency Reserves	m/m	Aug	715.1b	715.5b		*	Equity and bond neutral
<b>Russia</b>	Gold and Forex Reserves	m/m	29-Aug	\$685.5b	\$682.8b	--	***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	29-Aug	18.68t	18.73t	--	*	Equity and bond neutral
AMERICAS								
<b>Canada</b>	S&P Global Canada Services PMI	m/m	Aug F	48.6	49.3		*	Equity and bond neutral
	S&P Global Canada Composite PMI	m/m	Aug	48.4	48.7		*	Equity and bond neutral
<b>Brazil</b>	Trade Balance	m/m	Aug	\$6.133b	\$6.878b	\$6.000b	**	Equity and bond neutral
	Exports	m/m	Aug	\$29.861b	\$32.125b	\$30.100b	*	Equity and bond neutral
	Imports	m/m	Aug	\$23.728b	\$25.248b	\$23.700b	*	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
<b>3-mo T-bill yield (bps)</b>	397	399	-2	Down
<b>U.S. Sibor/OIS spread (bps)</b>	412	412	0	Down
<b>U.S. Libor/OIS spread (bps)</b>	407	407	0	Down
<b>10-yr T-note (%)</b>	4.16	4.16	0.00	Down
<b>Euribor/OIS spread (bps)</b>	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
<b>Energy Markets</b>				
Brent	\$66.64	\$66.99	-0.52%	
WTI	\$63.06	\$63.48	-0.66%	
Natural Gas	\$3.09	\$3.07	0.39%	
Crack Spread	\$25.40	\$25.57	-0.66%	
12-mo strip crack	\$24.36	\$24.52	-0.62%	
Ethanol rack	\$2.19	\$2.20	-0.37%	
<b>Metals</b>				
Gold	\$3,550.98	\$3,545.85	0.14%	
Silver	\$40.74	\$40.67	0.15%	
Copper contract	\$459.20	\$455.85	0.73%	
<b>Grains</b>				
Corn contract	\$421.75	\$419.75	0.48%	
Wheat contract	\$523.00	\$519.50	0.67%	
Soybeans contract	\$1,034.75	\$1,033.00	0.17%	
<b>Shipping</b>				
Baltic Dry Freight	1,963	1,940	23	
<b>DOE Inventory Report</b>				
	<b>Actual</b>	<b>Expected</b>	<b>Difference</b>	
Crude (mb)	2.42	-1.90	4.32	
Gasoline (mb)	-3.80	-1.40	-2.40	
Distillates (mb)	1.68	-1.74	3.43	
Refinery run rates (%)	-0.3%	-0.8%	0.5%	
Natural gas (bcf)	55	55	0	

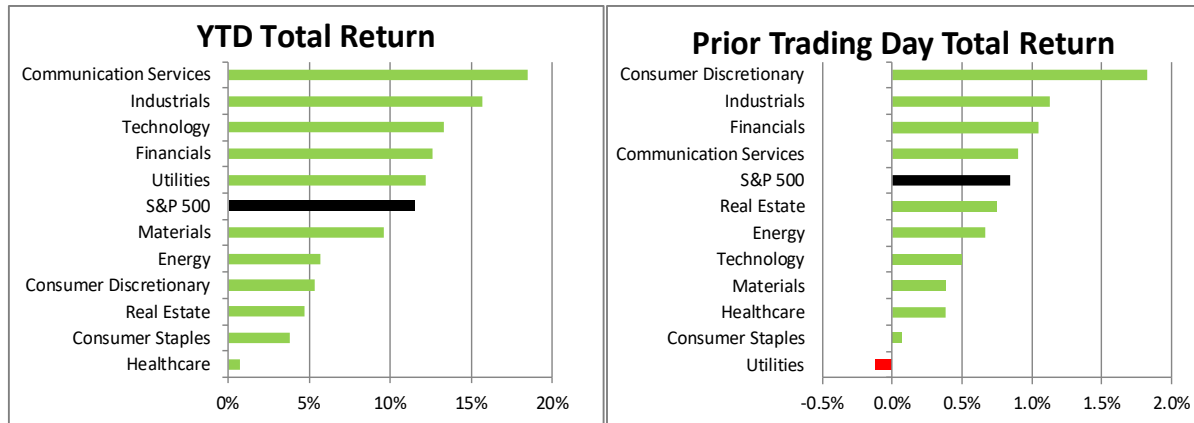
## Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in the northern stretches of the West Coast, all the Rocky Mountain and Great Plains regions, and in southern Florida, with near-normal temperatures elsewhere. The forecasts call for wetter-than-normal conditions in the northern two-thirds of the Far West, with dry conditions in the Mississippi Valley region.

There is now one tropical disturbance in the central Atlantic Ocean. It is moving westerly and is assessed to have a 90% chance of cyclone formation in the next seven days.

## Data Section

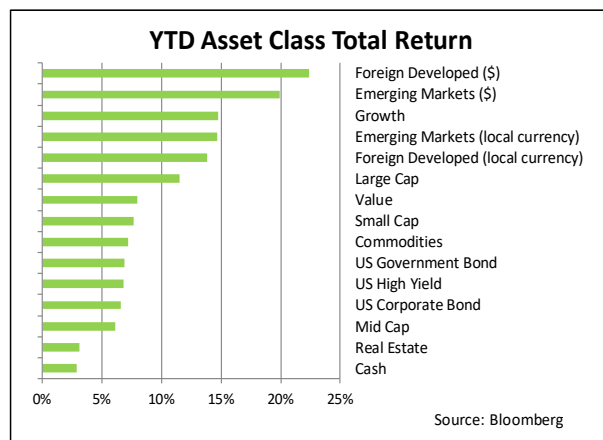
### US Equity Markets – (as of 9/4/2025 close)



(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 9/4/2025 close)



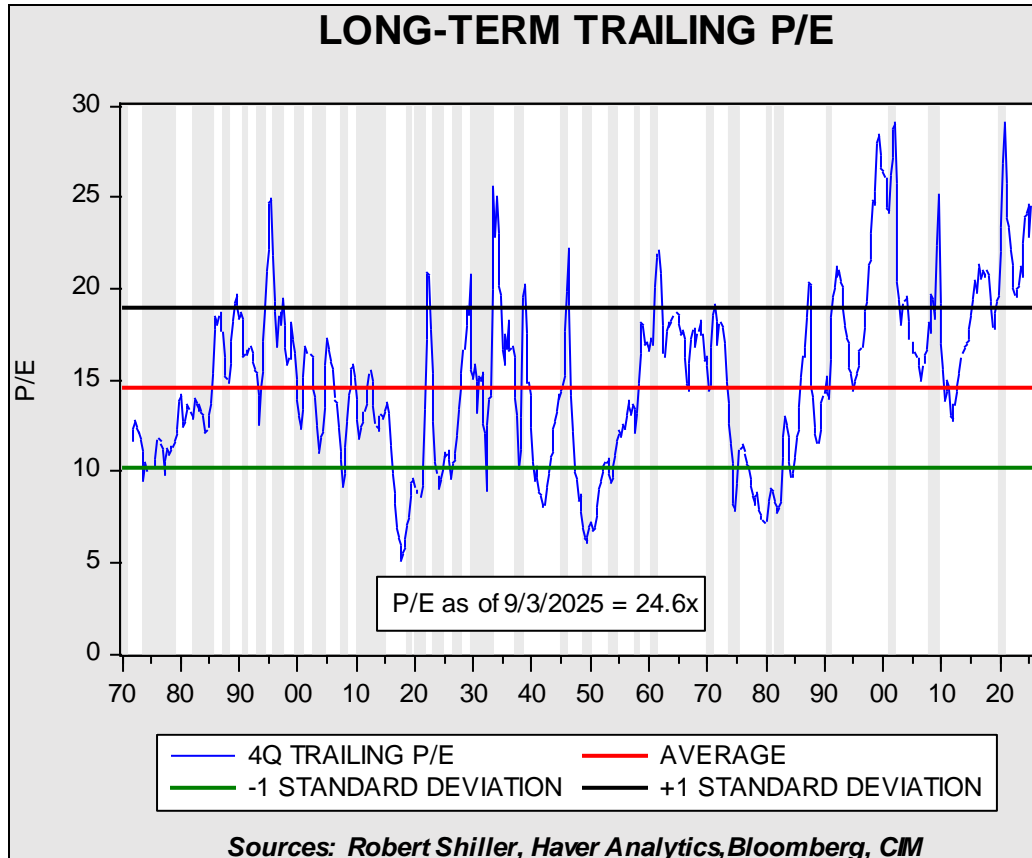
This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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,<sup>1</sup> 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.*

<sup>1</sup> 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.