Daily Comment

Confluence INVESTMENT MANAGEMENT

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[Posted: April 8, 2026 — 9:30 AM ET] Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 is up 5.0% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 6.0%. Chinese markets were higher, with the Shanghai Composite up 2.7% and the Shenzhen Composite up 4.4%. 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.

Note: Due to the holiday, the* Bi-Weekly Geopolitical Report *will not be published this week.

Our *Comment* opens with an analysis of the de-escalating tensions in the Middle East following a cease-fire agreement. We then examine the mounting political headwinds facing AI, North Korea's growing assertiveness, and the New York Fed president's latest outlook on inflation. As always, we include a comprehensive summary of recent domestic and international economic data.

The De-escalation: The US and Iran have agreed to a two-week ceasefire that will reopen the Strait of Hormuz, marking a major step toward de-escalation. The breakthrough comes ahead of scheduled peace talks on Friday, which are aiming to reach a broader agreement to end the conflict. Although strikes are still ongoing, markets have responded positively to the easing of tensions, reflecting growing optimism that the worst of the confrontation may be over.

- The emerging ceasefire framework reportedly draws on a 10-point Iranian proposal. This blueprint calls for the lifting of all sanctions, an end to Israeli strikes against Hezbollah and Lebanon, and security guarantees against future attacks. Additionally, it also includes a demand for formal recognition of Iran's right to levy regulated transit tolls in the Strait of Hormuz. These terms currently represent an opening negotiating position rather than a finalized deal.

- Whether the newly announced two-week ceasefire will hold remains uncertain. Iran has tied the reopening of the Strait of Hormuz to a controversial $2 million transit fee per vessel, framed as a mechanism to help fund reconstruction. Despite this diplomatic opening, Kuwait, Qatar, and the UAE were all hit by Iranian strikes in the hours following the announcement. At the same time, Israel has halted direct attacks on Iran but continues its assault on targets in Lebanon.
- Easing tensions have supported a broad improvement in risk sentiment. Domestic and international equity futures, along with US Treasurys, rallied overnight on the back of the ceasefire reports. At the same time, crude futures and other commodities have retreated on expectations of smoother supply chains and reduced disruption risk. The dollar also weakened as optimism grew that potential Federal Reserve rate cuts may remain on the table.
- Assuming the ceasefire holds, the next phase will center on how the global economy absorbs the damage from the conflict. Much of the immediate focus will be on how quickly trade flows normalize as vessels resume shipments through the Strait of Hormuz. Attention will also turn to assessing the extent of the damage to energy and port infrastructure and how long it will take to bring key facilities back online.
- In turn, any recovery in activity is likely to remain fragile over the coming weeks as markets watch for concrete progress in fully restoring traffic through the strait. We do not anticipate an immediate reversal in prices, as the supply shock is likely to linger and may be exacerbated by increased demand. Even so, in the near term, greater clarity around supply conditions and geopolitics should underpin renewed risk appetite, particularly toward domestic equities.

Silicon Valley Charm: Growing concerns about AI's impact on society are beginning to slow its nationwide expansion. Several states are weighing new limits on data center construction because of their heavy consumption of electricity and water. Fears over potential labor market disruption are also fueling public backlash, with some arguing that the pace of AI adoption should be deliberately restrained. As the midterm elections near, the pushback is increasing the chance that AI could face more legal hurdles as it looks to expand.

- AI has emerged as one of the most polarizing topics in America. A recent NBC News poll reveals a dismal -20 net favorability rating for the technology, placing it below even ICE in the public's esteem. In fact, among all categories surveyed, only the Democratic Party and Iran received lower marks. This widespread skepticism suggests that curbing the downside effects of AI is becoming a top priority for voters.
- So far, lawmakers in more than 10 states have introduced bills to restrict or temporarily halt new data center development. Two other states, including Wisconsin and South Dakota, have already rejected similar proposals. Maine has gone further, becoming the

first state to impose a moratorium on new data centers until November 2027 while it studies the facilities' economic and environmental impacts.

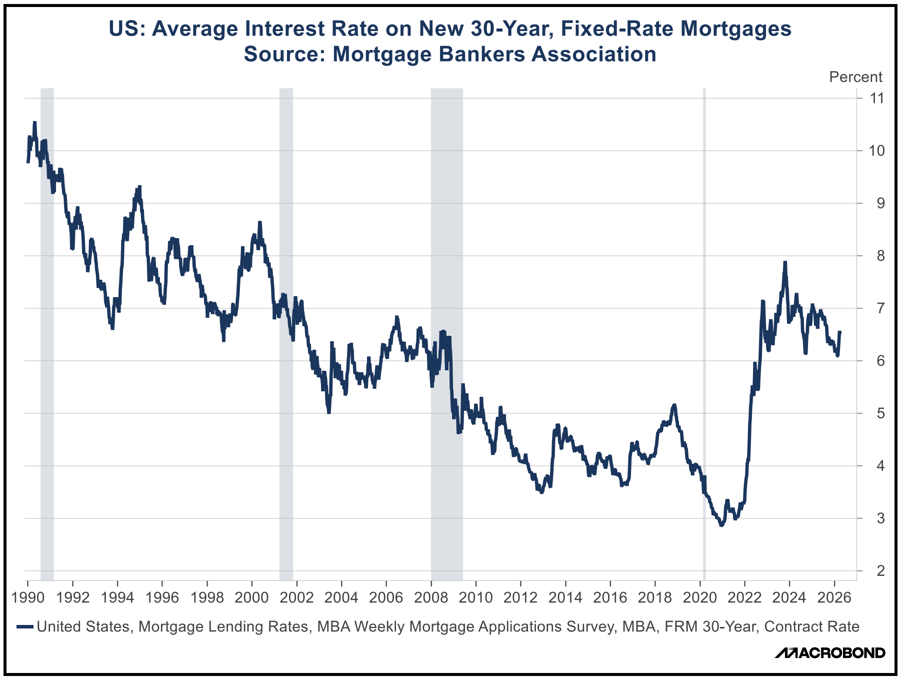
- Tech companies are increasingly turning to public outreach to improve perceptions of AI and shape opinion. OpenAI, for example, has floated populist-sounding ideas such as a four-day workweek and the creation of a public wealth fund that would widely distribute gains from AI to citizens. More broadly, there are growing signs that major firms now accept that some form of regulation is inevitable and see cooperating with policymakers as a way to reassure a wary public and reduce political blowback.
- We remain confident that the AI infrastructure buildout still has substantial momentum, but we also see early signs that it could lose steam in the coming months as political and energy constraints intensify. A moderation in spending could, in turn, lend relative support to more fundamentally sound companies, as investors may increasingly prioritize current profitability and balance sheet strength over distant growth potential in an environment of elevated uncertainty.

North Korea: Pyongyang has stepped up its power projection in an effort to send a message to its rivals. On Tuesday, North Korea launched its second missile in as many days, following an incident in which a South Korean drone reportedly entered its airspace. The provocation appears to be driven in part by a desire to pressure the US to resume talks without any preconditions for denuclearization. While Iran dominates the headlines, investors should not lose sight of the geopolitical risk posed by North Korea.

Fed Talks: New York Fed President John Williams has offered a fairly modest view of inflation following the conflict in Iran. During an interview with *Bloomberg*, Williams acknowledged that while the rise in energy prices is likely to impact headline inflation, he does not believe it will have a major effect on core inflation. His view suggests that he is unlikely to favor a rate hike this year. It also serves as another sign that the Fed may be more patient with raising rates and could be open to at least one rate cut before the end of the year.

US Economic Releases

The Mortgage Bankers Association said ***mortgage applications*** in the week ended April 3 edged down 0.8%, following three straight weeks of 10% declines. Applications for home purchase mortgages rose 1.1%, after a 2.6% decline in the previous week. Applications for refinancing mortgages fell 2.8%, after a big drop of 17.3% the week before. The average interest rate on a 30-year, fixed-rate mortgage rose by 4 basis points to 6.51%. The chart below shows how mortgage rates have changed over time.



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**
13:05	Mary Daly Gies Keynote Remarks	President of the Federal Reserve Bank of San Francisco
14:00	U.S. Federal Reserve Releases Meeting Minutes	Federal Reserve Board

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	Real Cash Earnings	m/m	Feb	1.9%	0.7%	1.3%	*	Equity bullish, bond bearish
	Labor Cash Earnings	y/y	Feb	3.3%	2.5%	2.7%	**	Equity bullish, bond bearish
	BoP Current Account Balance	m/m	Feb	¥3932.7b	¥931.0b	¥3479.8b	***	Equity and bond neutral
	BoP Trade Balance	m/m	Feb	¥267.6b	-¥600.4b	¥315.2b	**	Equity and bond neutral
South Korea	BoP Current Account Balance	m/m	Feb	$23192.7m	$13259.1m		**	Equity and bond neutral
	BoP Goods Balance	m/m	Feb	$23363.6m	$15173.3m		*	Equity and bond neutral
EUROPE								
Eurozone	PPI	y/y	Feb	-3.0%	-2.0%	-3.0%	**	Equity and bond neutral
Eurozone	Retail Sales	y/y	Feb	1.7%	2.1%	1.6%	*	Equity and bond neutral
Germany	Factory Orders WDA	y/y	Feb	3.5%	0.3%	5.6%	***	Equity bearish, bond bullish
	S&P Global Germany Construction PMI	m/m	Mar	48.0	43.7		*	Equity and bond neutral
France	Trade Balance	m/m	Feb	-5778m	-2015m		*	Equity and bond neutral
	Current Account Balance	m/m	Feb	-1.8b	2.3b		*	Equity and bond neutral
UK	S&P Global UK Construction PMI	m/m	Mar	45.6	44.5	43.7	**	Equity and bond neutral
Switzerland	Unemployment Rate	m/m	Mar	3.1%	3.2%	3.1%	**	Equity and bond neutral
Russia	Official Reserve Assets	m/m	Mar	$749.0b	$809.3b		*	Equity and bond neutral
AMERICAS								
Mexico	International Reserves Weekly	w/w	1-Apr	$255489m	$254070m		*	Equity and bond neutral
Brazil	Trade Balance	m/m	Mar	$6405m	$4038m	$7300m	**	Equity and bond neutral
	Exports	m/m	Mar	$31603m	$26203m	$31800m	*	Equity and bond neutral
	Imports	m/m	Mar	$25199m	$22165m	$24250m	*	Equity and bond neutral
	FGV Inflation IGP-DI	y/y	Apr	-1.30%	-2.91%	-1.33%	**	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	361	-2	Up
U.S. Sibor/OIS spread (bps)	367	367	0	Up
U.S. Libor/OIS spread (bps)	365	366	-1	Up
10-yr T-note (%)	4.23	4.30	-0.07	Down
Euribor/OIS spread (bps)	217	210	7	Up
Currencies	**3 Mo**			
Dollar	Down	US		Down
Euro	Up	Euro		Up
Yen	Up	Japan		Down
Pound	Up	UK		Up
Franc	Up	Switzerland		Up
Central Bank Action	**Actual**	**Prior**	**Expected**	
RBI Repurchase Rate	5.25%	5.25%	5.25%	On Forecast
RBNZ Official Cash Rate	2.25%	2.25%	2.25%	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.

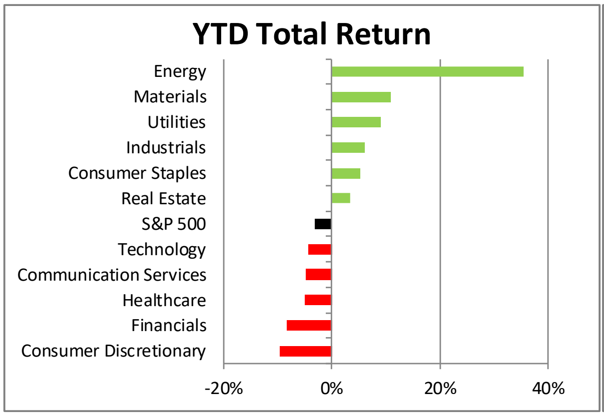
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$93.99	$109.27	-13.98%	Middle East Conflict
WTI	$94.54	$112.95	-16.30%	Middle East Conflict
Natural Gas	$2.73	$2.87	-4.88%	Middle East Conflict
Crack Spread	$40.72	$43.69	-6.79%	Middle East Conflict
12-mo strip crack	$34.68	$38.40	-9.69%	Middle East Conflict
Ethanol rack	$2.19	$2.20	-0.37%	
Metals				
Gold	$4,792.32	$4,706.51	1.82%	
Silver	$77.36	$73.01	5.97%	Middle East Conflict
Copper Contract	$573.90	$556.30	3.16%	Middle East Conflict
Grains				
Corn contract	$445.25	$449.00	-0.84%	
Wheat contract	$580.25	$598.00	-2.97%	
Soybeans contract	$1,160.75	$1,158.25	0.22%	
Shipping				
Baltic Dry Freight	2,095	2,066	29	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		0.50		
Gasoline (mb)		-1.55		
Distillates (mb)		-1.25		
Refinery run rates (%)		0.75%		
Natural gas (bcf)		50		

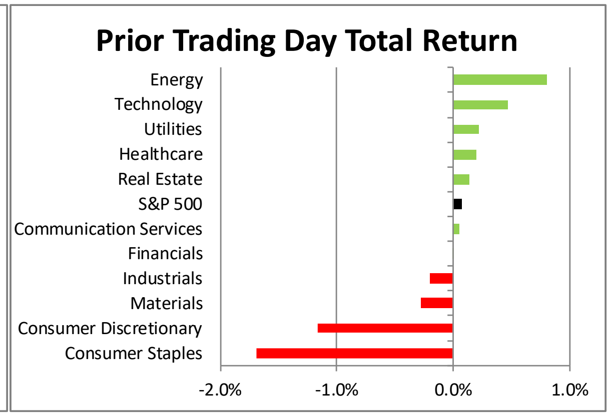
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures everywhere except northeastern Montana, North Dakota, and northern Minnesota, where temperatures will be near normal. The outlook calls for wetter-than-normal conditions from the West Coast to the Appalachian Mountains, with dry conditions in the coastal areas of the Carolinas, Georgia, and Florida.

Data Section

US Equity Markets – (as of 4/7/2026 close)

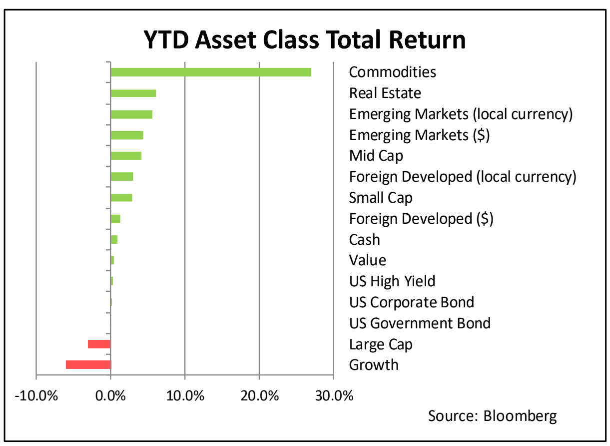




(Source: Bloomberg)

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 4/7/2026 close)

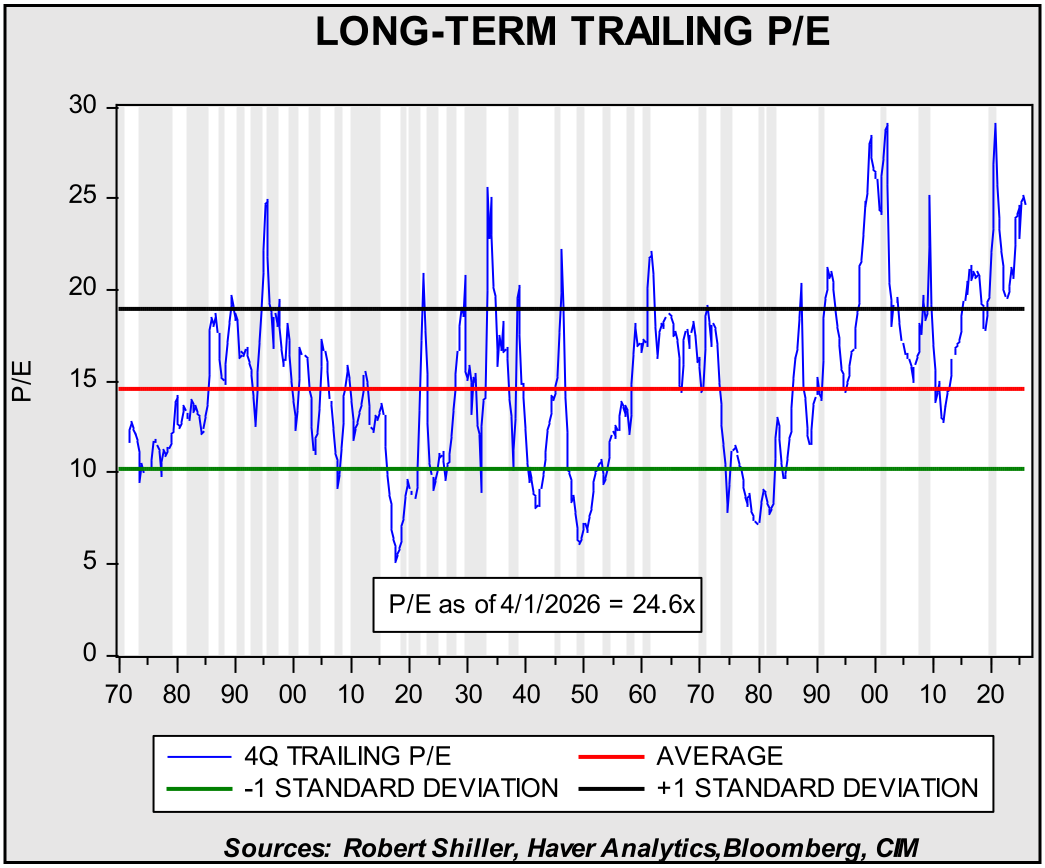


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 2, 2026



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

[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.