Daily Comment

Confluence INVESTMENT MANAGEMENT

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: September 4, 2026 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 0.2% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 2.1%. Chinese markets were lower, with the Shanghai Composite down 0.3% and the Shenzhen Composite down 0.8%. 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
"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

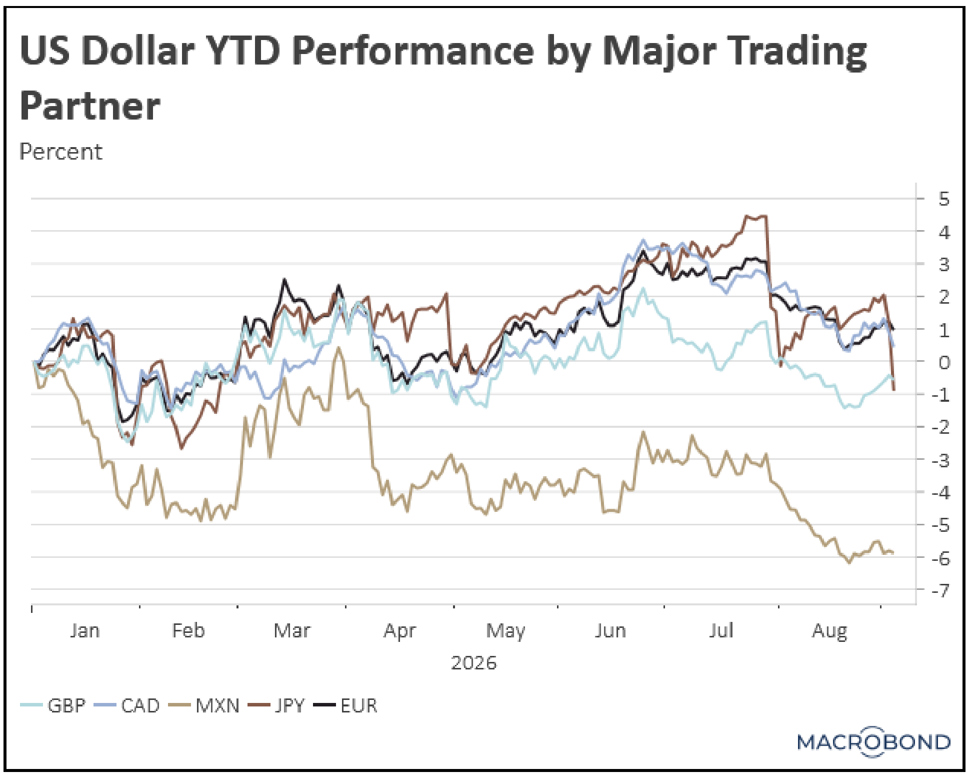
Have a question on the economy, markets, geopolitics, or other important topics? You can submit your queries to our monthly podcast, *Confluence Mailbag*! Submit your question to mailbag@confluenceim.com.

Note: Due to the holiday, there will not be a* Daily Comment *or* Bi-Weekly Geopolitical Report *published on Monday.

Our *Comment* begins with our view on the dollar and the drivers we expect to influence it going forward. We then briefly cover the German elections, AI advances, private credit, and other market-moving narratives. We close, as usual, with a roundup of recent economic data from both the US and abroad.

The Sideways Greenback: The US dollar has remained largely flat throughout the year, even amid persistent market volatility. This stability masks a tug-of-war between several competing forces, including uncertainty over Federal Reserve policy, Japan's suspected currency interventions, and the threat of a liquidity crunch stemming from escalating geopolitical tensions in the Middle East. While these crosscurrents have kept the greenback rangebound so far, a shift in any of these narratives could trigger meaningful moves in the dollar going forward.

- The dollar weakened against a broad basket of currencies this week, driven by diverging monetary policy signals from the Bank of Japan and the Federal Reserve. On Thursday, Fed Governor Christopher Waller pushed back against the market's recent hawkish repricing, signaling his preference to keep rates unchanged at the upcoming meeting. At the same time, speculation that the Bank of Japan may deliver an oversized rate hike fueled a rally in the yen.
- While recent developments have weighed on the dollar, several ongoing risks could still provide support. The wars involving Iran and Ukraine remain key upside risks, particularly if either conflict escalates and drives energy and other commodity prices higher. Such a shock would likely be bullish for the dollar as it could delay Federal Reserve easing, while also increasing global demand for dollar liquidity as governments, firms, and commodity importers secure funding for essential goods.



- Among the five major freely floating currencies in our basket, only the euro and Canadian dollar have weakened against the US dollar on a net basis this year. The Japanese yen has been the most volatile. It had led the declines through July before rebounding sharply, fully reversing those losses and moving into positive territory for the year. The Mexican peso has been the basket's strongest performer, consistently holding onto the gains it made at the start of 2026.
- Monetary policy remains a key focus for currency markets, as exchange rates are highly sensitive to changes in expected interest-rate differentials. The dollar's central role in global trade should continue to make it attractive during periods of heightened uncertainty, although we expect these episodes to provide only temporary support. Going

forward, the dollar's direction will depend largely on the relative tightness of US policy versus major peers, as well as each central bank's credibility in maintaining price stability.

German Elections: Ahead of upcoming elections, German Chancellor Friedrich Merz has been maintaining a low profile. This decision to remain largely invisible comes as he seeks to protect his party from political backlash linked to his declining popularity during recent months. The CDU is attempting to curb the momentum of the far-right AfD in next week's regional elections while simultaneously preparing for the general election in January. Germany — along with other European nations such as France, Italy, Poland, and Spain — is facing growing challenges from the far right.

OpenAI Breakthrough: OpenAI, the maker of ChatGPT, announced that it has developed a model it says surpasses Anthropic's. CEO Sam Altman described the system as approaching artificial general intelligence, or AGI, a term generally used to describe AI with broad, human-level cognitive capabilities across a wide range of tasks. If borne out, such a breakthrough could strengthen OpenAI's competitive position as it prepares for a potential initial public offering (IPO) and could provide a further catalyst for enthusiasm across the AI sector.

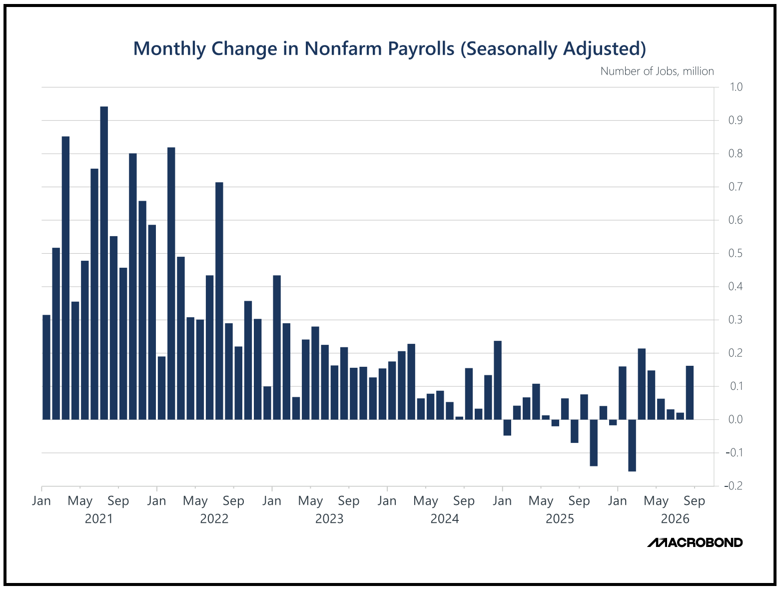
National AI Regulator: Meta CEO Mark Zuckerberg held a phone call with President Trump to voice concerns over the proposed oversight of AI. The discussion follows the White House's push to establish an industry-led regulator modeled after FINRA. While the proposal has garnered backing from many tech professionals, Zuckerberg has expressed reservations and urged the president to pursue a lighter-touch approach to AI policy.

Private Credit: Cliffwater has capped redemptions in its funds to shield its portfolio from forced asset sales. Despite investor requests to redeem 16% of shares in the third quarter, the fund successfully capped redemptions at its 5% limit. While withdrawal gates often attract criticism, such measures are essential for preventing liquidity runs in otherwise high-quality assets. Notably, Cliffwater has still satisfied 78% of total redemption requests this year as outflow pressures steadily ease, a strong testament to its capacity to satisfy liquidity needs.

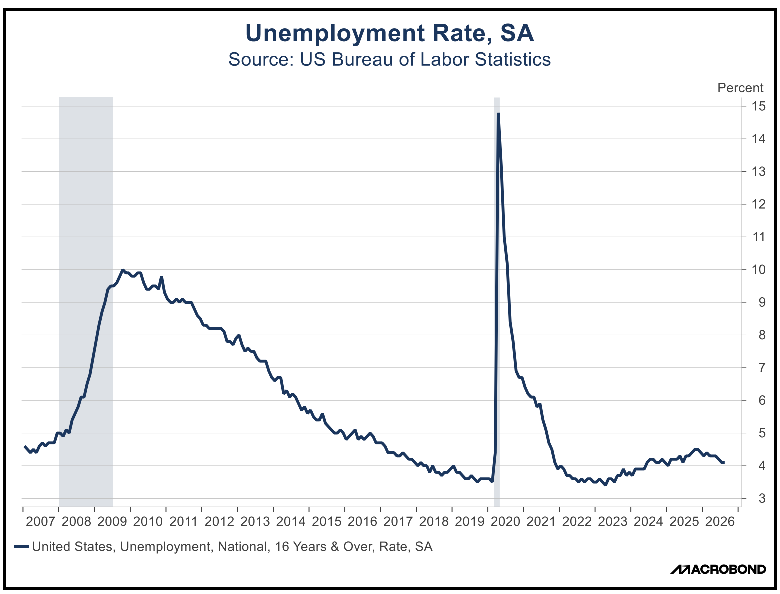
Norway Sovereign Wealth Fund: The sovereign wealth fund's manager has proposed trimming its government bond holdings. The move reflects rising anxiety over meager returns amid widening deficits, inflation concerns, and geopolitical tensions. US Treasurys could bear the brunt, with potential reductions of up to $80 billion, though agency bonds appear safe given their robust performance. The broader pivot away from global debt may complicate efforts by governments to manage their swelling liabilities.

US Economic Releases

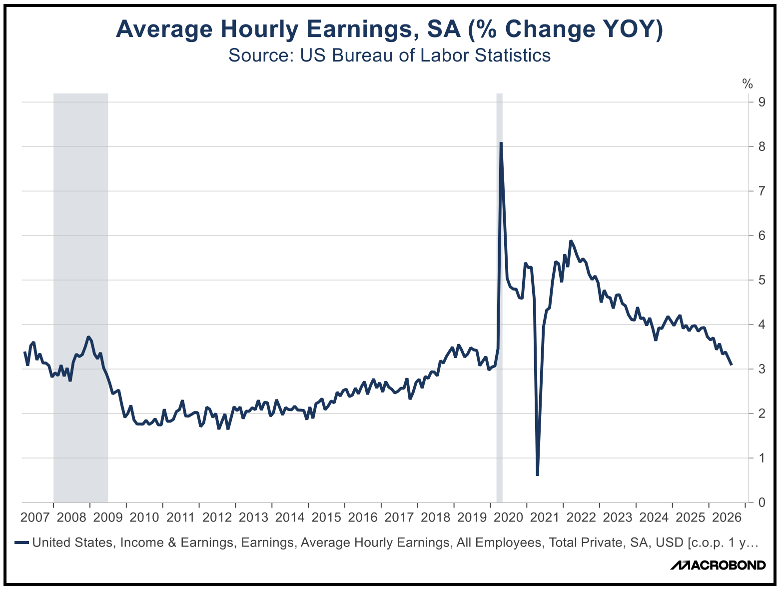
August ***nonfarm payrolls*** rose by a seasonally adjusted 162,000, smashing through the expected rise of 55,000 and the upwardly revised gain of 21,000 in July. Payrolls in the private sector rose by 127,000, versus an expected increase of 50,000 and a revised gain of 71,000 the month before. The chart below shows the monthly change in nonfarm payrolls over the last few years.



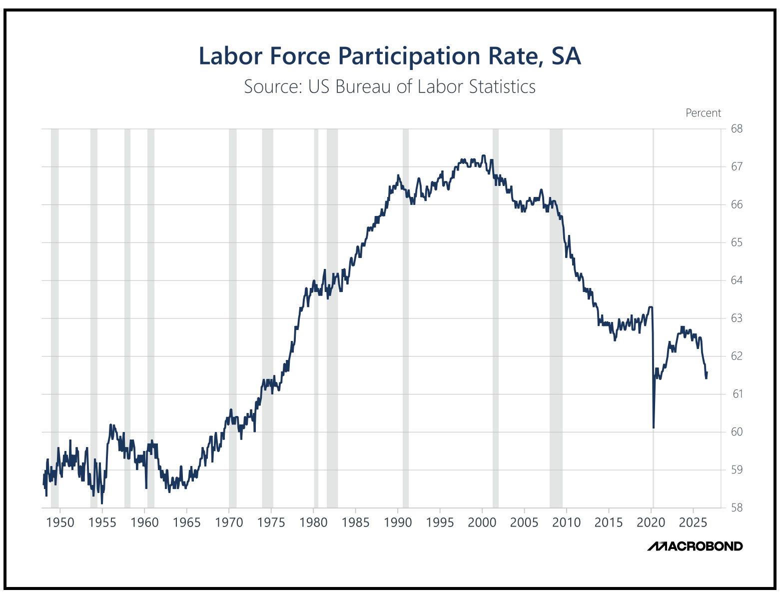
The August ***unemployment rate*** held steady at a seasonally adjusted 4.1%, exactly as anticipated. The rate of joblessness remains historically quite low. The chart below shows how the unemployment rate has evolved since just before the Great Financial Crisis.



According to the report, ***average hourly earnings*** in August rose to a seasonally adjusted $37.75, up 3.1% from the same month one year earlier. The chart below shows the year-over-year growth in average hourly earnings since just before the GFC.



A final key indicator in the monthly employment report focuses on the share of the adult, civilian, non-institutionalized population that is either working or looking for work. The August ***labor force participation rate (LFPR)*** rose to a seasonally adjusted 61.6%, although that figure is still historically low. The chart below shows how the LFPR has changed over the last several decades.



There are no economic releases or Fed events scheduled for the rest of the day.

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	Household Spending	y/y	Jul	-3.6%	-3.3%	-1.6%	**	Equity bearish, bond bullish
South Korea	BoP Current Account Balance	m/m	Jul	$42078.0m	$49730.4m		**	Equity and bond neutral
	BoP Goods Balance	m/m	Jul	$40430.1m	$47891.7m		*	Equity and bond neutral
EUROPE								
Eurozone	Retail Sales	y/y	Jul	0.6%	1.4%	1.1%	*	Equity bearish, bond bullish
Germany	S&P Global Germany Construction PMI	m/m	Aug	48.7	42.1		*	Equity and bond neutral
	Factory Orders WDA	y/y	Jul	13.1%	7.2%	10.5%	***	Equity bullish, bond bearish
Italy	Retail Sales	y/y	Jul	0.8%	3.1%		**	Equity and bond neutral
UK	New Car Registrations	y/y	Aug	13.7%	11.7%		*	Equity and bond neutral
UK	S&P Global UK Construction PMI	m/m	Aug	44.3	44.7	46.0	**	Equity and bond neutral
Russia	Gold and Forex Reserves	m/m	28-Aug	$774.2b	$761.2b		***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	28-Aug	22.39t	$159.3b		*	Equity and bond neutral
AMERICAS								
Canada	Labor Productivity	q/q	2Q	1.0%	-0.4%		*	Equity and bond neutral
	Int'l Securities Transactions	m/m	Jul	0.77b	4.20b	3.18b	**	Equity and bond neutral
	S&P Global Canada Services PMI	m/m	Aug	46.8	49.1		*	Equity and bond neutral
	S&P Global Canada Composite PMI	m/m	Aug	47.8	49.7		*	Equity and bond neutral
Mexico	Gross Fixed Investment NSA	y/y	Jun	7.7%	1.1%	5.7%	**	Equity bullish, bond bearish
	Leading Indicators	y/y	Jul	0.03	0.04		**	Equity and bond neutral
Brazil	S&P Global Brazil Composite PMI	m/m	Aug	49.1	48.8		***	Equity and bond neutral
	S&P Global Brazil Services PMI	m/m	Aug	50.5	49.7		***	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)	374	375	-1	Up
U.S. Sibor/OIS spread (bps)	382	381	1	Up
U.S. Libor/OIS spread (bps)	380	379	1	Up
10-yr T-note (%)	4.76	4.77	-0.01	Up
Euribor/OIS spread (bps)	266	265	1	Up
Currencies	**3 Mo**			
Dollar	Down	US		Down
Euro	Up	Euro		Flat
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	$95.13	$95.52	-0.41%	
WTI	$90.73	$91.30	-0.62%	
Natural Gas	$2.93	$2.91	0.45%	
Crack Spread	$59.86	$60.77	-1.50%	
12-mo strip crack	$52.38	$53.21	-1.56%	
Ethanol rack	$2.23	$2.23	0.00%	
Metals				
Gold	$4,466.57	$4,472.92	-0.14%	
Silver	$66.80	$66.98	-0.27%	
Copper Contract	$665.70	$666.45	-0.11%	
Grains				
Corn contract	$541.25	$540.75	0.09%	
Wheat contract	$755.75	$754.25	0.20%	
Soybeans contract	$1,316.25	$1,316.25	0.00%	
Shipping				
Baltic Dry Freight	3,488	3,331	157	
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)	30	31	-1	

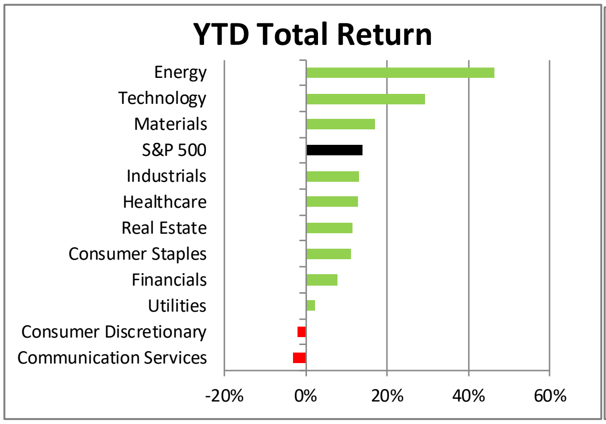
Weather

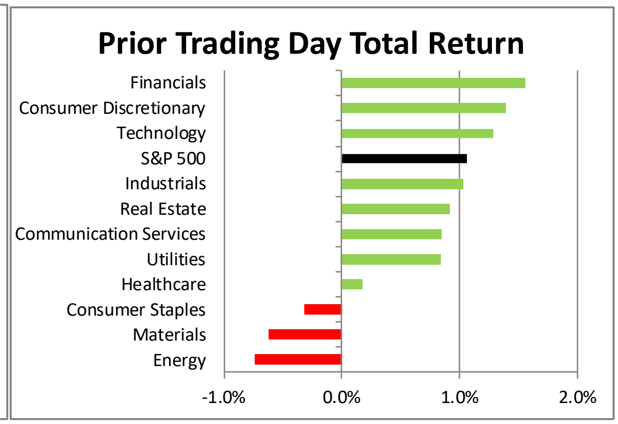
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures everywhere from the Rocky Mountains to the East Coast, with near-normal temps elsewhere. The outlook calls for wetter-than-normal conditions from the West Coast to the Great Plains and in New England, with normal conditions everywhere else.

There are now no atmospheric disturbances in the Atlantic area, and none are expected in the coming seven days.

Data Section

US Equity Markets – (as of 9/3/2026 close)

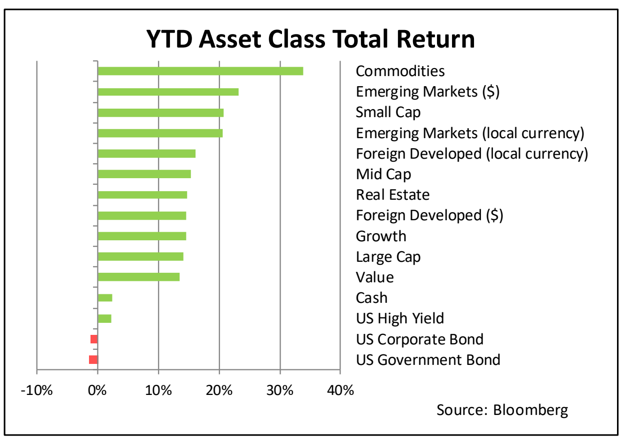




(Source: Bloomberg)

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 9/3/2026 close)

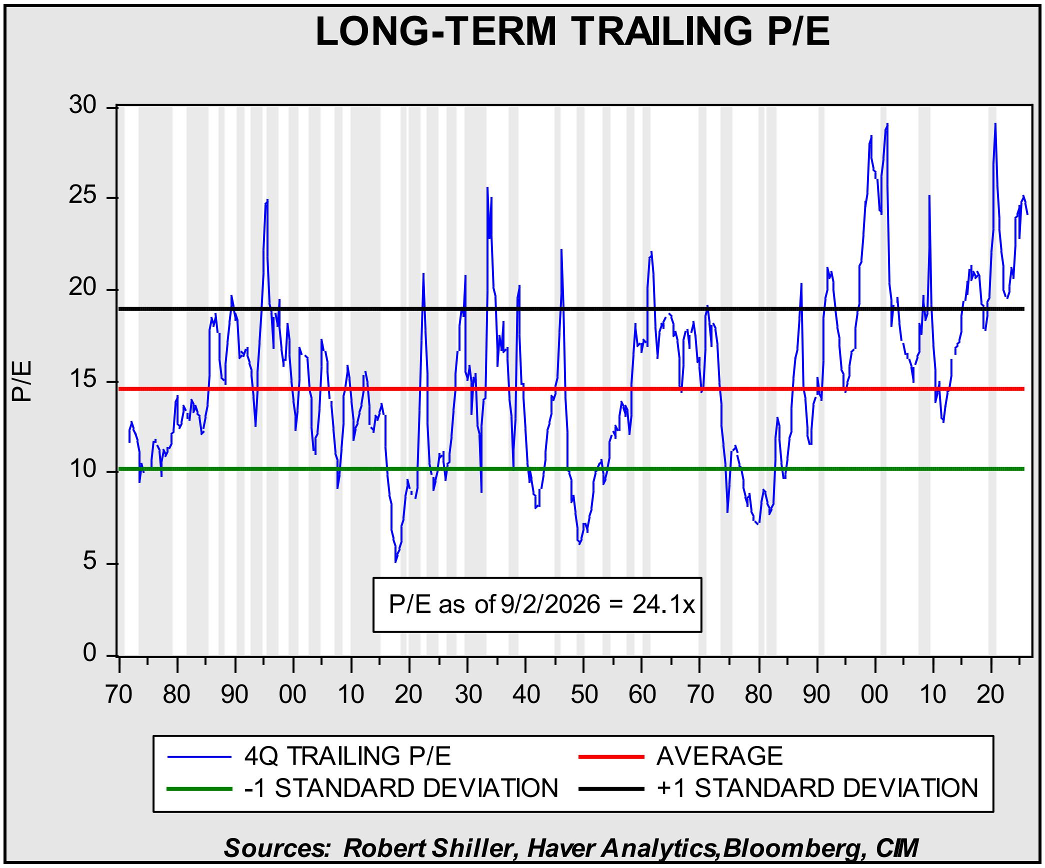


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.