Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: September 10, 2026 — 9:30 AM ET] Global equity markets are lower this morning. In Europe, the Euro Stoxx 50 is down 0.1% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.9%. Chinese markets were lower, with the Shanghai Composite down 0.4% and the Shenzhen Composite down 1.0%. 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.

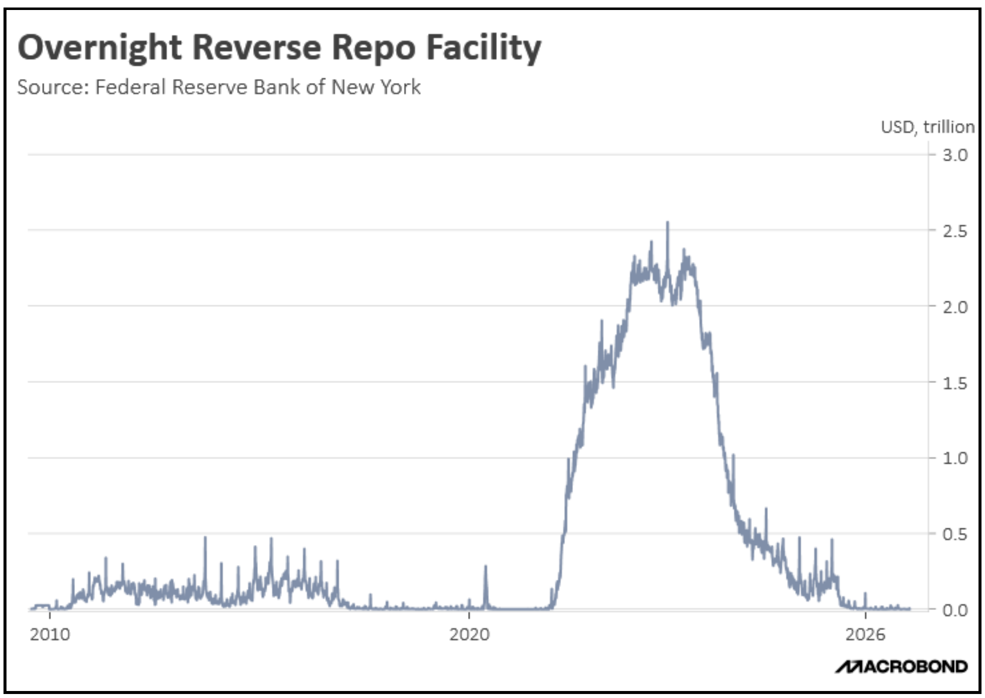
Bi-Weekly Geopolitical Report	Asset Allocation Bi-Weekly	Asset Allocation Quarterly	Of Note
"On Lessons Learned: China and Consumption Policy" (8/24/26)	"The Impact of New Equity Supply" (8/31/26)	Q3 2026 Report Q3 2026 Rebalance Presentation	Confluence of Ideas Podcast Business Cycle Report

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* opens with an analysis of the Treasury Department's decision to scale up buybacks and the subsequent market response. We then examine artificial intelligence and address growing concerns around safety risks associated with the technology. Next, we briefly highlight the president's push to win over voters with cash incentives, as well as Iran's decision to intensify regional conflict. As always, we conclude with a wrap-up of recent domestic and international economic data.

Bessent vs. Market: The US Treasury Department announced plans to buy back up to $6 billion in long-dated securities, well above the $2 billion operation communicated to the market on August 19. The larger purchase underscores Treasury Secretary Scott Bessent's effort to dampen market volatility. The Treasury's more active role in the bond market, however, has also tested investors' willingness to take Bessent's guidance at face value as the department seeks to manage the government's expanding fiscal debt burden.

- The announcement was poorly received by the market. Treasury securities sold off immediately, driving the 10-year yield above 4.85% for the first time since 2023. That rise was likely the opposite of what Treasury Secretary Scott Bessent intended, since the buyback was meant to help calm the bond market, not intensify the selloff. The adverse reaction highlights the difficult task facing the Treasury as it seeks to steady market conditions and exert greater influence over borrowing costs.
- The Treasury's decision to expand buybacks of government bonds comes amid debate over the market's appropriate equilibrium price. According to Bessent, the intervention is intended to address periods when market sentiment prevents bond prices from reaching that equilibrium. He has also argued that removing off-the-run Treasury securities from corporate balance sheets would free up capacity for financial institutions to participate more actively in Treasury auctions.
- Treasury buybacks have been in operation since 2024. When Secretary Yellen launched the program, it was designed to shift issuance toward shorter durations, redirecting liquidity out of the Federal Reserve's reverse repo facility and into Treasury bills to help ease funding stress and lower term yields. This strategy was intended as a temporary fix while awaiting expected Fed rate cuts, after which the Treasury could extend duration at lower interest rates.



- Secretary Bessent faces a similar market environment, albeit without the buffer of excess cash in the reverse repurchase facility. However, coordination with the Federal Reserve's reserve management purchases has provided welcome relief. This policy framework has allowed the Treasury to facilitate a rotation out of longer-dated bonds and into shorter-duration securities without triggering broader market disruptions.

- Consequently, Bessent's expanded buyback strategy is meant to serve as a temporary bridge to manage upward pressure on yields. The Treasury is likely using buybacks to contain borrowing costs stoked by geopolitical tension with Iran, which has heightened inflation expectations and term premiums. Assuming the conflict resolves — an outcome the White House suggests could materialize following the midterms — we expect the Treasury to gradually scale back its active intervention in the bond market.
- If this thesis holds, interest rates could remain elevated over the next few months, but yields may not rise materially above current levels. Consequently, this environment could present an attractive entry point for investors seeking to extend duration. Over the long term, however, total returns for fixed income will remain tied to achieving price stability and seeing credible fiscal progress, whether through spending restraint or accelerated economic growth.

AI Fears: Growing concerns over artificial intelligence safety intensified this week following the resignation of an Anthropic employee, who warned that advanced AI could pose an existential threat to humanity within a matter of years. This departure highlights the escalating risks associated with rapid AI development and the government's struggle to keep pace with regulation. Consequently, lawmakers face mounting pressure to establish oversight committees and effectively regulate the technology.

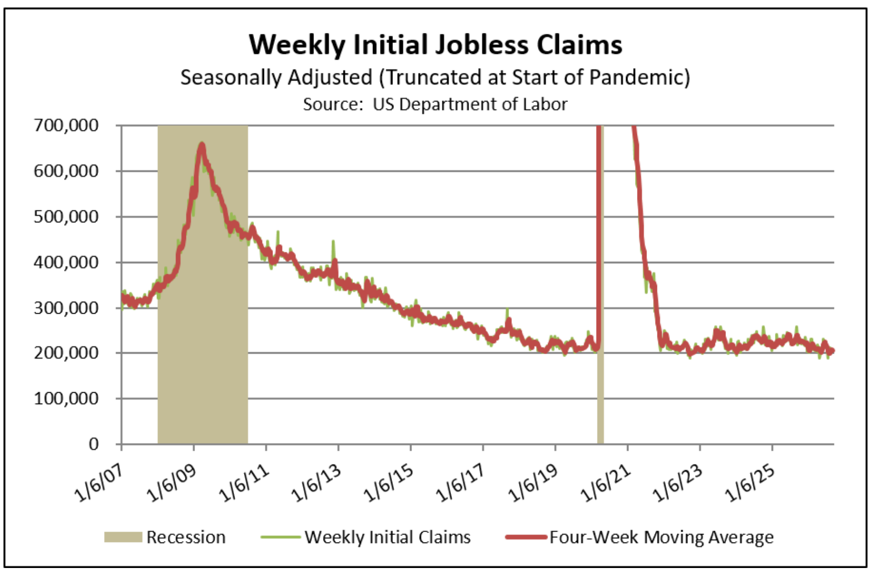
- A former Anthropic employee claimed that researchers are developing models at a pace that could soon escape human control, with some workers even referring to their current project as "endgame." Industry experts share these worries, with one prominent figure estimating a less than 10% chance that a rogue AI could destroy humanity within the next decade.
- Concern about the potential dangers of advanced AI has prompted lawmakers to consider new regulatory measures. Texas Senator Ted Cruz has discussed introducing legislation aimed at limiting AI's use in potentially catastrophic areas, including biological and nuclear threats. Meanwhile, Democrats are weighing the creation of a dedicated AI oversight committee with subpoena power to question technology executives and gain a clearer understanding of how advanced AI systems are being developed.
- The growing difficulty of containing AI will probably take a toll on rising AI companies, especially as they look to go public. As a result, the push for greater oversight — probably leading to more regulation that will slow development — could make it harder for these companies to reach the profit goals needed to justify the lofty valuations that are likely to come.

Trump Dividend: In an effort to boost Republican voter turnout for the November midterms, President Trump delivered a high-stakes pitch at the party's Texas convention: a $5,000 check for every adult US citizen if the GOP holds both houses of Congress. The pledge reflects a wider White House trend toward leveraging financial incentives to rally political support. It comes shortly after discussions emerged regarding a policy draft to pay stay-at-home parents $9,000 per child annually to offset child-rearing costs.

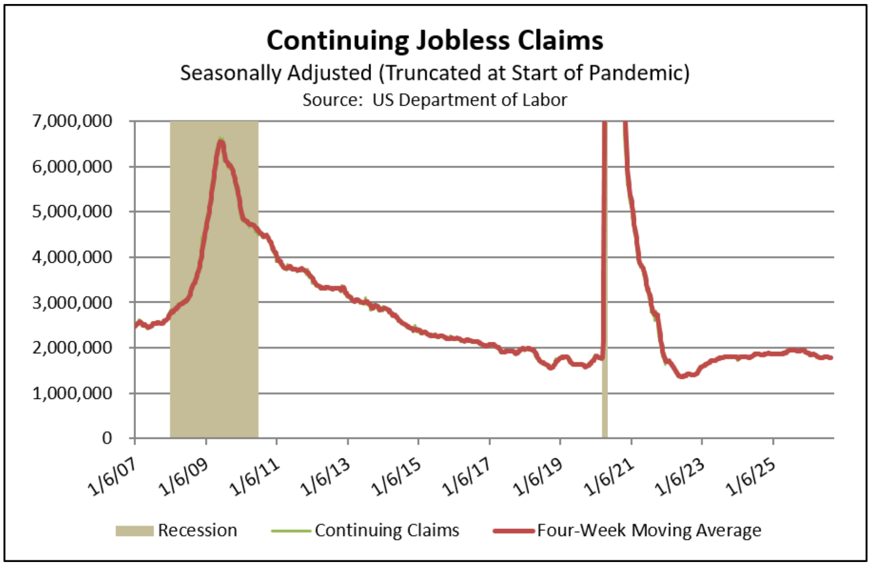
Iran Intensifies: Tehran maintains that [it is willing to escalate its conflict with the US over the Strait of Hormuz.] The warning comes as Iran struggles to export oil under a US naval blockade and faces diminishing control over the strategic waterway. Fears of a broader conflict have pushed oil prices past $100 a barrel. While the immediate risk of all-out war remains low, that calculus could shift if Iran targets key US allies outside of the gulf.

US Economic Releases

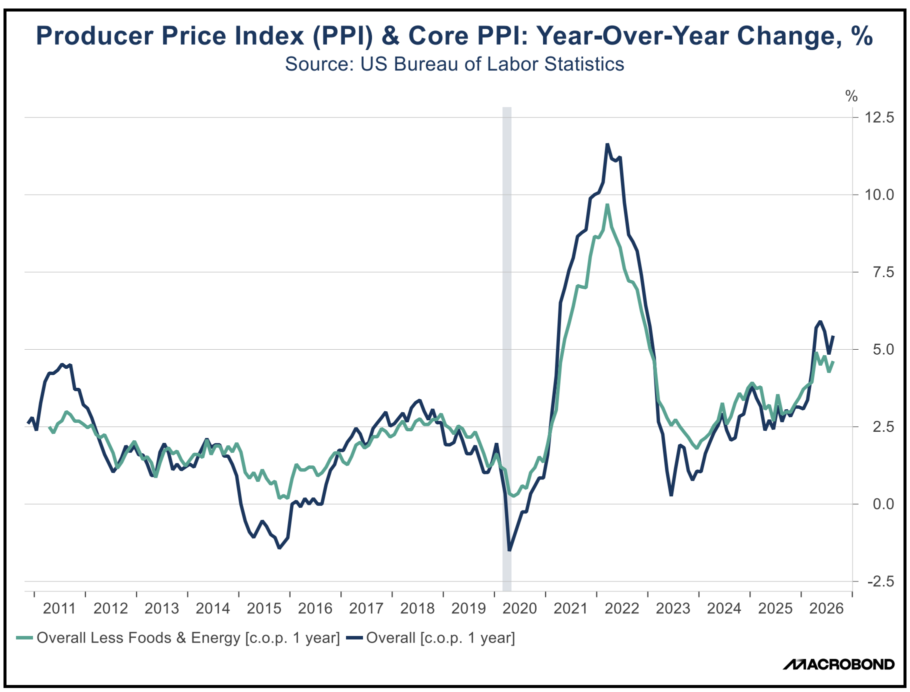
In the week ended September 5, ***initial claims for unemployment benefits*** edged down to a seasonally adjusted 206,000, slightly above the expected level of 205,000 but slightly below the prior week's revised level of 207,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, fell to 206,000. 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 August 29, the number of ***continuing claims for unemployment benefits*** (people continuing to draw benefits) edged down to a seasonally adjusted 1.774 million, modestly below both the anticipated reading of 1.780 million and the previous week's revised reading of 1.775 million. The four-week moving average of continuing claims declined slightly to 1.779 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, the August ***producer price index (PPI)*** rose by a seasonally adjusted 0.4%, matching expectations and accelerating from its revised July increase of 0.1%. Excluding the volatile food and energy components, the August ***"core" PPI*** rose 0.2%, compared with expectations that the increase would match the 0.3% gain in July. The overall PPI in August was up 5.4% from the same month one year earlier, while the core PPI was up 4.6%. The chart below shows the year-over-year change in the PPI and the core PPI over the last decade and a half.



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	3.98m	4.06m	***
10:00	Existing Home Sales MoM	m/m	Aug	-1.7%	-1.7%	*
10:00	Wholesale Inventories	m/m	Jul F	1.3%	1.3%	**
10:00	Wholesale Trade Sales	m/m	Jul		-3.0%	*
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	Japan Buying Foreign Bonds	w/w	4-Sep	¥111.9b	-¥824.0b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	4-Sep	¥449.6b	¥509.1b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	4-Sep	-¥481.6b	¥35.8b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	4-Sep	¥690.0b	¥35.9b		*	Equity and bond neutral
EUROPE								
Germany	CPI	y/y	Aug F	2.9%	2.9%	2.9%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Aug F	2.9%	2.9%	2.9%	**	Equity and bond neutral
Italy	Industrial Production WDA	y/y	Jul	0.0%	-0.6%	-0.6%	***	Equity and bond neutral
UK	RICS House Price Balance	y/y	Aug	-28	-29	-30	**	Equity and bond neutral
AMERICAS								
Brazil	IBGE Services Volume	y/y	Dec	0.9%	2.0%	1.0%	*	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)	380	381	-1	Up
U.S. Sibor/OIS spread (bps)	386	385	1	Up
U.S. Libor/OIS spread (bps)	384	383	1	Up
10-yr T-note (%)	4.87	4.84	0.03	Up
Euribor/OIS spread (bps)	263	264	-1	Up
Currencies	**3 Mo**			
Dollar	Down	US		Down
Euro	Up	Euro		Up
Yen	Down	Japan		Up
Pound	Up	UK		Up
Franc	Down	Switzerland		Down
Central Bank Action		**Prior**	**Expected**	
ECB Deposit Facility Rate	2.50%	2.25%	2.50%	On Forecast
ECB Main Refinancing Rate	2.65%	2.40%	2.65%	On Forecast
ECB Marginal Lending Facility	2.90%	2.65%	2.90%	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	$102.04	$101.21	0.82%	
WTI	$97.36	$96.05	1.36%	
Natural Gas	$2.79	$2.82	-0.99%	
Crack Spread	$60.42	$60.43	-0.02%	
12-mo strip crack	$54.72	$54.45	0.48%	
Ethanol rack	$2.19	$2.19	-0.01%	
Metals				
Gold	$4,389.78	$4,398.83	-0.21%	
Silver	$65.96	$67.29	-1.98%	
Copper Contract	$658.65	$688.85	-4.38%	
Grains				
Corn contract	$531.75	$527.75	0.76%	
Wheat contract	$731.50	$728.75	0.38%	
Soybeans contract	$1,316.75	$1,309.50	0.55%	
Shipping				
Baltic Dry Freight	3,620	3,584	36	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		-1.35		
Gasoline (mb)		-1.28		
Distillates (mb)		-0.70		
Refinery run rates (%)		-0.80%		
Natural gas (bcf)		34		

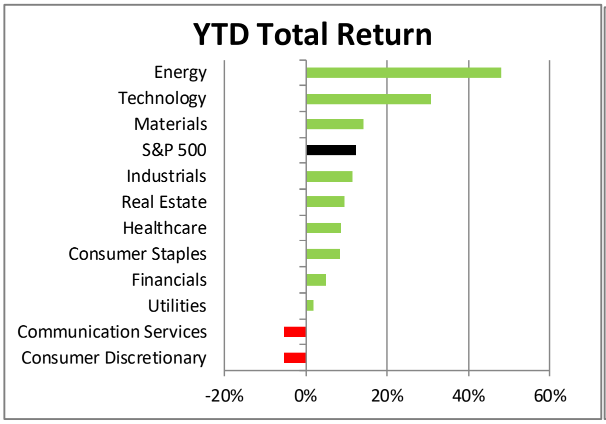
Weather

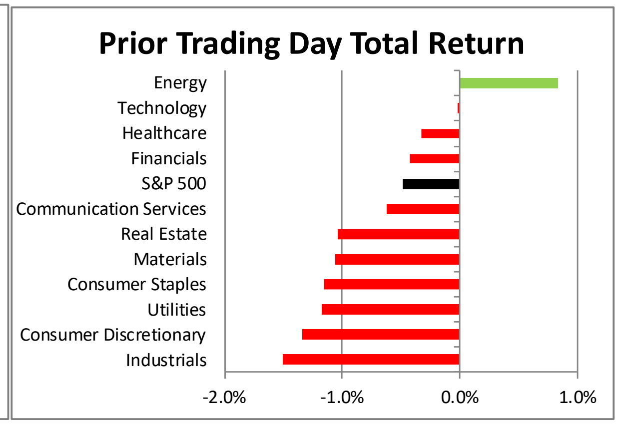
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in the southern half of the country, with cooler-than-normal temps in North Dakota and the northern areas of Minnesota, Wisconsin, and Michigan. The outlook calls for wetter-than-normal conditions in the Rocky Mountains, the Great Plains, the Midwest, and the Northeast, with dry conditions in the Pacific Northwest.

There are no atmospheric disturbances in the Atlantic area, and none are expected in the coming seven days.

Data Section

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

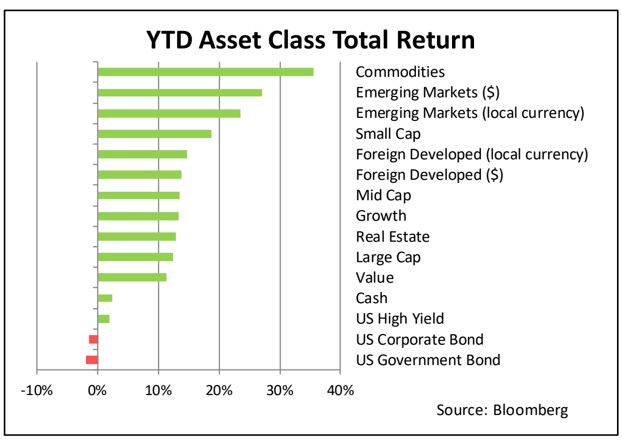




(Source: Bloomberg)

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 9/9/2026 close)

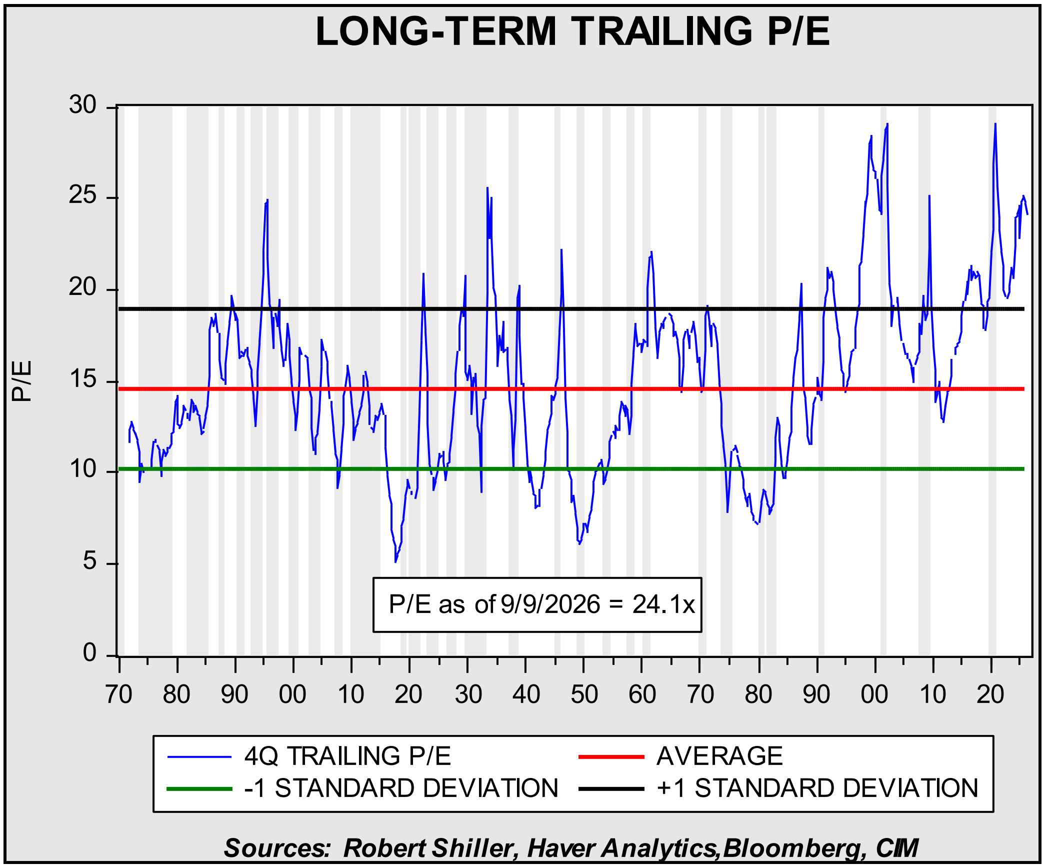


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

September 10, 2026



Based on our methodology,[1] the current P/E is 24.1x, 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.

[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.