Confluence INVESTMENT MANAGEMENT

Daily Comment

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[Posted: April 17, 2026 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 0.3% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 1.0%. Chinese markets were mixed, with the Shanghai Composite down 0.1% and the Shenzhen Composite up 0.4%. US equity index futures are signaling a higher open.

With 44 companies having reported so far, S&P 500 earnings for Q1 are running at $72.50 per share, compared to estimates of $72.32, which is up 12.6% from Q1 2025. Of the companies that have reported thus far, 81.8% exceeded expectations while 9.1% fell short of expectations.

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
"From the Shah to the Strait" (3/23/26) + podcast	"Wars, Price Shocks, and Inventories" (4/13/26)	Q1 2026 Report Q1 2026 Rebalance Presentation	Confluence of Ideas podcast Confluence Mailbag

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 Anthropic's latest AI model and provides an update on the war in Iran. Next, we examine the growing tensions between China and Japan, discuss the expanding uses for humanoid robots, and analyze how renewable energy has made Europe more resilient to energy shocks. As always, we include an overview of recent domestic and international economic data.

New AI Tools: Anthropic just released its latest AI model, Opus 4.7, which is an upgrade from its previous model but still trails its more advanced, yet controversial and unreleased, Mythos model. The new model is designed to handle more complex software engineering tasks that require less human supervision. The development of this AI tool is likely to further establish

Anthropic as one of the top AI companies while also pushing the limits of AI's overall capabilities — and potentially its risks.

- Opus 4.7 has outperformed its competitors in key benchmarks. According to Anthropic's internal research, the new model beat out peers such as Gemini and ChatGPT in areas including agentic coding, visual reasoning, agentic financial analysis, and cybersecurity reproduction.
- Anthropic's AI tools are starting to find their way back into the government. Despite an ongoing lawsuit with the Pentagon over Anthropic's "supply chain risk" designation that the company alleges was unlawful retaliation (the White House had decided to cut ties after a dispute over using Anthropic's tools for military purposes), the White House recently allowed federal agencies to use the Mythos tool as a way to address cybersecurity risks.
- Anthropic's new tools seem to foreshadow the growing trend toward AI adoption. Although it is not yet clear what impact the adoption of these technologies will have on the market, it is becoming evident that several industries may be at risk of being disrupted. This is likely to cause significant upheaval, as some companies' business models may be jeopardized. On the bright side, the new technology should lower barriers to entry for many industries, which could pave the way for more competition.
- New AI models are becoming more widely available and are likely to be incorporated into business models. We believe that firms best able to adapt to the technology will be best positioned to profit from the AI transition compared to those that do not. We also suspect that software companies with their own proprietary data are likely to emerge as potential winners in the transition.

Iran Impact: The White House announced that progress is being made to end the US-Israeli war with Iran, but it is still not clear when it will end. On Thursday, President Trump announced that Israel and Lebanon had reached a 10-day ceasefire agreement. Additionally, there were reports that Iran and the US were looking to extend their own ceasefire agreement by another two weeks. However, while the president has implied that Iran has already made key concessions that could potentially end the conflict "fairly soon," it still appears that the two sides remain far apart.

- Outside of the US, there does not seem to be much optimism that a deal will be reached imminently. Officials representing countries from the Persian Gulf and Europe suggested that an agreement could take up to six months. The disagreement is largely driven by whether Iran will be allowed to enrich uranium, with factions within the Iranian regime still showing an unwillingness to give it up permanently, while the White House has entertained halting production for a set number of years.
- The delay in reopening the strait is likely to weigh on global growth. German officials have already reduced their growth outlook for the year by half, from an expected 1.0% to 0.5%, leaving the country facing yet another period of stagnant growth. Meanwhile, Asian economies are also feeling the pressure. The IMF has stated that energy shocks are presenting challenges in the Asia-Pacific region, and may need to revise its growth expectations down by 1–2% cumulatively over two years, from 4.4% in 2026 and 4.2% in 2027, if the situation were to become severe.

- That said, the involved countries are working on the best way to keep the strait open once a peace deal is finally reached. The European Union is assembling a coalition — one that may or may not include the United States — to help ensure that the strait remains open afterward. So far, officials have outlined a three-step plan: first, political and diplomatic cooperation; second, logistical support for those trapped in the strait; and third, military assurances to guarantee freedom of navigation.
- While there is some pessimism that slower growth could hurt market performance, this view may be a "glass half full" situation. For one, securing the strait after the conflict is likely to prompt other countries to develop their military capabilities as they prepare to assume greater global security risk, which should boost defense stocks. Second, the energy shock should benefit publicly traded commodity companies. Therefore, there is still a significant opportunity abroad, even in the face of these headwinds.

China-Japan Tensions: Beijing has accused Japan of a "provocative" act after a Maritime Self-Defense Force vessel transited the Taiwan Strait. This marks at least the second such passage since 2024 and is likely to add strain to relations between two of the largest Indo-Pacific economies. The deployment appears aimed at pushing back against China's increasingly assertive posture toward Taiwan and signaling Tokyo's readiness to play a more active security role in the event of a crisis involving the self-governing island.

AI Robots: In a sign that AI is becoming increasingly common, Poland released a video of its humanoid robot chasing away boars. While the robot was made in China, its use for everyday work signals that the threat from AI models may extend beyond software and high-skilled service work. The use of these robots is likely to increase in manufacturing; however, political resistance could grow if it leads to job displacement.

Renewable Backup: Power futures for Europe are now trading below their pre-war levels, as the region's renewable energy generation has helped ease the burden. The region has particularly benefited from solar power, which has helped supplement energy needs, especially for products that rely on gas generation. While the EU is still likely to depend on oil and gas for energy, its use of renewables suggests that the region may be more resilient to energy shocks than it has been in the past.

US Economic Releases

There were no economic releases prior to the publication of this report. The table below lists the economic releases and Fed events scheduled for the rest of the day.

Economic Releases		
No economic releases for the rest of today		
Federal Reserve		
EST	**Speaker or Event**	**District or Position**
11:30	Mary Daly Speaks in Moderated Conversation	President of the Federal Reserve Bank of San Francisco
12:15	Thomas Barkin Repeats Economic Outlook Speech	President of the Federal Reserve Bank of Richmond
14:00	Christopher Waller Speaks on Economic Outlook	Member of the Board of Governors

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								
New Zealand	Food Prices	m/m	Mar	-0.6%	-0.1%		***	Equity and bond neutral
EUROPE								
Eurozone	ECB Current Account SA	m/m	Feb	€24.9b	€40.4b		*	Equity and bond neutral
	Trade Balance SA	m/m	Feb	7.0b	12.8b		**	Equity and bond neutral
Italy	Trade Balalnce Total	m/m	Feb	4944m	1129m		*	Equity and bond neutral
Russia	Gold and Forex Reserves	m/m	10-Apr	$774.8b	$767.5b		***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	10-Apr	20.34t	20.10t		*	Equity and bond neutral
AMERICAS								
Canada	Existing Home Sales	m/m	Mar	-0.1%	-1.3%		*	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)	360	361	-1	Up
U.S. Sibor/OIS spread (bps)	367	367	0	Flat
U.S. Libor/OIS spread (bps)	366	366	0	Up
10-yr T-note (%)	4.30	4.31	-0.01	Down
Euribor/OIS spread (bps)	224	224	0	Up
Currencies	**3 Mo**			
Dollar	Down	US		Down
Euro	Up	Euro		Up
Yen	Up	Japan		Down
Pound	Up	UK		Up
Franc	Up	Switzerland		Up

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.

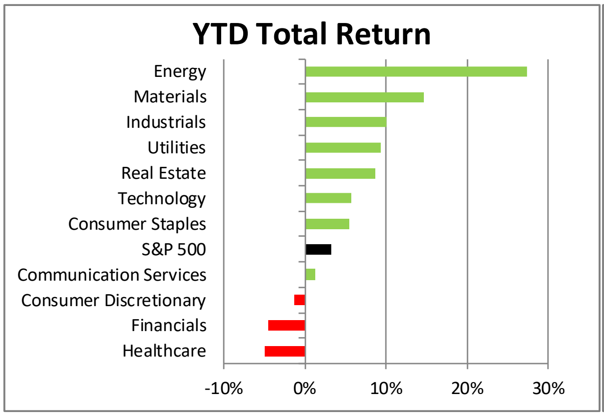
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$96.33	$99.39	-3.08%	Middle East Conflict
WTI	$91.36	$94.69	-3.52%	Middle East Conflict
Natural Gas	$2.68	$2.65	1.28%	
Crack Spread	$46.44	$48.94	-5.11%	Middle East Conflict
12-mo strip crack	$37.38	$38.46	-2.81%	
Ethanol rack	$2.12	$2.12	-0.25%	
Metals				
Gold	$4,790.96	$4,790.06	0.02%	
Silver	$79.25	$78.42	1.06%	
Copper Contract	$609.55	$613.45	-0.64%	
Grains				
Corn contract	$459.50	$457.75	0.38%	
Wheat contract	$608.75	$606.50	0.37%	
Soybeans contract	$1,178.00	$1,180.50	-0.21%	
Shipping				
Baltic Dry Freight	2,523	2,484	39	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	-0.91	1.90	-2.81	
Gasoline (mb)	-6.33	-2.01	-4.32	
Distillates (mb)	-3.12	-2.14	-0.98	
Refinery run rates (%)	-0.24%	0.44%	-0.68%	
Natural gas (bcf)	59	59	0	

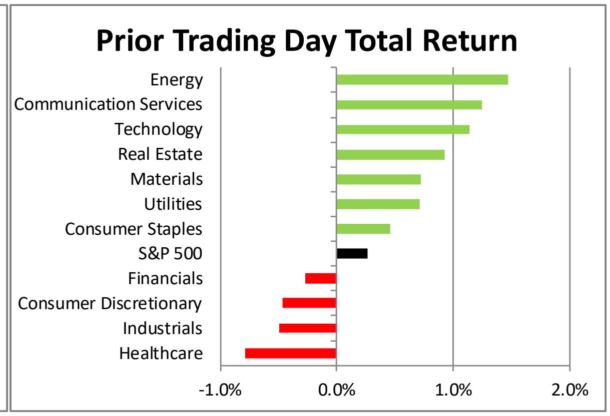
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures west of the Rockies and in the Southeast region, with cooler-than-normal temperatures in the most of the central states. The outlook calls for wetter-than-normal conditions in the southern half of the country, with drier conditions expected in the Pacific Northwest.

Data Section

US Equity Markets – (as of 4/16/2026 close)

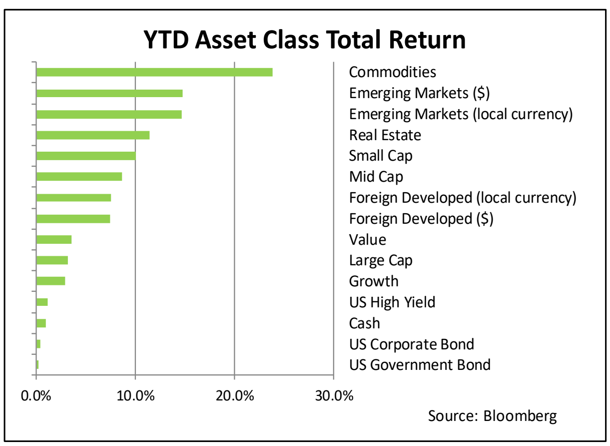




(Source: Bloomberg)

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 4/16/2026 close)

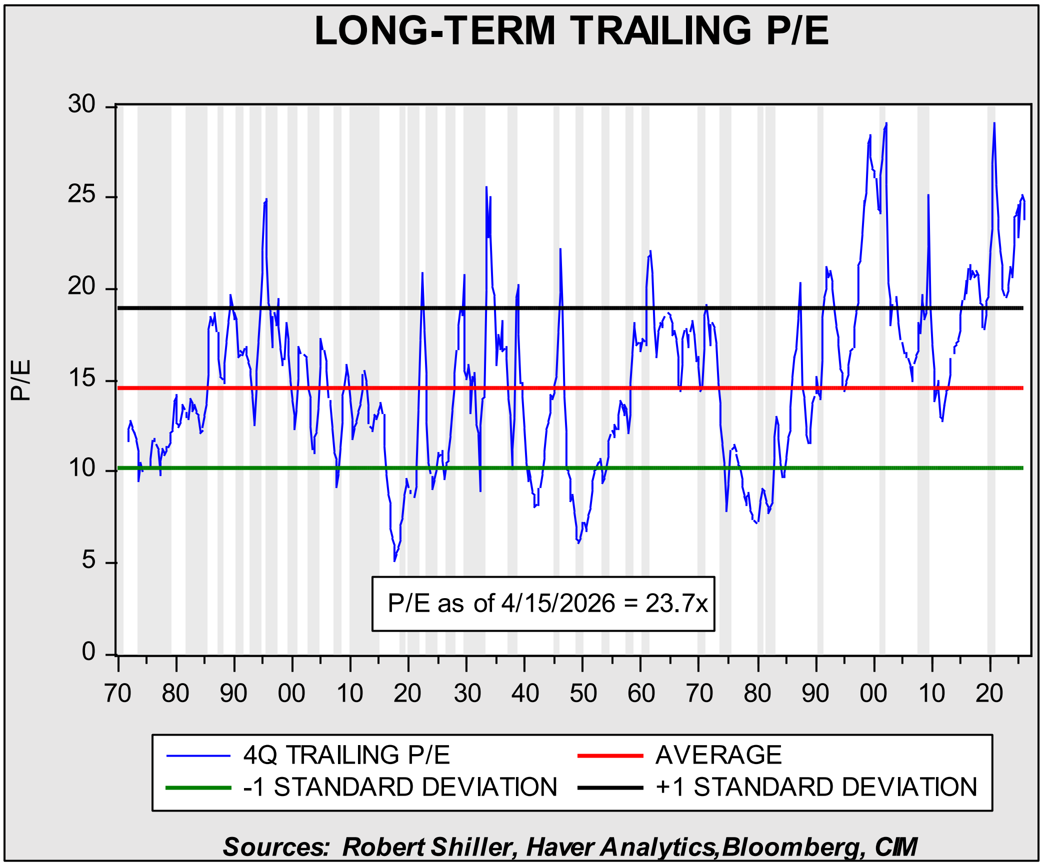


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

April 16, 2026



Based on our methodology,[1] the current P/E is 23.7x, down 0.6 from the previous report. Last week, the stock price index average was relatively unchanged, while earnings expectations were revised upwards.

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 (Q1, Q2, Q4) and one estimate (Q3). 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.