Daily Comment

Confluence Investment Management

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[Posted: August 19, 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 down 2.5%. Chinese markets were lower, with the Shanghai Composite down 2.4% and the Shenzhen Composite down 4.9%. US equity index futures are signaling a higher open.

With 459 companies having reported so far, S&P 500 earnings for Q2 are running at $87.90 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, 85.4% 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 attacks on shipping add to evidence that the conflict will continue for some time. We next review several other international and US developments that could affect the financial markets today, including news that the US and Canada have reached a preliminary agreement on a new trade deal and another unexpected primary election win for a Democratic Socialist.

United States-Israel-Iran: According to the United Arab Emirates military, Iran fired two ballistic missiles at commercial ships in the Strait of Hormuz yesterday, hours after it hit a bulk carrier in the strait east of Oman. The US military evidently did not respond to either attack, although it still appears to be enforcing the US blockade on Iranian ports. The lack of a US response to the latest attacks seems to reflect the administration's decision to focus on economic pressure to force Iran to allow shipping in the waterway.

- However, as we've argued in the past, the hardline Iranian leadership appears to have the tactical advantage in the war and is likely to keep trying to escalate the violence to show the US as impotent or force it into again launching politically unpopular military strikes. The *Financial Times* yesterday said the Iranian military has even weighed striking US and allied assets in Europe to keep increasing the cost of the war for the US.
- Either way, the conflict looks set to keep going and create a continued risk of disruption to world energy markets.

United States-Canada: President Trump last night said that US and Canadian negotiators have agreed in principle on a new trade deal, so he will pause a threatened 50% import tariff on certain goods from Canada for three days to give them time to finalize it. The Office of the US Trade Representative said the deal would include improved market access for US goods in Canada, along with "economic security commitments" and "alignment" on digital trade issues that have long caused tension between the two countries.

United States-China: US semiconductor giant Nvidia has reportedly received permission from Beijing to send small batches of its H200 artificial intelligence chip to China. Major Chinese technology firms such as ByteDance and Tencent have each received about 10,000 of the processors in recent weeks, while a few other Chinese tech groups could soon get approval for shipments of similar size.

- Beijing had previously banned the US chips to support its domestic AI chip industry, but now it has apparently relented to help its AI labs in their race against US model developers.
- Nvidia's H200 processor is still at least two generations behind the firm's most advanced chips, but China has shown that it can leverage even less-than-cutting-edge technology to advance its AI models. That could potentially help US chip suppliers.

China-United States: New federal data shows China's holdings of US Treasury obligations fell from $659.3 billion in May to $633.4 billion in June. China's official portfolio of US Treasurys has therefore declined by more than 50% since its peak in 2015 and now stands at its lowest level since September 2008. The figures may not capture some indirect Chinese holdings in third countries, but the data nevertheless shows how key countries have cut their exposure to the US and the US dollar over time.

- Foreign central banks and institutions have been working to reduce their exposure to the US for a number of reasons, from fear of financial sanctions to concern over the US's expanding budget deficit, rising debt, and shifting monetary policy.
- As we've noted before, however, no other major currency offers the same advantages as the greenback, such as big, deep, well-regulated financial markets and full currency convertibility. Therefore, China and other foreign investors will probably continue diversifying away from the dollar and US Treasurys only gradually. The trend may put

upward pressure on US bond yields over time, but it won't necessarily lead to a sudden outflow that sparks a sharp financial crisis.

Japan: Concerns about Prime Minister Takaichi's health have grown after she unexpectedly spent 6-1/2 hours in what was supposed to be a routine checkup on an arthritic hand she injured while campaigning in February. Government officials say the extended exam found no particular problems, but observers note that her intense work schedule and habit of getting very little sleep could put her health at risk. Of course, if Takaichi were to suddenly become incapacitated, it would likely spark volatility in Japan's financial markets.

Singapore: The Monetary Authority of Singapore today said it plans to remove the tax paid by investment professionals relating to profits from fund management services. It will also set up an investment program to provide hedge fund managers operating in Singapore with capital, while loosening visa rules for senior fund-management staff. The growth-friendly moves aim to help the city state compete for investment management business now that Hong Kong is cutting its taxes on the industry as it tries to regain its cachet as a financial center.

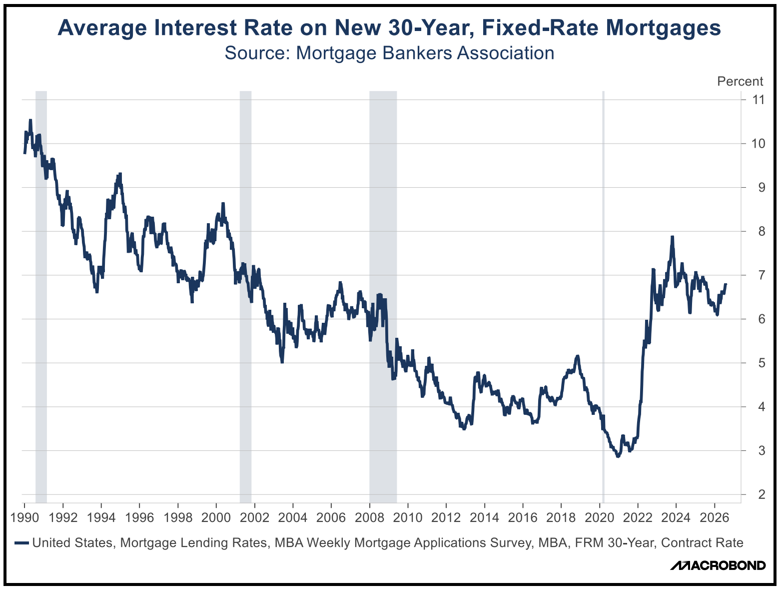
US Politics: Florida's Democratic primary for the US Senate yesterday was unexpectedly won by state Rep. Angie Nixon, a Democratic Socialist who had campaigned on Medicare for All and a federal minimum wage of $25 per hour. Nixon is widely expected to lose the general election against GOP Sen. Ashley Moody in November, but her win in the primary will likely keep alive the narrative that the Democratic Party is drifting farther to the left — a narrative the Republicans will use against the party's candidates ahead of the mid-term elections.

US National Security Policy: The US Navy this week said it will accept its newest nuclear-powered attack submarine, the USS Massachusetts, without the customary final sea trials. According to Vice Adm. Rob Gaucher, the Navy's director of submarine programs, early acceptance is a calculated risk, but it would make the Massachusetts available for operations sooner and allow shipyards to accelerate their production of other subs.

- The decision probably reflects White House and Pentagon pressure on the Navy to reverse the chronic delays in producing major combat vessels.
- As noted by Vice Adm. Gaucher, the decision to forego the traditional final sea trials raises the risk that the Massachusetts will be found to have problems. However, it will also help slow the current slide in the number of combat ships available to the Navy.

US Economic Releases

The Mortgage Bankers Association said ***mortgage applications*** in the week ended August 14 fell 0.4%, reversing only a small part of the 3.6% rise in the previous week. Applications for home purchase mortgages fell 2.0%, after rising 2.5% in the prior week. Applications for refinancing mortgages rose 1.5%, after gaining 5.0% the week before. The average interest rate on a 30-year, fixed-rate mortgage was unchanged at 6.77%. The chart below shows how mortgage rates have changed over time.



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

Economic Releases		
No economic releases for the rest of today		
Federal Reserve		
EST	**Speaker or Event**	**District or Position**
14:00	U.S. Federal Reserve Releases Meeting Minutes	Federal Reserve Board

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	Core Machine Orders	y/y	Jun	16.9%	-1.9%	9.6%	**	Equity bullish, bond bearish
Australia	Wage Price Index	m/m	2Q	3.2%	3.2%	3.2%	***	Equity and bond neutral
New Zealand	PPI Output	q/q	2Q	1.6%	0.8%		***	Equity and bond neutral
	PPI Input	q/q	2Q	2.9%	1.4%		***	Equity and bond neutral
EUROPE								
Eurozone	ECB Current Account SA	m/m	Jun	35.1b	25.8b		*	Equity and bond neutral
	CPI	y/y	Jul F	2.9%	2.9%	2.9%	***	Equity and bond neutral
	Core CPI	y/y	Jul F	2.5%	2.5%	2.5%	**	Equity and bond neutral
Italy	Current Account Balance	m/m	Jun	5839m	627m		*	Equity and bond neutral
UK	CPI	y/y	Jul	2.9%	2.6%	2.9%	***	Equity and bond neutral
	CPI Core	y/y	Jul	2.6%	2.6%	2.5%	***	Equity and bond neutral
	CPI Services	y/y	Jul	3.4%	3.6%	3.4%	*	Equity and bond neutral
	Retail Price Index	m/m	Jul	419.1	416.5	419.7	**	Equity and bond neutral
	RPI	y/y	Jul	3.2%	3.0%	3.3%	**	Equity and bond neutral
	RPI Ex Mort Int.Payments	y/y	Jul	3.1%	2.9%		*+	Equity and bond neutral
	Nationwide House Price Index	y/y	Jun	2.0%	3.0%	12.6%	*	Equity and bond neutral
Switzerland	Industrial Output WDA	y/y	Q2	5.5%	7.6%		*	Equity and bond neutral
AMERICAS								
Canada	Housing Starts	m/m	Jul	229.1k	240.8k	250.0k	**	Equity and bond neutral
Mexico	International Reserves Weekly	w/w	14-Aug	$257417m	$257087m		*	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	370	0	Up
U.S. Sibor/OIS spread (bps)	373	373	0	Up
U.S. Libor/OIS spread (bps)	372	372	0	Up
10-yr T-note (%)	4.69	4.71	-0.02	Down
Euribor/OIS spread (bps)	250	250	0	Up
Currencies	**3 Mo**			
Dollar	Down	US		Flat
Euro	Up	Euro		Flat
Yen	Up	Japan		Flat
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	$91.86	$91.02	0.92%	
WTI	$85.85	$84.94	1.07%	
Natural Gas	$2.80	$2.78	0.83%	
Crack Spread	$69.90	$70.08	-0.26%	
12-mo strip crack	$51.52	$51.38	0.28%	
Ethanol rack	$2.16	$2.16	0.05%	
Metals				
Gold	$4,370.85	$4,334.50	0.84%	
Silver	$63.50	$63.37	0.21%	
Copper Contract	$652.30	$659.00	-1.02%	
Grains				
Corn contract	$490.00	$488.00	0.41%	
Wheat contract	$681.50	$681.25	0.04%	
Soybeans contract	$1,227.75	$1,216.75	0.90%	
Shipping				
Baltic Dry Freight	2,815	2,878	-63	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		0.20		
Gasoline (mb)		-1.50		
Distillates (mb)		-0.98		
Refinery run rates (%)		-0.55%		
Natural gas (bcf)		14		

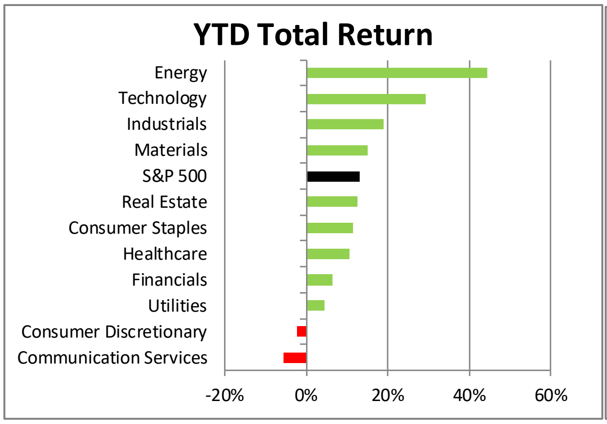
Weather

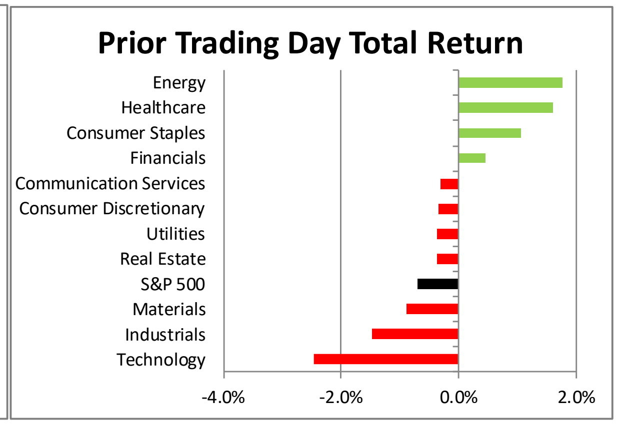
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in southern California, the Rocky Mountains, the Great Plains, and the Deep South, with cooler-than-normal temps in Pennsylvania and New York. The outlook calls for wetter-than-normal conditions in the northern Rocky Mountains and along the East Coast north of Georgia, with dry conditions in Texas and Louisiana.

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 8/18/2026 close)

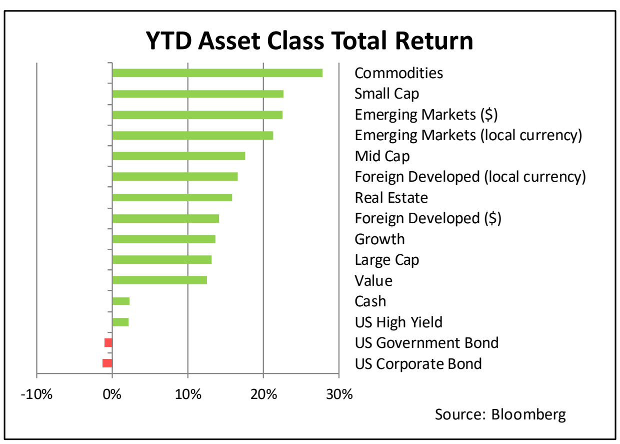




(Source: Bloomberg)

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 8/18/2026 close)

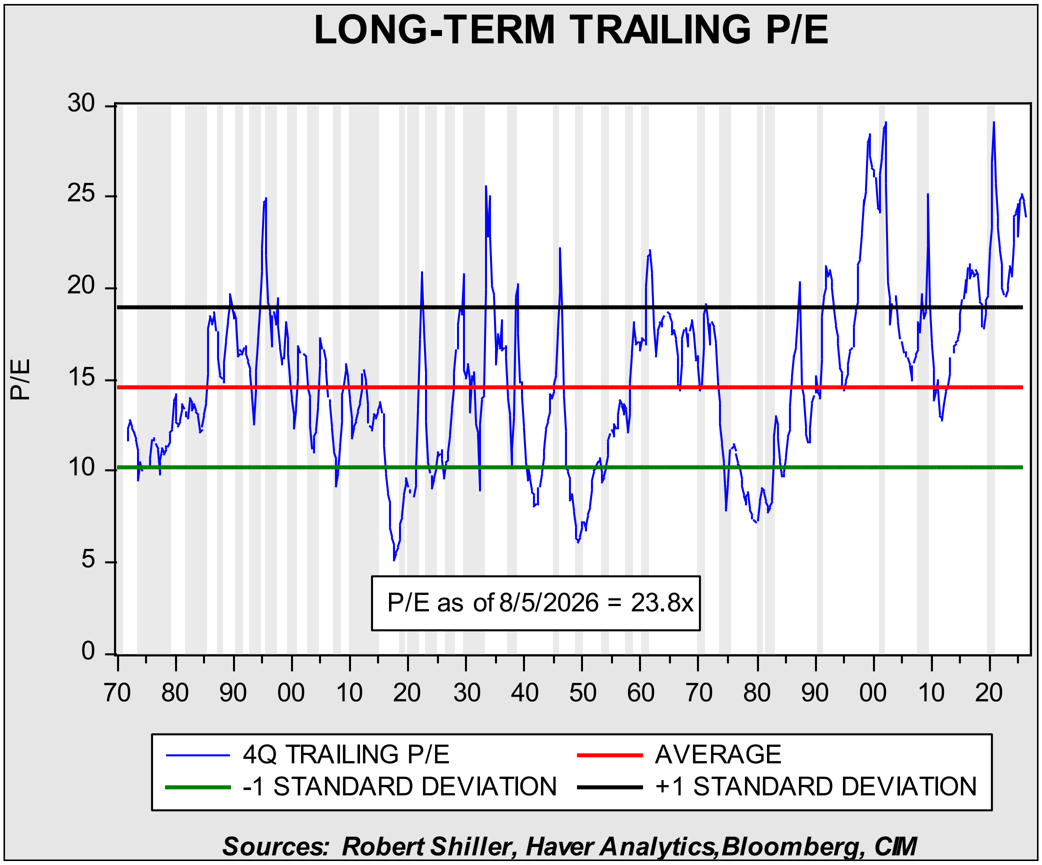


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.