Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: September 2, 2026 — 9:30 AM ET] Global equity markets are lower this morning. In Europe, the Euro Stoxx 50 is down 0.2% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 2.3%. Chinese markets were lower, with the Shanghai Composite down 1.0% and the Shenzhen Composite down 1.5%. 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.

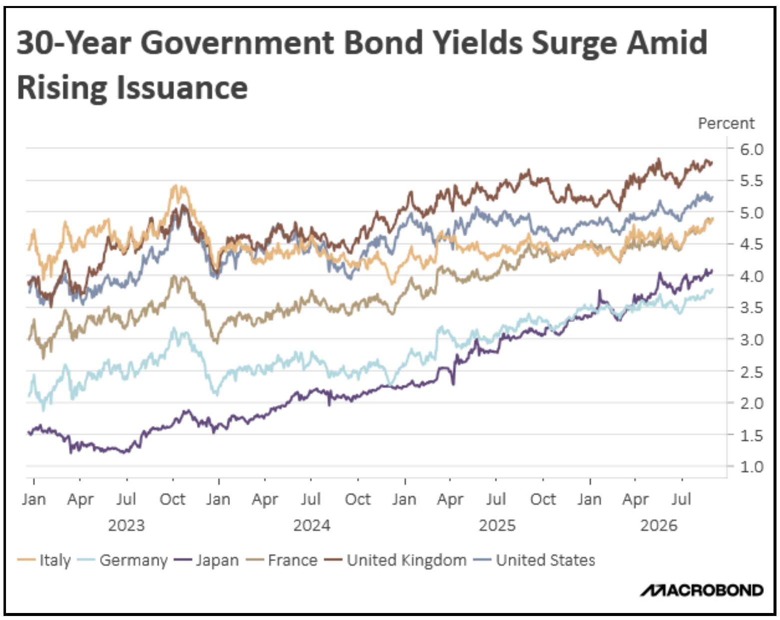
Bi-Weekly Geopolitical Report	Asset Allocation Bi-Weekly	Asset Allocation Quarterly	Of Note
"On Lessons Learned: China and Consumption Policy" (8/24/26)	"The Impact of New Equity Supply" (8/31/26)	Q3 2026 Report Q3 2026 Rebalance Presentation	Confluence of Ideas Podcast Business Cycle Report

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 our key takeaways from the G20, as the world's finance ministers and central bank governors confront rising inflation and interest rates. We then turn to the Iran war, examining the factors behind the recent skirmish and providing an update on shipping through the Strait of Hormuz. Next, we briefly discuss the push by banks for a reduction in legal service fees and China's decision not to sign the G20 joint statement. As always, we conclude with a review of recent US and international economic data.

G20 Finance Summit: On Tuesday, world finance leaders convened in Asheville, North Carolina to address key issues weighing on global growth and policy. The primary focus was elevated interest rates and persistent inflation, while concerns over widening fiscal deficits and geopolitical tensions kept investors cautious. Against this backdrop, fears are mounting that sustained high borrowing costs could restrain consumer spending and business investment, particularly in AI, potentially slowing growth later this year. Even so, we remain broadly constructive on the outlook.

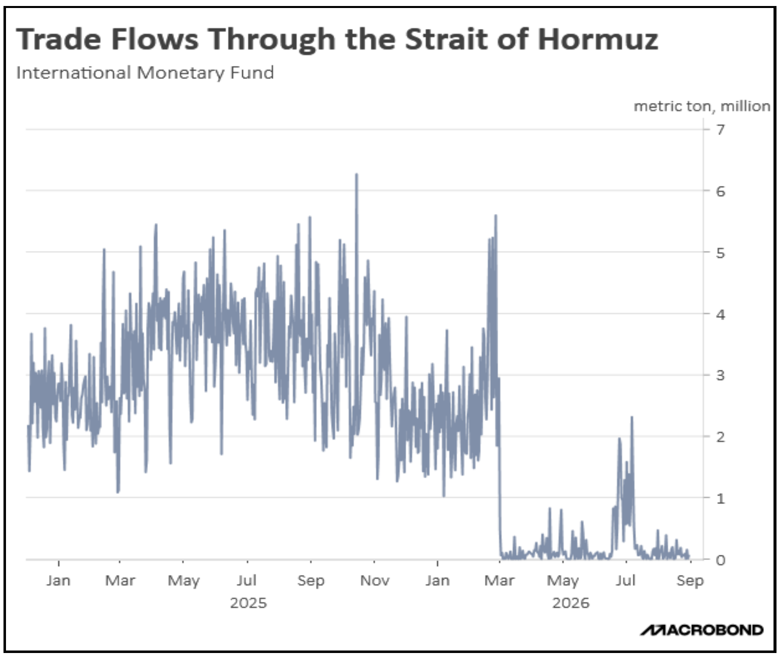
- At the summit, Treasury Secretary Scott Bessent sought to reassure attendees that rising yields did not necessarily signal turmoil in the bond market, noting that US Treasurys had outperformed global peers. He attributed the increase to confidence in stronger economic growth, alongside energy-related inflation pressures that he expects to fade over time. Bessent further indicated that while fiscal consolidation efforts are underway, he views faster economic growth as the principal pathway to addressing the national debt.
- Bessent's remarks come amid intensifying global scrutiny of both monetary and fiscal policy. Rising geopolitical tensions have lifted energy prices and, in turn, added to inflation expectations. These pressures have been compounded by shifts in bond markets where increased government borrowing has coincided with a surge in corporate debt issuance by technology companies seeking to finance AI-related investment, giving investors alternatives to invest in.



- Rising costs are putting significant pressure on governments to act. In several countries, longer-duration bond yields have surged to multi-decade highs. Most notably, the 30-year Japanese government bond yield has overtaken that of Germany, while the spread between Italian and French bonds has narrowed considerably. Meanwhile, UK interest rates are approaching 6%, exacerbating the country's already fragile fiscal position.
- Higher borrowing costs present economic headwinds, but resilient household spending should help cushion the impact. Provided credit remains available and corporate investment in AI infrastructure stays strong, growth should stay solid. Nevertheless, growing uncertainty and elevated interest rates increase the likelihood of market volatility, reinforcing the need for portfolio diversification.

Iran Back On: The US and Iran continued to exchange strikes on Tuesday. The escalation reflects each side's effort to gain leverage over reopening the Strait of Hormuz and resolving the broader dispute over Iran's nuclear program. Although the initial US strikes were limited, Washington has signaled a willingness to escalate if Iran retaliates, with President Trump warning of strikes at a "much harder and higher level." As the war enters its sixth month and diplomacy remains stalled, uncertainty over the conflict's duration and trajectory is mounting.

- The latest round of strikes followed Iranian attacks on vessels transiting the Strait of Hormuz and on US personnel. Iran then retaliated with its own strikes targeting US bases in Jordan. Although Iran has signaled openness to reviving the June agreement, which expired last month, President Trump has indicated that he is no longer willing to return to the negotiating table.
- While the conflict has escalated, the US appears to be taking concrete steps to loosen Iran's control over the Strait of Hormuz. Last week, a US naval convoy safely escorted 30 ships per night through the waterway near Oman. Furthermore, Treasury Secretary Scott Bessent announced plans to build an alternative pipeline, which would diminish the strait's strategic importance in global trade. While these moves have not freed up the strait entirely, it has likely given the US more leverage in talks.



- Even so, the conflict continues to stoke market anxiety and drive oil prices upward. The broader concern is not merely physical access through the strait, but the potential for a prolonged and widening war. On Tuesday, reports revealed that there has been Russian assistance in developing Iranian supersonic missiles, intensifying worries surrounding Tehran's weapons development. Though the exact depth of Moscow's support is uncertain, the partnership appears calculated to further entangle the US in the Middle East.
- Although recent escalation between the US and Iran introduces renewed uncertainty over a prolonged conflict, it is unlikely to severely impact global markets — provided the confrontation remains contained. This outlook could shift if the US deploys ground troops to Iran, a move that might stabilize immediate geopolitical risk but would

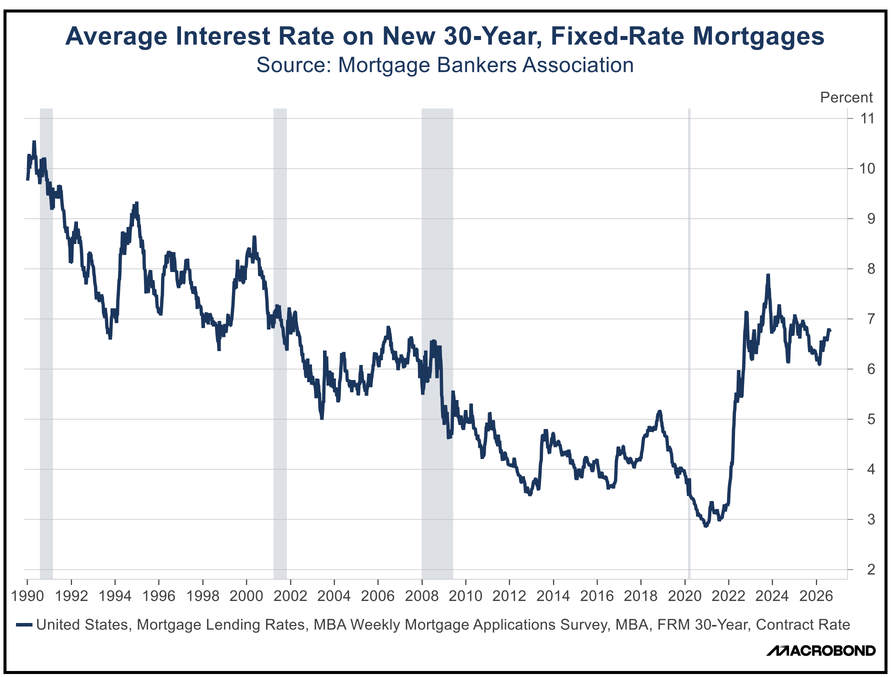
simultaneously reignite concerns over the fiscal burden of prolonged military engagement. As a result, we maintain a relatively optimistic outlook on risk assets.

AI Discount: Companies are increasingly pushing back against suppliers leveraging AI. Notably, investment banks have [begun demanding lower fees from law firms for work automated by artificial intelligence.] This shift suggests that service providers deploying AI may be forced to compress their margins as clients demand price cuts. If this trend spreads beyond the legal sector, it could dampen incentives for widespread AI deployment while simultaneously cooling inflationary pressures.

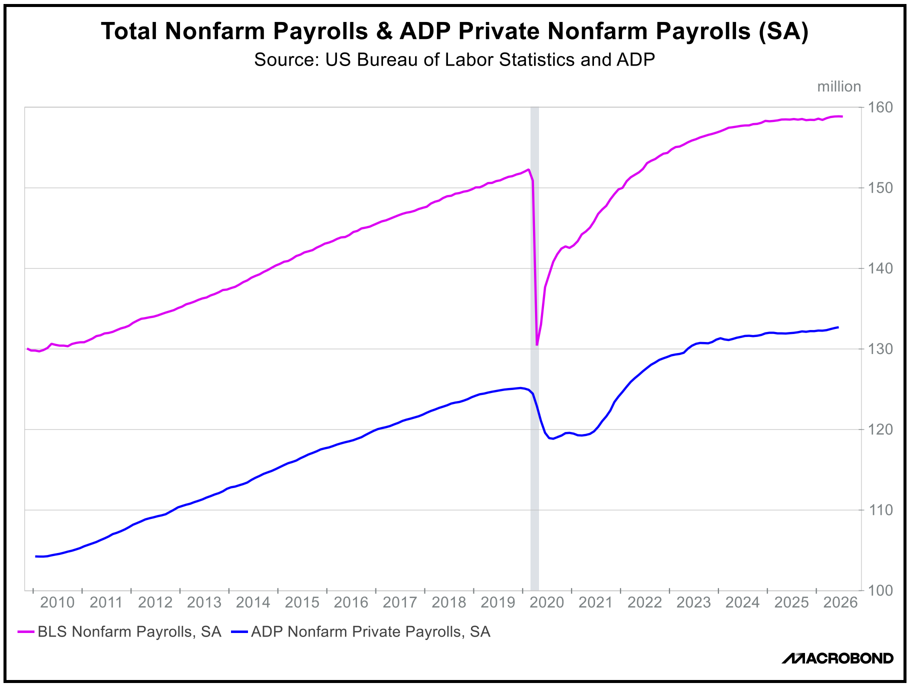
Beijing Faces Pressure: During the G20 summit, several countries sought to pressure China to alter its export-led growth model. At the summit's conclusion, China reportedly declined to endorse language warning about trade imbalances, viewing the statement as a direct criticism of its own policies. The decision comes as the United States and European Union prepare to hold talks with China in the coming weeks concerning its trade practices.

US Economic Releases

The Mortgage Bankers Association said ***mortgage applications*** in the week ended August 28 rose 0.8%, reversing most of their decline of 1.0% in the previous week. Applications for home purchase mortgages rose 2.2%, erasing their 0.3% fall in the prior week. Applications for refinancing mortgages fell 1.1%, after declining 2.0% the week before. The average interest rate on a 30-year, fixed-rate mortgage rose 1 basis point to 6.79%. The chart below shows how mortgage rates have changed over time.



Separately, the ADP Research Institute estimated that ***private payroll employment*** rose in August by a seasonally adjusted 38,000, short of expectations and down from a revised gain of 46,000 in July. ADP's estimate is widely seen as a sign of what to expect when the Department of Labor releases its measure of nonfarm payrolls on Friday. The ADP data suggests that the report will show another month of anemic job creation. The chart below shows the Labor Department's figure for total nonfarm payrolls and ADP's estimate of private payrolls since 2010.



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**
10:00	Factory Orders	m/m	Jul	0.7%	-0.3%	***
10:00	Factory Orders Ex Transportation	m/m	Jul	0.4%	-0.4%	**
10:00	Durable Goods Orders	m/m	Jul	1.1%	1.1%	***
10:00	Durable Goods Orders ex Transportation	m/m	Jul	0.4%	0.4%	**
10:00	Cap Goods Orders Nondef Ex Air	m/m	Jul	3.0%	0.2%	*
10:00	Cap Goods Ship Nondef Ex Air	m/m	Jul	1.4%	1.4%	*
Federal Reserve						
EST	**Speaker or Event**	**District or Position**				
14:00	U.S. Federal Reserve Releases Beige Book	Federal Reserve Board				

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	Consumer Confidence Index	m/m	Aug	35.3	35.5	34.9	*	Equity and bond neutral
	Monetary Base	y/y	Aug	-15.7%	-13.8%		**	Equity and bond neutral
Australia	GDP	y/y	Q2	2.1%	2.5%	1.8%	***	Equity and bond neutral
New Zealand	Building Permits	m/m	Jul	-4.3%	-3.7%		**	Equity and bond neutral
South Korea	CPI	m/m	Aug	3.1%	2.8%	3.2%	***	Equity and bond neutral
EUROPE								
France	Budget Balance YTD	y/y	Jul	-145.9b	-106.8b		***	Equity and bond neutral
Italy	PPI	y/y	Jul	9.3%	6.8%		**	Equity and bond neutral
	New Car Registrations	y/y	Aug	3.15%	3.90%		*	Equity and bond neutral
	Budget Balance	m/m	Aug	-12.3b	13.4b		*	Equity and bond neutral
AMERICAS								
Canada	S&P Global Canada Manufacturing PMI	m/m	Aug	53.0	53.5		***	Equity and bond neutral
Mexico	Remittances Total	m/m	Jul	$5570.6m	$5472.3m	$5548.4m	*	Equity and bond neutral
	International Reserves Weekly	w/w	28-Aug	$258564m	$258609m		*	Equity and bond neutral
	S&P Global Mexico Manufacturing PMI	m/m	Aug	49.8	51.3		***	Equity and bond neutral
	IMEF Manufacturing Index SA	m/m	Aug	49.7	49.7	49.8	*	Equity and bond neutral
	IMEF Non-Manufacturing Index SA	m/m	Aug	48.9	49.6	49.5	*	Equity and bond neutral
	Vehicle Domestic Sales	y/y	Aug	129479	112048		***	Equity and bond neutral
Brazil	S&P Global Brazil Manufacturing PMI	m/m	Aug	46.3	47.5		***	Equity and bond neutral
	Industrial Production	y/y	Jul	-0.5%	1.7%	-0.3%	***	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)	377	377	0	Up
U.S. Sibor/OIS spread (bps)	384	384	0	Up
U.S. Libor/OIS spread (bps)	382	382	0	Up
10-yr T-note (%)	4.80	4.80	0.00	Up
Euribor/OIS spread (bps)	261	259	2	Up
Currencies	**3 Mo**			
Dollar	Down	US		Up
Euro	Up	Euro		Down
Yen	Down	Japan		Up
Pound	Up	UK		Up
Franc	Down	Switzerland		Down
Central Bank Action		**Prior**	**Expected**	
RBNZ Official Cash Rate	2.75%	2.50%	2.75%	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	$94.47	$94.65	-0.19%	
WTI	$89.75	$90.22	-0.52%	
Natural Gas	$2.93	$2.90	0.93%	
Crack Spread	$63.32	$63.01	0.50%	
12-mo strip crack	$54.12	$54.24	-0.23%	
Ethanol rack	$2.21	$2.21	0.01%	
Metals				
Gold	$4,322.76	$4,328.82	-0.14%	
Silver	$64.09	$64.08	0.01%	
Copper Contract	$657.90	$660.05	-0.33%	
Grains				
Corn contract	$538.00	$546.00	-1.47%	
Wheat contract	$770.75	$782.50	-1.50%	
Soybeans contract	$1,304.00	$1,317.75	-1.04%	
Shipping				
Baltic Dry Freight	3,157	3,186	-29	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		0.06		
Gasoline (mb)		-1.60		
Distillates (mb)		-1.50		
Refinery run rates (%)		-0.10%		
Natural gas (bcf)		32		

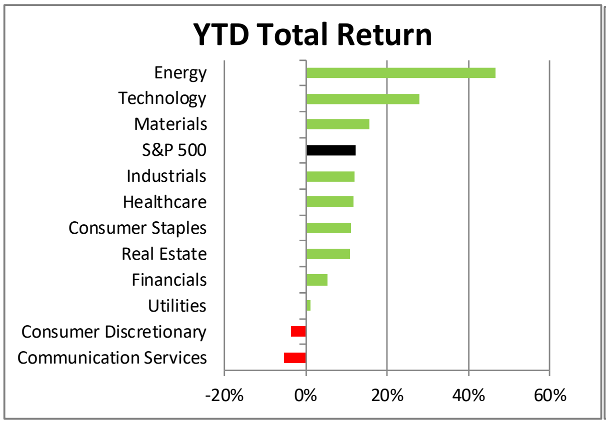
Weather

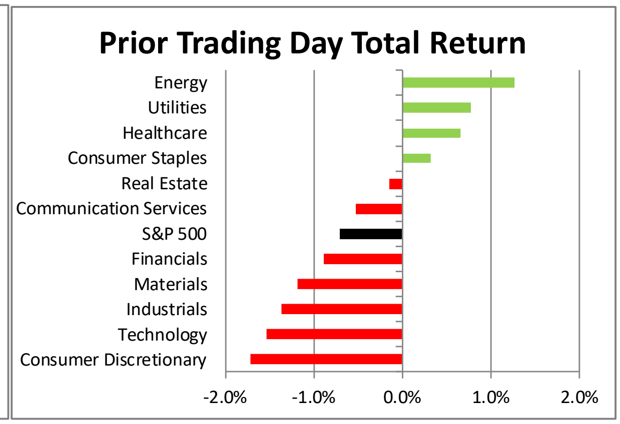
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in the central and southern Rocky Mountains, the Great Plains, the Deep South, the Midwest, and the mid-Atlantic states, with near-normal temperatures elsewhere. The outlook also calls for wetter-than-normal conditions from the West Coast to the Great Plains, with near-normal conditions everywhere else.

Tropical Storm Edouard is currently moving inland into Texas, bringing heavy rains and winds.

Data Section

US Equity Markets – (as of 9/1/2026 close)

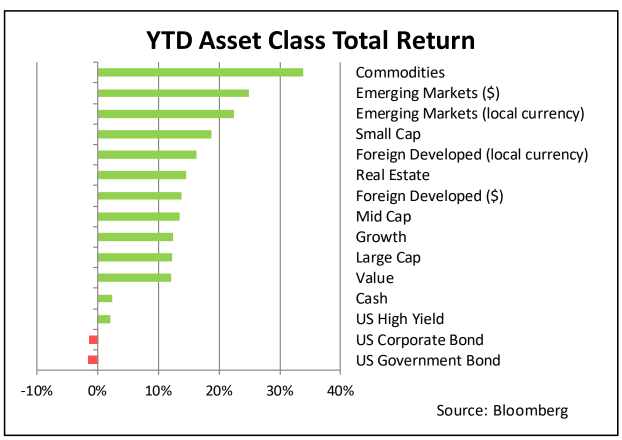




(Source: Bloomberg)

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 9/1/2026 close)

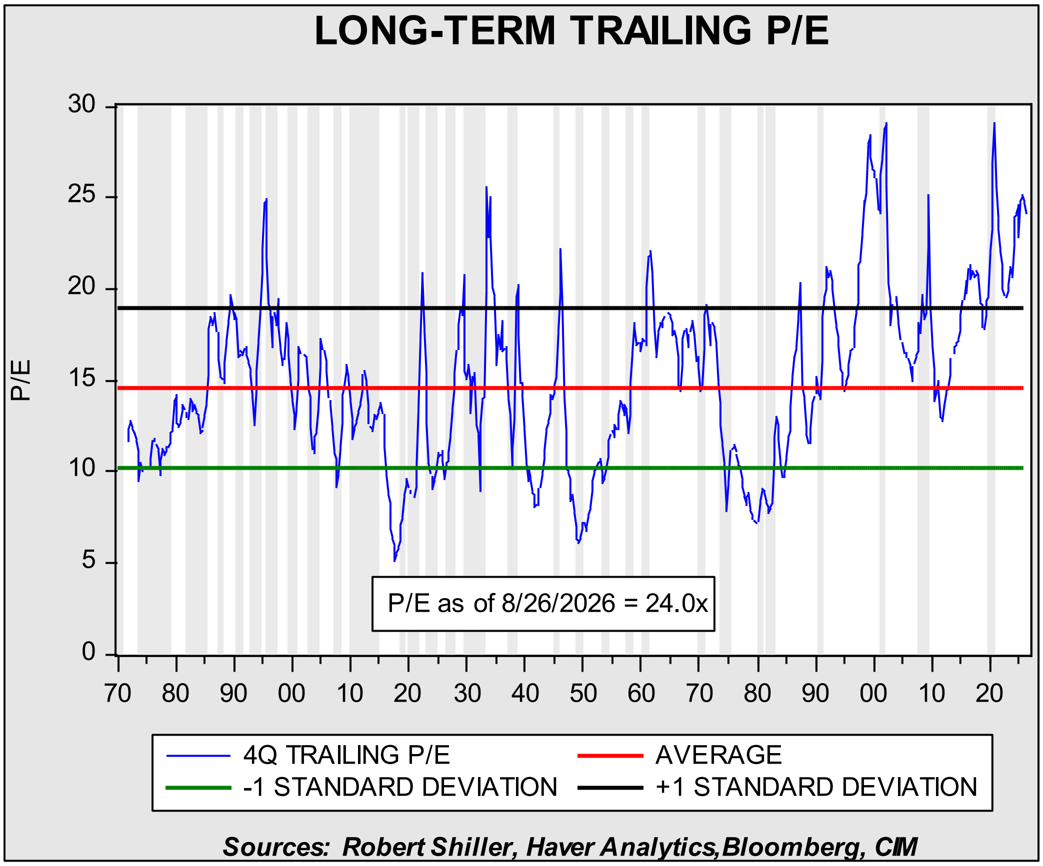


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.