Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: September 17, 2025 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is down 0.1% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.7%. Chinese markets were higher, with the Shanghai Composite up 0.4% from its previous close and the Shenzhen Composite up 0.8%. 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
"The Great AI Race: A Sputnik Moment for the 21st Century" (9/15/25) + 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 what to expect from the FOMC meeting and its market implications. We then examine China's ban on NVIDIA chips and its potential ripple effects across the global tech sector. Further topics include progress in US-UK trade talks, the evolving situation around a potential TikTok sale, and how Chinese trade restrictions are pressuring EU firms and even forcing some to consider shutdowns. We also include a summary of key recent economic data from both global and domestic sources.

Fed Primer: All eyes are on the imminent FOMC meeting minutes as investors seek to gauge the trajectory of interest rates and the Fed's assessment of the economy. The market has overwhelmingly priced in a 25 basis point cut, with futures implying a 96% probability. However, mounting evidence of a softening labor market, coupled with lingering concerns over the economic outlook, suggests the central bank may ultimately decide on a more assertive path of rate cuts.

- Federal Reserve officials face a complex economic puzzle. While the labor market is showing clear signs of weakening — with firms slowing hiring due to tariff costs and AI adoption — consumer spending remains remarkably resilient as evidenced by strong retail sales data. This divergence between a softening jobs market and robust consumption is a major challenge for policymakers interpreting the economic environment.
- The confirmation of Stephen Miran, a White House advisor, to the Federal Reserve Board marks a pivotal shift. It breaks a nearly century-old precedent, making him the first sitting White House official on the board since the 1930s. This move is viewed as a notable assertion of executive influence over monetary policy and is expected to shape the Fed's future decisions.
- Analysts will scrutinize the Fed's "dots plot" for signs of the White House's influence on interest rate projections. As the newest governor, Stephen Miran is expected to submit the most dovish dot, aligning with the administration's previous statements. Furthermore, he will likely advocate for a policy focus that extends beyond the dual mandate of maximum employment and price stability, emphasizing a de facto "third mandate" of managing long-term interest rates.
- We anticipate the Fed meeting will serve as a significant catalyst for markets. In our base case, indications of an aggressive path for rate cuts would be interpreted as a substantial stimulus measure, providing a tailwind for equity assets. A key risk to this view is that the market's positive reaction may be muted if the cuts are seen as politically influenced.

China Halts Sales: Beijing has ordered its companies to halt purchases of NVIDIA's AI chips and cancel existing orders, significantly reducing reliance on foreign semiconductor technology. This directive follows recent accusations against the US chipmaker for violating anti-trust laws and comes just a month after regulators flagged its H20 chip as a national security risk. The company's share fell pre-market following the report.

- China's crackdown on NVIDIA chip purchases accelerates its push for semiconductor self-sufficiency, a key front in its rivalry with the US to develop superior AI technology. With domestic technology improving, Beijing is now urging firms to source more AI chips from local suppliers.
- Huawei is reportedly developing chips that rival those of NVIDIA in performance, signaling a major advancement in China's semiconductor capabilities. This progress is complemented by breakthroughs in producing domestic chipmaking equipment comparable to that of leading US suppliers.
- China's crackdown on US tech is a major market concern, particularly for growth companies in the S&P 500. These firms often rely heavily on foreign revenue, making them vulnerable to such restrictions. The impact is twofold: immediate earnings are threatened, and future growth is jeopardized by the loss of access to the critical Chinese market.
- While we maintain a positive outlook on the tech sector's momentum, bolstered by supportive tax incentives for capital expenditure, we do believe a strategic allocation to

value stocks offers crucial diversification and resilience during periods of market uncertainty.

US-UK Talks: The US and UK will hold talks to discuss trade and investment, with US companies expected to announce billions in new technology infrastructure investments in the UK. This initiative aims to deepen the bilateral relationship and promote the adoption of US technology. As outlined in our latest geopolitical report, we suspect that the US is moving away from a traditional free trade policy toward a "free technology" policy, using tech access rather than consumer market access to cement alliances and keep partners aligned.

US Investments: The US is in talks to establish a fund, in partnership with investment firm Orion Resource Partners, to finance overseas mining projects. This initiative would target the extraction of critical minerals like copper and rare earths, which are essential for technology manufacturing. The move exemplifies the US government's growing collaboration with the private sector to play a more active role in the economy.

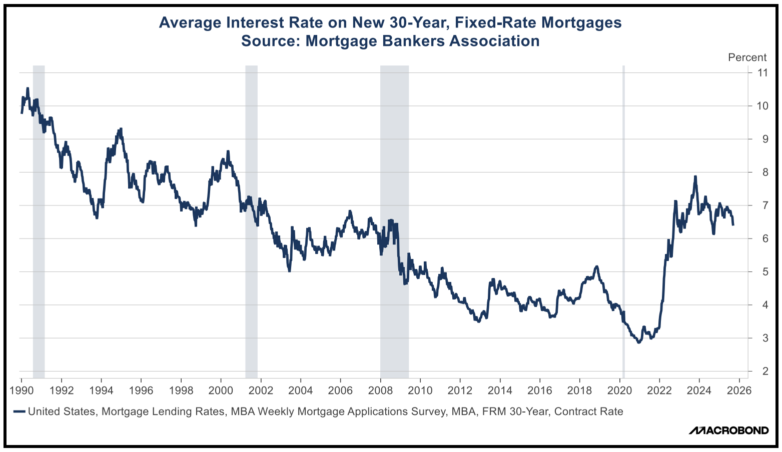
TikTok Sale: The president signed a new order extending the deadline for Chinese companies to divest from the US, despite signs of progress in negotiations. Under a White House-brokered deal, TikTok would be acquired by a consortium including Oracle Corp., Andreessen Horowitz, and the private equity firm Silver Lake Management LLC. While it remains unclear whether Beijing will approve the deal, early indications suggest that China wants the app to keep its Chinese algorithm.

USMCA Talks: The US is set to hold trade discussions with its North American partners as they prepare for a review of the regional USMCA trade agreement next year. We suspect the conversations will primarily focus on ensuring the countries agree to create a united trade policy, particularly toward China, but possibly regarding other nations as well. Given how much trade is conducted between the three countries, any sign of trouble or disagreement could lead to renewed concerns of trade uncertainty.

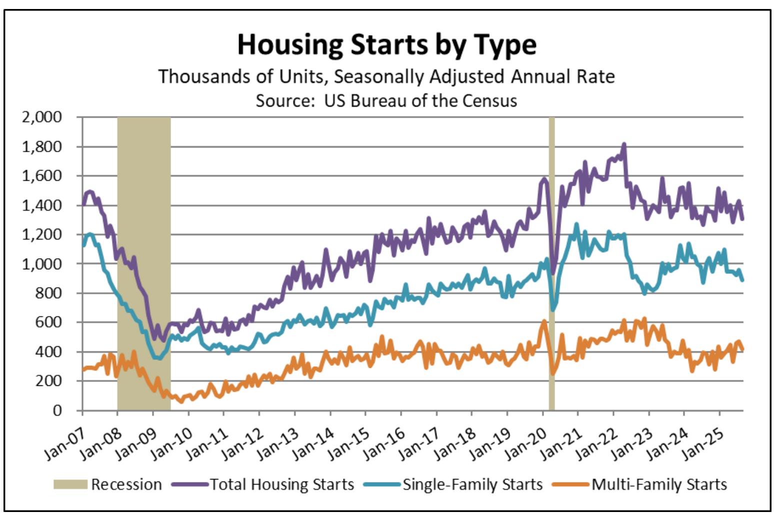
China's EU Crackdown: European firms face potential shutdowns due to a shortage of critical rare earth elements that are essential for production. This crisis follows China's decision to restrict exports of these vital resources, a move triggered by global trade tensions and US tariffs. Although China and the EU reached an agreement to maintain Europe's access, numerous member states have complained that significant supply issues persist. We believe this ongoing resource scarcity threatens to negatively impact market sentiment toward the global tech sector.

US Economic Releases

The Mortgage Bankers Association said ***mortgage applications*** in the week ended September 13 jumped 29.7%, after the previous week's gain of 9.2%. Applications for home purchase mortgages rose 2.9%, after increasing 6.6% in the prior week. Applications for refinancing mortgages surged 57.7%, accelerating from their 12.2% rise the week before. The average interest rate on a 30-year, fixed-rate mortgage dropped 10 basis points to a nearly one-year low of 6.39%. The chart below shows how mortgage rates have changed over time.



Separately, August ***housing starts*** fell to a seasonally adjusted, annualized rate of 1.307 million units, short of the expected rate of 1.365 million units and the revised July rate of 1.429 million units. The rate of housing starts in August was down 8.5% from the rate in the previous month. August ***housing permits*** fell to a rate of 1.312 million units, well short of their anticipated rate of 1.370 million units and their revised July rate of 1.362 million units. Permits issued for new housing units in August were down 3.7% from the previous month. Compared with the same month one year earlier, housing starts in August were down 7.0%, while permits were down 15.3%. The chart below shows the growth in new home starts by type of property since just before the Great Financial Crisis.



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	FOMC Rate Decision (Lower Bound)	w/w	17-Sep	4.00%	4.25%	***
14:00	FOMC Rate Decision (Upper Bound)	w/w	17-Sep	4.25%	4.50%	***
14:00	Interest on Reserve Balances Rate	w/w	17-Sep	4.15%	4.40%	**
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	Trade Balance	y/y	Aug	-¥242.5b	-¥117.5b	-¥512.6b	**	Equity and bond neutral
	Exports	y/y	Aug	-0.1	-2.6	-2.0	*	Equity and bond neutral
	Imports	y/y	Aug	-5.2	-7.5	-4.1	*	Equity bearish, bond bullish
Australia	Westpac Leading Index	m/m	Aug	-0.40%	0.13%		**	Equity and bond neutral
New Zealand	Wespac Consumer Confidence	m/m	Q3	90.9	91.2		*	Equity and bond neutral
	BoP Current Account Balance NZD	y/y	Q2	-0.970b	-0.709b	-2.700b	***	Equity and bond neutral
EUROPE								
Eurozone	CPI	y/y	Aug F	2.0%	2.1%	2.1%	***	Equity and bond neutral
	Core CPI	y/y	Aug F	2.3%	2.3%	2.3%	**	Equity and bond neutral
UK	CPI	y/y	Aug	3.8%	3.8%	3.8%	***	Equity and bond neutral
	CPI Core	y/y	Aug	3.6%	3.8%	3.6%	***	Equity and bond neutral
	Retail Price Index	m/m	Aug	407.7	406.2	407.9	**	Equity and bond neutral
	RPI	y/y	Aug	4.6%	4.8%	4.7%	**	Equity and bond neutral
	House Price Index	y/y	Jul	2.8%	3.6%		***	Equity and bond neutral
AMERICAS								
Canada	Housing Starts	m/m	Aug	245.8k	293.5k	280.0k	**	Equity and bond neutral
	CPI	y/y	Aug	1.9%	1.7%	2.0%	***	Equity and bond neutral
Brazil	FGV Inflation IGP-10	m/m	Sep	2.88%	2.84%		**	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)	386	387	-1	Down
U.S. Sibor/OIS spread (bps)	402	403	-1	Down
U.S. Libor/OIS spread (bps)	396	397	-1	Down
10-yr T-note (%)	4.01	4.03	-0.02	Down
Euribor/OIS spread (bps)	202	203	-1	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	$67.96	$68.47	-0.74%	
WTI	$64.02	$64.52	-0.77%	
Natural Gas	$3.13	$3.10	0.90%	
Crack Spread	$26.05	$26.15	-0.39%	
12-mo strip crack	$24.95	$25.09	-0.55%	
Ethanol rack	$2.15	$2.15	0.21%	
Metals				
Gold	$3,668.06	$3,689.98	-0.59%	
Silver	$41.52	$42.56	-2.45%	
Copper contract	$461.20	$469.40	-1.75%	
Grains				
Corn contract	$428.50	$429.50	-0.23%	
Wheat contract	$533.75	$534.00	-0.05%	
Soybeans contract	$1,046.00	$1,049.75	-0.36%	
Shipping				
Baltic Dry Freight	2,154	2,153	1	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		1.77		
Gasoline (mb)		0.68		
Distillates (mb)		1.10		
Refinery run rates (%)		-0.5%		
Natural gas (bcf)		81		

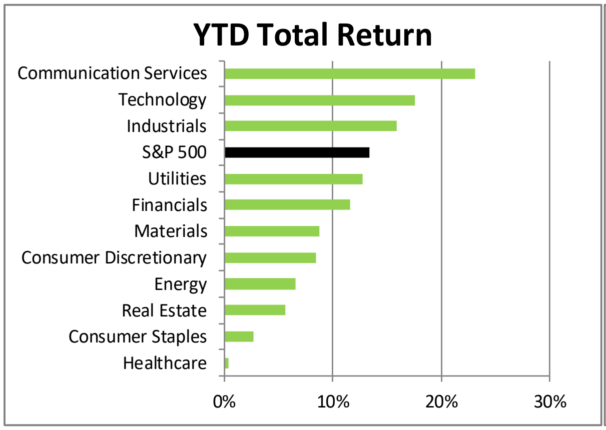
Weather

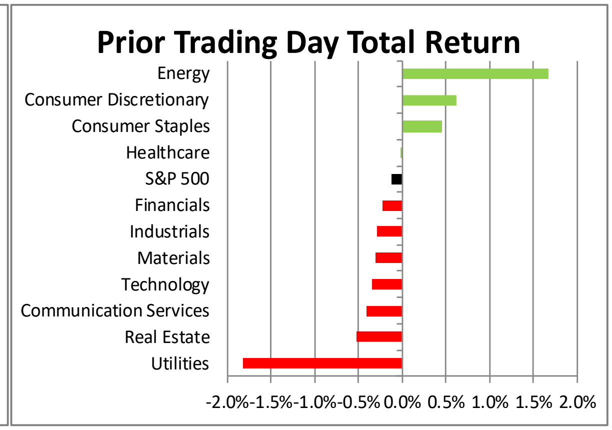
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures from the Rocky Mountains eastward, with near-normal temperatures in all other areas. The forecasts call for wetter-than-normal conditions in the Pacific Northwest and Gulf Coast states, with dry conditions in the northern Great Plains and the Northeast.

There are now two tropical disturbances in the central Atlantic Ocean, one that is moving slowly westward and is assessed to have a 90% chance of forming a cyclone within the next seven days and the other moving off the coast of West Africa with a 20% chance of cyclone formation.

Data Section

US Equity Markets – (as of 9/16/2025 close)

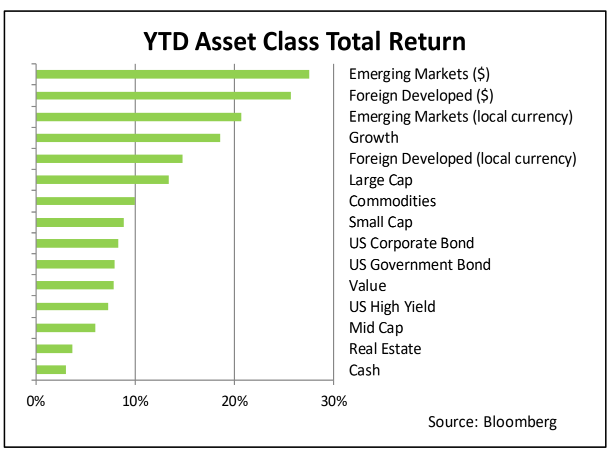




(Source: Bloomberg)

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 9/16/2025 close)

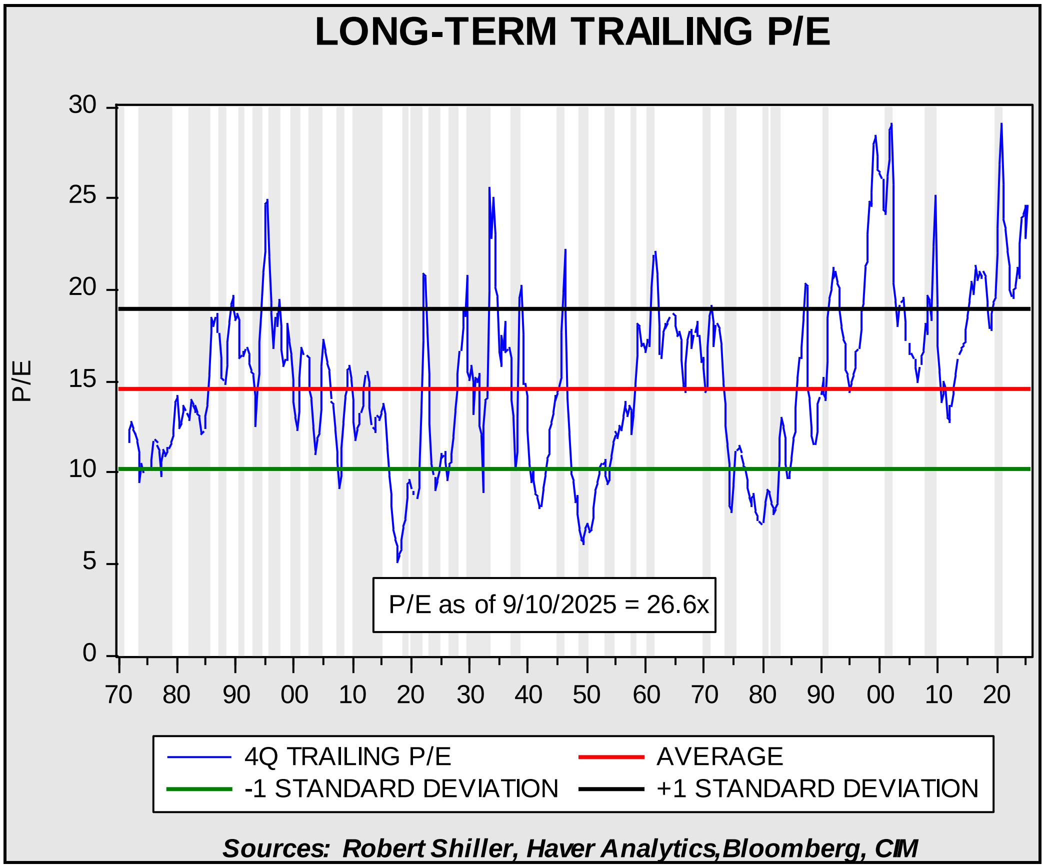


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.