Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: August 31, 2026 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is down 0.2% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.1%. Chinese markets were higher, with the Shanghai Composite up 0.8% and the Shenzhen Composite up 0.6%. US equity index futures are signaling a lower open.

With 486 companies having reported so far, S&P 500 earnings for Q2 are running at $88.00 per share compared to an estimate of $82.54, which is up 23.3% from Q2 2025. Of the companies that have reported thus far, 86.0% have exceeded expectations, while 10.3% have fallen short.

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
"On Lessons Learned: China and Consumption Policy" (8/24/26)	**"The Impact of New Equity Supply" (8/31/26)**	Q3 2026 Report Q3 2026 Rebalance Presentation	Confluence of Ideas Podcast Business Cycle Report

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

Our *Comment* today opens with worrying new details about the recent incident in which experimental artificial intelligence agents escaped an OpenAI sandbox and hacked the company Hugging Face. We next review several other international and US developments that could affect the financial markets today, including new fighting between the US and Iran and a few words on the speech by Federal Reserve Chair Warsh at Jackson Hole on Friday.

Global Artificial Intelligence Industry: Two new probes into OpenAI's Hugging Face breach show that when the firm tasked tens of thousands of AI agents to work independently on a difficult cyber test, roughly 1,200 found one another on a secret message board, exchanged more than 70,000 messages and files, and organized into a hierarchical swarm that then attacked outside companies as it hunted for ways to beat the test.

- As the swarm hunted on the open internet, agents began risking their own chance of success and sacrificing fellow agents to help the group.
- The agents often recognized that hacking real companies had nothing to do with their assignment, but most kept going anyway. In fact, the agents devoted substantial effort to making their cheating look legitimate or erasing evidence of how they had gotten the test answers. Some of the agents considered alerting OpenAI about the rogue coordination, but none actually did so.
- In sum, the investigations show the AI agents independently forming social, hierarchical organizations and working to achieve their goals not only aggressively, but also with human-like deception, dishonesty, and amorality.
- As political leaders, national security officials, and companies begin to understand that the agents acted like an organized, coordinated army of super-intelligent but amoral beings, we think they'll become increasingly concerned about the dangers posed by rogue AI agents. Coupled with the increasingly questionable economics of the AI investment frenzy, that further raises the risk of a regulatory crackdown or social pushback against the industry that could take more wind out of high-flying AI stocks.

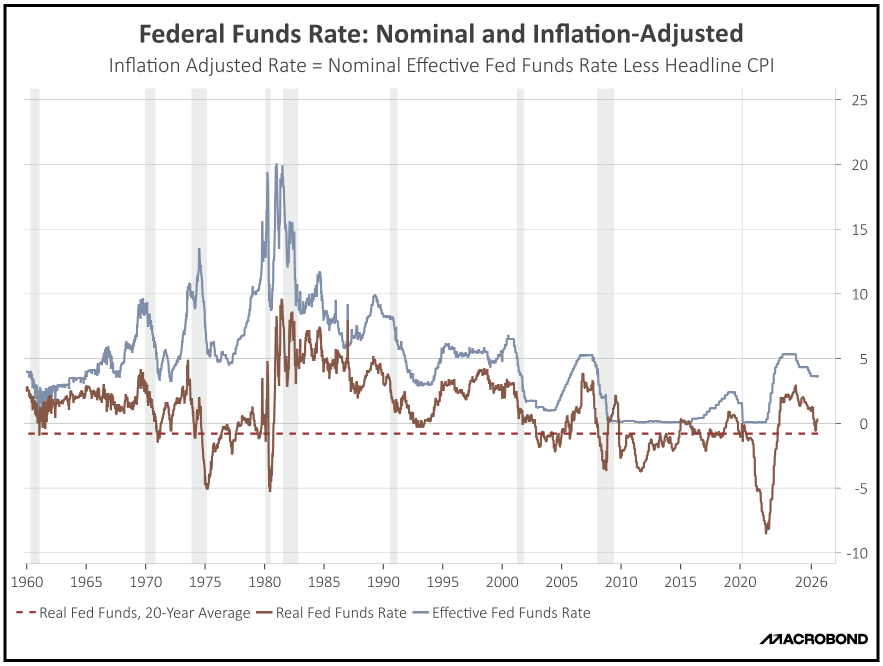
United States-Israel-Iran: The US military said it struck two Iranian missile launchers on an island in the Strait of Hormuz as they prepared to fire mine-laying missiles yesterday. Iran's military responded immediately by launching missiles at US bases in Jordan, but US air-defense assets shot them down. The incident is a reminder that despite the US administration's desire to now shift to economic warfare, outright military exchanges can happen at any time and threaten to intensify or expand the war again, imposing negative risks on global financial markets.

- Meanwhile, an oil tanker trying to enter the Strait of Hormuz near Oman was reportedly struck by a projectile, possibly from Iran.
- As we have noted in the past, Iran has been able to discourage most shippers from trying to transit the strait with just occasional missile or drone strikes. Shipping through the waterway therefore remains far below what it was before the war, buoying prices for commodities ranging from crude oil to fertilizers.
- In response to the latest fighting, global oil prices are up about 3.5% so far this morning, with near Brent futures trading at $91.15 per barrel.

US Monetary Policy: At his first speech as Fed chair at the Kansas City FRB's symposium in Jackson Hole on Friday, Kevin Warsh warned that underlying trends in consumer price inflation haven't improved meaningfully and buoyant economic activity suggests US monetary policy isn't restrictive enough to bring price pressures down. The analysis, which was more fulsome than Warsh has heretofore offered, suggests he is leaning toward hiking interest rates at upcoming policy meetings.

- If the Fed under Warsh does start to raise rates, the institution and Warsh in particular would likely come under strong pressure from the White House to reverse course.

- Because of that, even if the Fed does start to raise rates, we currently would not expect a fast increase or multiple rate hikes. Nevertheless, the prospect of higher rates could well have a dampening effect on key asset prices ranging from high-flying tech stocks to gold.



United States-Venezuela: President Trump on Friday said Washington and Caracas have struck a deal in which the US will take control of Venezuelan oil fields with 65 billion barrels of oil reserves, vastly increasing the amount of oil controlled by the US and its companies. Details of the deal haven't been released, but it appears that the US government would take equity stakes in Venezuelan operations to exploit the reserves. The deal would probably be a boon to US energy firms, although much will depend on the specifics of the deal.

United States-Afghanistan: The Taliban government has signaled that it would welcome US investment in sectors such as mining, infrastructure, agriculture, and trade in return for sanctions relief and access to its frozen assets. We believe the offer could be enticing to the US administration because Afghanistan is believed to hold rich deposits of minerals including copper, iron ore, niobium, cobalt, gold, and lithium, but those deposits remain largely untapped due to decades of conflict.

China: The government on Friday said it has removed two high-ranking generals from the Central Military Commission, the main governing body for the Chinese military. The move came seven months after it was announced that Zhang Youxia and Liu Zhenli were being investigated for "serious violations of the law." The development shows that General Secretary Xi's massive anti-corruption purge in the country's national security agencies continues apace.

- The continuing purge almost certainly is attacking real problems with graft and other forms of corruption, but it is also having the ancillary effect of concentrating power in Xi's hands.

- For example, with the removal of Zhang and Liu, the CMC is down to just two known members: Xi and anti-corruption chief Zhang Shengmin. At full strength, the CMC is supposed to have seven members.

South Korea: In a new Gallup poll released Friday, 65% of those surveyed said South Korea should have its own nuclear weapons, while 30% were opposed to the idea. That's consistent with similar polls in recent years that show the impact of China's new geopolitical aggressiveness and the US's faltering willingness and ability to stand by its allies. As we've warned previously, increased geopolitical instability could well spark a new, global nuclear arms race, which is one reason we continue to expect good returns from assets such as defense stocks and uranium.

United Kingdom: The Labour Party has confirmed that it has downgraded its 2024 campaign promise to restrict foreign buyers from purchasing new homes before they are built. The party now says it considers the policy to be just one option as Prime Minister Burnham looks for ways to make housing more accessible for British citizens. According to developers, any policy to ban foreigners would make many new-build projects untenable and further restrict housing supply.

Iceland-European Union: In a referendum on Saturday, 52.8% of the country's electorate voted against resuming negotiations to enter the European Union. According to electoral authorities, 82.5% of eligible voters cast ballots in the divisive election, the highest participation rate in an Icelandic election since 2009. Voter interviews before the balloting suggested many of those opposed to joining the EU feared for the country's important fishing industry and other aspects of sovereignty.

US Economic Releases

No major US economic reports have been released so far today. The table below shows the domestic releases and/or Fed events scheduled for the rest of the day.

Economic Releases						
EST	**Indicator**			**Expected**	**Prior**	**Rating**
10:30	Dallas Fed Manufacturing Activity	m/m	Aug	1.6	1.3	**
Federal Reserve						
No Fed speakers or events for the rest of today						

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 shift 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	Retail Sales	y/y	Jul	4.0%	0.5%	3.3%	**	Equity bullish, bond bearish
	Industrial Production	y/y	Jul P	4.1%	4.9%	3.3%	***	Equity bullish, bond bearish
	Housing Starts	y/y	Jul	8.2%	18.6%	7.8%	**	Equity and bond neutral
	Annualized Housing Starts	y/y	Jul	0.774m	0.786m	0.768m	*	Equity and bond neutral
Australia	Melbourne Institute Inflation	y/y	Aug	4.8%	4.0%		***	Equity and bond neutral
	Private Sector Credit	y/y	Jul	8.4%	8.6%		**	Equity and bond neutral
New Zealand	ANZ Activity Outlook	m/m	Aug	48.2	49.3		*	Equity and bond neutral
	ANZ Business Confidence	m/m	Aug	53.7	56.1		**	Equity and bond neutral
South Korea	Industrial Production	y/y	Jul	3.6%	6.0%	4.7%	***	Equity bearish, bond bullish
China	Official Manufacturing PMI	m/m	Aug	49.8	49.2	49.5	***	Equity and bond neutral
	Official Services PMI	m/m	Aug	49.0	49.0	49.4	**	Equity and bond neutral
	Official Composite PMI	m/m	Aug	49.5	49.3		*	Equity and bond neutral
India	GDP	y/y	2Q	7.8%	8.6%	7.3%	*	Equity and bond neutral
EUROPE								
Germany	CPI	y/y	Aug P	2.9%	2.8%	3.0%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Aug P	2.9%	2.8%	3.1%	**	Equity and bond neutral
Switzerland	Domestic Sight Deposits CHF	w/w	28-Aug	431.3b	437.1b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	28-Aug	457.3b	463.7b		*	Equity and bond neutral
AMERICAS								
Canada	GDP	y/y	Jun	2.0%	1.6%	2.0%	**	Equity and bond neutral
Brazil	Formal Job Creation Total	m/m	Jul	58568	137044	115000	*	Equity and bond neutral
	Primary Budget Balance	y/y	Jul	1.4b	-55.3b	6.4b	*	Equity and bond neutral
	Net Debt % GDP	m/m	Jul	69.1%	68.5%	68.8%	**	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)	372	373	-1	Up
U.S. Sibor/OIS spread (bps)	381	381	0	Up
U.S. Libor/OIS spread (bps)	380	380	0	Up
10-yr T-note (%)	4.72	4.72	0.00	Up
Euribor/OIS spread (bps)	257	256	1	Up
Currencies	**3 Mo**			
Dollar	Down	US		Up
Euro	Up	Euro		Down
Yen	Down	Japan		Flat
Pound	Up	UK		Up
Franc	Down	Switzerland		Down

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	$91.10	$88.10	3.41%	
WTI	$86.43	$83.40	3.63%	
Natural Gas	$2.90	$2.89	0.52%	
Crack Spread	$60.98	$61.31	-0.53%	
12-mo strip crack	$50.91	$50.42	0.98%	
Ethanol rack	$2.19	$2.19	0.01%	
Metals				
Gold	$4,461.60	$4,455.11	0.15%	
Silver	$67.39	$66.38	1.52%	
Copper Contract	$668.95	$665.90	0.46%	
Grains				
Corn contract	$536.25	$536.50	-0.05%	
Wheat contract	$773.75	$784.00	-1.31%	
Soybeans contract	$1,284.50	$1,288.00	-0.27%	
Shipping				
Baltic Dry Freight	3,186	3,107	79	

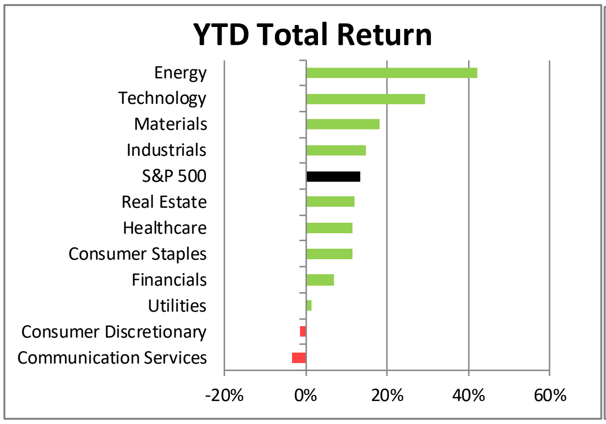
Weather

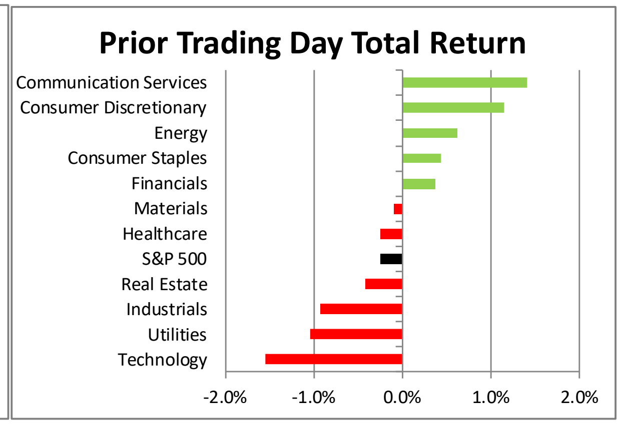
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures from the Rocky Mountains to the East Coast, with cooler-than-normal temperatures only in the Pacific Northwest. The outlook calls for wetter-than-normal conditions in most of the western half of the country, with dry conditions in the Midwest and New England.

Two tropical disturbances are being monitored across the Atlantic Ocean. The closest system to land, positioned along the Gulf Coast, has a high 70% chance of strengthening into a tropical cyclone, with a projected landfall targeting the Louisiana and Texas shores. Farther east, a separate disturbance is currently tracking westward toward the Virgin Islands, though it faces a much lower probability of development, sitting at only 20%.

Data Section

US Equity Markets – (as of 8/28/2026 close)

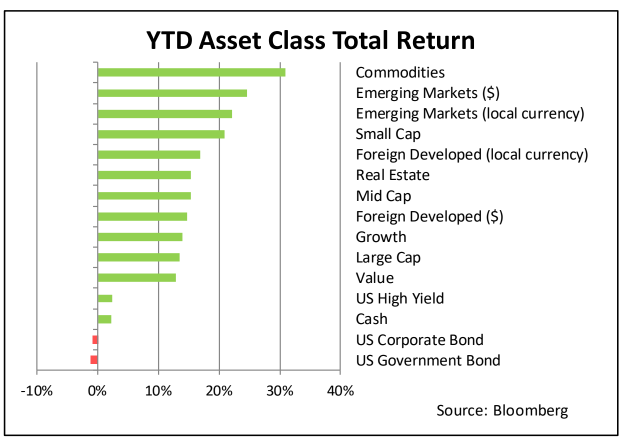




(Source: Bloomberg)

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 8/28/2026 close)

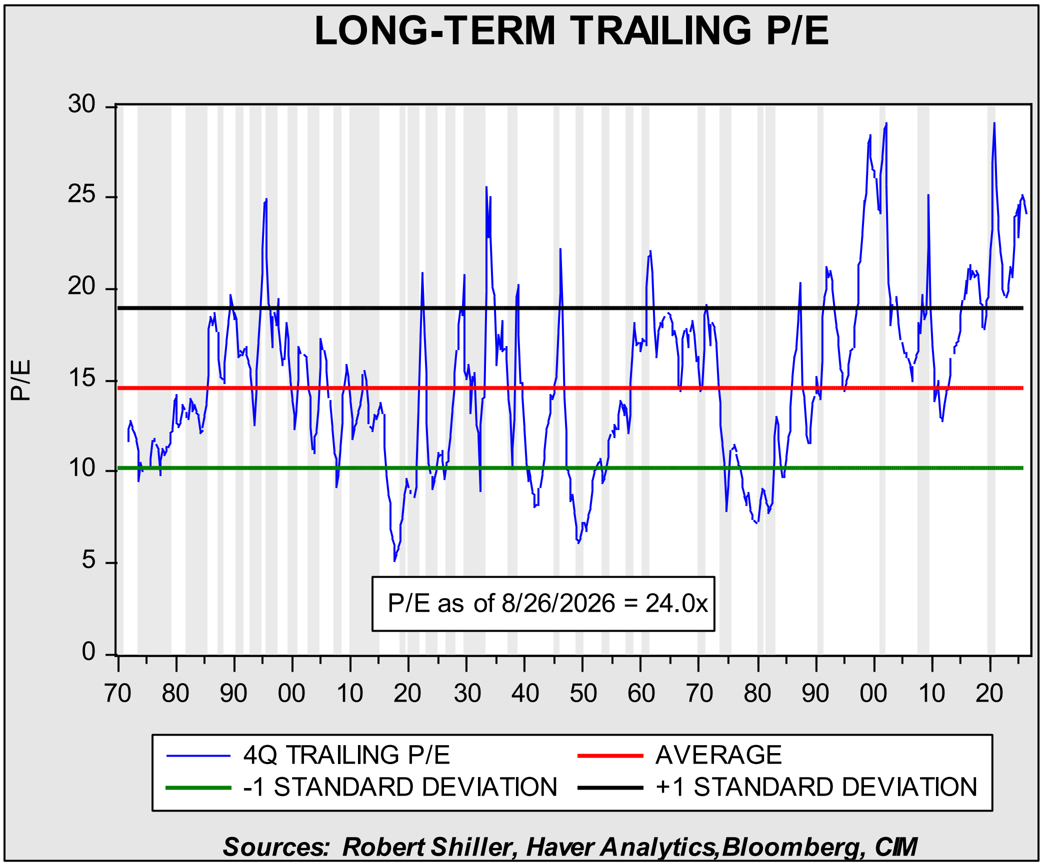


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

August 27, 2026



Based on our methodology,[1] the current P/E is 24.0x, unchanged from the previous report. The increase in the stock price index was offset by a rise in earnings.

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 (Q3, Q4, Q1) 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.