Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: August 12, 2026 — 9:30 AM ET] Global equity markets are higher 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 1.5%. Chinese markets were higher, with the Shanghai Composite up 1.3% and the Shenzhen Composite up 1.1%. US equity index futures are signaling a higher open.

With 449 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, 85.3% have exceeded expectations while 10.9% 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 **Q3 2026 Rebalance Presentation**	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 war in Iran, where the US Navy yesterday fired on a container ship trying to slip through its blockade. We next review several other international and US developments that could affect the financial markets today, including a new report highlighting the extent to which Chinese firms have invested in European automotive parts suppliers and US primary election results that will likely take some of the wind out of the sails of Democratic Party progressives.

United States-Israel-Iran: Central Command yesterday said its forces fired on a Panama-flagged container ship that was trying to transit the Gulf of Oman to an Iranian port in violation of the US blockade on Iran. The attack only disabled the ship, rather than sinking it. All the same, the incident underscores how the US is now emphasizing its blockade and other economic pressure on Iran to try to force open the Strait of Hormuz.

- However, that process could take time, if it is successful at all.
- In the meantime, global energy shipments will remain disrupted, probably putting continued upward pressure on prices.

China-European Union: In a new report, consultancy Rhodium says Chinese companies have invested in 130 of Europe's automotive parts manufacturers over the last two decades, quietly gaining control of key automotive supply chains. The news will probably raise concerns in Europe that the Continent's economy isn't just under threat from surging Chinese imports but also from Chinese capital. It will therefore likely feed into the growing economic tensions between the EU and China, creating risks for both EU and Chinese companies.

Norway: The country's sovereign wealth fund manager, Norges Bank Investment Management, today said its investment portfolio returned 9.4% in the first half of 2026, making a record profit equivalent to $184.70 billion. According to the fund's chief executive, the strong returns stemmed mostly from Asian technology stocks. The results provide more evidence that the current artificial intelligence investment boom is not only helping to drive economic growth around the world, but also is providing strong returns for global investors, at least for now.

United States-Ukraine-Russia: The *Financial Times* today reported that US Vice President Vance in late July asked Ukraine to stop its drone attacks on oil tankers loading crude from Kazakhstan at the Russian port of Novorossiysk on the Black Sea. According to the report, the White House had become concerned that the attacks were further destabilizing the global oil market, which is already facing disruption because of the US-Israeli war against Iran. The report highlights how sensitive the White House is to elevated energy prices ahead of the mid-term elections.

US Politics: In Wisconsin's primary elections yesterday, traditional Democrat David Crowley narrowly beat Democratic Socialist Francesca Hong to become the party's nominee for governor in the November elections. In Minnesota, however, progressive Peggy Flanagan defeated centrist Rep. Angie Craig to become the Democratic candidate for the US Senate.

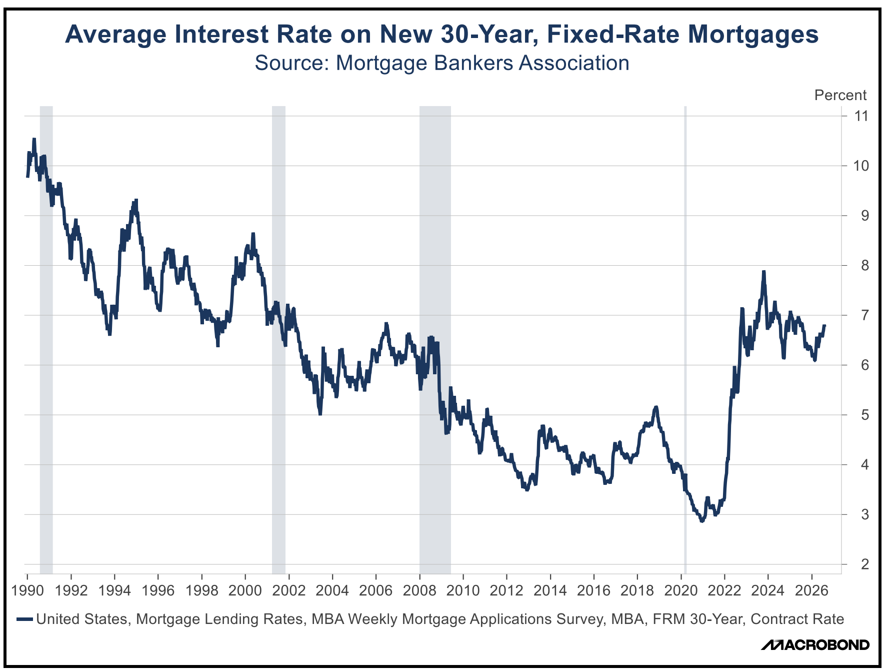
- The split decision in these high-profile races is being widely interpreted as a sign that there are limits to the party's recent drift toward the left.
- That could keep alive the Democrats' hopes for significant gains in Congress at the mid-term elections in November.

US Monetary Policy: Boston FRB President Susan Collins yesterday warned that high price inflation, including higher energy costs because of the war in Iran, has imposed financial hardships on many lower-income consumers and therefore might require the central bank to hike interest rates. The statement highlights how some on the Fed's policymaking panel are inclined to hike rates in the coming months, despite pressure from the White House to keep cutting rates.

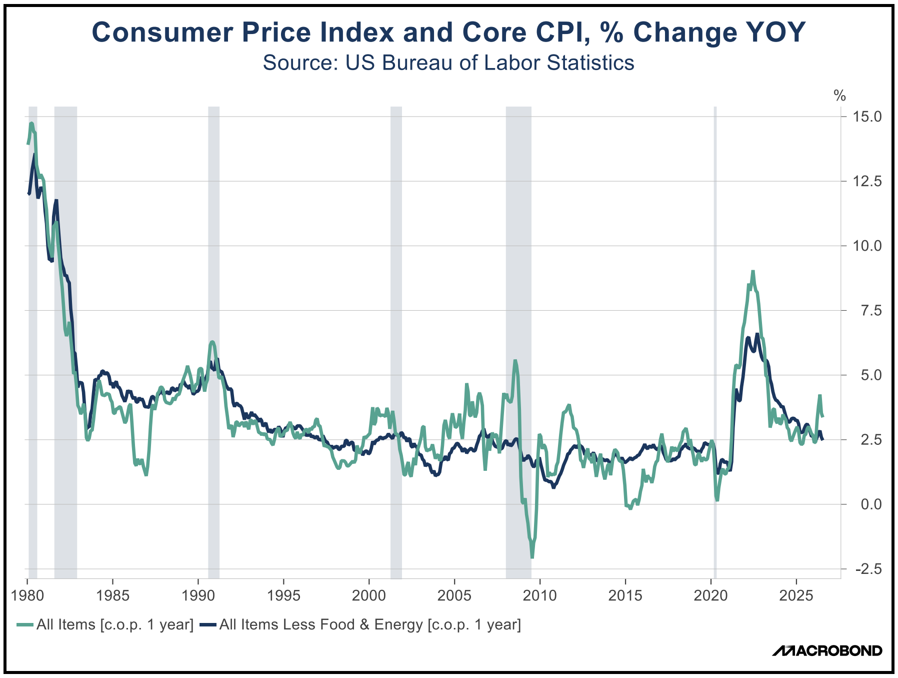
US Auto Industry: General Motors has said in a regulatory filing that it is setting up a special $4.5-billion fund to help its suppliers maintain production capacity for critical parts and potentially even stockpile them. The move comes after the firm's final assembly operations have faced disruptions in recent years because of parts shortages. It may also reflect how companies today have replaced an all-out focus on efficiency with new initiatives to increase resilience as the world fractures into relatively separate geopolitical and economic blocs.

US Economic Releases

The Mortgage Bankers Association said ***mortgage applications*** in the week ended August 7 rose 3.6%, erasing their 2.9% decline in the prior week. Applications for home purchase mortgages rose 2.5%, after falling 3.6% in the previous week. Applications for refinancing mortgages rose 5.0%, after falling 1.9% the week before. The average interest rate on a 30-year, fixed-rate mortgage fell 4 basis points to 6.77%. The chart below shows how mortgage rates have changed over time.



Separately, the July consumer price index (CPI) rose by a seasonally adjusted 0.1%, matching expectations and marking a return to increases after the index fell 0.4% in June. Excluding the volatile food and energy components, the "core" CPI rose 0.2%, also matching expectations and returning to increases after a flat performance in June. The overall CPI in July was up 3.4% from the same month one year earlier, while the core CPI was up 2.5%. The chart below shows the year-over-year change in the CPI and the core CPI since 1980.



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

Economic Releases						
EST	**Indicator**			**Expected**	**Prior**	**Rating**
14:00	Monthly Budget Statement	m/m	Jul	-$346.0b	-$291.1b	**
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	Money Stock M2	y/y	Jul	2.2%	2.2%		**	Equity and bond neutral
	Money Stock M3	y/y	Jul	1.4%	1.5%		**	Equity and bond neutral
South Korea	Unemployment Rate	m/m	Jul	2.8%	2.7%	2.7%	***	Equity and bond neutral
India	CPI	y/y	Jul	4.45%	4.38%	4.40%	***	Equity and bond neutral
EUROPE								
Germany	CPI	y/y	Jul F	2.8%	2.8%	2.8%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Jul F	2.8%	2.8%	2.8%	**	Equity and bond neutral
	Current Account Balance	m/m	Jun	19.0b	10.4b		*	Equity and bond neutral
Italy	CPI, EU Harmonized	y/y	Jul F	2.9%	2.9%	2.9%	***	Equity and bond neutral
	CPI NIC Including Tobacco	y/y	Jul F	2.9%	2.8%	2.8%	**	Equity and bond neutral
Russia	Trade Balance	m/m	Jun	$12.5b	$14.3b		**	Equity and bond neutral
	Exports	m/m	Jun	$43.3b	$43.0b		*	Equity and bond neutral
	Imports	m/m	Jun	$30.8b	$28.7b		*	Equity and bond neutral
AMERICAS								
Mexico	International Reserves Weekly	w/w	7-Aug	$257087m	$255498m		*	Equity and bond neutral
	Formal Job Creation Total	m/m	Jul	-19.6k	61.0k		*	Equity and bond neutral
Brazil	IBGE Services Volume	y/y	Jun	2.0%	0.4%	1.2%	*	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)	372	371	1	Up
U.S. Sibor/OIS spread (bps)	375	375	0	Up
U.S. Libor/OIS spread (bps)	374	374	0	Up
10-yr T-note (%)	4.66	4.69	-0.03	Up
Euribor/OIS spread (bps)	249	248	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

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	$88.92	$88.91	0.01%	
WTI	$83.38	$83.20	0.22%	
Natural Gas	$2.78	$2.77	0.58%	
Crack Spread	$63.71	$64.29	-0.91%	
12-mo strip crack	$48.51	$48.43	0.16%	
Ethanol rack	$2.11	$2.11	-0.02%	
Metals				
Gold	$4,415.10	$4,370.11	1.03%	
Silver	$66.34	$64.68	2.56%	
Copper Contract	$668.00	$663.40	0.69%	
Grains				
Corn contract	$465.00	$460.50	0.98%	
Wheat contract	$666.25	$648.25	2.78%	
Soybeans contract	$1,173.75	$1,168.75	0.43%	
Shipping				
Baltic Dry Freight	3,046	3,083	-37	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		-1.80		
Gasoline (mb)		-1.10		
Distillates (mb)		-2.00		
Refinery run rates (%)		-0.40%		
Natural gas (bcf)		30		

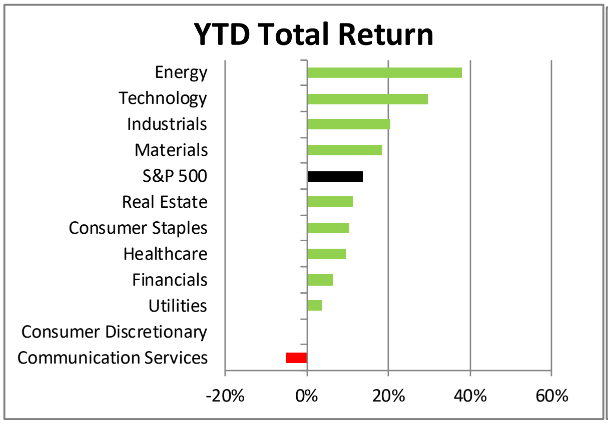
Weather

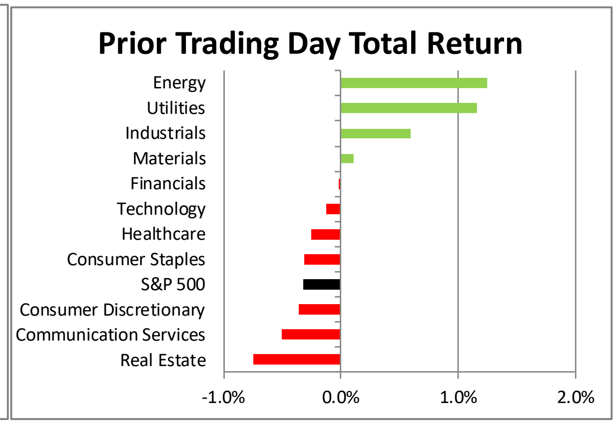
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures everywhere except the Northeast, with cooler-than-normal temperatures in New England. The outlook calls for wetter-than-normal conditions in the Far West and the Northeast, with dry conditions in the coastal areas of Texas and Louisiana and in southern Florida.

There are now three atmospheric disturbances in the Atlantic Ocean area. One is in the central Atlantic and moving eastward, and it is assessed to have a 50% chance of cyclonic formation in the coming seven days. Another is midway between Africa and South America and moving northwesterly toward the Caribbean, with an 80% chance of cyclonic formation in the next seven days. The final disturbance is just off the coast of Africa and moving northwesterly toward the Caribbean, but it only has a 10% chance of cyclonic formation in the next week.

Data Section

US Equity Markets – (as of 8/11/2026 close)

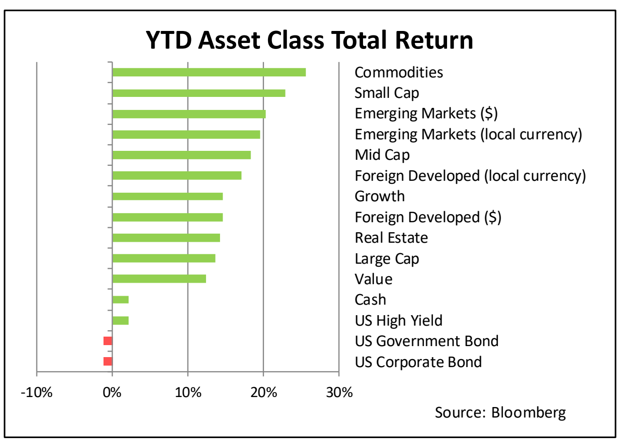




(Source: Bloomberg)

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 8/11/2026 close)

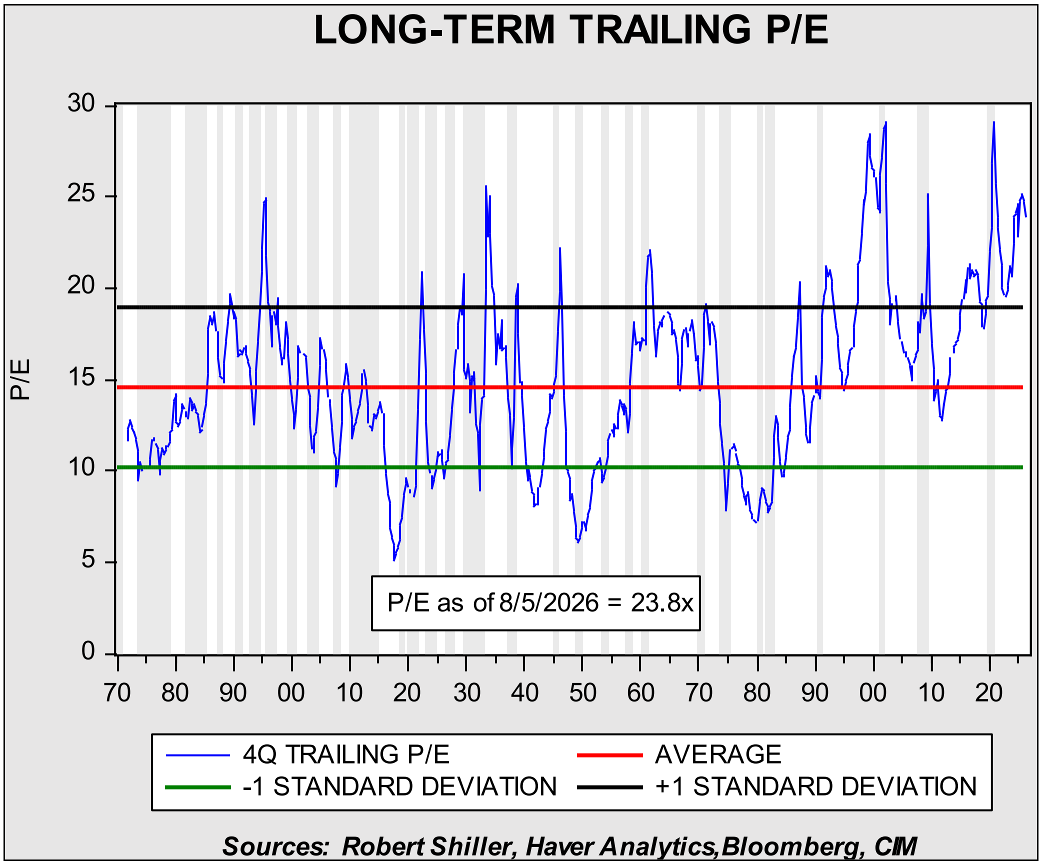


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.

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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 (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.