Daily Comment

Confluence Investment Management

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: August 18, 2026 — 9:30 AM ET] Global equity markets are mostly lower this morning. In Europe, the Euro Stoxx 50 is down 0.5% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.9%. Chinese markets were mixed, with the Shanghai Composite up 0.2% and the Shenzhen Composite down 0.5%. US equity index futures are signaling a lower 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 conflict in Iran, where there are new signs of the war expanding. We next review several other international and US developments that could affect the financial markets today, including new evidence that sophisticated US investors increasingly find China to be uninvestable and a discussion of the upward pressures on government bond yields in the US and other developed countries.

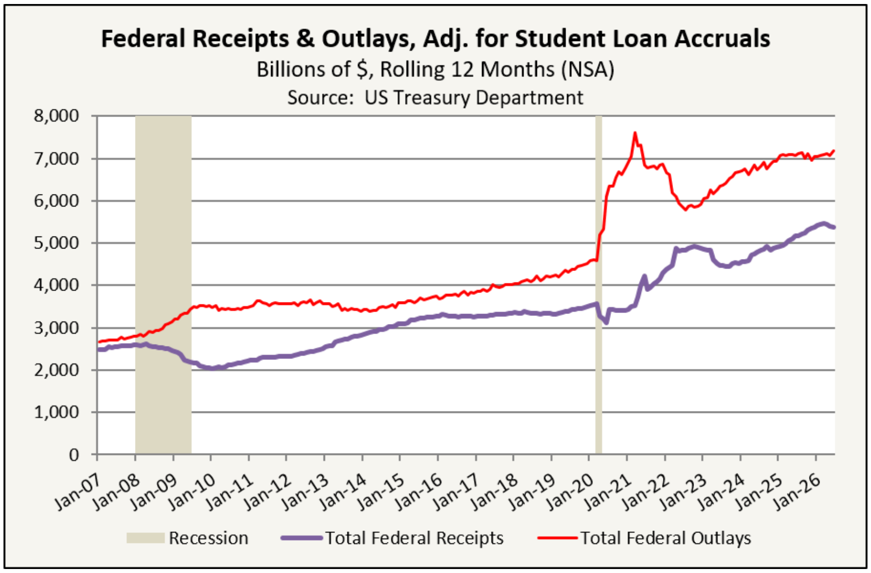
United States-Israel-Iran: Reports today say the Iran-allied Houthi rebels in Yemen continue to ramp up their military attacks in the region, including launching missile and drone attacks that shut down the port of Mokha, a key logistics hub for civilian shipping and for anti-Houthi forces operating along the coast of the Bab al-Mandeb Strait. Other reports also said a commercial ship was attacked near the Strait of Hormuz yesterday. The developments are consistent with our view that the Iran war could continue for some time and risks spreading throughout the region.

- Separately, in the latest *SpyTalk* podcast, a recently retired CIA analyst describes how the large-scale culling of personnel from the intelligence community since early 2025 has left few senior officers with the expertise or prestige to provide effective warning to top government leaders when they are about to launch risky national security initiatives.
- In turn, the relative lack of intelligence community input or pushback likely raises the risk of US leaders making bad national security decisions. Of course, any such decisions could have negative implications for the global economy and financial markets.
- Reflecting the latest fighting in the Middle East, global oil prices rose yesterday, with near Brent crude futures up about 3.5% to almost $92 per barrel, although they have retreated slightly in recent hours.

Map of Yemen, with the port of Mokha on its southwest coast. (Source: CIA)

Global Mining Industry: Australian mining giant BHP yesterday said copper was the biggest contributor to its annual profit growth for the first time ever, outstripping the contribution from iron ore and other minerals. In the year to June, the company said copper profits rose about 48%, exceeding the 27% increase in its total earnings before interest, taxes, depreciation, and amortization. The data reflects how global trends such as electrification and artificial intelligence have boosted the demand for copper and supported its price.

US Bond Market: As oil prices rose yesterday on reports that a tanker had been seized in the Strait of Hormuz, bond prices fell, driving the yield on the 30-year Treasury bond to a 19-year high of 5.31%. The 10-year Treasury yield edged up to 4.725%. In our view, the rise in longer-term bond yields reflects not only concerns about price inflation because of the war in Iran, but also worries about worsening US budget deficits, rising federal debt, and more opaque monetary policymaking under the new Fed chair, Kevin Warsh.



US Artificial Intelligence Industry: AI model developer OpenAI yesterday said it has signed a 20-year lease for a massive new data center to be built in central Ohio, with AI chip developer Nvidia partly guaranteeing the financing. The data center will be built and owned by SoftBank subsidiary SB Energy, in which Nvidia will invest. OpenAI's reliance on funding from Nvidia, a key supplier, will likely add to investors' concern about circular financing deals in the AI space, which raises the risk of financial contagion if a major player stumbles.

- Separately, reports yesterday said Google will pay $10 million for a trove of emails, calendar info, chats, documents, spreadsheets, and other business data from the defunct Spirit Airlines, which went out of business earlier this year and whose assets are now being sold off.
- Google is expected to use the data to help train its AI models. The news therefore illustrates how data is rapidly becoming a valuable resource that can command top dollar in auctions.

United States-United Kingdom: Prime Minister Burnham's cabinet office has reportedly asked the Department for Business, Innovation, Science and Trade to examine how the UK economy would be affected if the US cut it off from frontier AI models launched by companies such as Anthropic and OpenAI. The move reflects fears among other countries that they could be disadvantaged by AI export restrictions such as those the US temporarily imposed for Anthropic's Fable 5 model in June.

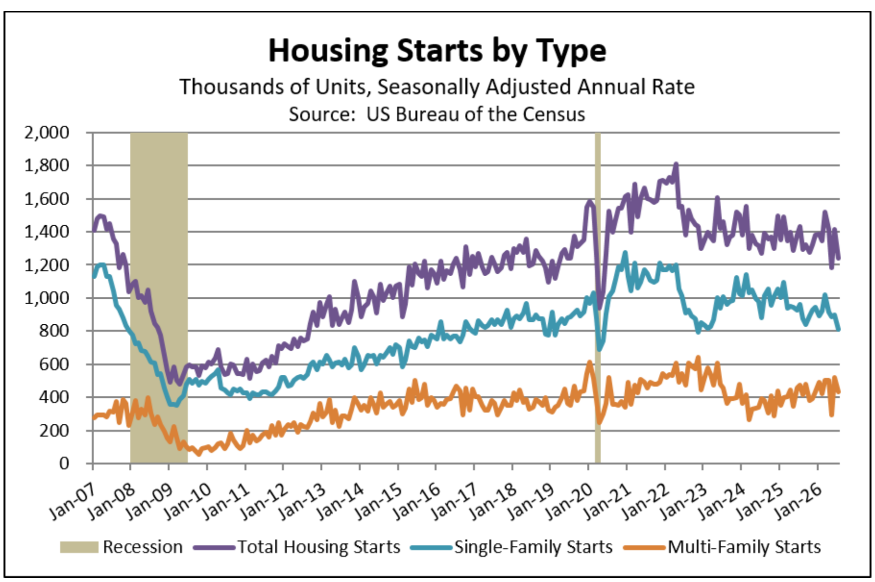
United States-China: New analysis by the *Financial Times* shows that top private equity firms, including giants such as Blackstone and KKR, have made no new deals in China so far this year. That suggests the full-year total could be even worse than the three deals in 2025 and the two deals in 2026. It also stands in sharp contrast with the dozen investments the firms made in China in 2021. The analysis suggests sophisticated private investors increasingly see China as uninvestable because of issues such as government interference in private firms.

United States-South Korea: President Trump yesterday ordered the Pentagon to scale back its participation in the annual US-South Korea military drills, arguing they are too expensive and provocative toward North Korea. He also appeared to tie the action to Seoul's resistance to helping the US in its war against Iran. In any case, the move will likely increase the concern among US allies in Asia that they can't rely on Washington to keep living up to its security commitments.

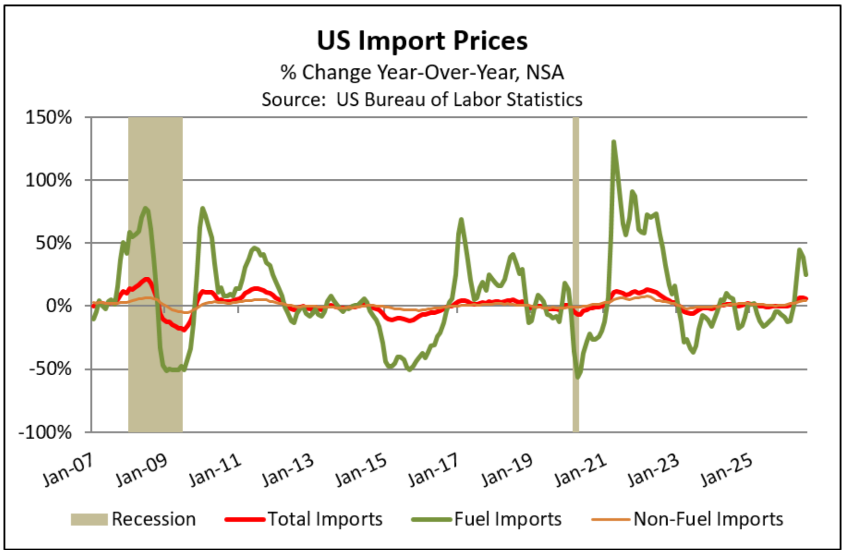
- As we've argued in the past, that could put increased pressure on countries such as Japan and South Korea to eventually develop their own nuclear weapons.
- The development therefore should be supportive of uranium prices over the longer term, given that large amounts of uranium would be needed for new countries to develop their own modern, credible nuclear weapons arsenals.

US Economic Releases

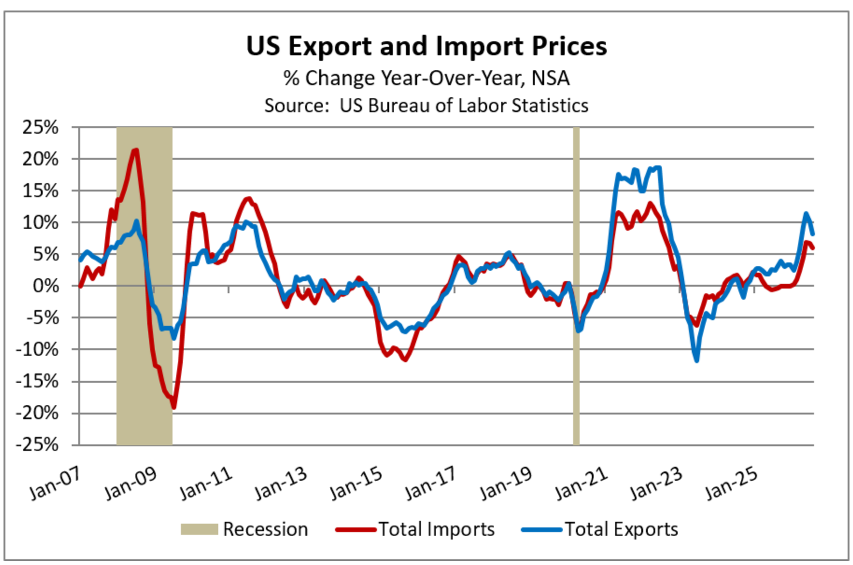
July ***housing starts*** plunged to a seasonally adjusted, annualized rate of just 1.239 million units, short of the expected rate of 1.345 million units and the revised June rate of 1.415 million units. The rate of housing starts in July was down 12.4% from the previous month. On a more positive note, July ***housing permits*** rose to a rate of 1.443 million units, beating their anticipated rate of 1.375 million units and the revised June rate of 1.374 million units. Permits issued for new housing units in July were up 5.0% from the previous month. Compared with the same month one year earlier, housing starts in July were down 14.1%, while permits were up 5.5%. The chart below shows the growth in new home starts by type of property since just before the Great Financial Crisis.



Separately, July ***import prices*** were down 0.4% from the previous month, much better than both the expected increase of 0.1% and the revised June decline of 0.3%. Of course, import prices are often driven by volatility in the petroleum fuels category. July ***import prices excluding fuels*** were up 0.3%, worse than both the expected rise of 0.1% and the revised June increase of 0.2%. Overall import prices in July were up 5.9% year-over-year, while import prices excluding fuels were up 4.5%. The chart below shows the year-over-year change in import prices since just before the GFC.



According to the report, ***export prices*** in July were up a strong 8.2% from one year earlier. Comparing the annual change in export prices versus import prices provides a sense of the US "terms of trade," or the relative advantage or disadvantage the country is facing because of trends in international trade prices. The chart below compares the year-over-year change in US export and import prices since just before the GFC.



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	Pending Home Sales	m/m	Jul	0.0%	-5.4%	**
10:00	Pending Home Sales NSA	y/y	Jul	1.1%	2.3%	**
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	Industrial Production	y/y	Jun F	4.9%	4.2%		***	Equity and bond neutral
	Capacity Utilization	y/y	Jun	4.1%	0.1%		**	Equity and bond neutral
	Tertiary Industry Index	m/m	Jun	-0.2%	1%	-1%	***	Equity and bond neutral
Australia	Westpac Consumer Conf SA	m/m	Aug	6.0%	4.1%		**	Equity and bond neutral
	Westpac Consumer Conf Index	m/m	Aug	88.9	83.9		**	Equity and bond neutral
New Zealand	Non Resident Bond Holdings	m/m	Jul	58.9%	57.7%		*	Equity and bond neutral
EUROPE								
Eurozone	ZEW Survey Expectations	m/m	Aug	31.4	26.3	30.0	**	Equity and bond neutral
Germany	ZEW Survey Expectations	m/m	Aug	34.2	-77.6	-69.3	**	Equity and bond neutral
	ZEW Survey Current Situation	m/m	Aug	-61.1	8.1	22.5	**	Equity and bond neutral
UK	Average Weekly Earnings 3M/YoY	m/m	Jun	4.10%	4.40%	4.00%	**	Equity and bond neutral
	ILO Unemployment Rate 3Mths	m/m	Jun	4.90%	4.90%	4.80%	**	Equity and bond neutral
	Claimant Count Rate	m/m	Jul	4.30%	4.40%		**	Equity and bond neutral
	Jobless Claims Change	m/m	Jul	-11.0k	-6.4k		**	Equity and bond neutral
AMERICAS								
Canada	Int'l Securities Transactions	m/m	Jun	40.83b	8.80b		**	Equity and bond neutral
	CPI	y/y	Jul	3.0%	2.8%	2.9%	***	Equity and bond neutral
Brazil	Econimic Activity	y/y	Aug	2.35%	0.90%	2.30%	**	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)	369	370	-1	Up
U.S. Sibor/OIS spread (bps)	374	373	1	Up
U.S. Libor/OIS spread (bps)	372	372	0	Up
10-yr T-note (%)	4.74	4.72	0.02	Down
Euribor/OIS spread (bps)	250	251	-1	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	$90.89	$90.87	0.02%	
WTI	$84.96	$84.50	0.54%	
Natural Gas	$2.70	$2.69	0.37%	
Crack Spread	$68.72	$68.72	0.01%	
12-mo strip crack	$50.60	$50.39	0.41%	
Ethanol rack	$2.16	$2.15	0.31%	
Metals				
Gold	$4,389.90	$4,415.99	-0.59%	
Silver	$64.95	$65.79	-1.27%	
Copper Contract	$665.95	$671.60	-0.84%	
Grains				
Corn contract	$492.25	$489.50	0.56%	
Wheat contract	$691.00	$689.25	0.25%	
Soybeans contract	$1,224.25	$1,216.00	0.68%	
Shipping				
Baltic Dry Freight	2,878	2,863	15	
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)		31		

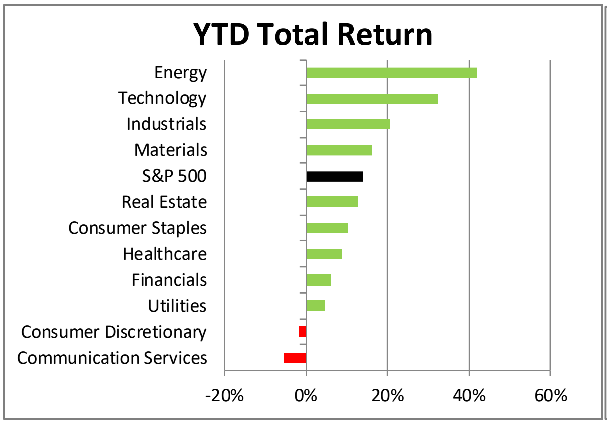
Weather

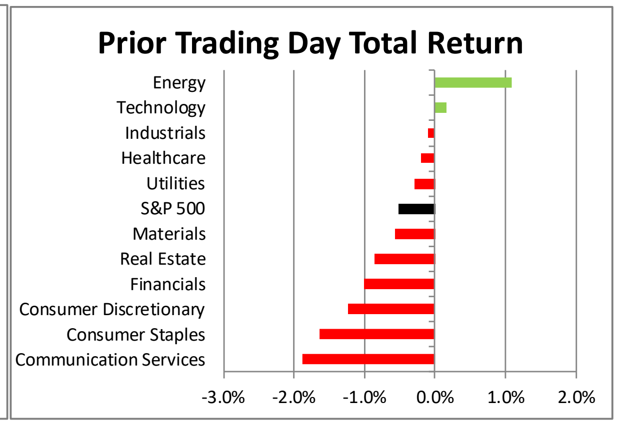
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures everywhere except the Midwest and Northeast, with cooler-than-normal temps in Pennsylvania, New York, and New Jersey. The outlook calls for wetter-than-normal conditions in the central Rocky Mountains and along the East Coast north of Florida, with dry conditions only along the Gulf Coast.

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 8/17/2026 close)

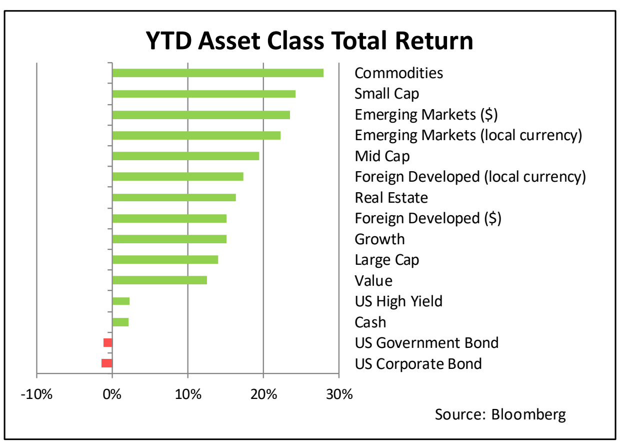




(Source: Bloomberg)

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 8/17/2026 close)

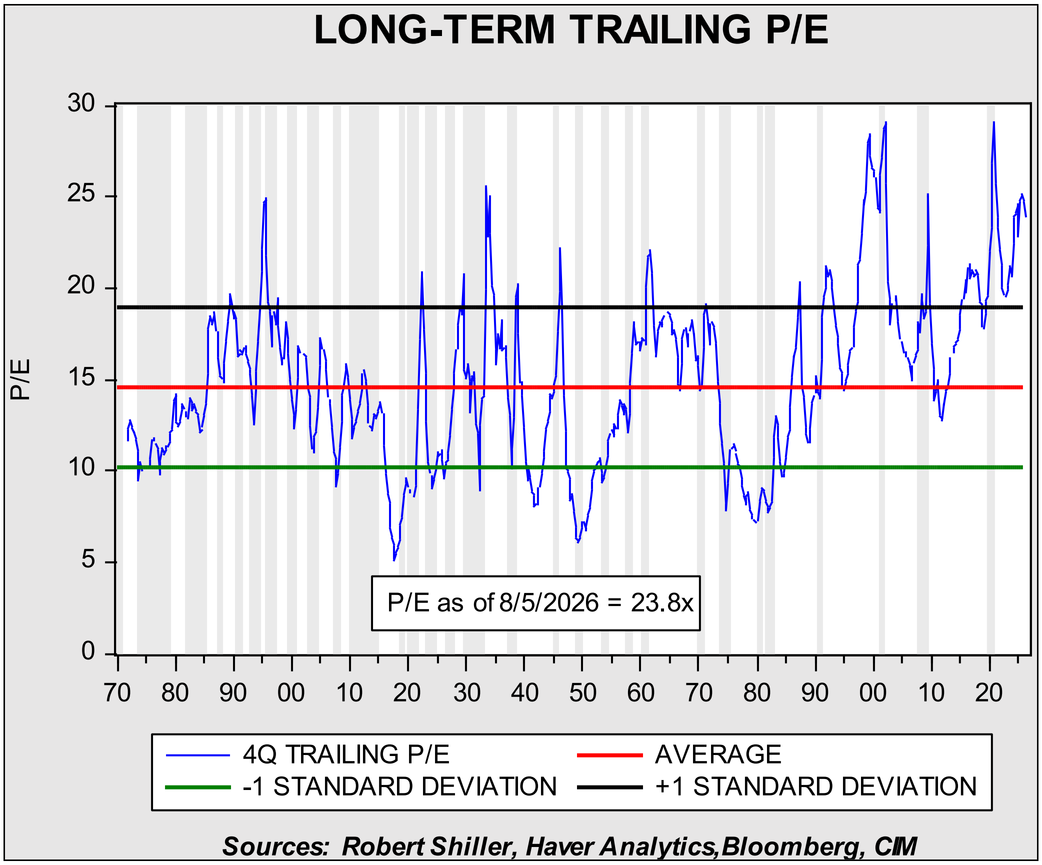


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.