Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: September 3, 2026 — 9:30 AM ET] Global equity markets are mixed 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 up 0.1%. Chinese markets were mixed, with the Shanghai Composite essentially unchanged and the Shenzhen Composite up 0.1%. 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.

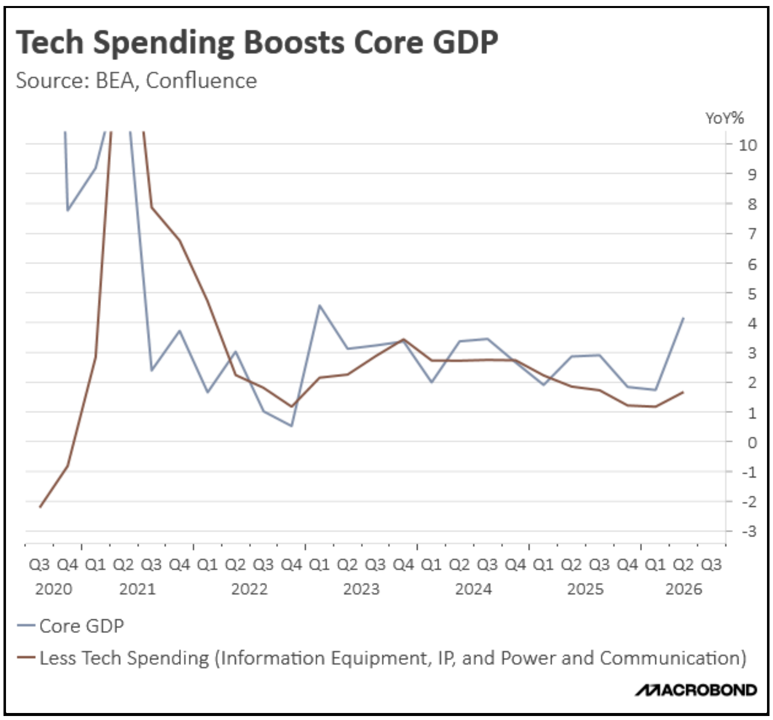
Bi-Weekly Geopolitical Report	Asset Allocation Bi-Weekly	Asset Allocation Quarterly	Of Note
"On Lessons Learned: China and Consumption Policy" (8/24/26)	"The Impact of New Equity Supply" (8/31/26)	Q3 2026 Report Q3 2026 Rebalance Presentation	Confluence of Ideas Podcast Business Cycle Report

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* will begin with a discussion of a potential set of economic indicators the Federal Reserve may be monitoring and the implications for its forward guidance. We will then turn to the second day of the G20 summit, where attention was centered on artificial intelligence. The report will also briefly examine the recent appreciation of the yen and President Trump's push to lower gasoline prices. As always, it will conclude with a summary of the latest domestic and international economic data releases.

Forward Guidance Lite? With the Fed's blackout period just days away, markets are already scrambling to decode the central bank's reaction function. On Wednesday, a Bloomberg report used data points from Kevin Warsh's Jackson Hole speech as a dashboard to gauge how the new Fed chair views the economy. The indicators will be used as signals that market participants are likely to lean on heading into the upcoming FOMC meeting, which begins on September 15.

- Bloomberg's analysis focused on several key indicators. Financial conditions included four-quarter growth in equipment and intangible investment, profit margins, credit spreads, and a Fed survey on lending. Real-economy measures spanned final sales to private domestic purchasers, the unemployment rate, and continuing jobless claims. Inflation gauges combined the share of PCE components running above 3%, along with market-based breakeven inflation rates and consumer-survey inflation expectations.
- Using these data points as a guideline suggests that the Fed chair may be worried about the economy overheating. In discussing them, Warsh emphasized signs of continued underlying strength rather than an economy constrained by restrictive policy. He pointed to more than 20% year-over-year growth in S&P 500 profits, four-quarter growth of roughly 9% in investment in equipment and intangible assets, and a 4.2% annualized increase in final sales to private domestic purchasers.



- One could therefore interpret Warsh's emphasis on these indicators as evidence of a more hawkish shift. That conclusion, however, may be premature. His use of the data may instead have been intended to counter concerns that higher interest rates were pushing the economy toward a more serious downturn. In that reading, the indicators were meant to demonstrate the economy's resilience rather than to signal a preference for tighter policy.
- Warsh's willingness to outline a set of indicators for markets to monitor ahead of the next meeting may help reduce uncertainty around the Fed's reaction function. Even so, the prospect of a rate hike remains unclear until policymakers receive the latest employment and inflation reports, due this and next Friday. Until then, these indicators should be viewed more as important inputs into the policy debate, and not as a definitive signal.

US AI Embrace: The White House continues to make AI a cornerstone of its economic agenda as it seeks to establish a global regulatory framework. On the second day of the G20 gathering — attended by government officials and tech leaders — discussions centered on AI and the data required to train its models, with a particular emphasis on shielding tech companies from future copyright infringement lawsuits. The push comes as the administration continues advocating for a broad interpretation of fair-use doctrine to protect AI development.

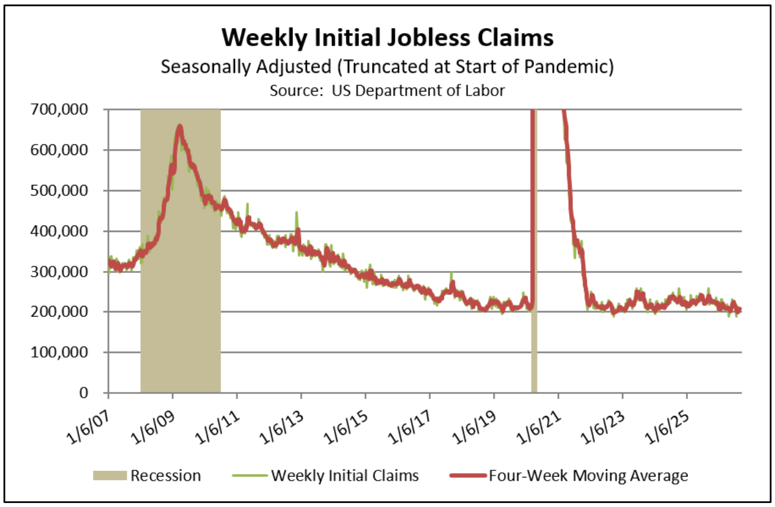
- At the summit, tech leaders cautioned against the over-regulation of artificial intelligence, arguing that strict controls could stifle economic growth. They expressed particular concern over data sovereignty laws — most notably in Europe — which restrict how foreign companies collect and process citizen data. The US has repeatedly opposed these European regulations, arguing they unfairly target American technology firms, which currently lead the AI sector.
- The tech industry's push for broader data access to train its models comes amid growing backlash from content creators. OpenAI, for example, is facing a copyright lawsuit from *The New York Times* over its use of the newspaper's articles. However, the Department of Justice filed a brief on Wednesday supporting OpenAI, arguing that using *Times* articles to train models constitutes fair use. The DOJ further noted that access to such data is essential not only for scientific progress but also for national security.
- Despite strong revenue growth, AI developers face mounting pressure to control soaring operational costs. The push for broader data access comes as firms struggle with the massive computing expenses required for model training. At the same time, top US companies are facing intense competition from lower-cost Chinese rivals, whose models continue to rapidly close the capability gap.
- The White House's persistent advocacy for AI underscores the government's expanding role in strategic economic sectors — especially where national security is concerned. Bolstered by government support, we believe US tech companies are well positioned to penetrate foreign markets and may boost their profitability in the process. While we acknowledge that other sectors may offer more attractive long-term value at current valuations, we still see momentum driving the AI rally ahead.

Yen Intervention: The Japanese yen rallied against the dollar amid concerns over possible official intervention. While some speculation initially pointed to the Bank of Japan, recent account data suggests that the central bank may not have been the culprit. This shift comes as growing talk of a potential outsized rate hike at the BOJ's next meeting prompts a reset in currency expectations. Although it is too early to determine whether this trend will hold, continued speculation about support for the currency should keep it elevated against the dollar.

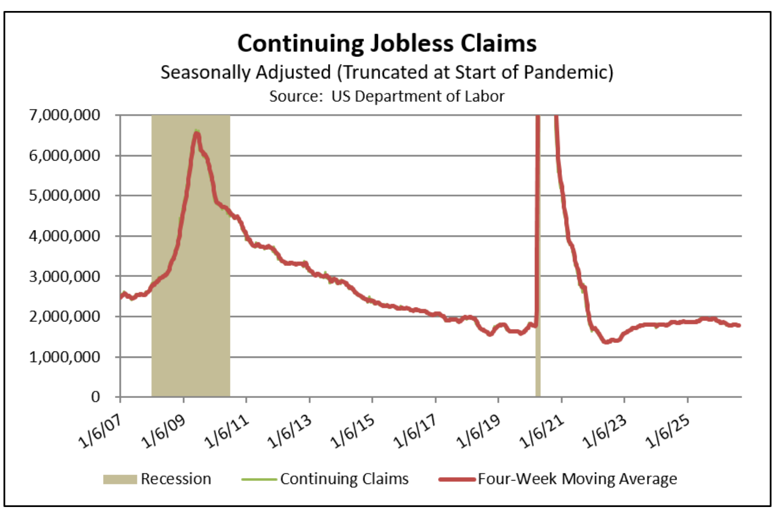
Fuel Prices: The White House is exploring ways to lower gasoline prices as the midterm elections approach. Earlier this week, the president met with refinery executives to discuss options for easing pressure at the pump, including measures that could encourage additional refining capacity. The administration appears to be focusing on regulatory relief as a potential incentive for firms to expand or build refinery capacity. The effort is another example of the broader push to ease domestic energy costs and limit fuel-price pressures on consumers.

US Economic Releases

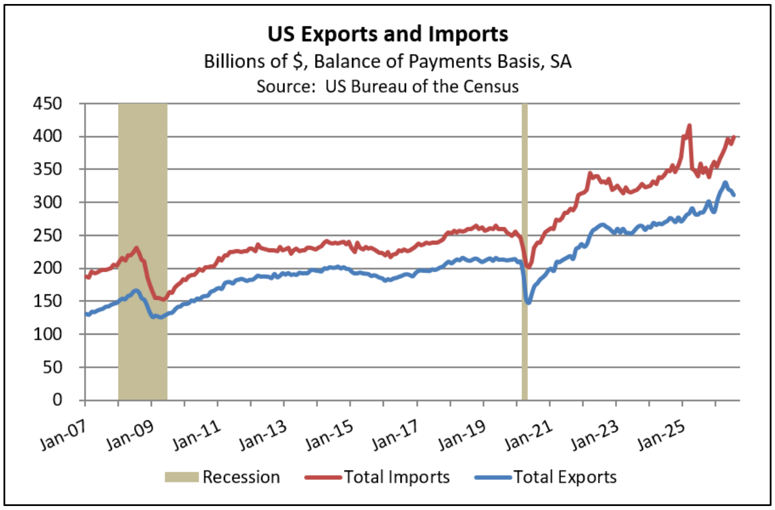
In the week ended August 29, ***initial claims for unemployment benefits*** edged up to a seasonally adjusted 206,000, slightly above both the expected level of 205,000 and the prior week's revised level of 204,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, rose to 207,250. The chart below shows how initial jobless claims have fluctuated since just before the Great Financial Crisis. The chart is truncated through much of the pandemic period because of the extremely high level of claims at that time.



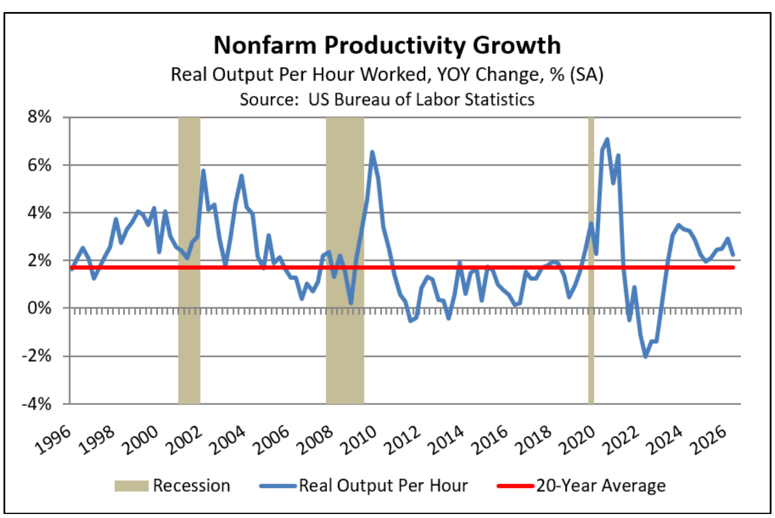
In the week ended August 22, the number of ***continuing claims for unemployment benefits*** (people continuing to draw benefits) rose to a seasonally adjusted 1.779 million, below the anticipated reading of 1.784 million but still modestly above the previous week's revised reading of 1.771 million. The four-week moving average of continuing claims fell to a low 1,781,750. 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.



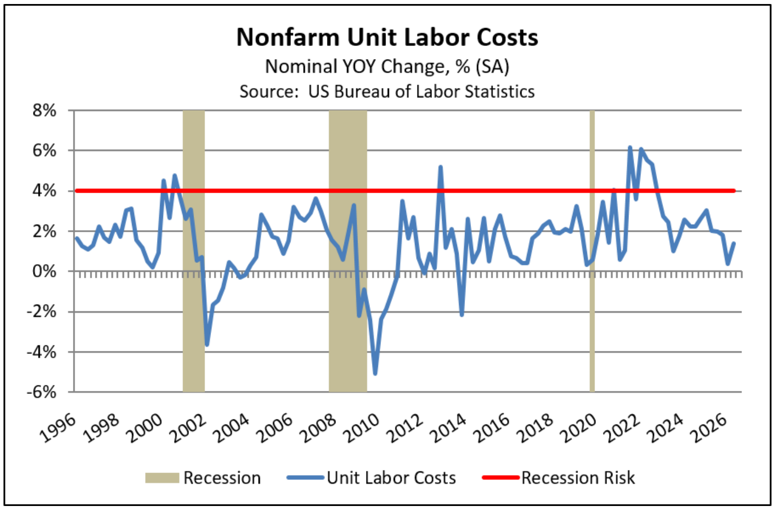
Separately, the July ***trade balance*** showed a seasonally adjusted deficit of $88.6 billion, slightly narrower than the expected shortfall of $90.2 billion but still wider than the revised June deficit of $71.2 billion. Total ***exports*** fell 2.1% during the month, while ***imports*** rose 2.8%. Compared with the same month one year earlier, exports in July were up 9.3%, while imports were up 11.2%. The chart below shows the monthly value of US exports and imports since just before the previous recession.



Yet another report today focused on the productivity of US workers, defined as the average value of output per hour worked. After stripping out price changes and normal seasonal fluctuations, final second-quarter ***nonfarm productivity*** rose at an annualized rate of 1.4%, matching the preliminary estimate as expected but accelerating from the 0.8% rate of increase in the first quarter. Taking into account the fluctuations in each of the last four quarters, productivity in the second quarter was up 2.2% from the same period one year earlier. Productivity growth is key to boosting living standards and supporting higher wages, so the stronger-than-average growth over the last year is encouraging. The chart below shows the year-over-year growth in real productivity over the last several decades.



Second-quarter ***unit labor costs*** rose at an annualized rate of just 1.2%, versus expectations that they would rise at the same 1.3% rate estimated initially. Unit labor costs in the second quarter were up just 1.4% year-over-year, well below the 4.0% increase that has often been associated with recessions in the past. The chart below shows the year-over-year growth in unit labor costs since 1996.



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 Services PMI	m/m	Aug	56.8	56.8	***
9:45	S&P Global US Composite PMI	m/m	Aug	56.1	56.0	***
10:00	ISM Services Index	m/m	Sep	54.1	54.1	***
10:00	ISM Services Prices Paid	m/m	Oct	70.0	70.3	*
10:00	ISM Services New Orders	m/m	Nov	56.0	57.2	*
10:00	ISM Services Employment	m/m	Dec	48.3	47.4	*
Federal Reserve						
EST	Speaker or Event	District or Position				
8:30	Christopher Waller in Moderated Conversation	Member of the Board of Governors				
15:00	Beth Hammack Gives Opening Remarks	President of the Federal Reserve Bank of Cleveland				
15:55	Austan Goolsbee Gives Closing Remarks	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								
Japan	Japan Buying Foreign Bonds	w/w	28-Aug	-¥824.0b	-¥1976.8b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	28-Aug	¥509.1b	¥436.1b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	28-Aug	¥35.8b	-¥861.7b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	28-Aug	¥35.8b	-¥763.4b		*	Equity and bond neutral
	S&P Global Japan Composite PMI	m/m	Aug F	53.5	53.4		*	Equity and bond neutral
	S&P Global Japan Services PMI	m/m	Aug F	52.5	52.3		*	Equity and bond neutral
Australia	S&P Global Australia Composite PMI	m/m	Aug F	52.7	52.5		*	Equity and bond neutral
	S&P Global Australia Services PMI	m/m	Aug F	53.2	52.9		*	Equity and bond neutral
	Trade Balance	m/m	Jul	A$1923m	A$2341m	A$1500m	***	Equity and bond neutral
	Exports	m/m	Jul	-3.3%	10.1%		*	Equity and bond neutral
	Imports	m/m	Jul	-2.5%	-0.7%		*	Equity and bond neutral
New Zealand	Terms of Trade Index	q/q	2Q	-9.0%	-1.9%	-1.9%	**	Equity bearish, bond bullish
	ANZ Commodity Price	m/m	May	-0.4%	-4.0%		**	Equity and bond neutral
South Korea	Foreign Reserves	m/m	Aug	$442.28b	$427.95b		**	Equity and bond neutral
China	RatingDog China PMI Composite	m/m	Aug	52.1	50.8		**	Equity and bond neutral
	RatingDog China PMI Services	m/m	Aug	51.4	50.6	50.6	**	Equity bullish, bond bearish
India	HSBC India PMI Composite	m/m	Aug F	54.3	54.6		**	Equity and bond neutral
	HSBC India PMI Services	m/m	Aug F	54.1	54.5		**	Equity and bond neutral
EUROPE								
Eurozone	S&P Global Eurozone Services PMI	m/m	Aug F	51.6	51.7	51.7	**	Equity and bond neutral
	S&P Global Eurozone Composite PMI	m/m	Aug F	52.0	52.1	52.1	*	Equity and bond neutral
	PPI	y/y	Jul	5.8%	4.6%	5.5%	**	Equity and bond neutral
Germany	S&P Global Germany Services PMI	m/m	Aug F	49.7	48.5	48.5	**	Equity and bond neutral
	S&P Global Germany Composite PMI	m/m	Aug F	51.8	51.0	51.0	**	Equity and bond neutral
France	S&P Global France Services PMI	m/m	Aug F	48.0	48.4	48.4	**	Equity and bond neutral
	S&P Global France Composite PMI	m/m	Aug F	48.5	48.8	48.8	**	Equity and bond neutral
Italy	S&P Global Italy Services PMI	m/m	Aug	55.2	52.5	53.4	**	Equity bullish, bond bearish
	S&P Global Italy Composite PMI	m/m	Aug	53.6	52.5	53.1	**	Equity and bond neutral
UK	Official Reserves Changes	m/m	Aug	$5328m	-$281m		*	Equity and bond neutral
	S&P Global UK Services PMI	m/m	Aug F	52.5	52.8	52.8	**	Equity and bond neutral
	S&P Global UK Composite PMI	m/m	Aug F	52.5	52.5	52.5	**	Equity and bond neutral
Switzerland	CPI	y/y	Aug	0.8%	0.4%	0.5%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Aug	0.9%	0.7%		*	Equity and bond neutral
	Core CPI	y/y	Aug	0.4%	0.3%	0.3%	*	Equity and bond neutral
	GDP	y/y	2Q	2.8%	0.5%	2.2%	**	Equity and bond neutral
Russia	Retail Sales	m/m	Jul	5.3%	5.3%	5.2%	***	Equity and bond neutral
	Unemployment Rate	m/m	Jul	2.3%	2.3%	2.2%	***	Equity and bond neutral
	S&P Global Russia Composite PMI	m/m	Aug	50.6	49.6		**	Equity and bond neutral
	S&P Global Russia Services PMI	m/m	Aug	51.3	49.0		**	Equity and bond neutral
AMERICAS								
Mexico	Consumer Confidence	m/m	Aug	46.1	45.0	44.9	*	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)	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	$96.62	$95.63	1.04%	
WTI	$92.33	$91.01	1.45%	
Natural Gas	$2.99	$2.96	1.08%	
Crack Spread	$59.68	$61.83	-3.47%	
12-mo strip crack	$53.32	$53.76	-0.81%	
Ethanol rack	$2.22	$2.22	0.00%	
Metals				
Gold	$4,433.47	$4,381.68	1.18%	
Silver	$65.81	$65.32	0.75%	
Copper Contract	$662.75	$659.30	0.52%	
Grains				
Corn contract	$531.25	$543.50	-2.25%	
Wheat contract	$747.00	$774.00	-3.49%	
Soybeans contract	$1,299.25	$1,310.25	-0.84%	
Shipping				
Baltic Dry Freight	3,331	3,157	174	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	-4	0.06	-5	
Gasoline (mb)	-1	-1.60	0	
Distillates (mb)	1	-1.50	2	
Refinery run rates (%)	0.06%	-0.10%	0.16%	
Natural gas (bcf)		31		

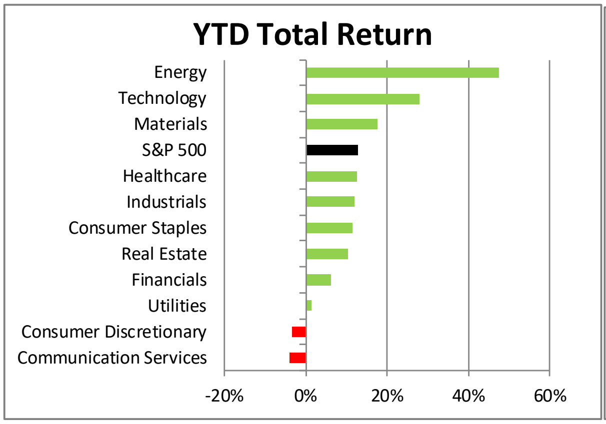
Weather

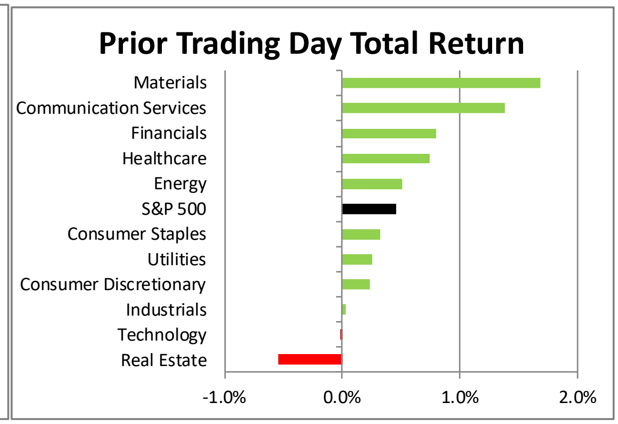
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures everywhere from the Rocky Mountains to the East Coast except for Vermont, New Hampshire, and Maine, with cooler-than-normal temperatures in Nevada. The outlook calls for wetter-than-normal conditions from the West Coast to the Great Plains, with dry conditions in the Appalachian Mountains.

Tropical Storm Edouard continues to move northwesterly across Texas, bringing heavy rains and winds.

Data Section

US Equity Markets – (as of 9/2/2026 close)

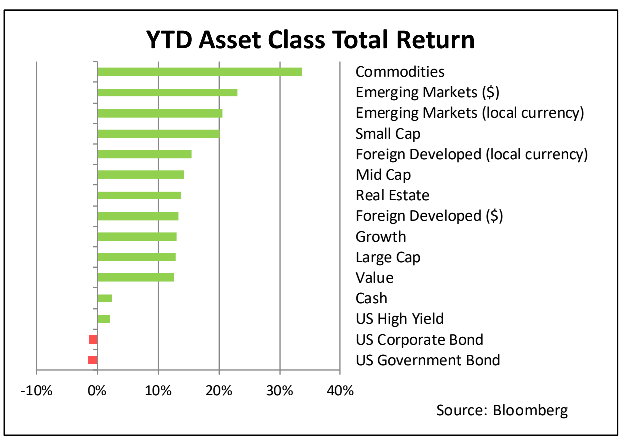




(Source: Bloomberg)

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 9/2/2026 close)

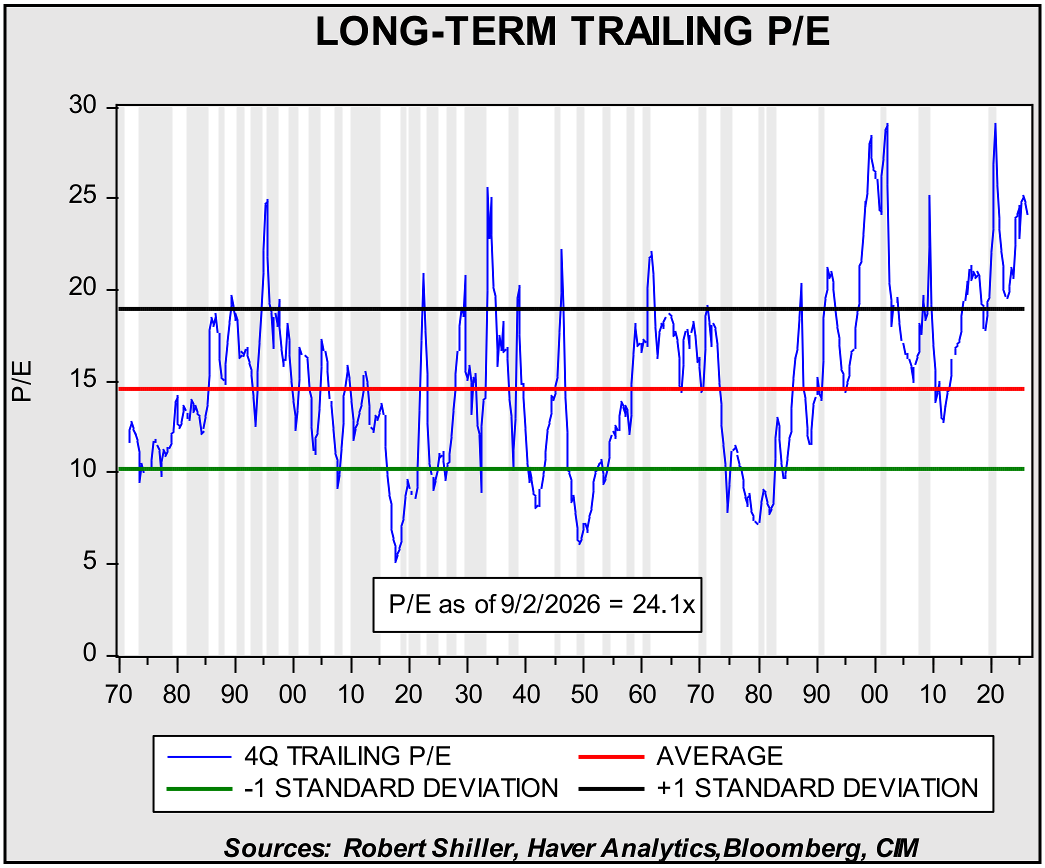


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 3, 2026



Based on our methodology,[1] the current P/E is 24.1x, up 0.1 from the previous report. The increase in the stock price index outpaced the 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.

[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.