Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: September 16, 2026 — 9:30 AM ET] Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 is up 0.6% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.8%. Chinese markets were higher, with the Shanghai Composite up 0.7% and the Shenzhen Composite up 1.3%. 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
"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

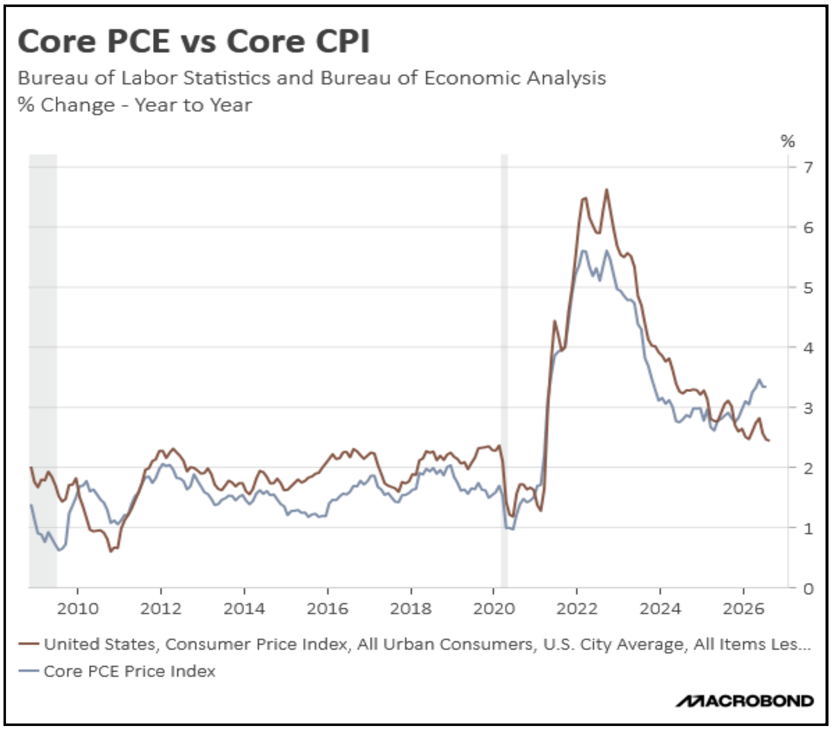
Have a question on the economy, markets, geopolitics, or other important topics? You can submit your queries to our monthly podcast, *Confluence Mailbag*! Submit your question to mailbag@confluenceim.com.

Our *Comment* opens with our thoughts on the Fed ahead of today's rate decision. We then turn to AI, examining the growing debate over regulation. Next, we cover legislation that would grant President Trump new trade authority, a meeting between US and Chinese officials ahead of their summit later this month, and the United Kingdom's push to join a Canada-led defense bank. As always, we conclude with a review of recent domestic and international economic data.

Hawkish Sentiment: The Federal Reserve is set to deliver its rate decision later today, and the market is pricing in its first hike since 2023. Expectations of a rate hike have been increasing since the war in the Middle East started raising energy prices, leading to concerns about an uptick in inflation. While there have been worries that a hike could be the wrong move given that the source of inflation is being driven by supply factors as opposed to demand factors, questions about the Fed's independence may mean that avoiding a rate hike could be costly.

- Sentiment has shifted regarding the Fed's tilt over recent months after signs that the Fed was not moving closer to its 2% inflation target. Since the conflict began, the Fed has been progressively more hawkish. Although dot plots at the start of the conflict showed that FOMC members were confident in a rate cut this year, that confidence has given way to the central bank brushing aside any mention of a dovish tilt, and, at the previous meeting, a call for a rate hike from some officials.

- The shift in the FOMC has put pressure on Chair Warsh to offer some forward guidance, given that his stance has been somewhat unclear, but he has maintained the need for patience while also acknowledging the Fed's commitment to price stability. During his comments at the Jackson Hole Symposium in August, he mentioned that the Fed "has work to do" to get inflation back to target, which has largely been seen as implicit support for a rate hike.



- The hawkish shift has occurred as key inflation measures have moved in opposite directions. Core CPI has edged closer to the Fed's 2% target in recent months, while core PCE, the central bank's preferred gauge, has moved further away from it. The divergence largely reflects differences in how the measures are weighted, particularly for housing — shelter has exerted more downward pressure on core CPI while having a much smaller effect on core PCE.

- The Fed is likely to raise rates, though we would not be surprised if it held policy steady or even opted for a larger-than-expected increase. A pause would probably reinforce the view that the committee is exercising patience in light of the conflict, while an outsized hike could help quell concerns about the Fed's independence. As a result, today's decision could materially reshape market expectations and set the tone for risk assets in the weeks ahead.

AI Safety Talks: There is growing discussion on Capitol Hill about how to best place guardrails for AI while also protecting against the negative consequences. On Tuesday, it was reported that a member of the Trump administration met with executives of Anthropic to discuss AI risks. This attempt to meet with business professionals comes as the White House has expressed wariness about adding restrictions that could slow the development of AI, which it views as a critical component of its national security strategy.

- White House efforts to understand the best way to guard against AI risks are fraught with growing disagreements. During a press conference in San Francisco, several tech executives argued that while the risks of AI are in fact real, the tech industry does not need new regulation. Meanwhile, at a separate conference in Washington, right- and left-wing populists Steve Bannon and Bernie Sanders agreed that there should be some oversight to prevent AI from hurting human interests.
- The discussions about what to do with AI are occurring at a time when the leading AI companies are purportedly preparing for IPOs. SpaceXAI, Anthropic, and OpenAI have all called for a global slowdown in development, despite having gone public or being prepared to do so. While these companies have continued to make promises of strong earnings power, their effort to moderate the pace of development has already been seen as a possible excuse if they fail to meet investor expectations.
- The market impact of these fears has been somewhat mild. Investors have been reducing their exposure to some chip stocks following worries that this could slow spending in the space, while software companies, which have been seen as possible casualties of the rise of AI tools, have benefited from the scare. The former may not last for long, as we think the push for the AI race is likely to benefit from government help; meanwhile, the latter's gains may extend as AI fears continue to slow adoption rates.
- The concerns over potential guardrails have added to the fears about AI. However, its importance to US national security makes the government reluctant to offer any regulation that could prevent it from achieving its mission of eventually reaching artificial general intelligence (AGI), which would allow these models to reason and make logical decisions. This advancement would give the US a strong geopolitical advantage over its rivals.

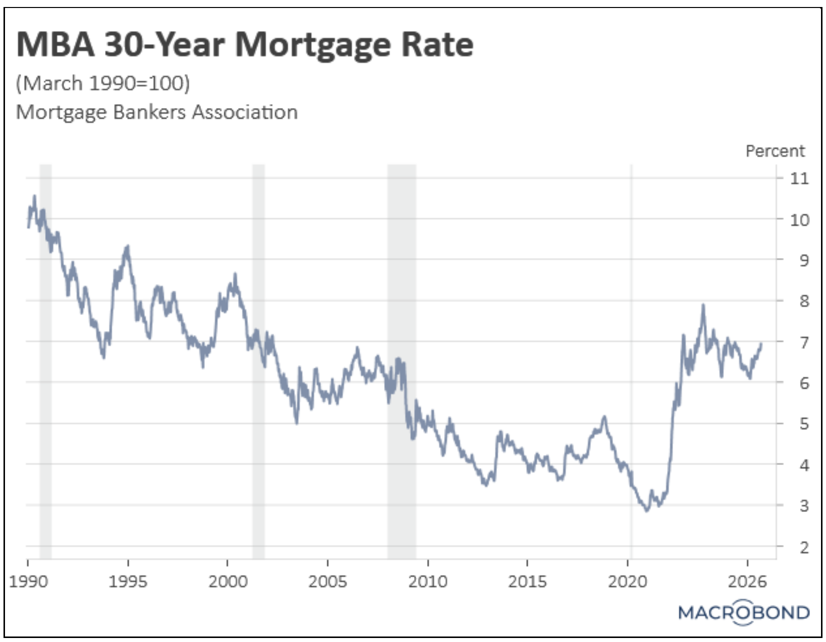
Tariff Authority: On Tuesday, the House of Representatives advanced legislation that would give the president more authority to pursue tariffs. The proposal would allow the president to punish countries that purchase Russian energy. There is growing momentum to allow the White House more leeway in using trade and financial restrictions to prevent rivals and trade partners from going against US foreign policy and not following through on pledges.

Xi-Trump Summit: Roughly a week before President Trump is set to meet with his Chinese counterpart, both sides appear to be working to ease tensions. Treasury Secretary Scott Bessent is scheduled to meet Chinese Vice Premier He Lifeng on Sunday to discuss growing differences between the two countries, including AI development and trade. Although a major breakthrough is unlikely, the meeting could help set the tone for talks between the leaders of the world's two largest economies.

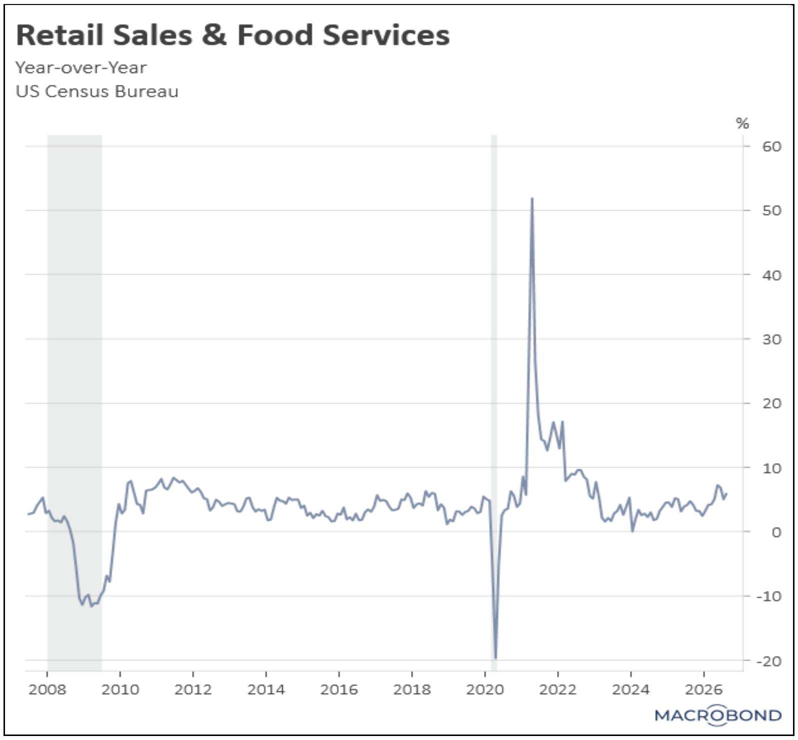
UK Joining Canada: The [United Kingdom is in discussions to join a Canada-led initiative]() for a defense bank. While the UK previously rejected the initial plan, it appears to have changed its tune, viewing the initiative as a potential aid in reaching its 3% of GDP defense spending target. The move is likely to further support aerospace and defense companies as Europe and other countries ramp up their military capabilities.

US Economic Releases

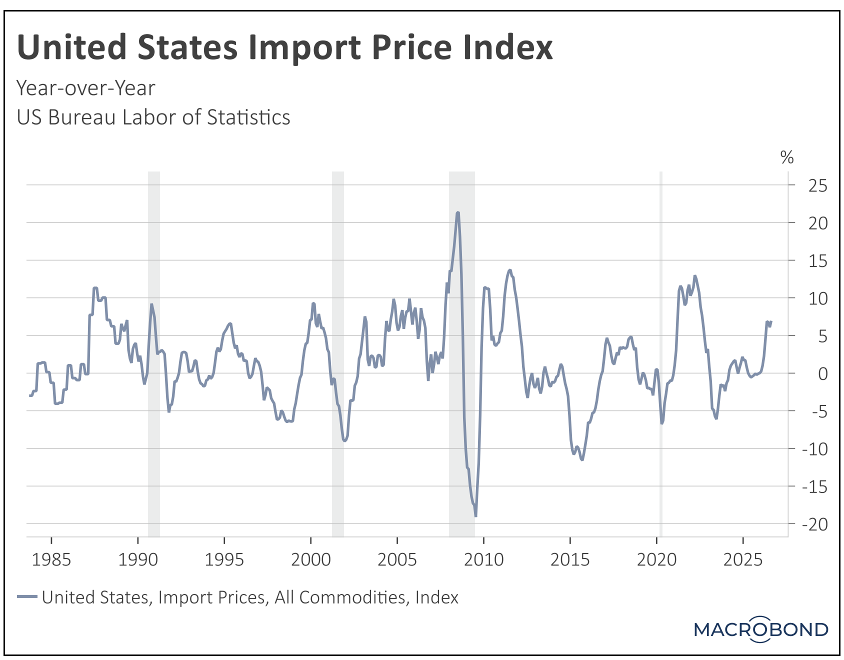
The Mortgage Bankers Association said ***mortgage applications*** in the week ended September 11 fell 4.1%. Applications for home purchase mortgages dropped 0.8%, while refinancing mortgages plunged 4.1%. The average interest rate on a 30-year, fixed-rate mortgage rose 12 basis points to 6.97%, helping explain the recent pullback in applications. The chart below shows how mortgage rates have changed over time.



August ***retail sales*** rose by a seasonally adjusted 1.2%, better than the expected rise of 0.8% and much more than necessary to offset the July decline of 0.5%. Of course, overall retail sales are often driven by the volatile auto and auto parts sector, which makes up almost one-fifth of the total. Last month, ***retail sales excluding autos and auto parts*** were up 1.4%, well above the anticipated gain of 0.4% and the 0.2% decline in July. Overall retail sales in August were up 6.0% from the same month one year earlier, while sales excluding autos and auto parts were up 5.6%. The chart below shows how retail sales have changed since just before the Great Financial Crisis.



Separately, August ***import prices*** were up 0.7% from the previous month, much higher than both the expected increase of 0.4% and the revised July decline of 0.3%. Of course, import prices are often driven by volatility in the petroleum fuels category. Last month, ***import prices excluding fuels*** were up 0.8%, higher than the expected rise of 0.3%. Overall import prices in August were up 7.0% year-over-year, while import prices excluding fuels were up 4.5%. The chart below shows the year-over-year change in import prices since just before the GFC.



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	Business Inventories	m/m	Jul	0.8%	0.0%	*
10:00	NAHB Housing Market Index	m/m	Sep	34	35	*
14:00	FOMC Rate Decision (Lower Bound)	w/w	16-Sep	3.75%	3.50%	***
14:00	FOMC Rate Decision (Upper Bound)	w/w	16-Sep	4.00%	3.75%	***
16:00	Net Long-Term TIC Flows	m/m	Jul		$133.5b	**
16:00	Total Net TIC Flows	m/m	Jul		$172.7b	**
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	Trade Balance	y/y	Aug	-¥1105.6b	-¥634.5b	-¥1058.4b	**	Equity and bond neutral
	Exports	y/y	Aug	19.3	23.2	18.4	*	Equity and bond neutral
	Imports	y/y	Aug	28.0	27.8	26.3	*	Equity bullish, bond bearish
	Core Machine Orders	y/y	Jul	11.2%	16.9%	9.6%	**	Equity bullish, bond bearish
Australia	Westpac Leading Index	m/m	Aug	-0.04%	0.02%		**	Equity and bond neutral
New Zealand	Wespac Consumer Confidence	m/m	Q3	89.5	80.4		*	Equity and bond neutral
	BOP Current Account Balance NZd	q/q	Q2	-1.670b	-1.085b	-2.600b	**	Equity and bond neutral
	Non Resident Bond Holdings	m/m	Aug	58.9%	58.9%		*	Equity and bond neutral
EUROPE								
Eurozone	Industrial Production WDA	y/y	Jul	0.0%	-0.3%	-0.1%	**	Equity and bond neutral
Italy	CPI, EU Harmonized	y/y	Aug F	3.2%	3.2%	3.2%	***	Equity and bond neutral
	CPI NIC Including Tobacco	y/y	Aug F	3.3%	3.3%	3.3%	**	Equity and bond neutral
UK	CPI	y/y	Aug	3.1%	2.9%	3.1%	***	Equity and bond neutral
	CPI Core	y/y	Aug	2.6%	2.6%	2.6%	***	Equity and bond neutral
	CPI Services	y/y	Aug	3.4%	3.5%	3.4%	*	Equity and bond neutral
	Retail Price Index	m/m	Aug	421.6	419.1	421.9	**	Equity and bond neutral
	RPI	y/y	Aug	3.4%	3.2%	3.5%	**	Equity and bond neutral
	RPI Ex Mort Int.Payments	y/y	Aug	3.3%	3.1%		*	Equity and bond neutral
	Nationwide House Price Index	y/y	Jul	1.4%	1.5%		*	Equity and bond neutral
AMERICAS								
Canada	Wholesale Sales ex Petroleum	m/m	Jul	0.3%	2.8%	-0.05	**	Equity and bond neutral
Mexico	International Reserves Weekly	w/w	11-Sep	$257554M	$258035m		*	Equity and bond neutral
Brazil	FGV Inflation IGP-10	m/m	Sep	3.29%	2.00%	3.10%	**	Equity bullish, bond bearish
	Econimic Activity	y/y	Jul	1.14%	2.35%		**	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)	395	395	0	Up
U.S. Sibor/OIS spread (bps)	397	398	-1	Up
U.S. Libor/OIS spread (bps)	395	396	-1	Up
10-yr T-note (%)	4.97	5.00	-0.03	Up
Euribor/OIS spread (bps)	268	266	2	Up
Currencies	**3 Mo**			
Dollar	Down	US		Up
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	$107.11	$108.75	-1.51%	
WTI	$103.29	$105.83	-2.40%	
Natural Gas	$2.93	$2.92	0.45%	
Crack Spread	$65.86	$65.21	0.99%	
12-mo strip crack	$56.15	$55.97	0.32%	
Ethanol rack	$2.23	$2.23	0.01%	
Metals				
Gold	$4,350.68	$4,292.15	1.36%	
Silver	$64.83	$63.67	1.82%	
Copper Contract	$650.50	$644.35	0.95%	
Grains				
Corn contract	$535.25	$535.75	-0.09%	
Wheat contract	$728.00	$728.50	-0.07%	
Soybeans contract	$1,327.25	$1,318.75	0.64%	
Shipping				
Baltic Dry Freight	3,360	3,445	-85	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		-1.50		
Gasoline (mb)		-1.10		
Distillates (mb)		0.65		
Refinery run rates (%)		-0.50%		
Natural gas (bcf)		48		

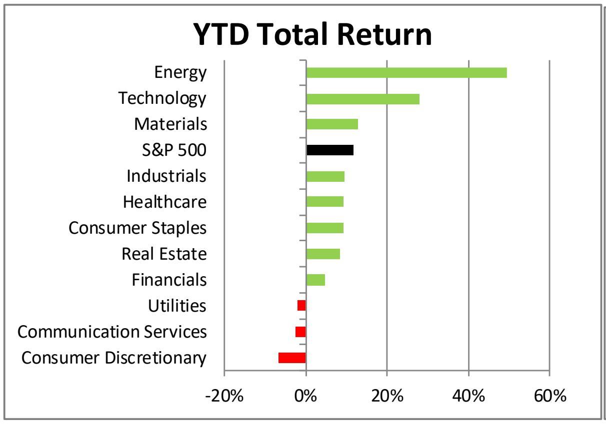
Weather

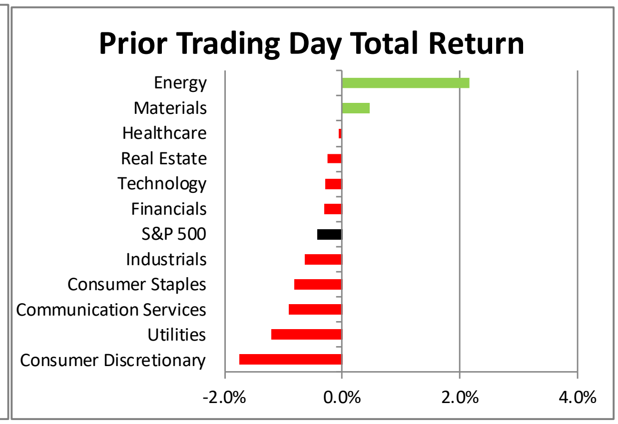
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for most of the country. The outlook calls for wetter-than-normal conditions in most states in the western half of nation, with dry conditions expected in the Midwest, Great Lakes, and Rocky Mountain regions.

There is currently one atmospheric disturbance in the Atlantic Ocean, and it has a 30% chance of cyclone formation within the next seven days.

Data Section

US Equity Markets – (as of 9/15/2026 close)

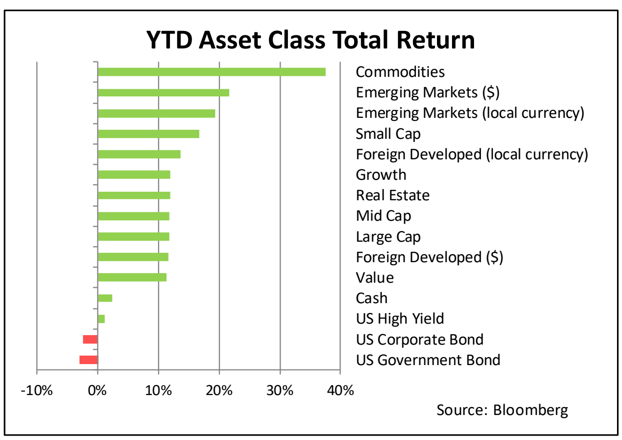




(Source: Bloomberg)

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 9/15/2026 close)

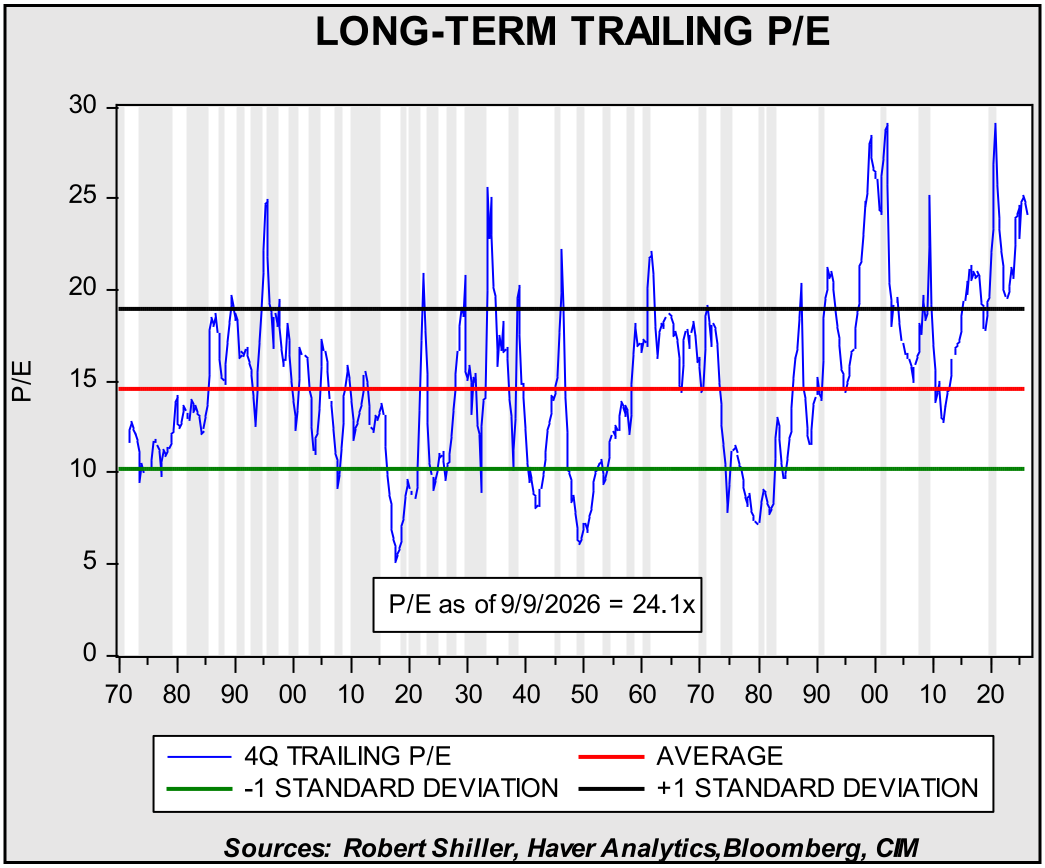


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.