Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: April 1, 2026 — 9:30 AM ET] Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 is up 2.8% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 5.5%. Chinese markets were higher, with the Shanghai Composite up 1.5% and the Shenzhen Composite up 1.7%. 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
"From the Shah to the Strait" (3/23/26) + podcast	"The Strategic Petroleum Reserve: A Primer" (3/30/26) + podcast	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 a discussion of the US decision to de-escalate and withdraw from the Persian Gulf over the coming weeks. We then outline our views on how the resulting energy shock is affecting economies around the world. In addition to examining the new Japan–France rare earths partnership, we will highlight emerging signs of deregulation that appear to be improving liquidity conditions. As always, we include a summary of recent US and international economic data releases.

NATO Friction: President Trump announced his intention to withdraw from the Persian Gulf within the next two to three weeks, regardless of whether a deal is reached with Iran. He also singled out NATO allies for failing to assist with the mission, claiming it was their problem to fix. The decision to leave comes as the conflict has dragged on longer than the White House initially anticipated, with Iran's ability to attack vessels proving more formidable than expected. This reality has also raised growing concerns about when the Strait of Hormuz will reopen.

- There appears to be broad agreement that Iran's leadership is likely to remain in power. In his speech, the president declared that the United States has accomplished all of its military objectives in the region and expressed confidence that the current regime is an improvement over the one the one that preceded it. Similarly, Israeli Prime Minister Benjamin Netanyahu, in a televised address on the eve of Passover, echoed this sentiment by highlighting what he described as key achievements from the conflict.

- On Tuesday, Iranian officials stated that although messages have been exchanged through intermediaries to explore an end to the conflict, no direct negotiations have taken place with the United States. Tehran indicated, however, that it would halt hostilities if Israel and the US cease their strikes and agree to provide reparations. Additionally, it also threatened to ramp up the pressure by targeting American tech companies operating in the Middle East starting today.
- While the United States and Israel are considering a potential wind-down of the conflict, NATO allies have remained largely unwilling to become directly involved. On Wednesday, Italy denied US forces access to its military air base in Sicily. Although Italian officials described the decision as a procedural matter, it comes as Spain and the United Kingdom, both critical of the operation in Iran, have also rejected similar US requests.
- In the absence of NATO allies coming together to resolve the dispute in the Middle East, Beijing has emerged as a potential peace broker to help reopen the strait. China and Pakistan have been working on a ceasefire agreement that largely delivers on many of the demands issued by Iran. While it remains unclear whether Washington supports the gesture, the effort does demonstrate China's diplomatic weight, as well as its potential to serve as a counterweight to the United States in the Middle East.
- A possible end to the conflict would likely set the stage for a fragile recovery as markets begin to focus on what comes next. Once hostilities subside, the full extent of the damage to energy infrastructure across the Middle East should become clearer, helping to establish a realistic timeline for restoring and normalizing operations. In the near term, this disruption is likely to benefit energy producers globally, including in the United States, as they move to fill the supply gap.

Energy Concerns: While optimism is building that the US–Israeli joint mission against Iran is beginning to de-escalate, concerns over a potential energy crisis remain elevated. Many fear that if the United States withdraws before the Strait of Hormuz is fully reopened, oil prices could spike to $200 per barrel. These risks have prompted public officials worldwide to consider policy responses and emergency measures to ease pressures from supply shortfalls, reinforcing a broader shift toward more regionalized energy supply chains.

- In Asia, where economies are heavily reliant on fuel transported through the strait, governments have scrambled to implement stopgap measures to safeguard energy access. China has imposed a fuel export ban, exacerbating supply pressures on Southeast Asian economies. In response, countries across the region have stepped up cooperation, including various forms of resource-swapping and informal barter arrangements, in order to make more efficient use of available supplies within the region.
- Europe is likewise grappling with how to manage its emerging energy shortfall. Governments across the region are embracing an "all of the above" strategy that includes

accelerating investment in renewable energy, revisiting nuclear power options, and, in some cases, extending or expanding coal use. At the same time, policymakers are advancing demand-side measures such as incentives and guidelines for working from home to curb fuel consumption and reduce pressure on electricity and heating systems.

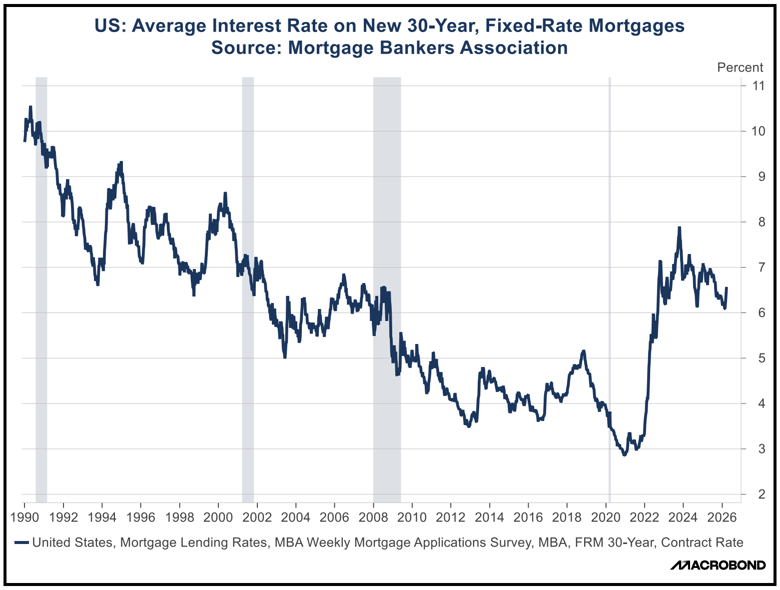
- Across Latin America, governments are increasingly using taxes and spending to deal with rising oil prices. Several Latin American countries — including Chile and, to a lesser extent, Colombia — have allowed fuel subsidies to shrink or prices to move more closely in line with market prices to protect government budgets. In contrast, Mexico and Brazil have gone the opposite route, using tax cuts, aid programs, and targeted fuel subsidies to shield households and key industries from the worst of the price shock.
- The push toward higher oil prices is likely to impact international equities, though we still see some opportunities, especially as the conflict winds down. We expect that international companies in the traditional energy sector could see a rebound in the short term. However, as energy prices begin to fall, we may also see some of the hardest-hit countries — particularly in Asia — start to recover. In short, we still see a case for maintaining some international exposure despite the conflict in the Middle East.

Rare Earth Partnership: Japan and France have agreed to launch a public–private partnership to refine heavy rare earths in southwest France. The initiative is part of a broader push to reduce global dependence on China for critical rare earth supplies. The partnership underscores growing Western investment and coordination around securing key strategic materials and is likely to strengthen the resilience of supply chains in both Europe and Japan.

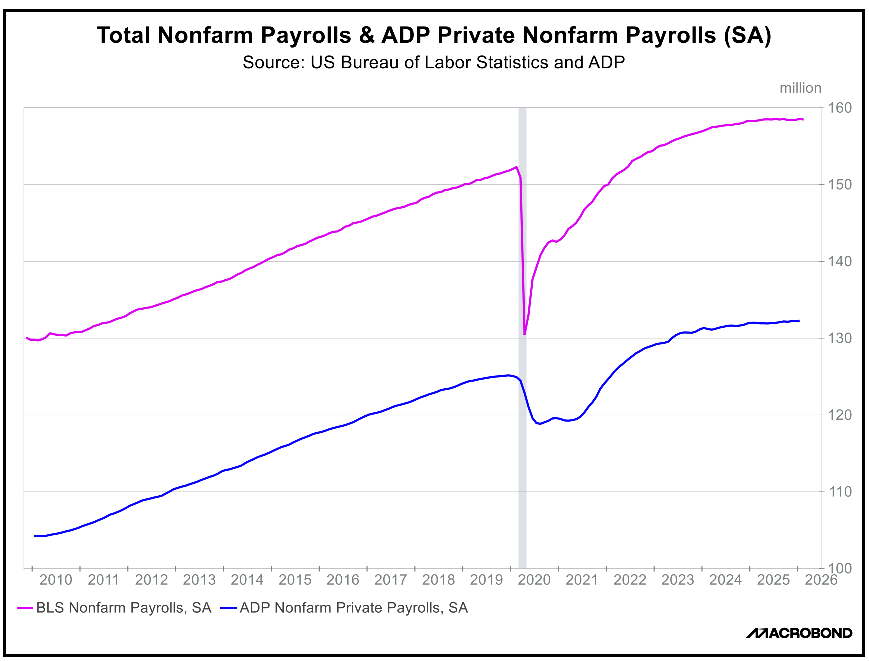
Repo Market Functions: Wells Fargo's recent inclusion in the short-term lending market has reinforced confidence that deregulation can help ease liquidity stress in the repo market. Since the removal of its balance sheet caps, the bank has expanded its repo lending activities, contributing to greater stability in the financial system. We expect ongoing discussions in Washington regarding regulatory capital and liquidity requirements, as policymakers consider reducing barriers that restrict banks from holding or purchasing US Treasurys.

US Economic Releases

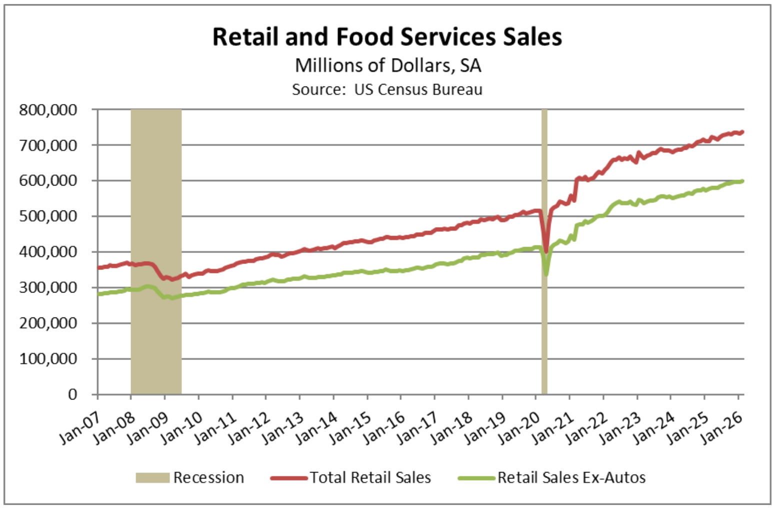
The Mortgage Bankers Association said ***mortgage applications*** in the week ended March 27 fell 10.4%, after declines of 10.5% in the previous week and 10.9% in the week before that. Applications for home purchase mortgages edged down 2.6%, after falling 5.4% in the prior week. Applications for refinancing mortgages dropped 17.3%, after falling 14.6% the week before. The average interest rate on a 30-year, fixed-rate mortgage rose 14 basis points to 6.57%. The chart below shows how mortgage rates have changed over time.



Separately, the ADP Research Institute estimated that ***private payroll employment*** rose in March by a seasonally adjusted 62,000, beating the expected rise of 40,000 but slightly short of the revised February gain of 66,000. ADP's estimate is widely seen as an indicator of what to expect when the Labor Department releases its measure of nonfarm payrolls on Friday. The chart below shows the Labor Department's figure for total nonfarm payrolls and ADP's estimate of private payrolls since 2010.



Finally, February ***retail sales*** rose by a seasonally adjusted 0.6%, beating their anticipated rise of 0.5% and more than erasing their revised 0.1% decline in January. Of course, retail sales are often driven by the volatile auto and auto parts sector, which makes up almost one-fifth of the total. February ***retail sales excluding autos and auto parts*** were up 0.5%, beating their anticipated increase of 0.3% and improving from their stagnation in the previous month. Overall retail sales in February were up 3.6% from the same month one year earlier, and sales excluding autos and auto parts were up by the same amount. The chart below shows how retail sales have changed since just before the GFC.



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

Economic Releases						
EST	**Indicator**			**Expected**	**Prior**	**Rating**
9:45	S&P Global US Manufacturing PMI	m/m	Mar F	52.4	52.4	***
10:00	ISM Manufacturing	m/m	Mar	52.3	52.4	**
10:00	ISM Prices Paid	m/m	Mar	74	70.5	**
10:00	ISM New Orders	m/m	Mar	54.5	55.8	**
10:00	Business Inventories	m/m	Jan	0.0%	0.1%	*
10:00	ISM Employment	m/m	Mar	49.0	48.8	*
10:00	Wards Total Vehicle Sales	m/m	Mar	15.86m	15.75m	*
Federal Reserve						
EST	**Speaker or Event**	**District or Position**				
9:05	Alberto Musalem Speaks on Economy and Monetary Policy	President of the Federal Reserve Bank of St. Louis				
9:10	Michael Barr Speaks on AI and Consumer Issues	Members 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								
Japan	Tankan Large Manufacturing Index	q/q	1Q	17	15	16	***	Equity and bond neutral
	Tankan Large Manufacturing Outlook	q/q	1Q	14	15	12	***	Equity and bond neutral
	Tankan Large Non-Manufacturing Index	q/q	1Q	36	34	33	***	Equity and bond neutral
	Tankan Large Non-Manufacturing Outlook	q/q	1Q	29	28	27	***	Equity and bond neutral
	Tankan Large All-Industry Capex	q/q	1Q	3.3%	12.6%	3.6%	***	Equity and bond neutral
	S&P Global Japan Manufacturing PMI	m/m	Mar F	51.6	51.4		***	Equity and bond neutral
Australia	S&P Global Australia Manufacturing PMI	m/m	Mar F	49.8	50.1		***	Equity and bond neutral
	Building Approvals	m/m	Feb	29.7%	-7.2%	5.5%	***	Equity bullish, bond bearish
New Zealand	Building Permits	m/m	Mar	2.7%	2.0%		**	Equity and bond neutral
South Korea	Trade Balance	m/m	Mar	$25737m	$15510m	$21104m	*	Equity and bond neutral
	Exports	y/y	Mar	48.3%	29.0%	44.8%	***	Equity bearish, bond bullish
	Imports	y/y	Mar	13.2%	7.5%	15.4%	**	Equity bearish, bond bullish
	S&P Global South Korea PMI Manufacturing	m/m	Mar	52.6	51.1		***	Equity and bond neutral
China	RatingDog China PMI Mfg	m/m	Mar	50.8	52.1	51.5	***	Equity bearish, bond bullish
EUROPE								
Eurozone	S&P Global Eurozone Manufactuing PMI	m/m	Mar P	51.6	51.4	51.4	***	Equity and bond neutral
	Unemployment Rate	m/m	Feb	6.2%	6.1%	6.1%	**	Equity and bond neutral
Germany	S&P Global/BME Germany Manufacturing PMI	m/m	Mar F	52.2	51.7	51.7	***	Equity and bond neutral
France	S&P Global France Manufacturing PMI	m/m	Mar F	50.0	50.2	50.2	***	Equity and bond neutral
Italy	S&P Global Italy Manufacturing PMI	m/m	Mar	51.3	50.6	50.9	***	Equity and bond neutral
	Unemployment Rate	m/m	Feb	5.3%	5.2%	5.2%	**	Equity and bond neutral
UK	S&P Global UK Manufacturing PMI	m/m	Mar F	51.0	51.4	51.4	***	Equity and bond neutral
Switzerland	Real Retail Sales	y/y	Feb	9.0%	-0.6%		**	Equity and bond neutral
	PMI Manufacturing	m/m	Mar	53.3	47.4	47.0	***	Equity bullish, bond bearish
	PMI Services	m/m	Mar	57.2	54.2		*	Equity and bond neutral
Russia	S&P Global Russia Manufacturing PMI	m/m	Mar	48.3	49.5		***	Equity and bond neutral
AMERICAS								
Canada	GDP	y/y	Jan	0.6%	1.0%	0.4%	***	Equity and bond neutral
Mexico	International Reserves Weekly	w/w	27-Mar	$254070m	$254448m		*	Equity and bond neutral
Brazil	S&P Global Brazil Manufacturing PMI	m/m	Mar		47.3		***	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)	359	359	0	Up
U.S. Sibor/OIS spread (bps)	367	368	-1	Up
U.S. Libor/OIS spread (bps)	365	366	-1	Up
10-yr T-note (%)	4.29	4.32	-0.03	Down
Euribor/OIS spread (bps)	208	212	-4	Up
Currencies	**3 Mo**			
Dollar	Down	US		Up
Euro	Up	Euro		Down
Yen	Up	Japan		Down
Pound	Up	UK		Down
Franc	Up	Switzerland		Flat

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.

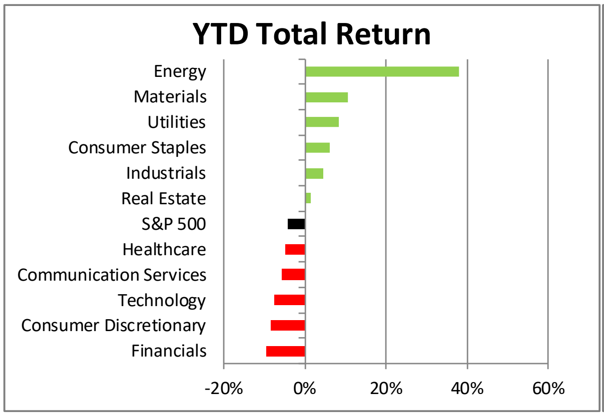
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$102.73	$103.97	-1.19%	
WTI	$99.86	$101.38	-1.50%	
Natural Gas	$2.84	$2.88	-1.46%	
Crack Spread	$47.04	$45.78	2.75%	
12-mo strip crack	$36.07	$36.36	-0.82%	
Ethanol rack	$2.19	$2.19	-0.01%	
Metals				
Gold	$4,741.24	$4,668.06	1.57%	
Silver	$75.05	$75.17	-0.16%	
Copper Contract	$562.95	$561.40	0.28%	
Grains				
Corn contract	$452.00	$457.75	-1.26%	
Wheat contract	$601.50	$616.25	-2.39%	
Soybeans contract	$1,165.00	$1,171.00	-0.51%	
Shipping				
Baltic Dry Freight	1,995	2,017	-22	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		2.00		
Gasoline (mb)		-2.37		
Distillates (mb)		-0.05		
Refinery run rates (%)		0.60%		
Natural gas (bcf)		38		

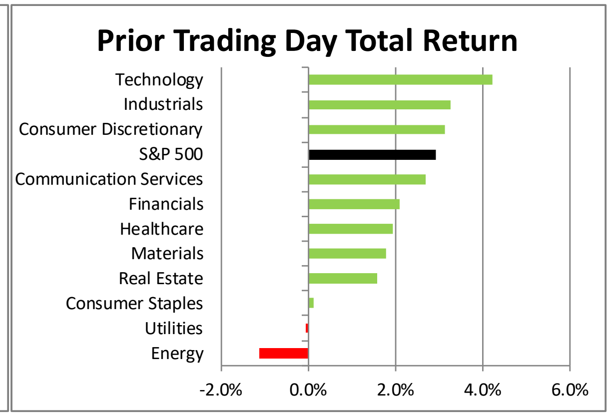
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures from the West Coast to the Great Plain, with near-normal temperatures elsewhere. The outlook calls for wetter-than-normal conditions in Montana, North Dakota, northern Minnesota, and the Southwest, with dry conditions in the Appalachian Mountains and the Northeast.

Data Section

US Equity Markets – (as of 3/31/2026 close)

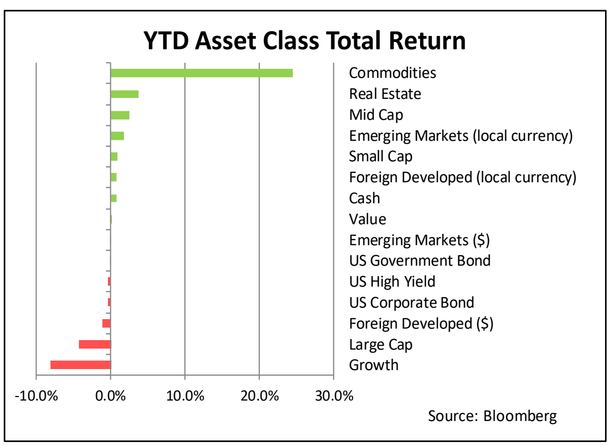




(Source: Bloomberg)

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 3/31/2026 close)

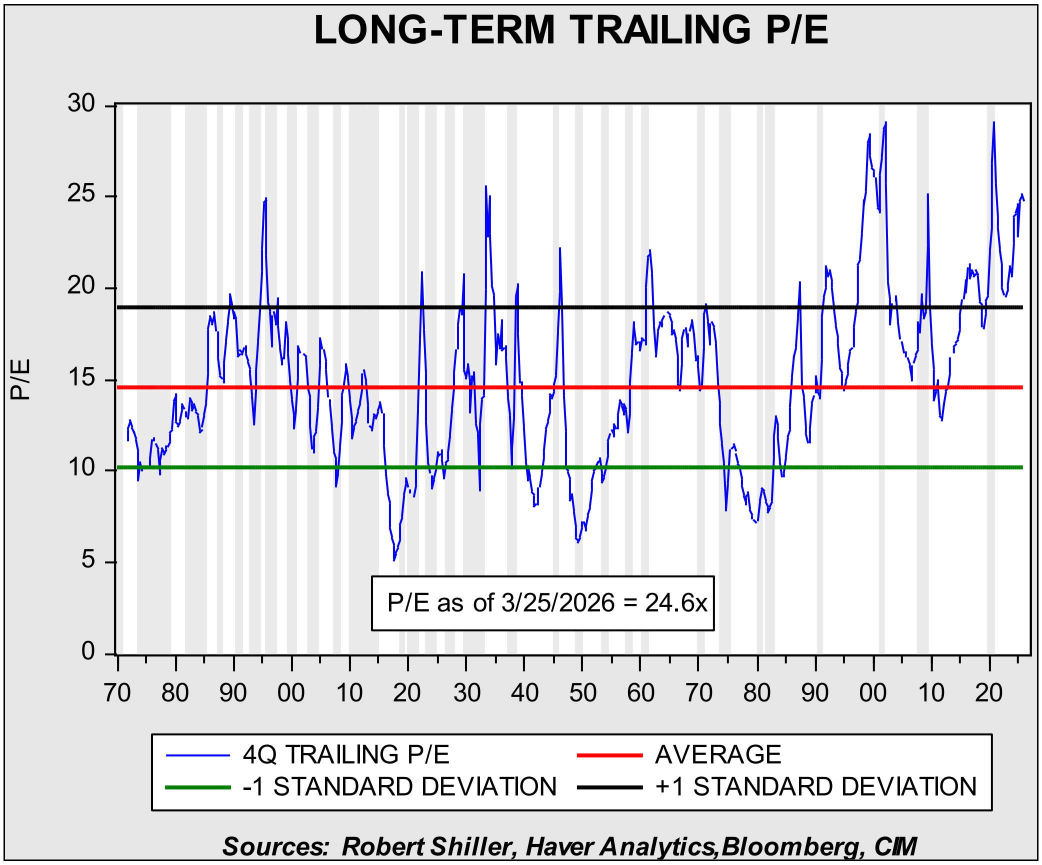


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

March 26, 2026



Based on our methodology,[1] the current P/E is 24.6x, down 0.1 from the previous report. Last week, the stock price index fell slightly, while earnings were relatively unchanged from the previous week.

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 (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.