Daily Comment

Confluence INVESTMENT MANAGEMENT

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[Posted: September 24, 2025 — 9:30 AM ET] Global equity markets are mostly higher 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 0.9%. Chinese markets were higher, with the Shanghai Composite up 0.8% from its previous close and the Shenzhen Composite up 1.6%. 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	"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* begins with a look at a possible pivot in US foreign policy. We then analyze the latest comments from Federal Reserve officials regarding the future path of interest rates. Additional topics include more investment news from the Stargate initiative, the president's brief encounter with Brazilian President Lula da Silva, and the growing possibility of a government shutdown. We also provide a summary of key recent global and domestic economic indicators.

Foreign Policy Pivot? The president has now opened the door for greater support for Ukraine by arguing that he believes the country can win back all the territory it lost to Russia. His comments represent a significant shift in attitude as he had previously suggested that Ukraine "does not have cards" and should be willing to make concessions for a peace deal. This new, more confrontational stance toward Moscow may signal a change in Washington's foreign policy approach.

- The White House's new stance is likely a response to Moscow's recent attempts to breach NATO territory. Over the last few weeks, Russian drones have been sighted in

Romania, Poland, and Estonia, in what appears to be a test of NATO's resolve and willingness to defend those territories. The president has expressed his frustration with these incursions, stating that NATO should down them.

- Reflecting the shift in the president's tone, Secretary of State Marco Rubio has also affirmed that the US is prepared to defend "every inch of NATO territory." These statements, which follow calls from NATO for a more robust response to Russian incursions, suggest that the US is now aligning its policy more closely with its military allies.
- While we remain confident that the White House ultimately prefers peace, we have observed a distinct hawkish shift in both its foreign policy rhetoric and actions in recent weeks. Key indicators include the symbolic renaming of the Department of Defense to the Department of War, the push to reposition troops near Chinese nuclear facilities in Afghanistan, and the recent attacks on Venezuelan vessels suspected of drug trafficking.
- The president's increasingly hardened stance toward Moscow may primarily be a tactical maneuver to compel Russia to negotiate a peace settlement. However, this shift also serves as a broader signal to international actors that the United States is prepared to confront aggression. While we assess that the probability of direct conflict remains relatively low, it is likely higher than what is currently reflected in market valuations.

Fed Speaks: Following the Fed's first interest rate cut in a year, Chair Jerome Powell underscored a flexible approach to future monetary policy. Speaking to business leaders in Providence, Rhode Island, Powell described rates as "modestly restrictive" and stated that balancing near-term inflation risks with potential threats to employment presents a "no-risk-free path." His nuanced view on labor market risks is likely to fuel speculation that the central bank remains undecided on its future monetary policy direction.

- His comments highlighted the deep divisions within the Fed, a sentiment already suspected by investors after last month's meeting. The committee's "dots plot" revealed an almost even split between members who favor one or fewer rate cuts this year and those who anticipate at least two.
- This internal debate has become public in recent speeches. For example, Chicago Fed President Austan Goolsbee has explicitly stressed the need for inflation to return to the 2% target. In contrast, Fed Governor Michelle Bowman argues that the central bank was late in addressing labor market imbalances, urging for swift rate cuts.
- A senior White House official and current Federal Reserve governor, Stephen Miran, has also entered the debate. He argues that the administration's policies — specifically on deregulation, immigration, and tariffs — are fundamentally reshaping the economic landscape. According to Miran, these changes are lowering the neutral rate, therefore paving the way for as much as 200 basis points of interest rate cuts from current levels.
- Fed officials are likely to remain data-dependent, and their lack of a clear policy direction highlights this. Chair Powell's view that policy is "modestly restrictive" hints at a preference for lowering rates. However, more aggressive rate cuts will require evidence of a cooling labor market, while signs of persistent inflation could force rates to remain on hold.

GPS Jamming: A growing number of European flights are experiencing attacks on their GPS systems. Most recently, a Spanish military plane traveling to Lithuania faced interference. Although the attack was ultimately blocked, it marks another incident of GPS tampering. A few weeks ago, a plane carrying European Parliament President Ursula von der Leyen experienced a similar situation. This pattern of interference, likely originating from Russia, signals a potential ambition to broaden the conflict beyond Ukraine.

Stargate Data Centers: OpenAI, SoftBank, and Oracle have announced plans to develop five new data centers for the "Stargate" project, an initiative being pursued in collaboration with the US government. This move is part of a broader effort by major tech firms to build out AI infrastructure, aimed at ensuring the United States maintains its technological edge. Such significant investment spending reinforces the narrative that has buoyed AI stocks and continues to provide underlying support for the economy.

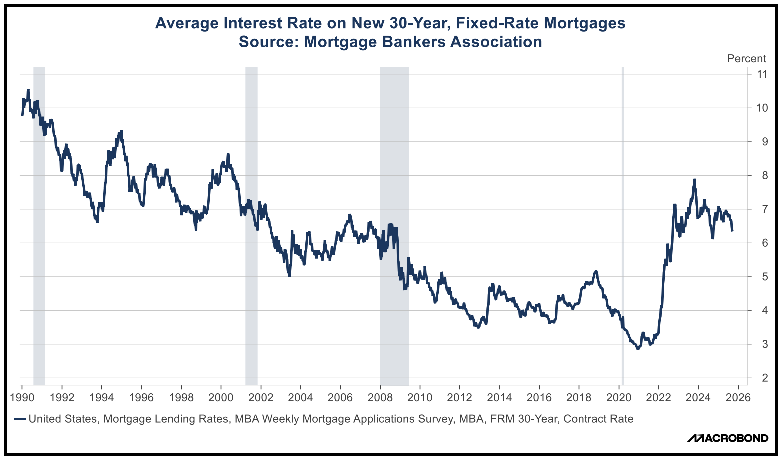
Trump Meets Lula: In a bid to resolve their differences, the presidents of the US and Brazil adopted a conciliatory tone during a meeting at the UN's annual gathering in New York. The exchange came after Brazilian President Lula, who had taken subtle jabs at the US president earlier in the day, had a brief, impromptu conversation with him and subsequently requested a more formal meeting. The conversation helped boost demand for financial assets in Brazil.

Government Shutdown: The risk of a government shutdown has intensified in recent days as the president has yet to meet with Democratic leaders to negotiate a budget deal. The primary point of contention is healthcare funding, which faces significant cuts in the proposed Republican budget. While the president has not entirely ruled out a meeting, he has stated he will not be bullied into accepting demands he opposes. Complicating the situation for Republicans is that they will need the support of at least seven Democratic senators to pass the bill.

AI Global Push: Technology equities worldwide are receiving a boost as countries embrace the AI revolution. In China, Alibaba's plans for new spending have helped lift the stock, while stronger-than-expected performance from Micron Technologies has bolstered sentiment for domestic tech stocks. We believe tech stocks will maintain their momentum for the foreseeable future. However, as expectations grow, so does the risk of disappointment if goals aren't met. As a result, we think it remains prudent for investors to maintain exposure to other sectors as well.

US Economic Releases

The Mortgage Bankers Association said ***mortgage applications*** in the week ended September 20 edged up 0.6%, after surging 29.7% in the previous week. Applications for home purchase mortgages rose 0.3%, after increasing 2.9% in the prior week, while applications for refinancing mortgages rose 0.8%, after rocketing 57.7% the week before. According to the data, the average interest rate on a 30-year, fixed-rate mortgage fell 5 basis points to a nearly one-year low of 6.34%. The chart below shows how mortgage rates have changed over time.



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	New Home Sales	m/m	Aug	650k	652k	***
10:00	New Home Sales MoM	m/m	Aug	-0.3%	-0.6%	**
10:00	Building Permits	m/m	Aug F	1312K	1312K	**
Federal Reserve						
EST	**Speaker or Event**	**District or Position**				
16:10	Mary Daly Gives Keynote Remarks on Monetary Policy	President of the Federal Reserve Bank of San Francisco				

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	S&P Global Japan Composite PMI	m/m	Sep P	51.1	52.0		*	Equity and bond neutral
	S&P Global Japan Manufacturing PMI	m/m	Sep P	48.4	49.7		***	Equity and bond neutral
	S&P Global Japan Services PMI	m/m	Sep P	53.0	53.1		*	Equity and bond neutral
	Machine tool orders	y/y	Aug F	8.5%	8.1%		**	Equity and bond neutral
Australia	CPI	y/y	Aug	3.0%	2.8%	2.9%	**	Equity and bond neutral
South Korea	Consumer Confidence	m/m	Sep P	110.1	111.4		*	Equity bearish, bond bullish
	Retail Sales	y/y	Aug	3.7%	9.1%		**	Equity bearish, bond bullish
	Depart. Store Sales	y/y	Aug	2.8%	5.1%		*	Equity bearish, bond bullish
	Discount Store Sales	y/y	Aug	-15.6%	-2.4%		*	Equity bearish, bond bullish
EUROPE								
Germany	IFO Business Climate	m/m	Sep	87.7	88.9	89.4	***	Equity bearish, bond bullish
	IFO Current Assessment	m/m	Sep	85.7	86.4	86.6	**	Equity bearish, bond bullish
	IFO Expectations	m/m	Sep	89.7	91.4	92.0	**	Equity bearish, bond bullish
AMERICAS								
Mexico	International Reserves Weekly	w/w	25-Mar	-$246528	$200976m		*	Equity and bond neutral
Brazil	FGV Consumer Confidence	y/y	Sep	87.5	86.2		*	Equity bullish, bond bearish

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)	385	385	0	Down
U.S. Sibor/OIS spread (bps)	400	400	0	Down
U.S. Libor/OIS spread (bps)	393	393	0	Down
10-yr T-note (%)	4.11	4.11	0.00	Up
Euribor/OIS spread (bps)	200	200	0	Down
Currencies	**Direction**			
Dollar	Up			Down
Euro	Down			Up
Yen	Up			Down
Pound	Down			Down
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	$68.38	$67.63	1.11%	
WTI	$64.11	$63.41	1.10%	
Natural Gas	$2.83	$2.85	-0.74%	
Crack Spread	$23.30	$23.53	-0.94%	
12-mo strip crack	$23.99	$24.17	-0.73%	
Ethanol rack	$2.06	$2.06	-0.17%	
Metals				
Gold	$3,767.83	$3,764.01	0.10%	
Silver	$43.98	$44.03	-0.10%	
Copper contract	$460.95	$464.40	-0.74%	
Grains				
Corn contract	$425.75	$426.25	-0.12%	
Wheat contract	$521.00	$520.50	0.10%	
Soybeans contract	$1,007.50	$1,012.00	-0.44%	
Shipping				
Baltic Dry Freight	2,200	2,172	28	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		0.50		
Gasoline (mb)		-1.00		
Distillates (mb)		2.00		
Refinery run rates (%)		-0.8%		
Natural gas (bcf)		76		

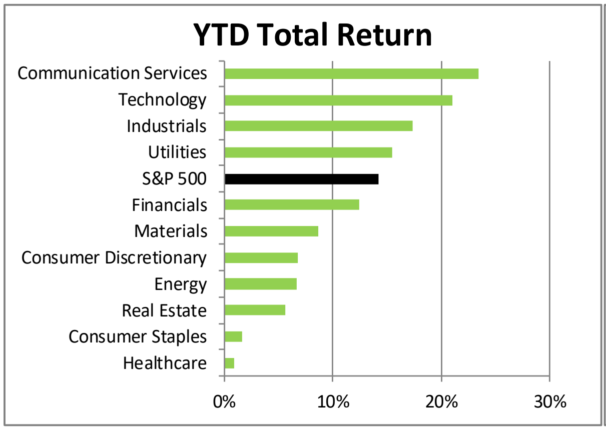
Weather

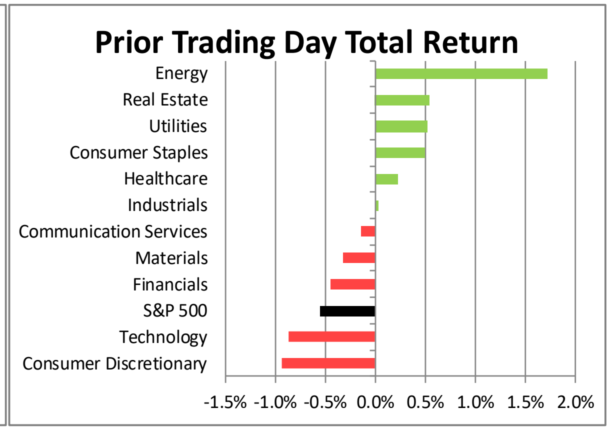
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for the entire country. The forecasts call for wetter-than-normal conditions in the Far West and the Southeast, with dry conditions in the Great Plains, Midwest, and Northeast.

There are now three tropical disturbances in the central Atlantic Ocean. Hurricane Gabrielle is moving slowly eastward toward Europe. There is also a tropical disturbance near the Leeward Islands that is moving northwesterly toward the Bahamas and is assessed to have an 80% chance of cyclonic formation in the next seven days. A second disturbance, located deeper in the central Atlantic, is moving northwesterly and is assessed to have a 90% chance of forming a cyclone over the next week.

Data Section

US Equity Markets – (as of 9/23/2025 close)

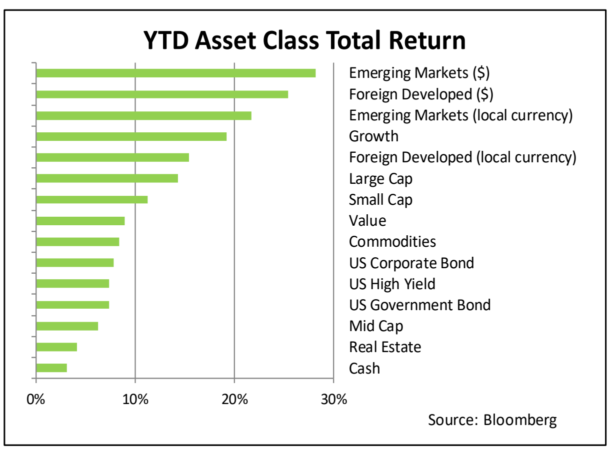




(Source: Bloomberg)

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 9/23/2025 close)

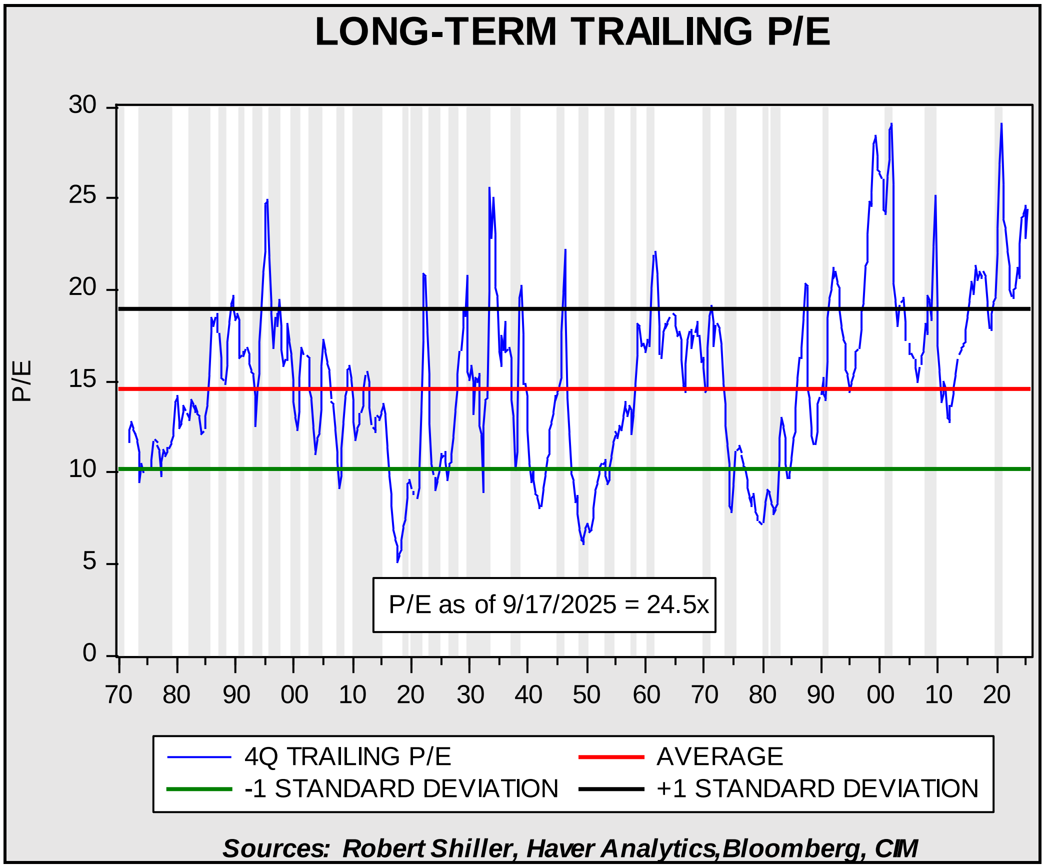


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.