Daily Comment

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[Posted: August 25, 2026 — 9:30 AM ET] Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 is up 0.6% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.6%. Chinese markets were higher, with the Shanghai Composite up 0.2% and the Shenzhen Composite up 0.3%. 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, 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
"On Lessons Learned: China and Consumption Policy" **(8/24/26)**	"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 the US has provided new details on its economic war against the country and its new secondary sanctions against countries and other entities that engage economically with Iran. We next review several other international and US developments that could affect the financial markets today, including the latest on the evolving US-Canada trade war and important new pushback against the Treasury Department's plan to artificially depress longer-term bond yields.

United States-Israel-Iran: Treasury Secretary Bessent yesterday announced details of the US "economic D-Day" program of new sanctions on Iran that are designed to force it to stop disrupting Middle East shipping. Dubbed "Operation Economic Outcast," the program has reportedly already sanctioned more than 60 entities, individuals, and vessels that enable Iran to procure nuclear and missile technology, earn revenue from oil, or carry out cyber operations.

- Most important, Bessent warned that the US would sanction any country or entity that engages economically with Iran.
- Of course, Iran's supporters, such as China, might have so much leverage over the US that Washington can't actually sanction them. It therefore remains to be seen whether the new program meaningfully increases the pressure on Iran to meet US demands.

United States-China: In response to the new US secondary sanctions, Beijing today warned that "China will take all necessary measures to firmly safeguard its rights and interests" if the sanctions impose a significant burden on China or its major firms. The sanctions announced by Treasury Secretary Bessent yesterday included some small Chinese and Hong Kong companies, so it's clear the administration is trying to make sure China isn't entirely off the hook. However, we think the US may pull its punches to avoid upending its current effort at détente with China.

- If the US goes too far and imposes what China believes are unacceptable sanctions on its companies, the most obvious way that it would retaliate is to again throttle its exports of rare earth materials to the US or its allies. Such a move would threaten a range of US and allied manufacturers.
- Although the US and its allies are trying to rapidly develop their own sources of supply for rare earths, the effort hasn't borne fruit yet. A new Chinese embargo of the materials or other critical goods could force the US to soften its new sanctions.

United States-Canada: In a social media post yesterday, President Trump said the US will impose a 50% tariff on Canadian autos, auto parts, and steel starting in January. The decision comes after Canada said it would impose big tariff increases against a range of US products to retaliate for new US import tariffs announced last week. The move adds to the risk of a bilateral trade war between the US and Canada. It also calls into question whether the US-Mexico-Canada trade agreement will be renewed.

- On a related note, President Trump this morning said his administration is seriously considering changing the name of Lake Ontario to Lake America because it doesn't expect to be "doing much business with Ontario any longer." The move echoes the president's executive order last year that changed the name of the Gulf of Mexico to the Gulf of America.
- Like the unilateral renaming of the Gulf, any US effort to unilaterally change the name of Lake Ontario would almost certainly not be recognized by Canada or many other countries. Coupled with the US's inability to defeat Iran and force it to reopen shipping in the Middle East, making such a move and not achieving international buy-in would likely add to growing perceptions that the US's power as the global hegemon is waning.

Germany: Authorities have discovered another explosives-laden drone near the Leipzig airport, where a similar drone was discovered next to a Ukrainian cargo plane earlier this month. Both drones had traces of military-grade explosives but were defective and did not explode. The drones are widely suspected of being a warning from Russia or its proxies that the German government should stop supporting Ukraine in its effort to defend itself from Russia's invasion. The incidents highlight the growing risk of Russian hybrid attacks in Europe.

United Kingdom-Ukraine: Under a deal that British Prime Minister Burnham struck with Ukrainian President Zelensky yesterday, the UK will gain access to a vast trove of Ukrainian battlefield data used to train AI models to identify and strike Russian targets, while the Ukrainians will get access to British defense technology. The vast Ukrainian dataset based on actual combat conditions could give British defense firms a leg up when developing autonomous weapons systems.

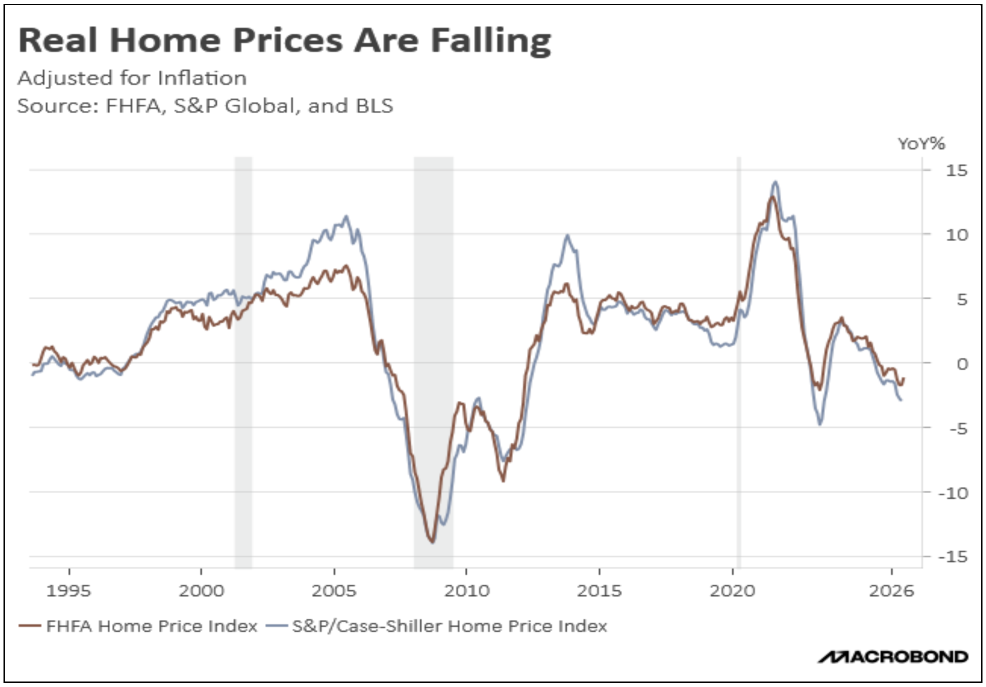
US Monetary Policy: In a *Wall Street Journal* op-ed today, hedge-fund veteran Stanley Druckenmiller strongly criticizes his longtime protégé, Treasury Secretary Scott Bessent, over his plans to intervene in the Treasury bond market to reduce interest rates. Druckenmiller complains that Bessent's strategy of financial repression, including buybacks of longer-term Treasurys, is merely a distraction from the real need, which he says is to rein in the federal budget deficit and bring down government debt.

US Labor Market: The Department of Homeland Security yesterday said it plans to charge a $103,265 fee to foreign nationals applying for an H-1B high-skilled work visa. The fee would have to be paid upfront, before the government decides whether to approve the application. The new fee, which is designed to meet court objections that scuttled a similar fee proposal last year, would mostly affect technologically skilled workers from India. If it is successful in driving those workers out of the US, it would mostly affect the technology and finance sectors.

US Agriculture Industry: New research by the American Farm Bureau Federation shows that without government assistance, US farmers growing nine key crops will lose over $30 billion in 2026 and 2027. For example, the AFBF estimates corn producers will lose $131 per acre this year, rising to $167 next year. The negative economics reflect both constricted export markets and skyrocketing costs for fuel and fertilizer due to the wars in Iran and Ukraine.

US Economic Releases

Two separate home price indexes indicated that the real estate market remained relatively sluggish in June. The FHFA House Price Index showed national home prices unchanged from the previous month, falling short of expectations for a 0.2% increase. Meanwhile, the S&P Case-Shiller Home Price Index for the top 20 metropolitan areas posted a monthly gain of 0.24%, which narrowly exceeded the consensus forecast of 0.10%.



The chart above shows the year-over-year percentage change for both the FHFA Home Price Index and the S&P Cotality Case-Shiller Index. Adjusted for inflation, the FHFA index declined by 1.1% since 2025, while the S&P Cotality index dropped 1.9%. Although nominal home prices continue to rise, their growth remains below the rate of inflation suggesting that buyers are gaining bargaining power.

The table below shows the domestic releases scheduled for the rest of the day.

Economic Releases						
EST	**Indicator**			**Expected**	**Prior**	**Rating**
10:00	Richmond Fed Manufact. Index	m/m	Aug	7	5	**
10:00	New Home Sales	m/m	Jul	620k	628k	***
10:00	New Home Sales MoM	m/m	Jul	-1.3%	1.6%	**
10:00	Conf. Board Consumer Confidence	m/m	Aug	90.2	90.8	***
10:00	Building Permits	m/m	Jul F		1443k	**
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	Leading Economic Index	m/m	Jun F	116.5	116.4		**	Equity and bond neutral
	Coincident Index	y/y	Jun F	118.5	118.2		**	Equity and bond neutral
	Nationwide Dept Sales	y/y	Jul	5.10%	2.30%		***	Equity and bond neutral
South Korea	Consumer Confidence	m/m	May	104.5	100.7		*	Equity bullish, bond bearish
EUROPE								
Germany	GDP NSA	y/y	Q2 F	1.0%	0.9%	0.9%	**	Equity and bond neutral
	GDP WDA	y/y	Q2 F	1.0%	0.9%	0.9%	**	Equity and bond neutral
	IFO Business Climate	m/m	Aug	88.8	87.3	86.6	***	Equity bullish, bond bearish
	IFO Current Assessment	m/m	Aug	88.5	87.0	86.5	**	Equity bullish, bond bearish
	IFO Expectations	m/m	Aug	89.1	87.5	86.7	**	Equity bullish, bond bearish
France	Consumer Confidence	m/m	Aug	86.0	86.0	87.0	***	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)	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	$89.40	$92.17	-3.01%	Easing Iran Tensions
WTI	$82.34	$85.01	-3.14%	
Natural Gas	$2.74	$2.78	-1.51%	
Crack Spread	$57.86	$56.41	2.56%	
12-mo strip crack	$47.68	$47.47	0.45%	
Ethanol rack	$2.24	$2.23	0.25%	
Metals				
Gold	$4,638.26	$4,652.22	-0.30%	
Silver	$67.85	$68.94	-1.57%	
Copper Contract	$674.45	$670.70	0.56%	
Grains				
Corn contract	$514.25	$515.50	-0.24%	
Wheat contract	$690.25	$699.50	-1.32%	
Soybeans contract	$1,217.50	$1,224.25	-0.55%	
Shipping				
Baltic Dry Freight	2,882	2,841	41	

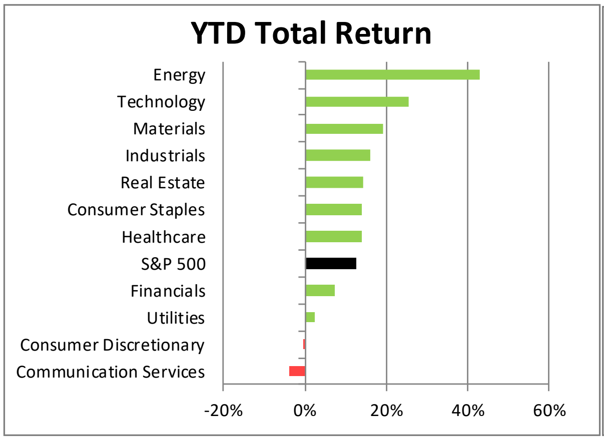
Weather

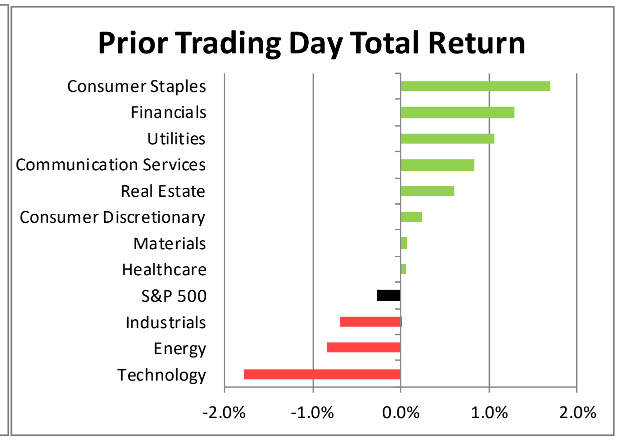
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for most of the country, cooler to near normal temperatures on the Pacific Northwest and in the New England region. The precipitation outlook calls for wetter-than-normal conditions in the northern and central Great Plains and Rocky Mountain regions, with dry conditions in Texas.

There are two tropical disturbances in the Atlantic Ocean area. One, in the central Atlantic, is moving toward Bermuda and is expected to have a 40% chance of cyclone formation within the next seven days. The second disturbance is off the coast of Cabo Verde and is moving westward into the Atlantic Ocean. It is assessed to have a 70% chance of cyclonic formation in the next week.

Data Section

US Equity Markets – (as of 8/24/2026 close)

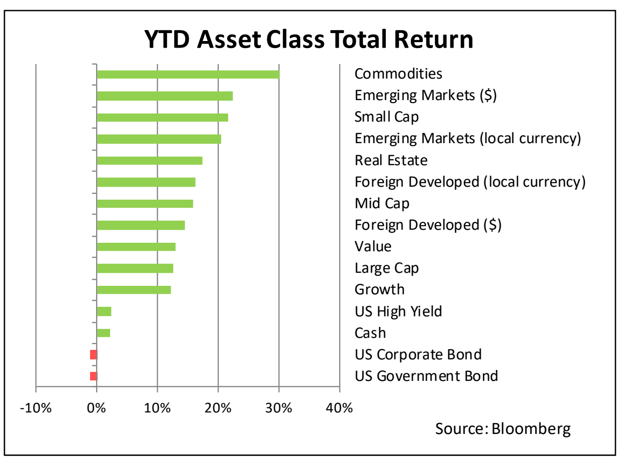




(Source: Bloomberg)

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 8/24/2026 close)

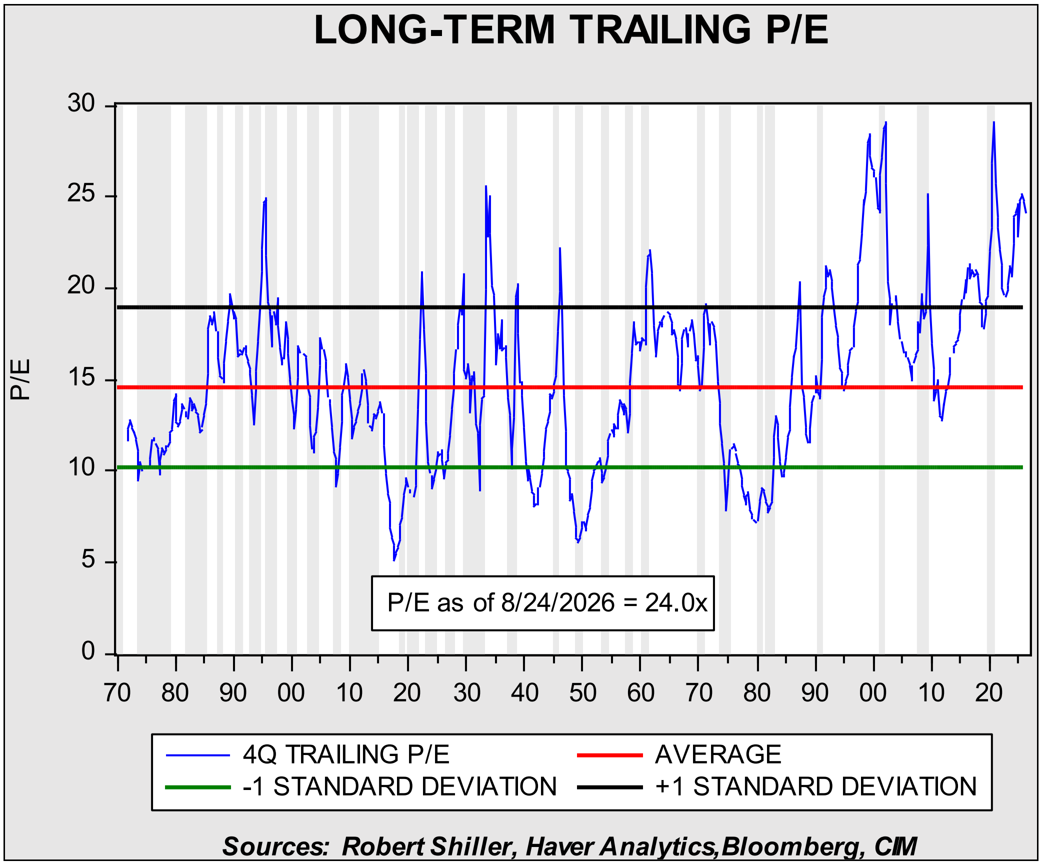


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 25, 2026



Based on our methodology,[1] the current P/E is 24.0x, up 0.2 from the previous report. The multiple expansion was driven by an increase in the stock price index outpacing the increase in earnings.

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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.