Daily Comment

Confluence Investment Management

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: August 11, 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 0.4%. Chinese markets were lower, with the Shanghai Composite down 0.8% and the Shenzhen Composite down 0.5%. US equity index futures are signaling a higher open.

With 446 companies having reported so far, S&P 500 earnings for Q2 are running at $87.80 per share, compared to an estimate of $82.54, which is up 23.3% from Q2 2025. Of the companies that have reported thus far, 85.2% have exceeded expectations while 11.0% have fallen short.

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
"Meet Andy Burnham" **(8/10/26)** + **podcast**	"The PCE Makeover" (8/3/26) + podcast	Q3 2026 Report	Business Cycle Report Mailbag Podcast

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 a short update on the conflict in Iran. We next review several other international and US developments that could affect the financial markets today, including growing economic disruptions in Germany due to Europe's recent heatwaves and drought and another big artificial intelligence funding deal that will likely further raise concerns about circular financial deals in the sector.

United States-Israel-Iran: Global oil prices jumped more than 3% earlier today on the news of fresh Iranian demands on the US and new attacks on shipping in the Strait of Hormuz, which we described in our *Comment* yesterday. However, prices have since retreated and are now up only slightly, with near Brent futures prices essentially flat at $87.75 per barrel.

Germany: In an emergency move to soften the trade disruption caused by historically low water levels on the Rhine River, several German states have suspended their bans on Sunday trucking. Meanwhile, shipping rates have surged. As parts of Europe face their fifth heat wave of the year in the coming days, some officials fear the Rhine will get so low that it will be unnavigable along its entire length, shutting in much of Germany's industrial economy.

Chile: The Chilean government yesterday said it will allow state-owned copper giant Codelco to retain 100% of its profits this year, up from about 30% in recent years. The move aims to help Codelco handle its enormous debt burden, which has grown along with the firm's massive capital investments to keep up production levels. The firm's investment program is seen as vital to solving a massive projected shortfall in global copper production by 2040, even as electrification and data centers boost the demand for electricity.

Japan: In foreign exchange markets yesterday, the yen depreciated about 1% to more than 159 JPY per dollar, reversing about half its appreciation after the joint US-Japan intervention on July 31. The currency is trading roughly flat so far this morning, but the renewed depreciation is raising concern that it will continue to lose value until the Federal Reserve agrees to loosen its internal rules for currency operations, which may be necessary to increase the US's intervention firepower.

Singapore: The city-state's statistical agency said second-quarter gross domestic product was up a strong 5.9% from the same period one year earlier, almost matching the increase in the year to the first quarter. In response, the Ministry of Trade and Investment raised its full-year growth outlook to a range of 4.5% to 5.5%. The stronger-than-expected GDP growth reflects less disruption than expected in the global energy market because of the Iran war and stimulus from the global AI boom.

China: The People's Bank of China last night appointed German financial giant Deutsche Bank to be its first European clearing house for renminbi as it seeks to increase international usage of the currency. Deutsche will be the first non-Chinese bank in Europe to be allowed to clear and settle renminbi transactions, along with the local branches of China's major state-owned banks. That should give Deutsche an improved ability to facilitate trade, treasury, and investment activity between Europe and China, despite the growing threat of new bilateral trade barriers.

United States-China: An analysis posted yesterday said Chinese artificial-intelligence developers still prefer to train their large language models on processors from US chip giant Nvidia, despite Beijing's pressure for them to use China's own rapidly improving chips. According to the report, the main hurdle is that shifting to Chinese chips requires difficult engineering and software changes.

- As a result, the US government still likely has geopolitical leverage over China to the extent that it's willing to keep or tighten its current restrictions on exporting Nvidia chips.
- Of course, that means Nvidia and other US tech firms are still at risk of sudden trade restrictions that could adversely affect their businesses.

US Artificial Intelligence Industry: AI processor giant Nvidia late yesterday [confirmed it is partnering with investment firms Apollo, BlackRock, Blackstone, Brookfield, Goldman Sachs, and KKR] to assemble more than $500 billion in loans at "attractive rates" for "the build-out of AI infrastructure over time." The announcement is likely to rekindle concerns about circular financing deals in the AI space, which could lead to financial contagion if a major firm related to AI runs into problems. A key source of such problems could be a competitive threat from China.

US Energy Industry: Refiner Phillips 66 and two partners, including refiner HF Sinclair and pipeline operator Kinder Morgan, today said they have [agreed to build a 900-mile pipeline to carry gasoline, jet fuel and diesel from the Texas Panhandle to Arizona and California]. With a capacity of 230,000 barrels per day, the pipeline aims to help bring down California's sky-high fuel prices, which in part reflect its loss of petroleum imports and refineries over the years.

US Economic Releases

No major US economic reports have been released so far today. The table below lists the economic releases and Fed events scheduled for the rest of the day.

Economic Releases						
EST	**Indicator**			**Expected**	**Prior**	**Rating**
10:00	Existing Home Sales	m/m	Jul	4.05m	4.09m	***
10:00	Existing Home Sales MoM	m/m	Jul	-1.0%	-2.4%	*
Federal Reserve						
EST	**Speaker or Event**	**District or Position**				
12:00	Austan Goolsbee Appears on WIRED Tech Support	President of the Federal Reserve Bank of Chicago				

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								
Australia	Foreign Reserves	m/m	Jul	A$106.7b	A$102.5b		***	Equity and bond neutral
	NAB Business Confidence	m/m	Jul	-6	-5		***	Equity and bond neutral
	NAB Business Conditions	m/m	Jul	4	3		***	Equity and bond neutral
EUROPE								
Italy	Trade Balance Total	m/m	Jun	4232m	4793m	4946m	*	Equity and bond neutral
UK	BRC Sales Like-For-Like	y/y	Jul	1.0%	1.7%	1.5%	***	Equity and bond neutral
AMERICAS								
Mexico	Industrial Production	y/y	Jun	1.7%	-0.7%	0.9%	***	Equity bullish, bond bearish
	Manufacturing Production	y/y	Jun	0.1%	-1.5%	0.2%	*	Equity and bond neutral
Brazil	IBGE Inflation IPCA	y/y	Jul	4.44%	4.64%	4.39%	***	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)	370	372	-2	Up
U.S. Sibor/OIS spread (bps)	375	375	0	Up
U.S. Libor/OIS spread (bps)	373	374	-1	Up
10-yr T-note (%)	4.71	4.71	0.00	Up
Euribor/OIS spread (bps)	248	247	1	Up
Currencies	**3 Mo**			
Dollar	Down	US		Up
Euro	Up	Euro		Down
Yen	Up	Japan		Down
Pound	Up	UK		Down
Franc	Up	Switzerland		Down
Central Bank Action		**Prior**	**Expected**	
RBA Cash Rate Target	4.35%	4.35%	4.35%	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	$87.30	$87.72	-0.48%	
WTI	$81.86	$82.13	-0.33%	
Natural Gas	$2.76	$2.79	-1.22%	
Crack Spread	$63.66	$64.14	-0.74%	
12-mo strip crack	$48.12	$48.60	-0.98%	
Ethanol rack	$2.12	$2.12	0.01%	
Metals				
Gold	$4,388.14	$4,390.95	-0.06%	
Silver	$65.23	$65.74	-0.79%	
Copper Contract	$668.10	$661.60	0.98%	
Grains				
Corn contract	$461.25	$461.75	-0.11%	
Wheat contract	$658.25	$659.25	-0.15%	
Soybeans contract	$1,177.50	$1,179.50	-0.17%	
Shipping				
Baltic Dry Freight	3,083	3,089	-6	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		-1.50		
Gasoline (mb)		-1.45		
Distillates (mb)		0.42		
Refinery run rates (%)		-0.50%		
Natural gas (bcf)		30		

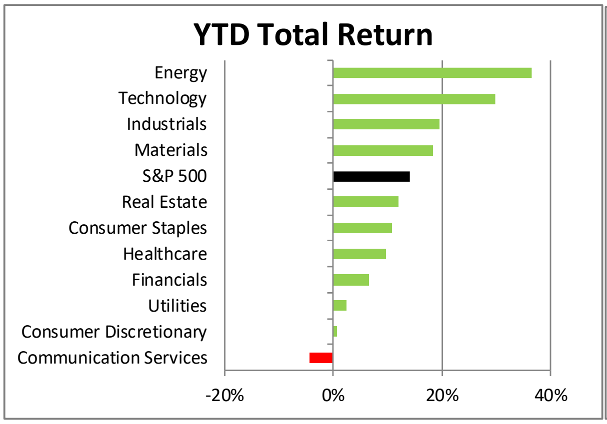
Weather

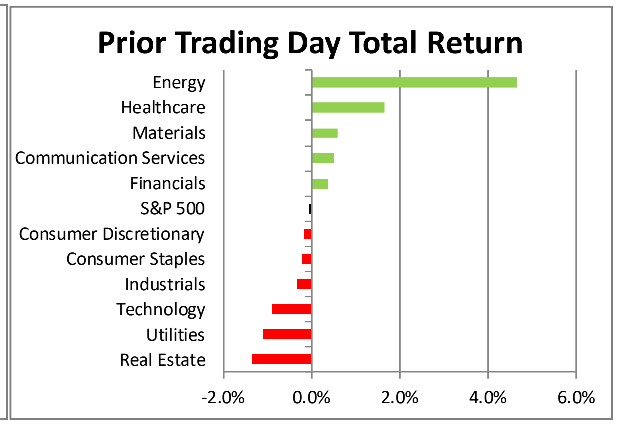
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in the Pacific Northwest, the southern Rocky Mountains, the central and southern Great Plains, the Midwest, and the Deep South, with cooler-than-normal temperatures in Maine. The outlook calls for wetter-than-normal conditions in the Far West and the Northeast, with dry conditions in the southern Mississippi Valley.

There are now two atmospheric disturbances in the Atlantic Ocean area. One is moving eastward through the central Atlantic and is assessed to have only a 10% chance of cyclonic formation in the next seven days. The second is west of Africa and moving northwesterly toward the Caribbean. It is assessed to have a 70% chance of cyclonic formation in the next seven days.

Data Section

US Equity Markets – (as of 8/10/2026 close)

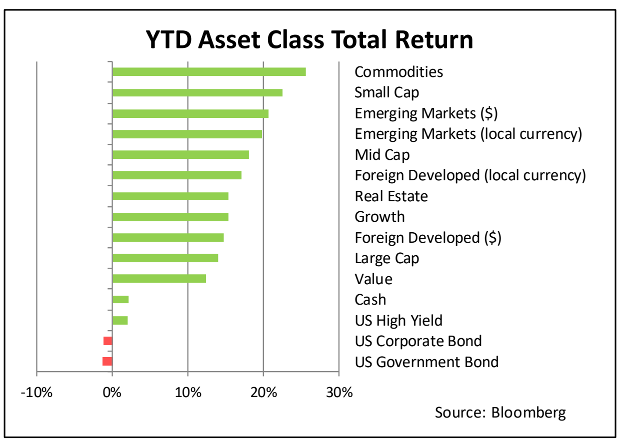




(Source: Bloomberg)

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 8/10/2026 close)

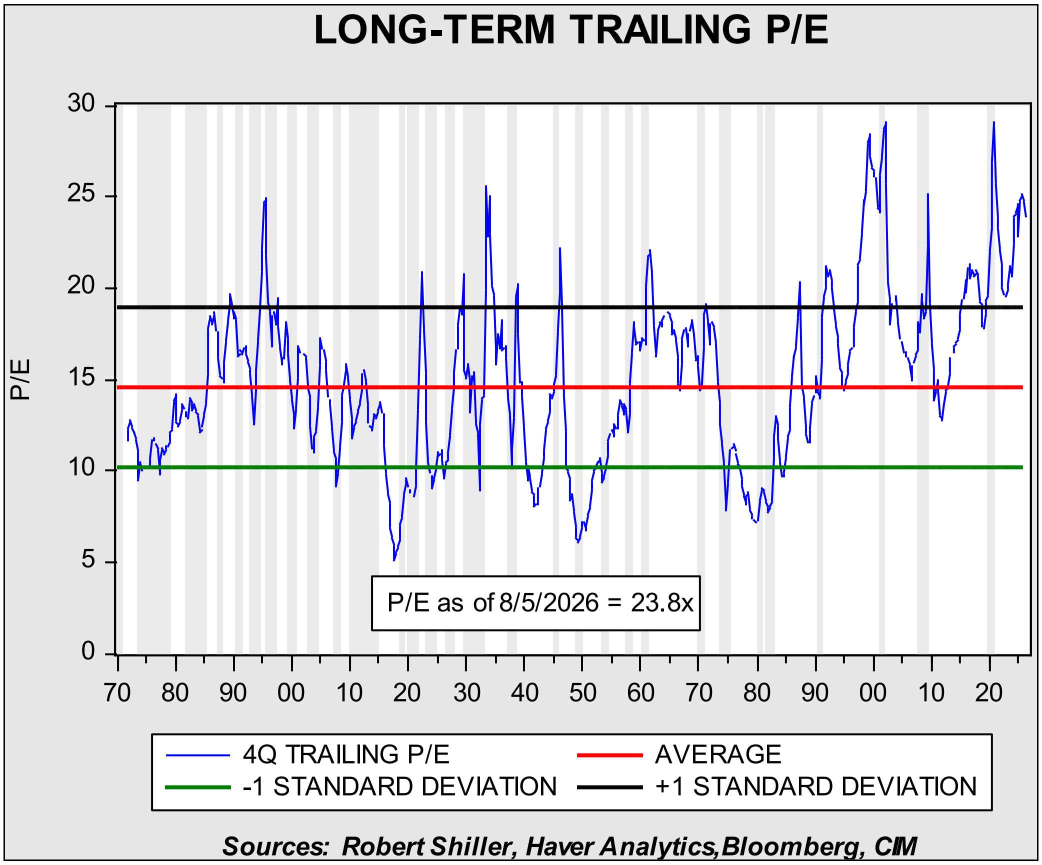


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

August 6, 2026



Based on our methodology,[1] the current P/E is 23.8x, down 0.1 from the previous report. The multiple contraction was driven by an increase in earnings and a decline in the stock price index.

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.