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**[Posted: September 25, 2025 — 9:30 AM ET]** Global equity markets are mostly lower this morning. In Europe, the Euro Stoxx 50 is down 0.8% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.4%. Chinese markets were mixed, with the Shanghai Composite essentially unchanged from its previous close and the Shenzhen Composite up 0.2%. 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
<a href="#">“The Great AI Race: A Sputnik Moment for the 21<sup>st</sup> Century”</a> (9/15/25) + <a href="#">podcast</a>	<a href="#">“Stopping the Bond Vigilante”</a> (9/22/25) + <a href="#">podcast</a>	<a href="#">Q3 2025 Report</a>  <a href="#">Q3 2025 Rebalance Presentation</a>	<a href="#">The Confluence Mailbag Podcast</a>  <a href="#">Business Cycle Report</a>

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](mailto:mailbag@confluenceim.com).

Our *Comment* begins with an analysis of a potential change to the Fed’s inflation target. We then provide insights on the latest White House investment initiatives aimed at promoting its policy agenda. Additional topics include the possibility of further tariffs, the US’s financial support for Argentina, and the ongoing efforts to resolve the conflict in Gaza. We also provide a summary of recent global and domestic key economic indicators.

**Soft Inflation Target?** A growing number of Federal Reserve officials have signaled a [willingness to consider an inflation target range](#), moving away from a rigid inflation target. This perspective has been highlighted in recent speeches by Fed Governors Christopher Waller and Michelle Bowman, alongside Atlanta Fed President Raphael Bostic. These comments emerge as the Fed digests the findings of its latest five-year policy framework review, which was completed in August.

- Of the three officials who mentioned a possible change, only Raphael Bostic provided a concrete example. During an appearance on the "Macro Musings" podcast, the Atlanta

Fed President suggested he [could favor an inflation target range of 1.75% to 2.25%](#). Under such a framework, the Fed would likely raise interest rates if inflation exceeded the upper limit and lower them if it fell below the lower bound.

- Adopting an inflation target range would represent a significant shift in how most central banks approach their price stability mandate. However, this model has a clear precedent. The Central Bank of Brazil successfully manages inflation with a system that includes a tolerance band of  $\pm 1.5$  percentage points around its central target, effectively targeting a range from 1.50% to 4.50%.
- Additionally, the adoption of a rigid 2% inflation target was somewhat arbitrary, as the original proposal was a bit vague. The concept was first introduced by Harvard economist Sumner Slichter in a 1952 *Harper's Weekly* article, "[How Bad Is Inflation?](#)", where he explicitly proposed a target of 2 or 3%. This was a significant departure from the prevailing economic view that price stability meant inflation should average zero in the long run.
- A move to an inflation target range likely signals concern within the Fed that its current communication is ineffective. A defined range would force more pre-emptive and unambiguous rate adjustments ahead of policy meetings. However, this clarity could well have negative implications for bond markets, as a rules-based approach might limit the Fed's flexibility in responding to unexpected economic shocks.

**New Industrial State:** The [White House is considering acquiring a 10% stake in Lithium Americas](#) as part of a renegotiation of its \$2.3 billion loan from the Department of Energy. This potential move underscores a growing trend of direct government involvement in the economy, specifically aimed at ensuring that the US can become more self-sufficient in developing critical technologies and reducing reliance on foreign supply chains, particularly from China.

- This action is the latest example of growing integration between the public and private sectors. It follows a similar deal with Intel, in which the government also took a 10% share in the company. This emerging practice suggests that the government may be seeking greater control and a direct return on investment for companies receiving significant public funding, especially in sectors deemed critical to national and economic security.
- Beyond government support, companies receiving public backing are also attracting significant private investment. This was demonstrated on Tuesday, when it was reported that Intel, which had already secured a \$2 billion investment from SoftBank, [is now in talks with Apple for another cash injection](#). These discussions are part of Intel's broader strategy to sell its chips to the iPhone maker, as Apple faces growing pressure to reshore much of its manufacturing capacity to the United States.
- The evolving relationship between the government and the private sector points toward greater integration. A probable consequence is a competitive advantage for firms with close government affiliations, which may receive preferential treatment in the form of directed contracts. The long-term risk of this arrangement, however, is a potential decline in operational efficiency for these favored companies, as market discipline may be weakened by guaranteed government support.

**New Tariffs:** The White House has launched an investigation into imports of robotics, industrial machinery, and medical devices [under Section 232 of the Trade Expansion Act](#). The process, which began on September 2, authorizes the president to impose tariffs on goods deemed critical to national security. While potential tariffs on these specific goods have not been discussed, the president has routinely shown a willingness to use this authority (typically imposing tariffs 50% or higher for specific products) to protect strategically important industries.

**Weak Lending Standards:** Debt investors are [concerned about increasingly lax credit standards](#) following the recent failures of two seemingly healthy companies. This apprehension stems from the collapse of subprime lender Tricolor and car parts supplier First Brands Group filing for bankruptcy, both of which had access to favorable financing before their respective downfalls. While this issue is not expected to trigger a financial crisis, it is raising questions about the financial health and stability of other companies in the market.

**Argentine Bailout:** The US government [has moved to support Argentina and prevent a collapse of its currency](#). Treasury Secretary Scott Bessent has signaled a willingness to purchase Argentine dollar-denominated bonds and could offer standby credit via the Exchange Stabilization Fund. This action underscores the US dollar's enduring influence globally, even as its reserve currency status faces challenges. While we maintain a bearish outlook on the dollar, we expect its decline to be volatile.

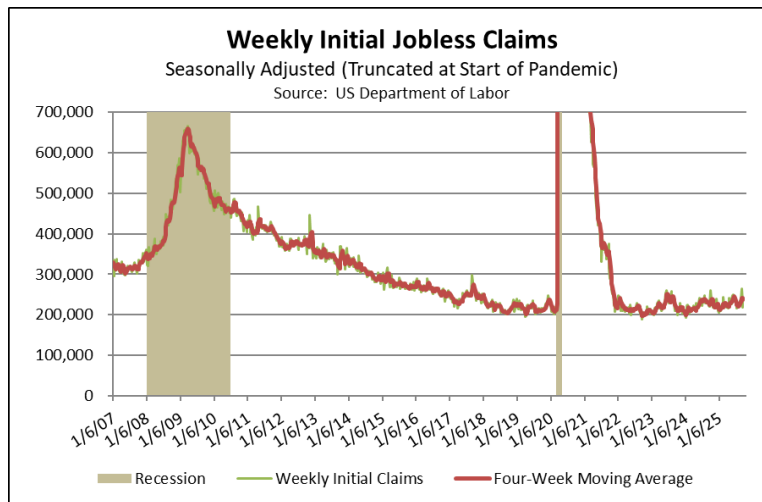
**Gaza Peace Plan:** The White House [has reportedly presented a 21-point plan to Arab and Muslim leaders](#) aimed at ending the war in Gaza and establishing a post-Hamas government. This diplomatic push comes as the US seeks an urgent resolution to the conflict to focus on other pressing global issues. During the discussions, the US reportedly [reassured leaders that it would not permit Israel to annex the West Bank](#). A peaceful resolution to the Middle East conflict would expectedly help stabilize global oil markets.

**Energy Policy:** A survey from the Federal Reserve Bank of Dallas reveals [significant concern within the oil industry that current US government policies](#) are negatively impacting profitability. Industry participants cite the administration's dual pressures of advocating for lower energy prices while supporting tariffs on essential equipment as major factors compressing margins. This weak sentiment suggests that certain sectors may take longer than expected to adapt to the new policy environment.

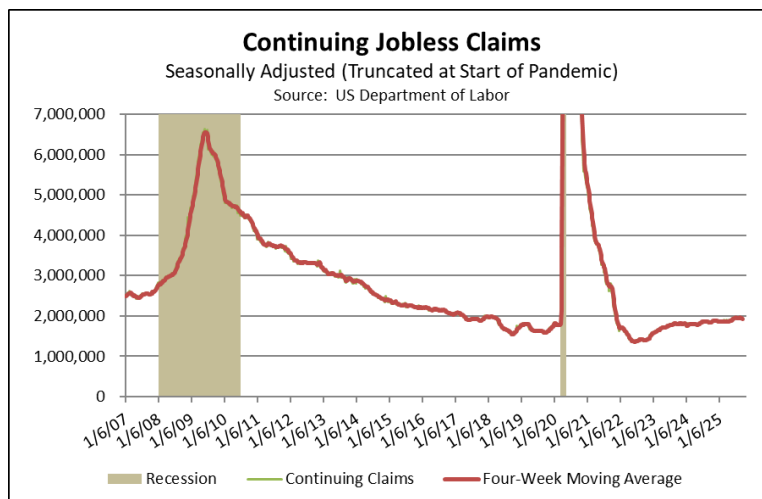
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## US Economic Releases

In the week ended September 20, *initial claims for unemployment benefits* fell to a seasonally adjusted 218,000, well below both the expected level of 233,000 and the prior week's revised level of 232,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, fell to 237,500. The chart below shows how initial jobless claims have fluctuated since just before the Great Financial Crisis. The chart is truncated through much of the pandemic period because of the extremely high level of claims at that time.

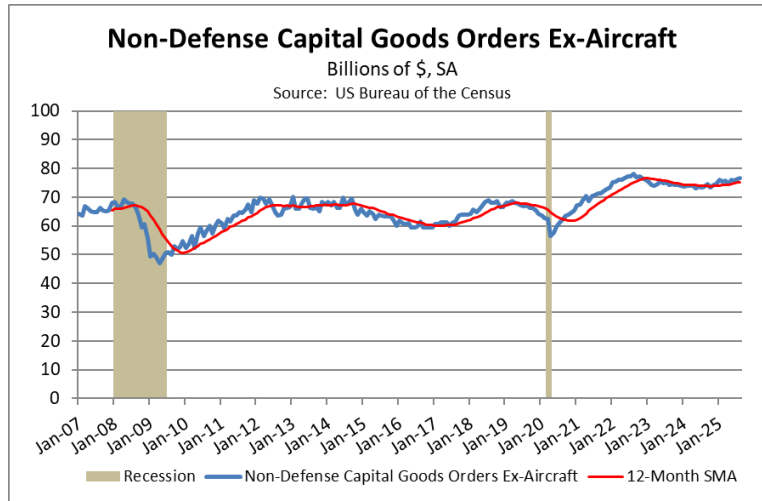


In the week ended September 13, the number of *continuing claims for unemployment benefits* (people continuing to draw benefits) fell to a seasonally adjusted 1.926 million, below both the anticipated reading of 1.932 million and the previous week's revised reading of 1.928 million. The four-week moving average of continuing claims fell to 1.930 million. 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.

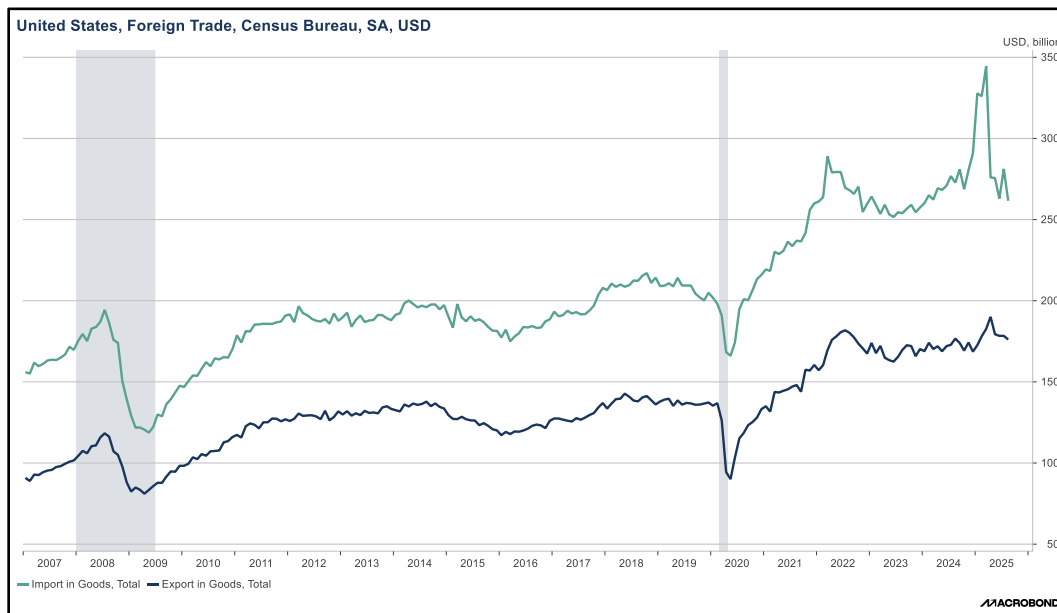


Separately, August *durable goods orders* jumped by a seasonally adjusted 2.9%, far better than the expected decline of 0.3% and just enough to offset the revised July drop of 2.7%. Durable goods orders are often driven by transportation equipment, where just a few airliner orders can have a big impact. August *durable goods orders excluding transportation* rose 0.4%, beating expectations that they would be flat but still slowing from their July rise of 1.0%. Finally, the durable goods report also includes a key proxy for corporate capital investment. In August, *nondefense capital goods orders ex-aircraft* rose 0.6%, beating expectations that they would be flat but slowing from their revised rise of 0.8% in July. Compared with the same month one year earlier, overall durable goods orders in August were up 5.4%, while durable orders ex-transport

were up 2.0%. Nondefense capital goods orders ex-aircraft were up 2.9%. The chart below shows the progression of nondefense capital goods orders ex-aircraft since just before the previous recession.

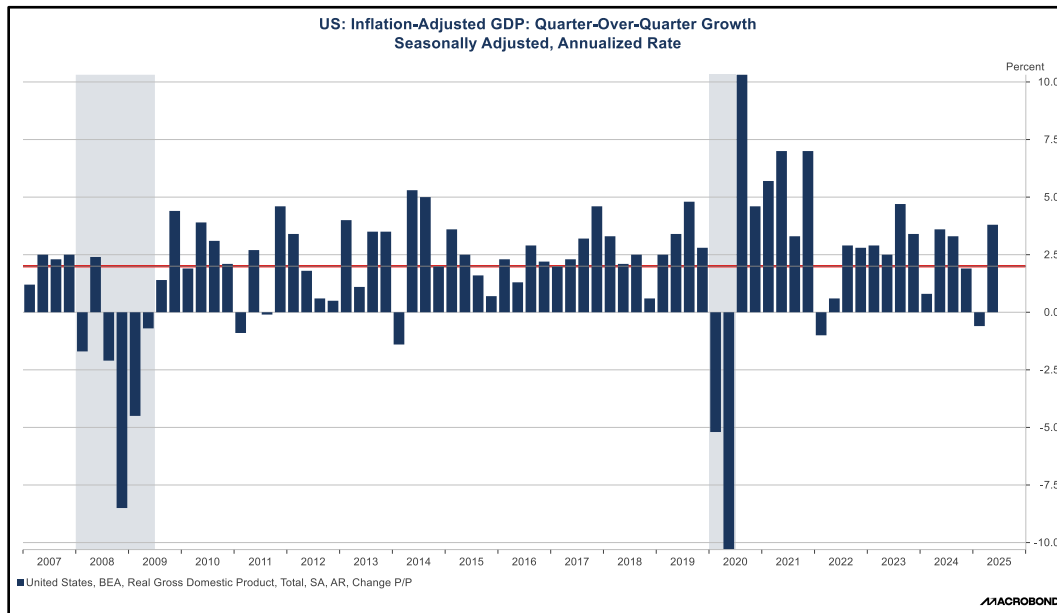


In another report today, a preliminary estimate showed the US **merchandise trade balance** in August came in at a seasonally adjusted deficit of \$85.5 billion, narrower than the anticipated shortfall of \$95.4 billion and the revised July shortfall of \$102.8 billion. According to the data, total merchandise exports fell 1.3%, while imports plunged 7.0%. The chart below shows the monthly value of US exports and imports since just before the GFC.

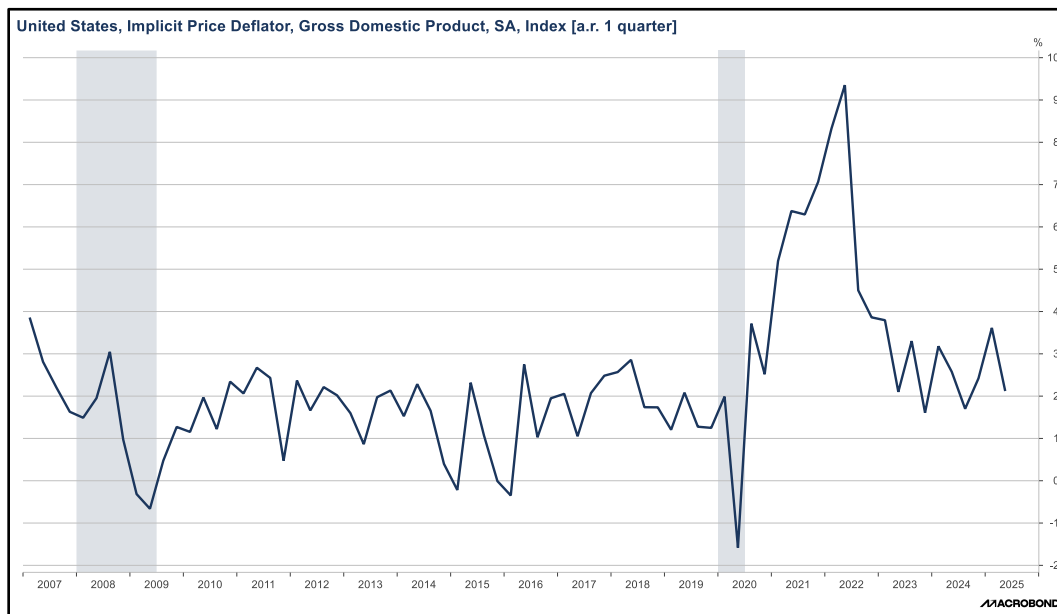


Finally, the Commerce Department released its third and final regular estimate of economic activity in the second quarter. After stripping out seasonal factors and price changes, second-quarter **gross domestic product (GDP)** rose at an annualized rate of 3.8%, far better than

expectations that the growth rate would be unrevised at 3.3%. The chart below shows the annualized growth rate of US GDP since just before the GFC; the horizontal red line indicates the average growth rate of about 2.0% over the last two decades.



The GDP report also includes the broadest measure of US price inflation. The second-quarter **GDP Price Index** rose at an annualized rate of 2.1%, up from 2.0% in the previous estimate. The chart below shows the year-over-year change in the GDP Price Index since 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	Existing Home Sales	m/m	Aug	3.95m	4.01	***
10:00	Existing Home Sales MoM	m/m	Aug	-1.5%	2.0%	*
11:00	Kansas City Fed Manufacturing Index	m/m	Sep	2	1	*
Federal Reserve						
EST	Speaker or Event	District or Position				
8:15	Stephen Miran appears on Bloomberg TV	Member of the Board of Governors				
8:20	Austan Goolsbee Speaks on Trends for West Michigan	President of the Federal Reserve Bank of Chicago				
9:00	John Williams Gives Welcoming Remarks at US Dollar Conference	President of the Federal Reserve Bank of New York				
9:00	Jeffrey Schmid Speaks at Mid-Sized Bank Coalition of America	President of the Federal Reserve Bank of Kansas City				
10:00	Michelle Bowman in Moderated Discussion	Member of the Board of Governors				
13:00	Michael Barr Speaks on Bank Stress Testing	Members of the Board of Governors				
13:40	Lorie Logan Speaks in a Panel	President of the Federal Reserve Bank of Dallas				
15:30	Mary Daly Conversation with Mark Packard	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	PPI	y/y	Aug	2.7%	2.6%	2.9%	***	Equity and bond neutral
	Nationwide Dept Sales	y/y	Aug	2.60%	-6.20%		***	Equity and bond neutral
EUROPE								
Eurozone	EU27 New Car Registrations	y/y	Aug	5.3%	7.4%		***	Equity and bond neutral
	M3 Money Supply	y/y	Aug	2.9%	3.3%	3.3%	***	Equity and bond neutral
Germany	GfK Consumer Confidence	m/m	Oct	-23.3	-23.5	-23.6	**	Equity and bond neutral
France	Consumer Confidence	m/m	Sep	87	87	87	***	Equity and bond neutral
Russia	Industrial Production	y/y	Aug	0.5%	0.7%		***	Equity and bond neutral
AMERICAS								
Brazil	IBGE Inflation IPCA-15	m/m	Sep	5.32%	4.95%	5.35%	***	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)	400	400	0	Down
U.S. Libor/OIS spread (bps)	392	393	-1	Down
10-yr T-note (%)	4.16	4.15	0.01	Up
Euribor/OIS spread (bps)	199	200	-1	Down
Currencies	Direction			
Dollar	Up			Up
Euro	Down			Up
Yen	Up			Down
Pound	Down			Down
Franc	Down			Up
Central Bank Action	Current	Prior	Expected	
Swiss National Bank Policy Rate	0.00%	0.00%	0.00%	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
<b>Energy Markets</b>				
Brent	\$69.07	\$69.31	-0.35%	
WTI	\$64.71	\$64.99	-0.43%	
Natural Gas	\$2.87	\$2.86	0.56%	
Crack Spread	\$23.47	\$23.24	0.99%	
12-mo strip crack	\$24.22	\$24.19	0.10%	
Ethanol rack	\$2.09	\$2.07	0.53%	
<b>Metals</b>				
Gold	\$3,750.31	\$3,736.16	0.38%	
Silver	\$44.89	\$43.92	2.22%	
Copper contract	\$485.95	\$481.35	0.96%	
<b>Grains</b>				
Corn contract	\$427.50	\$424.25	0.77%	
Wheat contract	\$523.75	\$519.50	0.82%	
Soybeans contract	\$1,016.00	\$1,009.00	0.69%	
<b>Shipping</b>				
Baltic Dry Freight	2,240	2,200	40	
<b>DOE Inventory Report</b>				
	Actual	Expected	Difference	
Crude (mb)	-0.61	0.50	-1.11	
Gasoline (mb)	-1.08	-1.00	-0.08	
Distillates (mb)	-1.69	2.00	-3.69	
Refinery run rates (%)	-0.3%	-0.8%	0.5%	
Natural gas (bcf)		74		



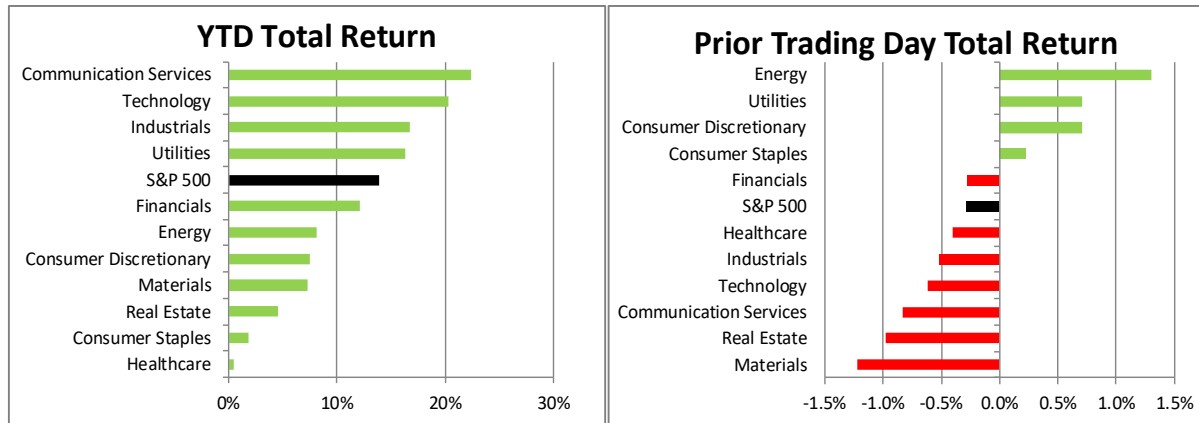
## **Weather**

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 central Rocky Mountains, northern Great Plains, the Southeast, and on the West Coast with dry conditions in the southern Great Plains, Midwest, and Northeast.

There are now three tropical disturbances in the central Atlantic Ocean. Hurricane Gabrielle is moving slowly eastward toward Europe. Tropical Storm Humberto is off the Leeward Islands and moving northwesterly. Finally, there is a tropical disturbance over Hispaniola that is moving northwesterly toward the Bahamas and is assessed to have an 90% chance of cyclonic formation in the next seven days.

## Data Section

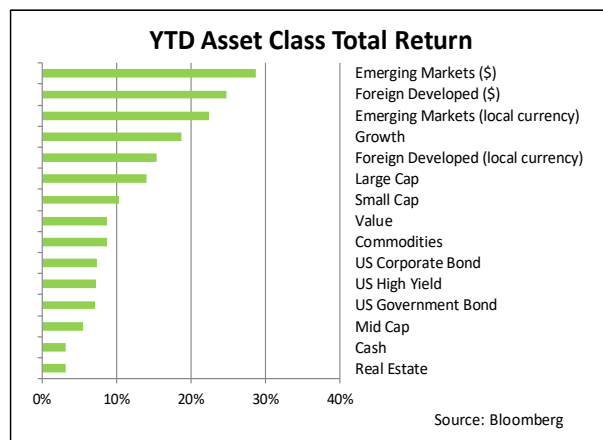
### US Equity Markets – (as of 9/24/2025 close)



(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 9/24/2025 close)

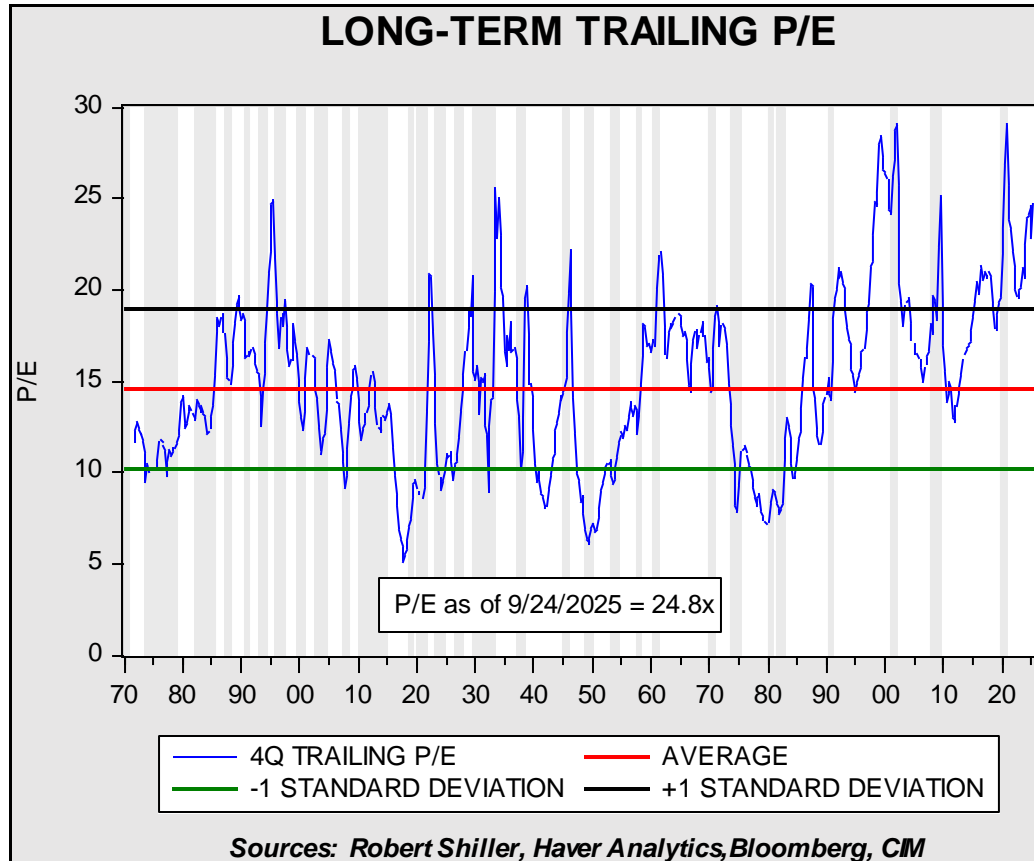


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 25, 2025



Based on our methodology,<sup>1</sup> the current P/E is 24.8x, which is up 0.3 from the previous report. The gain was attributable to an appreciation in the stock price index, whereas earnings remained flat relative to the previous week.

*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.*

<sup>1</sup> 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.