Daily Comment

Confluence Investment Management

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[Posted: August 24, 2026 — 9:30 AM ET] Global equity markets are lower 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 down 2.8%. Chinese markets were lower, with the Shanghai Composite down 0.6% and the Shenzhen Composite down 1.7%. US equity index futures are signaling a lower 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, 87.4% 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 a review of what appears to be a brewing trade war between the US and Canada. We next review several other international and US developments that could affect the financial markets today, including the latest on the war in Iran and a large follow-on stock offering by a major Chinese technology firm in order to fund its artificial intelligence business.

United States-Canada: US and Canadian officials said late Friday that their negotiations over a new trade deal had broken down, setting the stage for the US to impose new tariffs of 50% on some $20 billion of imports from Canada. The tariffs, which would cover about 5% of Canada's total US-bound exports, went into effect at 12:01 AM on Saturday morning.

- According to Canadian Prime Minister Carney, the breakdown came when the US side demanded last-minute changes that "were unfair, uneconomic, and called into question the reliability of any deal." If true, the statement could mean that foreign leaders facing the administration's hard-ball negotiating tactics are starting to toughen their own responses — a development that could prolong trade tensions, lead to even higher trade hurdles, and potentially buoy consumer prices.
- On the Canadian side, Prime Minister Carney said he will impose dollar-for-dollar retaliatory tariffs on US goods. In addition, he vowed to introduce support for affected Canadian workers in the coming days.
- Finally, we note that the new tariffs against Canada rely on a section of US trade law that has never been utilized before, similar to the ones struck down earlier in the summer by the Supreme Court. The new tariffs are therefore likely to draw lawsuits and could ultimately be deemed invalid.

United States-Israel-Iran: At the weekend, Iranian President Pezeshkian and Speaker of the Parliament Ghalibaf both called on the country's hardline leaders to restart peace talks with the US and allow the country's economy to start recovering. However, hardliners such as Supreme Leader Ayatollah Mojtaba Khamenei and the Islamic Revolutionary Guards Corps have shown no willingness to drop their tough demands on the US before they would stop attacking shipping through the Strait of Hormuz, supporting regional proxies, or ending their nuclear program.

- In fact, Iran's new security chief on Saturday vowed to strike the country's oil-rich neighbors if they joined the US's new "economic D-Day" strategy to further strangle its economy. The statement is a reminder that the hardliners who control Iran's government are not only willing to keep up their war with the US, but they're willing to expand it to US allies if they see it as necessary.
- Indeed, Iran's new Persian Gulf Strait Authority today said it has identified 46 ships that have violated Iranian protocols for passing through the Strait of Hormuz and would therefore "face restrictions on future passages, including fines, detention or confiscation."
- At the same time, multiple global oil analysts say they can't corroborate the US's assertion last week that it has been running enough convoys of oil tankers through the Strait of Hormuz to replace almost half the daily volume of crude that went through the waterway before the war. Using ship tracking and other methods, the analysts estimate just 2 million to 6 million barrels of crude are going through the waterway each day, versus about 20 million before the war.
- The hardline statements out of Iran suggest global energy supplies remain at risk of further disruption, with negative implications for financial markets.

China: Technology giant Alibaba yesterday said it will issue the equivalent of $10.2 billion in new shares, with all proceeds earmarked for building up its artificial intelligence business. The new issuance will help the firm shift from being an e-commerce giant to being a full-stack AI player with businesses spanning chips, computing infrastructure, large language models, and AI applications. The new issuance also shows how the ravenous demand for capital for AI investment is no longer just confined to the US.

Japan: An earthquake measuring 5.9 on the Richter scale struck Tokyo and the broader Kanto region early Sunday, shortly after authorities issued a warning. Railway disruptions were reported, and dozens of people were injured, but there have been no reports of deaths so far. Importantly, based on warnings from government geological scientists, authorities have warned that further tremors could occur over the coming week.

Singapore: Prime Minister Wong yesterday said his government will further liberalize its child payment and parental leave policies, including providing parents with more than $55,000 for each child they have. The move aims to boost the city-state's falling birth rate and stop its rapid population aging. However, similar programs in other rapidly aging countries have had only modest success, and the new rules may not substantially change current forecasts that more than 25% of Singaporeans will be 65 years old or older by 2030.

France: Finance Minister Roland Lescure today said the government would like to scrap its "exceptional" income tax surcharge on the profits of large firms, but doing so in 2027 would be difficult because of the country's wide budget deficit. The tax, introduced as a temporary measure in 2025, has already been extended twice. Extending it again in 2027 would therefore risk sparking strong pushback by businesses, potentially push more firms out of the country, and probably weigh on the French stock market.

US Politics: With just ten weeks to go until the midterm Congressional elections in November, the widely followed Cook's Political Report late last week shifted its assessment of the US Senate races in Texas and Iowa from "lean Republican" to "toss-up." The shift means the firm now rates six Senate races as toss-ups or leaning Democratic, raising the odds that the Democrats could take control of both chambers of Congress in the new year, so long as a dramatic change in the situation doesn't occur in the meantime.

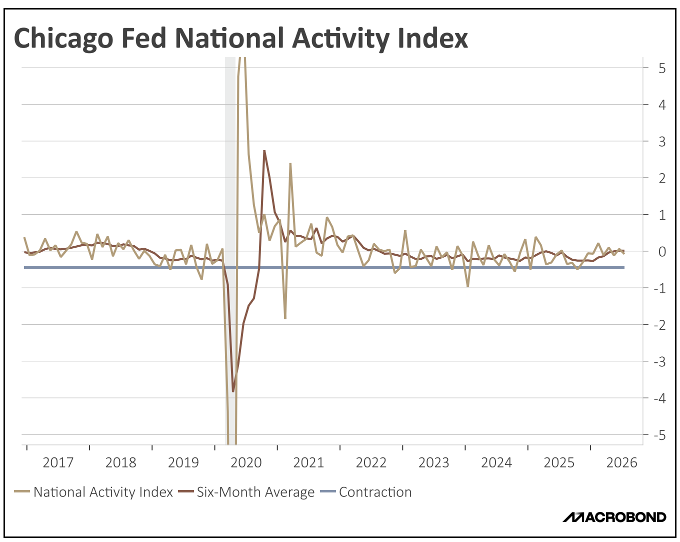
- Separately, the *New York Times* over the weekend said Jared Kushner, President Trump's son-in-law and top outside adviser, recently met in New York City with House Minority Leader Hakeem Jeffries to discuss potential areas of common ground.
- During the meeting, Kushner and Jeffries reportedly discussed housing, immigration, and the high cost of living as potential areas of common ground, and Kushner suggested that Jeffries should meet with White House Chief of Staff Susie Wiles. All the same, a meeting of the minds on such issues seems a remote possibility at present.
- The meeting suggests the White House sees a high probability that the Democrats will take control of the House from the Republicans and is trying to lay the groundwork for cooperation when and if that happens.

US Artificial Intelligence Industry: Based on data from 70,000 firms collected by payments group Ramp, Anthropic's largest and priciest model, Fable 5, has plateaued at only about 11% of total outlays on the company's tools. The figures are consistent with our view that firms are likely to balk at the high price of cutting-edge US models when they can use less capable or foreign models at a much lower cost. As we've argued before, that presents a risk that much of the current frenzied investment in AI infrastructure could end up wasted.

Global Auto Industry: Reports at the weekend show how the artificial intelligence investment boom is causing challenges for the global auto industry. The reports say that as automakers work to make their cars more autonomous, they're facing shortages of key information technology components — especially printed circuit boards and multilayer ceramic capacitors — which are also in high demand for data centers. The result has been skyrocketing prices for the parts, adding to challenges such as weak consumer demand and high materials prices.

US Economic Releases

The Chicago Fed said its July ***National Activity Index (CFNAI)*** declined to -0.08, lower than both the expected reading of +0.10 and the revised June reading of 0.06. The CFNAI, which encompasses dozens of separate indicators to capture all aspects of current economic activity, is designed so that readings of 0.00 reflect the economy growing at trend. Our analysis shows that when the six-month moving average of the CFNAI falls below -0.45, it suggests the economy is in recession. The chart below shows how the CFNAI has fluctuated over the last few years but remains near its long-term average, suggesting the economy is growing near its historical trend.



There are no economic releases or Fed events scheduled for the rest of the day.

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								
New Zealand	Retail Sales Ex Inflation	q/q	1Q	-0.50%	1.90%	0.30%	***	Equity bearish, bond bullish
EUROPE								
Eurozone	Consumer Confidence	m/m	Aug P	-15.5	-15.9	-16.0	**	Equity and bond neutral
Switzerland	Domestic Sight Deposits CHF	w/w	21-Aug	437.1b	433.5b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	21-Aug	463.7b	458.8b		*	Equity and bond neutral
AMERICAS								
Canada	Retail Sales	m/m	Jun	0.6%	1.0%	0.4%	**	Equity bullish, bond bearish
	Retail Sales Ex-Autos	m/m	Jun	0.5%	1.2%	0.3%	**	Equity bullish, bond bearish
Mexico	GDP NSA	y/y	Q2 F	2.1%	2.2%	2.2%	***	Equity bullish, bond bearish
	Economic Activity IGAE	y/y	Jun	2.82%	1.11%	2.54%	**	Equity bullish, bond bearish

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)	371	371	0	Up
U.S. Sibor/OIS spread (bps)	376	376	0	Up
U.S. Libor/OIS spread (bps)	374	374	0	Up
10-yr T-note (%)	4.71	4.73	-0.02	Down
Euribor/OIS spread (bps)	252	251	1	Up
Currencies	**3 Mo**			
Dollar	Down	US		Down
Euro	Up	Euro		Up
Yen	Down	Japan		Down
Pound	Up	UK		Up
Franc	Down	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	$92.92	$94.39	-1.56%	Easing Iran Tensions
WTI	$85.15	$87.06	-2.19%	
Natural Gas	$2.82	$2.77	1.51%	
Crack Spread	$58.48	$58.86	-0.65%	
12-mo strip crack	$48.89	$49.20	-0.63%	
Ethanol rack	$2.23	$2.21	0.77%	
Metals				
Gold	$4,659.24	$4,603.07	1.22%	
Silver	$69.25	$68.99	0.37%	
Copper Contract	$669.90	$668.80	0.16%	
Grains				
Corn contract	$521.75	$508.50	2.61%	
Wheat contract	$711.75	$699.25	1.79%	
Soybeans contract	$1,234.50	$1,239.50	-0.40%	
Shipping				
Baltic Dry Freight	2,841	2,791	50	

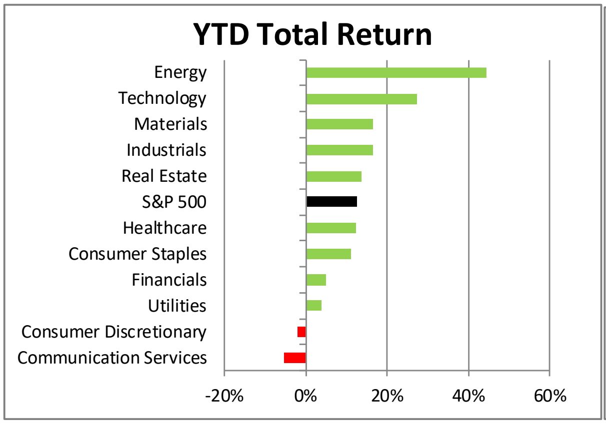
Weather

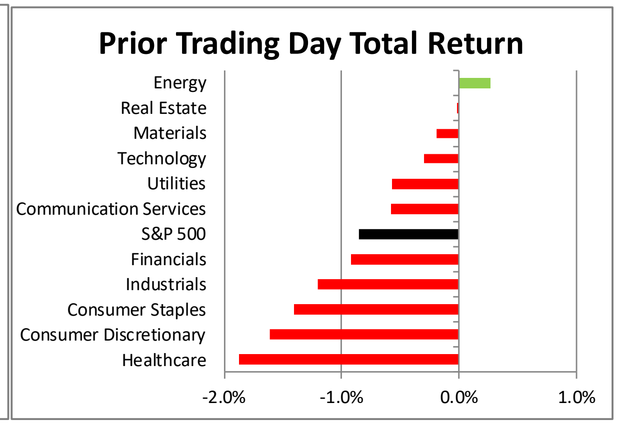
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for most of the country, cooler to near normal temperatures on the Pacific coast and in the New England region. The precipitation outlook calls for wetter-than-normal conditions in the northern and central Great Plains and New England region, with dry conditions in the Midwest and states along the Gulf of Mexico.

There are two tropical disturbances in the Atlantic Ocean area. One, in the central Atlantic, is moving northwesterly toward Bermuda and is expected to have a 50% chance of cyclone formation within 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 a 50% chance of cyclonic formation in the next week.

Data Section

US Equity Markets – (as of 8/21/2026 close)

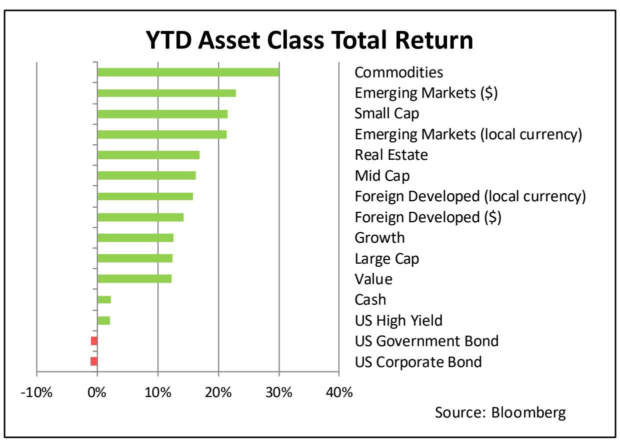




(Source: Bloomberg)

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 8/21/2026 close)

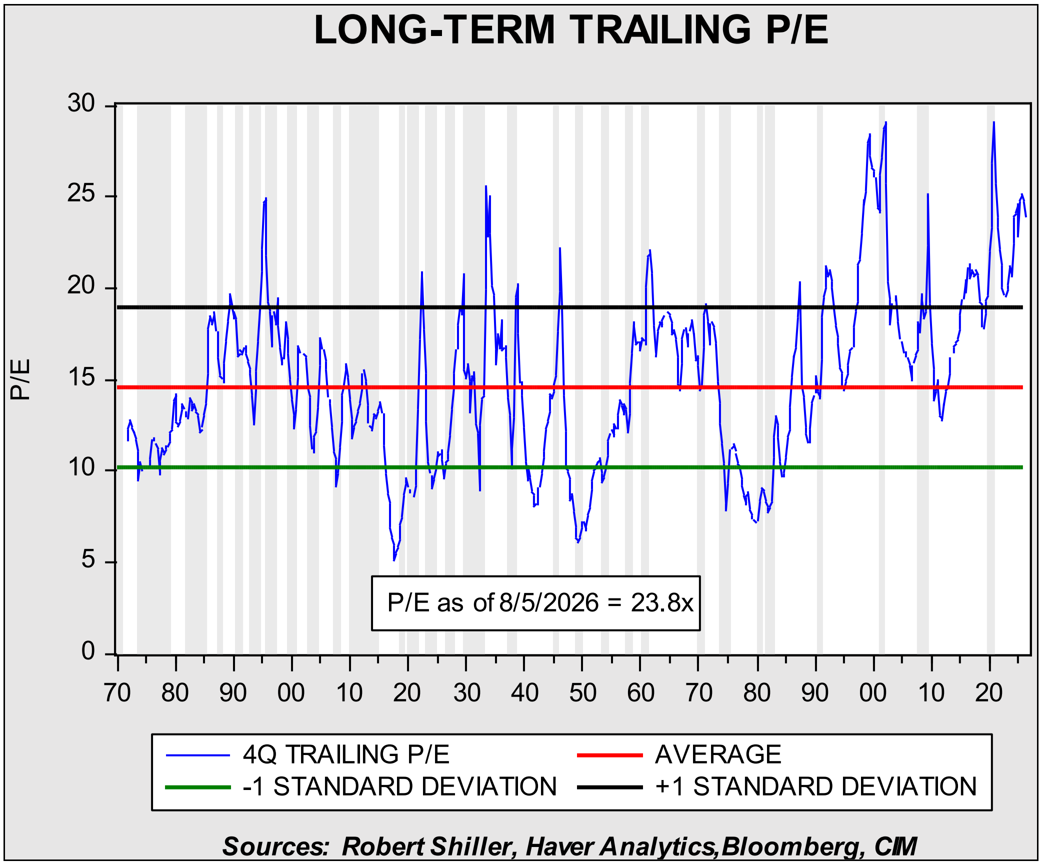


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.