Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: September 15, 2026 — 9:30 AM ET] Global equity markets are lower 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 down 0.6%. Chinese markets were lower, with the Shanghai Composite down 0.5% and the Shenzhen Composite also down 0.8%. 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
"I Miss Recessions" **(9/14/26)** + **podcast**	"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 our thoughts on how rising fears over AI are shaping the debate on global policy. We then turn to fixed income, examining the drivers behind the 10-year Treasury yield's move to 5%. Next, we briefly cover China's new travel restrictions and the Supreme Court's ruling on mail ballots. As always, we conclude with a review of recent domestic and international economic data.

AI Fears? A push for a global slowdown in AI development has fueled a broader debate over ways to address geopolitical risks. On Monday, China rejected calls to restrict the use of its models in the US, arguing that it could disrupt the process of global governance of AI. Meanwhile, Canadian Prime Minister Mark Carney called for a global body to oversee AI development, arguing it would help ensure international standards. This debate over a global AI standard marks the first serious attempt at an international framework for the technology.

- Uneasiness over AI safety has led to a push for technological protectionism. Over the weekend, a top Chinese official in Beijing published an article warning that the technology could be abused by hostile forces to wage a propaganda and cognitive war against the government. He specifically referred to US models, including those from OpenAI and Anthropic. His comments followed concerns from Anthropic CEO Dario Amodei, who warned that China's lead could pose a danger to the US and the world.
- However, there does seem to be a push for some form of international cooperation as a way to ensure AI is created safely. Carney has advocated for a board similar to the Financial Accounting Standards Board, which would create a unified set of governing rules to ensure AI is developed safely. The implication is that a rule-setting board would govern how public and private companies build and test AI models.
- The push toward either more protectionist AI policies or greater global cooperation reflects a world still adapting to the AI age. We think the global economic system may be shifting from one built primarily on trade to one increasingly built on technology. As a result, a dispute could emerge over how different AI models are permitted to operate across countries, particularly as the US and China continue to vie for supremacy in the space.
- The debate over the risks of AI could slow development, whether countries move toward protectionism or a global cooperative governing body emerges. While the latter is preferable, competition between the two largest economies makes the former more probable. This is apt to slow adoption, as it could prevent firms from accessing the lowest-cost alternatives. However, it may provide a boost to software-as-a-service companies, which are more likely to be threatened by the rapid adoption of AI tools.

Treasury Yield Peaks? The 10-year Treasury yield rose above 5% for the first time since 2023. The increase in yields comes as investors price in the possibility of a broadening conflict in the Middle East leading to further supply shocks in energy. This concern compounds the fact that inflation is likely to stay elevated, as government debt issuance and rising AI-related corporate debt continue to flood the market with supply. As a result, there are growing worries over what can be done to bring down global borrowing costs.

- The rise in bond yields comes in response to concerns about Iran and its proxies targeting energy infrastructure throughout the Middle East as it looks to gain leverage against the US. Over the last few days, Iran has used its proxies to broaden the war beyond the Strait of Hormuz. Most recently, the Iran-backed Houthis were able to take control of the Bab al-Mandab Strait and have tightened their grip on the coast of the Red Sea.
- The rise of the Houthi threat has put the US in a bind as it decides whether to expand its operations throughout the Middle East. Saudi Crown Prince Mohammed bin Salman has requested US military support as the kingdom looks to avoid having its oil exports blocked on two fronts. However, the US appears reluctant to provide that support, given its existing commitment to the Strait of Hormuz and unease about the further straining of its military resources.
- Oil markets have been hit hardest, as Saudi Arabia has struggled to export to the rest of the world. The kingdom is currently trying to resume operations at its East-West Pipeline,

which has been a key means of selling oil while bypassing the Strait of Hormuz. There is hope that Saudi Arabia can rely on inventories held at one of its storage facilities on the Red Sea, as well as reserves stored in Egypt, but there are concerns that this would only serve as a short-term fix.

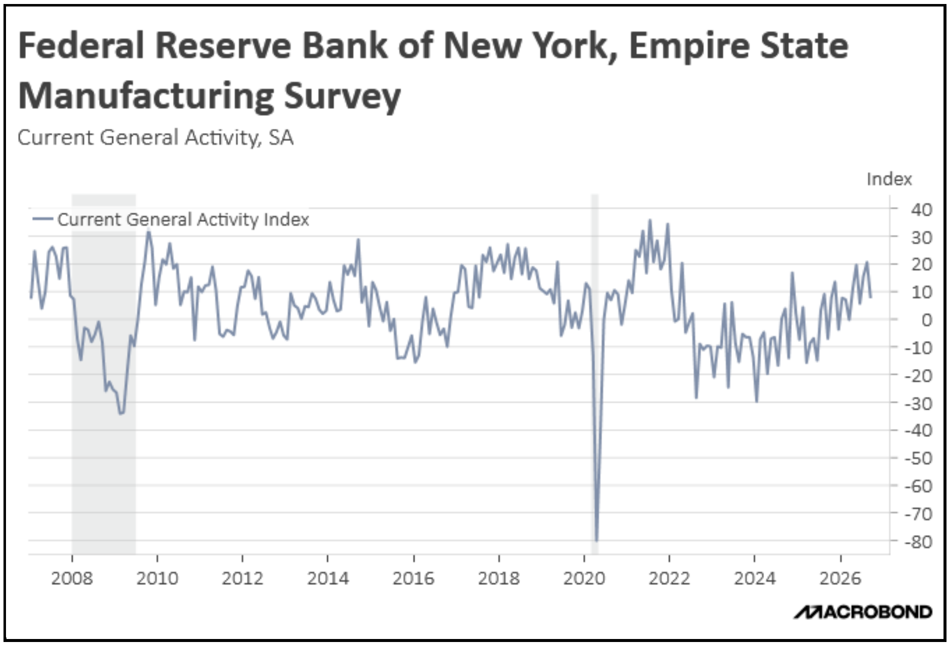
- While Treasury yields are elevated, it is important to remember that much of the risk is related to geopolitical tensions in the Middle East. Once there is a final resolution — preferably a reopening of the Strait of Hormuz, on which there has been considerable progress — long-duration bonds should be able to rally in response. In the meantime, however, rates could find considerable support due to oil supply uncertainty.

China Travel Restriction: Beijing has introduced a new travel restriction for civil servants and those working in sensitive industries. The move comes as the government aims to prevent the sharing of state secrets, particularly those related to its AI technology. The rule follows Meta's blocked purchase of a Chinese AI company. The restriction comes as competition between the US and China over AI continues to heat up.

Mail Ballot Ruling: The Supreme Court rejected the White House's request to restrict mail ballots for the midterm elections. The decision will allow states to continue sending out ballots in their usual manner. This ruling sets back the Trump administration's efforts to restrict the use of mail-in voting as a way to ensure election integrity. While the issue is likely to be challenged further, its overall impact on November's contest for either party is probably inconsequential regardless of the ruling.

US Economic Releases

The New York FRB said its September ***Empire State Manufacturing Index*** came in at a seasonally adjusted 7.6, well below the expected level of 14.75 and the August level of 20.6. This index is designed so that positive readings point to expanding factory activity in New York state. At its current level, the index suggests New York manufacturing is now growing rather robustly. The chart below shows how the index has fluctuated since just before the Great Financial Crisis.



There are no economic releases or Fed events scheduled for the rest of the day.

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	Tertiary Industry Index	m/m	Jul	4%	0%	0%	***	Equity and bond neutral
South Korea	Export Price Index	y/y	Aug	42.4%	48.9%		*	Equity and bond neutral
	Import Price Index	y/y	Aug	15.6%	18.8%		*	Equity and bond neutral
China	Retail Sales	y/y	Aug	0.4%	0.6%	0.8%	***	Equity and bond neutral
	Industrial Production	y/y	Aug	5.2%	4.5%	4.8%	***	Equity and bond neutral
	Fixed Assets Ex Rural YTD	y/y	Aug	-7.2%	-6.7%	-7.2%	**	Equity and bond neutral
India	Trade Balance	m/m	Aug	-$26860m	-$31980m	-$32150m	**	Equity and bond neutral
	Exports	y/y	Aug	26.1%	19.6%		**	Equity and bond neutral
	Imports	y/y	Aug	14.1%	17.5%		**	Equity and bond neutral
	Unemployment Rate	m/m	Aug	5.0%	5.1%		***	Equity and bond neutral
EUROPE								
Eurozone	ZEW Survey Expectations	m/m	Sep	25.8	31.4		**	Equity and bond neutral
	Trade Balance SA	m/m	Jul	5.0b	1.0b		**	Equity and bond neutral
Germany	Wholesale Price Index	y/y	Aug	6.8%	5.3%		*	Equity and bond neutral
	ZEW Survey Expectations	m/m	Sep	34.7	34.2	40.0	**	Equity bearish, bond bullish
	ZEW Survey Current Situation	m/m	Sep	-47.1	-61.1	-52.1	**	Equity bullish, bond bearish
France	CPI	y/y	Aug F	2.4%	2.4%	2.4%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Aug F	2.6%	2.7%	2.7%	**	Equity and bond neutral
	CPI Ex-Tobacco Index	q/q	Aug F	103.35	102.67	103.41	*	Equity and bond neutral
Italy	Trade Balance Total	m/m	Jul	8240m	4343m		*	Equity and bond neutral
UK	Average Weekly Earnings 3M/YoY	m/m	Jul	3.90%	4.20%	3.90%	**	Equity and bond neutral
	ILO Unemployment Rate 3Mths	m/m	Jul	4.90%	4.90%	4.90%	**	Equity and bond neutral
	Claimant Count Rate	m/m	Aug	4.40%	4.30%		**	Equity and bond neutral
	Jobless Claims Change	m/m	Aug	27.8k	-11.8k		**	Equity and bond neutral
AMERICAS								
Canada	Manufacturing Sales	m/m	Jul	-0.4%	0.3%	-0.2%	**	Equity and bond neutral
	CPI	y/y	Aug	3.0%	3.0%	3.0%	***	Equity and bond neutral
Brazil	Retail Sales	y/y	Jul	1.2%	2.9%	2.3%	***	Equity bearish, bond bullish

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)	394	395	-1	Up
U.S. Sibor/OIS spread (bps)	398	398	0	Up
U.S. Libor/OIS spread (bps)	396	395	1	Up
10-yr T-note (%)	5.00	4.99	0.01	Up
Euribor/OIS spread (bps)	266	265	1	Up
Currencies	**3 Mo**			
Dollar	Down	US		Flat
Euro	Up	Euro		Down
Yen	Down	Japan		Up
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	$106.02	$105.68	0.32%	
WTI	$102.40	$101.39	1.00%	
Natural Gas	$2.90	$2.90	0.14%	
Crack Spread	$62.39	$60.47	3.17%	
12-mo strip crack	$55.39	$54.57	1.50%	
Ethanol rack	$2.22	$2.22	0.00%	
Metals				
Gold	$4,284.04	$4,299.64	-0.36%	
Silver	$63.21	$63.23	-0.03%	
Copper Contract	$641.05	$640.45	0.09%	
Grains				
Corn contract	$530.00	$533.25	-0.61%	
Wheat contract	$717.00	$722.00	-0.69%	
Soybeans contract	$1,299.00	$1,304.25	-0.40%	
Shipping				
Baltic Dry Freight	3,445	3,507	-62	
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		

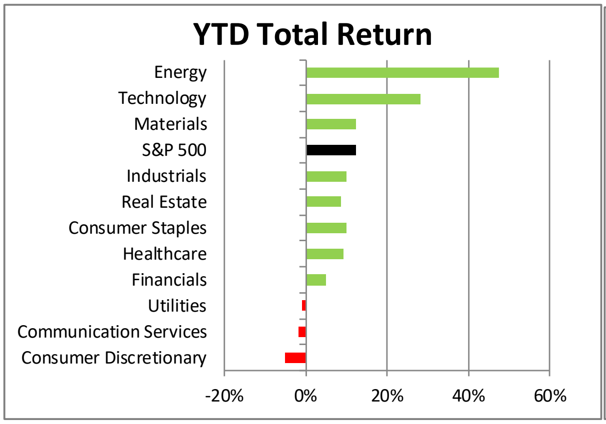
Weather

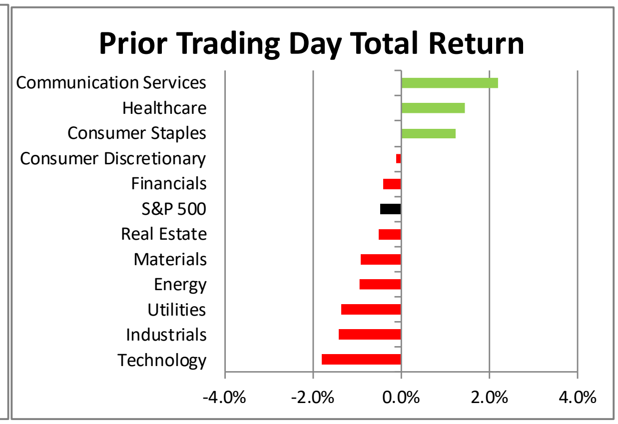
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for most of the country, with near normal temps in the Pacific and Maine. The outlook calls for wetter-than-normal conditions in most states in the western half of nation, with dry conditions expected in the Midwest, Great Lakes, and New England regions.

There is currently one atmospheric disturbance in the Atlantic Ocean, and it has a 40% chance of cyclone formation within the next seven days.

Data Section

US Equity Markets – (as of 9/14/2026 close)

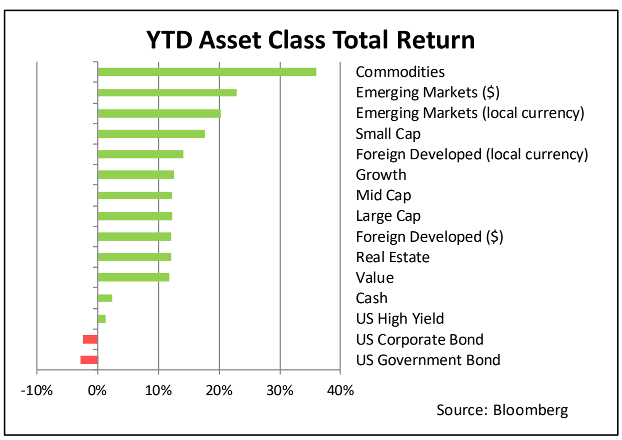




(Source: Bloomberg)

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 9/14/2026 close)

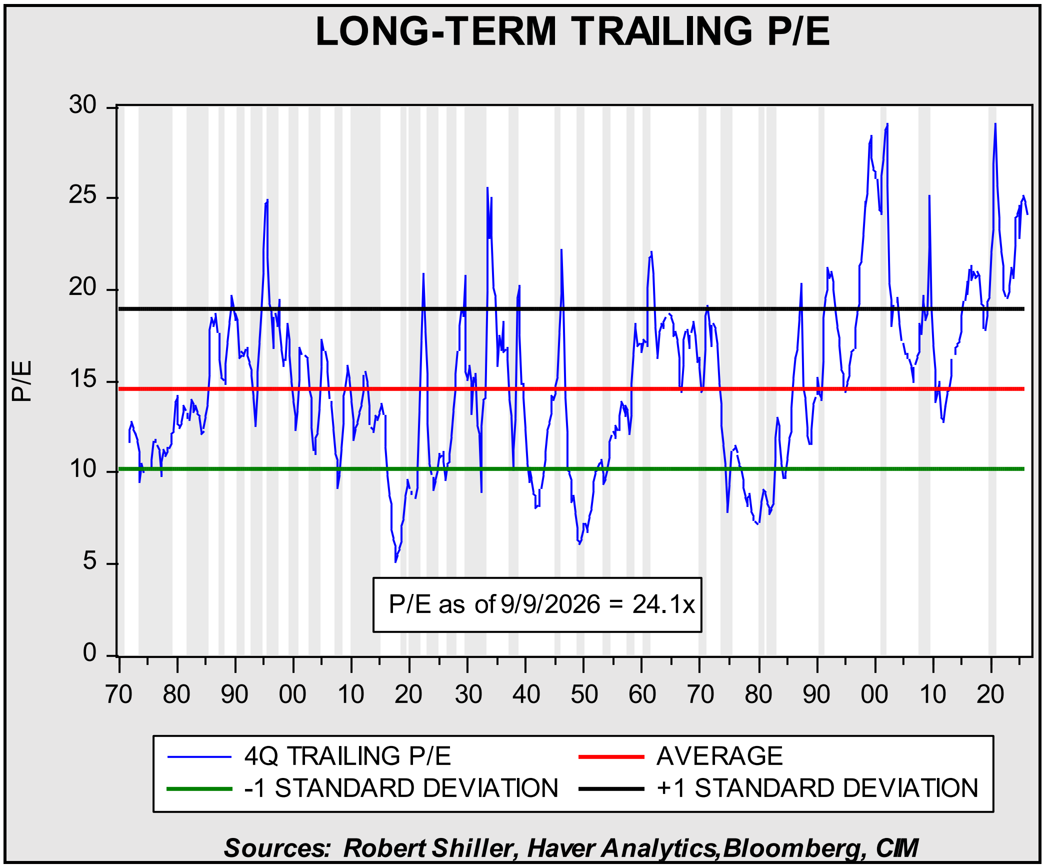


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.

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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.