Daily Comment

Confluence INVESTMENT MANAGEMENT

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: August 17, 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 0.7%. Chinese markets were higher, with the Shanghai Composite up 1.4% and the Shenzhen Composite up 2.2%. 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	**"China's Threat to the AI Investment Boom" (8/17/26) + 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 an update on the war in Iran, where new reporting confirms our suspicions that hardline leaders in Tehran intend to keep fighting the US. We next review several other international and US developments that could affect the financial markets today, including new data showing weakness in China's domestic economy and a report that will likely rekindle concerns about rising defaults in the US private credit industry.

United States-Israel-Iran: Based on sources with access to Iranian officials, reports yesterday said the country's hardline leaders never had faith in the June "memorandum of understanding" that US officials saw as setting up a ceasefire. The sources say Iran's leadership saw the memo as merely starting a pause that Washington and Tel Aviv would use to replenish their arsenals and prepare for new attacks. The Iranians therefore planned to restart their attacks, alone and with their proxies, while the US and Israel had their guard down.

- Importantly, the reports say the Iranian leaders have put a plan into place to continue fighting the US and Israel and to impose so much pain on them that they will never again try to attack Iran.
- Coupled with our belief that Iran holds the military and economic advantage in the conflict, the suggestion that they also have the motivation to keep fighting implies the conflict will continue indefinitely. If the Iranians really do want to impose ever higher costs on the US and Israel, it would indicate they would even escalate the fighting, say by launching bigger attacks on US allies in the region. That will likely keep alive the risk of further disruptions to the world's energy supplies and more financial market volatility.
- Separately, Fox News this morning said President Trump told one of its reporters that he would order the US military to bomb Oman if its negotiations with Iran over control of the Strait of Hormuz obstruct the current US-Iran talks. According to the reporter, the president said, "If Oman gets in the way, we'll bomb the s*** out of them." It's not clear how serious the president was, but it adds to the evidence that he is increasingly frustrated by the war and may consider unexpected new steps.

Japan: At the country's annual memorial service for its World War II dead on Saturday, Prime Minister Takaichi attempted to strike a balance between asserting Japan's intention to defend itself but not signaling a return to militarism. In her speech, Takaichi stressed Japanese efforts to build peace in the Indo-Pacific region but notably avoided repeating her predecessors' "remorse" for the war. She also avoided making what would have been a controversial visit to the Yasukuni war-dead shrine, but she sent Defense Minister Koizumi in her place.

- As Japan hikes its military budget and unshackles its defense industry, countries around the region probably understand that this is a response to growing Chinese geopolitical pressure and US insistence that Japan shoulder more of its own defense. All the same, regional leaders with long memories of World War II are becoming concerned about renewed Japanese militarism.
- Takaichi's caution at the memorial services suggests she understands how Japan's new defense policies could unsettle other countries in the Indo-Pacific. To ensure those countries remain friends, or even allies, Takaichi will likely continue to soft-pedal her defense policies in public while still pouring new resources into the armed forces.

India: Prime Minister Modi on Saturday said his government will provide free online coaching lessons for students prepping to take competitive exams. The move comes just weeks after large student protests, triggered by the leak of a key medical entrance exam paper, and other scandals that together prompted the resignation of Modi's education minister. The new move implies that Modi has been rattled by those protests and now sees a continuing need to appease India's large cohort of students, all of which has implications for Indian political stability.

China: July retail sales were up just 0.6% from the same month one year earlier, slowing from a 1.0% rise in the year to June. The urban unemployment rate rose to 5.2% in July from 5.0% in

June. Meanwhile, fixed-asset investment in January through July was down 6.7% from the same period one year earlier. Even though Chinese exports are still booming, reflecting both technological prowess and aggressive pricing, the data today confirms that the domestic economy remains in the doldrums, putting even more pressure on firms to unload products abroad.

United States-China: With just six weeks to go before General Secretary Xi's summit with President Trump in Washington, reports say Chinese officials [are frustrated by disorganization and missed deadlines for deliverables on the US side]. The problems reportedly reflect internal disputes within the Trump administration over the goal of the meeting, as White House advisers such as Stephen Miller and Steven Cheung push the president to project superiority over China, while other advisers advocate taking steps to smooth over US-China tensions.

- The only concrete item on the agenda being discussed so far is a roughly $30-billion tariff reduction for Chinese goods as a targeted US concession. The reports say other potential deliverables remain under discussion.
- In any case, we think Trump continues to prefer a policy stance that reduces tensions and lays the groundwork for a kind of US-China détente over the long term. That's consistent with the market-friendly "constructive relationship of strategic stability" that the two leaders agreed to at their May summit.
- However, recent Chinese territorial moves in the South China Sea and new US technology-export curbs suggest each side faces internal pressure to take more aggressive action against the other. If those forces ultimately win the day and tensions suddenly spike again, the result would probably be negative for world financial markets.

US Dollar: In an interview over the weekend, legendary investor Jim Rodgers said he's been boosting his cash allocations due to stretched US asset values and high federal debt. Importantly, Rodgers said that because of worsening US debt levels, he would prefer to shift his cash holdings to Chinese renminbi but was deterred from doing so because the currency still isn't convertible. The remark illustrates how other currencies' problems with convertibility, market size, and other issues continue to slow the global shift away from the dollar as the reserve currency.

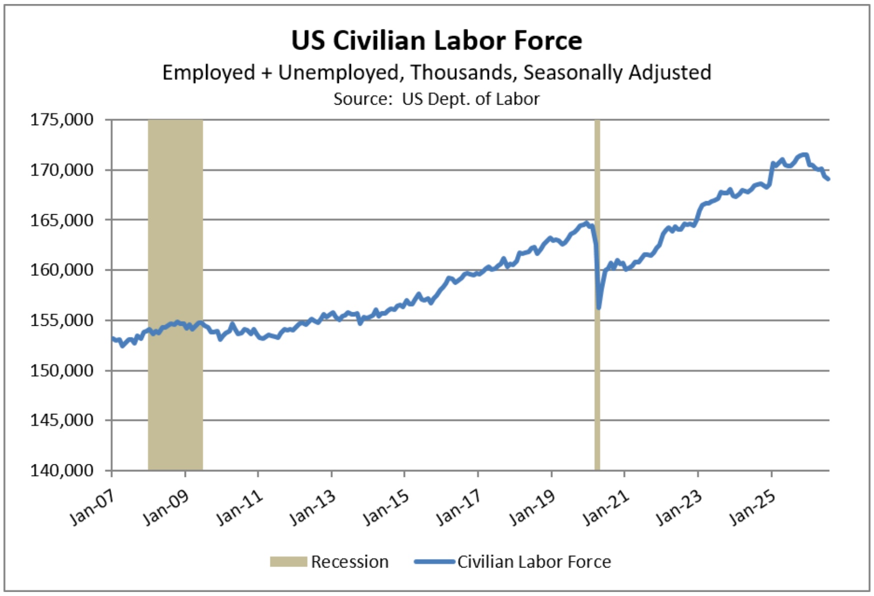
US Politics: Jonathan Reiner, MD, the long-time cardiologist for former Vice President Cheney, on Saturday posted a *New York Times* opinion piece raising concerns about President Trump's health and questioning whether the White House is covering up medical issues. Reiner's observations were based solely on publicly released health records, photographs, and videos, but his concern raises the potential issue of an unexpected presidential health problem leading to a sudden, disruptive political transition that would probably unsettle the financial markets.

- In his article, Reiner asserts that "at times over the past year, the president has not looked well" and points to evidence such as large bruises on both the president's hands, swelling in his legs, and episodes when it appears he is struggling to stay awake. He also notes that the president has had advanced imaging performed for unclear reasons.
- Reiner also calls attention to the fact that the president was examined by 22 different specialists at his last physical exam in May — a number Reiner calls "extraordinary" for even the most extensive executive health evaluation. He also questions why the president has been subjected to such a large number of cognitive tests.
- Reiner asserts that all these issues taken together could point to serious problems in a man as aged as the president, who turned 80 in June.

US Private Credit Industry: New analysis by the *Financial Times* today shows non-accruing loans at the 20 largest business-development companies rose to 2.8% of cost in the second quarter, up from 2.0% in the first. Citing that and other data, the article asserts that the level of problem loans in the private credit space is now at its highest since 2017, despite recent efforts by private credit funds to downplay the issue.

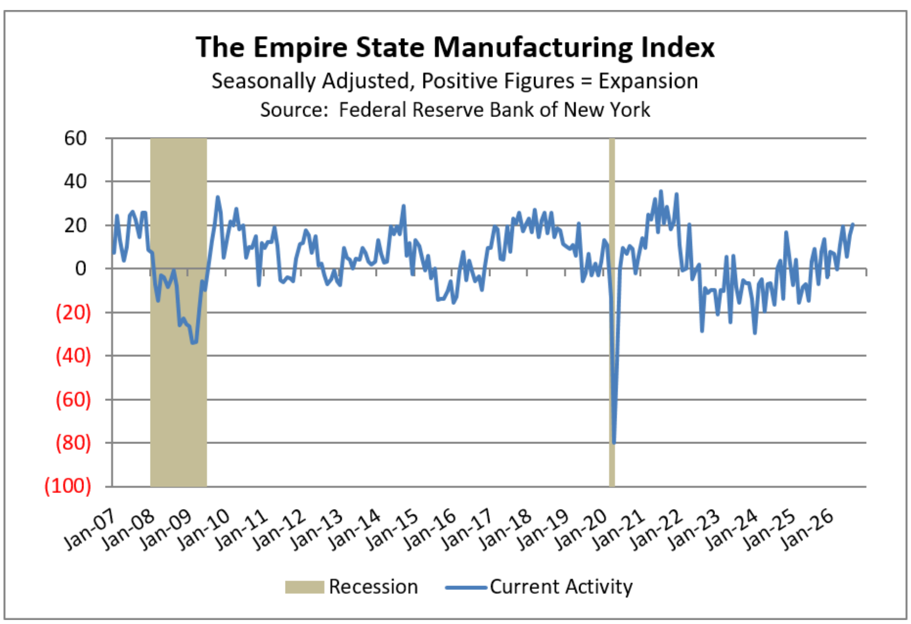
US Labor Market: An article in the *Wall Street Journal* today shows the cancellation of the "temporary protected status" program that provided work authorization to immigrants from certain countries has had an especially large impact on the labor market in southern Florida. Cancellation of the program reportedly took over 90,000 immigrants from Haiti out of the labor market in Florida, creating labor shortages in industries such as hotels, restaurants, home healthcare, and retail.

- The article illustrates how the administration's crackdown on immigration has helped constrict the US labor force. We believe that another major reason for the falling labor force is increasing retirements by baby boomers.
- While the loss of workers and potential workers has helped hold down the unemployment rate, it also means the economy is losing wage-earning consumers, which could eventually be a drag on economic growth.



US Economic Releases

The New York FRB said its August ***Empire State Manufacturing Index*** rose to a seasonally adjusted 20.6, well above the expected level of 10.0 and the July level of 15.6. This index is designed so that positive readings point to expanding factory activity in New York state. At its current level, the index suggests New York manufacturing is now growing rather robustly. The chart below shows how the index has fluctuated 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	NAHB Housing Market Index	m/m	Aug	33	34	*
16:00	Net Long-Term TIC Flows	m/m	Jun		$132.2b	**
16:00	Total Net TIC Flows	m/m	Jun		$232.7b	**
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	GDP SA	q/q	2Q P	0.3%	0.5%	0.5%	***	Equity and bond neutral
	GDP Deflator	q/q	2Q P	2.6%	3.2%	2.3%	***	Equity and bond neutral
New Zealand	Food Prices	m/m	Jul	0.1%	0.6%		***	Equity and bond neutral
China	Retail Sales	y/y	Jul	0.6%	1.0%	1.5%	**	Equity bearish, bond bullish
	Industrial Production	y/y	Jul	4.5%	5.3%	5.0%	***	Equity and bond neutral
	Fixed Assets Ex Rural YTD	y/y	Jul	-6.7%	-5.7%	-6.2%	**	Equity and bond neutral
India	Unemployment Rate	m/m	Jul	5.1%	5.5%		***	Equity and bond neutral
EUROPE								
UK	Rightmove House Prices	y/y	Aug	-0.10%	-0.40%		**	Equity and bond neutral
Switzerland	Domestic Sight Deposits CHF	w/w	14-Aug	433.5b	432.6b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	14-Aug	458.8b	462.4b		*	Equity and bond neutral
Russia	Current Account Balance	q/q	2Q P	21400m	12654m	20900m	**	Equity and bond neutral
AMERICAS								
Canada	Manufacturing Sales	m/m	Jun	1.0%	1.6%	-0.1%	**	Equity and bond neutral
	Wholesale Trade Sales	m/m	Jun	2.8%	-0.3%	2.7%	**	Equity and bond neutral
Brazil	FGV Inflation IGP-10	m/m	Aug	2.00%	2.68%	2.70%	**	Equity bearish, bond bullish

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)	369	370	-1	Up
U.S. Sibor/OIS spread (bps)	373	373	0	Up
U.S. Libor/OIS spread (bps)	371	371	0	Up
10-yr T-note (%)	4.69	4.69	0.00	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	$89.20	$88.52	0.77%	
WTI	$82.69	$82.40	0.35%	
Natural Gas	$2.65	$2.73	-2.96%	
Crack Spread	$67.17	$66.55	0.93%	
12-mo strip crack	$50.11	$49.89	0.44%	
Ethanol rack	$2.14	$2.14	0.38%	
Metals				
Gold	$4,404.02	$4,376.40	0.63%	
Silver	$65.75	$64.68	1.64%	
Copper Contract	$679.65	$671.45	1.22%	
Grains				
Corn contract	$484.25	$483.25	0.21%	
Wheat contract	$682.50	$689.50	-1.02%	
Soybeans contract	$1,196.00	$1,192.50	0.29%	
Shipping				
Baltic Dry Freight	2,863	2,844	19	

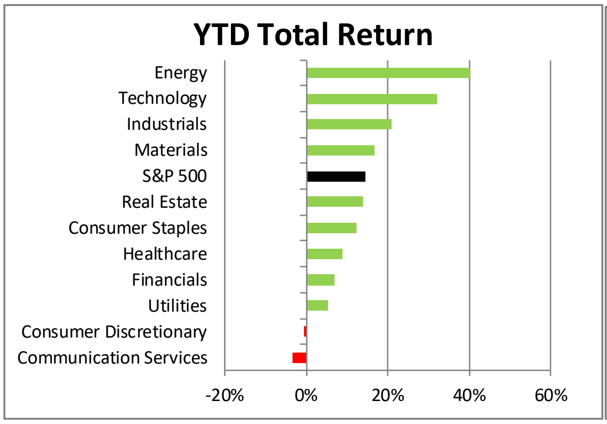
Weather

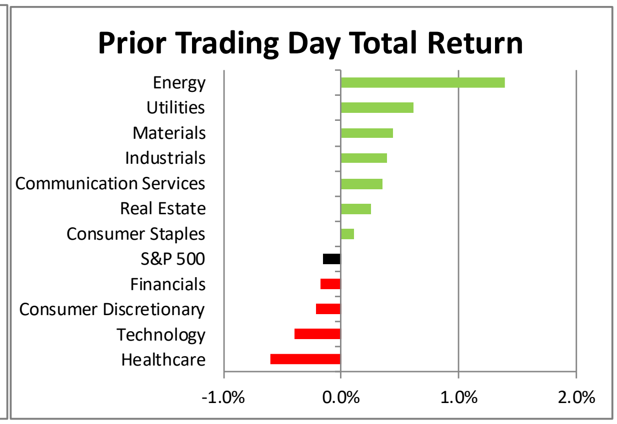
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures everywhere except the Northeast, where temperatures will be near normal. The outlook calls for wetter-than-normal conditions in the Rocky Mountains, the northern Great Plains, and the Northeast, with dry conditions in Texas and the Gulf Coast states.

There are currently no atmospheric disturbances in the Atlantic Ocean area, and no tropical cyclonic activity is expected in the area over the next week.

Data Section

US Equity Markets – (as of 8/14/2026 close)

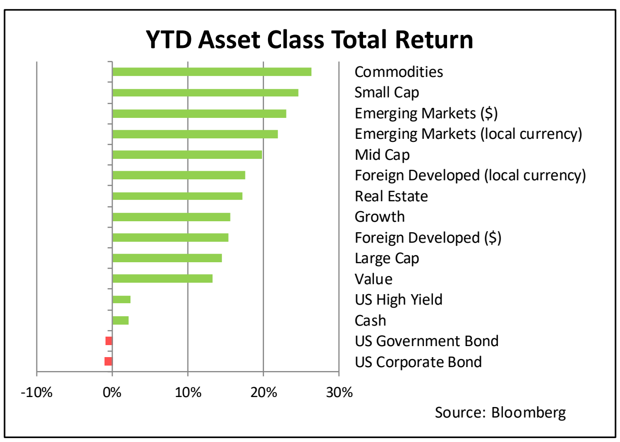




(Source: Bloomberg)

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 8/14/2026 close)

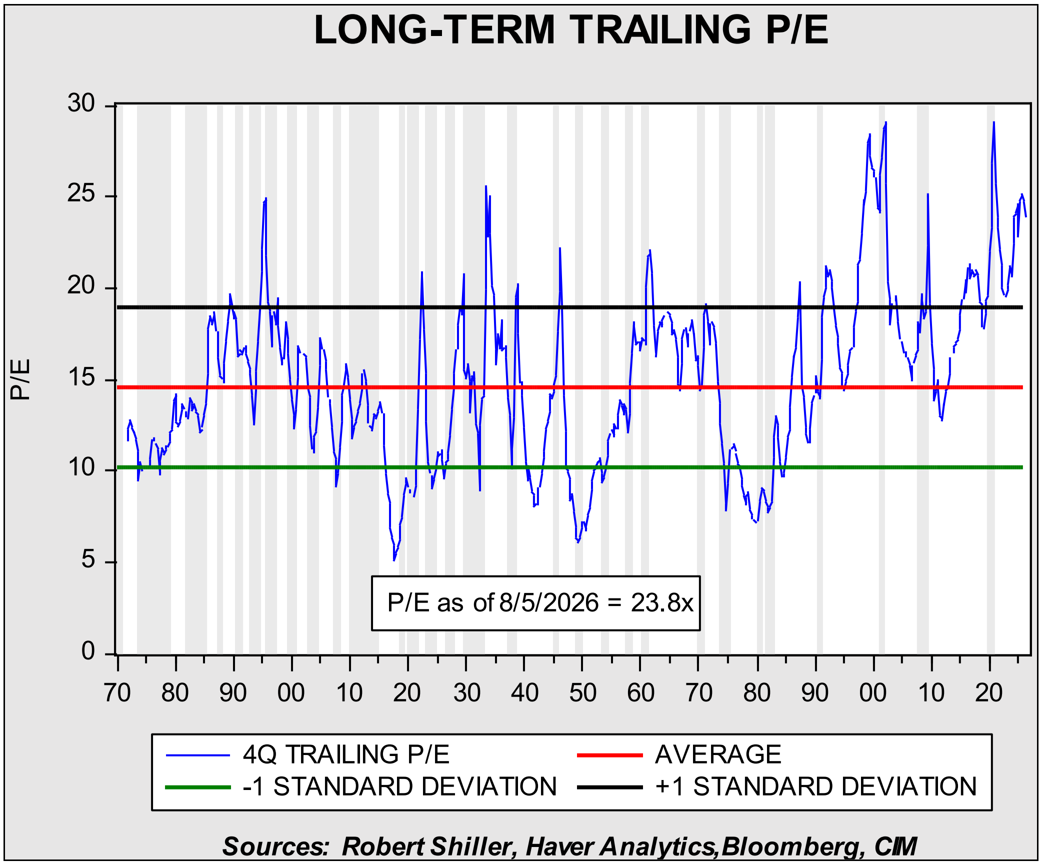


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.