



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: September 10, 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 1.4%. Chinese markets were higher, with the Shanghai Composite up 0.1% from its previous close and the Shenzhen Composite up 0.3%. 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* begins with the recent downward payroll revisions and explains our sustained optimism regarding the market's resilience. We then examine escalating tensions in the Middle East, the surge in AI-driven market enthusiasm, and the potential for a collaborative US-EU effort to hold India and China accountable for supporting Russia during the war in Ukraine. Finally, we provide a summary of key economic data releases to offer a comprehensive view of the current global financial landscape.

Payroll Revisions: A major government revision revealed that [US employers hired 911,000 fewer workers in the 12 months](#) leading up to March 2025 than was previously reported. This represents the largest downward revision in payrolls on record, indicating the economy actually added an average of just 74,000 jobs per month in 2024 — roughly half of the initially reported 147,000. This data suggests the labor market was significantly weaker than understood, a revelation that will likely add urgency to the Federal Reserve's deliberations on interest rate cuts.

- The critical question raised by this data is whether the economy is sliding into a recession or merely experiencing a period of weakening growth. Currently, we [lean toward a more optimistic interpretation](#) that while economic momentum has undoubtedly slowed in recent months, it remains underpinned by resilient household consumption and robust investment spending, particularly within the technology sector.
- That said, even if our assessment is incorrect, this is *not* a time for complacency. History shows that markets can rise during a recession, particularly in the absence of a major shock. For example, the US recession technically began in December 2007, but the equity market did not fully capitulate until the collapse of Lehman Brothers in September 2008. Without such a defining crisis, it is unclear whether that period would have been perceived as a deep recession or merely a prolonged economic slowdown.
- This dynamic contrasts sharply with the March 2023 collapse of Silicon Valley Bank. A swift and coordinated regulatory response successfully contained the crisis and averted a broader contagion. Consequently, the S&P 500 rallied and went on to gain over 26% for the year. Therefore, we are watching for a similar catalytic event before materially changing our outlook. In the meantime, we continue to emphasize the importance of including value in portfolios as a way to balance risk.

Israel-Qatar: In a significant escalation of regional tensions, Qatari Prime Minister Sheikh Mohammed bin Abdulrahman al-Thani has [called for a regional response against Israel following an attack in Doha](#) that targeted Hamas leadership. This move comes just one week after Qatar warned that a potential Israeli takeover of the West Bank could jeopardize the Abraham Accords, the foundational agreements for Israel's normalization with several Middle Eastern states.

- Although the White House was briefed on the incident, it has expressed clear frustration with Israel's assertiveness. A cornerstone of US strategy to de-escalate tensions in the Middle East is the normalization of relations between Israel and the Gulf states. By executing a strike on the sovereign territory of a key regional partner without its consent, Israel risks causing those same Gulf nations to reconsider their decision to establish ties, thereby undermining a central US diplomatic achievement.
- While we expect cooler heads to prevail between Israel and regional Arab states, the risk of a broader conflict remains elevated. Following the attack, natural gas prices initially spiked but quickly reversed course, closing lower for the day. This market response suggests that investors are currently discounting the probability of a wider regional war. Nevertheless, we are monitoring the situation closely, as a significant escalation could trigger a flight to safety, particularly into assets like gold.

Tariff Case: The Supreme Court has agreed to fast-track a hearing to determine whether President Trump possesses the authority to implement tariffs without congressional approval. The court has consolidated two separate cases on the dispute: one involving an appeal of a federal ruling that found the president lacked such authority and [another brought by two educational toy companies](#) arguing that the tariffs violate the International Economic Powers Act.

- We do not believe this will stop the White House from issuing tariffs, as it retains other legal tools at its disposal to impose tariffs under certain circumstances.
- Nevertheless, the bond market is monitoring the situation closely. A ruling against the administration could force the return of collected tariff revenue, an outcome that would further weaken the US fiscal situation.

AI Optimism: Oracle Corporation's [stock surged to a record high following its earnings release](#), driven by an exceptionally aggressive outlook for its cloud business. This occurred despite the company missing its earnings per share (EPS) target. Investor enthusiasm was primarily fueled by a stunning increase in bookings (a measure of future revenue), which reached \$455 billion for the quarter. The company also anticipates significant new contracts with other clients, potentially pushing its total future contractual obligations over \$500 billion.

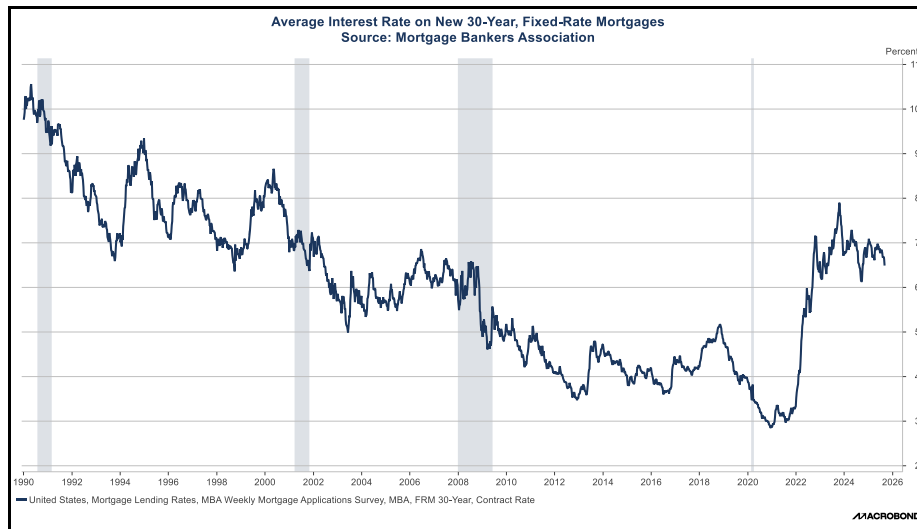
- This optimism is likely to provide a tailwind for the broader technology sector, underscoring the market's robust faith in the long-term AI narrative.
- That said, the market response does show that investors are prioritizing future growth over current performance.

FOMC: A federal judge has granted a temporary restraining order [blocking President Trump from firing Federal Reserve Governor Lisa Cook](#). The federal court ruling grants Governor Cook the ability to remain on the Federal Open Market Committee (FOMC) and participate in the upcoming policy meeting, where officials will determine whether they will cut rates. However, regardless of the lower court's decision, the ultimate authority to fire a Fed governor will almost certainly be decided by the Supreme Court.

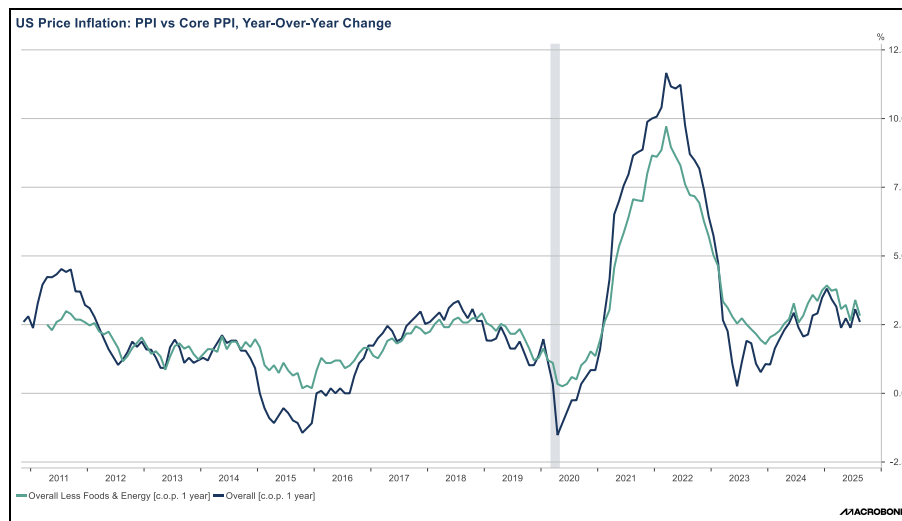
New Tariffs: The White House is [pressuring the EU to impose a 100% tariff on goods from China and India](#). This aggressive push is based on the two countries' continued support for Russia in the Ukraine war. The US has also stated its willingness to match any tariffs the EU implements, aiming to create a united front and force a swift end to the conflict. This move is part of an ongoing effort by the US to secure greater assistance from the EU in its foreign policy goals.

US Economic Releases

The Mortgage Bankers Association said *mortgage applications* in the week ended September 5 jumped 9.2%, more than enough to erase their 1.2% decline in the previous week. Applications for home purchase mortgages rose 6.6%, reversing their 3.1% drop in the prior week, while applications for refinancing mortgages surged 12.2%, accelerating from their 0.9% rise in the prior period. According to the report, the average interest rate on a 30-year, fixed-rate mortgage dropped 15 basis points to 6.49%, reaching its lowest level in almost a year. The chart below shows how mortgage rates have changed over time.



Separately, the August *producer price index (PPI)* fell by a seasonally adjusted 0.1%, compared with its expected increase of 0.3% and the revised 0.7% jump in July. Excluding the volatile food and energy components, the August “*core*” PPI also declined 0.1%. The overall PPI in August was up 2.6% from the same month one year earlier, while the core PPI was up 2.8%. The chart below shows the year-over-year change in the PPI and the core PPI over the last decade or so.



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	Wholesale Inventories	m/m	Jul F	0.2%	0.2%	***
10:00	Wholesale Trade Sales	m/m	Jul	0.2%	0.3%	*
Federal Reserve						
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								
South Korea	Unemployment Rate	m/m	Aug	2.6%	2.5%	2.5%	***	Equity and bond neutral
China	PPI	y/y	Aug	-2.9%	-3.6%	-2.9%	**	Equity and bond neutral
	CPI	y/y	Aug	-0.4%	0.0%	-0.2%	**	Equity and bond neutral
EUROPE								
Italy	Industrial Production WDA	y/y	Jul	0.9%	-0.7%	-0.1%	***	Equity bullish, bond bearish
AMERICAS								
Mexico	International Reserves Weekly	w/w	5-Sep	\$245465m	\$244399m		*	Equity and bond neutral
Brazil	IBGE Inflation IPCA	y/y	Aug	5.13%	5.23%	5.10%	***	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)	394	393	1	Down
U.S. Sibor/OIS spread (bps)	407	408	-1	Down
U.S. Libor/OIS spread (bps)	401	402	-1	Down
10-yr T-note (%)	4.09	4.09	0.00	Down
Euribor/OIS spread (bps)	203	203	0	Up
Currencies	Direction			
Dollar	Up			Down
Euro	Down			Up
Yen	Up			Down
Pound	Down			Up
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	\$67.09	\$66.39	1.05%	
WTI	\$63.32	\$62.63	1.10%	
Natural Gas	\$3.09	\$3.12	-0.93%	
Crack Spread	\$25.23	\$25.59	-1.41%	
12-mo strip crack	\$24.21	\$24.44	-0.97%	
Ethanol rack	\$2.13	\$2.14	-0.40%	
Metals				
Gold	\$3,652.98	\$3,626.63	0.73%	
Silver	\$41.14	\$40.87	0.65%	
Copper contract	\$456.85	\$456.95	-0.02%	
Grains				
Corn contract	\$418.00	\$419.75	-0.42%	
Wheat contract	\$520.00	\$520.25	-0.05%	
Soybeans contract	\$1,028.25	\$1,031.25	-0.29%	
Shipping				
Baltic Dry Freight	2,079	2,019	60	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-1.40		
Gasoline (mb)		0.50		
Distillates (mb)		0.02		
Refinery run rates (%)		-0.9%		
Natural gas (bcf)		69		

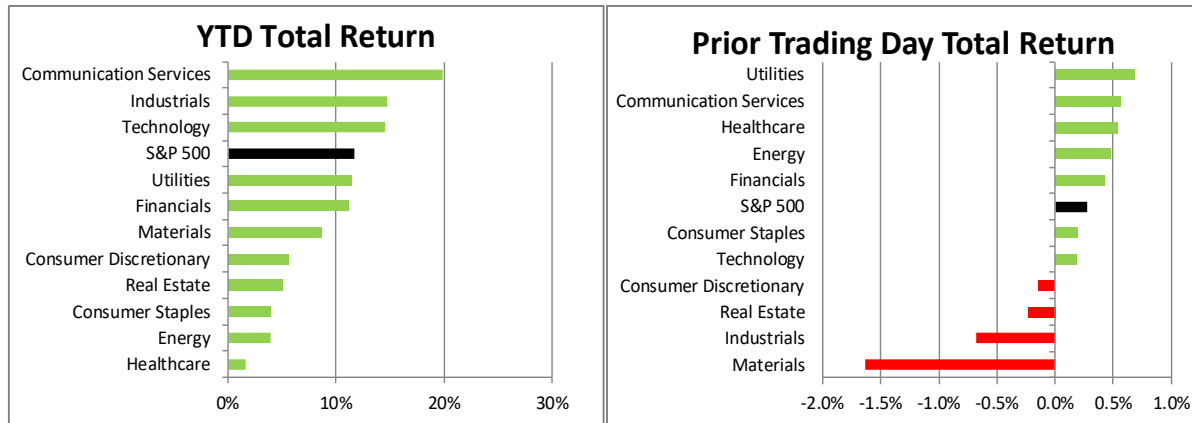
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for virtually the entire country except for the Desert Southwest and the East Coast, where temperatures will be near normal. The forecasts call for wetter-than-normal conditions in the Rocky Mountains, the Great Plains, and Florida, with dry conditions in the Pacific Northwest, the southern Mississippi Valley, and the Northeast.

There is no tropical cyclone activity expected in the Atlantic Ocean area within the next week.

Data Section

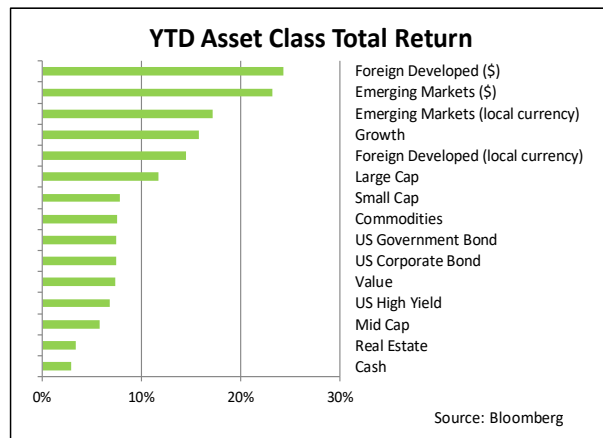
US Equity Markets – (as of 9/9/2025 close)



(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 9/9/2025 close)

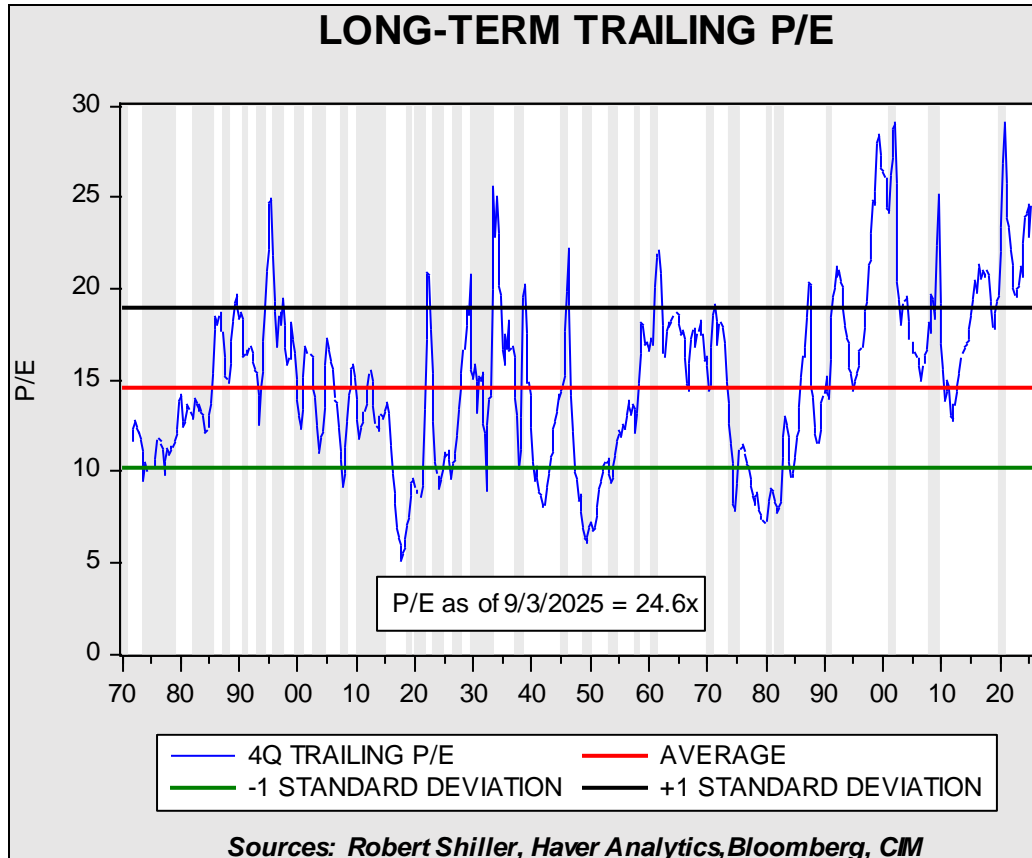


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.

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.