Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: September 8, 2025 — 9:30 AM ET] Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 is up 0.5% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.9%. Chinese markets were higher, with the Shanghai Composite up 0.4% from its previous close and the Shenzhen Composite up 0.9%. 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	**"The Cap-Weighted and Equal-Weighted S&P 500" (9/8/25) + 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* today opens with yet another production hike from a key group of oil producers, which will likely help keep a lid on global energy costs and help offset the impact of other types of rising prices. We next review several other international and US developments with the potential to affect the financial markets today, including the resignation of Japan's prime minister and a surge in US corporate bond issuance now that it seems clear the Federal Reserve will cut interest rates later this month.

Global Oil Supply: A subset of the Organization of the Petroleum Exporting Nations and its Russia-led partners yesterday said they'll boost their collective oil production by 137,000 barrels per day starting in October, marking the latest in a string of increases. With economic growth slowing, the small output hike is expected to help keep the global economy well supplied with oil and will likely hold down energy prices. The countries hiking production include Saudi Arabia, Russia, Iraq, the United Arab Emirates, Kuwait, Kazakhstan, Algeria, and Oman.

Japan: Prime Minister Ishiba yesterday said he will resign, finally succumbing to pressure from within his Liberal Democratic Party (LDP) to take responsibility for its loss in the July parliamentary elections. The decision came one day before the LDP was to hold an early leadership election, which Ishiba could well have lost. The party will now probably select a successor for Ishiba in October. In the meantime, Japanese security and economic policy will likely be on hold, but Japanese stock prices have surged to a new record high on optimism about any Ishiba successor.

- Potential successors for Ishiba include Agriculture Minister Shinjirō Koizumi, the son of former Prime Minister Junichiro Koizumi, who in 2001-2006 laid much of the groundwork for Japan's eventual economic resurgence.
- Other possible successors include Chief Cabinet Secretary Yoshimasa Hayashi, a moderate and the protégé of former Prime Minister Kishida, and the ultraconservative former Economic Security Minister Sanae Takaichi.

China: The Chinese Communist Party announced on Friday that Yi Huiman, chairman of the China Securities Regulatory Commission (CSRC) from 2019 to 2024, is being investigated for "severe breaches of discipline." That makes Yi the latest Chinese stock market regulator to come under a cloud because of corruption, incompetence, or both. The streak of probes highlights the challenge General Secretary Xi faces as he tries to transform China into a "financial superpower" and make its stock market more attractive to domestic and foreign investors.

Taiwan: New reports say the Taiwanese military is making rapid progress on a Ukraine-inspired "high-low" attack drone strategy to deter a potential invasion by China. For the top end of the force, the Taiwanese have modified a low-cost, legacy training missile into a loitering strike drone with a range of 1,000 km, enough to hit cites such as Beijing and Shanghai. For the low end, they are also developing cheap, expendable, AI-enabled drones that can be used to swarm the invading Chinese.

- Many foreign military observers have decried Taiwan's weak preparations to resist a Chinese takeover, citing problems such as big purchases of the wrong types of weapons to insufficient troop training. However, Ukraine's success in blunting Russia's invasion has evidently provided a potentially viable roadmap for how Taiwan could deter China.
- The development also offers further evidence of how AI-enabled drones and drone swarms continue to change the nature of warfare. This could potentially upend the current balance of power among national militaries and possibly create enticing new investment opportunities in defense industry.

France: Prime Minister Bayrou today faces a no-confidence vote in parliament over his unpopular deficit-cutting proposal, and he is widely expected to be toppled. That would force President Macron to name his fifth prime minister in the last two years. It would also further paralyze the fractured French parliament and make it even harder to push through reforms to straighten out the country's finances. As a result, French government bond yields have now risen to their highest level since the eurozone debt crisis more than a decade ago.

United Kingdom: An interesting article in the *Wall Street Journal* today suggests the UK and its surging bond yields could be the "canary in the coal mine" regarding investor concerns about growing debt costs in major developed countries. The analysis points to a risk that rising debt and slow economic growth in countries such as the US and France could also undermine investor confidence and drive longer-term bond yields even higher over time.

Argentina: In an election yesterday, the opposition Peronists won approximately 47.0% of the vote in the major province of Buenos Aires, while President Milei's libertarian La Libertad Avanza party won 33.9%. The lopsided win for the opposition was far worse than expected, setting the stage for Milei's party to suffer major losses in the midterm elections in October 2026. That possibility could prompt Milei to water down some of his anti-statist, pro-capitalist economic policies over the coming year.

US Immigration Policy: In an interview with *Axios*, US Citizenship and Immigration Services Director Joseph Edlow said he plans to significantly toughen the civics test used to vet foreign nationals applying to become citizens, arguing the current citizenship process is too easy. Edlow also revealed that he has revoked some citizenship approvals granted previously and planned to "denaturalize" more people going forward. Edlow's statements illustrate how new US policies don't just involve cutting illegal immigration, but also involve rolling back legal entry.

- Reducing legal and illegal immigration has the potential to create labor shortages in certain industries, thereby weighing on economic growth, at least in the near term.
- On the other hand, as US labor demand weakens and firms start to lay off more workers, pushing out the immigrant workers could create opportunities for native-born employees who lose their jobs. In turn, that could limit any associated rise in the unemployment rate.

US Bond Market: With the Fed set to cut its benchmark interest rate later this month, reports indicate companies are rushing to issue corporate bonds and take advantage of investor demand for higher yielding obligations. For the month to date, firms have issued some $56.4 billion of investment-grade bonds and $9.6 billion in junk bonds, for the strongest such period since early March. Investor demand for the obligations has driven the spread between corporate yields and US Treasury yields down to their lowest level in two years.

US Health Insurance Market: New analysis by Mercer indicates health insurers are on track to hike premiums for corporate health plans by about 6.5% in 2026, marking the biggest jump in 15 years. A separate report says that people who buy their health insurance on government exchanges will see their premiums jump about 18.0%. The big hikes are likely to buoy the consumer price index and keep inflation uncomfortably high.

US Economic Releases

There were no economic releases prior to the publication of this report. The table below lists the economic releases and Fed events scheduled for the rest of the day.

Economic Releases						
EST	**Indicator**			**Expected**	**Prior**	**Rating**
14:00	Consumer Credit	m/m	Jul	$32.000b	$7.371b	*
$10.200b						
No Fed speakers or events for the rest of today						

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	GDP SA	q/q	2Q F	0.5%	0.3%	0.3%	***	Equity and bond neutral
	GDP Deflator	q/q	2Q F	3.0%	3.0%	3.0%	***	Equity and bond neutral
	BoP Current Account Balance	m/m	Jul	¥2684.3b	¥1348.2b	¥3354.2b	***	Equity and bond neutral
	BoP Trade Balance	m/m	Jul	¥58.5b	¥469.6b	¥58.0b	**	Equity and bond neutral
China	Foreign Reserves	m/m	Aug	$3322.10b	$3292.24b	$3313.50b	**	Equity and bond neutral
	Exports	y/y	Aug	4.4%	7.2%	5.4%	**	Equity and bond neutral
China	Imports	y/y	Aug	1.3%	4.1%	3.5%	**	Equity and bond neutral
	Trade Balance	m/m	Aug	$102.33b	$98.24b	$99.45b	***	Equity and bond neutral
EUROPE								
Germany	Industrial Production WDA	y/y	Jul	1.5%	-1.8%	-0.3%	**	Equity bullish, bond bearish
	Trade Balance	m/m	Jul	14.7b%	15.4b%	15.5b	*	Equity and bond neutral
	Exports	m/m	Jul	-0.6%	1.1%	0.1%	*	Equity bearish, bond bullish
	Imports	m/m	Jul	-0.1%	4.1%	-1.0%	*	Equity and bond neutral
Switzerland	Domestic Sight Deposits CHF	w/w	5-Sep	442.0b	444.7b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	5-Sep	471.9b	472.3b		*	Equity and bond neutral
Russia	Official Reserve Assets	m/m	Aug	689.5b	681.5b		*	Equity and bond neutral
AMERICAS								
Canada	Net Change in Employment	m/m	Aug	-65.5k	-40.8k	5.0k	***	Equity and bond neutral
	Unemployment Rate	m/m	Aug	7.1%	6.9%	7.0%	***	Equity and bond neutral
	Participation Rate	m/m	Aug	65.1%	65.2%		*	Equity and bond neutral
Brazil	FGV Inflation IGP-DI	m/m	Aug	3.00%	2.91%	3.31%	**	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)	391	392	-1	Down
U.S. Sibor/OIS spread (bps)	406	407	-1	Down
U.S. Libor/OIS spread (bps)	401	402	-1	Down
10-yr T-note (%)	4.08	4.08	0.00	Down
Euribor/OIS spread (bps)	205	208	-3	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	$66.78	$65.50	1.95%	
WTI	$63.08	$61.87	1.96%	
Natural Gas	$3.13	$3.05	2.76%	
Crack Spread	$25.43	$25.20	0.91%	
12-mo strip crack	$24.43	$24.21	0.93%	
Ethanol rack	$2.17	$2.18	-0.45%	
Metals				
Gold	$3,616.68	$3,586.69	0.84%	
Silver	$41.25	$41.00	0.61%	
Copper contract	$456.15	$455.10	0.23%	
Grains				
Corn contract	$416.25	$418.00	-0.42%	
Wheat contract	$521.00	$519.25	0.34%	
Soybeans contract	$1,027.00	$1,027.00	0.00%	
Shipping				
Baltic Dry Freight	1,979	1,963	16	

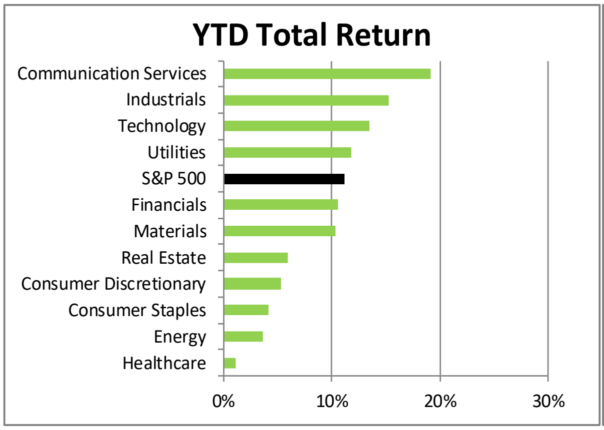
Weather

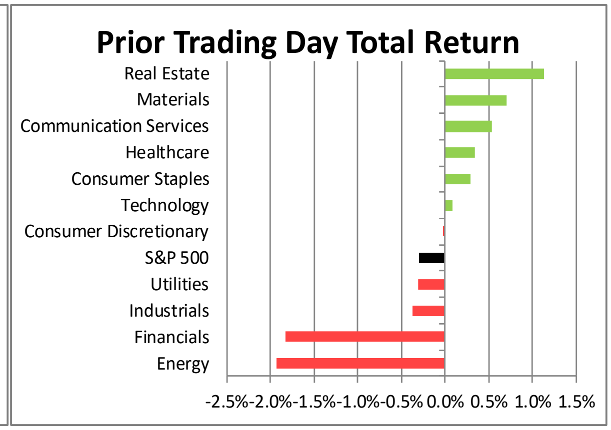
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for most of the country, with cooler temperatures expected on the East Coast. The forecasts call for wetter-than-normal conditions in the Rocky Mountain and Mid-Atlantic regions, with dry conditions expected in the Midwest and South regions.

There is no tropical cyclone activity expected within the next week.

Data Section

US Equity Markets – (as of 9/5/2025 close)

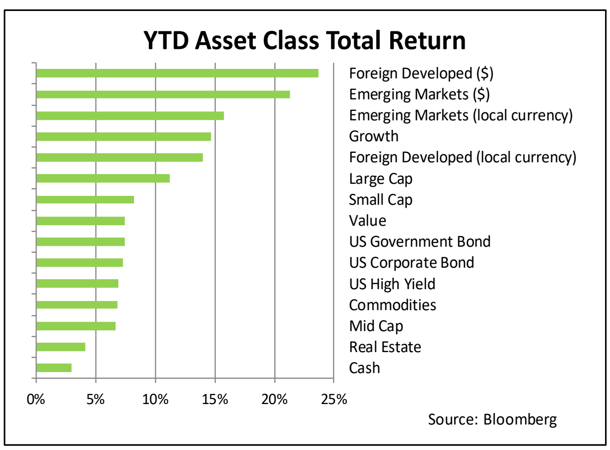




(Source: Bloomberg)

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 9/5/2025 close)

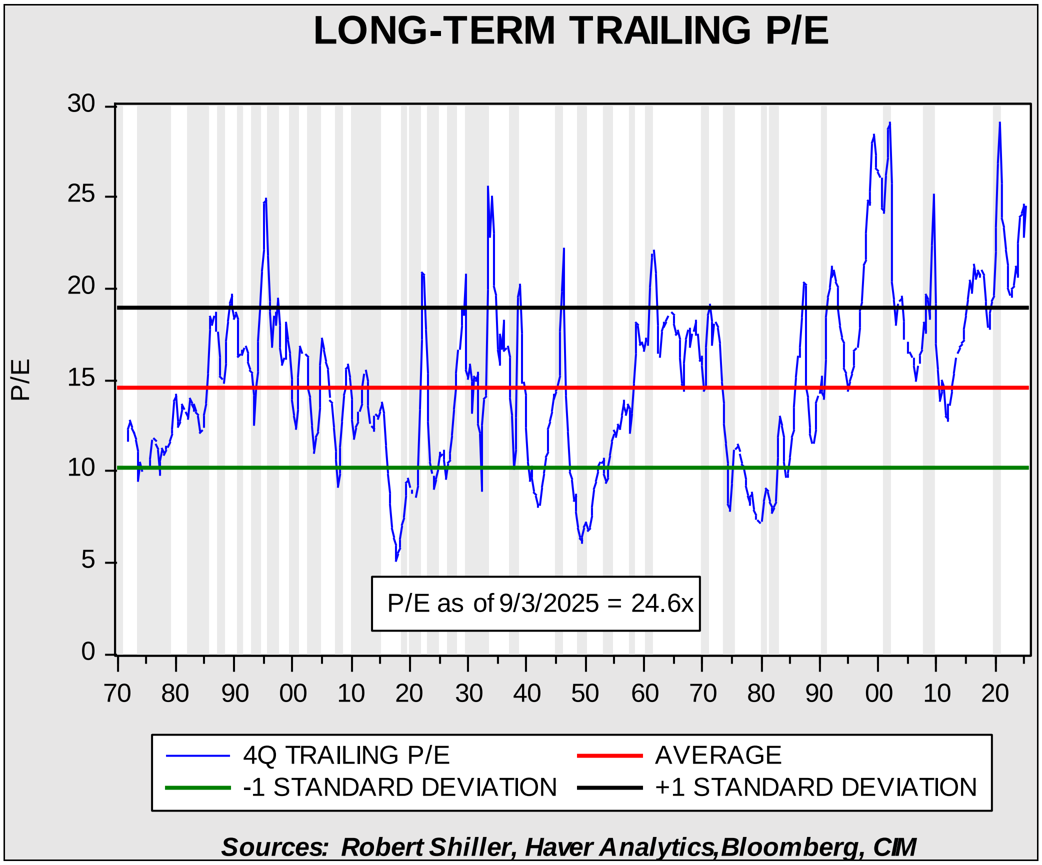


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.

[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.