Daily Comment

Confluence INVESTMENT MANAGEMENT

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: September 8, 2026 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is essentially unchanged from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.3%. Chinese markets were mixed, with the Shanghai Composite up 0.2% and the Shenzhen Composite down 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* today opens with some disturbing remarks from a former White House official that serve as a reminder that the US-China competition in artificial intelligence could eventually lead to geopolitical conflict, although not necessarily in the near term. We next review several other international and US developments that could affect the financial markets today, including new attacks in the Iran war that have driven up energy prices today and the latest skirmishes in the US-Canada trade war.

United States-China: Jacob Stokes, a former White House official who is now a leader at the Center for a New American Security, said at an event on Thursday that the federal government should start preparing for offensive action against China to keep it from surpassing US capabilities in artificial general intelligence (AGI). According to Stokes, the US needs to start developing the espionage, covert operations, and military programs that would be needed to slow or destroy China's ability to exploit AGI.

- The call from Stokes is an extreme proposal. We've seen no other current or former US official calling for military strikes aimed at China's artificial intelligence capabilities. Since China is probably no more than a few months behind the US in this technology, and since the war in Iran has probably weakened the US armed forces severely for years into the future, it isn't even clear that US intelligence or military action could meaningfully slow China's progress.
- All the same, the dramatic proposal raises a point: If artificial intelligence and AGI really are game changers for national economic development or geopolitical power, losing out to the Chinese could eventually be seen as an existential issue for the US. At some point down the road, investors may indeed see a growing debate about potential offensive kinetic action against China — a development that would be profoundly impactful on the financial markets.

European Union-China: In an interview with the *Financial Times*, the chair and chief executive of Spanish auto parts giant Gestamp today warned that Europe's "wealth won't last" unless it can salvage its auto industry amid surging imports from China and rising trade barriers in the US. The statement comes as EU automakers and other industrial firms continue to hemorrhage jobs, prompting EU officials and national leaders to consider tougher trade policies against China. However, those officials and leaders continue to worry about Beijing's likely retaliation.

United States-Canada: In a social media post yesterday, President Trump appeared to threaten a new US ban on selling business jets from Canadian aerospace firm Bombardier, even though the firm employs more than 3,000 workers at nine different facilities in the US and buys supplies from thousands of US firms. The president's threat came just hours before Canada imposed its big retaliatory import tariffs on a range of products from the US. The statement suggests the US and Canada will remain locked in a disruptive trade war for the near future.

United States-Israel-Iran: The US military over the weekend struck three Iranian oil tankers in retaliation for Iranian missile attacks on two US Navy vessels. Then, yesterday and today, Iran-backed Houthi rebels in Yemen attacked several oil facilities in southern Saudi Arabia, shutting down several of them. The renewed strikes have pushed global oil prices higher yesterday and today, with near Brent futures currently up 1.6% to $98.54 per barrel.

- Now that the US Navy has had some success in escorting allied oil tankers through the Strait of Hormuz, the renewed Houthi strikes may reflect a tactical shift by Tehran to focus on Saudi Arabia.
- As shown by the behavior of oil prices today, such attacks can push up global energy costs and potentially cause political problems for President Trump.

Germany: In a weekend election for the Saxony-Anhalt state parliament, the far-right Alternative for Germany (AfD) won handily with 43.8% of the vote, thrashing the Christian Democratic Union, which rules nationally. The CDU came in second with just 17.2% of the ballots. The results put the AfD just three seats short of a majority in the state legislature, but that isn't likely to prevent it from taking control of the state to push the national AfD party's agenda.

- The AfD's populist, nationalist agenda focuses on aggressive anti-immigration policies, financial incentives to boost the birth rate, reduced teaching about Nazi Germany in the schools, and increased teaching of Russian. The agenda also strongly focuses on wresting back power from the European Union and drawing closer to Russia.
- The AfD's win in Saxony-Anhalt gives it further momentum that could help it eventually seize power at the national level. The risk of policy upheaval could well weigh on German stock values going forward.

France: Private model-maker Mistral AI today raised 3 billion EUR ($3.5 billion) in new equity as it fights for relevance in the global artificial intelligence race dominated by US and Chinese firms. The new private-equity financing, which was led by an investment from Samsung, lifts Mistral's valuation to 21 billion EUR ($24.4 billion) and will be used mostly to secure compute capacity for the company's modeling effort. However, Mistral's valuation is still only a small fraction of the valuations expected for US companies such as Anthropic and OpenAI in their upcoming initial public offerings (IPOs).

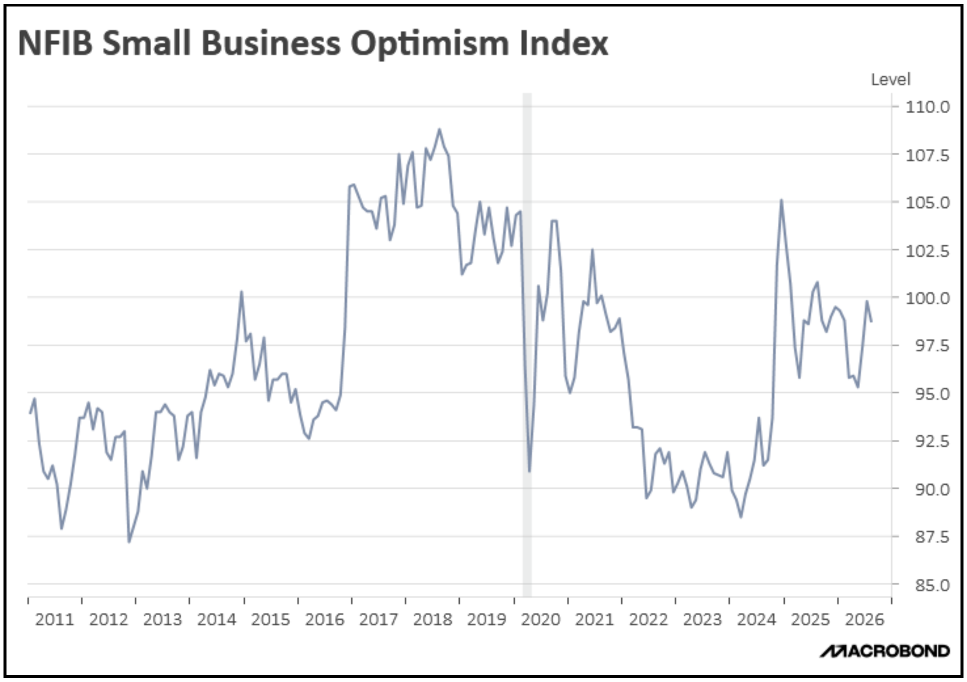
United Kingdom: As a reminder that government bond yields are rising across the globe, the British government today sold 4.25 billion GBP ($5.74 billion) of 30-year debt at a yield of roughly 5.83%. That marks the highest interest rate on any gilt since at least 1998. The surge in yields reflects many factors, including concerns about elevated consumer price inflation, high global credit demand from the AI investment boom, and worries about national governments' big budget deficits and rising debt loads. The rise in yields could eventually weigh heavily on national stock markets.

Japan: In London trading yesterday, the yen not only continued its recent appreciation but also reached its highest value against the greenback since February, at 154.06 yen per dollar. In US trading early today, the currency remains at about that level. The joint US-Japanese market intervention in late July has been seen as only temporarily effective, but now it appears that the yen is getting an added boost from expectations of more aggressive interest-rate hikes by the Bank of Japan and the reversal of short positions as the yen broke through 155.

Global Education: The latest PISA survey of comparative educational attainment across the countries of the Organization for Economic Cooperation and Development shows that reading scores have plunged across the developed world, as widespread access to AI and social media has harmed teenagers' ability to concentrate. The performance of the average 15-year-old across the OECD in 2025 was more than a year behind where it was in 2018, according to the report. The report will likely raise concerns about skill shortages in the future workforce.

US Economic Releases

The NFIB Small Business Optimism Index in August fell from 99.8 to 98.7, below the 99.3 consensus expectation. This drop reflects growing concerns over rising geopolitical risks and uncertainty regarding monetary policy. Despite the decline, overall sentiment is still above the historical average of 98.0. The chart below shows the index since 2011.



The table below lists the economic releases and Fed events scheduled for the rest of the day.

Economic Releases						
EST	**Indicator**			**Expected**	**Prior**	**Rating**
15:00	Consumer Credit	m/m	Jul	11.670b%	$14.173b	*
Federal Reserve						
No Fed speakers or events for the rest of today						

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	Coincident Index	y/y	Jul P	117.9	116.2	118.0	**	Equity and bond neutral
	Leading Economic Index	m/m	Jul P	120.6	118.9	120.2	**	Equity and bond neutral
	Labor Cash Earnings	y/y	Jul	4.7%	3.4%	3.8%	**	Equity bullish, bond bearish
	Real Cash Earnings	m/m	Jul	2.4%	1.6%	1.8%	*	Equity bullish, bond bearish
	GDP SA	q/q	2Q F	0.40%	0.30%	0.40%	***	Equity and bond neutral
	GDP Deflator	q/q	2Q F	2.60%	2.60%	2.60%	***	Equity and bond neutral
	BoP Current Account Balance	m/m	Jul	¥2988.9b	-¥92.3b	¥2849.5b	***	Equity and bond neutral
	BoP Trade Balance	m/m	Jul	-¥399.9b	-¥135.2b	-¥385.5b	**	Equity and bond neutral
Australia	Foreign Reserves	m/m	Aug	A$106.0b	A$106.7b		**	Equity and bond neutral
	Westpac Consumer Conf SA	m/m	Sep	-5.2%	6.0%		**	Equity and bond neutral
	Westpac Consumer Conf Index	m/m	Sep	844	88.9		**	Equity and bond neutral
	NAB Business Confidence	m/m	Aug	-8	-7		***	Equity and bond neutral
	NAB Business Conditions	m/m	Aug	-1	4		***	Equity and bond neutral
New Zealand	Mfg Activity SA	q/q	2Q	3.1%	3.1%		*	Equity and bond neutral
	Mfg Activity Volume	q/q	2Q	0.8%	3.9%		**	Equity and bond neutral
South Korea	GDP	q/q	2Q P	3.7%	3.7%	3.7%	**	Equity and bond neutral
China	Foreign Reserves	m/m	Aug	$3438.33b	$3418.78b	$3427.50b	**	Equity and bond neutral
China	Imports	y/y	Aug	28.2%	27.5%	31.0%	**	Equity bearish, bond bullish
	Trade Balance	m/m	Aug	$119.09b	$112.5b	$119.1b	***	Equity and bond neutral
	Exports	y/y	Aug	25.0%	23.9%	25.9%	**	Equity bearish, bond bullish
EUROPE								
Eurozone	GDP	y/y	2Q T	1.2%	1.0%	1.0%	***	Equity and bond neutral
	Employment Rate	y/y	2Q F	0.5%	0.5%		*	Equity and bond neutral
Germany	Industrial Production WDA	y/y	Jul	-1.6%	-0.5%	0.0%	**	Equity bearish, bond bullish
	Trade Balance SA	m/m	Jul	21.3	15.4b	15.8b	*	Equity and bond neutral
	Exports SA	m/m	Jul	-0.8%	0.9%	0.3%	*	Equity bearish, bond bullish
	Imports SA	m/m	Jul	-5.7%	4.4%	-1.0%	*	Equity bearish, bond bullish
France	Current Account Balance	m/m	Jul	-4.7b	-1.6b		*	Equity and bond neutral
	Trade Balance	m/m	Jul	6669m	5751m		*	Equity and bond neutral
Switzerland	Foreign Currency Reserves	m/m	Aug	770.1b	768.1b		***	Equity and bond neutral
	Unemployment Rate	m/m	Aug	3.0%	3.0%	3.0%	**	Equity and bond neutral
	Domestic Sight Deposits CHF	w/w	4-Sep	425.0b	431.3b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	4-Sep	452.6b	457.3b		*	Equity and bond neutral
Russia	Official Reserve Assets	m/m	Aug	$769.0b	$720.3b		*	Equity and bond neutral
AMERICAS								
Canada	Net Change in Employment	m/m	Aug	-41.7k	75.1k	15.0k	***	Equity and bond neutral
	Unemployment Rate	m/m	Aug	6.4%	6.4%	6.4%	***	Equity and bond neutral
	Participation Rate	m/m	Aug	65.1%	65.1%	65.1%	*	Equity and bond neutral
Mexico	Vehicle Production	y/y	Aug	344940	302984		*	Equity and bond neutral
Brazil	FGV CPI IPC-S	w/w	7-Sep	0.51%	-0.37%		**	Equity and bond neutral
	FGV Inflation IGP-DI	m/m	Aug	2.63%	2.77%	2.60%	**	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)	376	376	0	Up
U.S. Sibor/OIS spread (bps)	384	383	1	Up
U.S. Libor/OIS spread (bps)	381	381	0	Up
10-yr T-note (%)	4.80	4.78	0.02	Flat
Euribor/OIS spread (bps)	267	268	-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	$98.59	$97.00	1.64%	
WTI	$93.89	$91.48	2.63%	
Natural Gas	$2.98	$2.98	0.30%	
Crack Spread	$62.55	$63.18	-0.99%	
12-mo strip crack	$53.85	$53.90	-0.09%	
Ethanol rack	$2.22	$2.22	0.02%	
Metals				
Gold	$4,401.39	$4,404.30	-0.07%	
Silver	$66.08	$66.16	-0.12%	
Copper Contract	$681.50	$668.25	1.98%	
Grains				
Corn contract	$538.75	$536.75	0.37%	
Wheat contract	$747.50	$734.00	1.84%	
Soybeans contract	$1,309.75	$1,309.75	0.00%	
Shipping				
Baltic Dry Freight	3,575	3,628	-53	

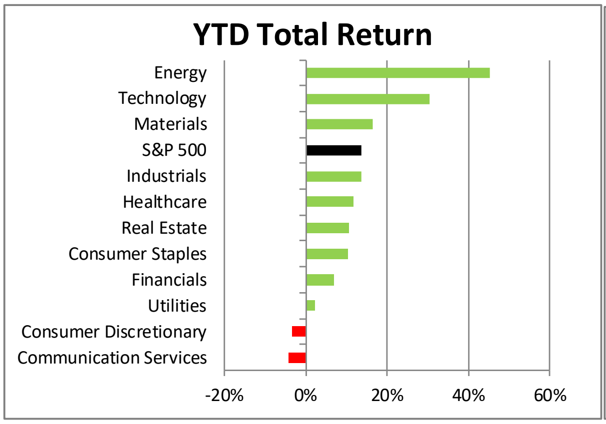
Weather

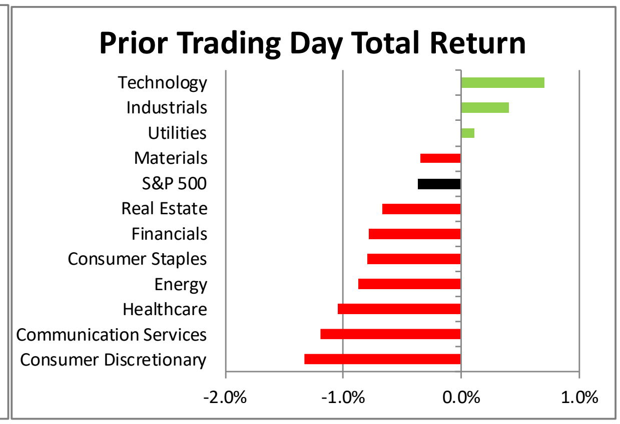
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for most of the country, with cooler-than-normal temperatures in the northern Rockies. The outlook calls for wetter-than-normal conditions in most of the central states and in the New England region, with dry conditions in the Pacific Northwest.

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 9/4/2026 close)

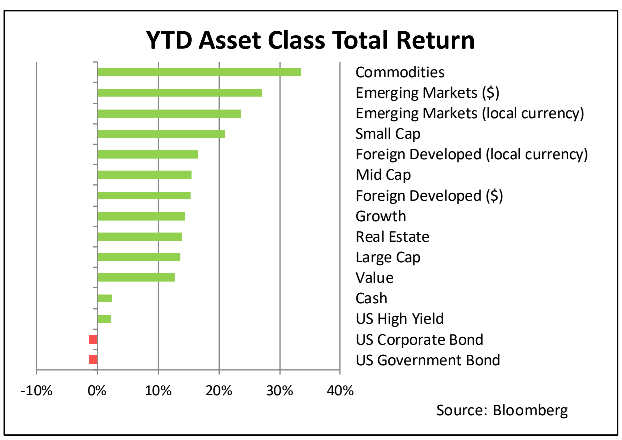




(Source: Bloomberg)

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 9/4/2026 close)

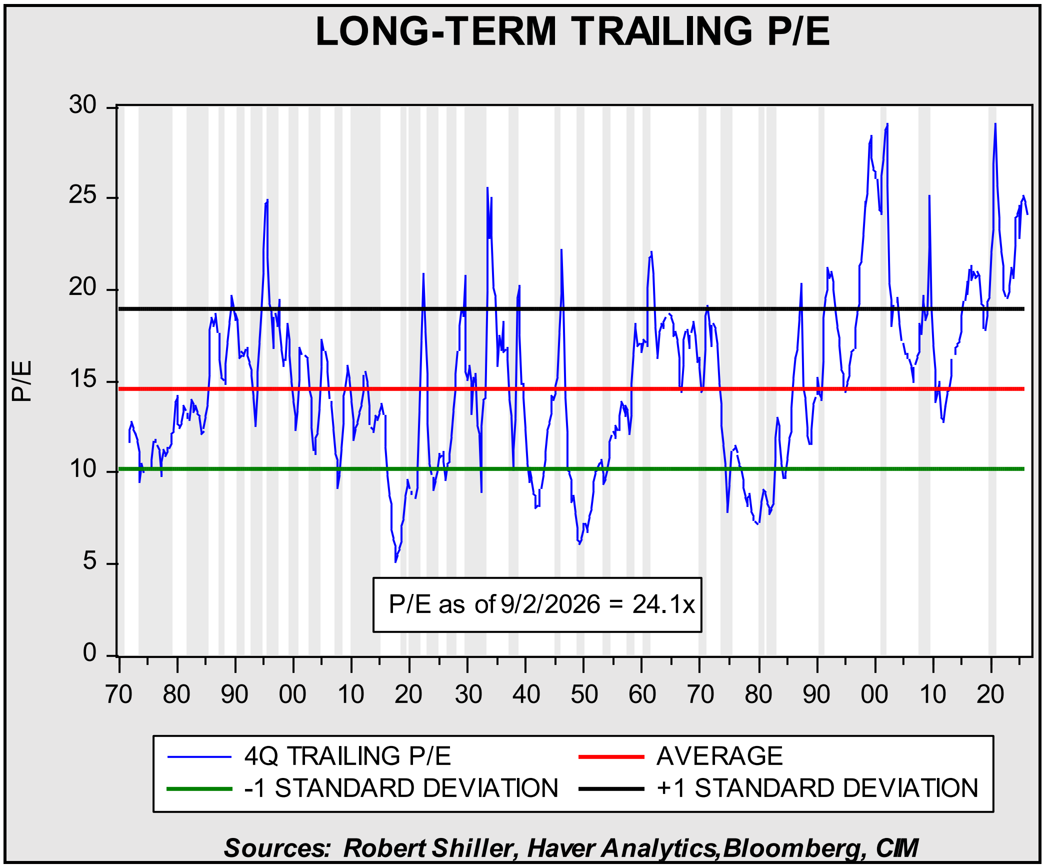


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.

[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.