Daily Comment

Confluence INVESTMENT MANAGEMENT

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: August 14, 2026 — 9:30 AM ET] Global equity markets are higher 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 up 0.5%. Chinese markets were generally higher, with the Shanghai Composite essentially flat at 0.01% and the Shenzhen Composite up 0.3%. US equity index futures are signaling a higher open.

With 456 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 10.7% 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	Value Equity Quarterly Update **Confluence of Ideas 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 discussion of the Pentagon's decision to relieve a US aircraft carrier that has faced a long deployment due to the drawn-out war in Iran. We next review several other international and US developments that could affect the financial markets today, including a report showing that net migration to Israel has now fallen for two straight years and a court decision approving the US administration's suspension of a rule that had exempted small-value imports from tariffs.

United States-Israel-Iran: Showing how the downsized, post-Cold War US military is strained by today's security crises, reports say the Pentagon will soon relieve the USS Abraham Lincoln aircraft carrier from its role in the Iran conflict and replace it with the USS George Washington. The swap comes as reports say the Lincoln is saddled with food shortages, intolerable plumbing issues, plunging morale, and a spate of attempted suicides. The Lincoln has now been deployed for 250 days and hasn't made a port call in a record 200 days.

- It has long been evident that the post-Cold War downsizing of the US military and defense industrial base went too far, but nationalist, populist political trends and fiscal considerations have impeded the rebound in US defense spending.
- Especially with the unexpectedly long war in Iran, those problems are now becoming more evident. We suspect the result will be continued and even accelerated defense spending hikes, which will probably benefit a wide range of defense contractors.

US National Security Policy: President Trump yesterday signed an order that the US Navy stop using its new electromagnetic catapults to get jets airborne from aircraft carriers and instead revert to using steam catapults. The move will require extensive redesign of the Navy's new Ford-class carriers, likely costing billions of dollars. It could also increase the risk that delivery of the ships will fall behind schedule. The move comes despite years of resistance by the Navy and associated defense contractors.

- The president has periodically complained that the new electromagnetic technology is too complex and prone to failure. Indeed, the USS Gerald R. Ford, the first ship in the new class of carriers, experienced many issues with the new catapults during its construction and initial deployments.
- All the same, shifting back to steam catapults will require future Ford-class ships to be extensively redesigned to accommodate the steam generators, piping, and other needed equipment. The vast amount of piping and the reliance on mechanical equipment rather than electrical equipment will also require each carrier to have more technicians. In turn, that will expand the size of the crew and require more bunks, bathrooms, eating facilities, and food storage areas.
- All told, analysts expect that shifting the future Ford-class carriers back to steam will increase each ship's annual operating cost by about $100 million.

US Trade Policy: The US Court of International Trade yesterday ruled that President Trump was within his rights last year when he suspended the *de minimis* exemption, which allowed packages worth $800 or less to enter the US tariff-free. As a result, foreign firms sending cheap goods to the US, such as China's Temu and Shein, will continue to be subject to tariffs. Reports say suspending the exemption generated an additional $1 billion in US tariff revenues in 2025.

- Separately, the White House today said President Trump will impose new import tariffs of as much as 100% against foreign drones and drone components, based on national security concerns.
- The new tariffs are broad, but they are expected to mostly affect drones from China, which some analysts believe have compromised parts and software that China could use for surveillance or sabotage.

- The new tariffs should remove competition for key US-based drone companies, including AeroVironment, Red Cat Holdings, and Unusual Machines.

United States-China: A new report led by White House trade adviser Peter Navarro said more than 40 countries are helping China evade the high import tariffs the administration has imposed against it. The countries range from Asian manufacturing powers such as Vietnam and Malaysia to Western Hemisphere countries such as Canada and Mexico. According to the report, the countries face relatively lower US import tariffs, so Chinese firms ship nearly finished products to the countries, complete the goods there, and then send them to the US as non-Chinese goods.

- To stop this practice, the report suggests new measures including the use of artificial intelligence tools at the border to scan cargo and documents, and tightened standards that define a product's country of origin.
- If measures such as those are put into place, the result would likely be new trade tensions between the US and China.

Germany: Chancellor Merz's cabinet on Wednesday approved a proposal to give the country's BND intelligence service more aggressive powers, including the ability to carry out acts of sabotage and conduct offensive cyber operations.

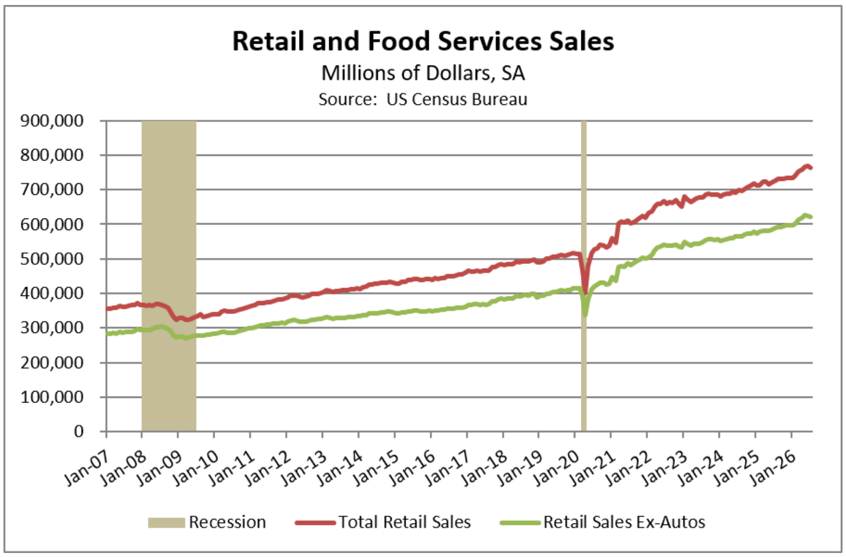
- Until now, Germany's spies have been limited to information-gathering operations due to intentional restraints put in place after World War II to prevent a repeat of the abuses perpetrated by the Nazi spy apparatus.
- The Merz reform shows how European leaders now see the threat from Russia to be dangerous enough that they are willing to take national security steps that were previously seen as taboo.

Switzerland: In a flash estimate, the country's second-quarter gross domestic product was up 1.5% from the previous period, after stripping out price changes and seasonal variations. The surprisingly strong growth marked a significant acceleration from the increase of just 0.4% in the first quarter. It also marked the country's best GDP growth since 2021, largely due to strong chemical and pharmaceutical exports as well as healthy services activity.

Israel: An interesting article in the *Financial Times* today shows net migration into Israel turned negative in both 2024 and 2025 — something that had only happened in three other years over the last century. According to the article, the outflow stems mostly from dissatisfaction with the right-wing government of Prime Minister Netanyahu and the stresses of the Israeli war with Hamas in Gaza. For investors, the negative net migration could be seen as a yellow flag and further dampen interest in the once high-flying Israeli stock market.

US Economic Releases

July ***retail sales*** fell by a seasonally adjusted 0.6%, far worse than the expected rise of 0.1% and much more than necessary to offset the June increase of 0.2%. Of course, overall retail sales are often driven by the volatile auto and auto parts sector, which makes up almost one-fifth of the total. July ***retail sales excluding autos and auto parts*** were down a more modest 0.3%, but that was still short of the anticipated gain of 0.2% and worse than the 0.2% decline in June. Overall retail sales in July were up 5.2% from the same month one year earlier, while sales excluding autos and auto parts were up 5.9%. The chart below shows how retail sales have changed since just before the Great Financial Crisis.



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	U. of Michigan Consumer Sentiment	m/m	Aug P	55.0	55.2	***
10:00	U. of Michigan Current Conditions	m/m	Aug P	54.8	54.8	**
10:00	U. of Michigan Future Expectations	m/m	Aug P	55.2	55.4	**
10:00	U. of Michigan 1-Year Inflation Expectation	m/m	Aug P	4.2%	4.2%	*
10:00	U. of Michigan 5-10 Year Inflation Expectation	m/m	Aug P	3.3%	3.3%	*
10:00	Business Inventories	m/m	Jun	1.0%	0.3%	*
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	Japan Buying Foreign Bonds	w/w	7-Aug	¥1629.4b	¥477.9b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	7-Aug	-¥58.7b	¥558.9b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	7-Aug	¥963.5b	-¥276.4b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	7-Aug	-¥368.b	-¥392.5b		*	Equity and bond neutral
New Zealand	BusinessNZ Manufacturing PMI	m/m	Jun	54.3	60		***	Equity and bond neutral
South Korea	Export Price Index	y/y	Jul	49.1%	48.7%		*	Equity and bond neutral
	Import Price Index	y/y	Jul	18.7%	20.9%		*	Equity and bond neutral
China	BoP Current Account	q/q	2Q P	$195.1b	$184.3b		**	Equity and bond neutral
China	New Yuan Loans	m/m	Jul	10380.0b	10720.0b	10620.0b	**	Equity and bond neutral
	Aggregate Financing CNY YTD	m/m	Jul	22250.0b	20840.0b	21925.0b	**	Equity and bond neutral
	Money Supply M2	y/y	Jul	7.7%	8.0%	7.9%	***	Equity and bond neutral
	Money Supply M1	y/y	Jul	4.0%	4.0%	3.9%	*	Equity and bond neutral
	Money Supply M0	y/y	Jul	11.6%	11.8%		*	Equity and bond neutral
India	Wholesale Prices	m/m	Jul	9.78%	9.87%	10.00%	*	Equity and bond neutral
EUROPE								
Eurozone	GDP	y/y	Q2 S	1.0%	1.0%	1.0%	***	Equity and bond neutral
	Trade Balance SA	m/m	Jun	1.8b	-6.1b		**	Equity and bond neutral
	Employment	y/y	2Q P	0.5%	0.5%		*	Equity and bond neutral
Germany	Wholesale Price Index	y/y	Jul	5.3%	4.9%		*	Equity and bond neutral
France	CPI	y/y	Jul F	2.1%	2.1%	2.1%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Jul F	2.4%	2.4%	2.4%	**	Equity and bond neutral
	CPI Ex-Tobacco Index	q/q	Jul F	102.67%	102.09%	102.67%	*	Equity and bond neutral
Russia	Gold and Forex Reserves	m/m	7-Aug	$740.0b	$720.3b		***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	7-Aug	22.19t	22.03t		*	Equity and bond neutral
AMERICAS								
Brazil	Retail Sales Broad	y/y	Jun	4.9%	-0.6%	4.1%	*	Equity bullish, bond bearish

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)	372	373	-1	Up
U.S. Libor/OIS spread (bps)	371	372	-1	Up
10-yr T-note (%)	4.65	4.64	0.01	Down
Euribor/OIS spread (bps)	251	251	0	Up
Currencies	**3 Mo**			
Dollar	Down	US		Up
Euro	Up	Euro		Down
Yen	Up	Japan		Down
Pound	Up	UK		Up
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	$87.16	$87.07	0.10%	
WTI	$81.67	$81.25	0.52%	
Natural Gas	$2.75	$2.73	0.70%	
Crack Spread	$64.71	$65.76	-1.60%	
12-mo strip crack	$49.11	$49.58	-0.93%	
Ethanol rack	$2.12	$2.12	-0.15%	
Metals				
Gold	$4,355.72	$4,350.39	0.12%	
Silver	$64.79	$64.49	0.46%	
Copper Contract	$668.70	$670.65	-0.29%	
Grains				
Corn contract	$476.50	$472.00	0.95%	
Wheat contract	$681.25	$668.25	1.95%	
Soybeans contract	$1,186.75	$1,182.25	0.38%	
Shipping				
Baltic Dry Freight	2,844	2,939	-95	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	17.42	-1.80	19.22	
Gasoline (mb)	-0.97	-1.10	0.13	
Distillates (mb)	-0.01	-2.00	1.99	
Refinery run rates (%)	-0.03%	-0.40%	0.37%	
Natural gas (bcf)	36	31	5.00	

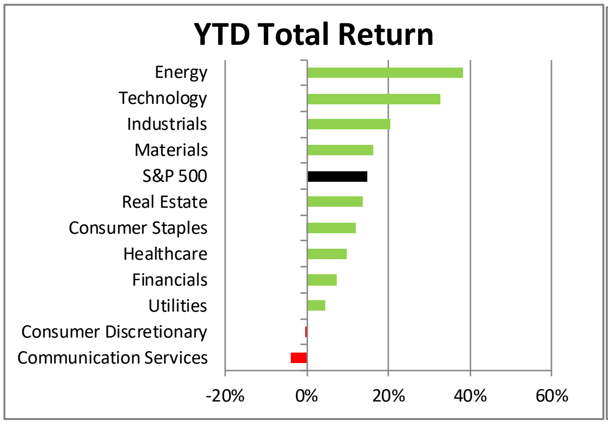
Weather

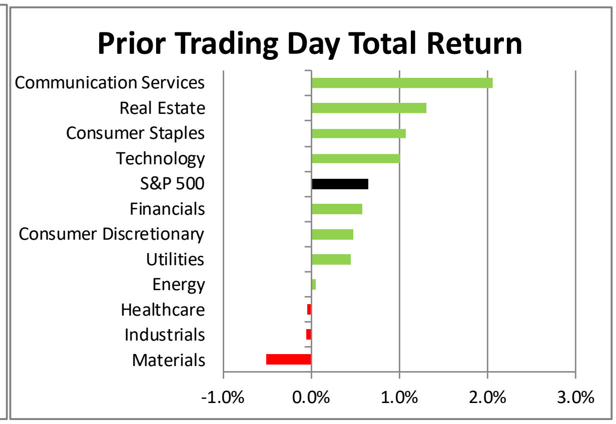
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures everywhere except along the Canadian border east of Minnesota, with cooler-than-normal temps in New England. The outlook calls for wetter-than-normal conditions in the Rocky Mountains, the Mid-Atlantic states, and the Northeast, with dry conditions in the Deep South.

There are now two atmospheric disturbances in the Atlantic Ocean area. One disturbance is midway between Africa and South America and moving northwesterly toward the Caribbean, with a 50% chance of cyclonic formation in the next seven days. There is also a disturbance off the coast of Venezuela that is also moving northwesterly toward the Caribbean, but it is assessed to have only a 20% chance of cyclonic formation in the next week.

Data Section

US Equity Markets – (as of 8/13/2026 close)

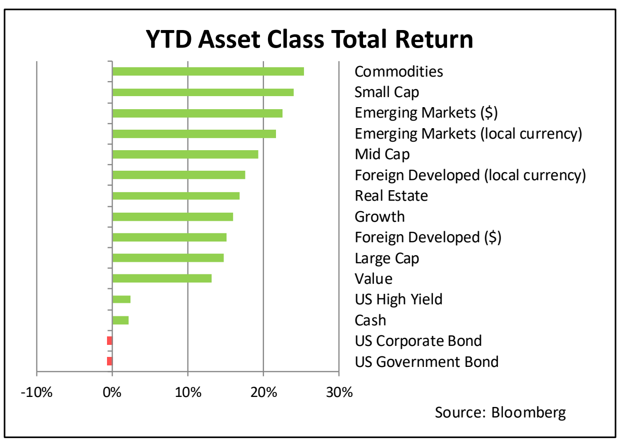




(Source: Bloomberg)

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 8/13/2026 close)

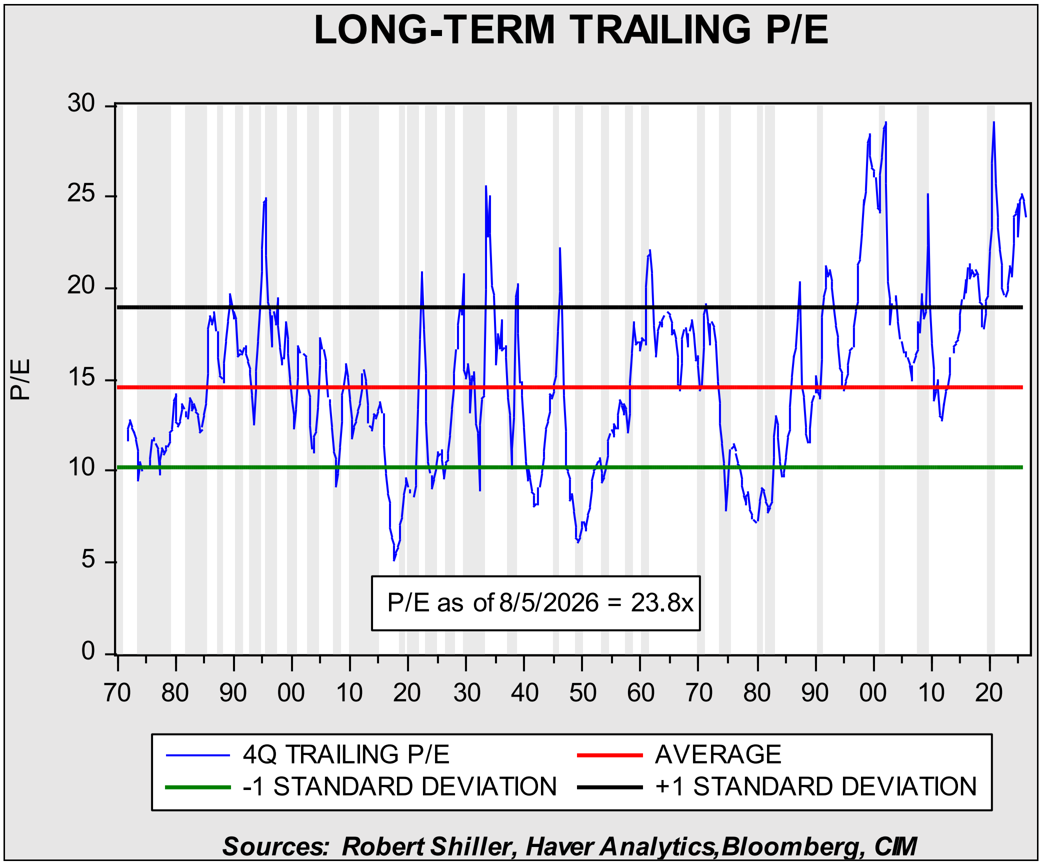


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.