Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: September 23, 2026 — 9:30 AM ET] Global equity markets are generally lower this morning. In Europe, the Euro Stoxx 50 is down 0.5% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.5%. Chinese markets were lower, with the Shanghai Composite down 0.4% and the Shenzhen Composite down 0.5%. US equity index futures are signaling a mildly 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
"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* opens with our thoughts on the recent resurgence of AI FOMO. We then turn to geopolitics, discussing the decision by Washington and Tehran to reopen dialogue at the UN summit. Next, we briefly cover the pushback against global AI oversight, the White House's pick for national security advisor, and the signs of rising AI protectionism. As always, we conclude with a review of recent domestic and international economic data.

AI FOMO: Investors are rotating back into AI-related stocks, driving a tech rally despite elevated long-term yields. While high bond yields present a steeper return hurdle, renewed optimism over AI product demand has outweighed macro headwinds. This rebound follows a recent cooling in the AI trade triggered by stretched valuations, intensifying competition, uncertain monetization, and regulatory concerns. Ultimately, the bounce-back underscores the underlying resilience of the AI trade that has powered markets for the last three years.

- The Nasdaq 100 reached a new record high on Tuesday for the first time since early June, largely fueled by enthusiasm over Muse, Meta's new AI app. Muse has quickly become a top-downloaded app by moving beyond basic chatbot functions and into handling everyday tasks like booking, scheduling, and shopping. Its success is now encouraging investors to look past the usual AI heavyweights and seek out high-potential, less-popular AI providers.
- At the same time, established AI leaders face mounting headwinds. Intensifying competition from Chinese rivals has forced OpenAI and Anthropic to cut prices in order to defend market share. Beyond margin compression, investor sentiment is being weighed down by a convergence of risks such as stretched valuations, public pushback against energy-intensive data centers, potential regulatory delays, and persistent concerns regarding earnings quality.
- The resurgence of the AI trade may be partially attributed to dynamics that are reminiscent of the 2022-2024 period. During that time, high bond yields meant equities were in growing competition with fixed income for investor capital. Initially, investors began moving away from equities in favor of short-duration Treasurys. However, as AI gained in prominence, investor preferences began to shift, gravitating instead toward companies with high growth potential to compensate for the extra risk.
- The AI trade's resurgence highlights technology's enduring momentum and could continue to support the sector. With fixed income offering relatively attractive, lower-risk returns, investors may favor AI-related equities only where the potential for long-term earnings growth justifies taking additional risk. Established AI leaders should remain in demand, but lesser-known beneficiaries may offer greater upside alongside greater risk.

President's Speech: President Trump provided the world with more guidance on his plan for Iran following nearly seven months of fighting. In a speech to the UN, the president stated his willingness to either allow Iran to rebuild itself or possibly annihilate it. His comments came the same day reports revealed that Iran had stated it was willing to reopen the Strait of Hormuz within seven days if the US would allow for a diplomatic solution. The easing of tensions on both sides has helped create optimism that the two will hold talks.

- Following the UN speech, the Trump administration held talks with Iranian representatives about the ongoing conflict. While no details were disclosed about what was discussed during the meeting, the president did state that the meeting went well and that the two sides would be meeting again soon. Although no official date was given, the president did mention that he believed Iran was awaiting the results of the midterm elections, and that an agreement would likely happen afterward.
- Prior to the agreement, the US had ramped up pressure on Iran. Treasury Secretary Scott Bessent had threatened any country that provides air services to Iran. The move was part of the US maximum pressure campaign meant to further isolate Tehran to push it to come to the negotiating table. So far, Iran has maintained that it will only agree to talks if the US eases military pressure and ends its blockade of Iranian ports.
- The diplomatic thaw has provided some relief in oil markets, which were already benefiting from reports that Saudi Arabia was repairing its East-West pipeline that had

been damaged in attacks by Iranian-linked Houthis. Crude prices have fallen for a fifth consecutive day, with WTI approaching $90 a barrel for the first time this month. The drop in oil prices should provide support for equities and bond prices, as it reduces the chance of sustained inflationary strain and gives the Fed justification for holding off on further tightening.

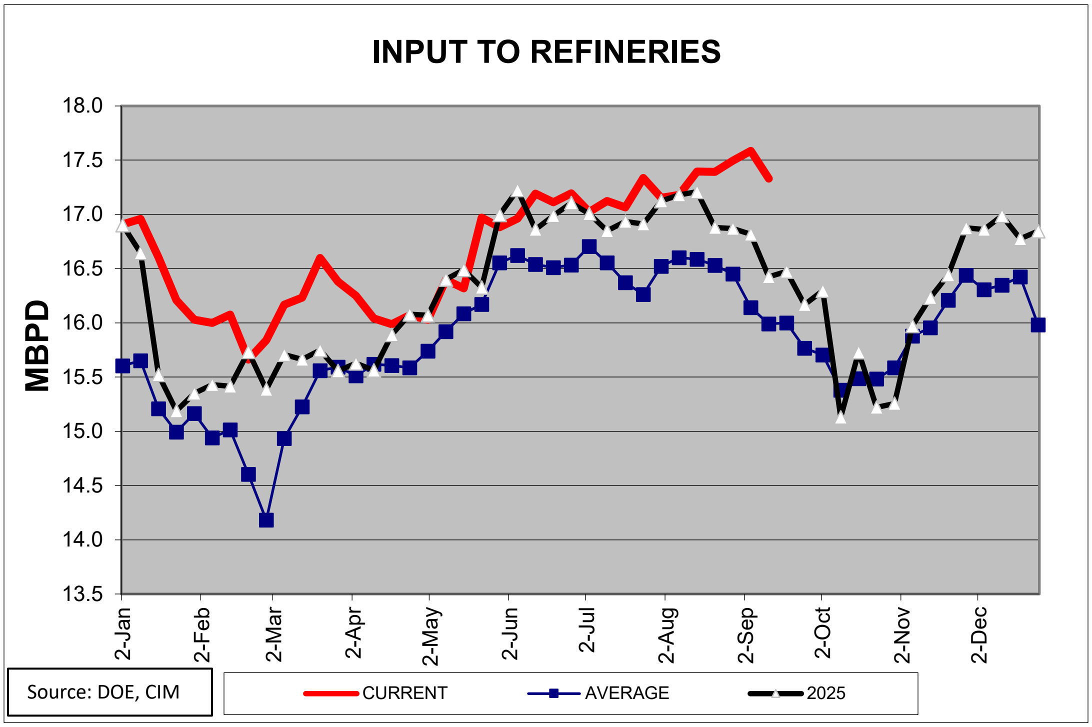
No Global Oversight: President Trump has ruled out a possible global oversight body for AI. He maintained that the potential risks of AI to humanity have been overstated, and that global regulation could jeopardize the US's lead in the AI race. His comments suggest that the US still wants to maintain control over its AI sector, especially as it competes with China for dominance in the space. The lack of global regulation stands to benefit AI companies.

New NSA Director: The White House has named Marco Rubio as National Security Advisor, making him the first person to hold both that role and Secretary of State simultaneously since Henry Kissinger. He had previously been serving in an acting capacity following Mike Waltz's departure. The move comes as the White House looks to keep a tight inner circle as it tries to push through its foreign policy agenda. Rubio's dual role suggests that current policy will probably continue.

AI Protectionism: A group of lawmakers has sounded the alarm over China's potential access to sensitive US technology, with several senators urging the president to close the loopholes that make such access possible. The appeal comes as Washington and Beijing prepare for talks on trade and AI. Congressional scrutiny could limit the president's leverage in negotiations with China, though progress toward a deal still looks very likely heading into talks expected this weekend.

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.

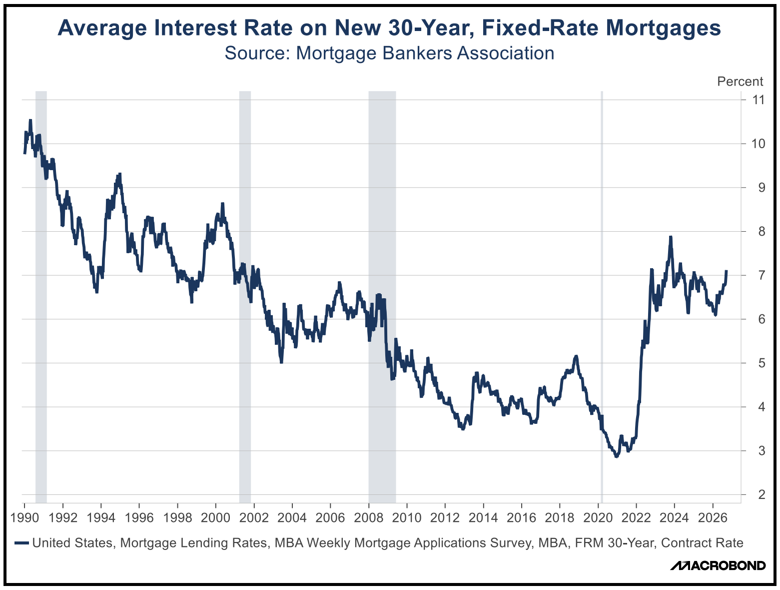


This chart shows US crude input into refineries. The five-year average shows the pattern described above. The declines are when refinery maintenance occurs, but the pattern also reflects seasonal demand. In late winter, there is usually enough heating oil in inventory to meet demand; in fact, refiners 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

The Mortgage Bankers Association said ***mortgage applications*** in the week ended September 18 fell 1.5%, following their 4.1% drop in the previous week. Applications for home purchase mortgages fell 0.8%, exactly as they did the prior week. Applications for refinancing mortgages fell 2.6%, after plunging 8.8% the week before. The average interest rate on a 30-year, fixed-rate mortgage jumped by 15 basis points to 7.12%. The chart below shows how mortgage rates have changed over time.



The table below lists the economic releases and 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	Sep P	53.7	53.9	***
9:45	S&P Global US Services PMI	m/m	Sep P	55.8	56.5	***
9:45	S&P Global US Composite PMI	m/m	Sep P	55.3	56.0	***
Federal Reserve						
EST	**Speaker or Event**	**District or Position**				
10:05	Michael Barr Speaks on Housing	Members of the Board of Governors				
12:00	Austan Goolsbee Speaks in Podcast Interview	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								
Australia	S&P Global Australia Composite PMI	m/m	Sep P	50.8	52.7		*	Equity and bond neutral
	S&P Global Australia Manufacturing PMI	m/m	Sep P	49.3	52.0		***	Equity and bond neutral
	S&P Global Australia Services PMI	m/m	Sep P	51.4	53.2		*	Equity and bond neutral
South Korea	Consumer Confidence	m/m	Sep P	106.6	104.5		**	Equity and bond neutral
	Retail Sales	y/y	Aug	7.7%	6.4%		**	Equity and bond neutral
	Depart. Store Sales	y/y	Aug	11.9%	17.9%		*	Equity and bond neutral
	Discount Store Sales	y/y	Aug	4.5%	-11.2%		*	Equity and bond neutral
India	HSBC India PMI Composite	m/m	Sep P	56.5	54.3		**	Equity and bond neutral
	HSBC India PMI Mfg	m/m	Sep P	55.7	52.8		***	Equity and bond neutral
	HSBC India PMI Services	m/m	Sep P	55.8	54.1		**	Equity and bond neutral
EUROPE								
Eurozone	Consumer Confidence	m/m	Sep P	-16.5	-15.5	-16.0	**	Equity and bond neutral
	S&P Global Eurozone Manufacturing PMI	m/m	Sep P	52.7	52.7	52.6	***	Equity and bond neutral
	S&P Global Eurozone Services PMI	m/m	Sep P	53.0	51.6	51.4	**	Equity bullish, bond bearish
	S&P Global Eurozone Composite PMI	m/m	Sep P	53.1	52.0	51.7	**	Equity bullish, bond bearish
Germany	S&P Global Germany Manufacturing PMI	m/m	Sep P	53.8	54.3	54.3	***	Equity and bond neutral
	S&P Global Germany Services PMI	m/m	Sep P	52.9	49.7	49.7	**	Equity bullish, bond bearish
	S&P Global Germany Composite PMI	m/m	Sep P	53.8	51.8	51.8	**	Equity bullish, bond bearish
France	S&P Global France Manufacturing PMI	m/m	Sep P	50.3	51.1	51.0	***	Equity and bond neutral
	S&P Global France Services PMI	m/m	Sep P	51.4	48.0	48.3	**	Equity and bond neutral
	S&P Global France Composite PMI	m/m	Sep P	51.2	48.5	48.7	**	Equity and bond neutral
UK	S&P Global UK Manufacturing PMI	m/m	Sep P	52.0	51.7	51.5	***	Equity and bond neutral
	S&P Global UK Services PMI	m/m	Sep P	51.7	52.5	52.0	**	Equity and bond neutral
	S&P Global UK Composite PMI	m/m	Sep P	51.7	52.5	52.0	**	Equity and bond neutral
AMERICAS								
Mexico	International Reserves Weekly	w/w	18-Sep	$257238m	$257554m		*	Equity and bond neutral
Brazil	FGV CPI IPC-S	w/w	22-Sep	0.52%	0.49%		**	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)	400	400	0	Up
U.S. Sibor/OIS spread (bps)	405	404	1	Up
U.S. Libor/OIS spread (bps)	403	402	1	Up
10-yr T-note (%)	4.98	4.96	0.02	Down
Euribor/OIS spread (bps)	261	262	-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

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	$99.93	$99.25	0.69%	
WTI	$90.37	$90.52	-0.17%	
Natural Gas	$3.04	$2.97	2.43%	
Crack Spread	$67.56	$72.25	-6.49%	
12-mo strip crack	$55.33	$57.88	-4.39%	
Ethanol rack	$2.33	$2.33	0.00%	
Metals				
Gold	$4,302.32	$4,360.72	-1.34%	
Silver	$64.93	$67.08	-3.20%	
Copper Contract	$681.15	$683.60	-0.36%	
Grains				
Corn contract	$530.00	$536.75	-1.26%	
Wheat contract	$707.25	$717.25	-1.39%	
Soybeans contract	$1,316.25	$1,325.50	-0.70%	
Shipping				
Baltic Dry Freight	3,432	3,399	33	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		-0.69		
Gasoline (mb)		0.50		
Distillates (mb)		-0.68		
Refinery run rates (%)		-0.70%		
Natural gas (bcf)		51		

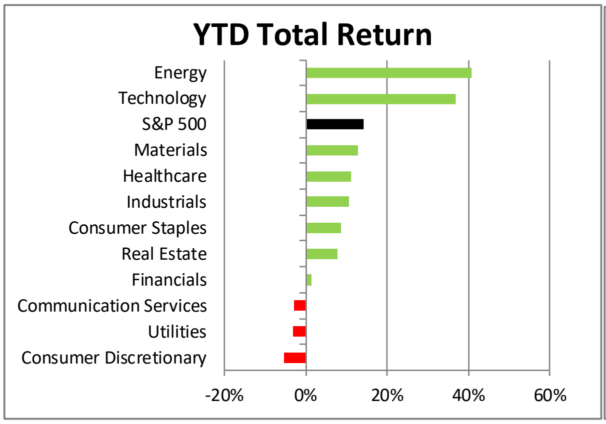
Weather

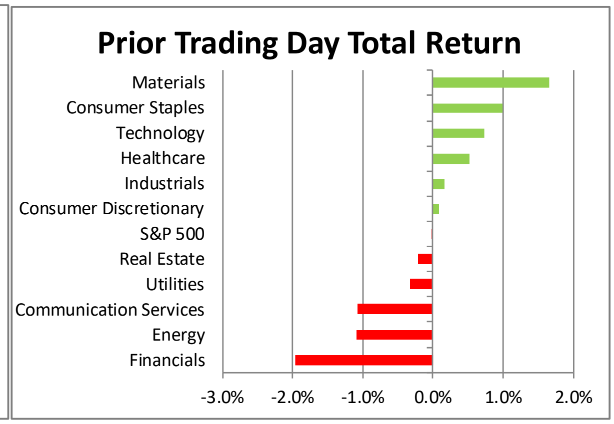
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures everywhere except the Pacific Northwest, where temps will be near normal. The outlook calls for wetter-than-normal conditions everywhere except California and Nevada, where conditions will be near normal.

There are now two tropical disturbances forming in the Atlantic Ocean. The first, which was previously Tropical Depression Faye, is in the central Atlantic and moving slowly to the west. It is assessed to have a 20% chance of cyclonic formation within the next seven days. The other formation is off the western coast of West Africa and moving to the northwest. It has a 40% chance of becoming a tropical cyclone within the next seven days.

Data Section

US Equity Markets – (as of 9/22/2026 close)

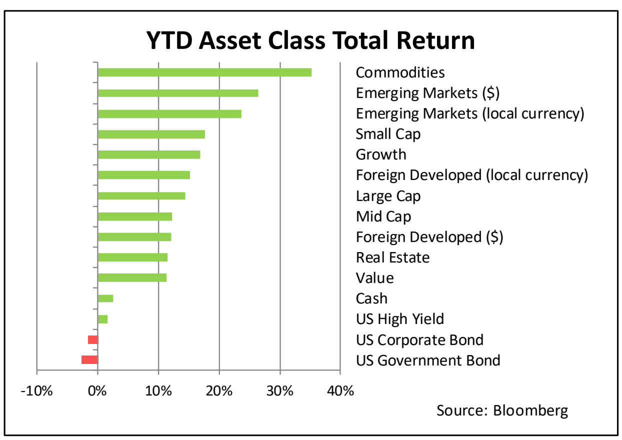




(Source: Bloomberg)

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 9/22/2026 close)

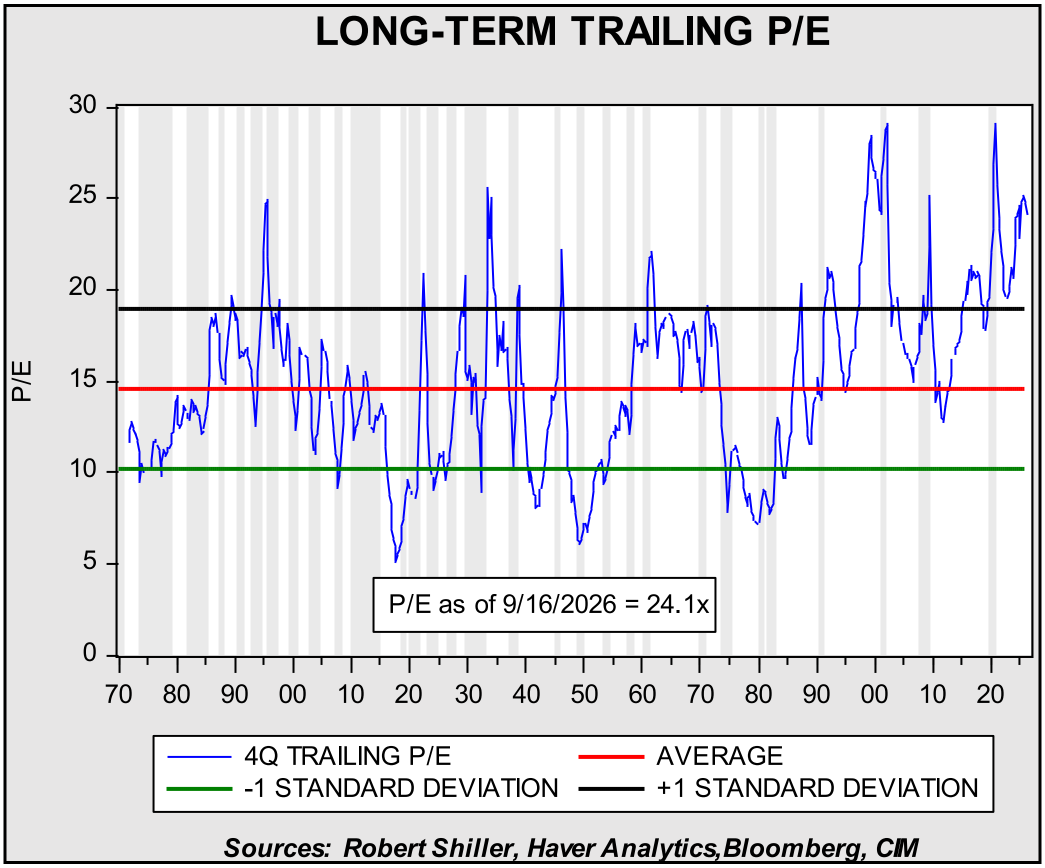


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.