

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: October 1, 2026 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is down 0.6% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.9%. Chinese markets are closed today for China's National Day Holiday. 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 Geopolitics of China's Energy Policy" (9/28/26) + podcast	"Breaking the Bond Fever!" (9/21/26)	Q3 2026 Report Q3 2026 Rebalance Presentation	Business Cycle Report Confluence of Ideas Podcast

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.

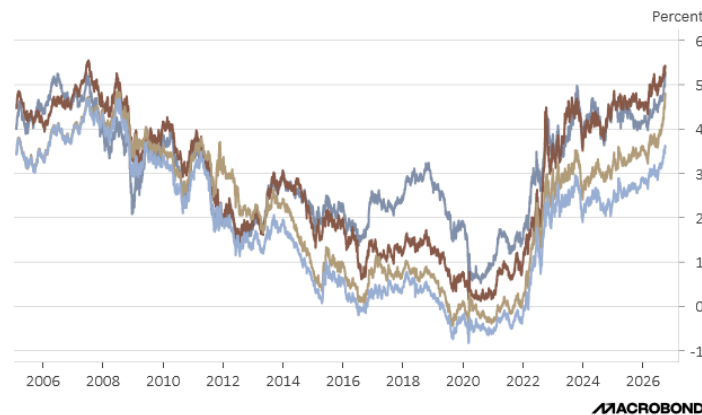
Our *Comment* opens with our thoughts on whether the unwinding of the yen carry trade may be contributing to rising bond yields. We then turn to monetary policy where we examine White House efforts to push former Fed Chair Jerome Powell out of the central bank. Next, we briefly cover a potential partnership between the EU and Canada, South Korea's planned investment in Alaska, and a failed Senate effort to make data centers pay for their own grid costs. As always, we conclude with a review of recent domestic and international economic data.

The Yen Carry Threat? The yen may be playing a bigger role in the global bond market than investors realize. While the market has attributed the recent rise in global bond yields to the war in the Middle East and the AI boom, noted economist [Ed Yardeni points instead to an unwinding of the yen carry trade](#) driven by rising Japanese policy rates. If he is right, his theory may help explain why the US Treasury has intervened in both the currency and bond markets and offer clues as to where yields may head next.

- Earlier this week, Yardeni suggested that a potential catalyst for the rise in bond yields was the Bank of Japan's decision to raise its policy rate above 1% for the first time since 1995. In his view, the [hike set off a structural unwinding of the yen carry trade](#), in which investors borrow cheaply in yen and invest the proceeds in higher-yielding assets abroad. The trade has been a cornerstone of global markets and a key source of liquidity for years, but that role may now be at risk as Japan tightens policy to curb inflation.
- Recent actions by the US Treasury Department also suggest a possible connection. This year, the department has coordinated with Japan on yen support operations, including open-market purchases of the currency, and it has also conducted buybacks of US government debt. Treasury Secretary Scott Bessent's suggestion that he possesses nonpublic information about the outlook for the yen and bond markets may further signal his intent to prevent a disorderly unwinding of the carry trade.

10-Year Treasury Yields Spike to Highest Level in Decades

Source: Federal Reserve



- The potential unwinding of the yen carry trade may be more of a global story than a US one. The US 10-year Treasury yield has risen roughly 80 basis points, while 10-year gilt, Bund, and OAT yields have also increased materially. The breadth of these moves suggests the yen carry trade may have helped keep global bond yields low, and its unwinding may now be contributing to a global bond sell-off.
- If the rise in global bond yields partly reflects an unwinding of yen-funded carry trades, then bond markets could become increasingly sensitive to further Bank of Japan tightening. Conversely, a slower pace of BoJ normalization could provide some near-term relief by easing pressure to unwind those positions. However, other factors, including Middle East tensions, rising debt burdens, and the risk of overheating from the AI buildout, will also likely play an important role.

Fed Pressure: In its ongoing effort to shape central bank policy, the White House directed Attorney General Todd Blanche to review a report clearing former Federal Reserve Chair Jerome Powell. On Wednesday, the [Fed's internal watchdog finalized its review of the headquarters renovation](#), finding no evidence of criminal intent or misconduct. The move underscores the administration's persistent push to counter what it sees as political bias at the Fed.

- The decision to scrutinize the watchdog's findings follows the report's highlight of significant management deficiencies. According to the evaluation, key missteps, including proceeding well into construction without a total cost estimate or a guaranteed maximum price, drove the renovation's total cost from \$1.3 billion to \$2.4 billion. Despite these operational failures, the report concluded there was no evidence of administrative misconduct or federal criminal violations.
- While the report likely falls short of providing the president legal grounds to fire Powell or force him off the Federal Reserve Board, the administration appears undeterred. Following the report's release, the president argued that former Fed Chair Powell remains responsible for the cost overruns. Consequently, he has directed Attorney General Blanche to explore whether the government can hold Powell accountable through the courts, potentially via a civil lawsuit.
- White House pressure to remove Powell likely underscores its broader intention to replace Fed officials it does not trust. Over the past two years, it has targeted former Chair Jerome Powell, Governor Lisa Cook, and former Vice Chair for Supervision Michael Barr. Removing them would create additional opportunities to appoint officials more aligned with the administration's agenda, including a potentially greater willingness to delay or soften monetary tightening.
- Although previous White House pressure on the Fed has weighed on the dollar, market sentiment appears to have shifted since the Fed raised rates in September. The dollar's muted response suggests that investors have greater confidence in the central bank's willingness to set policy independently of political influence. As a result, future White House attacks on the Fed could have a smaller effect on markets.

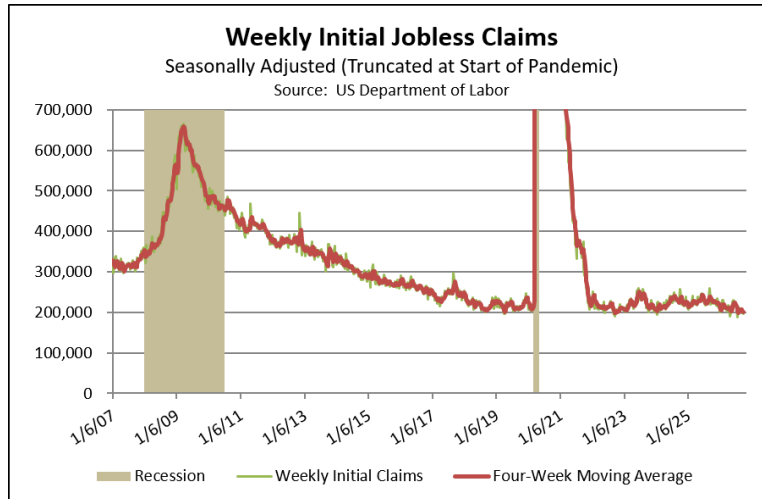
EU-Canada: The European Union and Canada [are expected to unveil a broad new partnership at their summit next month](#). The agreement is expected to cover digital trade barriers and critical raw materials as well as joint support for Ukraine. A deal would deepen ties between the two sides as they seek to reduce their dependence on the US and strengthen their leverage in trade negotiations with Washington. The move could provoke a backlash from the White House against the EU as the president has viewed other similar actions as meddling.

Alaska Investment: President Trump [announced plans for South Korea to invest in a liquefied natural gas project in Alaska](#). The move comes as South Korea seeks to meet its investment commitments under last year's trade agreement with the US. While no timeline has been set for the project and the funds have not been formally approved, the announcement suggests the US economy could see additional investment from reshoring efforts following the trade talks.

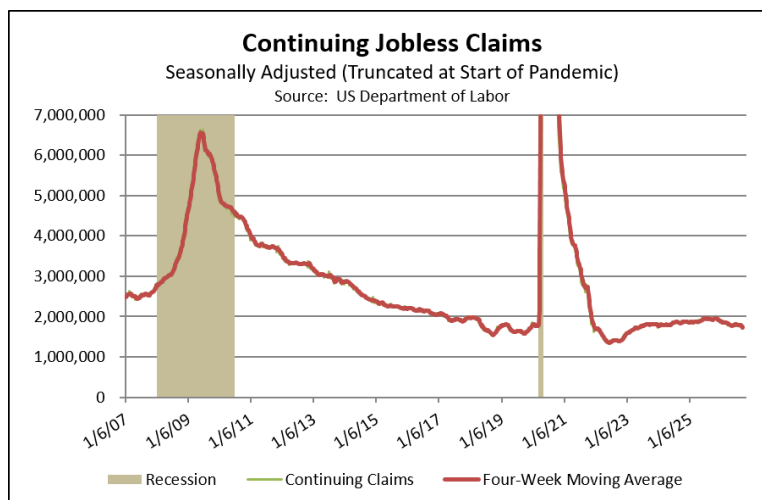
Data Centers: The US Senate [failed to advance legislation that would encourage data centers to bear the cost of the grid upgrades](#) needed to serve them. Lawmakers who voted against the measure said it did not go far enough, since it would not require data centers to cover those costs. However, the failure has also been attributed to Democrats' reluctance to hand a vulnerable Republican senator a win ahead of the midterms. The broad support suggests that data centers could face rising costs in 2027.

US Economic Releases

In the week ended September 26, **initial claims for unemployment benefits** fell to a seasonally adjusted 197,000, below both the expected level of 200,000 and the prior week's revised level of 198,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, fell to 200,000. The chart below shows how initial jobless claims have fluctuated since just before the Great Financial Crisis (GFC). 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 19, the number of **continuing claims for unemployment benefits** (people continuing to draw benefits) fell to a seasonally adjusted 1.701 million, below both the anticipated reading of 1.725 million and the previous week's revised reading of 1.712 million. The four-week moving average of continuing claims fell to a low of 1,723,750. The chart below shows how continuing claims have fluctuated since the GFC. It is also truncated during the pandemic period due to the high level of claims at the 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
9:45	S&P Global US Manufacturing PMI	m/m	Sep F	57.0	49.5	***
10:00	ISM Manufacturing	m/m	Sep	55.0	49	**
10:00	ISM Prices Paid	m/m	Sep	73.0	69.7	**
10:00	ISM New Orders	m/m	Sep	54.7	46.4	**
10:00	ISM Employment	m/m	Sep	52.0	45	*
10:00	Construction Spending	m/m	Aug	0.0%	-0.3%	**
Federal Reserve						
EST	Speaker or Event	District or Position				
9:05	Thomas Barkin, Susan Collins, Jeffrey Schmid on Panel About Rural America	Presidents of the Federal Reserve Banks of Richmond, Boston, & Kansas City				
10:00	Christopher Waller Speaks on Federal Reserve Economic Data	Member of the Board of Governors				
13:30	Philip Jefferson Speaks on US Economy and Monetary Policy	Vice-Chair of the Board of Governors				
15:00	Michelle Bowman Speaks on modernizing Financial Regulation	Member of the Board of Governors				
15:30	Lisa Cook and John Williams at Panel	Members of the Board of Governors and President of the FED of New York				
18:45	Lorie Logan Speaks at Eleventh District Appreciation Event	President of the Federal Reserve Bank of Dallas				

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	Tankan Large Manufacturing Index	q/q	3Q	24	22	25	***	Equity and bond neutral
	Tankan Large Non-Manufacturing Index	q/q	3Q	35	37	36	***	Equity and bond neutral
	Tankan Large Manufacturing Outlook	q/q	3Q	21	17	22	***	Equity and bond neutral
	Tankan Large Non-Manufacturing Outlook	q/q	3Q	30	28	30	***	Equity and bond neutral
	Tankan Large All-Industry Capex	q/q	3Q	11.3%	11.5%	12.2%	***	Equity and bond neutral
	Japan Buying Foreign Bonds	w/w	25-Sep	-¥684.5b	-¥1904.9b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	25-Sep	¥225.8b	¥44.3b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	25-Sep	-¥1341.8b	-¥84.3b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	25-Sep	-¥362.0b	-¥4942.5b		*	Equity and bond neutral
	Tankan Small Mfg Index	q/q	3Q	14	9	11	*	Equity and bond neutral
	Tankan Small Mfg Outlook	q/q	3Q	12	2	7	*	Equity and bond neutral
	Tankan Small Non-Mfg Index	q/q	3Q	15	15	14	*	Equity and bond neutral
	Tankan Small Non-Mfg Outlook	q/q	3Q	10	8	8	*	Equity and bond neutral
	S&P Global Japan Manufacturing PMI	m/m	Sep F	54.1	54.1		***	Equity and bond neutral
Australia	S&P Global Australia Manufacturing PMI	m/m	Sep F	49.6	49.3		***	Equity and bond neutral
	Trade Balance	m/m	Aug	A\$495m	A\$1351m	A\$2000m	***	Equity and bond neutral
	Exports	m/m	Aug	3.7%	-3.6%		*	Equity and bond neutral
	Imports	m/m	Aug	5.8%	-2.4%		*	Equity and bond neutral
New Zealand	Building Permits	m/m	Aug	5.6%	-4.5%		**	Equity and bond neutral
South Korea	Trade Balance	m/m	Sep	\$49852m	\$34785m	\$38900m	*	Equity and bond neutral
	Exports	y/y	Sep	83.5%	68.7%	62.5%	***	Equity and bond neutral
	Imports	y/y	Sep	26.0%	22.4%	51.0%	**	Equity and bond neutral
	S&P Global South Korea PMI Manufacturing	m/m	Sep	53.9	52.3		***	Equity and bond neutral
India	HSBC India PMI Mfg	m/m	Sep F	55.1	55.7		***	Equity and bond neutral
EUROPE								
Eurozone	S&P Global Eurozone Manufacturing PMI	m/m	Sep F	52.9	52.7	52.7	***	Equity and bond neutral
	Unemployment Rate	m/m	Aug	6.4%	6.4%	6.4%	**	Equity and bond neutral
Germany	S&P Global/BME Germany Manufacturing PMI	m/m	Sep F	53.9	53.8	53.8	***	Equity and bond neutral
France	S&P Global France Manufacturing PMI	m/m	Sep F	50.6	50.3	50.3	***	Equity and bond neutral
Italy	S&P Global Italy Manufacturing PMI	m/m	Sep	50.4	49.6	43.3	***	Equity and bond neutral
	Unemployment Rate	m/m	Aug	6.2%	5.8%	8.7%	**	Equity bearish, bond bullish
UK	Nationwide House Px NSA	m/m	Sep	0.8%	1.6%	1.3%	***	Equity and bond neutral
	S&P Global UK Manufacturing PMI	m/m	Sep F	51.9	52.0	52.0	***	Equity and bond neutral
Switzerland	CPI	y/y	Sep	1.0%	0.8%	1.0%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Sep	1.2%	0.9%		*	Equity and bond neutral
	Core CPI	y/y	Sep	0.5%	0.4%	0.5%	*	Equity and bond neutral
	Real Retail Sales	y/y	Aug	3.2%	2.6%		**	Equity and bond neutral
	PMI Manufacturing	m/m	Sep	55.3	57.1	56.3	***	Equity bearish, bond bullish
	PMI Services	m/m	Sep	59.8	58.3		*	Equity and bond neutral
Russia	Current Account Balance	q/q	2Q F	16949m	21400m		**	Equity and bond neutral
	Retail Sales Real	m/m	Aug	3.30%	5.30%	5.10%	***	Equity bearish, bond bullish
	Unemployment Rate	m/m	Aug	2.20%	2.30%		***	Equity and bond neutral
	S&P Global Russia Manufacturing PMI	m/m	Sep	49.8	48.8		***	Equity and bond neutral
AMERICAS								
Mexico	Net Outstanding Loans	m/m	Aug	7620b	7521b		*	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)	401	402	-1	Up
U.S. Sibor/OIS spread (bps)	405	404	1	Up
U.S. Libor/OIS spread (bps)	403	402	1	Up
10-yr T-note (%)	5.30	5.29	0.01	Up
Euribor/OIS spread (bps)	262	262	0	Up
Currencies	3 Mo			
Dollar	Down	US		Up
Euro	Up	Euro		Down
Yen	Down	Japan		Up
Pound	Up	UK		Down
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	\$100.58	\$98.03	2.60%	
WTI	\$92.28	\$90.42	2.06%	
Natural Gas	\$2.96	\$3.03	-2.15%	
Crack Spread	\$65.03	\$66.58	-2.33%	
12-mo strip crack	\$54.75	\$54.49	0.47%	
Ethanol rack	\$2.31	\$2.31	0.00%	
Metals				
Gold	\$4,168.99	\$4,157.41	0.28%	
Silver	\$60.78	\$60.43	0.58%	
Copper Contract	\$656.50	\$662.15	-0.85%	
Grains				
Corn contract	\$503.75	\$500.75	0.60%	
Wheat contract	\$680.25	\$675.75	0.67%	
Soybeans contract	\$1,292.50	\$1,293.00	-0.04%	
Shipping				
Baltic Dry Freight	3,113	3,178	-65	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)	0.92	-0.71	1.63	
Gasoline (mb)	-1.68	-1.00	-0.68	
Distillates (mb)	-2.25	0.08	-2.33	
Refinery run rates (%)	0.00	-0.33%	0.00	
Natural gas (bcf)		63		

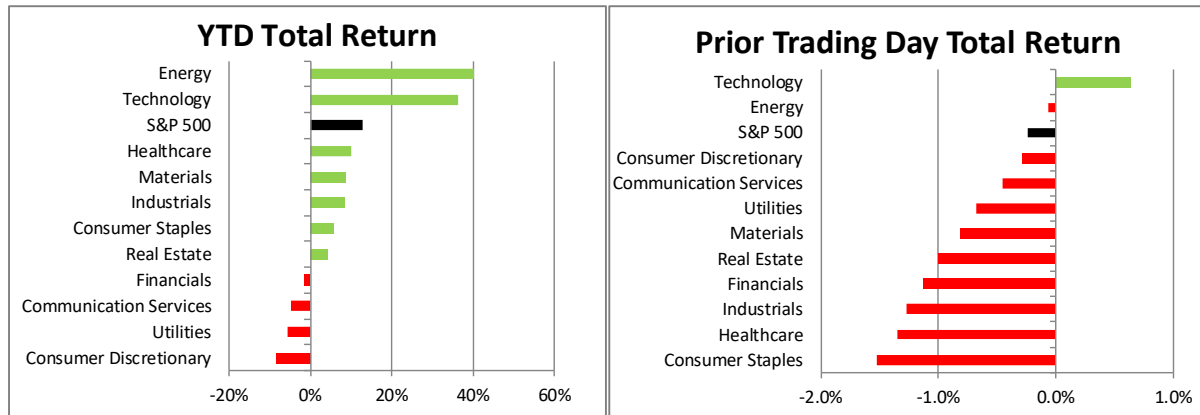
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in the Far West, the northern and central Great Plains, and Florida, with cooler-than-normal temps throughout the Northeast. The outlook calls for wetter-than-normal conditions in the Southeast, with dry conditions in the northern half of the country west of the Great Lakes.

There are currently no atmospheric disturbances in the Atlantic Ocean area, and no tropical cyclonic activity is expected over the next seven days.

Data Section

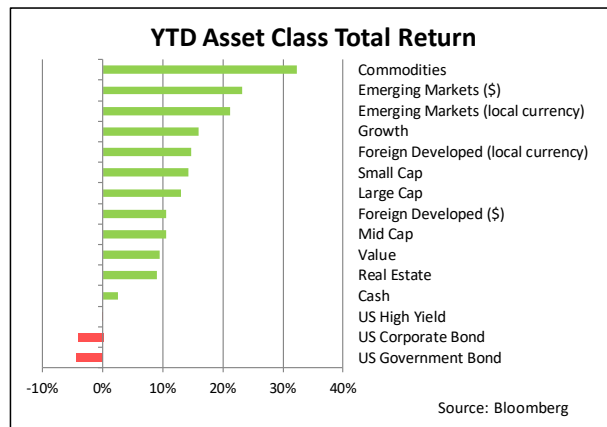
US Equity Markets – (as of 9/30/2026 close)



(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 9/30/2026 close)

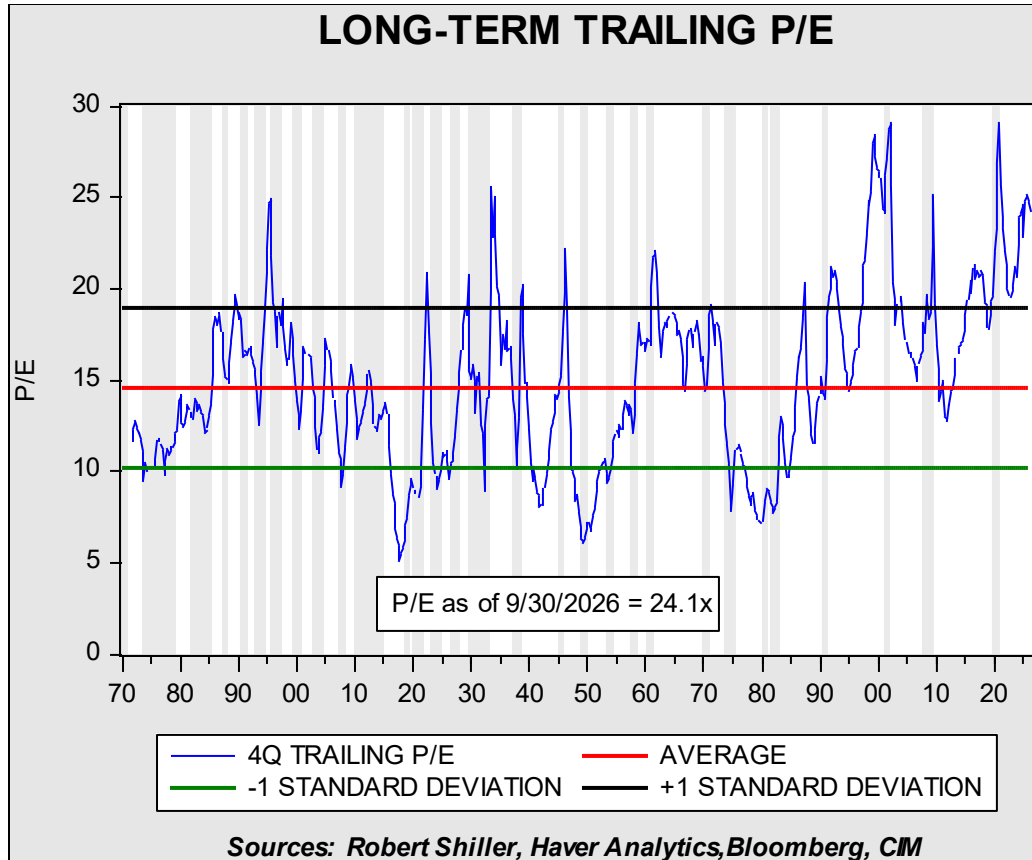


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

October 1, 2026



Based on our methodology,¹ the current P/E is 24.1x, unchanged from the previous report. The stock price index and earnings were little changed from 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.

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.