Daily Comment

Confluence INVESTMENT MANAGEMENT

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[Posted: September 18, 2025 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 1.4% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.2%. Chinese markets were lower, with the Shanghai Composite down 1.2% from its previous close and the Shenzhen Composite also down 1.2%. 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
"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* opens with thoughts on the Fed's latest rate decision. We then explore why Nvidia's investment in Intel may reflect a broader US tech policy. Additional topics include progress in easing US-China trade tensions, a new EU sanctions proposal against Russia, and further evidence of China's advances in chipmaking. We conclude with a summary of recent global and domestic economic data.

A Fed Divided: The Federal Reserve lowered its benchmark interest rate by 25 basis points, a move that was widely anticipated by markets. While the decision itself garnered broad consensus — with even the two previous dissenters siding with the majority — the future policy path remains uncertain. The sole dissenting vote came from the newest member, Stephen Miran. Furthermore, the updated "dots plot" signaled a more dovish shift, indicating expectations for an additional rate cut. Despite this, the overall trajectory of monetary policy appears far from settled.

- The Fed's committee is in a near-perfect stalemate, with a deep divide underscoring the challenge of balancing short-term employment concerns against the long-term goal of controlling inflation. When you exclude the most dovish member's forecast, likely from Governor Stephen Miran, the committee is split right down the middle: nine members favor, at most, one rate cut this year, while the other nine favor two.
- Fed communication failed to offer clear guidance on the future policy path. During his press conference, Fed Chair Powell framed the rate cut as a form of risk management. However, this dovish move was contradicted by the Summary of Economic Projections (SEP), which revealed that the Fed had grown more optimistic about economic growth and less confident that inflation would return to its 2% target.
- There's growing concern over the Fed's independence, stemming from Stephen Miran's role as both a White House Economic Advisor and a newly appointed Fed governor. This conflict became evident in the latest "dots plot." The projection attributed to Miran was 75 basis points below the next lowest dot, a stark outlier that suggests he's deeply at odds with his colleagues. This wide gap likely indicates that other Fed officials are pushing back against potential White House influence.
- Poor communication from the Federal Reserve and concerns about central bank independence fueled significant market volatility on Thursday. This was evident in the dollar's whipsaw action — initially dropping before rising — and in the S&P 500, which spiked following the announcement only to finish lower on the day. The reaction suggests deep market skepticism about the central bank's ability to sustain its monetary easing cycle, given the current composition of the committee.
- The latest dots plot indicates that the FOMC is projecting additional rate cuts of 25 basis points over the last two meetings. The pace of this easing, however, will be highly dependent on incoming data. We believe a sustained cooling of the labor market is a prerequisite for more aggressive rate cuts. Conversely, if inflation remains stubbornly high, the Fed may be forced to postpone any rate cuts. While we do not see it as the most likely outcome, persistent inflationary pressure could even prompt discussions of a potential rate hike.

AI Race: Nvidia has announced plans to invest $5 billion in Intel as the two companies look to co-develop chips for PCs and data centers. The deal would allow Nvidia to purchase Intel shares at a steep discount, giving it a stake in its longtime rival. The move follows major US government funding and investment from SoftBank, highlighting the growing alignment among American tech firms to strengthen domestic capabilities and ensure the US remains competitive in the global AI race.

- We believe the continued collaboration between US tech firms and the government to expand AI capacity reflects a broader strategy: shifting from offering access to America's vast consumer market to granting access to its technological ecosystem — a transition we call moving from free trade to free tech.
- This sentiment was reinforced by White House AI adviser Sriram Krishnan, who noted that the US is using global market share as a benchmark for success. His remarks suggest not only a massive expansion of domestic AI infrastructure, but also an effort to extend US technology abroad, positioning it as the global gold standard.

- We believe US tech companies collaborating to expand their global footprint could be a key driver of equity market returns in the coming years. However, failure to secure leadership in AI may trigger a significant pullback. As a result, while we remain optimistic on the tech sector, we also see merit in maintaining exposure to value stocks to help balance portfolios.

US-China Trade Talks: China has dropped its antitrust probe into Google's Android mobile platform, a move seen as a concession to the US as the two nations prepare for trade talks. The investigation was launched in February, the same day the White House imposed new tariffs on Chinese goods. This decision signals Beijing has learned that fostering a friendlier environment for US tech companies can lead to more favorable trade terms. It is a prime example of the growing linkage between global technology policy and trade diplomacy.

AI's Competition: Earlier this month, two leading American AI models performed at a top-tier level against human competitors at the International Collegiate Programming Contest (ICPC) World Finals, often called the "coding Olympics." OpenAI claimed its model would have secured first place, while DeepMind's would have taken second. This breakthrough will likely accelerate the adoption of AI as an assistant or complement to computer programmers.

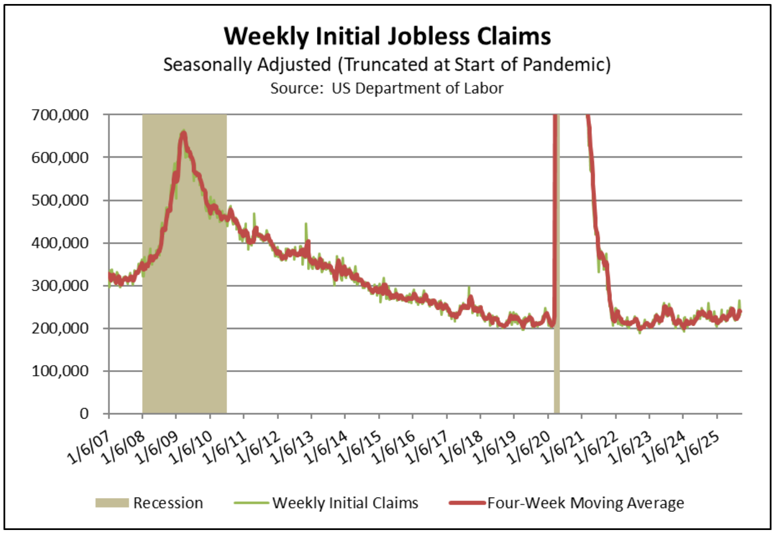
EU Sanctions: The EU is drafting a new Russia sanctions package for its members, targeting crypto, banking, and energy transactions to pressure an end to the war in Ukraine. This move comes after the US pushed the EU to enact 100% tariffs on India and China for backing Russia. Although the EU has not expressed openness to the tariff idea, it has pursued other restrictions against the Russian allies. Ultimately, while coordinated Western pressure could advance peace talks, it may also encourage Moscow to challenge NATO's unity.

Farmer Bailout: The White House has announced a new plan to use revenue from tariffs to provide support to US farmers. This comes as the agricultural sector has seen a downturn in sales as a result of trade restrictions. The use of tariff funds for this purpose will likely lead to two key debates: first, the broader economic impact of these tariffs, and second, their long-term viability as a consistent source of government revenue to address fiscal needs, such as debt reduction.

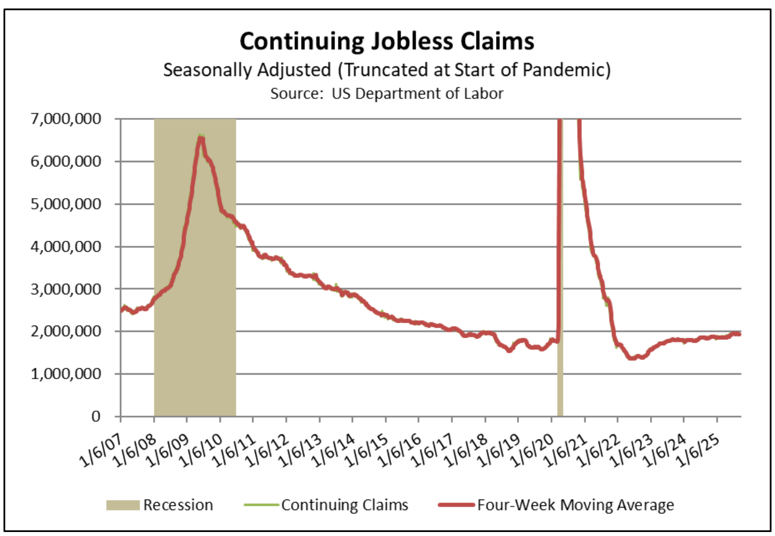
The Chinese Nvidia? In a significant step toward technological self-reliance, Huawei Technologies has launched a new suite of semiconductors, including memory chips and AI accelerators. This announcement comes just one day after China prohibited its domestic companies from buying chips from Nvidia, highlighting a strategic push to control its supply chain. These events mark a major escalation in the US-China tech rivalry as both nations vie for dominance in the critical global semiconductor market.

US Economic Releases

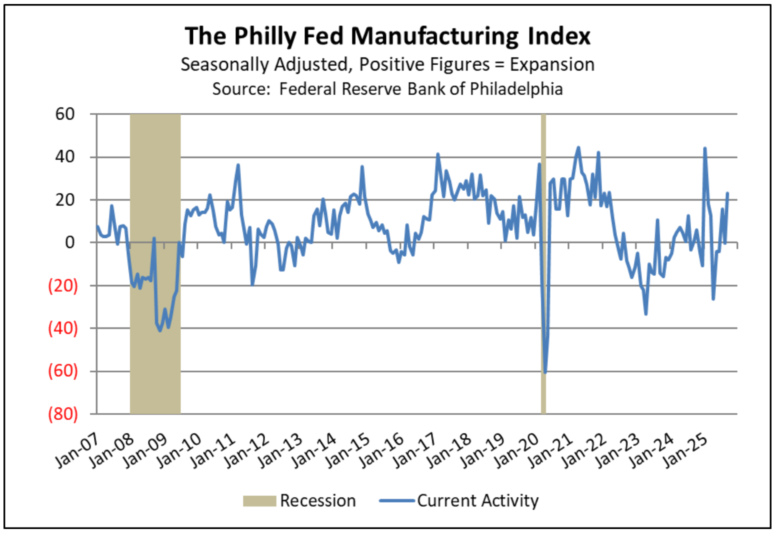
In the week ended September 13, ***initial claims for unemployment benefits*** fell to a seasonally adjusted 231,000, below both the expected level of 240,000 and the prior week's revised level of 264,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, fell to 240,000. The chart below shows how initial jobless claims have fluctuated since just before the Great Financial Crisis (GFC). 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 September 6, the number of ***continuing claims for unemployment benefits*** (people continuing to draw benefits) fell to a seasonally adjusted 1.920 million, below the anticipated reading of 1.950 million and the previous week's revised reading of 1.927 million. The four-week moving average of continuing claims fell to 1,932,500. 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 Philadelphia FRB said its September ***Philly Fed Index*** rose to a seasonally adjusted 23.2, far surpassing both the expected reading of 1.7 and the August reading of -0.3. The index, officially designated as the Philadelphia FRB Manufacturing Activity Index, is designed so that positive readings point to expanding factory activity in the mid-Atlantic region. At its current level, the index suggests mid-Atlantic manufacturing is again growing robustly. The chart below shows how the index has fluctuated since just before the GFC.



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	Leading Economic Index	m/m	Aug	-0.2%	-0.1%	***
16:00	Net Long-Term TIC Flows	m/m	Jul		$150.8b	**
16:00	Total Net TIC Flows	m/m	Jul		$77.8b	**
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	Core Machine Orders	y/y	Jul	4.9%	7.6%	5.2%	**	Equity and bond neutral
	Tokyo Condominiums for Sale	y/y	Aug	78.7%	34.1%		*	Equity and bond neutral
Australia	Employment Change	m/m	Aug	-5.4k	26.5k	21.0k	***	Equity and bond neutral
	Unemployment Rate	m/m	Aug	4.2%	4.2%	4.2%	***	Equity and bond neutral
	Participation Rate	m/m	Aug	66.8%	67.0%	67.0%	**	Equity and bond neutral
New Zealand	GDP	y/y	Q2	-0.6%	-0.6%	0.0%	***	Equity and bond neutral
EUROPE								
Eurozone	ECB Current Account SA	m/m	Jul	€27.7b	€35.8b		*	Equity and bond neutral
	Construction Output	y/y	Jul	3.2%	1.8%		*	Equity and bond neutral
Italy	Current Account Balance	m/m	Jul	8693m	5737m		*	Equity and bond neutral
Switzerland	Real Exports	m/m	Aug	2.4%	-0.8%		*	Equity and bond neutral
	Real Imports	m/m	Aug	0.6%	-0.4%		*	Equity and bond neutral
Russia	Consumer Confidence Index	q/q	Q3	-9	-8		*	Equity bearish, bond bullish
	PPI	y/y	aug	-0.4%	-0.3%		**	Equity and bond neutral
AMERICAS								
Canada	Int'l Securities Transactions	m/m	Jul	26.69b	1.01b		**	Equity and bond neutral
Mexico	International Reserves Weekly	w/w	12-Sep	$246266m	$245465m		*	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)	387	388	-1	Down
U.S. Sibor/OIS spread (bps)	401	402	-1	Down
U.S. Libor/OIS spread (bps)	395	396	-1	Down
10-yr T-note (%)	4.06	4.09	-0.03	Up
Euribor/OIS spread (bps)	202	202	0	Flat
Currencies	**Direction**			
Dollar	Up			Down
Euro	Down			Up
Yen	Up			Down
Pound	Down			Up
Franc	Down			Up
Central Bank Action	**Current**	**Prior**	**Expected**	
FOMC Rate Decision (Upper Bound)	4.25%	4.50%	4.25%	On Forecast
FOMC Rate Decision (Lower Bound)	4.00%	4.25%	4.00%	On Forecast
FOMC Rate on Reserve Balances	4.15%	4.40%	4.15%	On Forecast
Bank of England Bank Rate	4.00%	4.00%	4.00%	On Forecast
Bank of Canada Rate Decision	2.50%	2.75%	2.50%	On Forecast
Brazil Selic Rate	15.00%	15.00%	15.00%	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	$68.26	$67.95	0.46%	
WTI	$64.40	$64.05	0.55%	
Natural Gas	$3.09	$3.10	-0.23%	
Crack Spread	$25.25	$25.65	-1.56%	
12-mo strip crack	$24.64	$24.86	-0.89%	
Ethanol rack	$2.14	$2.14	-0.26%	
Metals				
Gold	$3,667.67	$3,659.90	0.21%	
Silver	$41.84	$41.67	0.39%	
Copper contract	$461.85	$463.20	-0.29%	
Grains				
Corn contract	$426.75	$426.75	0.00%	
Wheat contract	$531.50	$528.25	0.62%	
Soybeans contract	$1,040.00	$1,043.75	-0.36%	
Shipping				
Baltic Dry Freight	2,180	2,154	26	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	-9.29	1.77	-11.05	
Gasoline (mb)	-2.35	0.68	-3.02	
Distillates (mb)	4.05	1.10	2.95	
Refinery run rates (%)	-1.6%	-0.5%	-1.1%	
Natural gas (bcf)		81		

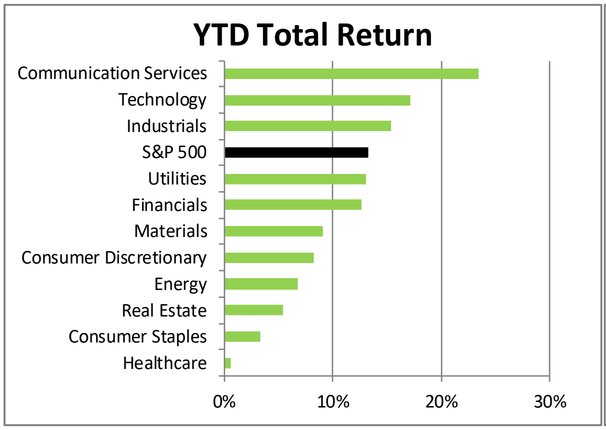
Weather

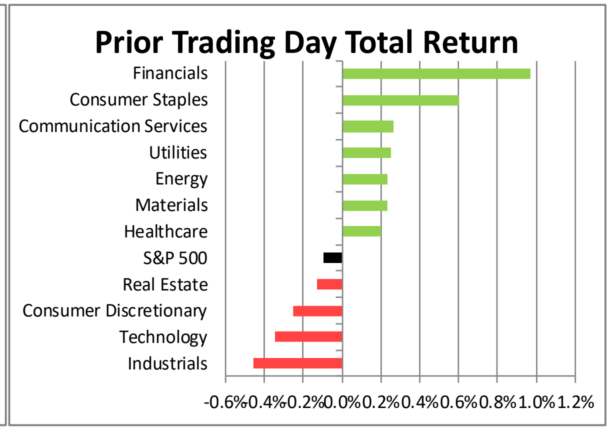
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures from the Rocky Mountains eastward, with near-normal temperatures in all other areas. The forecasts call for wetter-than-normal conditions in the Pacific Northwest, northern California, and the Gulf Coast states,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

There are now two tropical disturbances in the central Atlantic Ocean. Tropical Storm Gabrielle is in the central Atlantic and moving slowly to the northwest. There is also a disturbance off the coast of West Africa that is moving northwesterly with a 20% chance of cyclone formation.

Data Section

US Equity Markets – (as of 9/17/2025 close)

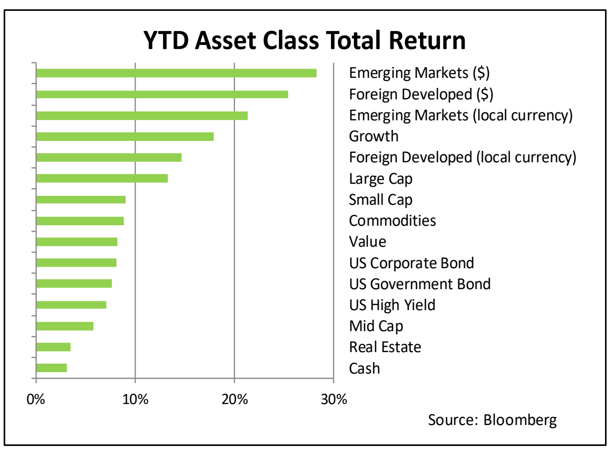




(Source: Bloomberg)

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 9/17/2025 close)

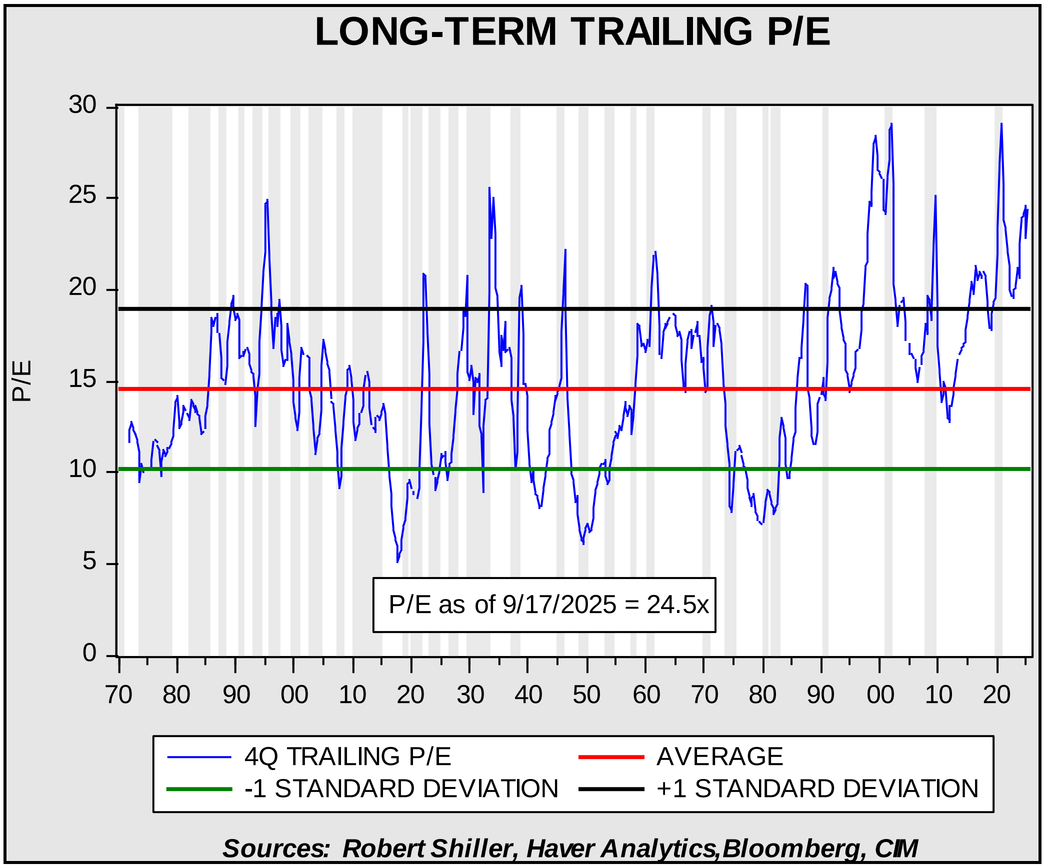


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 18, 2025



Based on our methodology,[1] the current P/E is 24.5x, which is down 0.1 from the previous report. The decrease was due to a decline in the stock price index.

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.

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[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.