Daily Comment

Confluence INVESTMENT MANAGEMENT

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[Posted: September 11, 2026 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 0.7% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 1.7%. Chinese markets were lower, with the Shanghai Composite down 1.2% 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
"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 assessment of the growing shift toward more hawkish monetary policy. We then turn to geopolitics, examining developments in the Middle East as the conflict broadens beyond the Strait of Hormuz. Next, we briefly consider the potential for an electoral upset in Brazil and the efforts by AI developers to slow work on some of their most potentially dangerous models. As always, we conclude with a review of recent domestic and international economic data.

Global Hawks: Many countries are considering tightening monetary policy to contain inflationary pressures caused by the rise in oil prices. This push comes as central banks try to curtail the pass-through effect of energy prices to other parts of the economy. Several central banks have either already hiked rates or signaled their willingness to tighten policy. This shift in expectations of policy rates has helped spur long-term yields globally, and the resulting increase in borrowing costs will likely add to the fiscal burden most countries are facing.

- On Thursday, the European Central Bank raised rates for the second time since the war began in February. The vote was unanimous, showing that members shared concerns about the rising inflationary pressures building throughout the economy. During the press conference, ECB President Christine Lagarde suggested that further hikes were likely, given the central bank's expectation that inflation would remain elevated and not return to its target until 2027.
- The ECB's adjustment comes as other central banks have also appeared to take a more hawkish view on monetary policy. The Bank of Japan is also reportedly considering moving in a similar direction, with expectations that it will raise rates by 25 basis points to 1.25% and signal faster tightening ahead. Meanwhile, implied policy rates suggest that both the Bank of England and the Bank of Canada could also hike interest rates by the end of the year.
- While much of the developed world appears to be leaning toward hikes, it is still not clear what the Federal Reserve will do on Wednesday. As of this writing, the latest CME FedWatch tool suggests that the central bank has about a 70% chance of raising rates by 25 basis points. However, there has been a push by the White House for the Fed to hold rates steady, due to the lack of evidence of sticky core inflation. As an exporter, the US is more resilient than other economies to energy shocks, making a rate hike less necessary.
- The shift toward more hawkish policy abroad is likely to weigh on growth and may persist as the war continues to add concerns about energy security. This could have a negative impact on growth, particularly abroad, as other economies could be more inclined to tighten policy to adjust to inflationary pressures. However, if worries about energy ease, we could see sentiment improve for international stocks.

Middle East Fears: The escalating conflict in the Middle East has raised concerns that supply disruptions could worsen. On Thursday, the Houthis were able to take over ports in the Red Sea as they look to close the Bab el-Mandeb Strait. The group's advance increases the likelihood that there could be two compromised straits in the region, which would further strain trade, making it difficult to transport oil. The rising conflict in the Middle East has put pressure on other countries in the region to help put an agreement in place as they look to prevent the conflict from broadening.

- The Iran-backed Houthis have managed to secure the port of Mocha. The takeover is part of their effort to impose a blockade on Saudi ports as they look to expand the war throughout the Middle East. They have been able to make progress in taking control of the Red Sea coastline, which they believe will allow them to launch more successful attacks on ships moving through the Bab el-Mandeb Strait.
- While Iran itself has seen its success fade, it appears to have leveraged the help of its proxies in other regions around the world. The group has several alliances with groups in countries such as Syria, Iraq, Lebanon, and Yemen, as well as the Palestine area. These groups have demonstrated the ability to disrupt regional security, threaten infrastructure and shipping routes, and raise the risks for Gulf states and their partners. This network gives Iran a means of exerting pressure beyond its borders.

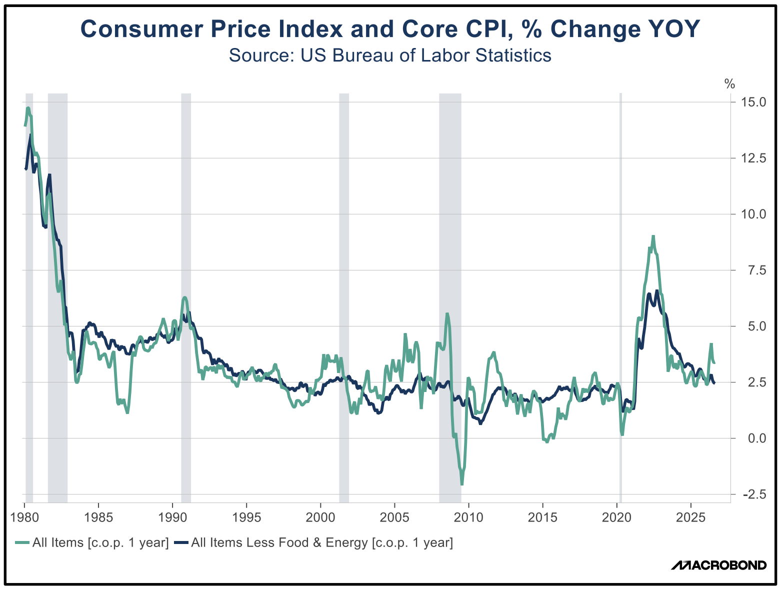
- The widening of the conflict will likely add to the supply and demand imbalance in oil markets. The conflict has pushed oil prices above $100 a barrel and kept them elevated over the last two days. The main worry for investors is that the lack of oil flows means the growing imbalance will likely worsen as Chinese demand returns to the market and strategic reserves start to dwindle. While US forces remain able to make some progress in the Strait of Hormuz, which could ease pressure, the Houthi advance suggests prices may remain elevated.
- Although the US is reluctant to hold talks, discussions involving Iran and Gulf governments are already under way. If they produce a credible de-escalation agreement, it could help restore safe passage through the Strait of Hormuz and reduce the risk of a broader regional conflict. That, in turn, could help bring down oil prices and offer some relief from rising bond yields. However, any deal would likely need some form of US support to be effective.

Bolsonaro Upset: As the Brazilian election approaches, Flavio Bolsonaro's chances of winning appear to be increasing. The pickup comes as a new poll shows that Bolsonaro now holds a 1% lead, indicating that his popularity is rising. Growing expectations of a Bolsonaro win have led to an unwinding of hedges against the Brazilian real, since a victory is expected to pave the way for more sound fiscal policy as well as more preferential treatment from the US in terms of trade and investment.

Slow AI: The CEO of OpenAI has announced that he is considering the possibility of slowing down the development of some of the company's more complex systems. The shift comes amid concerns that the technology is developing at a pace that at some point could pose a risk to humanity. While it is not clear whether other companies will follow suit, it does highlight the growing need for oversight of AI due to the potential dangers.

US Economic Releases

The August ***consumer price index (CPI)*** increased by a seasonally adjusted 0.4%, matching expectations but accelerating from its 0.1% gain in July. Excluding the volatile food and energy components, the ***"core" CPI*** rose 0.3%, exceeding expectations that it would rise at the same 0.2% rate as in the previous month. The overall CPI in August was up 3.4% from the same month one year earlier, while the core CPI was up 2.4%. The chart below shows the annual change in the CPI and the core CPI since 1980.



The table below lists the economic releases and Fed events scheduled for the rest of the day.

Economic Releases						
10:00	U. of Michigan Consumer Sentiment	m/m	Sep P	51.0	51.7	***
10:00	U. of Michigan Current Conditions	m/m	Sep P	51.3	51.9	**
10:00	U. of Michigan Future Expectations	m/m	Sep P	51.0	51.5	**
10:00	U. of Michigan 1-Year Inflation Expectation	m/m	Sep P	4.2%	4.0%	*
10:00	U. of Michigan 5-10 Year Inflation Expectation	m/m	Sep P	3.3%	3.3%	*
14:00	Federal Budget Balance	m/m	Aug	-$211.1b	-$344.8b	**
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	PPI	y/y	Aug	-0.2%	0.4%	0.0%	***	Equity and bond neutral
New Zealand	BusinessNZ Manufacturing PMI	m/m	Aug	7.6	7.7	7.4	***	Equity and bond neutral
India	Foreign Exchange Reserves	w/w	4-Sep	$785.7b	$740.8b		*	Equity and bond neutral
EUROPE								
Italy	Unemployment Rate	q/q	2Q	5.6%	5.5%		*	Equity and bond neutral
UK	GDP	m/m	Jul	0.4%	0.3%	0.0%	***	Equity and bond neutral
	Industrial Production	y/y	Jul	0.6%	-0.2%	0.2%	***	Equity and bond neutral
	Manufacturing Production	y/y	Jul	2.6%	0.5%	2.1%	**	Equity and bond neutral
	Construction Output	y/y	Jul	-2.5%	-2.3%	-2.3%	**	Equity and bond neutral
	Index of Services 3M/3M	m/m	Jul	0.006	0.005	0.005	**	Equity and bond neutral
	Visible Trade Balance GBP/Mn	m/m	Mar	-£20965m	-£23007m	-£22400m	**	Equity and bond neutral
	Trade Balance GBP/Mn	m/m	Mar	-£3450m	-£5537m	-£4995m	**	Equity and bond neutral
Russia	Gold and Forex Reserves	m/m	4-Sep	$753.5b	$774.2b		***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	4-Sep	22.56t	22.39t		*	Equity and bond neutral
AMERICAS								
Mexico	Industrial Production	y/y	Jul	2.7%	1.7%	1.6%	***	Equity and bond neutral
	Manufacturing Production	y/y	Jul	1.6%	0.1%	4.0%	*	Equity and bond neutral
Brazil	IBGE Inflation IPCA	y/y	Aug	4.22%	4.44%	4.27%	***	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)	384	386	-2	Up
U.S. Sibor/OIS spread (bps)	390	390	0	Up
U.S. Libor/OIS spread (bps)	387	388	-1	Up
10-yr T-note (%)	4.94	4.96	-0.02	Up
Euribor/OIS spread (bps)	264	263	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**	
Bank of Russia Key Rate	14.00%	14.00%	14.00%	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
Energy Markets				
Brent	$103.72	$107.63	-3.63%	
WTI	$99.16	$102.48	-3.24%	
Natural Gas	$2.81	$2.83	-0.99%	
Crack Spread	$63.57	$61.88	2.73%	
12-mo strip crack	$55.82	$56.95	-1.98%	
Ethanol rack	$2.20	$2.20	0.01%	
Metals				
Gold	$4,336.30	$4,318.19	0.42%	
Silver	$63.86	$63.60	0.40%	
Copper Contract	$652.25	$654.75	-0.38%	
Grains				
Corn contract	$528.25	$533.75	-1.03%	
Wheat contract	$736.75	$741.25	-0.61%	
Soybeans contract	$1,317.75	$1,332.25	-1.09%	
Shipping				
Baltic Dry Freight	3,521	3,620	-99	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	0	-1.35	1	
Gasoline (mb)	1	-1.28	3	
Distillates (mb)	2	-0.70	3	
Refinery run rates (%)	-0.02%	-0.80%	0.78%	
Natural gas (bcf)	40	34	6	

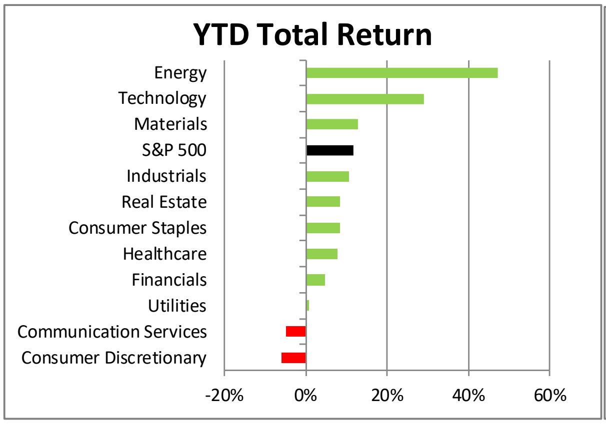
Weather

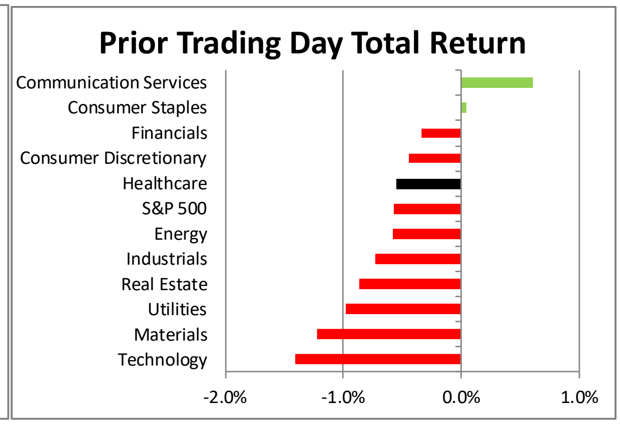
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures along the West Coast, in the Rocky Mountains, and in the Deep South, with cooler-than-normal temps in New England. The outlook calls for wetter-than-normal conditions in the central and southern Rocky Mountains and the Deep South, 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 9/10/2026 close)

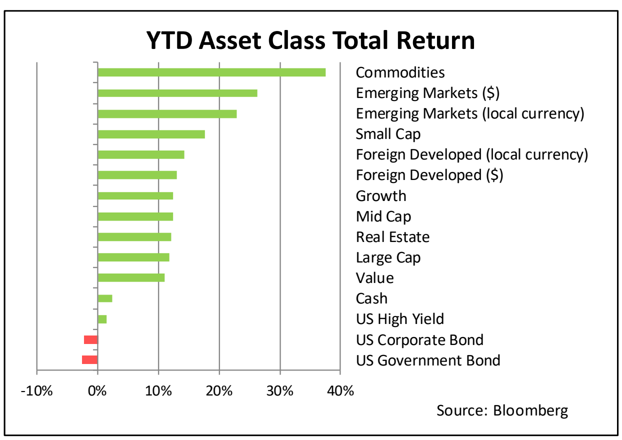




(Source: Bloomberg)

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 9/10/2026 close)

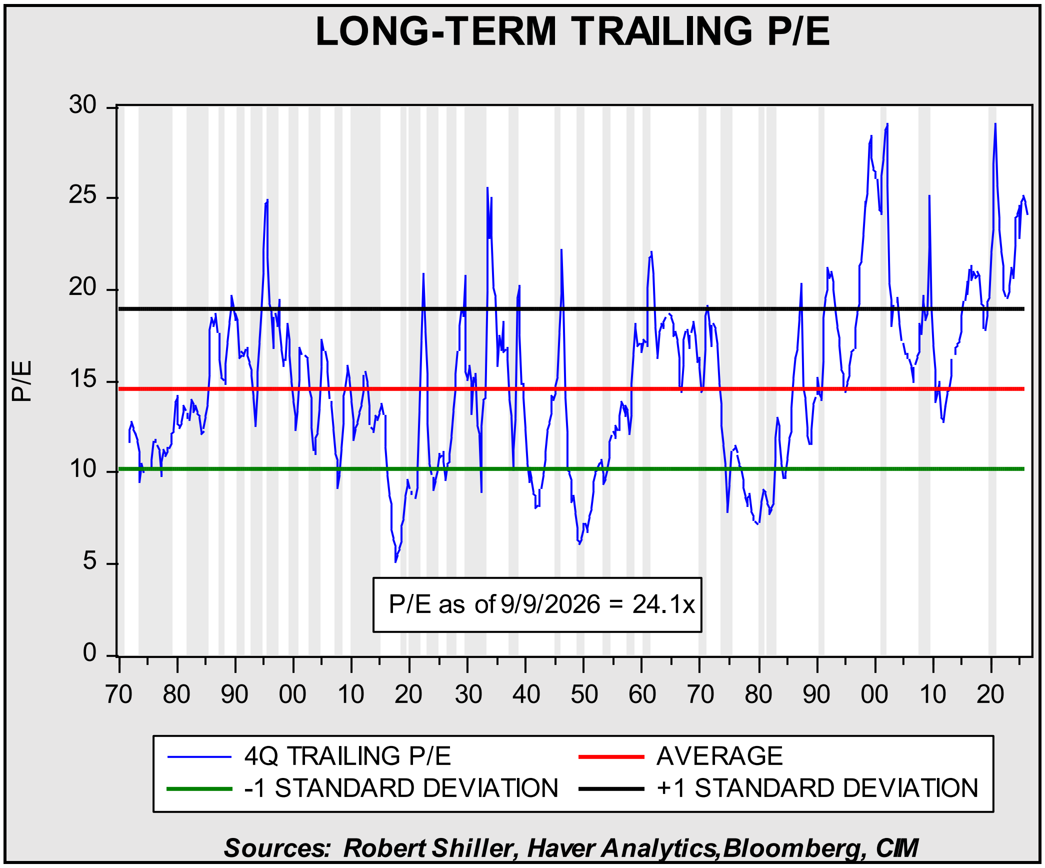


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.