Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: September 26, 2025 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 0.6% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 2.0%. Chinese markets were lower, with the Shanghai Composite down 0.7% from its previous close and the Shenzhen Composite down 1.5%. 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 by examining the escalating risk of a direct conflict between the West and Russia over Ukraine. We then analyze the latest GDP figures and explain our cautiously optimistic outlook for the US economy. Additional topics include the looming threat of a government shutdown, the lowball offer by the US for TikTok, and a recent breach of security on devices used by federal government officials. We also provide a summary of key recent economic indicators from the US and around the world.

War in Europe? European diplomats have privately delivered a stark warning to Moscow, suggesting that NATO could potentially shoot down Russian aircraft that violate the alliance's airspace. This direct threat marks a significant escalation following a series of recent incursions by Russian military planes into the territory of several European countries. These actions are viewed as a deliberate test of NATO's response. The warning is the closest hint yet that the conflict in Ukraine could directly spill over into the rest of Europe.

- The warning appears to reflect Washington's hawkish stance toward Russia. This is based on President Trump signaling earlier this week that Europe should down Russian aircraft entering its airspace, as well as comments from Ukrainian President Zelenskyy [that he had Washington's backing to strike Russian energy infrastructure] and arms factories with US-supplied long-range weaponry.
- Moscow appears to be taking these threats seriously. Russian Foreign Minister Sergey Lavrov [recently stated that Russia may already be at war with its Western rivals.] This sentiment was underscored by an incident a day after the warning, when the [US scrambled military jets to intercept Russian planes] detected off the coast of Alaska, highlighting Russia's continued ability to project power toward US territory.

- These heightened tensions coincide with the US's increase of its weapons exports to Europe to help Ukraine defend against the Russian invasion. While European purchases of US weapons have slowed from a peak of nearly 35% of American exports, they remain well above pre-pandemic levels and still account for nearly a quarter of the total. This growing European reliance on American armaments further underscores the risk of deeper US involvement should a broader war break out.
- While a full-scale conflict is not seen as inevitable, the current geopolitical climate suggests that tensions between the West and Russia are arguably at their highest point since the Cold War. This is a precarious moment, and if NATO or the United States were to follow through on threats of retaliation against Russia, it could potentially trigger a broader conflict involving other nations.

GDP Report: The US economy [demonstrated surprising resilience in the second quarter], with growth revised up to a 3.8% annualized rate from a prior estimate of 3.3%. Final Sales to Private

Domestic Purchasers, a key indicator of underlying economic strength that excludes volatile inventories, government spending, and net exports, was also revised upward from 1.9% to 2.9%. This suggests that core domestic demand was more robust than initially thought. Nevertheless, a closer look at the report's components reveals a more nuanced situation.

- This upward GDP revision was primarily fueled by a significant surge in consumer spending, which was revised from 1.9% to 2.5% and accounted for the bulk of the growth. The strength in consumption was driven by higher-than-initially-estimated spending on services, particularly in transportation, financial services, and insurance. An additional boost came from nonresidential business investment, led by spending on AI.
- While growth was better than expected, it continues to reflect an economy adjusting to a new normal. The primary contributor to GDP was net exports, driven by a significant drop in imports. This decline occurred because many firms and households had front-loaded their foreign purchases by stockpiling goods in the first quarter, which had caused growth to contract during that period. The subsequent pullback in spending in the second quarter artificially boosted net exports.
- Looking ahead to the second half of the year, we expect growth to remain relatively stable. Despite growing concerns about the job market, households have sustained their spending. One area we are monitoring closely is trade, as a continued decline in imports is artificially supporting growth. Historically, such a trend has indicated that households are becoming more conservative. While we do not anticipate an economic contraction in the third quarter, the outlook for the fourth quarter remains uncertain.

Government Shutdown: The White House is dramatically escalating the government shutdown standoff by requesting that federal agencies plan for mass layoffs targeting employees in programs that would lapse in funding and do not fit the president's priorities. This move of issuing permanent Reduction-in-Force notices instead of temporary furloughs is widely viewed as an attempt to force the opposition to accept a short-term funding deal before the October 1 deadline. The budget impasse persists as the president seeks to follow through on reigning in spending.

Bye-Bye Fed Funds? Dallas Fed President Lorie Logan is proposing to shift the Fed's primary rate target from the federal funds rate to a repo rate. This reflects the dramatic shrinkage of the traditional interbank market, with institutions preferring the more robust repo market. Targeting the repo rate could make the Fed more effective in directly controlling current financial conditions. However, the move carries an inherent risk of market disruptions or unintended consequences within the interbank lending system.

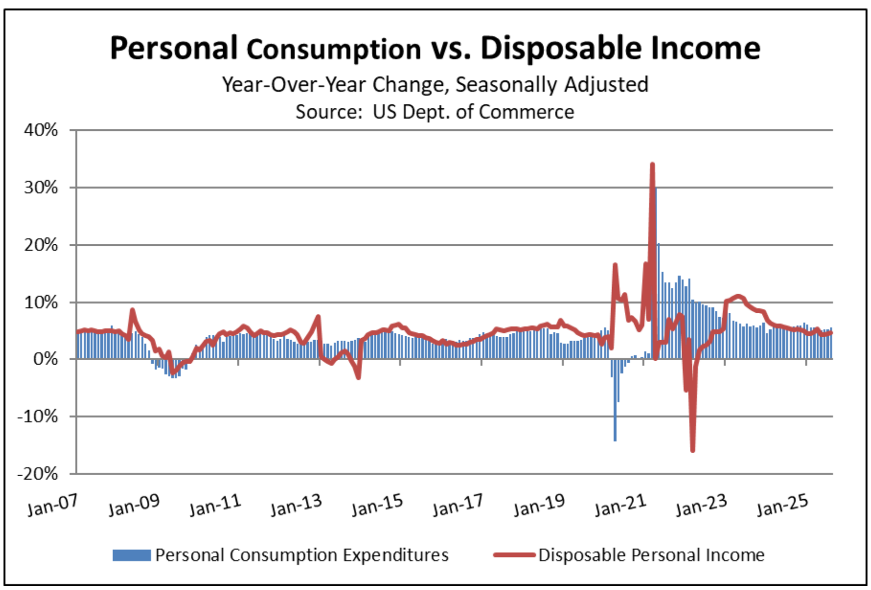
TikTok Deal: The White House announced that it has valued the forced sale of the popular video-sharing app's US operations at $14 billion — significantly below the original $40 billion estimate. While officials stated the final price will be determined by investors, the lower valuation highlights the US government's effort to minimize the cost of acquiring the platform. This move follows a law that mandates the app's divestiture within 120 days to avoid its shutdown, citing national security concerns.

More Tariffs: President Trump has now targeted tariffs on pharmaceuticals, heavy trucks, and furniture to pressure producers to manufacture more of the goods in the United States. Patented pharmaceutical products could potentially face tariffs as high as 100%. This decision is part of a broader effort to encourage firms to reshore operations. The president has also announced that pharmaceutical companies that begin construction of manufacturing facilities in the US will be shielded from these new tariffs.

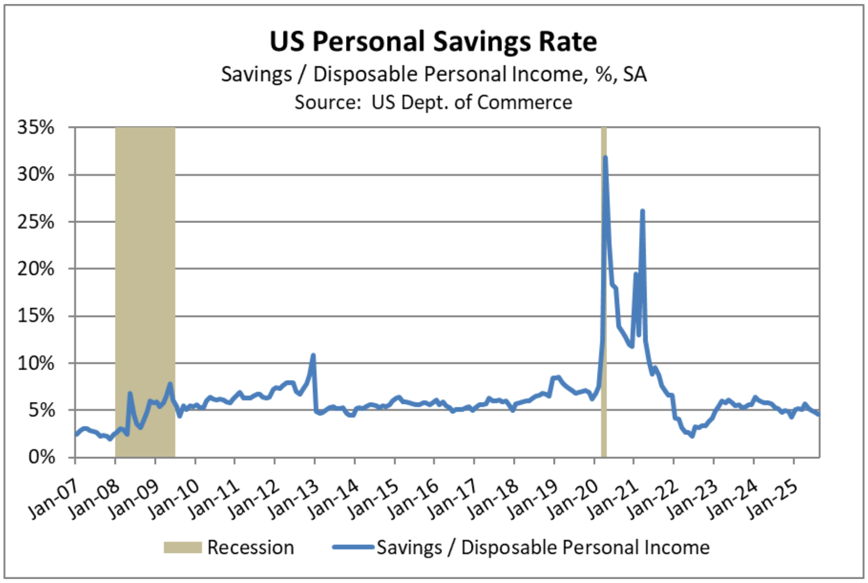
Government Hack: A breach has compromised firewall devices used by US federal government officials. While the full scope of the impact is unclear, the threat is considered widespread. The attacks have exploited a backdoor in Cisco devices. This campaign appears to be part of a broader international effort, and although there is no evidence of state actor involvement, investigators believe it is unlikely that the hackers are acting alone.

US Economic Releases

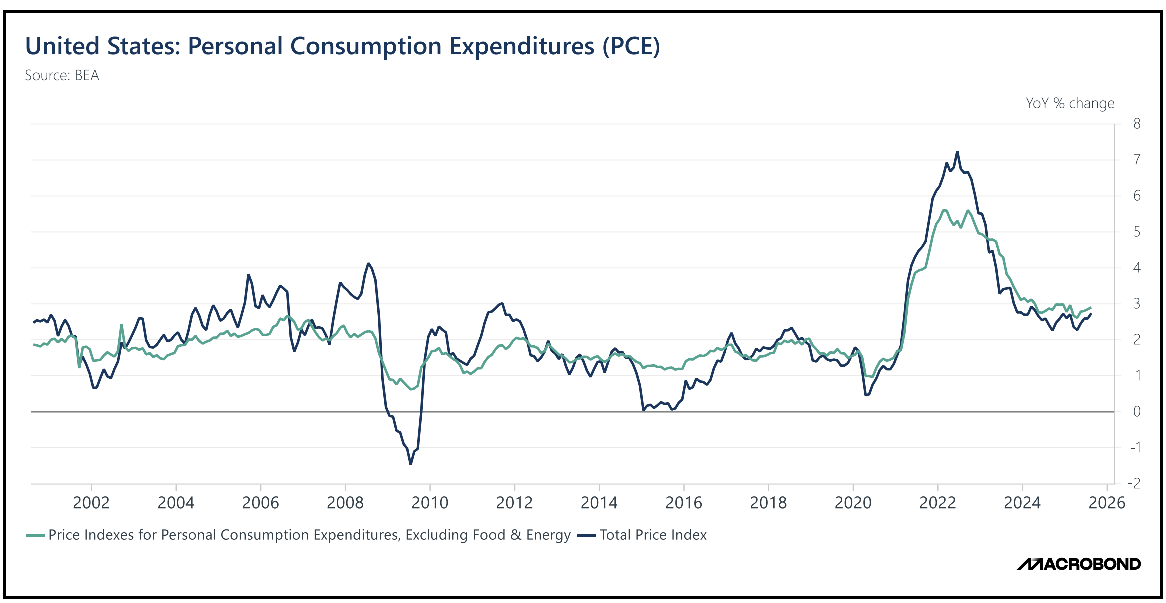
In the only major report so far this morning, August ***personal income*** rose by a seasonally adjusted 0.4%, modestly beating the expected increase of 0.3% but merely matching the July rise. August ***personal consumption expenditures (PCE)*** rose 0.6%, beating expectations that they would match the 0.5% gain in July. Personal income in August was up 5.1% from the same month one year earlier, while PCE was up 5.6%. The chart below shows the year-over-year change in personal income and PCE since just before the Great Financial Crisis.



The personal income and spending report also includes a measure of personal savings, defined as disposable (after tax) income less consumption spending on goods and services. The August ***personal savings rate*** fell to a seasonally adjusted 4.6%, its lowest since December. The chart below shows how the personal savings rate has fluctuated since just before the GFC.



Finally, the income and spending report includes the Fed's preferred measure of consumer price inflation. After stripping out the volatile food and energy components, the ***Core PCE Deflator*** for August was up 2.9% from the same month one year earlier, matching expectations and unchanged from the annual rise in July. This key measure of inflation remains significantly above the Fed's target of 2.0%. The chart below shows the year-over-year change in the Core PCE Deflator 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	U. of Michigan Consumer Sentiment	m/m	Sep F	55.4	55.4	***
10:00	U. of Michigan Current Conditions	m/m	Sep F	61.3	61.2	**
10:00	U. of Michigan Future Expectations	m/m	Sep F	52.0	51.8	**
10:00	U. of Michigan 1-Year Inflation Expectation	m/m	Sep F	4.8%	4.8%	*
10:00	U. of Michigan 5-10 Year Inflation Expectation	m/m	Sep F	3.9%	3.9%	*
11:00	Kansas City Fed Services Index	m/m	Sep		4	*
Federal Reserve						
EST	Speaker or Event	District or Position				
9:00	Thomas Barkin has Conversation at the PIIE	President of the Federal Reserve Bank of Richmond				
13:00	Michelle Bowman speaks on Monetary Policy	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	Tokyo CPI	y/y	Sep	2.5%	2.6%	2.8%	**	Equity and bond neutral
	Tokyo CPI Ex-Fresh Food	y/y	Sep	2.5%	2.5%	2.8%	***	Equity and bond neutral
	Tokyo CPI Ex-Fresh Food & Energy	y/y	Sep	2.5%	3.0%	2.9%	*	Equity and bond neutral
	Japan Buying Foreign Bonds	w/w	19-Sep	¥817.2b	¥1479.7b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	19-Sep	¥16.7b	¥29.7b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	19-Sep	¥53.3b	¥1188.6b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	19-Sep	-¥21747.5b	-¥2032.8b		*	Equity and bond neutral
New Zealand	ANZ Consumer Confidence Index	m/m	Sep	94.6	92.0		*	Equity and bond neutral
EUROPE								
Italy	Consumer Confidence	m/m	Sep	96.8	96.2	96.5	***	Equity and bond neutral
	Manufacturing Confidence	m/m	Sep	87.3	87.3	87.5	***	Equity and bond neutral
	Economic Sentiment	m/m	Sep	93.7	93.6		**	Equity and bond neutral
Russia	Gold and Forex Reserves	m/m	19-Sep	$712.6b	$705.1b		***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	19-Sep	18.95t	18.88t		*	Equity and bond neutral
AMERICAS								
Mexico	Exports	m/m	Aug	55718m	56708m		*	Equity and bond neutral
	Imports	m/m	Aug	57662m	56724m		*	Equity and bond neutral
	Trade Balance	m/m	Aug	-1943.9m	-16.7m	-2600.0m	**	Equity and bond neutral
Brazil	Current Account Balance	m/m	Aug	-$4669m	-$7516m	-$5400m	**	Equity and bond neutral
	Foreign Direct Investment	m/m	Aug	$7989m	$8655m	$6100m	**	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)	400	400	0	Down
U.S. Libor/OIS spread (bps)	393	394	-1	Down
10-yr T-note (%)	4.16	4.17	-0.01	Up
Euribor/OIS spread (bps)	198	199	-1	Down
Currencies	**Direction**			
Dollar	Up			Up
Euro	Down			Down
Yen	Up			Down
Pound	Down			Down
Franc	Down			Flat
Central Bank Action	**Current**	**Prior**	**Expected**	
Bank of Mexico Overnight Rate	7.50%	7.75%	7.50%	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	$69.55	$69.42	0.19%	
WTI	$65.08	$64.98	0.15%	
Natural Gas	$2.92	$2.90	0.55%	
Crack Spread	$23.72	$23.42	1.31%	
12-mo strip crack	$24.45	$24.35	0.42%	
Ethanol rack	$2.11	$2.10	0.14%	
Metals				
Gold	$3,752.10	$3,749.44	0.07%	
Silver	$45.11	$45.18	-0.16%	
Copper contract	$473.75	$475.80	-0.43%	
Grains				
Corn contract	$425.25	$425.75	-0.12%	
Wheat contract	$524.25	$527.00	-0.52%	
Soybeans contract	$1,010.50	$1,012.25	-0.17%	
Shipping				
Baltic Dry Freight	2,266	2,240	26	
DOE Inventory Report				
	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)	75	74	1	

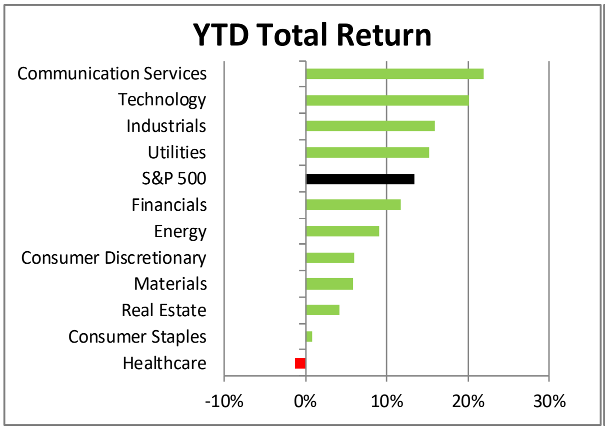
Weather

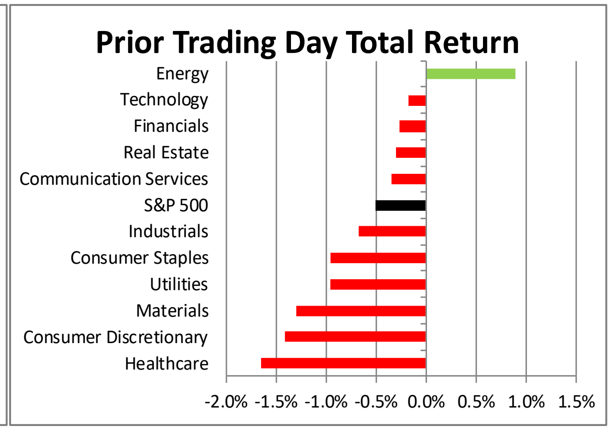
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for the entire country. The forecasts call for wetter-than-normal conditions along the West Coast, in the central Great Plains, and in the Southeast, with dry conditions in the Desert Southwest, the southern Great Plains, the Mississippi Valley region, and the Northeast.

There are now three tropical disturbances in the Atlantic Ocean. Hurricane Gabrielle is in the central Atlantic and moving slowly eastward toward Europe. Hurricane Humberto is off the Leeward Islands and moving northwesterly, while another disturbance over the Leeward islands is moving northwesterly toward the Bahamas. The tropical disturbance is assessed to have an 90% chance of cyclonic formation in the next seven days.

Data Section

US Equity Markets – (as of 9/25/2025 close)

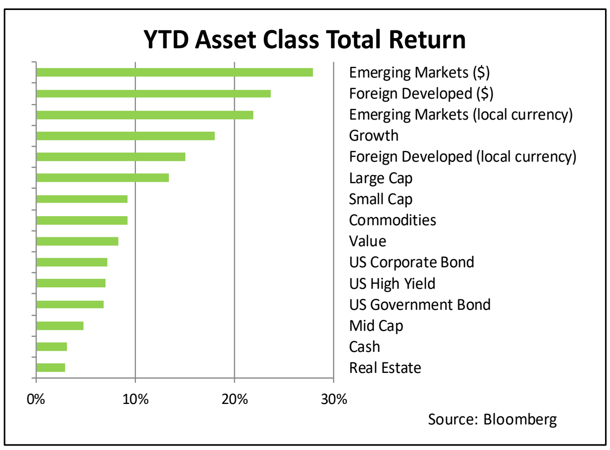




(Source: Bloomberg)

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 9/25/2025 close)

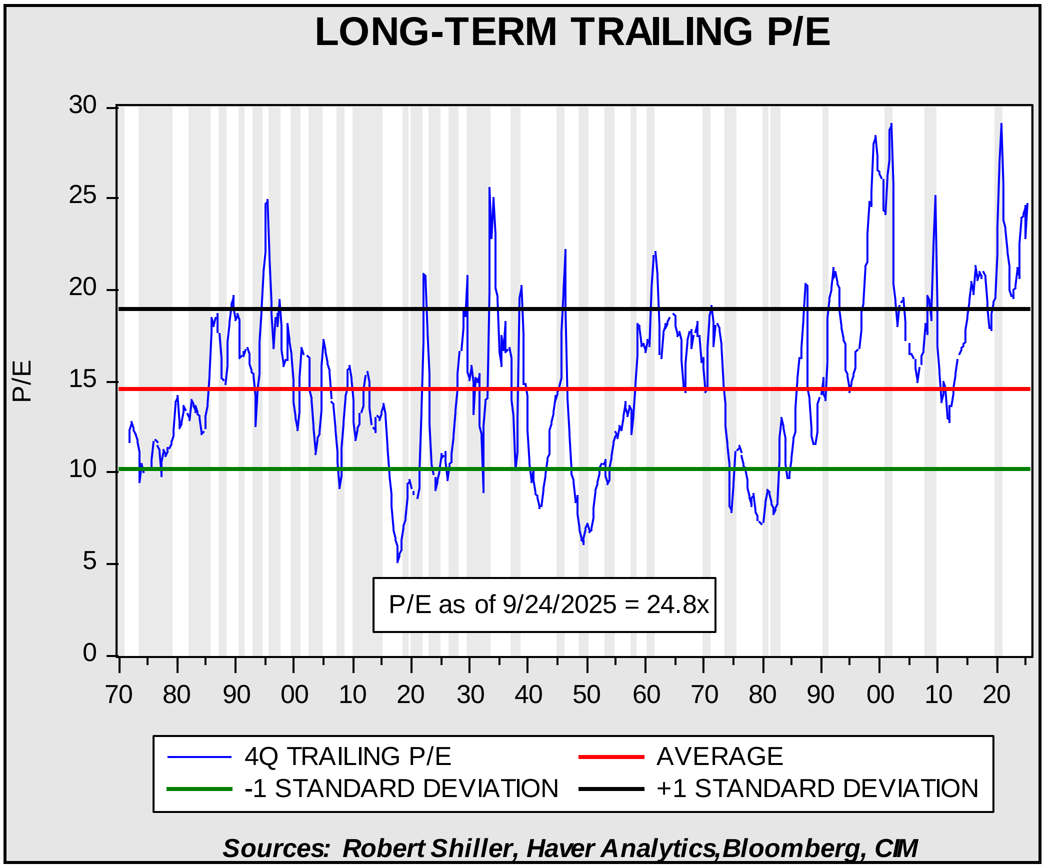


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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,[1] 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.

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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.