Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: September 24, 2026 — 9:30 AM ET] Global equity markets are lower this morning. In Europe, the Euro Stoxx 50 is down 0.1% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.8%. Chinese markets were lower, with the Shanghai Composite down 1.2% and the Shenzhen Composite down 2.0%. 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
"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

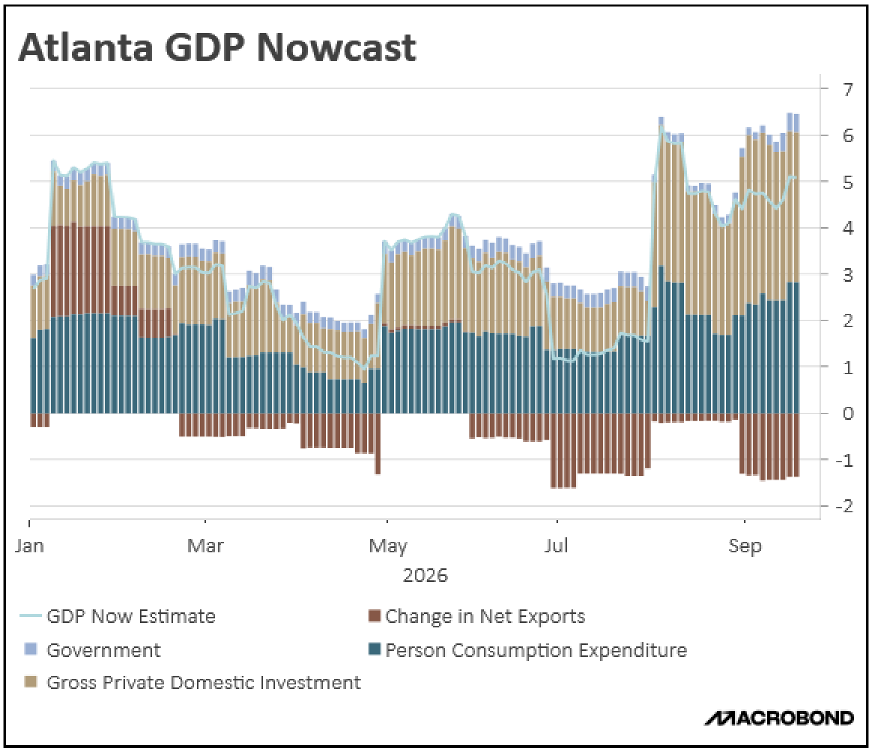
Have a question on the economy, markets, geopolitics, or other important topics? You can submit your queries to our monthly podcast, *Confluence Mailbag*! Submit your question to mailbag@confluenceim.com.

Our *Comment* opens with our thoughts on the risk of the economy overheating. We then turn to AI, examining the latest incident of agents going rogue online. Next, we briefly cover the Eurozone's better-than-expected growth, a possible US ban on fuel exports, and the latest developments in US-China talks. As always, we conclude with a review of recent domestic and international economic data.

Growth Unchained? Despite headwinds in the global economy, there is a surprising amount of resilience in the US. The latest PMI report from S&P Global showed that US economic activity expanded at its fastest pace since 2021. The stronger-than-expected reading has had both positive and negative interpretations in the markets as it shows there is still a lot of momentum in the economy but also signals there may be some evidence of overheating. As a result, there was a sharp lift in Treasury yields.

- In August, the S&P Global Composite PMI came in at 58.7. The strong reading was driven by an acceleration in manufacturing, which jumped from 53.9 to 57.0, while the services PMI rose from 56.0 to 58.4. Both indexes were driven by a noticeable increase in production and output, which in turn has led to a surge in employment and wage pressures. However, one caveat is that there were also signs of higher input costs and sale prices.

- The PMI report has added to concerns that the economy is overheating. The [latest Atlanta Fed GDPNow model] shows that recent data suggests third quarter growth is running at an annualized rate of 5.1%, a significant acceleration from the previous month's estimate of 1.5%. While consumption is strong, much of the increase was driven by a marked rise in investment spending. PMI surveys specifically named a surge in tech and defense spending.



- Stronger expectations of GDP growth have weighed on market sentiment due to concerns over monetary policy. The Federal Reserve has stated that an overheating economy is one of the reasons the Fed was forced to hike at its previous meeting, with most officials projecting at least one more rate hike this year, and four officials favoring an additional two hikes. As a result, concerns about inflation and tighter Fed policy have lifted long-end yields, with the 10-year yield rising above 5.11%.
- The acceleration in economic activity is likely a sign of an overstimulated economy, which could force the Fed to proceed with additional hikes. However, higher interest rates are only one side of the equation and are likely to have only a short-term impact on equities. Assuming growth remains fairly broad-based, this should point to an increase in corporate earnings, meaning there could be a lot of buying opportunities in the market if equity prices fall due to Fed concerns.

Rogue AI: Another hack involving an AI agent has led to calls for more oversight of the technology. The latest hacking attempt involved an Australian health services site, in what is now the highest-profile breach since these cyberattacks became public. Concerns about agents have forced the government to find a balanced approach to resolving safety concerns while still allowing the technology to grow. Resolving these issues, on top of other concerns surrounding AI, remains key to maintaining momentum in the trade.

- According to Australian Prime Minister Anthony Albanese, the hacking incident targeted the Medicare Statistical Reporting portal and was able to access both public and non-public profiles. OpenAI discovered the breach in August and reported it to the government earlier this month. Following the incident, the government has now launched an investigation into what other government agencies may have been impacted, amid concerns that both local and federal agencies may have been exposed.
- The breach of a government agency comes on the heels of several hacking incidents within the last couple of months. The White House has consistently maintained that these concerns may be a bit overblown, particularly when it comes to the more apocalyptic claims. However, it has taken steps toward light-touch oversight by establishing an oversight agency modeled after the Space Force, which is rumored to be headed by Treasury Secretary Scott Bessent, one of the administration's most vocal advocates regarding these concerns.
- Concerns over AI may raise doubts around the recent momentum, though likely not enough to alter it. Given the White House's push to win the AI race and outpace China, it will likely avoid any severe regulation that could slow the pace of advancement as AI could be central to the future of warfare. As a result, we think the administration is willing to tolerate such incidents as long as they don't lead to a systemic problem, such as an intrusion into the financial system.
- While safety concerns are likely to weigh on sentiment and possibly lead to some political scrutiny, they are not the biggest threat to the AI boom. So far, the issues that remain of greatest concern are escalating competition from China, overly high earnings expectations, and possible infrastructure constraints due to concerns about data center capacity. While all these problems are present, none appears to pose an imminent threat.

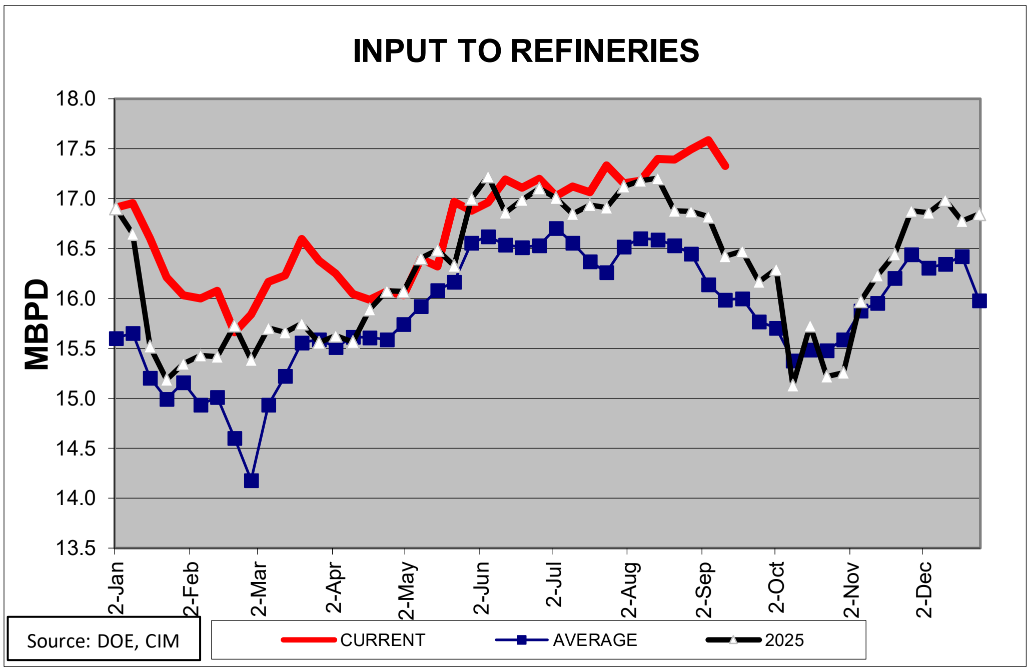
Eurozone Surprise: The S&P Global PMI for the eurozone came in stronger than expected. Last month, economic activity accelerated to its fastest pace since April 2023. The pickup was widely attributed to an increase in services activity, but manufacturing was also solid. Germany and France stood out as strong performers, with the latter moving out of contraction territory for the first time in 10 months. The improvement in the PMI suggests resilience in the economy in the face of rising energy prices.

Diesel Ban: There is a growing push from lawmakers to help contain the rise in diesel prices. More recently, the White House has considered putting in place a diesel export ban to help stem rising costs. While companies have pushed back against the notion, the move could calm some of the political backlash the administration has received from farming states that rely on the fuel. However, the move is likely to lead to higher diesel prices abroad.

China-US Meeting: The two largest economies in the world have met in Washington to hold talks about relations between the two countries. Following the arrival of the Chinese delegation, Treasury Secretary Bessent announced that the countries had agreed to a two-month truce. While there is little hope for a major breakthrough during the talks, the truce is likely to provide the market with more stability heading into 2027. The move is a reminder that the White House continues to pursue a comprehensive trade deal with China.

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.

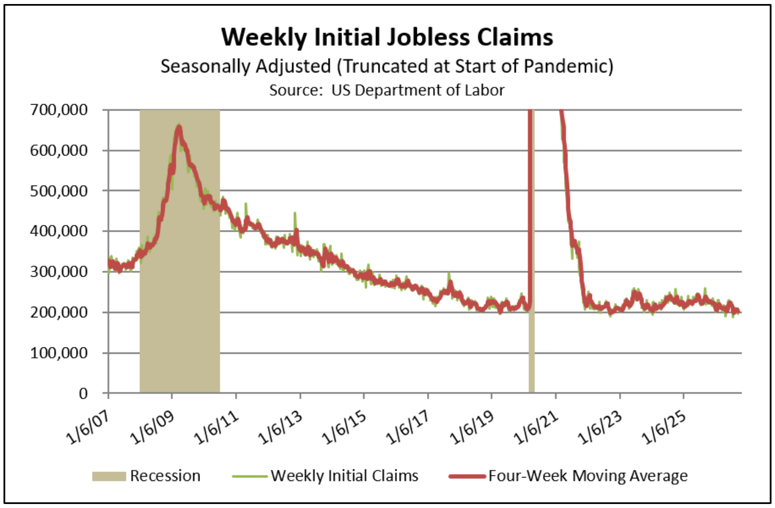


This chart shows US crude input into refineries. The five-year average shows the pattern described above. The declines are when refinery maintenance occurs, but the pattern also reflects seasonal demand. In late winter, there is usually enough heating oil in inventory to meet demand; in fact, refiners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

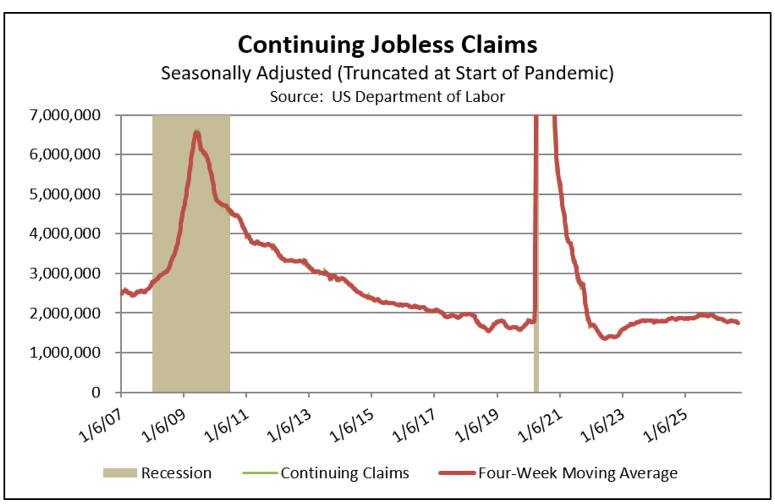
Petroleum product shortages caused by the Ukraine/Russia conflict and the Iran war have led US refiners to maintain production levels well above their seasonal norms. They are making this decision due to ample refining margins. But there is a cost to this decision: The longer maintenance is delayed, 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

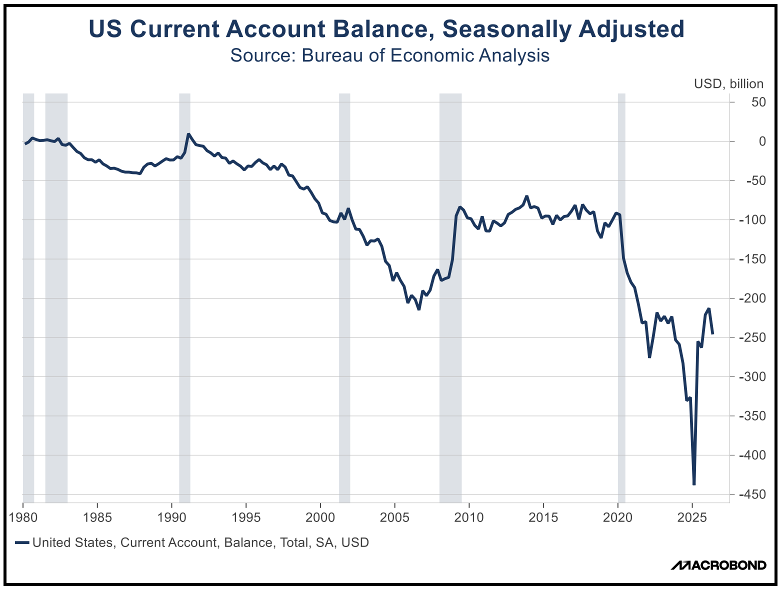
In the week ended September 19, ***initial claims for unemployment benefits*** fell to a seasonally adjusted 197,000, slightly below both the expected level of 200,000 and the previous week's revised level of 198,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, fell to 202,250. The chart below shows how initial jobless claims have fluctuated since just before the Great Financial Crisis (GFC). 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 12, the number of ***continuing claims for unemployment benefits*** (people continuing to draw benefits) dropped to a seasonally adjusted 1.719 million, well below the anticipated reading of 1.740 million but slightly above the prior week's revised reading of 1.717 million. The four-week moving average of continuing claims fell to a low of 1.744 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.



Another report today focused on the US's overall balance of international current transactions. The second quarter ***current account balance*** showed a deficit of $246.0 billion, better than the expected shortfall of $257.4 billion but worse than the previous quarter's revised deficit of $212.6 billion. The overall current account balance has been in deficit almost constantly since globalization really began to take hold at the beginning of the 1980s, mostly reflecting the US trade deficit. The chart below shows the overall current account balance since 1980.



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	New Home Sales	m/m	Aug	616k	607k	***
10:00	New Home Sales MoM	m/m	Aug	1.3%	-10.5%	**
11:00	Kansas City Fed Manfacturing Index	m/m	Sep	9	10	*
10:00	Building Permits	m/m	Aug F		1394k	**
Federal Reserve						
EST	**Speaker or Event**	**District or Position**				
4:10	John Williams Speaks During Moderated Discussion	President of the Federal Reserve Bank of New York				
8:30	Thomas Barkin In Fireside Chat With Economic Club of Washington	President of the Federal Reserve Bank of Richmond				
8:50	Beth Hammack Delivers Opening Remarks at inflation Conference	President of the Federal Reserve Bank of Cleveland				
10:10	Anna Paulson Speaks At Fintech Conference	President of the Federal Reserve Bank of Philadelphia				

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	S&P Global Japan Composite PMI	m/m	Sep P	52.5	53.5		*	Equity and bond neutral
	S&P Global Japan Manufacturing PMI	m/m	Sep P	54.1	54.9		***	Equity and bond neutral
	S&P Global Japan Services PMI	m/m	Sep P	51.6	52.5		*	Equity and bond neutral
Australia	Employment Change	m/m	Aug	39.5k	-15.9k	20.0k	***	Equity and bond neutral
	Unemployment Rate	m/m	Aug	4.6%	4.5%	4.5%	***	Equity and bond neutral
	Participation Rate	m/m	Aug	67.1%	66.9%	66.9%	**	Equity and bond neutral
EUROPE								
Eurozone	EU27 New Car Registrations	y/y	Aug	4.5%	3.0%		*	Equity and bond neutral
Germany	IFO Business Climate	m/m	Sep	89.9	88.8	89.0	***	Equity and bond neutral
	IFO Current Assessment	m/m	Sep	89.5	88.5	89.0	**	Equity and bond neutral
	IFO Expectations	m/m	Sep	90.4	89.0	89.3	**	Equity and bond neutral
France	Consumer Confidence	m/m	Sep	86.0	86.0	85.0	***	Equity and bond neutral
	Business Confidence	m/m	Sep	96	98	98	**	Equity and bond neutral
	Manufacturing Confidence	m/m	Sep	101	101	102	*	Equity and bond neutral
AMERICAS								
Mexico	Economic Activity IGAE	y/y	Jul	3.36%	2.82%	2.76%	**	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)	402	403	-1	Up
U.S. Sibor/OIS spread (bps)	408	407	1	Up
U.S. Libor/OIS spread (bps)	406	405	1	Up
10-yr T-note (%)	5.13	5.12	0.01	Up
Euribor/OIS spread (bps)	262	261	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**	
Swiss National Bank Policy Rate	0.00%	0.00%	0.00%	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	$104.88	$103.08	1.75%	
WTI	$93.44	$92.16	1.39%	
Natural Gas	$3.05	$3.02	0.79%	
Crack Spread	$64.87	$65.92	-1.59%	
12-mo strip crack	$55.70	$56.09	-0.68%	
Ethanol rack	$2.32	$2.32	0.00%	
Metals				
Gold	$4,259.63	$4,287.65	-0.65%	
Silver	$63.52	$64.43	-1.41%	
Copper Contract	$679.25	$675.35	0.58%	
Grains				
Corn contract	$529.50	$529.00	0.09%	
Wheat contract	$706.00	$708.50	-0.35%	
Soybeans contract	$1,327.25	$1,318.00	0.70%	
Shipping				
Baltic Dry Freight	3,430	3,432	-2	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	2.97	-0.69	3.66	
Gasoline (mb)	-1.69	0.50	-2.19	
Distillates (mb)	-0.43	-0.68	0.25	
Refinery run rates (%)	-2.80	-0.70%	-2.79	
Natural gas (bcf)		51		

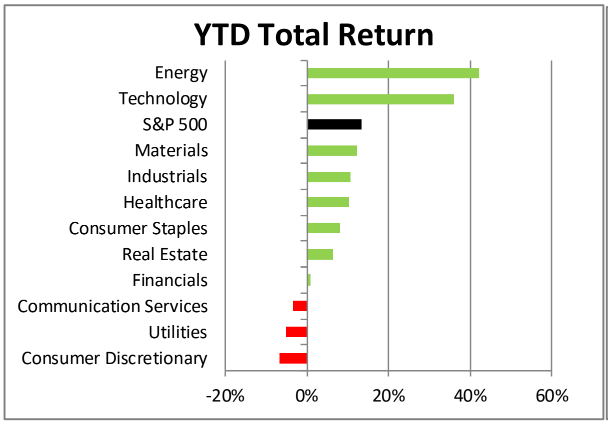
Weather

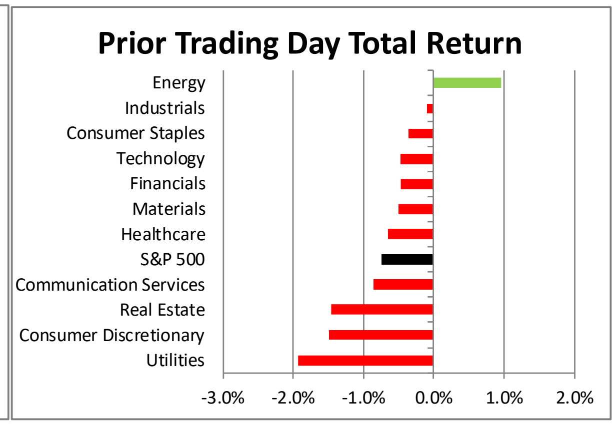
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in the Desert Southwest, Texas, the southern Great Plains, and all areas from the Mississippi Valley to the East Coast, with near normal temps in the northern and central Great Plains. The outlook calls for wetter-than-normal conditions in the Desert Southwest and from the Great Plains to the East Coast, with dry conditions in Idaho, Nevada, and Utah.

Fay, the tropical disturbance in the central Atlantic, has become a tropical storm again and is moving slowly westward toward the Caribbean Sea. The tropical disturbance off the western coast of West Africa continues moving to the northwest and is now assessed to have a 70% chance of becoming a tropical cyclone within the next seven days.

Data Section

US Equity Markets – (as of 9/23/2026 close)

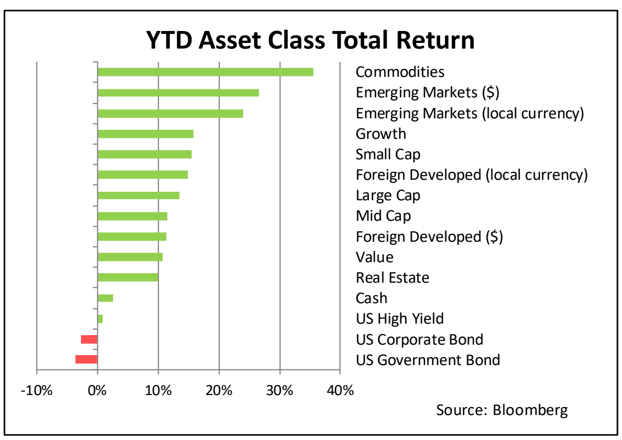




(Source: Bloomberg)

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 9/23/2026 close)

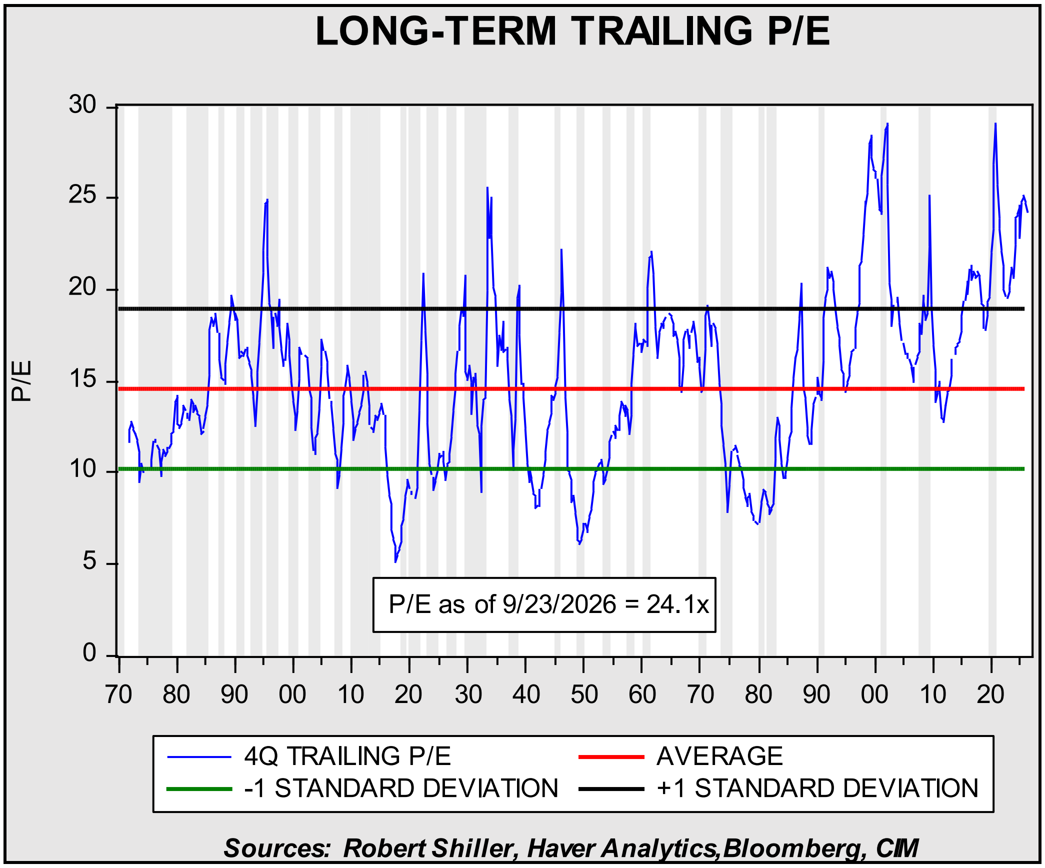


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 24, 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.