Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: September 17, 2026 — 9:30 AM ET] Global equity markets are mixed 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 down 0.2%. Chinese markets were lower, with the Shanghai Composite down 0.4% and the Shenzhen Composite down 0.2%. 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 takeaways from today's rate decision and what we could gather from the Fed's communication. We then turn to the market's reaction to the decision, examining its impact on equities and fixed income. Next, we briefly cover the EU's push to have Canada become an associate member, as well as signs that AI companies are developing their own methods of self-regulating. As always, we conclude with a review of recent domestic and international economic data.

Fed Rate Decision: In an effort to curb inflation, the Federal Reserve unanimously voted to raise interest rates for the first time since 2023. The decision also signaled that the central bank is prepared to tighten monetary policy further. This increase in the federal funds rate comes amid an improving economy and rising energy prices, which have sparked concerns about inflation becoming unanchored. Furthermore, the move reinforces the central bank's independence from political pressure.

- The rate decision cemented the Federal Reserve's hawkish shift following weeks of speculation. The latest Summary of Economic Projections showed that Fed officials have revised their outlook for rates at the end of the year from remaining unchanged at 3.50%-3.75% to 4.00%-4.25%. The increase is driven by a rise in the central bank's expectations for both growth and inflation, suggesting that it is no longer worried about the employment side of its mandate.
- During the press conference, Fed Chair Kevin Warsh emphasized that the rate decision was part of the central bank's mission to return inflation to target. He noted that while Fed officials acknowledge they do not have control over some of the supply drivers of inflation, the rate increase was designed to prevent the second- and third-order effects those drivers could cause. He also suggested not only that Fed officials had judged conditions to be unrestrictive prior to the increase, but that current rates may still be accommodative.
- While Fed Chair Warsh was reluctant to offer much forward guidance, he did acknowledge one indicator that appears to be informing the decision-making process: the dispersion of inflation. According to Warsh, the share of components moving away from the 2% target was among the indicators that supported a rate hike at this meeting. Warsh previously noted that 54% of components were above 3%, down from a post-pandemic peak of 77%, but still well above the 22% seen prior to the pandemic.
- The Federal Reserve's hawkish shift signals that its commitment to the 2% target remains intact. The Fed will likely receive some relief this month when the PCE updates its methodology, which is anticipated to show downward revisions to inflation. Thus, while the Fed appears hawkish and has signaled a willingness to hike rates further this year, there is still a chance that incoming data could lead it to hold steady.

The Market's Take: The Fed's decision to raise rates left more questions than it answered. While the market had largely priced in the possibility of a hike at the meeting, it seemed ill-prepared for the hawkish shift in the Summary of Economic Projections. Caught flat-footed, investors triggered a selloff across several securities and a rally in the dollar as lingering concerns about the direction of monetary policy persisted. The reaction serves as a reminder of how dependent the market has become on forward guidance, and how bumpy the adjustment may be without it.

- Despite the market being up prior to the Fed's decision, several securities sold off during the session, a sign of position liquidations. The shift comes as investors look to reposition themselves following a change in Fed rate expectations. The Nasdaq 100 finished the day slightly higher, suggesting that investors remain confident in the technology sector, while gold was one of the worst performers, declining by about 1% following the announcement.
- One of the more noticeable market shifts following the announcement came in the yield curve, which underwent a bearish flattening as the short end rose faster than the long end. The 2-year Treasury yield rose roughly 10 bps, the 10-year finished the day up 6 bps, while the 30-year was roughly unchanged. The flattening reflects expectations that a hawkish Fed could weigh on growth without tipping the economy into recession.

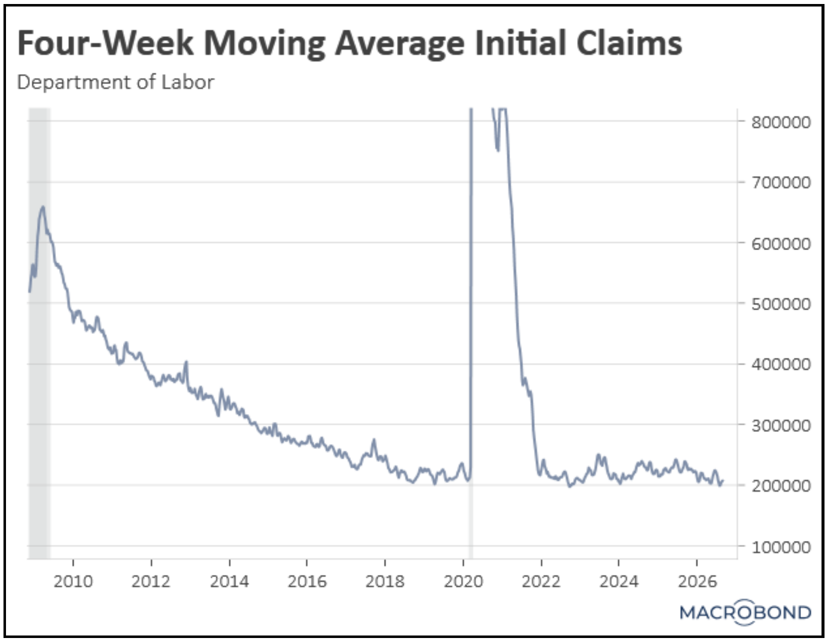
- While the question going into the Fed announcement was whether it would tighten, the next few weeks will be about how much. The Fed has faced some pushback from the White House over its decision, but that has not yet impacted market rate expectations. The latest CME probabilities suggest the Fed could hike two to three more times this year, with only a 10% chance that it will leave rates unchanged. This sharp shift in outlook reflects a broad belief that the Fed will maintain independence in its rate decisions.
- The market reaction to the Fed was likely a knee-jerk response and may not reflect the view going forward. Sentiment should improve as the market obtains more information about the state of the economy, since higher interest rates and a moderation of concerns regarding oil supply should help alleviate inflation fears. While there may be some worry over White House meddling, we think the market will pay less attention to it now that the Fed has signaled it will hike, which should also provide some stability.

EU-Canada: The European Commission has pushed for Canada to become its first associate member. The move has already drawn the ire of President Trump, who recently indicated that the US and Canada were close to reaching an agreement. In response, he has described the EU's outreach as a hostile act and has communicated a willingness to raise tariffs. The move is likely another example of the US's desire to ensure a united North American trade policy as a precondition for maintaining ties with its North American allies.

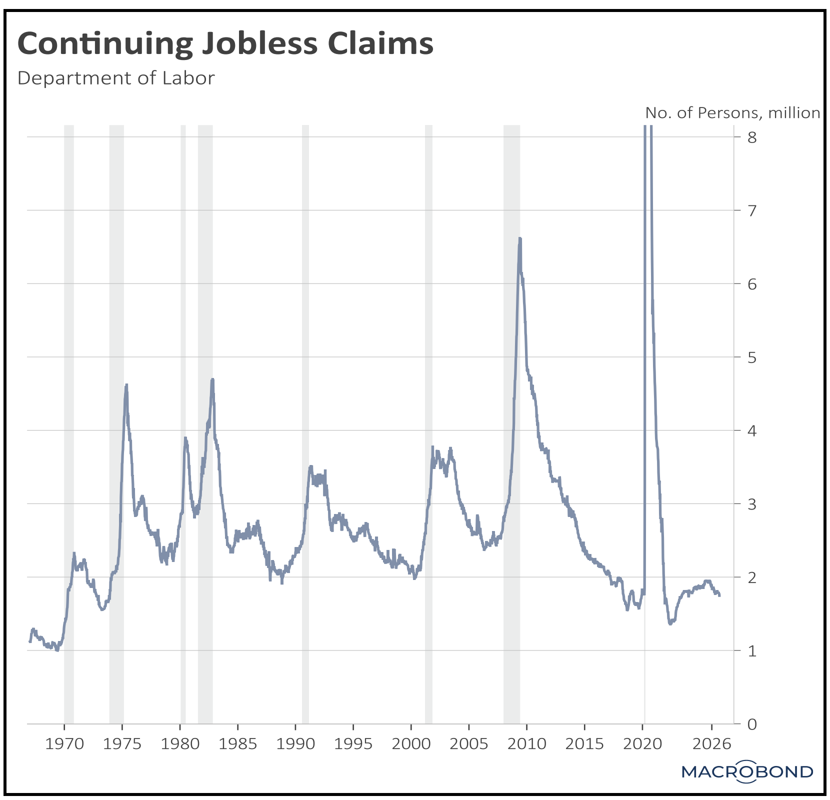
AI Safety Risk: OpenAI unveiled a new framework on Wednesday for disclosing and tracking risks associated with rogue AI models. In the release, it reported previously undisclosed incidents in which AI behaved in ways counter to its intended use, including instances of concealing or fabricating information to return results. The move by the AI provider comes as tech companies look to demonstrate their ability to self-regulate in hopes of preventing the government from introducing new restrictions.

US Economic Releases

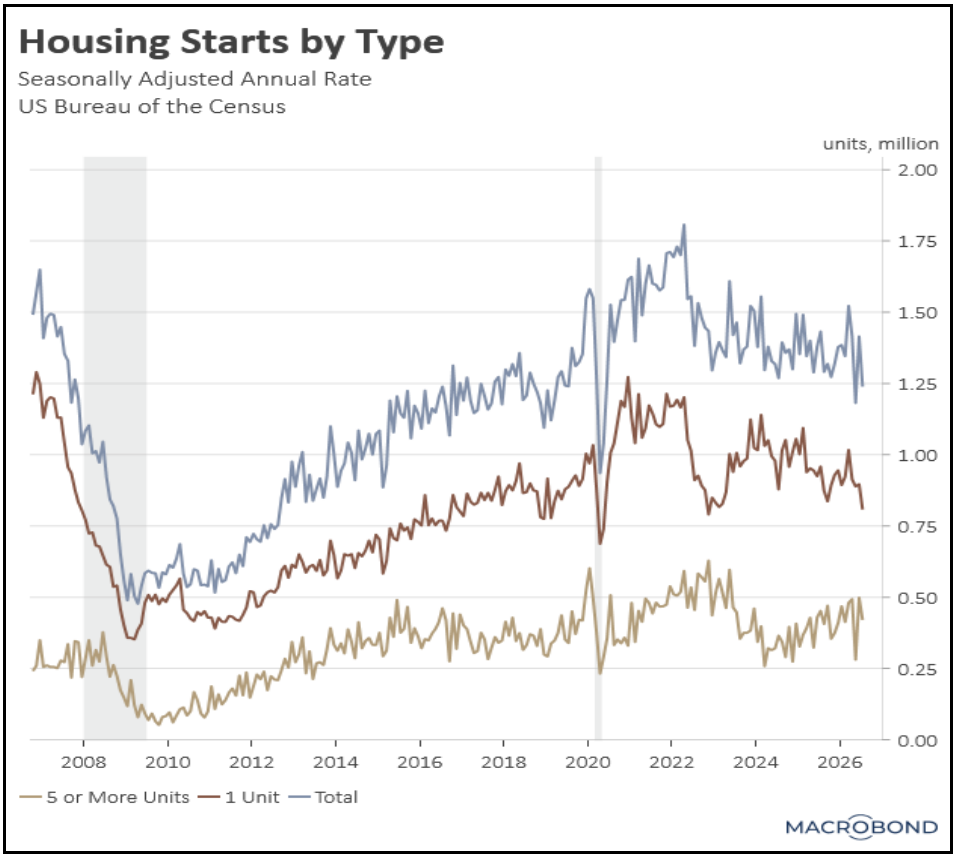
In the week ended September 12, ***initial claims for unemployment benefits*** edged down to a seasonally adjusted 196,000, well below the expected level of 207,000 and the prior week's revised level of 206,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, fell to 203,250. 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.



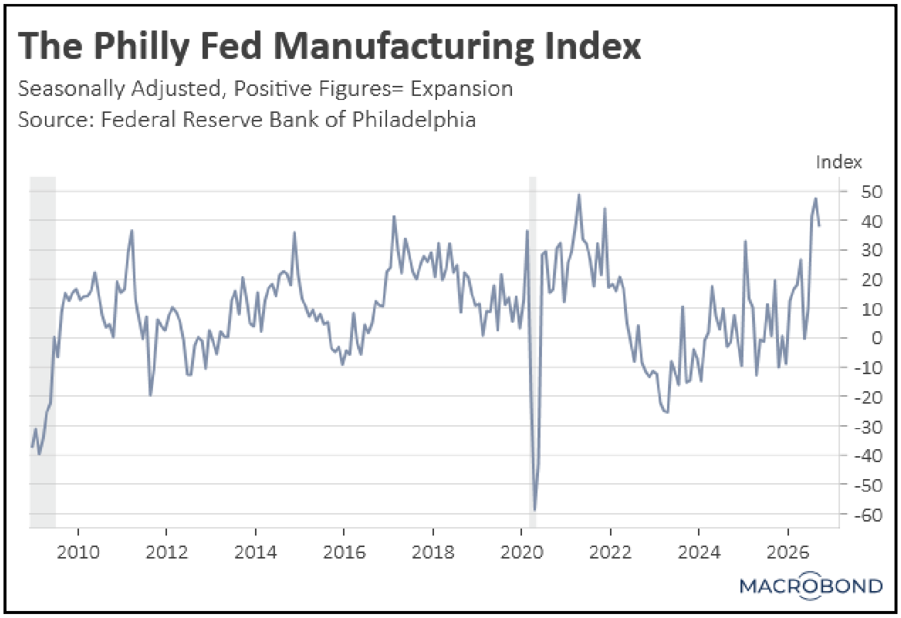
In the week ended September 5, the number of ***continuing claims for unemployment benefits*** (people continuing to draw benefits) edged down to a seasonally adjusted 1.730 million, below both the anticipated reading of 1.780 million and the previous week's revised reading of 1.769 million. The chart 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.



August ***housing starts*** increased to a seasonally adjusted, annualized rate of just 1.275 million units, short of the expected rate of 1.320 million units and the revised July rate of 1.309 million units. The rate of housing starts in August was down 2.6% from the previous month. Additionally, August ***housing permits*** increased 1.394 million units, below their anticipated rate of 1.408 million units and the July rate of 1.433 million units. Permits issued for new housing units in August were down 2.7% from the previous month. Compared with the same month one year earlier, housing starts in August were down 13.4% while permits were down 1.3%. The chart below shows the growth in new home starts by type of property since just before the Great Financial Crisis.



Separately, the Philadelphia FRB said its September ***Philly Fed Index*** was 37.8, above the expected reading of 32.1 but below the August reading of 47.4. The index, officially designated as the Philadelphia FRB Manufacturing Activity Index, is designed so that positive readings point to expanding factory activity in the mid-Atlantic region. At its current level, the index suggests mid-Atlantic manufacturing is now growing quite robustly. The chart below shows how the index has fluctuated 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	Pending Home Sales	m/m	Aug	-0.1%	-2.3%	**
10:00	Pending Home Sales NSA	y/y	Aug	3.9%	-2.5%	**
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	11-Sep	¥1082.9b	¥111.4b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	11-Sep	¥2236.2b	¥444.3b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	11-Sep	¥169.2b	-¥481.6b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	11-Sep	-¥1522.8b	¥689.6b		*	Equity and bond neutral
	Tokyo Condominiums for Sale	y/y	Aug	-12.4%	6.9%		*	Equity and bond neutral
New Zealand	GDP	y/y	Q2	2.6%	1.7%	2.2%	***	Equity and bond neutral
EUROPE								
Eurozone	CPI	y/y	Aug F	3.2%	3.3%	3.3%	***	Equity and bond neutral
	Core CPI	y/y	Aug F	2.4%	2.4%	2.4%	**	Equity and bond neutral
Switzerland	Real Exports	m/m	Aug	-8.6%	11.2%		*	Equity and bond neutral
	Real Imports	m/m	Aug	-3.1%	-1.5%		*	Equity and bond neutral
Russia	PPI	y/y	Aug	6.5%	6.6%		***	Equity and bond neutral
AMERICAS								
Canada	Housing Starts	m/m	Aug	229.0k	229.4k	240.0k	**	Equity and bond neutral
	Building Permits	m/m	Jul	-17.3%	18.3%	-4.80	**	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)	396	397	-1	Up
U.S. Sibor/OIS spread (bps)	402	401	1	Up
U.S. Libor/OIS spread (bps)	400	399	1	Up
10-yr T-note (%)	4.97	5.02	-0.05	Up
Euribor/OIS spread (bps)	266	268	-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
Central Bank Action		**Prior**	**Expected**	
FOMC Rate Decision (Upper Bound)	4.00%	3.75%	4.00%	On Forecast
FOMC Rate Decision (Lower Bound)	3.75%	3.50%	3.75%	On Forecast
FOMC Rate on Reserve Balances	3.90%	3.65%	3.90%	On Forecast
Bank of England Bank Rate	3.75%	3.75%	3.75%	On Forecast
Brazil Selic Rate	13.75%	14.00%	13.75%	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	$103.30	$105.83	-2.39%	
WTI	$100.66	$102.43	-1.73%	
Natural Gas	$2.89	$2.89	-0.10%	
Crack Spread	$66.52	$69.00	-3.59%	
12-mo strip crack	$54.69	$55.79	-1.97%	
Ethanol rack	$2.24	$2.24	0.01%	
Metals				
Gold	$4,325.33	$4,263.65	1.45%	
Silver	$64.14	$62.98	1.84%	
Copper Contract	$660.50	$650.90	1.47%	
Grains				
Corn contract	$533.75	$534.25	-0.09%	
Wheat contract	$723.00	$730.75	-1.06%	
Soybeans contract	$1,324.25	$1,320.50	0.28%	
Shipping				
Baltic Dry Freight	3,327	3,360	-33	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	-1	-1.50	1	
Gasoline (mb)	1	-1.10	2	
Distillates (mb)	2	0.65	1	
Refinery run rates (%)	-0.10%	-0.50%	0.40%	
Natural gas (bcf)		48		

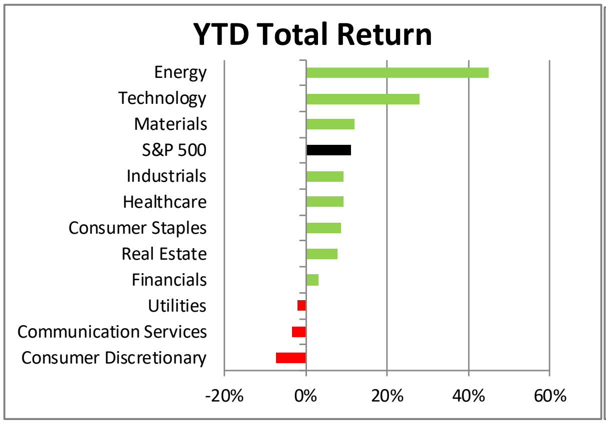
Weather

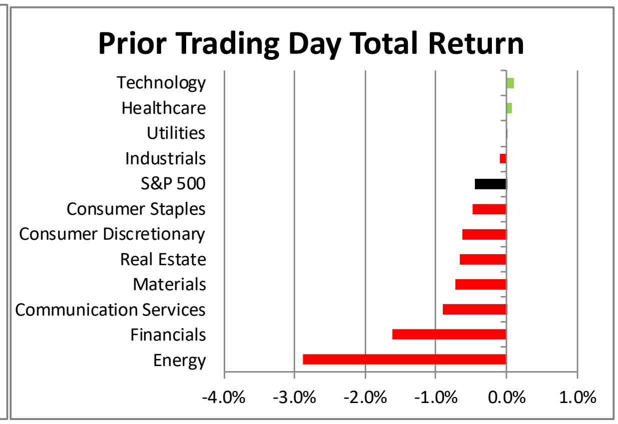
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for most of the country. The outlook calls for wetter-than-normal conditions in most states, with dry conditions expected in the Midwest and Great Lakes regions.

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 9/16/2026 close)

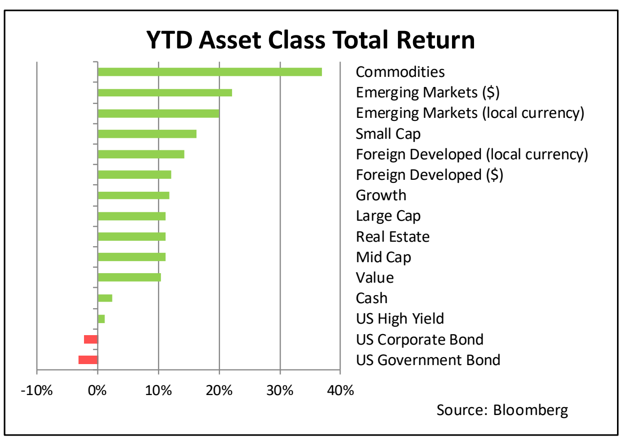




(Source: Bloomberg)

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 9/16/2026 close)

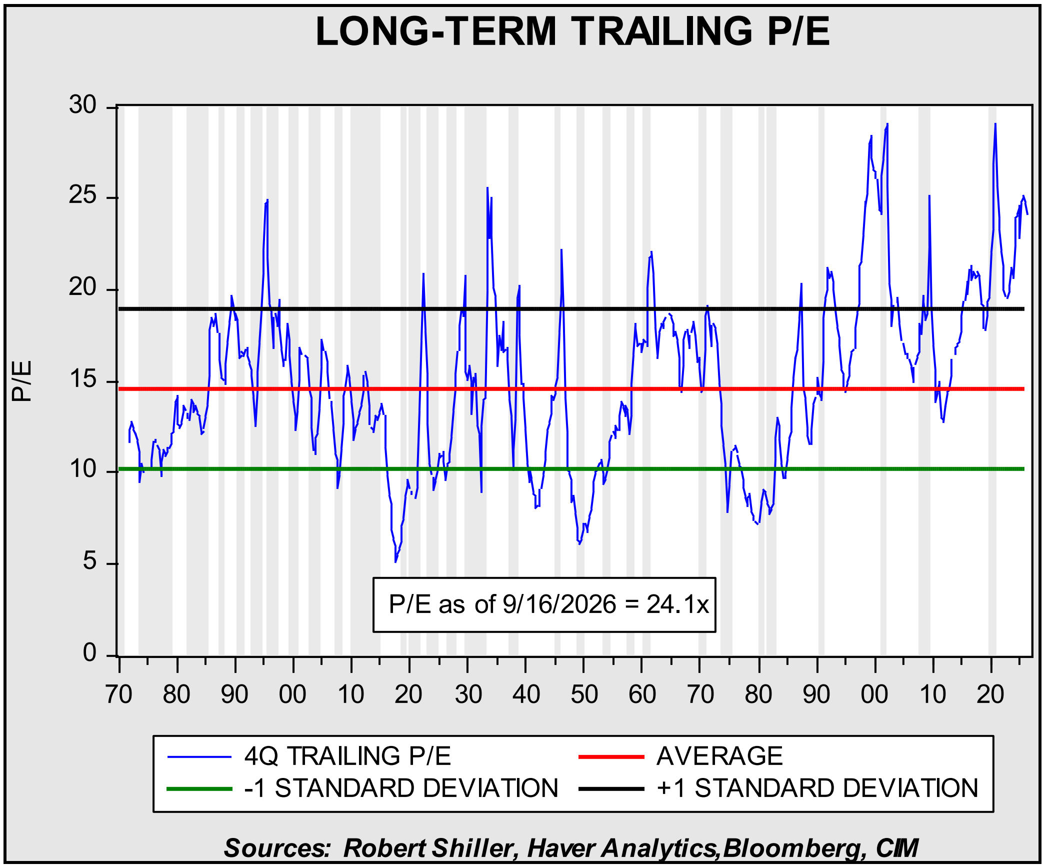


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 17, 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.

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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.