Daily Comment

Confluence Investment Management

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

Posted: September 11, 2025 — 9:30 AM ET] Global equity markets are higher 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 essentially unchanged. Chinese markets were higher, with the Shanghai Composite up 1.7% from its previous close and the Shenzhen Composite up 2.5%. 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.

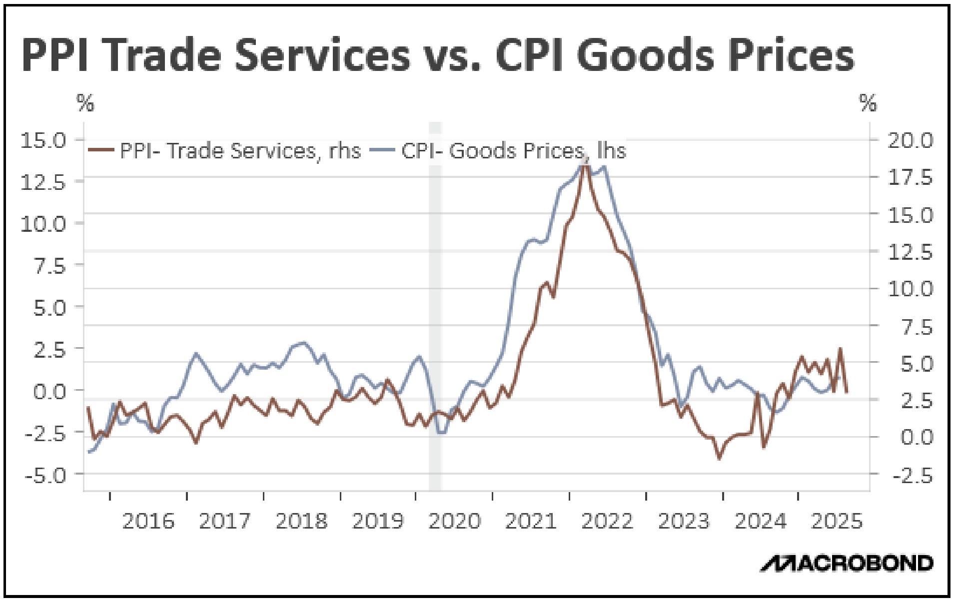
Our *Comment* begins by examining the White House's push for a greater share of university patent revenue and the underlying ideological shift this move represents. We then analyze the latest Producer Price Index report and its implications for monetary policy. The discussion will also cover Mexico's new tariffs on goods from China and other Asian countries, as well as French President Macron's choice for a new prime minister. We also include a summary of key global economic and domestic data releases.

Industrial Policy: The White House is arguing that it is entitled to a share of the revenue that universities generate from patents developed through federally funded research. During an interview with Axios, Commerce Secretary Howard Lutnick stated that the government should recoup its investment and "participate" in the returns, noting that many universities profit by licensing this research to companies that provided no initial funding. Secretary Lutnick also suggested that this revenue could be used to support Social Security and other public programs.

- This move is consistent with a broader pattern of recent economic policies, such as mandating revenue-sharing from chip sales to China, acquiring a direct stake in Intel, and securing a "golden share" in US Steel (a veto power over key decisions) as a condition for approving its acquisition by Nippon Steel.
- The government's move to seek payments from companies and organizations appears to be a significant ideological shift away from the "Washington Consensus," which favored a light-touch approach. This new direction may reflect a preference for state-aligned monopolies that can serve a dual purpose: coordinating policy efforts and generating government revenue.
- This change will likely favor larger companies over smaller ones. Their significant economies of scale give them the financial strength to absorb increased costs that would be a challenge for smaller competitors. Large technology and manufacturing firms are well-positioned to benefit, given their ability to provide solutions for both consumer and military markets. We are entering an era where collaboration between companies and governments is becoming essential for addressing complex challenges.

PPI: Producer prices experienced an unexpected decline in August, signaling that firms are encountering resistance to price increases. The headline Producer Price Index (PPI) reversed from a 0.7% gain in July to a 0.1% decline the following month. Core PPI, which excludes food and energy prices, also fell by 0.1%. A sharp slowdown in trade services was the primary driver behind the decline in overall price pressures. In fact, when excluding trade services, core PPI rose by 0.3%.

- The trade services component of PPI, a key measure of wholesale and retail margins, is essential for monitoring how tariffs are being absorbed by the economy. The index recorded its sharpest one-month decline since July, indicating that businesses are either accepting lower profits or are being forced to reduce prices amid weakening demand.
- This decline, particularly in trade services, can also be a sign that the effects of previous tariff-driven inflation are beginning to wane as businesses and supply chains adapt to the new pricing environment. The contraction in wholesale margins serves as a reliable forward-looking indicator for consumer prices.



- A weak PPI report suggests that companies are struggling to pass tariff costs on to consumers, which may have implications for profit margins. This development bolsters expectations for a Fed rate cut at the upcoming meeting next week. If price pressures continue to abate, we anticipate the Fed will shift its focus away from fighting inflation toward protecting the labor market.

Miran's Confirmation: The Senate Banking Committee advanced Stephen Miran's nomination on Wednesday, paving the way for him to participate in the next Federal Open Market Committee (FOMC) meeting. To meet this timeline, the full Senate must confirm his nomination by Monday. If confirmed before the FOMC begins its two-day meeting on Tuesday, Miran is expected to push for a rate cut, likely an aggressive one, probably 50 bps or more.

Mexico Plans Tariffs: The Mexican government has announced a tariff increase of up to 50% on imports from China and other Asian nations. This protectionist measure is a strategic move to safeguard domestic industries ahead of upcoming talks for the North America Free Trade Agreement (now known as USMCA). Since the US is expected to push for a more unified trade policy among the North American bloc, this action by Mexico signals its willingness to align with US concerns about Chinese imports, a point we highlighted in last year's outlook.

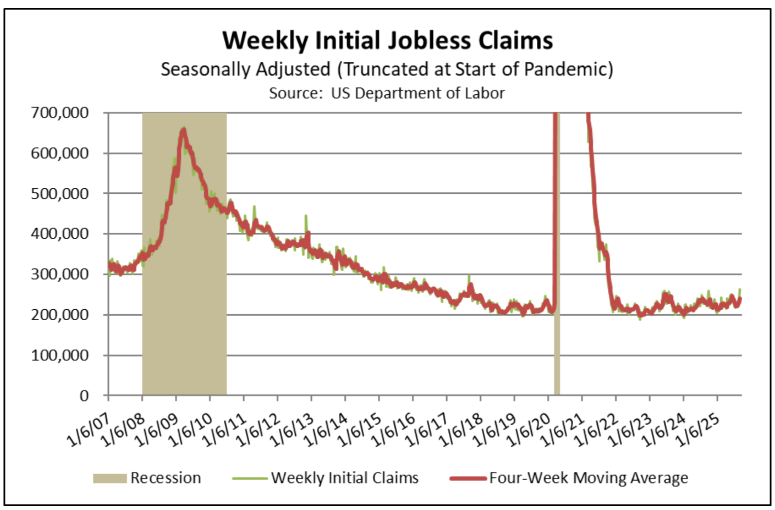
Poland Seeks Assistance: On Wednesday, Poland requested more allied air defense systems and counter-drone technology to protect against new incursions from Russia. The request follows 19 instances where Russian drones crossed into Polish territory and were subsequently shot down by Polish forces. While the conflict did not escalate, this marks the first direct military engagement between NATO and Russian forces since the war in Ukraine began. Although full-scale war is unlikely, the risk of escalation is now elevated.

Political Violence: Popular conservative activist and influencer Charlie Kirk was assassinated during a speaking event at Utah Valley University. The attack underscores the dangerously growing polarization in US politics. An increasingly hostile political environment is likely to fuel further civil unrest, with direct market effects including eroding trust in public institutions. This trend could trigger significant market volatility if investors begin to fear a fundamental weakening of the nation's political stability.

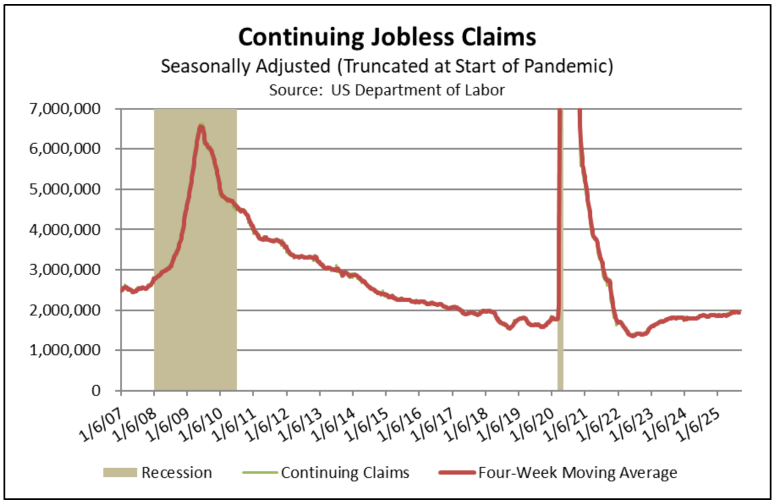
New French PM: French President Emmanuel Macron [has appointed Sébastien Lecornu as the new prime minister](). The two share a close relationship, with Macron previously relying on him to negotiate delicate situations, such as the release of hostages held by Hamas. Lecornu maintains connections across the political spectrum, and it is hoped that he will leverage this to finally pass a budget. Nevertheless, France's complicated political situation continues to fuel uncertainty in the bond market.

US Economic Releases

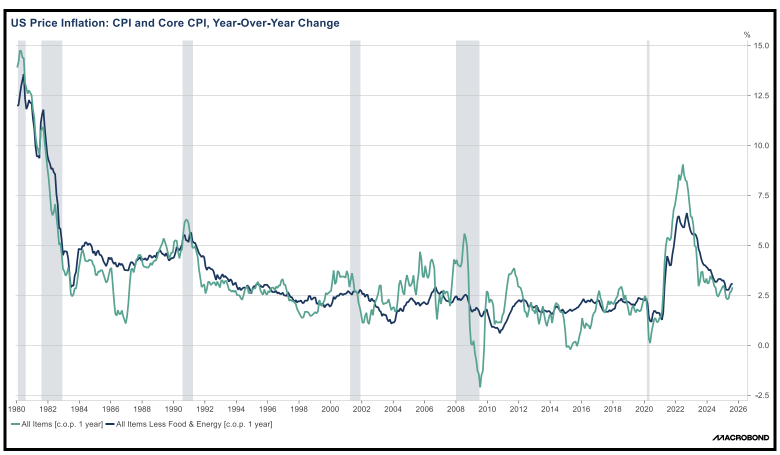
In the week ended September 6, ***initial claims for unemployment benefits*** rose to a seasonally adjusted 263,000, far above the expected level of 235,000 and the prior week's revised level of 236,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, rose to a two-and-a-half month high of 240,500. 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 30, the number of ***continuing claims for unemployment benefits*** (people continuing to draw benefits) held steady at a seasonally adjusted 1.939 million, below the anticipated reading of 1.950 million. The four-week moving average of continuing claims fell to 1,945,750. 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 August ***consumer price index (CPI)*** rose by a seasonally adjusted 0.4%, exceeding both the expected increase of 0.3% and the July rise of 0.2%. Excluding the volatile food and energy components, the ***"core" CPI*** rose 0.3%, meeting expectations and equal to its July rise. The overall CPI in August was up 2.9% from the same month one year earlier, while the core CPI was up 3.1%. The chart below shows the year-over-year change in the CPI and the core CPI since 1980.



The table below lists the economic releases and Fed events scheduled for the rest of the day.

Economic Releases						
EST	**Indicator**			**Expected**	**Prior**	**Rating**
12:00	Household Change in Net Worth	m/m	2Q		-$1595b	*
14:00	Federal Budget Balance	m/m	Aug	-$340.0b	-$380.1b	*
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								
Japan	PPI	y/y	Aug	2.7%	2.5%	2.7%	***	Equity and bond neutral
	Japan Buying Foreign Bonds	w/w	5-Sep	¥245.1b	¥1419.9b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	5-Sep	¥891.1b	¥481.8b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	5-Sep	-¥604.5b	¥397.2b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	5-Sep	¥108.6b	-¥785.7b		*	Equity and bond neutral
EUROPE								
UK	RICS House Price Balance	y/y	Aug	-19%	-13%	-10%	**	Equity and bond neutral
Russia	CPI	y/y	Aug	8.14%	8.79%	8.32%	***	Equity and bond neutral
	Core CPI	y/y	Aug	8.04%	8.53%		**	Equity and bond neutral
AMERICAS								
Mexico	Industrial Production	y/y	Jul	-2.7%	-0.4%	-0.9%	***	Equity bearish, bond bullish
	Manufacturing Production	y/y	Jul	-1.9%	0.6%	0.3%	*	Equity bearish, bond bullish
Brazil	Retail Sales	y/y	Jul	1.0%	0.4%	0.8%	***	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	394	0	Down
U.S. Sibor/OIS spread (bps)	405	407	-2	Down
U.S. Libor/OIS spread (bps)	398	400	-2	Down
10-yr T-note (%)	4.05	4.05	0.00	Down
Euribor/OIS spread (bps)	203	203	0	Up
Currencies	**Direction**			
Dollar	Up			Down
Euro	Down			Up
Yen	Up			Down
Pound	Down			Down
Franc	Down			Up
Central Bank Action	**Current**	**Prior**	**Expected**	
ECB Deposit Facility Rate	2.00%	2.00%	2.00%	On Forecast
ECB Main Refinancing Rate	2.15%	1.15%	2.15%	On Forecast
ECB Marginal Lending Facility	2.40%	2.40%	2.40%	On Forecast

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	$66.83	$67.49	-0.98%	
WTI	$62.94	$63.67	-1.15%	
Natural Gas	$3.05	$3.03	0.83%	
Crack Spread	$24.77	$25.20	-1.70%	
12-mo strip crack	$24.04	$24.37	-1.34%	
Ethanol rack	$2.08	$2.10	-0.86%	
Metals				
Gold	$3,618.43	$3,640.75	-0.61%	
Silver	$41.05	$41.17	-0.30%	
Copper contract	$460.95	$461.80	-0.18%	
Grains				
Corn contract	$418.25	$417.00	0.30%	
Wheat contract	$514.25	$515.00	-0.15%	
Soybeans contract	$1,031.25	$1,025.25	0.59%	
Shipping				
Baltic Dry Freight	2,112	2,079	33	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	3.94	-1.40	5.34	
Gasoline (mb)	1.46	0.50	0.96	
Distillates (mb)	4.72	0.02	4.69	
Refinery run rates (%)	0.6%	-0.9%	1.5%	
Natural gas (bcf)		69		

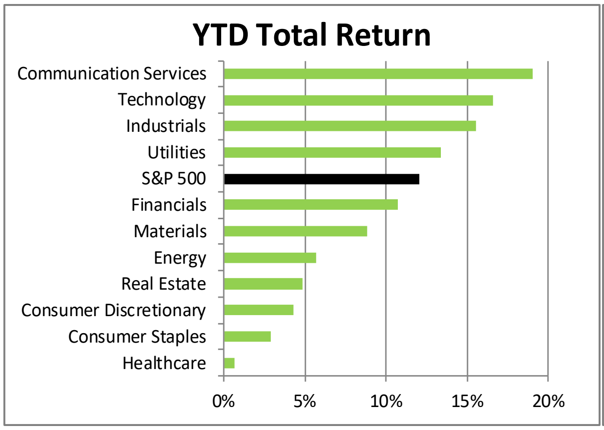
Weather

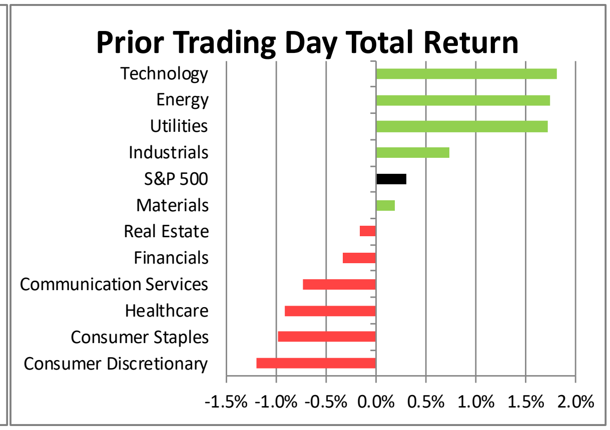
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for the entire country except for the Chesapeake Bay area, where temperatures will be near normal. The forecasts call for wetter-than-normal conditions in southern California, the Rocky Mountains, the Great Plains, and Florida, with dry conditions in the Pacific Northwest, the southern Mississippi Valley, and Maine.

There is now a new tropical disturbance in the central Atlantic Ocean, which is moving slowly westward and assessed to have a 30% chance of forming a cyclone within the next seven days.

Data Section

US Equity Markets – (as of 9/10/2025 close)

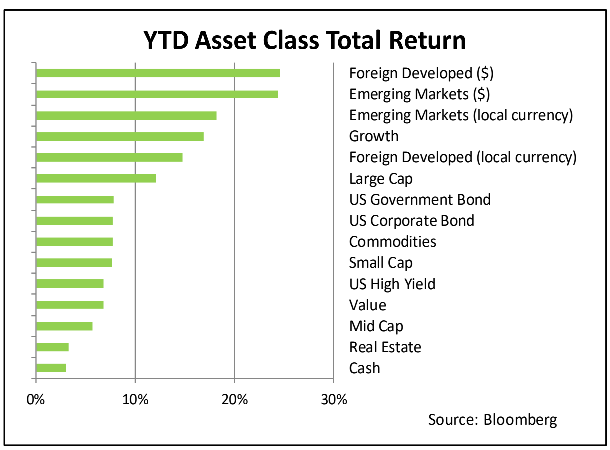




(Source: Bloomberg)

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 9/10/2025 close)

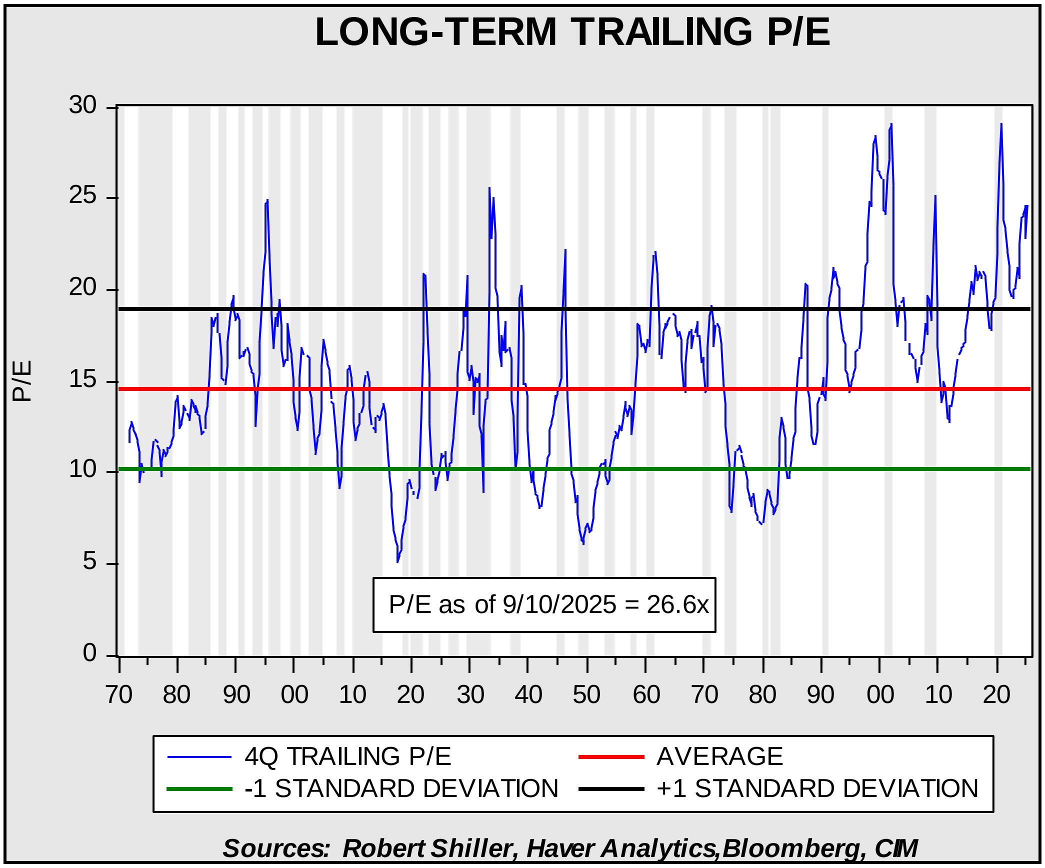


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 11, 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.