Daily Comment

Confluence INVESTMENT MANAGEMENT

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[Posted: August 26, 2026 — 9:30 AM ET] Global equity markets are mostly higher this morning. In Europe, the Euro Stoxx 50 is up 0.5% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 1.0%. Chinese markets were higher, with the Shanghai Composite up 0.6% and the Shenzhen Composite up 0.5%. Conversely, US equity index futures are signaling a lower open.

With 469 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 10.4% 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* begins with the escalating trade tensions between the US and Canada and why China may be behind the rift. We next examine the fiscal front, analyzing Richmond Fed President Thomas Barkin's concerns about the growing deficit and the potential risks to the bond market. The next sections provide updates on three distinct fronts: diplomatic efforts between Iran and Oman to ease transit in the strait, primary wins bolstering Trump's pre-midterm standing, and Huawei's offensive to distribute its chips worldwide.

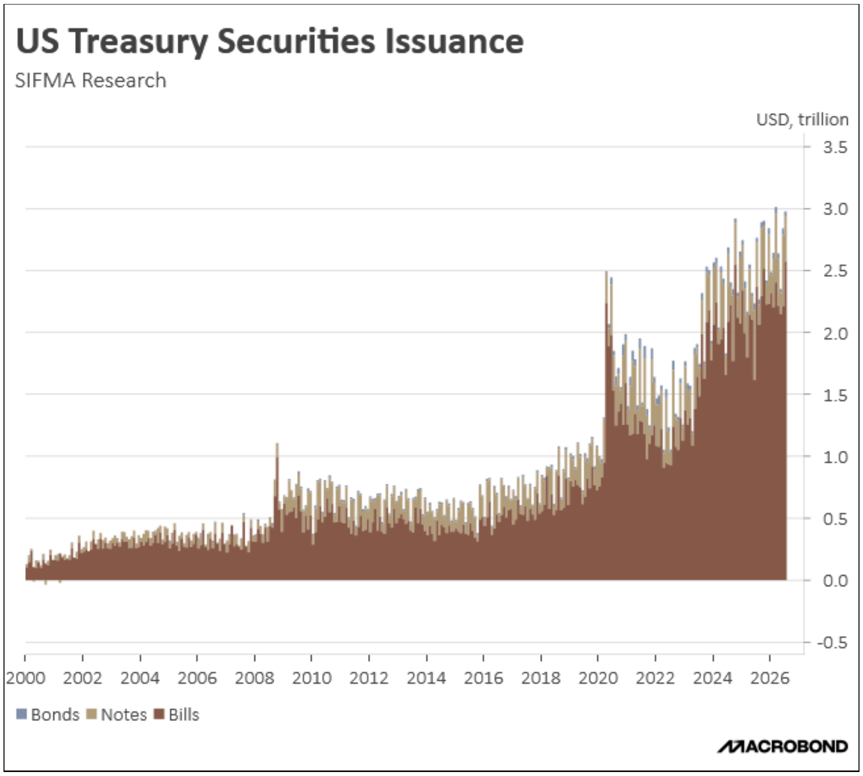
Canada-US Trade: Trade tensions between the United States and Canada flared on Tuesday as both countries sought leverage in ongoing negotiations. Ottawa imposed retaliatory duties on $20 billion of US imports, directly mirroring Washington's initial measures. The back-and-forth comes as each side accuses the other of negotiating in bad faith. The rift also occurs as the United States prepares for high-stakes trade talks with China next month. Washington's pressure campaign against Canada may offer insight into what it hopes to achieve in talks with Beijing.

- The latest round of duties peaking at 50% on certain goods is scheduled to take effect on September 8. Canada has tailored its retaliation to target specific sectors of bilateral trade, including dairy, steel, and agricultural equipment. However, the delayed implementation suggests Ottawa is deliberately leaving the door open for continued dialogue before the economic blow lands. Washington has already countered with a threat of its own by vowing to impose additional tariffs on Canadian imports starting on New Year's Day.
- Rising trade tensions between the US and Canada may have less to do with personal friction than with the broader strategic shadow of China. Washington and Ottawa had previously been in discussions over forging a unified trade and investment front designed to make North American supply chains "China-proof." However, given Canada's recent overtures toward closer economic ties with Beijing, it appears Ottawa was unwilling to abandon that potential leverage without securing significant concessions in return.
- Despite the escalating rhetoric, markets appear to be shrugging off the ongoing row and its potential fallout. The S&P 500 closed up 0.3% on the day, while Canada's benchmark S&P/TSX finished nearly 0.7% higher. This muted reaction suggests that, for now, the tariff measures remain insufficient to trigger major market disruptions. Key sectors, particularly US tech and Canadian energy, seem largely insulated from the tit-for-tat, with investors betting on a contained outcome rather than a full-blown trade war.
- Still, the real focus centers on next month's US-China trade talks. If Washington uses its leverage with Canada to extract a stronger position against Beijing, markets and the broader economy stand to benefit. However, a more aggressive stance with Beijing that triggers another cycle of retaliatory tariffs will likely drive up market volatility. For now, the former scenario appears more likely than the latter.

Growing Deficit Concerns: The US Treasury's recent actions have sharpened investor focus on the swelling federal deficit. On Tuesday, Richmond Fed President Thomas Barkin warned that America's mounting debt burden could eventually provoke investor pushback if borrowing continues to rise unchecked. His remarks come as the Treasury has taken more aggressive steps to smooth the impact of heavier issuance on interest rates.

- Although Barkin later conceded that the exact point at which investor resistance might materialize remains inherently difficult to project, he characterized the outcome as virtually assured. He attributed this forecasting challenge to two structural advantages that continue to insulate the US: the country's robust legal framework and its preeminent position as the issuer of the global reserve currency. These factors, in his view, have thus far deferred, but not eliminated, the risk.
- Despite his deficit concerns, Barkin has stated that he does not believe interest rates have yet had a meaningful impact on the broader economy. His relative optimism may partly reflect the Treasury's more hands-on approach to easing pressure on long-term bonds. And while the recent bond buyback program has drawn considerable attention, it is worth

noting that the Treasury's sustained shift toward shorter-dated issuance over the past three to four years has likely played an even greater role in anchoring rates.



- According to the latest data from SIFMA Research, US Treasury bill issuance has surged since 2023 to levels not seen since the height of the pandemic. This reallocation — later termed "Activist Treasury Issuance" in a paper authored by former Fed Governor Stephen Miran and Nouriel Roubini — helped ease pressure on long-term bond yields. As a result, the 10-year Treasury yield fell from a peak of 4.99% in October 2023 to as low as 3.62% roughly a year later.
- While monetary policy, inflation expectations, economic growth, and investor preferences will continue to be key drivers of the yield curve, we believe Treasury debt-management decisions will become an increasingly relevant factor as federal borrowing needs rise. Greater bond issuance could exert upward pressure on yields and term premia, especially if investor demand fails to keep pace. This dynamic is particularly pronounced for longer-dated securities, where demand has notably softened.

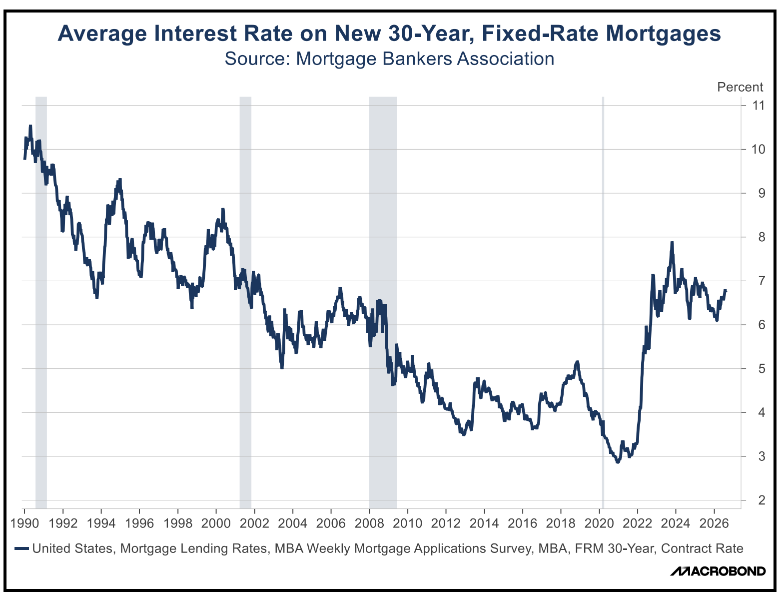
A Possible Strait Deal? Iran and Oman appear close to an agreement that could potentially reopen the Strait of Hormuz. The two sides have announced terms to establish a maritime corridor for commercial shipping, but the arrangement does not necessarily guarantee that the strait will reopen. Iran has said it will do so only if the United States meets its conditions, including lifting the naval blockade and reinstating a waiver permitting Iranian oil sales. Still, the agreement will likely create an opening for further negotiations.

Trump Bump: Two Republican candidates endorsed by President Trump won their primary runoffs on Tuesday. The higher-profile contest was South Carolina's Senate race, where Darline Graham defeated Ralph Norman. Meanwhile, former state Senator Mike Mazzei won Oklahoma's Republican gubernatorial primary runoff. Both contests are likely to be decisive in determining who ultimately holds the seats, underscoring Trump's continued influence within the Republican Party heading into the midterm elections.

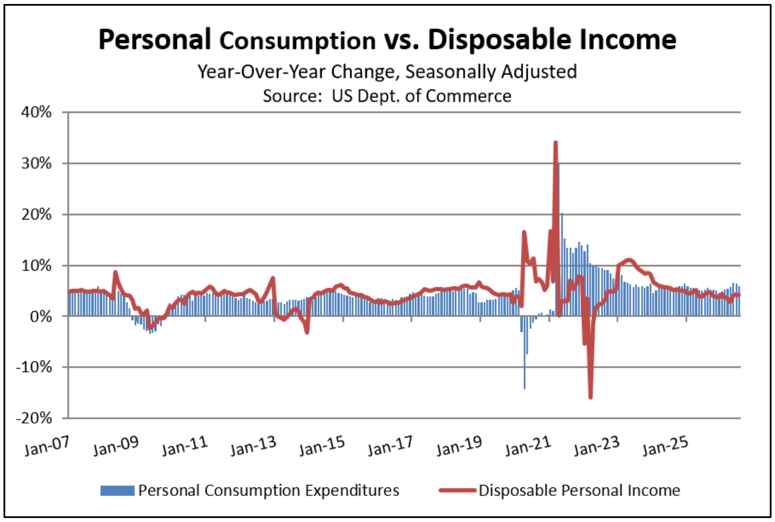
Chinese Competition: Huawei is bidding to build a data center in Egypt using its own chips, a move that could expand the company's international footprint as it seeks to compete with Nvidia in AI infrastructure. The effort also appears to fit within China's broader strategy to challenge US chip diplomacy by strengthening technology and investment ties with emerging-market economies.

US Economic Releases

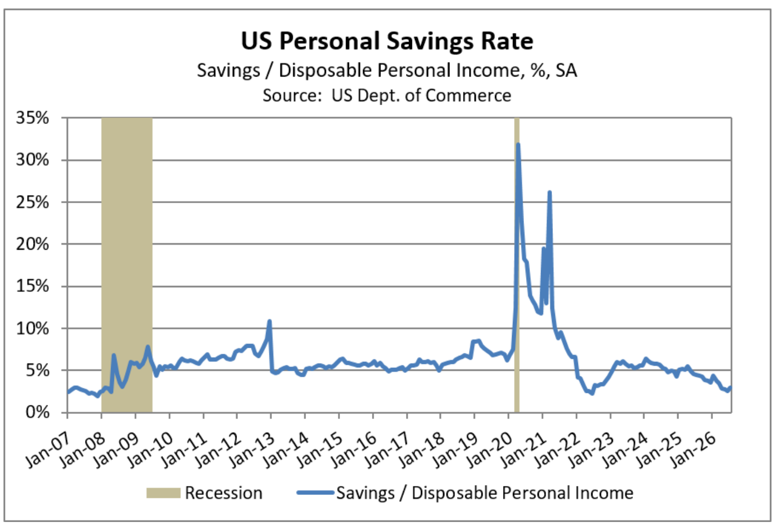
The Mortgage Bankers Association said ***mortgage applications*** in the week ended August 21 fell 1.0%, after declining 0.4% in the previous week. Applications for home purchase mortgages fell 0.3%, after dropping 2.0% in the prior week. Applications for refinancing mortgages fell 2.0%, after rising 1.5% the week before. The average interest rate on a 30-year, fixed-rate mortgage rose 1 basis point to 6.78%. The chart below shows how mortgage rates have changed over time.



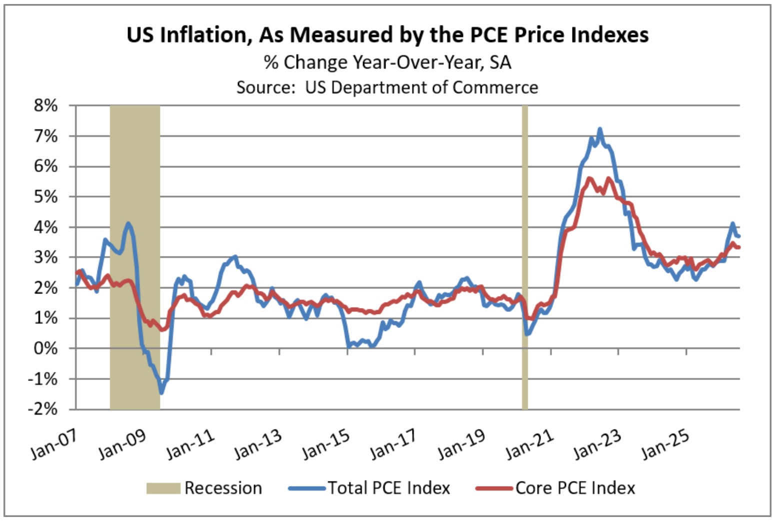
Separately, July ***personal income*** rose by a seasonally adjusted 0.4%, beating expectations that the increase would merely match the 0.2% increase registered for the month of June. Meanwhile, July ***personal consumption expenditures (PCE)*** rose 0.2%, beating the expected rise of 0.1% but still decelerating from the June increase of 0.3%. Personal income in July was up 3.7% from the same month one year earlier, while PCE was up 5.9%. The chart below shows the year-over-year change in personal income and PCE since just before the Great Financial Crisis.



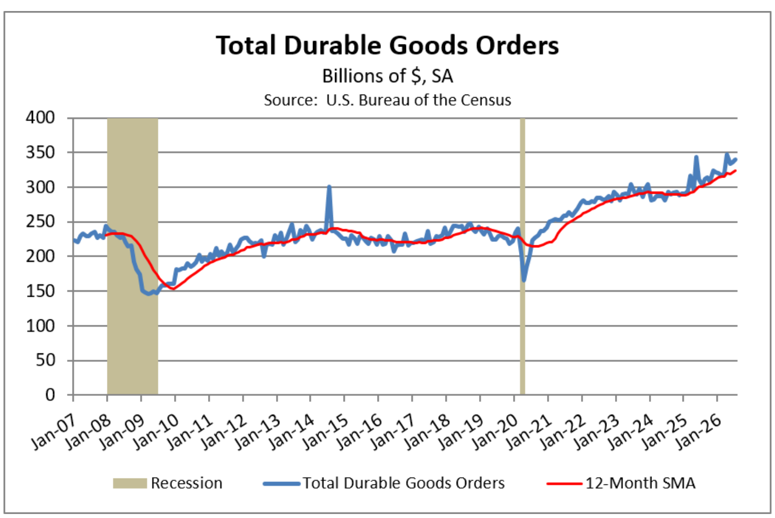
The personal income and spending report also includes a measure of personal saving, defined as disposable (after tax) income less consumption spending on goods and services. The July ***personal savings rate*** rose to a seasonally adjusted 3.0% but remained historically low. The chart below shows how the personal savings rate has fluctuated since just before the GFC.



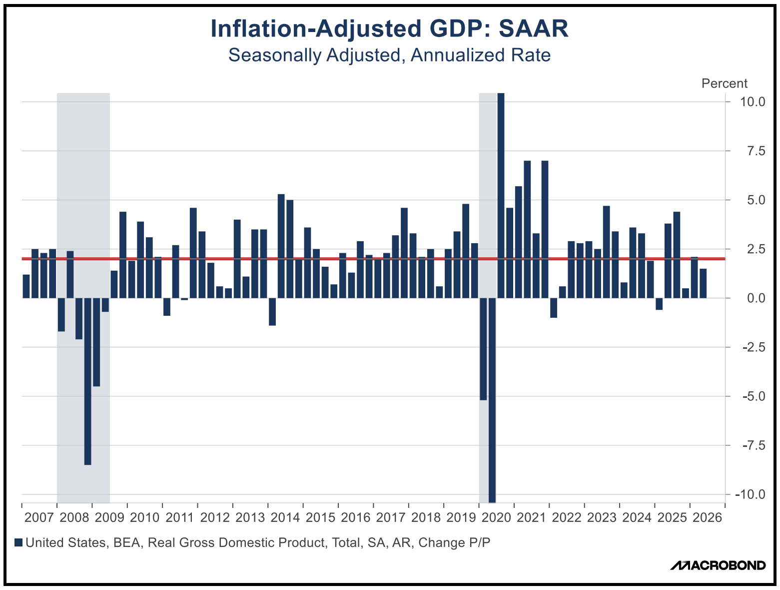
The income and spending report includes the Fed's preferred measure of consumer price inflation. After stripping out the volatile food and energy components, the ***Core PCE Deflator*** for July was up 3.3% from the same month one year earlier, still well above the Fed's target of 2.0%. The chart below shows the year-over-year change in the Core PCE Deflator since just before the GFC.



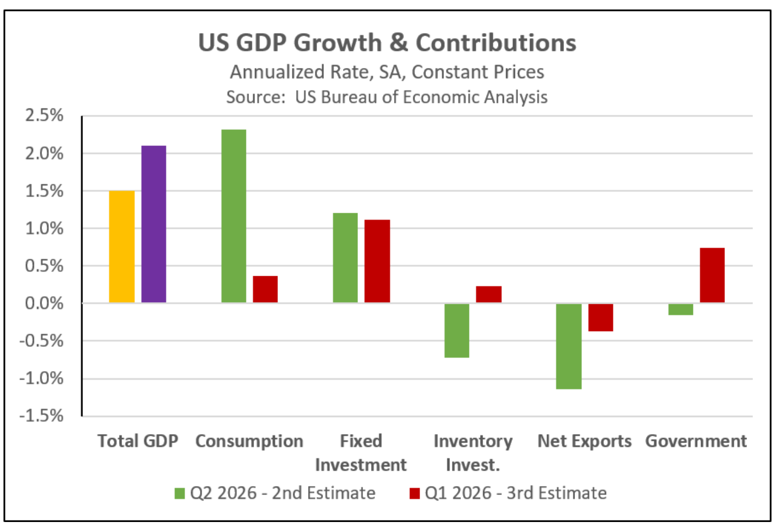
In yet another major report, July ***durable goods orders*** rose by a seasonally adjusted 1.1%, versus expectations that they would increase by the same 0.5% rate registered for June. Durable goods orders are often driven by transportation equipment, where just a few airliner orders can have a big impact. July ***durable goods orders excluding transportation*** rose 0.4%, short of the anticipated rise of 0.6% and less than half the revised increase of 1.1% in June. Finally, the durable goods report also includes a key proxy for corporate capital investment. In July, nondefense capital goods orders ex-aircraft merely edged up 0.2%, well short of the expected gain of 0.7% and the revised 1.7% jump in June. Compared with the same month one year earlier, overall durable goods orders in July were up 12.9%, while durable orders ex-transport were up 11.9%. Nondefense capital goods orders ex-aircraft were up 13.5%. The chart below shows the progression of nondefense capital goods orders ex-aircraft since just before the previous recession.



Finally, the Commerce Department released its second regular estimate of economic activity in the second quarter of 2026. After stripping out seasonal factors and price changes, second-quarter ***gross domestic product (GDP)*** rose at an annualized rate of 1.5%, matching expectations and validating the initial estimate of 1.5% as well. The chart below shows the annualized growth rate of US GDP since just before the Great Financial Crisis; the horizontal red line indicates the average growth rate of about 2.0% over the last two decades.



A close look at the details in the report shows that the main source of growth in the quarter was consumer spending, with an additional contribution from fixed investment. The chart below shows the contributions to the annualized growth rate in the second quarter.



The table below shows the domestic releases 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**
11:45	Thomas Barkin Speaks on Panel	President of the Federal Reserve Bank of Richmond

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	PPI Services	y/y	Jul	3.6%	3.4%	3.2%	*	Equity bearish, bond bearish
Australia	Westpac Leading Index	m/m	Jul	0.03%	0.05%		**	Equity and bond neutral
	CPI	y/y	Jul	3.5%	3.8%	3.3%	**	Equity and bond neutral
South Korea	Retail Sales	y/y	Jul	6.4%	9.5%		**	Equity bearish, bond bullish
	Depart. Store Sales	y/y	Jul	17.9%	22.2%		*	Equity bearish, bond bullish
	Discount Store Sales	y/y	Jul	-11.2%	-10.5%		*	Equity bearish, bond bullish
EUROPE								
AMERICAS								
Mexico	Current Account Balance	q/q	2Q	$8927m	-$18231m	$3859m	*	Equity and bond neutral
	International Reserves Weekly	w/w	21-Aug	$258609m	$257417m		*	Equity and bond neutral
Brazil	IBGE Inflation IPCA-15	m/m	Aug	4.24%	4.52%	4.33%	***	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)	369	370	-1	Up
U.S. Sibor/OIS spread (bps)	375	375	0	Up
U.S. Libor/OIS spread (bps)	373	374	-1	Up
10-yr T-note (%)	4.63	4.63	0.00	Down
Euribor/OIS spread (bps)	255	254	1	Up
Currencies	**3 Mo**			
Dollar	Down	US		Down
Euro	Up	Euro		Up
Yen	Down	Japan		Up
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	$86.39	$88.58	-2.47%	Easing Iran Tensions
WTI	$80.46	$82.36	-2.31%	
Natural Gas	$2.84	$2.77	2.49%	
Crack Spread	$57.41	$57.51	-0.17%	
12-mo strip crack	$46.96	$47.22	-0.56%	
Ethanol rack	$2.21	$2.21	-0.02%	
Metals				
Gold	$4,627.17	$4,657.17	-0.64%	
Silver	$68.78	$68.66	0.17%	
Copper Contract	$680.10	$681.55	-0.21%	
Grains				
Corn contract	$528.00	$523.50	0.86%	
Wheat contract	$717.75	$703.25	2.06%	
Soybeans contract	$1,243.25	$1,237.75	0.44%	
Shipping				
Baltic Dry Freight	2,926	2,882	44	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		1580.00		
Gasoline (mb)		-1100.00		
Distillates (mb)		-1900.00		
Refinery run rates (%)		-50.00%		
Natural gas (bcf)		15		

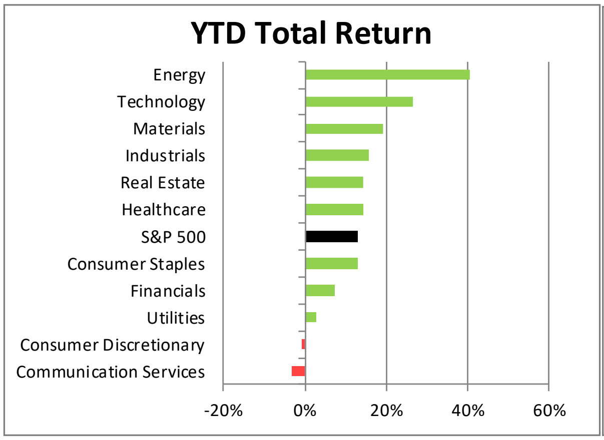
Weather

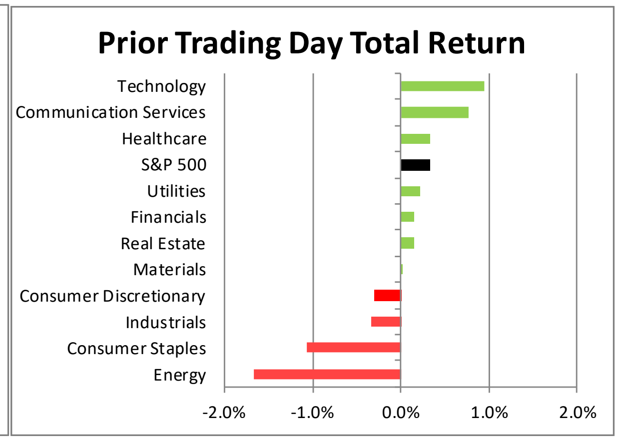
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures from southernmost California and the Rocky Mountains to the East Coast, with near-normal temperatures along the West Coast from Seattle to about Los Angeles. The outlook calls for wetter-than-normal conditions from the West Coast to the Great Plains and in the Northeast, with dry conditions in Texas.

There are currently two tropical disturbances in the Atlantic Ocean area. One disturbance, in the central Atlantic northeast of Bermuda, is moving northward and is assessed to have a 40% chance of cyclone formation within the next seven days. The second disturbance is off the coast of Africa and 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 8/25/2026 close)

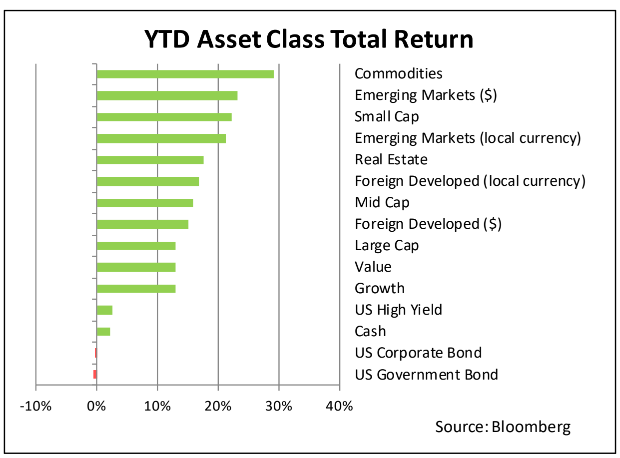




(Source: Bloomberg)

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 8/25/2026 close)

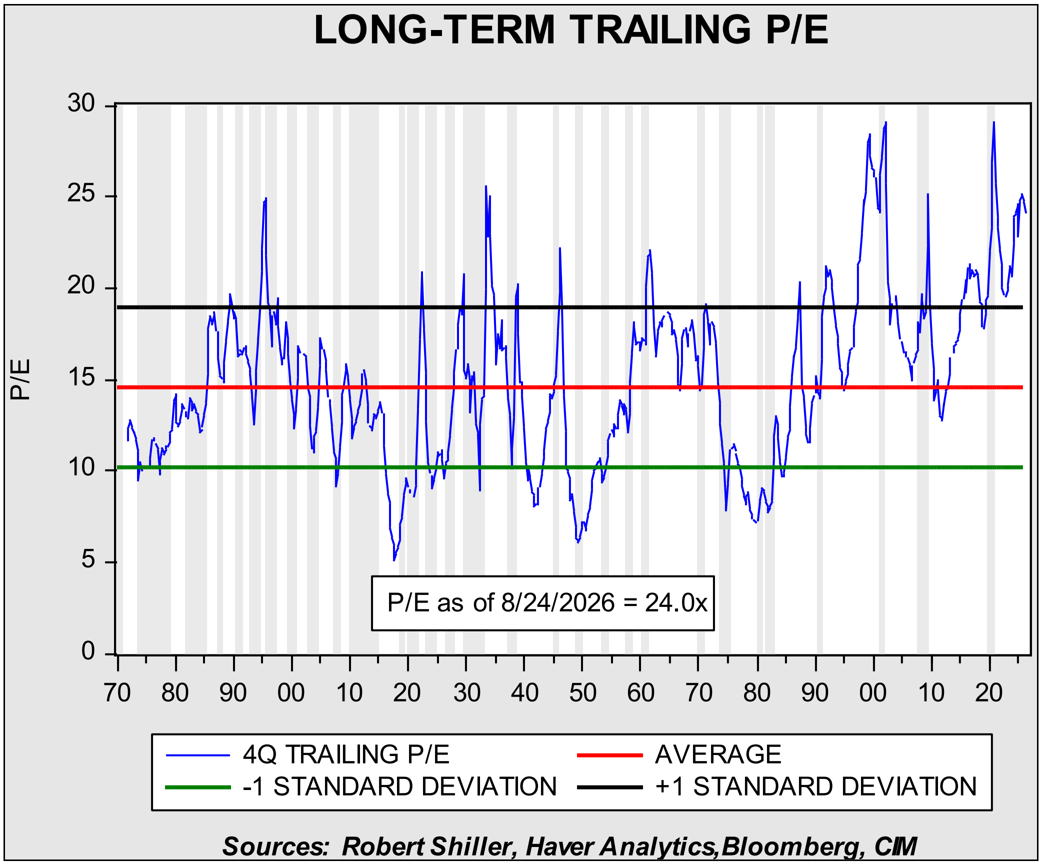


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.

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.