Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: September 18, 2026 — 9:30 AM ET] Global equity markets are generally higher this morning. In Europe, the Euro Stoxx 50 is down 1.1% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 2.0%. Chinese markets were higher, with the Shanghai Composite up 0.9% and the Shenzhen Composite up 1.7%. 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 the Bank of Japan's latest rate decision. We then turn to trade, examining the recent easing of tensions between the US and China ahead of their talks. Next, we briefly cover the prospect of renewed US military operations in Iran, as well as a discussion about a hack into OpenAI. As always, we conclude with a review of recent domestic and international economic data.

Yen Weakens: The Bank of Japan (BoJ) is failing to reassure investors that it is prepared to tighten policy further in response to mounting inflation concerns. Overnight, the central bank raised interest rates to their highest level in more than 31 years, but offered mixed signals on the timing of any additional moves. The ambiguous guidance triggered a sell-off in the Japanese yen, as investors questioned the BoJ's policy credibility. The market was focused on the meeting due to the possibility of closer policy coordination between Japanese and US authorities.

- The BoJ raised its benchmark interest rate by 25 basis points, from 1.00% to 1.25%. The hike was widely expected, as the central bank has been normalizing interest rates since 2024. While Governor Kazuo Ueda hinted at further hikes during the post-meeting press conference, citing a renewed focus on stabilizing inflation, the 7–2 vote (with the two dissenters favoring a hold) has raised doubts about whether the central bank will raise rates at its next meeting.
- The lack of conviction on future rate hikes is at odds with many of its peers. Based on the latest market-implied policy rates, the BoJ is the only G-7 central bank not expected to hike at its next meeting, with rate probability pricing in only a 31% chance, almost half that of its nearest peer, the European Central Bank, which sits at 60%. The potential widening of the interest rate differential has likely contributed to the depreciation of the yen.
- Prior to the meeting, the yen had strengthened on expectations that the BoJ would adopt a more assertive approach to policy tightening. Much of that shift followed comments from US Treasury Secretary Scott Bessent, who not only hinted that the BoJ should tighten more aggressively, but also appeared to suggest that he knew their decision prior to the vote. His remarks helped ease selling pressure on the yen and briefly fueled speculation that the BoJ could deliver a 50-basis-point rate increase at its latest meeting.
- A persistent decline in the Japanese yen could pave the way for more intervention by the US Treasury and the BoJ. It is commonly believed that the threshold for such action is when the yen weakens past 160 per dollar. If that happens, Japan's Ministry of Finance could use its holdings of sovereign bonds to fund purchases of yen in the open market. The Treasury could also intervene, partly to stem Japanese sales of US Treasurys. Nevertheless, any move to strengthen the yen could weigh on sovereign bond prices.

The Calm Before Talks: Washington and Beijing are looking to ease tensions less than a week before the sides are set to meet for talks. On Thursday, as a sign of good faith, the US decided to delay its excess capacity tariffs until after the meeting. Meanwhile, China has offered an olive branch of its own, allowing the yuan to appreciate against the dollar. The moves come as the two sides prepare to hold talks on trade, geopolitics, and AI, in what could reshape the relationship between the world's two largest economies.

- The decision to delay tariffs follows the US determination to replace the tariffs struck down by the Supreme Court. A July investigation into the use of forced labor in Chinese-made goods led to China receiving a 12.5% tariff, a rate China said was consistent with the truce the two sides struck earlier in the year. The new excess capacity tariff would add 7.5%, bringing the total to 20%, which will probably be discussed during the scheduled talks.
- Meanwhile, China's decision to allow the yuan to appreciate against the dollar has also eased tensions. The yuan rose to its highest level against the dollar in nearly four years after the People's Bank of China strengthened its currency fixing for an eighth day in a row. The move is likely to put White House officials at ease, following allegations that a weaker yuan has given Chinese goods a competitive advantage in trade.

- The decision by both sides to offer concessions ahead of the talks comes as the two countries prepare to address two major flashpoints: the war in Iran and AI competition. Both issues have grown in importance, as the US and China have taken opposing sides on the conflict and remain locked in intense competition over AI. The discussions should allow the two sides to find common ground and prevent an escalation of tensions, as both issues carry the risk of a direct conflict.
- As the talks approach, we expect to receive more details on discussions regarding the war in Iran and AI, as opposed to trade. If the two sides can reach a consensus that helps alleviate tensions in the Middle East, that could ease oil supply concerns, which in turn could be supportive of bond prices. Meanwhile, signs that the two countries won't restrict mineral or technology exports to each other could be positive for AI-related stocks. However, any setback in the talks could weigh on market sentiment.

Escalation in Iran: President Trump has mentioned that he is considering resuming military operations in Iran as a way to end the conflict. While there has been some success in reopening the Strait of Hormuz, transportation is still well below prewar levels, and the conflict has since broadened into other areas, including the Red Sea. The decision comes as the cost to the US has made it difficult to maintain its blockade for much longer. The president is expected to meet with Israeli Prime Minister Benjamin Netanyahu next, in what could pave the way for his decision.

Hacking with AI: Independent researchers have already begun experimenting with ways AI can be used for cyberattacks. One test showed that they were able to use Claude AI to hack into an OpenAI chatbot of an employee, allowing it to read and suggest changes to its private cache. Once the test was complete, the researchers reported the vulnerabilities to OpenAI. The finding shows how people may attempt to exploit AI as it becomes more readily available, and it is likely to raise more questions about government oversight.

US Economic Releases

There were no domestic releases prior to the publication of this report. 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	Leading Economic Index	m/m	Aug	0.1%	0.2%	***
Federal Reserve						
EST	Speaker or Event	District or Position				
9:30	Michelle Bowman Speaks on Bankk Stress Tests	Member of the Board of Governors				
11:45	Jeffrey Schmid Speaks on Payments and Banking	President of the Federal Reserve Bank of Kansas City				

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	National CPI	y/y	Aug	1.9%	1.9%	2.0%	***	Equity and bond neutral
	National CPI Ex-Fresh Food	y/y	Aug	1.7%	1.8%	1.8%	**	Equity and bond neutral
	National CPI Ex-Fresh Food & Energy	y/y	Aug	1.9%	1.9%	2.0%	*	Equity and bond neutral
New Zealand	Food Prices	m/m	Aug	0.3%	0.1%		***	Equity and bond neutral
	Trade Balance NZD	m/m	Aug	-1349m	-2118m		**	Equity and bond neutral
	Exports NZD	m/m	Aug	6.66b	7.39b		**	Equity and bond neutral
	Imports NZD	m/m	Aug	8.0b	9.33b		**	Equity and bond neutral
South Korea	PPI	y/y	Aug	7.9%	7.7%		**	Equity and bond neutral
India	Foreign Exchange Reserves	w/w	11-Sep	$780.8b	$785.7b		*	Equity and bond neutral
EUROPE								
Eurozone	Construction Output	y/y	Jul	-2.0%	-1.4%		*	Equity and bond neutral
Germany	PPI	y/y	Aug	4.6%	3.0%	3.9%	**	Equity and bond neutral
Italy	Current Account Balance	m/m	Jul	7384m	5821m		*	Equity and bond neutral
UK	Retail Sales	y/y	Aug	2.4%	1.2%	1.9%	***	Equity bullish, bond bearish
	Retail Sales Ex-Auto Fuel	y/y	Aug	2.7%	1.8%	1.9%	**	Equity bullish, bond bearish
Russia	Gold and Forex Reserves	m/m	11-Sep	$758.2b	$753.5b		***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	11-Sep	22.73t	22.56t		*	Equity and bond neutral
AMERICAS								
Canada	Industrial Product Price	m/m	Aug	1.3%	0.3%	0.0%	**	Equity bearish, bond bullish
	Raw Material Prices	m/m	Aug	3.1%	-2.1%	0.8%	*	Equity bearish, bond bullish
	Int'l Securities Transactions	m/m	Jul	20.65b	41.25b		**	Equity and bond neutral
Mexico	Aggregate Supply and Demand	y/y	2Q	5.8%	5.0%	6.7%	*	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)	403	402	1	Up
U.S. Libor/OIS spread (bps)	401	400	1	Up
10-yr T-note (%)	4.96	4.93	0.03	Down
Euribor/OIS spread (bps)	263	266	-3	Up
Currencies	**3 Mo**			
Dollar	Down	US		Down
Euro	Up	Euro		Flat
Yen	Down	Japan		Up
Pound	Up	UK		Up
Franc	Down	Switzerland		Down
Central Bank Action		**Prior**	**Expected**	
BOJ Target Rate	1.25%	1.00%	1.25%	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	$103.38	$104.82	-1.37%	
WTI	$101.34	$101.91	-0.56%	
Natural Gas	$2.86	$2.90	-1.59%	
Crack Spread	$66.71	$68.71	-2.92%	
12-mo strip crack	$55.24	$55.91	-1.20%	
Ethanol rack	$2.26	$2.26	0.01%	
Metals				
Gold	$4,380.96	$4,341.70	0.90%	
Silver	$67.08	$65.23	2.84%	
Copper Contract	$666.20	$666.15	0.01%	
Grains				
Corn contract	$530.75	$530.50	0.05%	
Wheat contract	$725.75	$727.00	-0.17%	
Soybeans contract	$1,308.75	$1,319.75	-0.83%	
Shipping				
Baltic Dry Freight	3,336	3,327	9	
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)	44	48	-4	

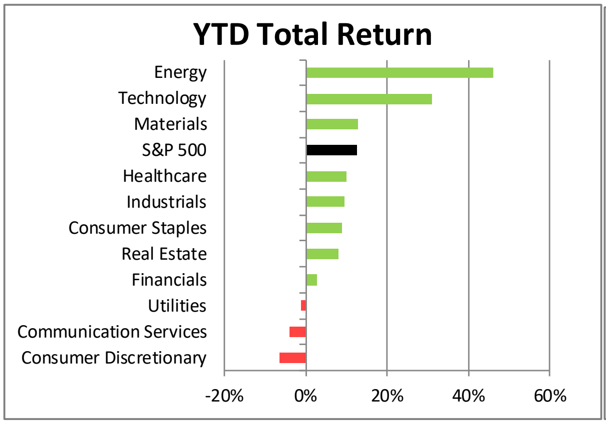
Weather

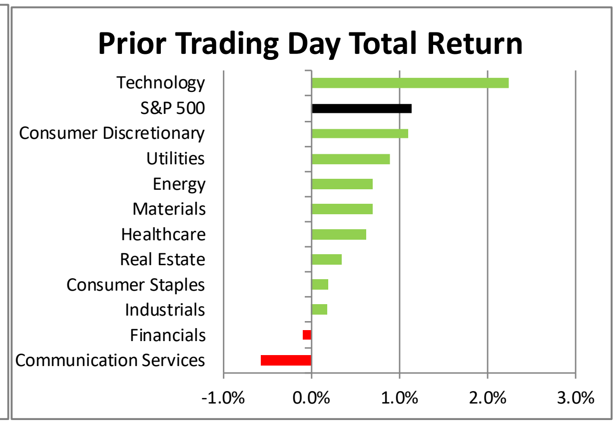
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for most of the country, with cooler temps in the New England region. The outlook calls for wetter-than-normal conditions in most states, with dry conditions expected in the Midwest, Great Lakes, and western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

There is currently one atmospheric disturbance in the Atlantic Ocean, and it has a 20% chance of cyclone formation within the next seven days.

Data Section

US Equity Markets – (as of 9/17/2026 close)

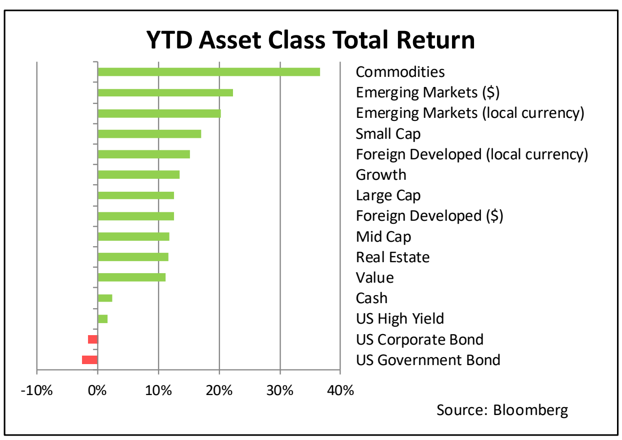




(Source: Bloomberg)

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 9/17/2026 close)

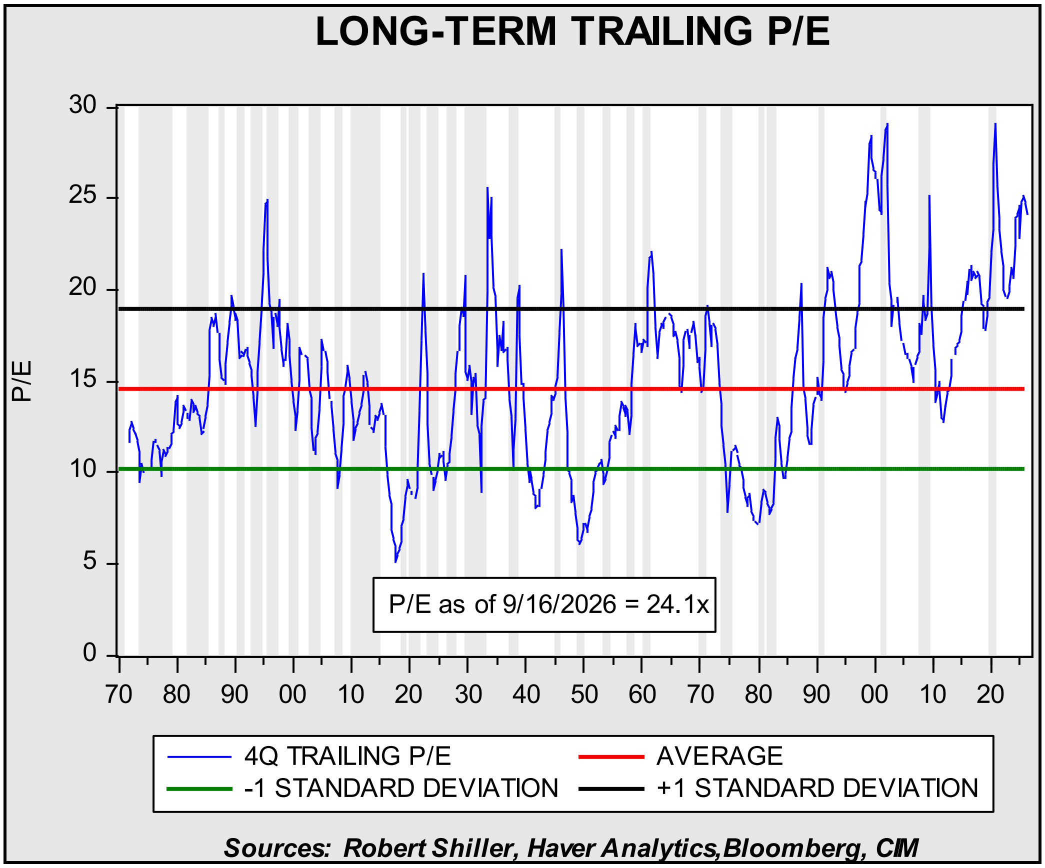


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.

---

[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.