Daily Comment

Confluence Investment Management

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: September 1, 2026 — 9:30 AM ET] Global equity markets are mostly lower this morning. In Europe, the Euro Stoxx 50 is down 0.6% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.6%. Chinese markets were lower, with the Shanghai Composite down 0.2% and the Shenzhen Composite down 0.7%. US equity index futures are signaling a lower open.

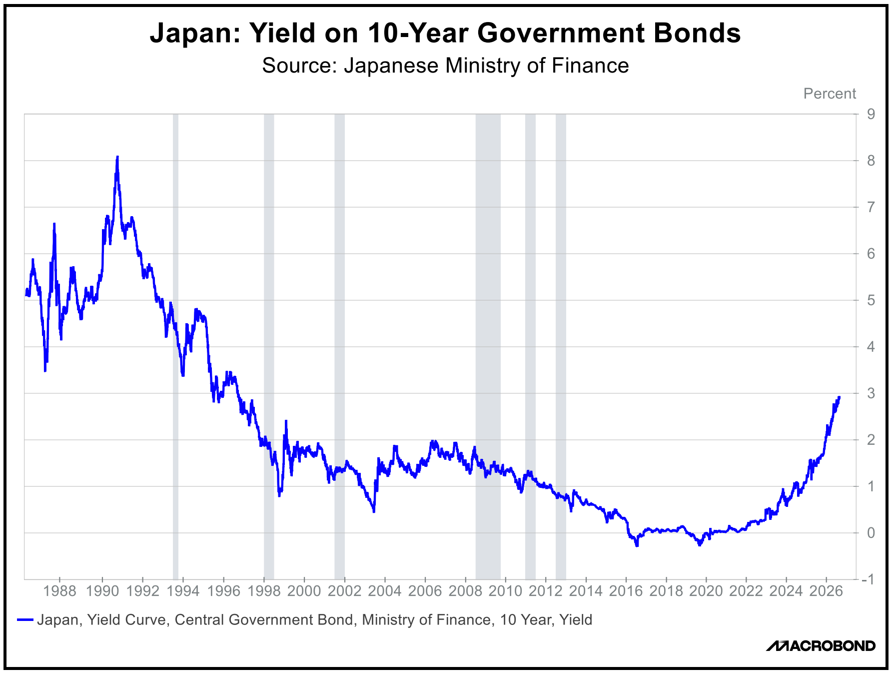
The Confluence macro team publishes a plethora of research reports and multimedia offerings on a weekly and quarterly basis, all available on our website. We highlight recent publications below with new items of the day in bold.

Bi-Weekly Geopolitical Report	Asset Allocation Bi-Weekly	Asset Allocation Quarterly	Of Note
"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 today's continuing global bond sell-off, which is creating headwinds for risk assets as well. We next review several other international and US developments that could affect the financial markets today, including the latest on the war in Iran and signs that artificial intelligence firms could rapidly scale up their advertising businesses despite plenty of other challenges in terms of Chinese competition, citizen pushback against data centers, and other issues.

Global Bond Market: Investors continued to cool their bond buying in foreign markets overnight, pushing the yield on Japanese 10-year government bonds to 2.996% for the first time since 1996. Yields also rose to multi-year highs in Germany, France, and other markets. At this writing, the yield on 10-year US Treasury obligations has risen to 4.789%. The bond sell-off reflects concerns about economic overheating, high price inflation, rising debt levels, and other factors. The renewed upward move in yields is also weighing on US stock prices so far today.



United States-Israel-Iran: President Trump yesterday warned that his administration will respond to Iran's retaliation for a US strike against two Iranian missile launchers. According to Trump, "We're going to hit them hard." The statement suggests a new spiral of US-Iran attacks could be about to begin, which would again raise the risk of further shipping restrictions in the Strait of Hormuz, higher energy and commodity prices, and increased volatility in global financial markets.

- Indeed, two oil tankers trying to exit the Persian Gulf were hit by "unknown projectiles" last night. If the attack came from Iran, as seems likely, it would underscore how the country retains enough firepower to keep disrupting shipping in the waterway.
- As a result, global oil prices are up approximately 2.0% so far today, with near Brent futures trading at $92.42 per barrel as of this writing.

United States-Venezuela: North American Blue Energy Partners, the private company through which the Trump administration will hold its recently announced equity stake in Venezuelan oil fields, reportedly plans to rapidly increase the number of drilling rigs it deploys in the country to more than 50 in the coming years. The aim is to quickly boost Venezuela's oil output after its long slide under the governments of Hugo Chavez and Nicolas Maduro. The boost could have a meaningful impact on global energy supplies and help hold down prices over time.

Eurozone: In an initial estimate, the August consumer price index was up 3.3% from the same month one year earlier, matching estimates and accelerating from a gain of 2.9% in the year to July. Excluding volatile categories such as food and energy, the August "core" CPI was up 2.4% on the year, decelerating a bit from the annual rise of 2.5% in July but still coming in well above the European Central Bank's target of 2.0%. The figures suggest the ECB will indeed hike its benchmark short-term interest rate again this month, as is widely expected.

South Korea: President Lee Jae Myung's government today proposed hiking its budget by 12.8% in 2027 to the equivalent of $598 billion. The figure includes about $118.2 billion for an endowment-style "Future Response Fund" financed largely by soaring tax receipts from chipmakers such as Samsung Electronics and SK Hynix. The fund would support firms working on artificial intelligence and other cutting-edge industries in order to ensure South Korea remains prosperous into the future.

India: After stripping out price changes, the country's second-quarter gross domestic product was up a strong 7.8% from the same period one year earlier, beating expectations but still decelerating a bit from the 8.6% increase in the year ended in the first quarter. The main sources of growth in the year to the first quarter were consumer spending, government spending, fixed investment, and exports. The data should be bullish for Indian stocks.

US Labor Market: Transportation Secretary Sean Duffy has announced that his agency forced the emergency shutdown of nearly 300 truck driving schools that he said were failing to train commercial drivers properly. He also said the Transportation Department has stepped up its apprehensions of commercial drivers who have a valid license but may be in the US illegally. The announcement highlights how the administration's immigration crackdown continues to affect the US labor supply, crimping job growth but holding down the unemployment rate.

US Artificial Intelligence Industry: OpenAI yesterday said its advertising business has reached a $1 billion annualized revenue run rate less than 200 days after launch. According to the firm, the self-service ad platform is already being used by tens of thousands of businesses, including many small and medium-sized companies. Separately, analysis by WPP Media says generative AI search ad revenue is now the fastest-growing ad format in history. While other issues have made investors more wary of AI, the new data could help prolong positive sentiment about it.

US Economic Releases

No major US economic reports have been released so far today. The table below shows the domestic releases and/or Fed events scheduled for the rest of the day.

Economic Releases						
EST	**Indicator**			**Expected**	**Prior**	**Rating**
9:45	S&P Global US Manufacturing PMI	m/m	Aug F	53.4	53.2	***
10:00	ISM Manufacturing	m/m	Aug	55.2	55.6	**
10:00	ISM Prices Paid	m/m	Aug	70.8	71.1	**
10:00	ISM New Orders	m/m	Aug	56.8	56.7	**
10:00	ISM Employment	m/m	Aug	52.5	52.8	*
10:00	Construction Spending	m/m	Jul	0.0%	-0.1%	**
10:00	JOLTS Job Openings	m/m	Jul	7313k	7359k	*
10:30	Dallas Fed Services Activity	m/m	Aug	7.2	6.6	*
Federal Reserve						
EST	**Speaker or Event**	**District or Position**				
9:05	Michael Barr Speaks on Economic Outlook and Financial Inclusion	Members of the Board of Governors				

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	Capital Spending	y/y	2Q	1.6%	0.0%	-0.3%	**	Equity bullish, bond bearish
	S&P Global Japan Manufacturing PMI	m/m	Aug F	54.9	55.1		***	Equity and bond neutral
	Consumer Confidence Index	m/m	Aug	35.5	34.9	35.3	*	Equity and bond neutral
Australia	S&P Global Australia Manufacturing PMI	m/m	Aug F	52.0	52.0		***	Equity and bond neutral
	BoP Current Account Balance	q/q	2Q	-$27.2b	-A$25.4b	-A30.0b	***	Equity and bond neutral
	Building Approvals	m/m	Jul	-3.6%	6.9%	-5.0%	***	Equity bullish, bond bearish
South Korea	Exports	y/y	Aug	68.7%	63.0%	63.0%	***	Equity bullish, bond bearish
	Trade Balance	m/m	Aug	$34748m	$30324m	$30100m	*	Equity and bond neutral
	Imports	y/y	Aug	22.5%	26.5%	25.0%	**	Equity and bond neutral
	S&P Global South Korea PMI Manufacturing	m/m	Aug	52.3	53.1		***	Equity and bond neutral
China	RatingDog China PMI Mfg	m/m	Aug	51.5	50.9	49.8	***	Equity and bond neutral
India	HSBC India PMI Mfg	m/m	Aug F	52.8	52.9		***	Equity and bond neutral
EUROPE								
Eurozone	S&P Global Eurozone Manufacturing PMI	m/m	Aug F	52.7	52.8	52.8	***	Equity and bond neutral
	CPI	y/y	Aug P	3.3%	2.9%	3.3%	***	Equity and bond neutral
	Core CPI	y/y	Aug P	2.4%	2.5%	2.5%	**	Equity and bond neutral
	Unemployment Rate	m/m	Jul	6.4%	6.4%	6.3%	**	Equity and bond neutral
Germany	Retail Sales	y/y	Jul	-3.4%	0.0%	0.5%	*	Equity bearish, bond bullish
	S&P Global/BME Germany Manufacturing PMI	m/m	Aug F	54.3	54.1	54.1	***	Equity and bond neutral
France	S&P Global France Manufacturing PMI	m/m	Aug F	51.1	51.5	51.5	***	Equity and bond neutral
Italy	S&P Global Italy Manufacturing PMI	m/m	Aug	49.6	51.3	51.5	***	Equity bearish, bond bullish
	GDP WDA	y/y	Q2F	1.0%	1.0%	1.0%	**	Equity and bond neutral
	Unemployment Rate	m/m	Jul	5.8%	5.8%	5.6%	**	Equity and bond neutral
	CPI, EU Harmonized	y/y	Aug P	3.2%	2.9%	3.4%	***	Equity and bond neutral
	CPI NIC Including Tobacco	y/y	Aug p	3.3%	2.9%	3.3%	**	Equity and bond neutral
UK	Nationwide House Price	y/y	Aug	1.6%	1.4%	2.1%	***	Equity and bond neutral
	Net Lending Sec. on Dwellings	m/m	Jul	4.3b	7.7b	5.7b	*	Equity and bond neutral
	Mortgage Approvals	m/m	Jul	56.1k	58.2k	59.4k	***	Equity and bond neutral
	M4 Money Supply	y/y	Jul	4.5%	5.0%		*	Equity and bond neutral
	S&P Global UK Manufacturing PMI	m/m	Aug F	51.7	51.5	51.5	***	Equity and bond neutral
Switzerland	Real Retail Sales	y/y	Jul	2.3%	1.9%		**	Equity and bond neutral
	PMI Manufacturing	m/m	Aug	57.1	53.2	54.0	***	Equity and bond neutral
	PMI Services	m/m	Aug	58.3	63.9		*	Equity and bond neutral
Russia	S&P Global Russia Manufacturing PMI	m/m	Aug	48.8	50.7		***	Equity and bond neutral
AMERICAS								
Brazil	GDP	q/q	2Q	2.0%	1.8%	1.9%	***	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)	374	376	-2	Up
U.S. Sibor/OIS spread (bps)	383	383	0	Up
U.S. Libor/OIS spread (bps)	381	381	0	Up
10-yr T-note (%)	4.78	4.75	0.03	Up
Euribor/OIS spread (bps)	259	257	2	Up
Currencies	**3 Mo**			
Dollar	Down	US		Up
Euro	Up	Euro		Down
Yen	Down	Japan		Down
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	$92.03	$90.49	1.70%	
WTI	$87.69	$85.76	2.25%	
Natural Gas	$2.89	$2.94	-1.40%	
Crack Spread	$61.87	$61.97	-0.16%	
12-mo strip crack	$52.01	$51.79	0.42%	
Ethanol rack	$2.20	$2.20	0.00%	
Metals				
Gold	$4,383.61	$4,437.38	-1.21%	
Silver	$64.89	$66.58	-2.53%	
Copper Contract	$659.10	$668.75	-1.44%	
Grains				
Corn contract	$536.00	$537.75	-0.33%	
Wheat contract	$778.75	$774.00	0.61%	
Soybeans contract	$1,298.25	$1,288.00	0.80%	
Shipping				
Baltic Dry Freight	3,186	3,107	79	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		0		
Gasoline (mb)		-2		
Distillates (mb)		-1		
Refinery run rates (%)		-0.10%		
Natural gas (bcf)		15		

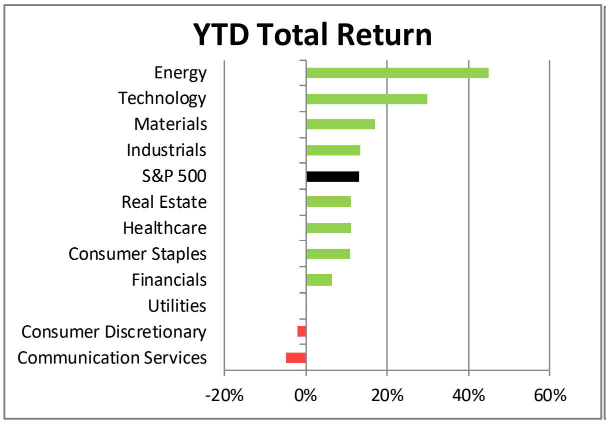
Weather

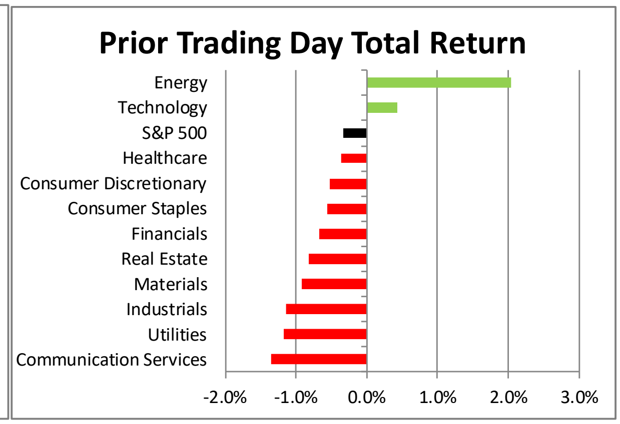
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures from the Rocky Mountains to the East Coast, with cooler-than-normal temperatures only in the Pacific Northwest. The outlook calls for wetter-than-normal conditions in most of the western half of the country, with dry conditions in the Midwest, New England, and parts of the Southeast.

There is one tropical disturbance being monitored in the Atlantic Ocean. On Tuesday, the system strengthened into Tropical Storm Edouard and could develop into a hurricane. The storm is currently moving along the Gulf Coast near the Texas-Louisiana border and may track farther inland into Texas.

Data Section

US Equity Markets – (as of 8/31/2026 close)

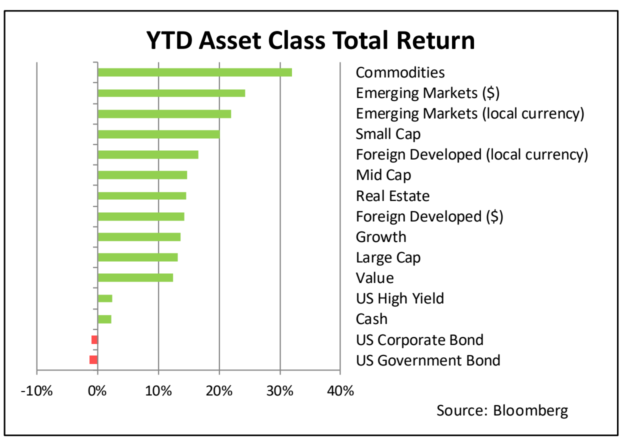




(Source: Bloomberg)

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 8/31/2026 close)

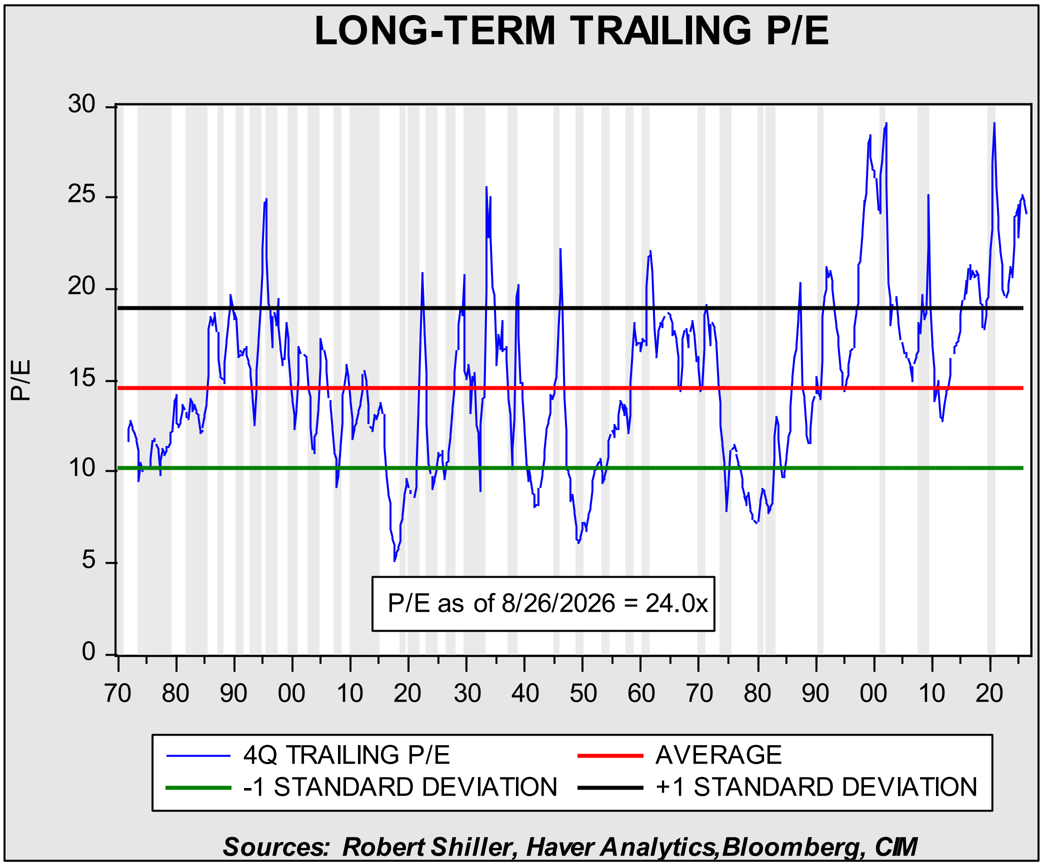


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

August 27, 2026



Based on our methodology,[1] the current P/E is 24.0x, 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.