Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: August 21, 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 1.8%. Chinese markets were higher, with the Shanghai Composite up 0.04% and the Shenzhen Composite up 0.5%. US equity index futures are signaling a higher open.

With 468 companies having reported so far, S&P 500 earnings for Q2 are running at $88.10 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, 85.7% 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 news of another major disruption in the global shipping industry, which will likely drive up costs for customers trying to move their goods around the world. We next review several other US and international developments that could affect the financial markets today, including a discussion of the upward march in US bond yields and new reports that China is blocking the shipment of critical manufacturing components to Taiwan.

Global Shipping Industry: Because of poor rainfall and low water levels amid an intensifying El Niño weather pattern, the Panama Canal Authority has announced it will throttle back the number of ships it allows through the canal starting September 3. The move will cut daily ship transits from 36 to 32. Coupled with other shipping disruptions around the world, such as the effective closure of the Strait of Hormuz because of the Iran war, the move will likely put further upward pressure on shipping rates, benefiting shippers but increasing costs for their customers.

US Bond Market: US federal obligations sold off again yesterday as investors became more skeptical of Treasury Secretary Bessent's announcement of increased bond repurchases the day before. The yield on the 30-year Treasury rose to 5.24%, reversing most of the prior day's decline. Other global bonds also sold off. So far today, longer-term Treasury yields are flat to slightly down.

- Because of the various forces pushing government bond yields higher, we think a wider and more sustained intervention would probably be needed to keep longer-maturity yields contained.
- As we've noted before, a sustained, concerted effort by the federal government to artificially cap bond yields would represent "financial repression." Such a strategy could hurt bond investors because yields may be kept too low to compensate for price inflation, i.e., real yields could be negative.
- Therefore, as investors begin to question the value of US bonds and the dollar, we are seeing increased buying and price gains for alternative assets ranging from bitcoin and gold to European and Asian currencies.

US Monetary Policy: Coupled with recent data showing slightly slower price inflation and a drop in nonfarm payrolls, the government's effort to push down bond yields also seems to be undermining investor expectations that the Federal Reserve will soon shift to interest rate hikes. Interest rate futures trading now suggests investors see a 65% chance that the Fed will hold its benchmark fed funds rate steady at its next policy meeting in September. They don't expect a rate hike until at least December.

US Defense Industry: Erik Prince, the former chief of private security firm Blackwater, has reportedly teamed up with Ukrainian drone software firm Swarmer to launch a new private venture providing custom air-defense systems to companies, militaries, and governments around the world. The venture, Vectus Air Defense Systems, would design and operate the systems with a focus on keeping costs low.

- The news highlights not only the increased global demand for defense goods that we've long discussed, but it also illustrates how air defense systems are especially in demand.
- While today's investors may be tempted to seek out manufacturers of military drones, it could be difficult to make money from such mass-produced, commoditized systems. The better investment prospects could well be in high-value, specialized drone components such as software or air-defense systems aimed at countering such drones.

European Union: Analysis by S&P Global indicates European oil refinery capacity will shrink by about 20% over the next decade. The report says European governments now mostly support refineries to ensure needed supplies of gasoline and other energy products. The problem is that investors are reluctant to support major investments to extend or expand the facilities, especially given expectations that increased use of electric vehicles will cut the demand for gasoline over time. The result may be that surviving refineries run at higher profitability.

China-Germany: New data shows that Germany's automotive sector lost 42,300 jobs in the year through June, representing 5.8% of the sector's total employment. As a result, the number of jobs in the sector is now at its lowest level since 2005. The decline comes as carmakers grapple with both falling profits in China and mounting competition from Chinese brands in Europe. The news will put further pressure on the European Union to put up higher trade barriers against China, which in turn will heighten tensions and invite retaliation from Beijing.

China-Taiwan: China has been restricting or delaying exports of key aerospace and optical materials to Taiwan since late last year, new reports say. Specifically, exports of materials based on germanium and quartz have faced difficulties clearing Chinese customs. As a result, whole industries in Taiwan are facing shortages and are having to delay shipments to their customers. The development suggests Beijing has become more comfortable with a strategy of strategic export bans to extract concessions from governments beyond its borders, including the US.

South Korea: Semiconductor giant Samsung Electronics today said it will return the equivalent of at least $65 billion to investors this year in the form of dividends and stock buybacks. The total could be as much as $80 billion, depending on business performance, investment needs, and cash flow. If the total comes in at the high end of the range, it would be about five times more than in 2020. The initiative reflects how Samsung has benefited from the global boom in artificial intelligence infrastructure investment.

US Economic Releases

No major US economic reports have been released so far this morning. The table below lists the economic releases and Fed events scheduled for the rest of the day.

Economic Releases						
EST	**Indicator**			**Expected**	**Prior**	**Rating**
9:45	S&P Global US Manufacturing PMI	m/m	Jul F	53.9	53.9	***
9:45	S&P Global US Services PMI	m/m	Aug	54.0	54.6	***
9:45	S&P Global US Composite PMI	m/m	Aug	54.0	54.5	***
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	National CPI	y/y	Jul	1.9%	1.6%	1.9%	***	Equity and bond neutral
	National CPI Ex-Fresh Food	y/y	Jul	1.8%	1.6%	1.8%	**	Equity and bond neutral
	National CPI Ex-Fresh Food & Energy	y/y	Jul	1.9%	1.7%	1.9%	*	Equity and bond neutral
	S&P Global Japan Composite PMI	m/m	Aug P	53.4	52.7		*	Equity and bond neutral
	S&P Global Japan Manufacturing PMI	m/m	Aug P	55.1	54.5		***	Equity and bond neutral
	S&P Global Japan Services PMI	m/m	Aug P	52.3	51.2		*	Equity and bond neutral
Australia	S&P Global Australia Composite PMI	m/m	Aug P	52.5	53.2		*	Equity and bond neutral
	S&P Global Australia Manufacturing PMI	m/m	Aug P	52.0	52.0		***	Equity and bond neutral
	S&P Global Australia Services PMI	m/m	Aug P	52.9	53.6		*	Equity and bond neutral
New Zealand	Trade Balance NZD	m/m	Jul	-1949m	-237m		**	Equity and bond neutral
	Exports NZD	m/m	Jul	7.39b	7.83b		**	Equity and bond neutral
	Imports NZD	m/m	Jul	9.34b	8.07b		**	Equity and bond neutral
South Korea	PPI	y/y	Jul	7.7%	8.5%		**	Equity and bond neutral
India	HSBC India PMI Composite	m/m	Aug P	54.6	54.3		**	Equity and bond neutral
	HSBC India PMI Mfg	m/m	Aug P	52.9	53.5		***	Equity and bond neutral
	HSBC India PMI Services	m/m	Aug P	54.5	53.3		**	Equity and bond neutral
EUROPE								
Eurozone	S&P Global Eurozone Manufacturing PMI	m/m	Aug P	52.8	51.9	51.9	***	Equity bullish, bond bearish
	S&P Global Eurozone Services PMI	m/m	Aug P	51.7	51.7	51.6	**	Equity and bond neutral
	S&P Global Eurozone Composite PMI	m/m	Aug P	52.1	52.0	51.8	*	Equity and bond neutral
Germany	S&P Global/BME Germany Manufacturing PMI	m/m	Aug P	54.1	52.2	52.1	***	Equity bullish, bond bearish
	S&P Global Germany Services PMI	m/m	Aug P	48.5	49.8	50.1	**	Equity bearish, bond bullish
	S&P Global Germany Composite PMI	m/m	Aug P	51.0	51.3	51.4	**	Equity and bond neutral
France	Business Confidence	m/m	Aug	98	97	98	**	Equity and bond neutral
	Manufacturing Confidence	m/m	Aug	103	101	101	*	Equity and bond neutral
	S&P Global France Manufacturing PMI	m/m	Aug P	51.5	49.8	50.0	***	Equity and bond neutral
	S&P Global France Services PMI	m/m	Aug P	48.4	49.6	49.4	**	Equity and bond neutral
	S&P Global France Composite PMI	m/m	Aug P	48.8	49.5	49.0	**	Equity and bond neutral
UK	GfK Consumer Confidence	m/m	Aug	-14	-17	-18	***	Equity bullish, bond bearish
	Public Finances (PSNCR)	m/m	Jul	-29.0b	15.6b		*	Equity and bond neutral
	Public Sector Net Borrowing	m/m	Jul	1.8b	12.8b		*	Equity and bond neutral
	PSNB ex Banking Groups	m/m	Jul	1.8b	12.8b		**	Equity and bond neutral
	Retail Sales	y/y	Jul	1.6%	3.8%	2.2%	***	Equity bearish, bond bullish
	Retail Sales Ex-Auto Fuel	y/y	Jul	2.3%	5.0%	3.3%	**	Equity bearish, bond bullish
	S&P Global UK Manufacturing PMI	m/m	Aug P	51.5	51.9	51.5	***	Equity and bond neutral
	S&P Global UK Services PMI	m/m	Aug P	52.8	52.1	51.8	**	Equity bullish, bond bearish
	S&P Global UK Composite PMI	m/m	Aug P	52.5	52.2	51.6	**	Equity bullish, bond bearish
Switzerland	M3 Money Supply	y/y	Jul	3.3%	3.6%		**	Equity and bond neutral
Russia	Gold and Forex Reserves	m/m	14-Aug	$755.6b	$740.0b		***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	14-Aug	22.36t	22.19t		*	Equity and bond neutral
AMERICAS								
Canada	Industrial Product Price	m/m	Jul	0.6%	-1.4%	-0.5%	**	Equity bullish, bond bearish
	Raw Material Prices	m/m	Jul	-2.2%	-6.7%	-2.0%	*	Equity and bond neutral
Mexico	Retail Sales	y/y	Jun	2.7%	1.6%	3.1%	***	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	371	-1	Up
U.S. Sibor/OIS spread (bps)	374	375	-1	Up
U.S. Libor/OIS spread (bps)	373	373	0	Up
10-yr T-note (%)	4.70	4.71	-0.01	Flat
Euribor/OIS spread (bps)	251	249	2	Up
Currencies	**3 Mo**			
Dollar	Down	US		Down
Euro	Up	Euro		Up
Yen	Up	Japan		Up
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	$93.63	$93.78	-0.16%	
WTI	$86.75	$86.83	-0.09%	
Natural Gas	$2.78	$2.73	1.76%	
Crack Spread	$59.50	$66.86	-11.00%	Contract Rollover
12-mo strip crack	$50.30	$51.92	-3.13%	
Ethanol rack	$2.19	$2.18	0.47%	
Metals				
Gold	$4,592.25	$4,516.58	1.68%	
Silver	$69.44	$68.09	1.98%	
Copper Contract	$668.75	$656.95	1.80%	
Grains				
Corn contract	$502.00	$503.50	-0.30%	
Wheat contract	$699.00	$700.00	-0.14%	
Soybeans contract	$1,231.25	$1,236.50	-0.42%	
Shipping				
Baltic Dry Freight	2,791	2,776	15	
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)	16	14	2.00	

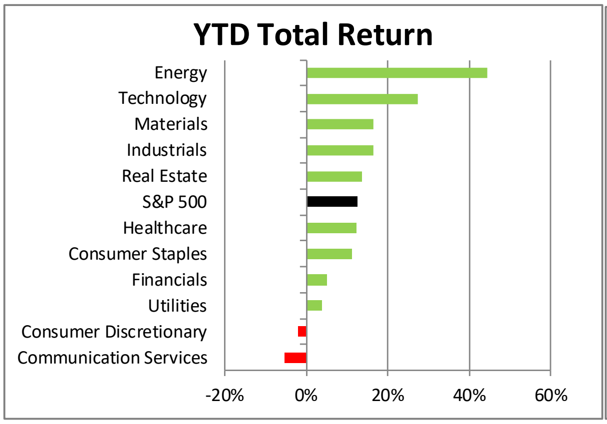
Weather

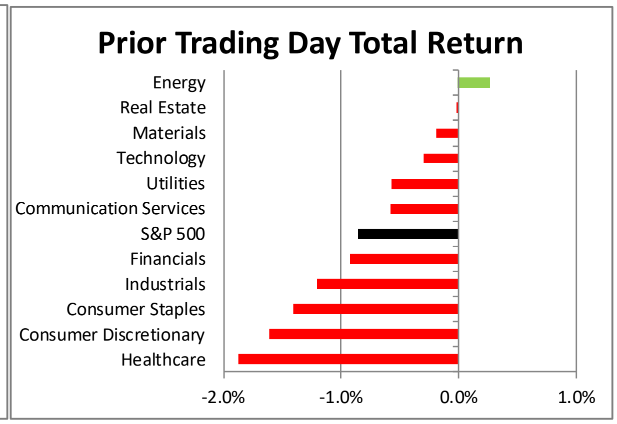
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures everywhere except the Great Lakes region and the coastal areas of Washington, Oregon, and northern California, where temperatures will be near normal. The outlook calls for wetter-than-normal conditions in the northern and central Great Plains and along the East Coast north of Georgia, with dry conditions in southern Texas.

There are now two new atmospheric disturbances in the Atlantic Ocean area. One, in the central Atlantic, is moving slowly northwesterly toward Bermuda, but it is assessed to have only a 20% chance of cyclonic formation in the next seven days. The second disturbance is in the northeastern Atlantic and moving southeasterly toward Portugal and northern Spain. It is also assessed to have only a 20% chance of cyclonic formation in the next week.

Data Section

US Equity Markets – (as of 8/20/2026 close)

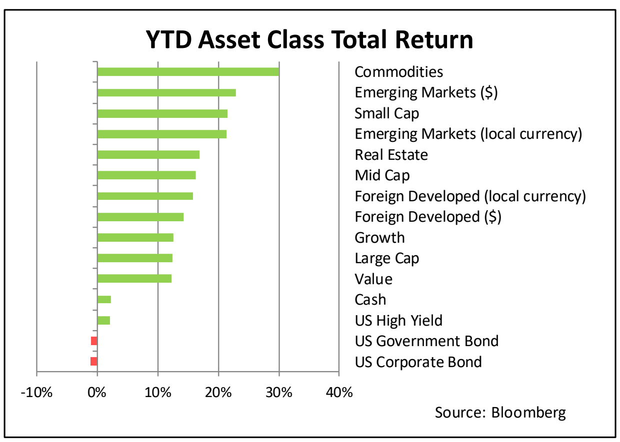




(Source: Bloomberg)

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 8/20/2026 close)

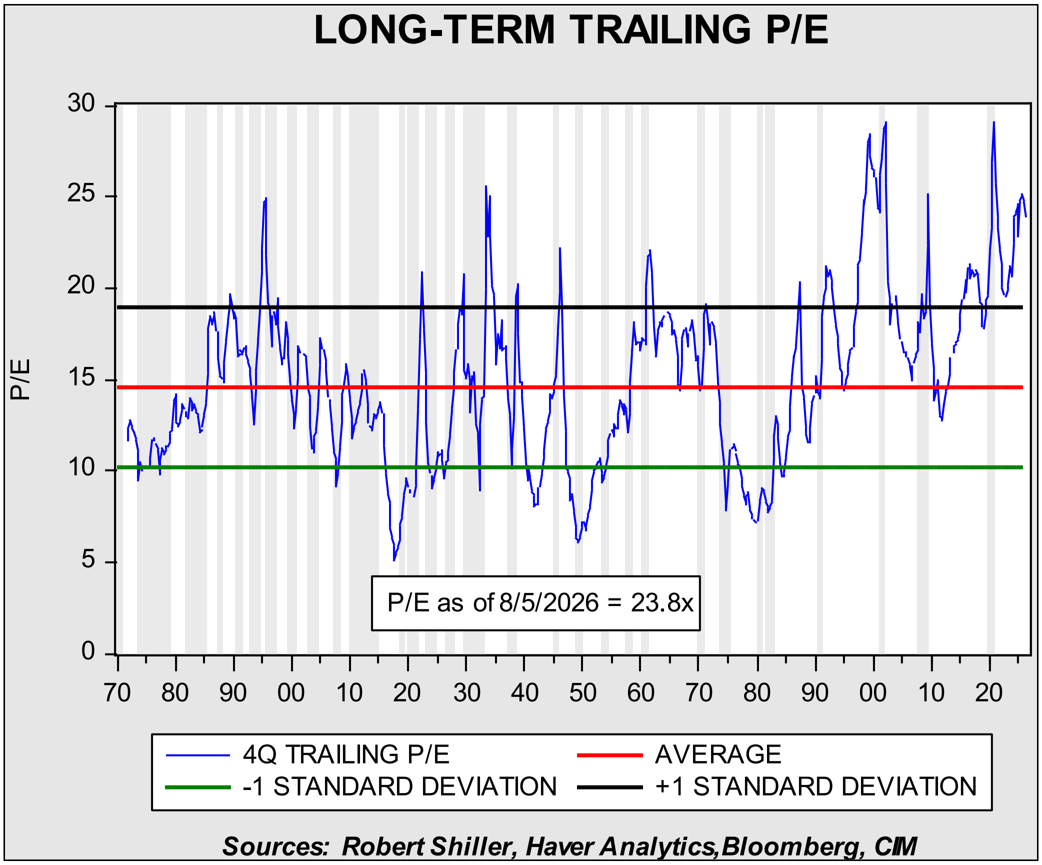


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.