



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: September 23, 2025 – 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 0.5% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.6%. Chinese markets were lower, with the Shanghai Composite down 0.2% from its previous close and the Shenzhen Composite down 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	“Stopping the Bond Vigilante” (9/22/25) + 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* today opens with news of an important video showing flight operations aboard China’s newest aircraft carrier. We discuss the investment implications of this Chinese success, and we recommend watching the video. We next review several other international and US developments with the potential to affect the financial markets today, including a major international institution’s forecast of more aggressive interest-rate cuts in the US and a potential hiccup in the US’s booming private-credit market.

China: State media yesterday [released what appears to be the first-ever video of flight operations taking place aboard China’s new, domestically produced aircraft carrier](#), the *Fujian*. The video shows various aircraft types, including airborne warning and control system (AWACS) planes and J-35 jet fighters, taking off from the deck of the carrier with the help of its advanced electromagnetic catapult and then landing back on the deck. The flights were apparently practice sorties ahead of *Fujian*’s planned commissioning near the end of 2025.

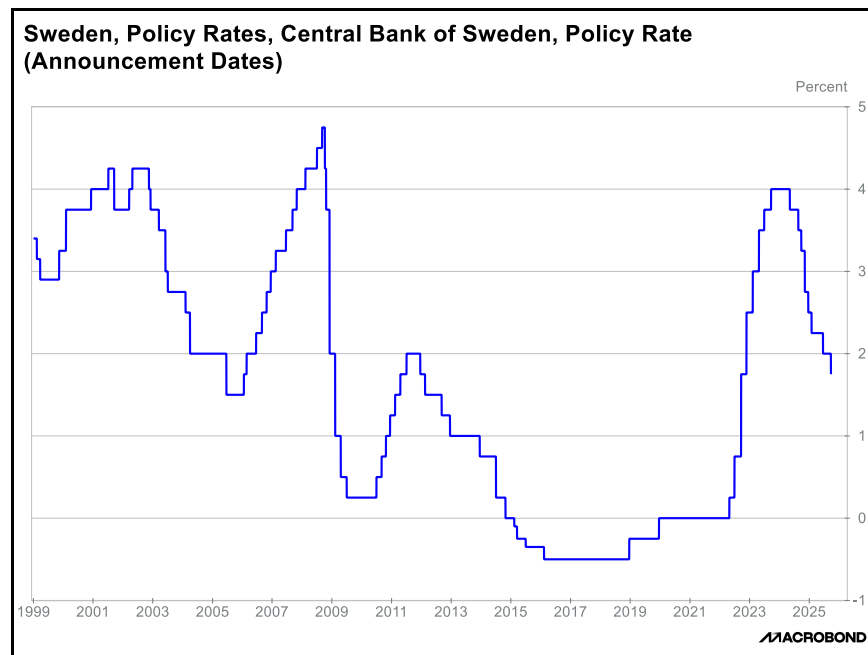
- We think the video was clearly aimed at sending a message that China can now replicate US-style power projection anywhere its fleet can sail. However, *Fujian* and China's other two carriers are smaller than US carriers. In addition, China's carriers run on diesel fuel, as opposed to the US carriers' nuclear propulsion, which limits the capabilities of the Chinese carriers. The Chinese will likely also need considerable time to reach the operational expertise and efficiency of the US carrier fleet.
- All the same, *Fujian* and future advanced carriers are likely to help China even the balance of military power in the Asia-Pacific region. That means China will probably become increasingly confident that it can take control of Taiwan or achieve other territorial goals in the region while deterring intervention by the US and its allies.
- For investors, China's rising military power and increasing ability to deter US and allied military pressure could be a double-edged sword. On the positive side, finely balanced military power could force Washington and Beijing to avoid war, precluding a conflict that would likely devastate each side's economy and financial markets. On the negative side, China's rising military ability could help it to eventually displace the US as the global hegemon and gradually constrict US economic power and financial performance.

China and Hong Kong: Super Typhoon Ragasa [is slamming into the southern provinces of China today, forcing hundreds of thousands of people to evacuate their homes](#) and leading to hundreds of flight cancellations. The storm is the strongest typhoon to hit the area so far this year and is expected to cause significant damage and temporarily disrupt economic activity. The storm could potentially lead to the shutdown of the Shanghai and Shenzhen stock markets today, but the [Hong Kong](#) market is expected to stay open.

OECD-US Monetary Policy In its interim economic outlook published today, the Organization for Economic Cooperation and Development [said slowing US economic growth could justify the Fed cutting its benchmark fed funds interest rate to as low as 3.25% by next spring](#). That would imply three 25-basis-point rate cuts in the coming six months or so, which is slightly more than Fed policymakers and many outside observers have projected.

- The OECD's projection for faster rate cuts is also consistent with our view that personnel changes on the Fed's policymaking board will likely result in faster rate cuts next year.
- Faster rate cuts would likely give a boost to the US economy in 2026 and support further price gains for assets ranging from stocks to gold. However, the rate cuts could add more downward pressure to the dollar.

Sweden: The Riksbank today [unexpectedly cut its benchmark short-term interest rate by 25 basis points to just 1.75%](#), its lowest level in about three years. According to the central bank, the decision reflected continued weak economic growth, which the policymakers saw as likely to bring consumer price inflation down in the coming months. The policymakers also signaled that they did not foresee any further rate cuts going forward.



Denmark-Norway-Russia: Major airports in Copenhagen and Oslo [were forced to close for several hours late yesterday after large drones were spotted in or approaching their airspace](#). According to Danish police, the drones came from several directions, and their size and flight patterns suggested they were sent by a “capable operator.” The incidents show how Europeans are increasingly on edge after Russia’s recent jet fighter and drone incursions into the airspace of Poland, Romania, and Estonia, potentially setting the stage for a market-shaking miscalculation.

France-Israel: At the UN General Assembly yesterday, French President Macron [officially recognized Palestine as a state, a day after the UK, Portugal, Canada, and Australia did the same](#). With the General Assembly continuing this week, more major countries could follow suit, further isolating Israel in an attempt to punish it for its aggressive war against the militant Hamas government in Gaza.

US Military: The US Army [has confirmed that it will cut 6,500 of its 30,000 active-duty aviation jobs over the next two fiscal years](#) as it transitions away from its iconic helicopter systems to unmanned platforms. The move is the latest sign of how drones are becoming key weapon systems for militaries around the world. However, it still isn’t clear to what extent major publicly traded defense contractors will benefit from the trend.

US Pharmaceutical Industry: At a White House event late yesterday, the administration [warned that acetaminophen, the active ingredient in Tylenol, is a potential cause of autism](#). Health and Human Services Secretary Kennedy also said this department would update the warning label for acetaminophen and conduct an awareness campaign about the potential link to autism, despite a range of scientific studies that, taken together, have shown no link.

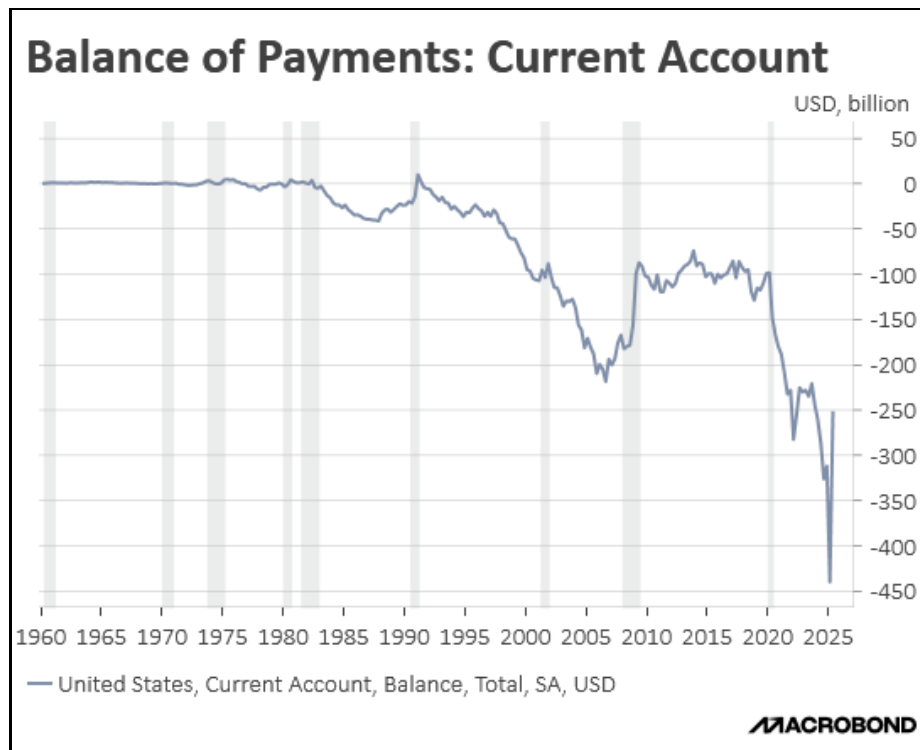
- Tylenol maker Kenvue’s stock price cratered about 7.5% ahead of the announcement, bringing its total decline to about 21% over the last month.

- The steep decline in Kenvue's stock price illustrates the regulatory risk with many healthcare and consumer products companies as the administration rapidly shifts US health policy.

US Private Credit Industry: Private credit firms today [are rattled by the sudden bankruptcy of privately held auto parts firm First Brands](#), which grew rapidly in recent years using debt-fueled acquisitions. Up to \$10 billion of the company's private loans and financial obligations are reportedly plunging in value amid uncertainty over what the lenders might get from the bankruptcy proceedings. The situation could test the resiliency of the booming private-credit industry and potentially have spillover effects for the rest of the financial markets.

US Economic Releases

The **US current account deficit** narrowed from \$439.8 billion to \$251.3 billion in Q2 2025, lower than market expectations of \$256.3 billion. Since the early 1980s, when globalization began accelerating, the current account has remained almost persistently in deficit, driven largely by the US trade imbalance. The sharp decline in the deficit stems from a reduction in imports during the second quarter, as businesses relaxed purchases of foreign goods.



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

Economic Releases						
EST	Indicator			Expected	Prior	Rating
9:45	S&P Global US Manufacturing PMI	m/m	Sep P	52.2	53	***
9:45	S&P Global US Services PMI	m/m	Sep P	54.0	54.5	***
9:45	S&P Global US Composite PMI	m/m	Sep P	54.0	54.6	***
10:00	Richmond Fed Business Conditions	m/m	Sep	-5	-7	**
10:00	Richmond Fed Manufact. Index	m/m	Sep		6	*
Federal Reserve						
EST	Speaker or Event	District or Position				
8:30	Austan Goolsbee Speaks on CNBC	President of the Federal Reserve Bank of Chicago				
9:00	Michelle Bowman Speaks on Economic Outlook	Member of the Board of Governors				
10:00	Raphael Bostic Participates in Live Podcast Interview	President of the Federal Reserve Bank of Atlanta				
12:35	Jerome Powell Speaks on Economic Outlook	Chairman of the Board of Governors				
15:30	Austan Goolsbee Speaks on ABC News Live	President of the Federal Reserve Bank of Chicago				

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								
Australia	S&P Global Australia Composite PMI	m/m	Sep P	52.1	55.5		*	Equity and bond neutral
	S&P Global Australia Manufacturing	m/m	Sep P	51.6	53.0		***	Equity and bond neutral
	S&P Global Australia Services PMI	m/m	Sep P	52.0	55.8		*	Equity and bond neutral
South Korea	PPI	y/y	Aug	0.6%	0.5%		**	Equity and bond neutral
	Consumer Confidence	m/m	Sep P		111.4		*	Equity and bond neutral
India	HSBC India PMI Composite	m/m	Sep P	61.9	63.2		**	Equity and bond neutral
	HSBC India PMI Mfg	m/m	Sep P	58.5	59.3		***	Equity and bond neutral
	HSBC India PMI Services	m/m	Sep P	61.6	62.9		**	Equity and bond neutral
EUROPE								
Eurozone	HCOB Eurozone Manufacturing PMI	m/m	Sep P	49.5	50.7	50.7	***	Equity bearish, bond bullish
	HCOB Eurozone Services PMI	m/m	Sep P	51.4	50.5	50.5	**	Equity bullish, bond bearish
	HCOB Eurozone Composite PMI	m/m	Sep P	51.2	51.0	51.1	*	Equity and bond neutral
Germany	HCOB Germany Manufacturing PMI	m/m	Sep P	48.5	49.8	50.0	***	Equity bearish, bond bullish
	HCOB Germany Services PMI	m/m	Sep P	52.5	49.3	49.5	**	Equity bullish, bond bearish
	HCOB Germany Composite PMI	m/m	Sep P	52.4	50.5	50.7	**	Equity bullish, bond bearish
France	HCOB France Manufacturing PMI	m/m	Sep P	48.1	50.4	50.1	***	Equity bearish, bond bullish
	HCOB France Services PMI	m/m	Sep P	48.9	49.8	49.6	**	Equity bearish, bond bullish
	HCOB France Composite PMI	m/m	Sep P	48.4	49.8	49.7	**	Equity bearish, bond bullish
UK	S&P Global UK Manufacturing PMI	m/m	Sep P	46.2	47.0	47.1	***	Equity bearish, bond bullish
	S&P Global UK Services PMI	m/m	Sep P	51.9	54.2	53.5	**	Equity bearish, bond bullish
	S&P Global UK Composite PMI	m/m	Sep P	51.0	53.5	53.0	**	Equity bearish, bond bullish
AMERICAS								
Canada	Industrial Product Price	m/m	Aug	0.5%	0.7%	0.1%	**	Equity and bond neutral
	Raw Materials Price Index	m/m	Aug	-0.6%	0.3%		*	Equity and bond neutral
Mexico	Retail Sales	y/y	Jul	2.4%	2.5%	1.6%	***	Equity bullish, bond bearish
	Economic Activity IGAE	y/y	Jul	-1.14%	1.30%	-0.45%	**	Equity bearish, bond bullish

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)	382	384	-2	Down
U.S. Sibor/OIS spread (bps)	400	401	-1	Down
U.S. Libor/OIS spread (bps)	393	394	-1	Down
10-yr T-note (%)	4.13	4.15	-0.02	Up
Euribor/OIS spread (bps)	200	202	-2	Down
Currencies	Direction			
Dollar	Up			Down
Euro	Down			Up
Yen	Up			Down
Pound	Down			Flat
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	\$67.14	\$66.57	0.86%	
WTI	\$62.92	\$62.28	1.03%	
Natural Gas	\$2.79	\$2.81	-0.61%	
Crack Spread	\$23.45	\$24.79	-5.42%	
12-mo strip crack	\$23.95	\$24.29	-1.38%	
Ethanol rack	\$2.07	\$2.09	-0.64%	
Metals				
Gold	\$3,788.46	\$3,746.70	1.11%	
Silver	\$44.43	\$44.06	0.84%	
Copper contract	\$462.95	\$463.20	-0.05%	
Grains				
Corn contract	\$421.75	\$421.75	0.00%	
Wheat contract	\$510.75	\$510.75	0.00%	
Soybeans contract	\$1,006.75	\$1,011.00	-0.42%	
Shipping				
Baltic Dry Freight	2,172	2,203	-31	
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		

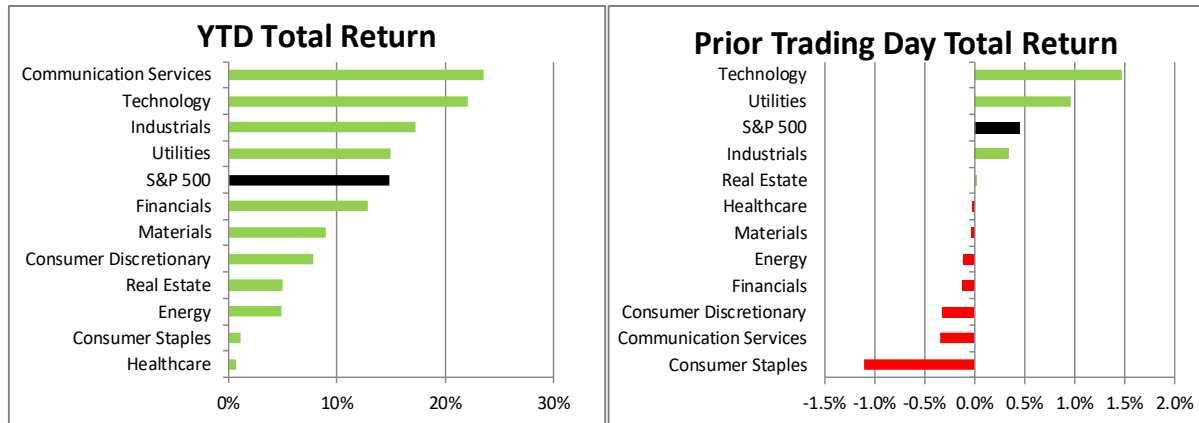
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for the entire country. The precipitation outlook calls for wetter-than-normal conditions in the Pacific, Rocky Mountain, and the Southeast states, with dry conditions in the Great Plains, Midwest, and Northeast.

There are now three tropical disturbances in the central Atlantic Ocean. Hurricane Gabrielle is moving slowly to the northwest. Additionally, two other disturbances have a high chance of developing into tropical cyclones. The first is near the Leeward Islands and has a 60% chance of formation in the next seven days. The second, located deeper in the Atlantic, has an even higher 90% chance of forming into a cyclone.

Data Section

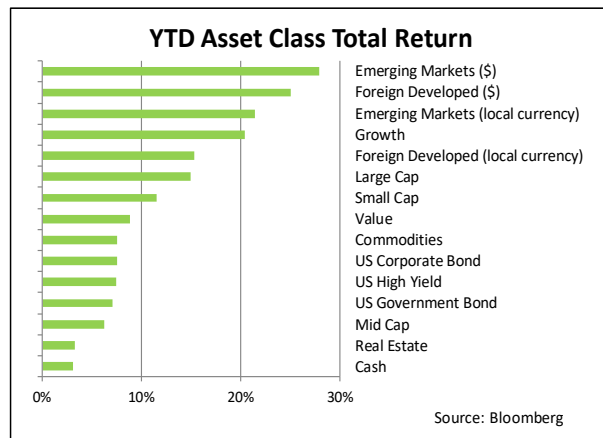
US Equity Markets – (as of 9/22/2025 close)



(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 9/22/2025 close)

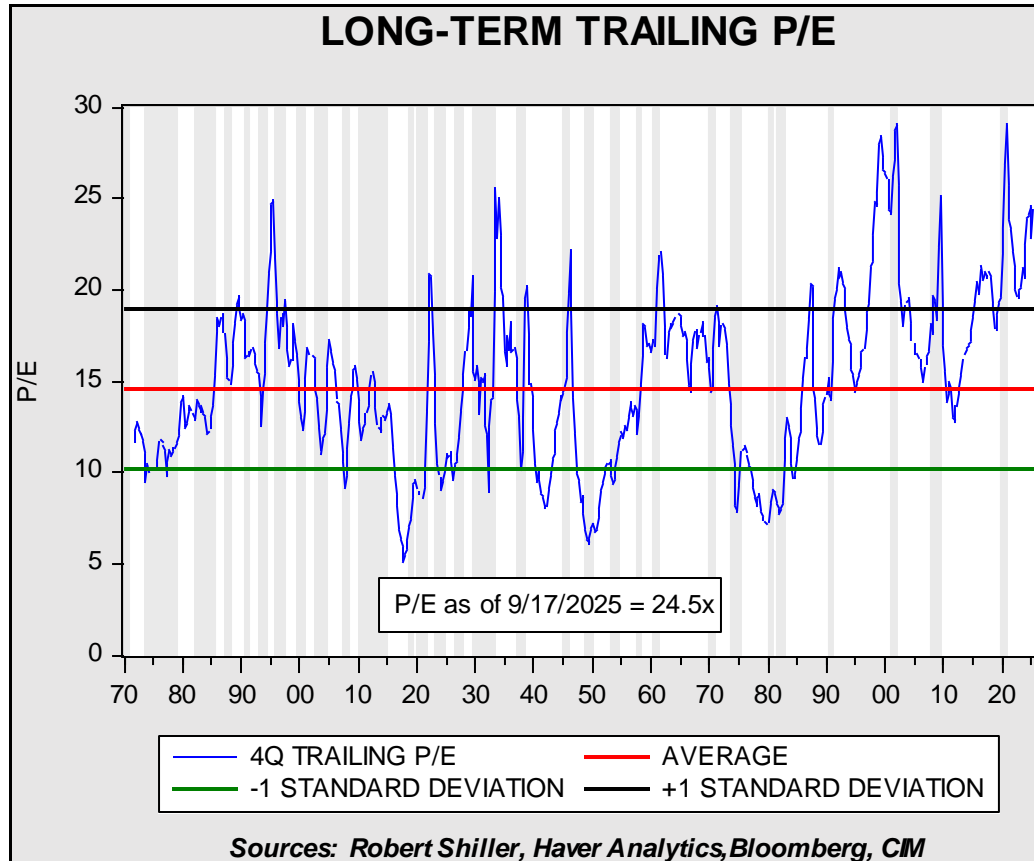


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.