

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: September 19, 2025 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is essentially unchanged from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.8%. Chinese markets were lower, with both the Shanghai Composite and the Shenzhen Composite down 0.3% from their previous close. 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

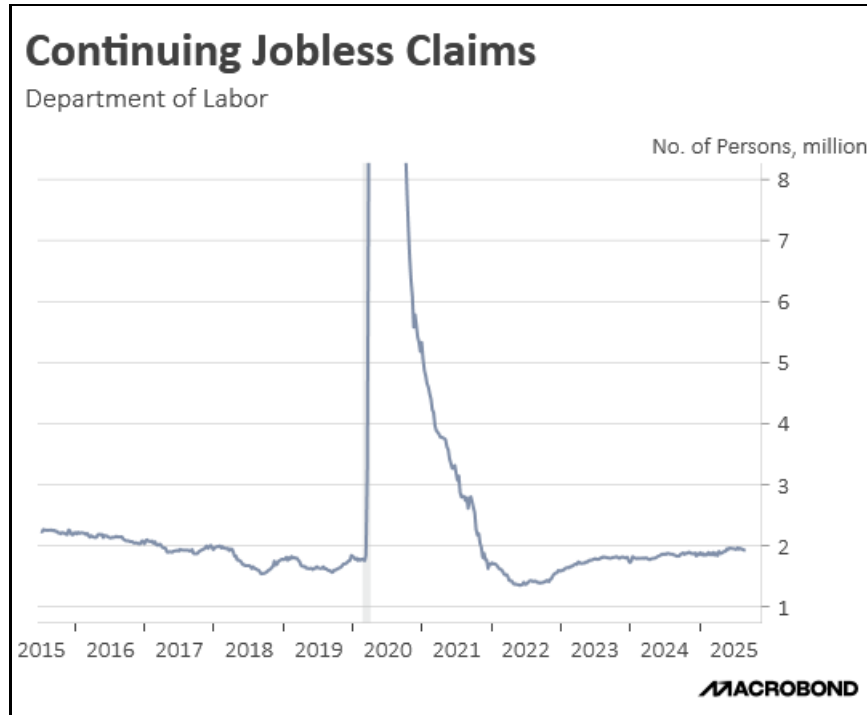
Have a question on the economy, markets, geopolitics, or other important topics? You can submit your queries to our new monthly podcast, *Confluence Mailbag*! Submit your question to mailbag@confluenceim.com.

Our *Comment* begins with an analysis of discrepancies in the weekly jobs data. We then examine the potential implications for US-China relations as the United States signals a desire to re-engage in the Middle East. Additional topics include a new fund for American manufacturing, the possibility of a government shutdown, and Germany’s reluctance to partner with a French defense firm. We also provide a summary of key recent global and domestic economic indicators.

Low Hire, Low Fire? Expectations for Federal Reserve interest rate cuts rose on Thursday due to a data error that cast doubt on the labor market’s health. Although [initial jobless claims fell significantly to 231,000](#), the reported drop in continuing claims to 1.92 million was largely an illusion. It was primarily caused by a major clerical error in North Carolina, which reported a mere 205 claims, a figure drastically lower than the 20,535 reported the previous week.

- This discrepancy in the data indicates that continuing claims may have actually experienced a slight increase from the previous week, despite the reported decline. This

finding suggests that while companies are not yet accelerating layoffs, they are beginning to show hesitation in hiring, a trend that supports the narrative of a cooling labor market. Nevertheless, while continuing claims remain below the 3 million threshold often associated with a recession, the current level is nearing the peak for the expansion.



- The reporting error in continuing claims occurred shortly after a significant portion of the previous week's spike in initial claims was attributed to an [unemployment insurance fraud scheme in Texas](#), which is currently under investigation. It is noteworthy that this fraudulent activity did not prompt a downward revision of the prior week's data; instead, the figure was revised upward from 263,000 to 264,000. This new error, therefore, calls the overall data quality into question.
- We continue to stress the importance of using multiple data sources to get a comprehensive view of the economy. Since the pandemic, we have seen significant data distortions that have made it difficult to pinpoint our position in the business cycle. We are concerned that the Federal Reserve's over-reliance on this potentially flawed data may cause it to fall behind the curve. Therefore, we believe that implementing some portfolio protection may be a prudent measure at this time.

Back to Afghanistan? The US has signaled [an interest in re-establishing a presence at Afghanistan's Bagram Air Base](#), as indicated by a comment made by the president during a visit to the UK. While discussing plans to increase partnership, the president reportedly stated a desire to regain access to the base due to its strategic location. He specifically noted its proximity, describing it as "an hour away from where China makes its nuclear weapons," suggesting the presence would be a form of deterrence.

- The US's desire to position its forces near Chinese nuclear assets, coming just a day before the president's meeting with his Chinese counterpart, Xi Jinping, suggests the two

leaders will discuss more than just trade and technology. The agenda is likely to also include China's allies, Russia and Iran, given their resistance to US efforts regarding Russia's invasion of Ukraine and Iran's nuclear ambitions.

- While officially maintaining a stance of neutrality, China is deepening its engagement in foreign affairs to align with US rivals. Its strategy involves capitalizing on the international isolation of [Russia](#) and [Iran](#) through discounted purchases of their energy resources. Furthermore, China is alleged to have supplied limited military assistance to both countries in the form of dual-use technology, enhancing their defensive capabilities.
- In the days leading up to the meeting with China, the White House has strongly hinted at its willingness to confront China's foreign policy. The administration has urged allies, specifically the EU, to increase efforts to pressure China and India through sanctions, aiming to break their support for Russia's invasion. While this strategy has not yet been effective, it demonstrates a clear desire to pressure China into changing course.
- The talks between US and Chinese leaders will likely set the tone for future relations as they try to navigate their differences. The US request to regain its former Afghan air base is likely a negotiating tactic; however, should the US follow through, it could lead to a significant escalation of tensions. While we do not believe a direct conflict is likely, the risks remain elevated.

American Manufacturing Fund: The [White House is exploring how to use funds received from an investment deal](#) that was struck with Japan. The plan is to use these funds for projects designed to support US ambitions in the chip and AI sectors. This strategy includes an expedited review process to allow for the rapid construction of factories and the development of mining operations, and it may also involve extending company leases to allow them to develop on public land.

Supreme Court Battle: The [White House has requested that the Supreme Court](#) allow it to fire Federal Reserve Governor Lisa Cook while her legal challenge to her removal is ongoing. The move is a test of the president's authority to reshape the Federal Reserve, which has reportedly resisted his push to significantly lower interest rates. If the court rules in the White House's favor, it would set a major precedent that could weigh on the dollar and threaten the central bank's independence.

US Government Shutdown: Growing concerns of a government shutdown are mounting as both sides remain unable to agree on a budget. [Democrats plan to hold out for restored Medicaid funding and ACA subsidies](#). However, Republicans have started the process of passing continuing resolutions [that would fund the government through November 21](#). This growing partisanship raises the likelihood of a prolonged shutdown, which could temporarily impact markets and the economy until an agreement is reached.

German-French Feud: [German officials are looking for alternatives to their French partner, Dassault Aviation SA](#), for the development of a next-generation fighter jet. This comes as Dassault has reportedly pushed for a controlling role in the program. As a result, the Germans are looking for alternative suppliers from the UK, Sweden, or even Spain. While this decision to find

new partners could lead to friction between the two countries, we continue to believe that EU defense companies should benefit from the increased spending.

BOJ Policy Normalization: The [Bank of Japan voted to hold rates unchanged](#) but signaled a shift by announcing it is considering offloading a portion of its massive ETF holdings. The central bank currently holds a portfolio valued at approximately ¥70 trillion (\$475 billion), with plans to sell at a pace of about ¥620 billion annually. While this will not lead to a quick unwinding of its positions, the move is likely to weigh on domestic equities and push up the value of the yen. The policy shift is another signal that the US dollar may have more room to fall.

US Economic Releases

No major US 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			
No economic releases for the rest of today			
Federal Reserve			
EST	Speaker or Event	District or Position	
11:00	Stephen Miran appears on CNBC	Member of the Board of Governors	
14:30	Mary Daly Speaks in a Fireside Chat About AI	President of the Federal Reserve Bank of San Francisco	
16:00	Stephen Miran appears on Fox Business	Member of the Board of Governors	

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	National CPI	y/y	Aug	2.7%	3.1%	2.8%	***	Equity and bond neutral
	National CPI Ex-Fresh Food	y/y	Aug	2.7%	3.1%	2.7%	**	Equity and bond neutral
	National CPI Ex-Fresh Food & Energy	y/y	Aug	3.3%	3.4%	3.3%	*	Equity and bond neutral
	Japan Buying Foreign Bonds	w/w	12-Sep	¥1478.5b	¥208.0b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	12-Sep	¥29.7b	¥891.1b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	12-Sep	¥1188.6b	-¥604.5b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	12-Sep	-¥2034.0b	¥108.6b		*	Equity and bond neutral
New Zealand	Exports NZD	m/m	Aug	5.94b	6.56b		**	Equity and bond neutral
	Imports NZD	m/m	Aug	7.12b	7.27b		**	Equity and bond neutral
	Trade Balance NZD	m/m	Aug	1185m	-716m		**	Equity and bond neutral
EUROPE								
Germany	PPI	y/y	Aug	-2.2%	-1.5%	-1.7%	**	Equity and bond neutral
France	Business Confidence	m/m	Sep	96	97	105	**	Equity and bond neutral
	Manufacturing Confidence	m/m	Sep	96	96	96	*	Equity and bond neutral
UK	GfK Consumer Confidence	m/m	Sep	-19	-17	-18	***	Equity and bond neutral
	Public Finances (PSNCR)	m/m	Aug	10.2b	2.6b		*	Equity and bond neutral
	Public Sector Net Borrowing	m/m	Aug	18.0b	2.8b	12.8b	*	Equity and bond neutral
	PSNB ex Banking Groups	m/m	Aug	18.0b	2.8b		**	Equity and bond neutral
	Retail Sales	y/y	Aug	0.7%	0.8%	0.6%	***	Equity and bond neutral
Russia	Retail Sales Ex-Auto Fuel	y/y	Aug	1.2%	1.0%	1.0%	**	Equity and bond neutral
	Gold and Forex Reserves	m/m	12-Sep	\$705.1b	\$698.5b		***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	12-Sep	18.88t	18.80t		*	Equity and bond neutral
AMERICAS								
Mexico	Aggregate Supply and Demand	y/y	2Q	0.3%	-0.2%		*	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)	388	388	0	Down
U.S. Sibor/OIS spread (bps)	401	401	0	Down
U.S. Libor/OIS spread (bps)	394	394	0	Down
10-yr T-note (%)	4.14	4.11	0.03	Up
Euribor/OIS spread (bps)	203	202	1	Up
Currencies	Direction			
Dollar	Up			Down
Euro	Down			Up
Yen	Up			Down
Pound	Down			Up
Franc	Down			Up
Central Bank Action	Current	Prior	Expected	
BOJ Target Rate	0.50%	0.50%	0.50%	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	\$67.38	\$67.44	-0.09%	
WTI	\$63.35	\$63.57	-0.35%	
Natural Gas	\$2.91	\$2.94	-0.88%	
Crack Spread	\$25.08	\$25.64	-2.20%	
12-mo strip crack	\$24.44	\$24.83	-1.55%	
Ethanol rack	\$2.11	\$2.12	-0.73%	
Metals				
Gold	\$3,649.83	\$3,644.28	0.15%	
Silver	\$42.13	\$41.83	0.72%	
Copper contract	\$461.30	\$460.05	0.27%	
Grains				
Corn contract	\$424.50	\$423.75	0.18%	
Wheat contract	\$523.75	\$524.25	-0.10%	
Soybeans contract	\$1,040.75	\$1,037.50	0.31%	
Shipping				
Baltic Dry Freight	2,205	2,180	25	
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)	90	81	9	

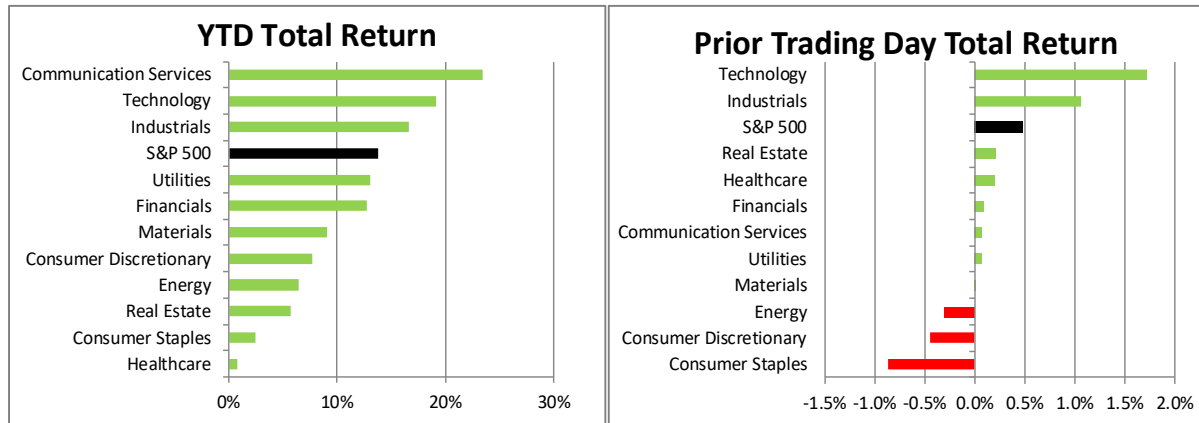
Weather

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 continues to move 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 in the next seven days.

Data Section

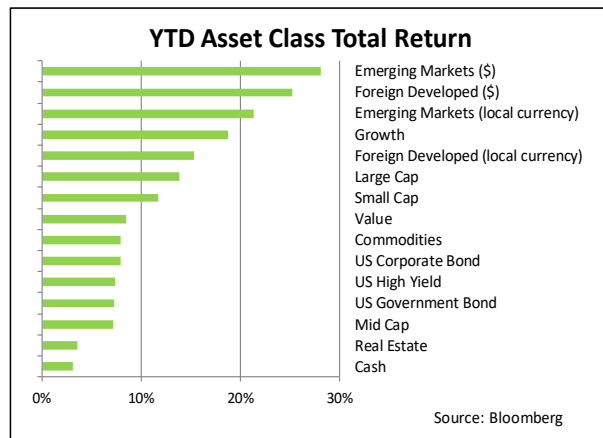
US Equity Markets – (as of 9/18/2025 close)



(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 9/18/2025 close)

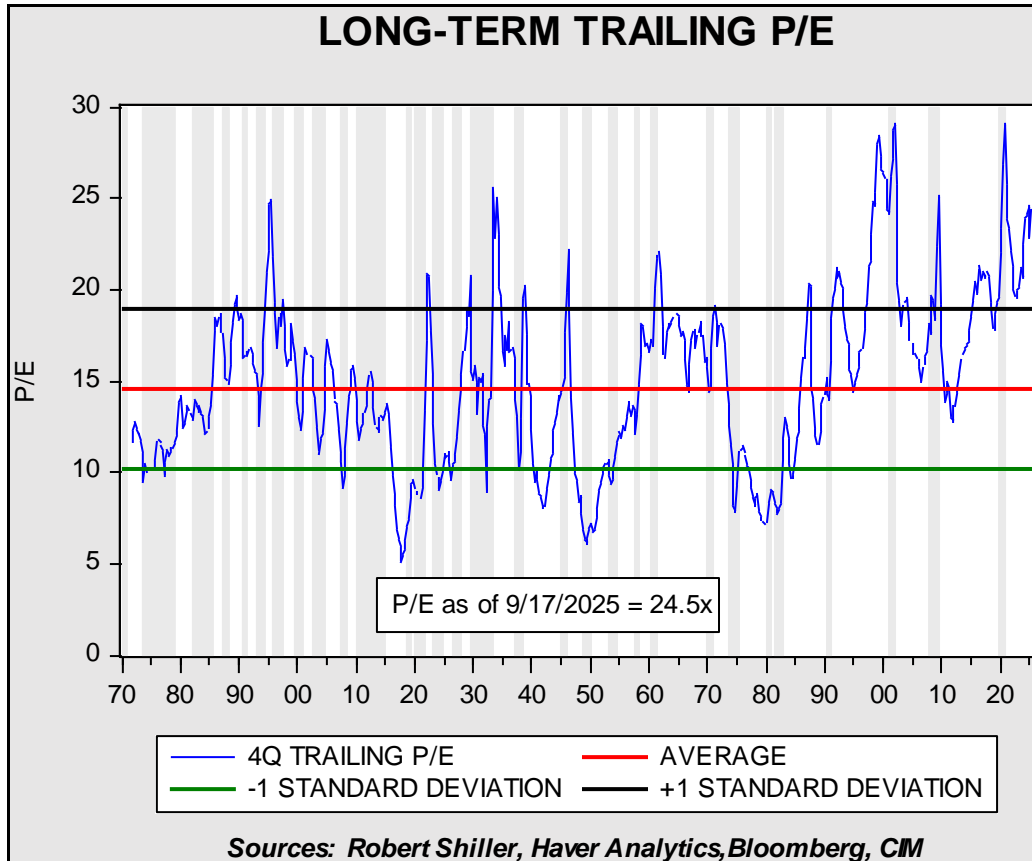


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.

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.