Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: September 21, 2026 — 9:30 AM ET] Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 is up 1.4% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 2.2%. Chinese markets were higher, with the Shanghai Composite up 1.0% and the Shenzhen Composite also up 1.0%. 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	**"Breaking the Bond Fever!" (9/21/26)**	Q3 2026 Report Q3 2026 Rebalance Presentation	Confluence of Ideas Podcast **Chart Worth Noting**

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* today opens with an update on the war in Iran, where Iran-backed proxies have staged a new attack on Saudi Arabia. However, speculation that President Trump could meet with the Iranian president in New York this week has raised hopes for new talks, driving oil prices and bond yields lower. We next review several other international and US developments that could affect the financial markets today, including another strong election result for the far right in Germany and a major new issue of junk bonds related to artificial intelligence.

United States-Israel-Iran: Iran-backed Houthi rebels in Yemen yesterday staged an apparent missile attack on the main airport in Saudi Arabia's capital, hitting a jet fuel depot and setting it ablaze. The Houthis also reportedly attempted to target civilians and infrastructure in the Saudi cities of Baish, Taif, Farasan, and Yanbu, but the strikes were thwarted by Saudi air defenses. The attacks appear to be aimed at increasing the costs of the Iran war for US allies. In any case, the attacks threaten to further boost energy prices for the US and other countries around the world.

- Separately, new analyses by Bloomberg and energy analytics firms show the war in Iran cut Middle Eastern diesel fuel exports by about 770,000 barrels per day in March through August versus the same period in 2025. In contrast, the war in Ukraine has cut Russian diesel exports by only about 350,000 bpd in the same time frame, suggesting a decline in Western diesel prices would be more dependent on peace in Iran than peace in Ukraine.
- Meanwhile, reports over the weekend said Walmart and Costco are both experiencing shortages of motor oil due to the conflicts. Prices for synthetic motor oil have at least doubled over the last year, forcing Costco to implement purchase limits.
- At the same time, President Trump reportedly said over the weekend that he's open to meeting the Iranian president at the United Nations General Assembly meeting this week in New York. That statement has helped push crude oil prices lower so far today, with near Brent futures currently trading at $100.97 per barrel, down 2.8%. Government bond yields are falling in tandem, with the yield on the 10-year Treasury note now at 4.952%.

Germany: In elections for the state parliament of Mecklenburg-Vorpommern at the weekend, the far-right Alternative for Germany party (AfD) came in first with 38.2% of the vote, while the center-left Social Democratic Party came in second with 35.5%. In contrast, the center-right Christian Democratic Union, which rules at the national level under Chancellor Merz, got only 4.9% of the vote, shutting it out of the state legislature.

- The result confirms that the AfD continues to garner support and remains on track to possibly gain power at the national level in the coming few years. As the AfD gains power, German policy would probably become more friendly to Russia and antagonistic to the European Union. It would also likely become more anti-immigration and more populist in economic and social policy.
- In the near term, after a similar rout in the state of Saxony-Anhalt two weeks ago, the result in Mecklenburg-Vorpommern raises the chance of a leadership challenge to Merz. In turn, that could spark questions of political and policy stability that may be a negative for German stock and bond markets.

United States-Russia-China: On Friday, President Trump signed a bill into law known as the "Lindsey O. Graham Sanctioning Russia and Iran Act of 2026," which authorizes and expands statutory sanctions, tariffs, and prohibitions on Russia and extends existing sanctions on Iran. The legislation, passed overwhelmingly by Congress last week, gives the president the authority to impose tariffs of up to 100% on the five biggest buyers of Russian oil and natural gas, along with other measures against Russia and Iran.

- The law in theory puts China at risk of US sanctions, since it is a major buyer of Russian and Iranian oil.
- Despite recent US moves to delay the application of other tariffs on China, the new law could potentially cause some tension when General Secretary Xi meets with President Trump at the White House later this week.

Russia: In the weekend's parliamentary elections, preliminary results show the United Russia party that serves as President Putin's main source of support came in first with 355 of the 450 seats in the lower house of the legislature. As expected, "systemic opposition" parties that usually vote with the Kremlin won most of the remaining seats. Putin's authoritarian regime therefore looks set to continue for the time being.

- Perhaps more important, many observers believe Putin could now authorize a special military draft to raise more troops for the war in Ukraine.
- That prospect has already prompted many Russian men to flee the country, but recent reports suggest the Kremlin has tightened security along its borders to contain the exodus.

China-Japan: New data shows China's August exports of rare-earth magnets to Japan were down 17.1% from the same month one year earlier. That's better than the 52.2% decline in the year to July, but it suggests Beijing is still trying to punish Japanese Prime Minister Takaichi for her statement last year about Japan being likely to respond militarily to any Chinese effort to take control of Taiwan by force.

- Permanent magnets made with rare-earth minerals are an important input for modern electronics, industrial products, and defense goods.
- China's continued clampdown on exports of the magnets has therefore been disruptive to Japanese companies in a range of industries.

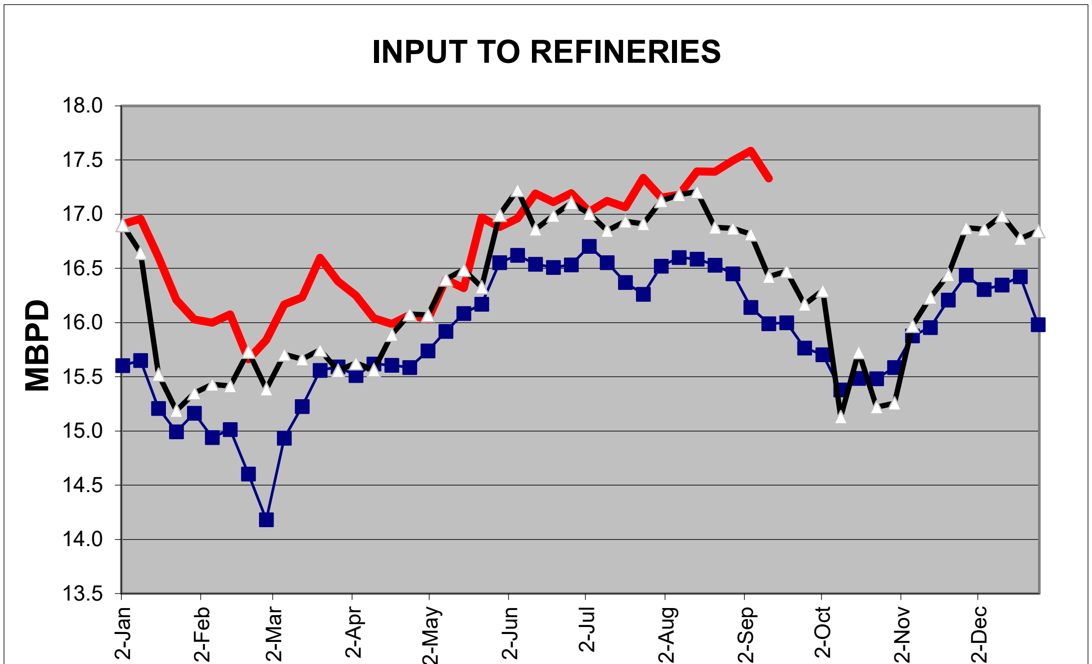
China-Philippines: Social media videos confirm that a Chinese coast guard ship on Friday rammed a Philippine fisheries department vessel trying to deliver subsidized fuel to local fishing boats in a disputed area of the South China Sea. The renewed tensions come after a period of relative quiet. A new round of aggressive Chinese tactics to chase Philippine vessels away from the disputed waters would raise the risk of conflict between Beijing and Manila, potentially putting pressure on the US to intervene.

US Labor Market: The *Wall Street Journal* yesterday carried an article on how renowned organizational psychologist Adam Grant thinks artificial intelligence will change the skill set needed for professionals to get ahead. According to Grant, the prevalence of information with AI will make people's *expertise* less valuable, but it will put a higher value on *judgment* and *interpersonal relations*. For example, Grant recommends touching base more often by phone calls or personal meetings to get a better sense of trends and how the future will evolve.

US Artificial Intelligence Industry: Japanese technology-investment giant SoftBank this week will reportedly price an $11 billion issue of high-yield bonds to help fund the third tranche of an investment in OpenAI expected to close next month. This would be one of the largest junk bond deals ever, highlighting the continued AI loan demand that is helping drive up global interest rates and further raising fears of excess investment.

Chart Worth Noting

US oil refinery activity has a pattern of operations — activity makes a seasonal peak in mid-winter then declines into late winter/early spring, rebounds into the summer driving season, then declines in autumn only to ramp up again in early winter.



Source: DOE, CIM

This chart shows US crude input into refineries. The five-year average shows the pattern described above. The declines are when refinery maintenance occurs, but the pattern also reflects seasonal demand. In late winter, there is usually enough heating oil in inventory to meet demand; in fact, refiners want to reduce this product inventory to avoid carrying it into the summer. Thus, they ramp down activity and perform maintenance. In late summer, gasoline demand tends to peak as the vacation season comes to an end. Refiners use this demand pattern to perform seasonal maintenance and prepare to maximize distillate production, of which a part is heating oil. Refineries are complex facilities, which need regular repairs.

Petroleum product shortages caused by the Ukraine/Russia conflict and the Iran war have led US refiners to maintain production levels well above their seasonal norms. They are making this decision due to ample refining margins. But there is a cost to this decision: The longer maintenance is delayed, the greater the likelihood of unexpected disruptions in the coming months. Unexpected refinery outages this winter could cause shortages of product and drive product prices higher.

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		
No economic releases for the rest of today		
Federal Reserve		
EST	**Speaker or Event**	**District or Position**
6:30	Austan Goolsbee Speaks About Monetary Policy	President of the Federal Reserve Bank of Chicago

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								
India	Core Iindustries Output	y/y	Aug	4.8%	5.0%		*	Equity and bond neutral
EUROPE								
UK	Rightmove House Prices	y/y	Sep	-0.80%	-1.00%		**	Equity and bond neutral
Switzerland	M3 Money Supply	y/y	Aug	3.5%	3.4%		**	Equity and bond neutral
	Domestic Sight Deposits CHF	w/w	18-Sep	428.0b	427.2b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	18-Sep	454.0b	451.6b		*	Equity and bond neutral
Russia	Money Supply, Narrow Definition	w/w	11-Sep	22.73t	22.56t		*	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)	397	398	-1	Up
U.S. Sibor/OIS spread (bps)	402	403	-1	Up
U.S. Libor/OIS spread (bps)	400	401	-1	Up
10-yr T-note (%)	4.95	5.00	-0.05	Down
Euribor/OIS spread (bps)	262	263	-1	Up
Currencies	**3 Mo**			
Dollar	Down	US		Down
Euro	Up	Euro		Up
Yen	Down	Japan		Up
Pound	Up	UK		Up
Franc	Down	Switzerland		Down
Central Bank Action		**Prior**	**Expected**	
PBOC 5-Year Loan Prime Rate	3.50%	3.50%	3.50%	On Forecast
PBOC 1-Year Loan Prime Rate	3.00%	3.00%	3.00%	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	$101.01	$103.87	-2.75%	
WTI	$97.57	$100.30	-2.72%	
Natural Gas	$2.84	$2.91	-2.61%	
Crack Spread	$67.91	$69.53	-2.34%	
12-mo strip crack	$54.64	$55.59	-1.71%	
Ethanol rack	$2.28	$2.28	0.01%	
Metals				
Gold	$4,365.91	$4,378.63	-0.29%	
Silver	$66.54	$66.26	0.42%	
Copper Contract	$681.25	$669.15	1.81%	
Grains				
Corn contract	$533.75	$527.50	1.18%	
Wheat contract	$723.75	$714.25	1.33%	
Soybeans contract	$1,312.25	$1,303.50	0.67%	
Shipping				
Baltic Dry Freight	3,370	3,336	34	

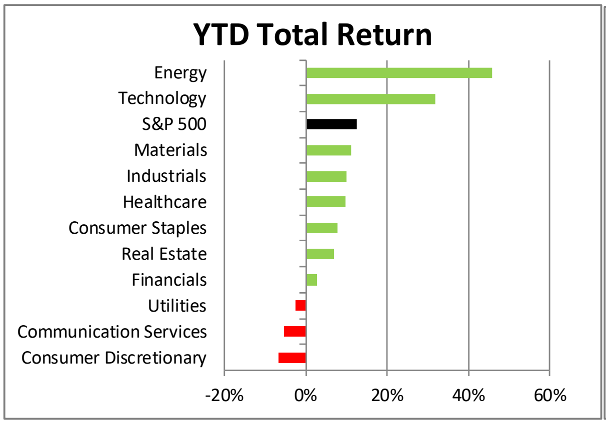
Weather

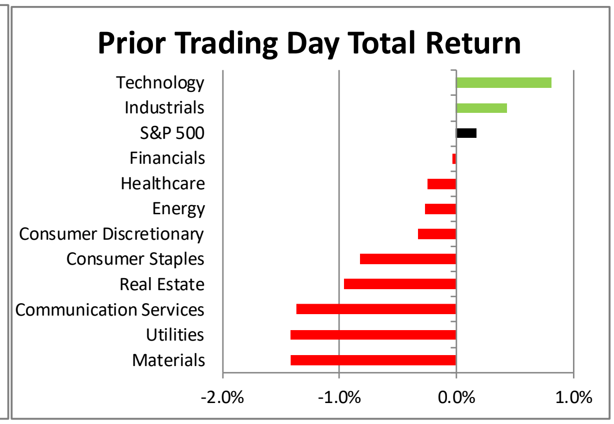
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for most of the country, with cooler temps in the New England region. The outlook calls for wetter-than-normal conditions in most states, with dry conditions expected in the Midwest and Great Lakes.

The Atlantic is currently home to just one atmospheric disturbance. Tropical Storm Faye has developed, though it remains deep over the open ocean, far from land.

Data Section

US Equity Markets – (as of 9/18/2026 close)

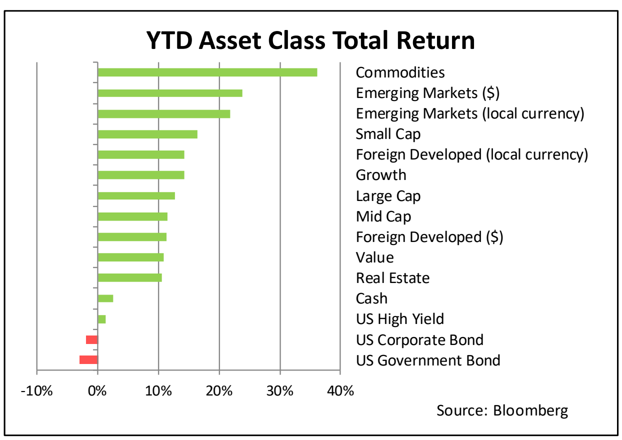




(Source: Bloomberg)

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 9/18/2026 close)

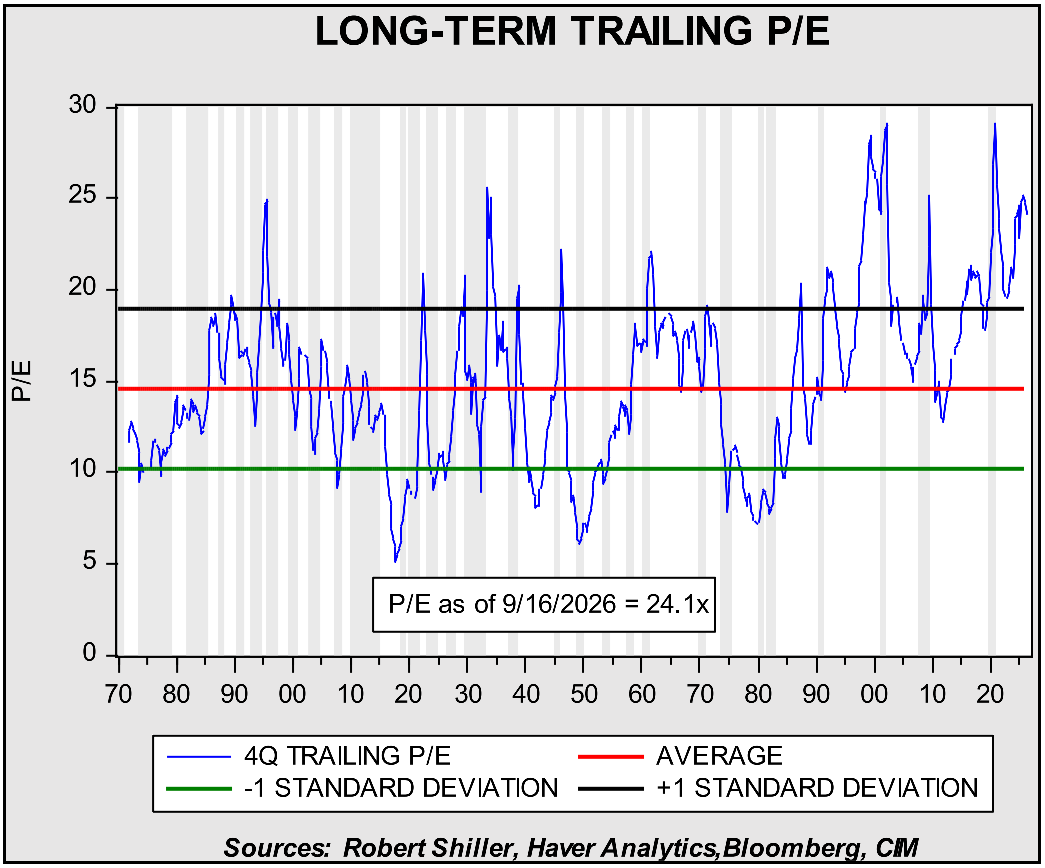


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.