



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: September 12, 2025 — 9:30 AM ET] Global equity markets are mostly lower this morning. In Europe, the Euro Stoxx 50 is down 0.3% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 18%. Chinese markets were lower, with the Shanghai Composite down 0.1% from its previous close and the Shenzhen Composite down 0.3%. US equity index futures are signaling a lower 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

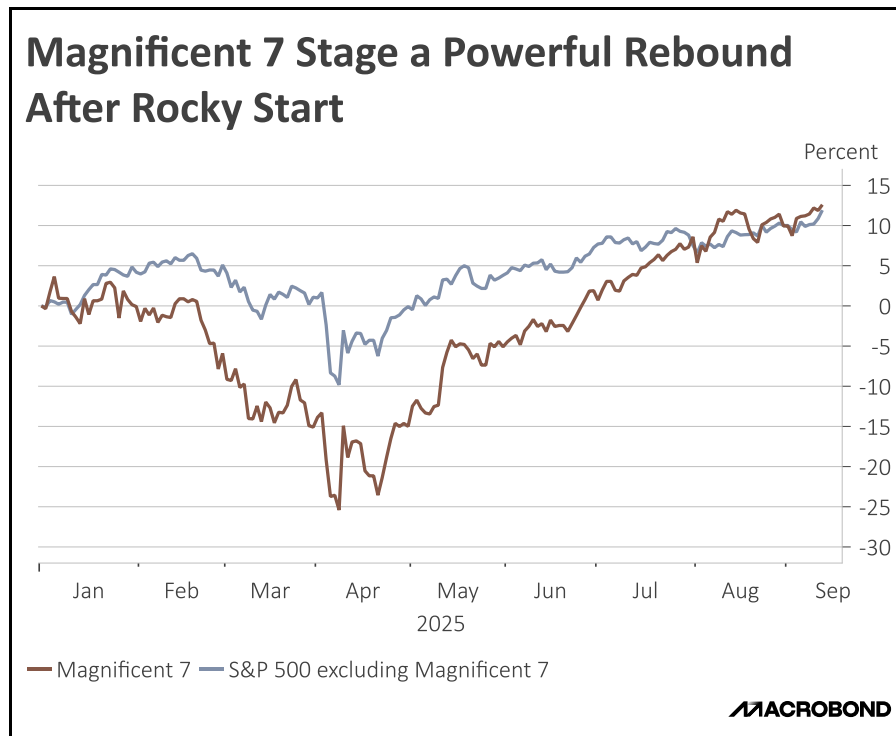
Have a question on the economy, markets, geopolitics, or other important topics? You can submit your queries to our new monthly podcast, *Confluence Mailbag*! Submit your question to mailbag@confluenceim.com.

Our *Comment* begins with an analysis of OpenAI's pivotal shift from a non-profit structure and its broader implications for the AI sector rally. We then explore the market's optimistic anticipation of potential rate cuts at the upcoming Federal Reserve meeting. Our discussion extends to the latest round of US-China trade negotiations in Madrid and the notable warming of relations between the US and India.

OpenAI Goes Public: The [AI company is restructuring its relationship with parent company Microsoft](#), moving toward a more traditional for-profit model. It will gain greater control over a new public benefit corporation, allowing it to balance generating profits for shareholders with its public-benefit mission. This shift away from its unconventional structure comes as market focus intensifies on AI companies .

- In recent months, the market's reliance on tech companies for growth has accelerated. A prime example is the "Magnificent 7," which, despite initially dragging on the broader

S&P 500 Index this year, has since surged and now outperforms the combined growth of the other 493 companies.

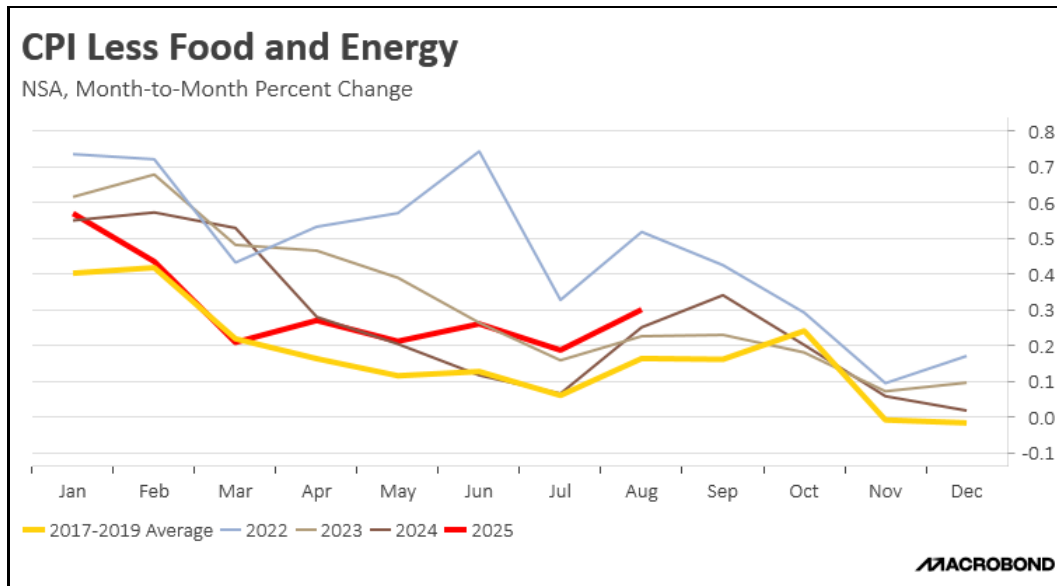


- This pattern echoes the "safety trade" observed in 2023 and 2024, wherein investors flocked to established tech giants for capital appreciation. This strategy was driven by the companies' robust earnings power, which provided a haven during a period of significant economic uncertainty caused by concerns over high interest rates and persistent inflation.
- Much of the hype around these companies has come from the optimism that they will become monopolies within their sector and generate substantial future returns. However, there are signs that this may not happen.
- Although some firms, [such as Adobe, have shown that AI can boost profits](#), evidence suggests its practical impact remains limited. An [MIT study revealed that a mere 5% of AI implementations have yielded significant returns](#) or productivity gains — a finding supported by [census data indicating that AI adoption rates among large companies](#) have begun to fall.
- While we believe the AI momentum trade may still have legs, adding some exposure to value stocks could be a beneficial portfolio addition. During the equity sell-off earlier this year, value stocks outperformed their growth counterparts, suggesting they could act as a shock absorber if AI sentiment were to unexpectedly reverse.

Rate Cut Optimism: Equities rallied on Thursday as fresh economic [data bolstered investor confidence that the Federal Reserve remains on track to cut rates next week](#). The rally occurred despite a key labor market report showing initial jobless claims jumping to their highest level in nearly four years, signaling continued softening. Furthermore, the latest inflation reading rose

precisely in line with forecasts, reassuring markets that price pressures remain within expected bounds.

- Although this data all but guarantees a rate cut at the next meeting, it also raises serious questions about what follows. The primary headwind for future cuts is somewhat elevated inflation, with the monthly increases in July and August marking the highest in two years. Conversely, the startling jump in jobless claims may be less sinister than it appears; it could simply be a seasonal anomaly exacerbated by the unusual clustering of holiday weekends, which notoriously distort the data.



- The mixed economic data will likely fuel vigorous debate among FOMC members as significant concerns over persistent inflation remain. Several Fed officials — including voting members like St. Louis Fed President Alberto Musalem, Kansas City Fed President Jeffrey Schmid, and Chicago Fed President Austan Goolsbee — have already expressed reluctance to cut rates, citing inflationary pressures exacerbated by recent tariffs.
- The upcoming FOMC meeting will be pivotal for the sustainability of the current market rally. Markets have currently priced in 75 basis points of rate cuts for this year, with an expectation that the Fed will start with a 50-basis point cut next week. Consequently, the updated "dots plot" will be scrutinized as it outlines the projected path of future policy rates. A signal of aggressive easing is likely to buoy risk assets, while any suggestion of a moderate approach to easing could dampen investor risk appetite.

Brazil President's Sentence: A Brazilian Supreme Court justice [has sentenced former President Jair Bolsonaro to 27 years in prison](#) for his role in plotting a coup after his 2022 election defeat. The ruling is poised to strain relations with the United States, where some lawmakers have called the arrest politically motivated. Prior to the sentencing, the US had imposed 50% tariffs on Brazilian steel, and Secretary of State Marco Rubio suggested further trade penalties could follow.

US and China Meet in Madrid: The [US and China will meet in Madrid next week for talks on trade and TikTok](#). This follows the White House's decision to extend the deadline for a trade agreement until November 10. The discussions will offer insight into the progress made over the past month, with both sides seeking concessions. While we do not expect a full resolution, the apparent unwillingness of either side to escalate tensions going into the meeting is a positive signal for markets.

ECB Holds Rates Steady: The [European Central Bank decided to hold rates steady at its latest meeting](#), expressing optimism that growth and inflation remain broadly consistent with its goals. The bank revised its annual growth outlook upward by 30%, while acknowledging upcoming headwinds. Conversely, it revised its inflation forecast downward to 1.9% for the year. This strong outlook will likely boost the euro against the dollar but may act as a headwind for US investors holding European equities.

US and Poland Disagree: Polish [Prime Minister Donald Tusk has rejected the White House's assertion](#) that a recent Russian incursion into Polish airspace was unintentional. This disagreement coincides with Poland's request for additional military assistance to defend against future Russian provocations. The US willingness to give Russia the benefit of the doubt may suggest a hesitancy to getting more deeply involved in European security. The incident provides more evidence that the EU needs to shore up its own defenses amid the lack of US assurances.

US and India: [Washington and New Delhi are close to finalizing a trade agreement](#), according to the White House. It also stated that the US views India as one of its most important strategic trade partners as it seeks to shape a future economic order. Simultaneously, the US is reportedly advocating for G-7 nations to impose tariffs on India due to its support for Russia's invasion of Ukraine. This announcement aligns with the US employing a "carrot-and-stick" approach to encourage India to distance itself from China.

US Economic Releases

No major economic reports have been released so far today. 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	U. of Michigan Consumer Sentiment	m/m	Sep P	58.0	58.2	***
10:00	U. of Michigan Current Conditions	m/m	Sep P	62.0	51.7	**
10:00	U. of Michigan Future Expectations	m/m	Sep P	56.2	559.0	**
10:00	U. of Michigan 1-Year Inflation Expectation	m/m	Sep P	4.8%	4.8%	*
10:00	U. of Michigan 5-10 Year Inflation Expectation	m/m	Sep P	3.4%	3.5%	*
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	Industrial Production	y/y	Jul F	-0.4%	-0.9%		***	Equity and bond neutral
	Capacity Utilization	y/y	Jul	-1.1%	-1.8%		**	Equity and bond neutral
New Zealand	BusinessNZ Manufacturing PMI	m/m	Aug	49.9	52.8		***	Equity and bond neutral
China	New Yuan Loans	m/m	Aug	13460.0b	12870.0b	13571.0b	**	Equity and bond neutral
China	Money Supply M2	y/y	Aug	8.8%	8.8%	8.6%	***	Equity and bond neutral
	Money Supply M1	y/y	Aug	6.0%	5.6%	6.0%	*	Equity and bond neutral
	Money Supply M0	y/y	Aug	11.7%	11.8%		*	Equity and bond neutral
India	CPI	y/y	Aug	2.1%	1.6%	2.2%	***	Equity and bond neutral
EUROPE								
Germany	CPI	y/y	Aug F	2.2%	2.2%	2.2%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Aug F	2.1%	2.1%	2.1%	**	Equity and bond neutral
France	CPI	y/y	Aug F	0.9%	0.9%	0.9%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Aug F	0.8%	0.8%	0.8%	**	Equity and bond neutral
	CPI Ex-Tobacco Index	q/q	Aug F	121.00	120.49	121.00	*	Equity and bond neutral
UK	GDP	y/y	Jul	0.0%	0.4%	0.0%	***	Equity and bond neutral
	Industrial Production	y/y	Jul	0.1%	0.2%	1.1%	***	Equity bearish, bond bullish
	Manufacturing Production	y/y	Jul	0.2%	0.0%	1.7%	**	Equity bearish, bond bullish
	Index of Services 3M/3M	m/m	Jul	0.4%	0.4%	0.3%	**	Equity and bond neutral
	Construction Output	y/y	Jul	2.4%	1.5%	1.9%	*	Equity bullish, bond bearish
	Visible Trade Balance GBP/Mn	m/m	Jul	-£21220m	-£22156m	-£21700m	**	Equity and bond neutral
	Trade Balance GBP/Mn	m/m	Jul	-£4236m	-£5015m	-£4200m	**	Equity and bond neutral
Russia	Gold and Forex Reserves	m/m	5-Sep	\$698.5b	\$685.5b		***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	5-Sep	18.8t	18.68t		*	Equity and bond neutral
	Trade Balance	m/m	Jul	13.2b	9.3b		**	Equity and bond neutral
	Exports	m/m	Jul	38.0b	32.8b		*	Equity and bond neutral
	Imports	m/m	Jul	24.9b	23.6b		*	Equity and bond neutral
AMERICAS								
Mexico	Formal Job Creation Total	m/m	Aug	21.8k	107.5k		*	Equity and bond neutral
Brazil	IBGE Services Volume NSA	y/y	Jul	2.80%	2.80%	2.60%	***	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)	393	393	0	Down
U.S. Sibor/OIS spread (bps)	403	403	0	Down
U.S. Libor/OIS spread (bps)	396	397	-1	Down
10-yr T-note (%)	4.04	4.02	0.02	Down
Euribor/OIS spread (bps)	201	203	-2	Up
Currencies	Direction			
Dollar	Up			Down
Euro	Down			Up
Yen	Up			Down
Pound	Down			Down
Franc	Down			Up
Central Bank Action	Current	Prior	Expected	
Bank of Russia Key Rate	17.00%	18.00%	16.00%	Above 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	\$67.32	\$66.37	1.43%	
WTI	\$63.13	\$62.37	1.22%	
Natural Gas	\$2.92	\$2.93	-0.41%	
Crack Spread	\$25.54	\$24.89	2.58%	
12-mo strip crack	\$24.56	\$24.19	1.52%	
Ethanol rack	\$2.11	\$2.10	0.50%	
Metals				
Gold	\$3,648.41	\$3,634.07	0.39%	
Silver	\$42.23	\$41.56	1.62%	
Copper contract	\$467.70	\$465.80	0.41%	
Grains				
Corn contract	\$421.00	\$419.75	0.30%	
Wheat contract	\$521.25	\$521.50	-0.05%	
Soybeans contract	\$1,033.50	\$1,033.50	0.00%	
Shipping				
Baltic Dry Freight	2,111	2,112	-1	
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)	71	68	3	

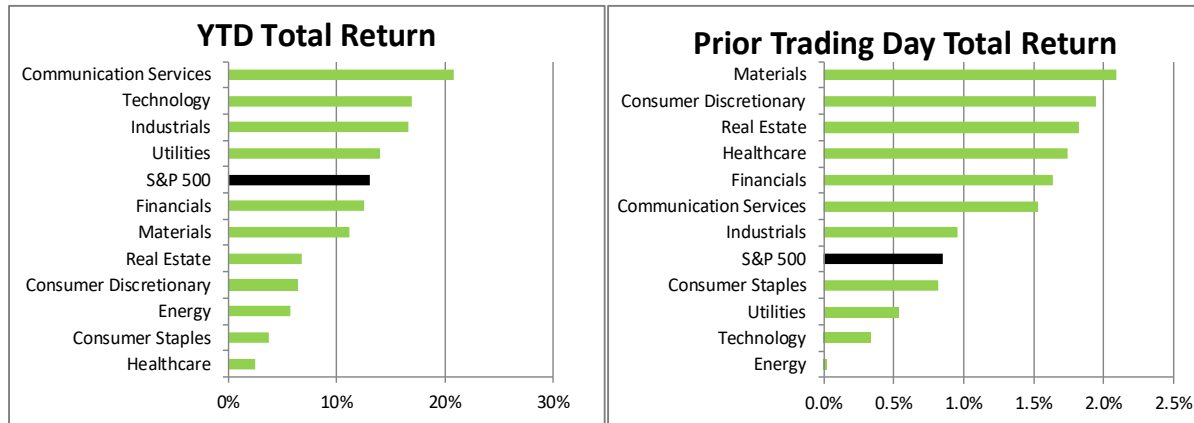
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for the entire country. The forecasts call for wetter-than-normal conditions in the southern half of California, the Desert Southwest, the central Rocky Mountains, the central and northern Great Plains, and Florida, with dry conditions in the Pacific Northwest and the southern Mississippi Valley.

There is now one tropical disturbance in the central Atlantic Ocean, which is moving slowly westward and is assessed to have a 40% chance of forming a cyclone within the next seven days.

Data Section

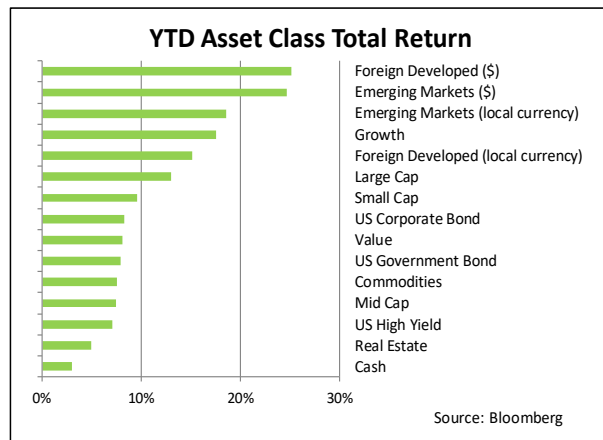
US Equity Markets – (as of 9/11/2025 close)



(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 9/11/2025 close)

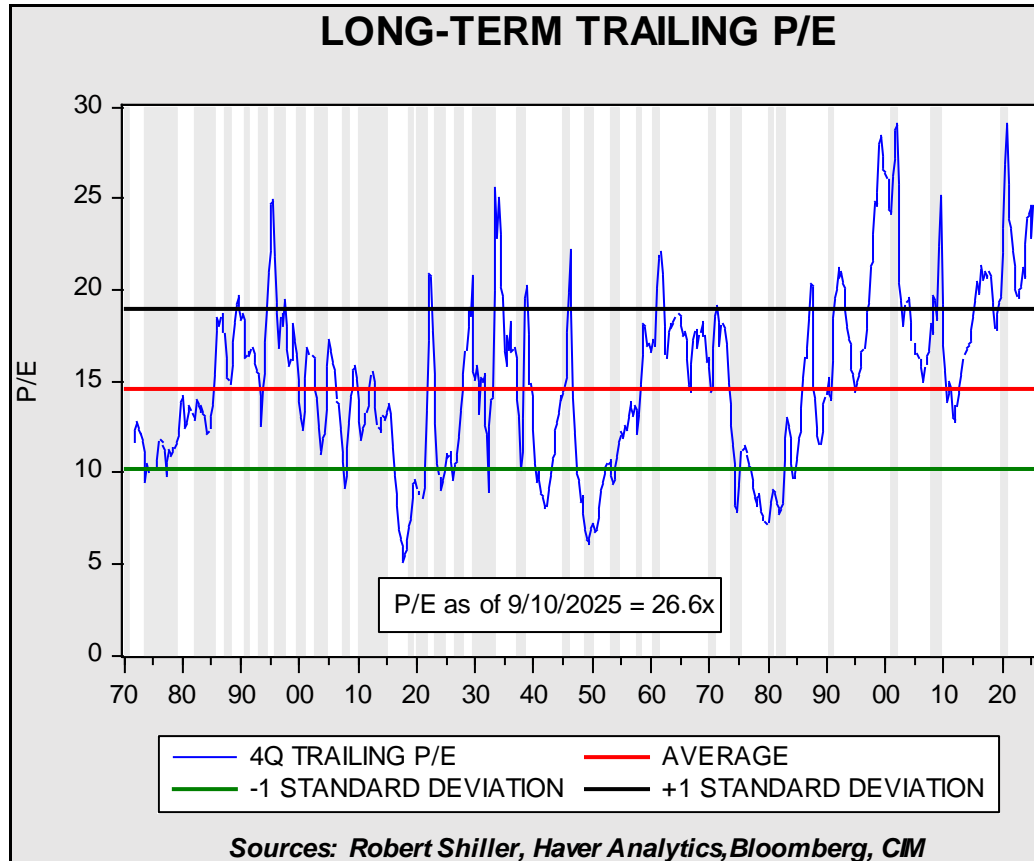


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.