Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: August 20, 2026 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is down 0.3% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 3.1%. Chinese markets were higher, with the Shanghai Composite up 0.2% and the Shenzhen Composite up 0.8%. US equity index futures are signaling a lower open.

With 465 companies having reported so far, S&P 500 earnings for Q2 are running at $88.00 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, 85.6% have exceeded expectations while 10.5% 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 important new development in the Iran war, where reports say the US has been quietly running convoys of oil tankers through the Strait of Hormuz. We next review several other international and US developments that could affect the financial markets today, including some encouraging economic news from the United Kingdom and a discussion of US monetary and fiscal policy as gross federal debt tops $40 trillion.

United States-Israel-Iran: Reports yesterday afternoon said the US military has been quietly running convoys of private oil tankers into and out of the Strait of Hormuz for the last several weeks, using a corridor along the coast of Oman and providing escort fighter jets to shoot down any Iranian missiles or drones that might threaten them. The program, run by the 82nd Airborne

Division out of Fort Bragg, North Carolina, is reportedly getting some 10 million barrels of crude out to world markets each day, or about half the daily volume before the war.

- The news helps explain the administration's anger at Iranian statements that it has total control over shipping in the waterway. In any case, news of the program did appear to push global oil prices slightly lower yesterday, with near Brent crude futures retreating to below $91 per barrel. However, prices later rebounded, possibly reflecting concern that Iran will respond to the revelation by staging new attacks to shut it down.
- Separately, President Trump yesterday announced a new program of economic warfare against Iran, calling it the "most crushing economic operation ever taken against any country" and demanding that US allies abide by it and stop all trading with Iran. Given Iran's long history of dealing with US economic sanctions, it's not clear that the new program will be successful. Moreover, it could become a source of further friction between the US and its allies.

United Kingdom: Second-quarter productivity — defined as the average value of output per hour worked — was up 1.8% from the same period one year earlier, accelerating from the 1.2% gain in the year to the first quarter and marking one of the best gains in years. Since productivity growth is key to boosting overall economic growth and living standards, the data is being taken as a sign of improving long-term prospects for the UK economy. Economists believe much of the increase has come from recent investment in artificial intelligence and other technology.

Taiwan: President Lai Ching-te's government has proposed hiking its military budget by 18% in 2027, bringing the total to the equivalent of $34.5 billion. That would mark Taiwan's largest defense budget ever and lift its defense burden to above 3% of gross domestic product. The proposal is likely to be resisted by the China-friendly opposition parties, but it nonetheless shows how rising geopolitical tensions continue to push up military spending around the globe, creating new opportunities for investors.

US Monetary Policy: The minutes of the Fed's July policy meeting, released yesterday, showed that more officials favored raising interest rates last month than the three who formally dissented. Others signaled they would back an increase if consumer price inflation doesn't cool. The news could rekindle investor concerns that the central bank under new Chair Warsh is too reluctant to hike rates. The prospect of the Fed acting too late to control inflation will likely put new upward pressure on longer-term bond yields, despite the Treasury's move yesterday (see below).

US Fiscal Policy: Treasury Secretary Bessent announced yesterday morning that his department will double its planned repurchases of government bonds from $2 billion to $4 billion. Although modest compared with the enormous size of the US Treasury market, investors clearly got the message that Bessent would intervene in the market to hold down yields. The move implies the Treasury will issue more short-term debt to fund purchases of longer-maturity obligations, with the likely result of relatively higher short-term yields but lower long-term yields.

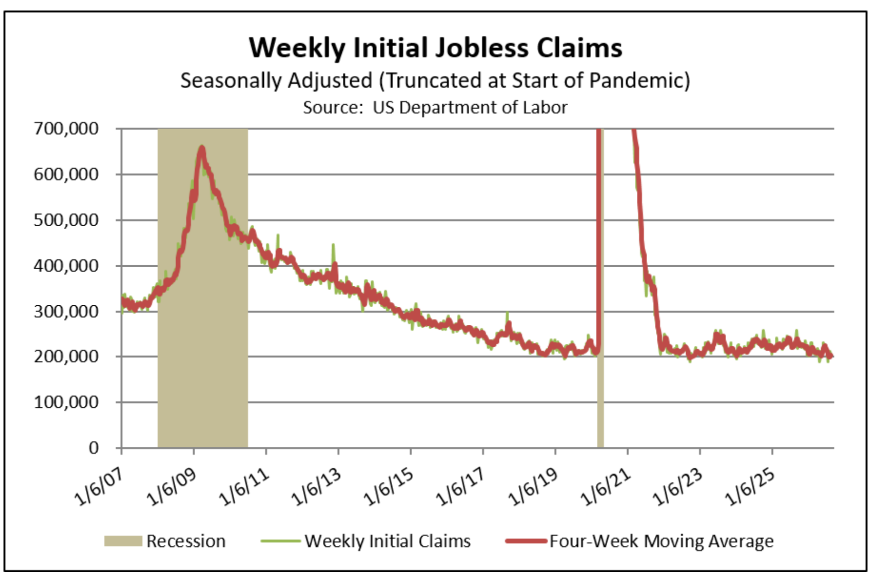
- Along with Bessent's recent move to shield the US Treasurys from Japanese selling as it tried to boost the yen, yesterday's action underscores how the US administration seems especially focused on capping longer-term yields at around 5%. That's consistent with our long-held view that there is a significant risk that the federal government will embark on "financial repression," i.e., artificially holding down interest rates, as debt loads climb.

- The result yesterday was a sharp increase in bond buying, which drove yields lower. The yield on the 30-year Treasury bond fell to 5.195%, while the yield on the 10-year Treasury declined to 4.650%. The drop in yields supported stocks generally, although the prospect of a flatter yield curve weighed on bank stocks.

US Retail Industry: Now that court decisions have forced the federal government to rebate billions of dollars of invalid tariffs, Walmart today said it will use most of its allotment of up to $3 billion to freeze prices to the end of the year. Because of Walmart's large size and dominance of the retail and grocery industry, the move could potentially have a noticeable impact in holding down overall consumer price inflation in the coming months. Of course, it could also further strengthen Walmart's competitive position in the industry.

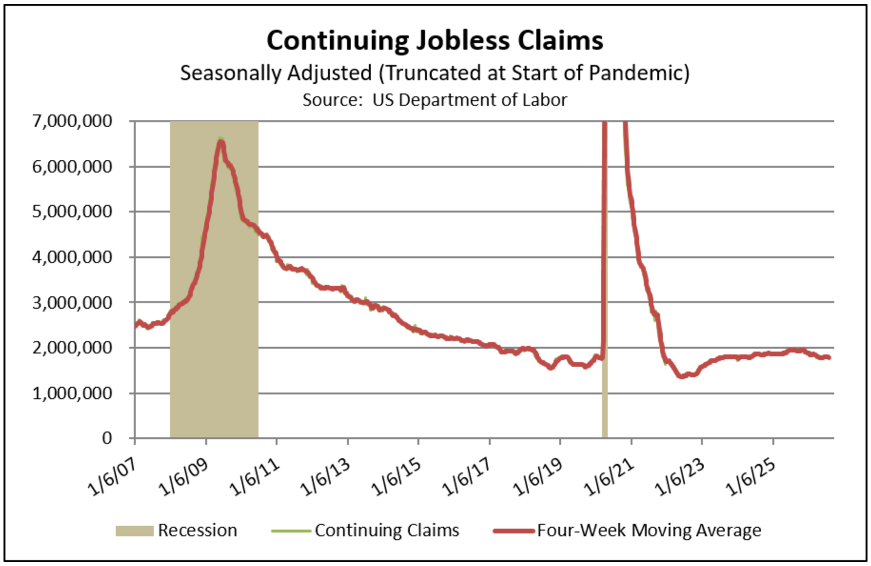
US Economic Releases

In the week ended August 15, ***initial claims for unemployment benefits*** fell to a seasonally adjusted 206,000, below both the expected level of 210,000 and the prior week's revised level of 212,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, nevertheless rose modestly to a still-low 204,000. The chart below shows how initial jobless claims have fluctuated since just before the Great Financial Crisis. The chart is truncated through much of the pandemic period because of the extremely high level of claims at that time.

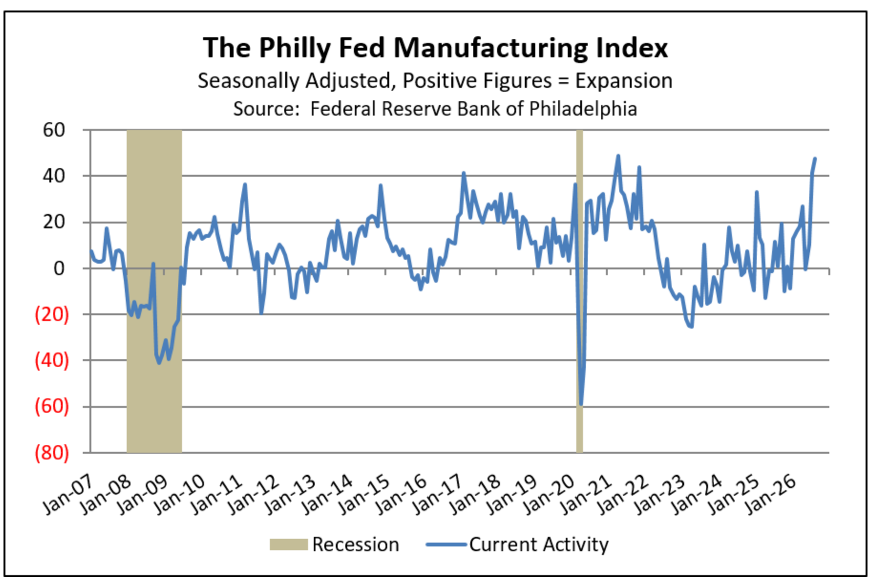


In the week ended August 8, the number of ***continuing claims for unemployment benefits*** (people continuing to draw benefits) rose to a seasonally adjusted 1.799 million, above both the anticipated reading of 1.788 million and the previous week's revised reading of 1.781 million.

The four-week moving average of continuing claims rose to 1.789 million. The chart below shows how continuing claims have fluctuated since the GFC. It is also truncated during the pandemic period because of the high level of claims at the time.



Separately, the Philadelphia FRB said its August ***Philly Fed Index*** rose to a seasonally adjusted 47.4, nearly double the expected reading of 24.8 and well above the July reading of 41.4. The index, officially designated as the Philadelphia FRB Manufacturing Activity Index, is designed so that positive readings point to expanding factory activity in the mid-Atlantic region. At its current level, the index suggests mid-Atlantic manufacturing is now growing quite robustly. The chart below shows how the index has fluctuated 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	Leading Economic Index	m/m	Jul	0.1%	-0.2%	***
Federal Reserve						
EST	Speaker or Event	District or Position				
8:30	Mary Daly Appears on Bloomberg TV	President of the Federal Reserve Bank of San Francisco				
11:00	Alberto Musalem on CNBC	President of the Federal Reserve Bank of St. Louis				

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	Trade Balance	y/y	Jul	-¥634.5b	-¥406.9b	-¥649.0b	**	Equity and bond neutral
	Exports	y/y	Jul	23.2%	19.3%	20.1%	*	Equity and bond neutral
	Imports	y/y	Jul	27.8%	25.4%	25.1%	*	Equity and bond neutral
	Japan Buying Foreign Bonds	w/w	14-Aug	¥1135.1b	¥1636.7b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	14-Aug	-¥1249.9b	-¥56.7b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	14-Aug	¥1391.3b	¥937.4b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	14-Aug	¥621.2b	-¥368.6b		*	Equity and bond neutral
	Tokyo Condominiums for Sale	y/y	Jul	6.9%	-4.7%		*	Equity and bond neutral
Australia	Employment Change	m/m	Jul	-15.8k	80.2k	12.0k	***	Equity and bond neutral
	Unemployment Rate	m/m	Jul	4.5%	4.4%	4.4%	***	Equity and bond neutral
	Participation Rate	m/m	Jul	66.9%	67.0%	66.9%	**	Equity and bond neutral
EUROPE								
Eurozone	Construction Output	y/y	Jun	-0.7%	0.7%		*	Equity and bond neutral
Germany	PPI	y/y	Jul	3.0%	1.8%	2.5%	**	Equity and bond neutral
Switzerland	Real Exports	m/m	Jul	10.7%	-5.9%		*	Equity and bond neutral
	Real Imports	m/m	Jul	-2.8%	-1.3%		*	Equity and bond neutral
Russia	PPI	y/y	Jul	6.6%	10.5%		***	Equity and bond neutral
AMERICAS								

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 (%)	4.69	4.65	0.04	Up
Euribor/OIS spread (bps)	249	250	-1	Up
Currencies	**3 Mo**			
Dollar	Down	US		Down
Euro	Up	Euro		Up
Yen	Up	Japan		Up
Pound	Up	UK		Up
Franc	Up	Switzerland		Down
Central Bank Action		**Prior**	**Expected**	
PBOC 5-Year Loan Prime Rate	3.50%	3.50%	3.50%	On Forecast
PBOC 1-Year Loan Prime Rate	3.00%	3.00%	3.00%	On Forecast

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	$94.08	$91.62	2.69%	
WTI	$88.40	$85.83	2.99%	
Natural Gas	$2.76	$2.81	-2.03%	
Crack Spread	$64.85	$67.65	-4.13%	
12-mo strip crack	$50.76	$51.46	-1.37%	
Ethanol rack	$2.16	$2.16	0.03%	
Metals				
Gold	$4,489.56	$4,515.58	-0.58%	
Silver	$66.79	$66.98	-0.28%	
Copper Contract	$653.15	$659.55	-0.97%	
Grains				
Corn contract	$502.00	$498.00	0.80%	
Wheat contract	$701.50	$697.50	0.57%	
Soybeans contract	$1,240.50	$1,237.25	0.26%	
Shipping				
Baltic Dry Freight	2,776	2,815	-39	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	4.41	0.20	4.21	
Gasoline (mb)	0.69	-1.50	2.19	
Distillates (mb)	-1.53	-0.98	-0.55	
Refinery run rates (%)	0.10%	-0.55%	0.65%	
Natural gas (bcf)		14		

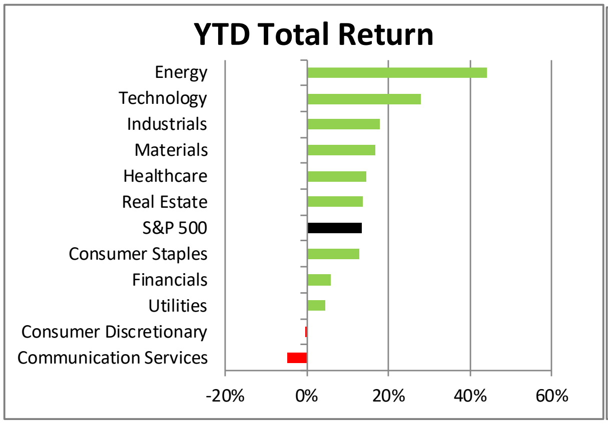
Weather

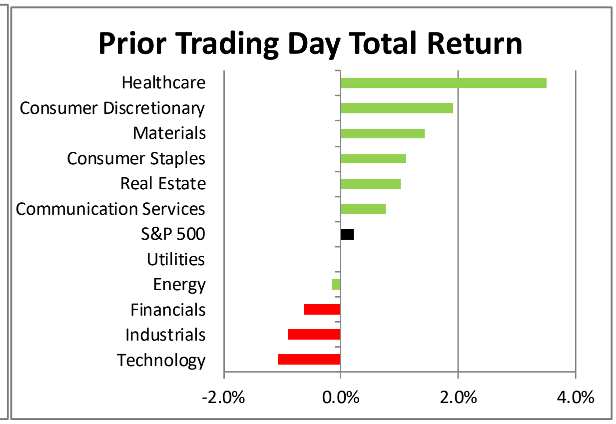
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures everywhere except the Great Lakes region and the coastal areas of Washington, Oregon, and northern California, where temperatures will be near normal. The outlook calls for wetter-than-normal conditions in the 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 8/19/2026 close)

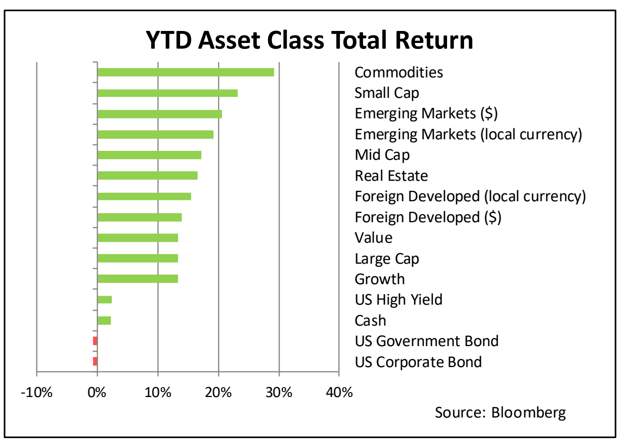




(Source: Bloomberg)

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 8/19/2026 close)

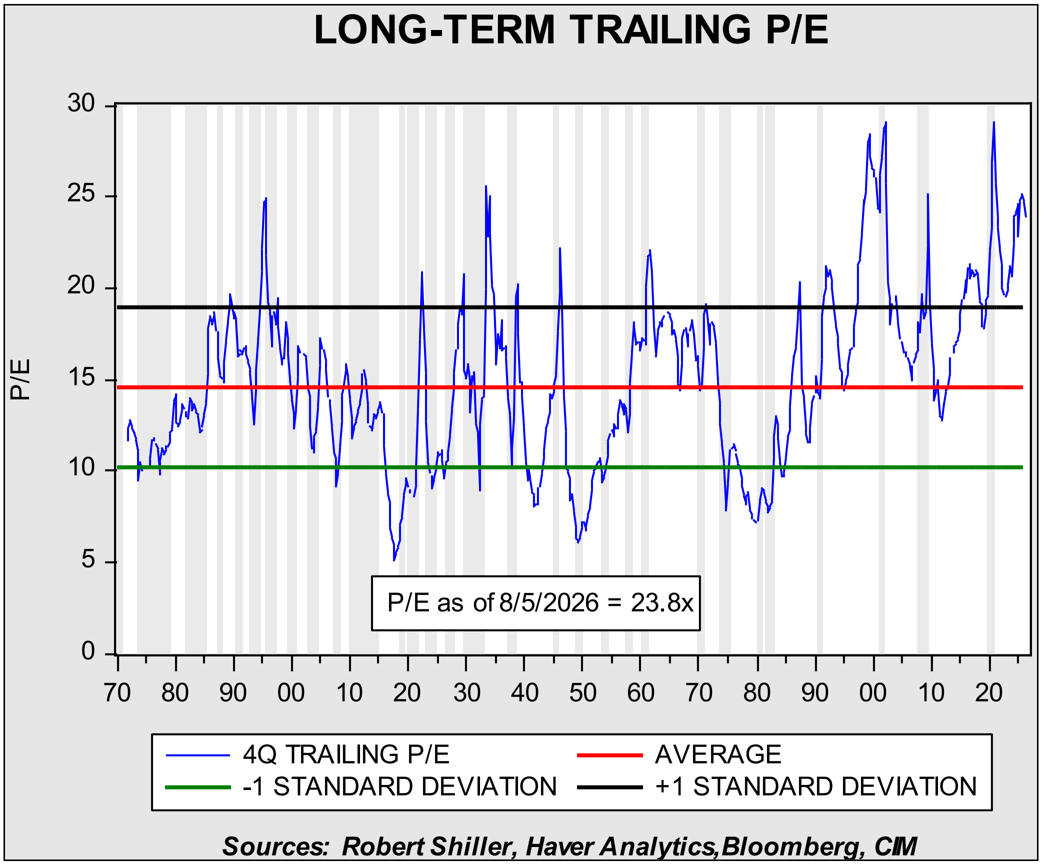


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.