Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: August 27, 2026 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is down 0.1% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.5%. Chinese markets were higher, with the Shanghai Composite up 1.1% and the Shenzhen Composite up 1.7%. US equity index futures are signaling a higher open.

With 478 companies having reported so far, S&P 500 earnings for Q2 are running at $89.20 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, 86.0% have exceeded expectations, while 10.3% 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.

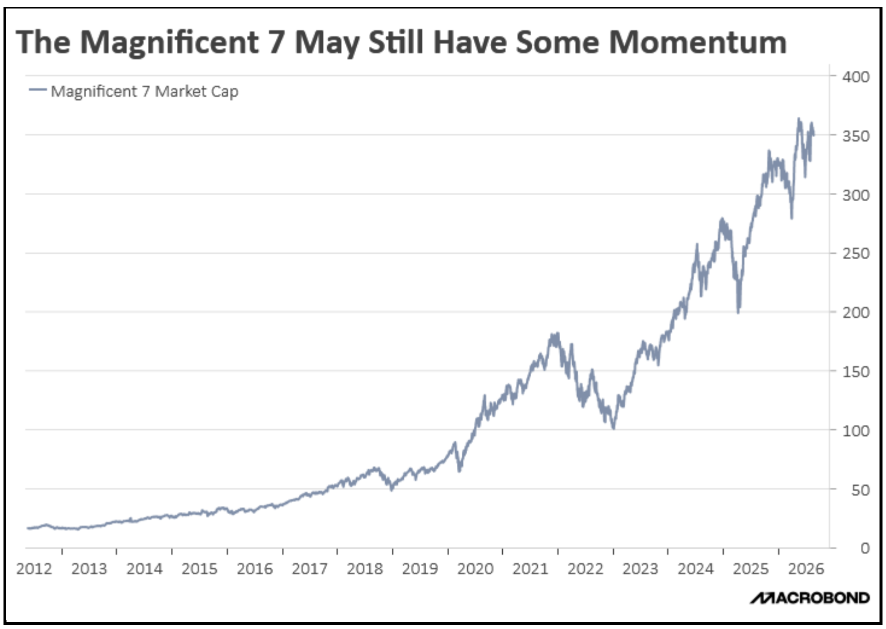
Bi-Weekly Geopolitical Report	Asset Allocation Bi-Weekly	Asset Allocation Quarterly	Of Note
"On Lessons Learned: China and Consumption Policy" (8/24/26)	"China's Threat to the AI Investment Boom" (8/17/26) + podcast	Q3 2026 Report Q3 2026 Rebalance Presentation	Value Equity Quarterly Update Confluence 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 Nvidia's strong earnings report and the potential implications for the AI trade. We then turn to the Iran-US conflict, which has entered a new phase. Following that, we briefly cover a few other topics, including Bill Gates's warning on AI, Lisa Cook's response to the White House, and recent escalation in the Russia-Ukraine conflict. As usual, the report concludes with a summary of today's domestic and economic releases.

AI Gains Life? The AI trade received a boost on Wednesday after Nvidia once again delivered strong earnings and an upbeat outlook. In the second quarter, the chipmaker beat consensus expectations for the 15th consecutive quarter. While the initial report triggered a brief sell-off over concerns about rising capital expenditures, investor anxieties were eased by Nvidia's projections of robust sales through 2028 and an expanded partnership with Amazon. The strong report may reignite optimism across a sector that has recently faced growing skepticism.

- According to the chipmaker's earnings report, second quarter revenue rose to $96.22 billion, surpassing the $92.17 billion consensus estimate. The stronger-than-expected result was driven primarily by data-center sales, which accounted for 92% of total revenue. Although the company remains heavily reliant on hyperscalers, it is seeing its customer base broaden to include AI cloud providers, industrial firms, and enterprise customers, a trend that supports its expectation for 70% revenue growth by 2028.
- However, despite the report's strong positives, it also highlighted several areas of concern. The company identified its rising debt burden as a key risk factor, warning that its obligations could eventually weigh on financial health and cash flow. In addition, higher memory-chip costs have compressed margins, which management expects to bottom out in the fourth quarter. Earlier this month, reports indicated that the company had begun raising chip prices for customers.



- Better-than-expected earnings at Nvidia are likely to bolster sentiment toward AI-related equities, particularly the "Magnificent" tech giants that have anchored the broader market rally. The results arrive as this group begins to recover from a recent period of weakness. Although these companies continue to demonstrate strong earnings power, investor concerns over the scale of their capital expenditure plans — and uncertainty around the eventual return on that spending — have continued to weigh on valuations.
- That said, the AI trade continues to show sustained momentum and is likely to remain elevated over the short to medium term as infrastructure buildout remains a central market theme and an increasingly important driver of economic activity. At the same time, we see potentially greater long-term value in select companies beyond the small group of names that have attracted the market's attention. That does not, however, imply that the AI rally is over.

Sanctions over Strikes? The United States is increasingly signaling a shift toward economic leverage over military action in its approach to Iran. On Wednesday, reports indicated that Secretary of State Marco Rubio informed allies that Washington does not plan to initiate strikes in the near term as a punitive measure but will instead intensify sanctions. The announcement comes as the Treasury Department deepens its involvement in the conflict, coinciding with intensified US pressure on Tehran to return to the negotiating table.

- Rubio's reported admission that the US favors sanctions comes as Treasury Secretary Scott Bessent steps up his involvement in the conflict. Over the last few days, Bessent has announced plans to leverage the dollar-based system and rolled out new sanctions targeting 60 individuals, entities, and vessels that are enabling trade with Iran. The move appears to be having an immediate effect, with the Iranian rial tumbling to an all-time low against the dollar.
- The decision to pursue a more diplomatic approach comes as signs emerge that the fighting has reached a stalemate. Although the United States has achieved military successes by striking several of Iran's key military assets, it has not prevented Iran from disrupting shipping traffic through the Strait of Hormuz or from retaining the ability to launch attacks against other Middle Eastern countries in the region.
- The shift from military strikes to economic sanctions threatens to draw additional countries into the dispute. In particular, the prospect of expanded US secondary sanctions on countries and companies doing business with Iran — including potentially China, one of Iran's key economic partners — raises the risk of retaliation from Beijing. Europe also remains on alert after Iran warned Bulgaria against allowing its territory or military facilities to support US operations.
- While the scaling back of military operations may ease near-term market fears of a wider conflict, economic sanctions remain an imperfect tool. Historically, sanctions have delivered mixed results in compelling adversaries to comply with US demands, as illustrated by their failure to deter Russia's invasion of Ukraine or halt North Korea's weapons program. As a result, a pivot toward sanctions may create space for further negotiations, but it is unlikely to produce a swift resolution to US-Iran tensions.

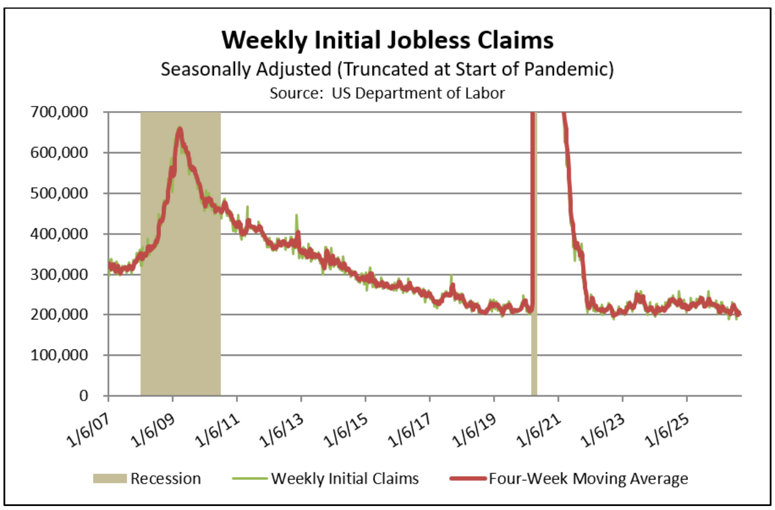
Bill Gates Warning: In a recent essay, Gates cautioned that AI poses significant threats to both the labor force and cybersecurity, and he called for a slowdown in its development. His remarks come at a time when several AI models have demonstrated autonomous hacking capabilities and as adoption of the technology continues to rise steadily across the United States. While his views may not have an impact on financial markets right away, they are likely to fuel the ongoing political debate over AI's evolving role in society.

Fed Governor Under Pressure: On Thursday, Fed Governor Lisa Cook denied any wrongdoing in response to claims made last year by FHFA Director William Pulte, who accused her of misrepresenting her primary residence to obtain more favorable loan terms. Her denial comes three weeks after President Trump suggested he was considering the matter as grounds for her dismissal. Although she has not been formally charged with a crime, the White House has used the allegation to justify firing her. The move is likely to heighten concerns over Fed independence.

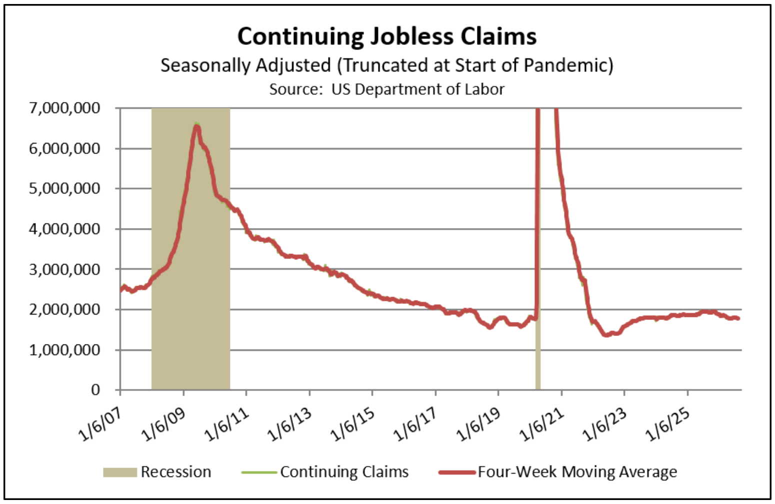
Russia-Ukraine: The Russia-Ukraine conflict continues to show signs of escalation. On Wednesday, missiles struck several facilities including a Children's Hospital. The attack came after Ukraine launched a strike on a facility belonging to a major retailer. The deepening cycle of attacks between the two countries raises the risk of more extreme weaponry being deployed, particularly by Russia. The escalation could potentially push the West to consider increasing their assistance in the conflict.

US Economic Releases

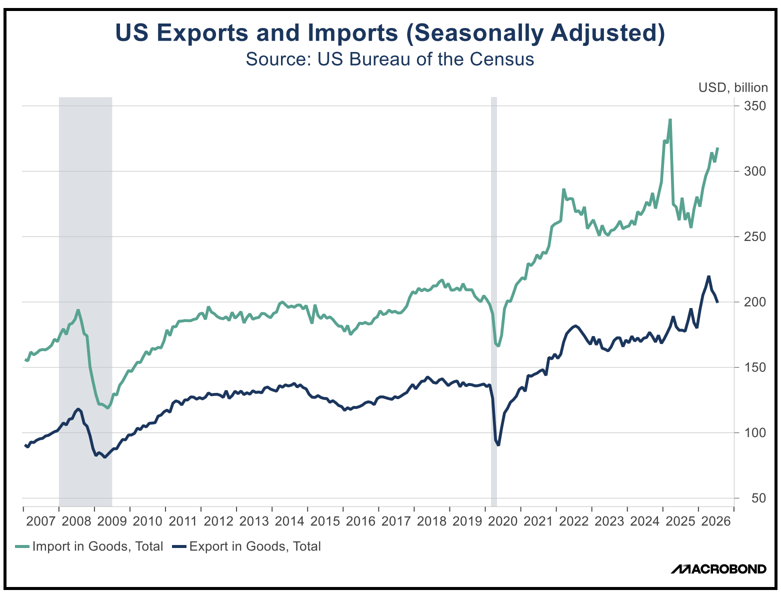
In the week ended August 22, ***initial claims for unemployment benefits*** fell to a seasonally adjusted 203,000, below both the expected level of 208,000 and the prior week's revised level of 207,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, nevertheless rose to 205,500. The chart below shows how initial jobless claims have fluctuated since just before the Great Financial Crisis (GFC). 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 15, the number of ***continuing claims for unemployment benefits*** (people continuing to draw benefits) fell to a seasonally adjusted 1.778 million, below both the anticipated reading of 1.792 million and the previous week's revised reading of 1.796 million. The four-week moving average of continuing claims rose to 1,788,500. The chart below shows how continuing claims have fluctuated since the GFC. It is also truncated during the pandemic period due to the high level of claims during that time.



In a separate report, a preliminary estimate showed the US ***merchandise trade balance*** in July came in at a seasonally adjusted deficit of $118.8 billion, worse than both the expected shortfall of $100.5 billion and the revised June shortfall of $101.4 billion. According to the data, total merchandise exports fell 2.9%, while imports rose 3.7%. The chart below shows the monthly value of US exports and imports since just before the GFC.



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

Economic Releases						
EST	Indicator			Expected	Prior	Rating
11:00	Kansas City Fed Manfacturing Activity	m/m	Aug	10	9	*
Federal Reserve						
10:00	Beth Hammack to appear on CNBC	President of the Federal Reserve Bank of Cleveland				
13:30	Beth Hammack to appear on Fox Business	President of the Federal Reserve Bank of Cleveland				

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	Japan Buying Foreign Bonds	w/w	21-Aug	-¥1978.4b	¥1137.3b	--	*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	21-Aug	¥435.2b	-¥1249.9b	--	*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	21-Aug	-¥869.0b	¥1391.3b	--	*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	21-Aug	-¥764.1b	¥622.4b	--	*	Equity and bond neutral
	Machine tool orders	y/y	Jul F	50.4%	50.4%	--	**	Equity bullish, bond bearish
China	Industrial Profits	y/y	Jul	11.2%	15.1%		*	Equity and bond neutral
EUROPE								
Eurozone	M3 Money Supply	y/y	Jul	3.4%	3.3%	3.5%	***	Equity and bond neutral
Germany	GfK Consumer Confidence	m/m	Sep	-26.6	-29.4	-29.5	**	Equity bullish, bond bearish
France	PPI	y/y	Jul	3.4%	2.8%		*	Equity bearish, bond bullish
AMERICAS								
Mexico	Unemployment Rate NSA	m/m	Jul	2.90%	2.90%	3.00%	***	Equity and bond neutral
	Trade Balance	m/m	Jul	-847.5m	4059.5m	2990.8m	**	Equity bearish, bond bullish
	Exports	m/m	Jul	81420m	72521m		*	Equity and bond neutral
	Imports	m/m	Jul	82268m	68461m		*	Equity and bond neutral
Brazil	Current Account Balance	m/m	Jul	-$8110m	-$2693m	-$6700m	**	Equity bearish, bond bullish
	Foreign Direct Investment	m/m	Jul	$7460m	$9075m	$8000m	**	Equity and bond neutral
	National Unemployment Rate	m/m	Jul	5.3%	5.4%	5.3%	*	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)	368	369	-1	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 (%)	4.66	4.65	0.01	Down
Euribor/OIS spread (bps)	255	255	0	Up
Currencies	**3 Mo**			
Dollar	Down	US		Flat
Euro	Up	Euro		Up
Yen	Down	Japan		Flat
Pound	Up	UK		Up
Franc	Down	Switzerland		Down
Central Bank Action		**Prior**	**Expected**	
Bank of Korea Base Rate	3.00%	2.75%	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	$88.39	$87.84	0.63%	
WTI	$82.44	$82.23	0.26%	
Natural Gas	$2.90	$2.84	1.86%	
Crack Spread	$57.51	$58.67	-1.98%	
12-mo strip crack	$46.80	$47.81	-2.11%	
Ethanol rack	$2.20	$2.20	0.00%	
Metals				
Gold	$4,597.16	$4,591.07	0.13%	
Silver	$68.41	$68.12	0.42%	
Copper Contract	$667.05	$670.15	-0.46%	
Grains				
Corn contract	$534.25	$536.50	-0.42%	
Wheat contract	$753.50	$748.25	0.70%	
Soybeans contract	$1,261.25	$1,266.00	-0.38%	
Shipping				
Baltic Dry Freight	3,056	2,926	130	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	95.00	1580.00	-1485.00	
Gasoline (mb)	-2536.00	-1100.00	-1436.00	
Distillates (mb)	-2228.00	-1900.00	-328.00	
Refinery run rates (%)	0.20%	-0.50%	0.70%	
Natural gas (bcf)		15		

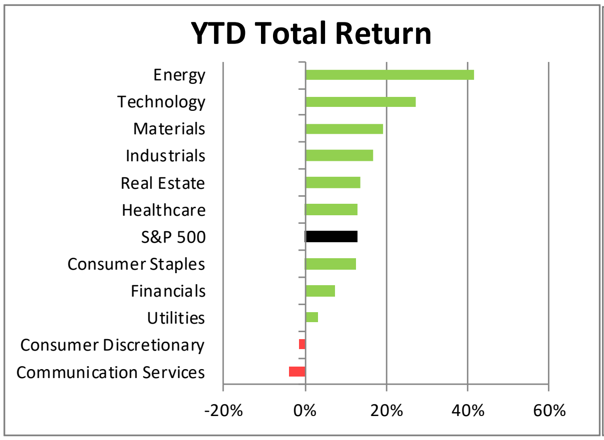
Weather

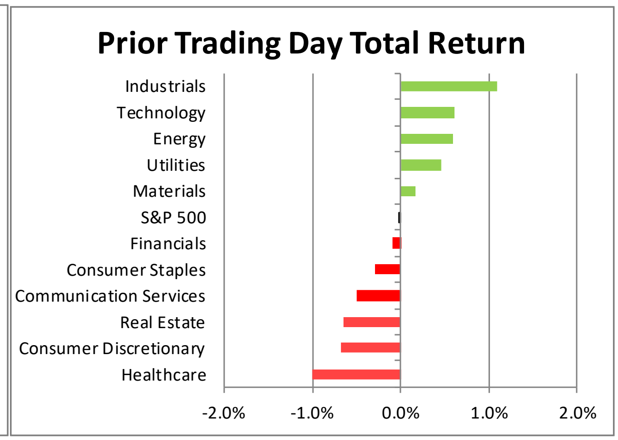
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures from southern California and the Rocky Mountains to the East Coast, with cooler-than-normal temperatures in the Pacific Northwest. The outlook calls for wetter-than-normal conditions from the West Coast to the Great Plains and in New England, with near-normal conditions elsewhere.

There is now just one atmospheric disturbance in the Atlantic Ocean area. The disturbance is now in the central Atlantic and moving westward toward the Caribbean Sea. It is assessed to have a 90% chance of cyclonic formation in the next week.

Data Section

US Equity Markets – (as of 8/26/2026 close)

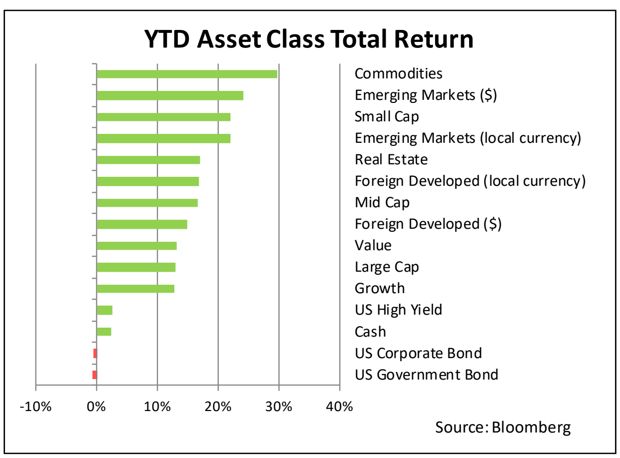




(Source: Bloomberg)

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 8/26/2026 close)

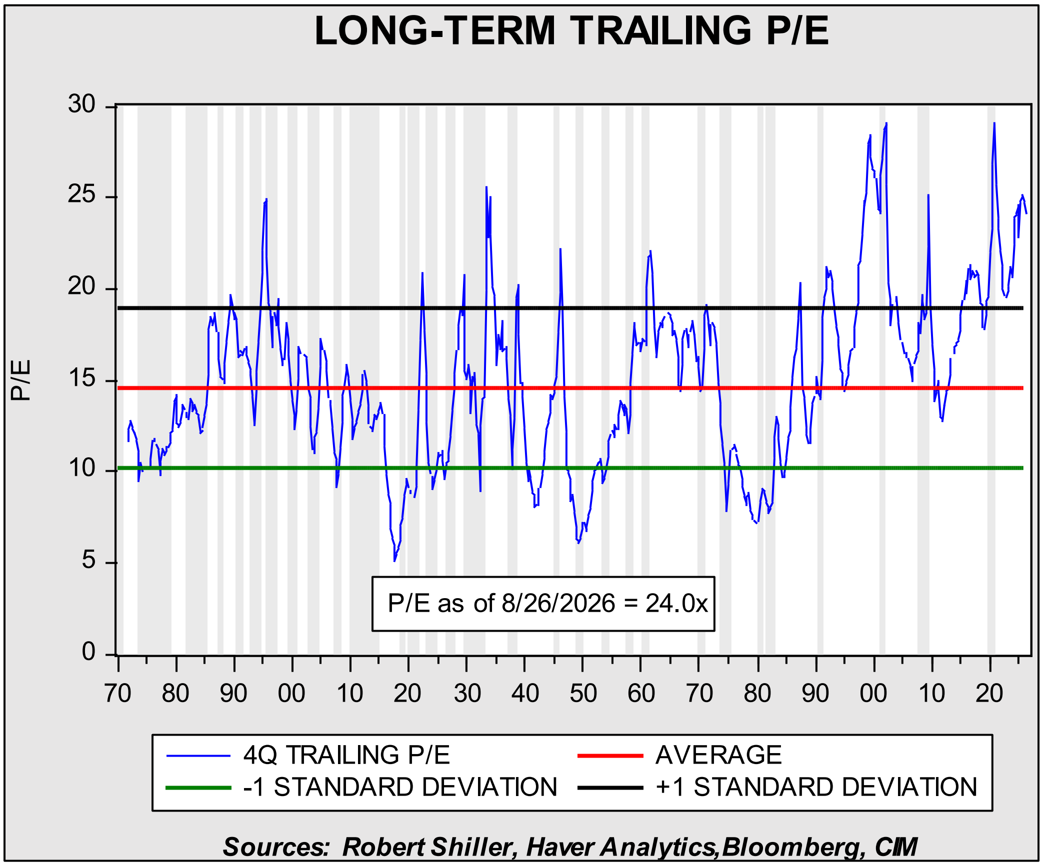


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 27, 2026



Based on our methodology,[1] the current P/E is 24.0x, unchanged from the previous report. The increase in the stock price index was offset by a rise 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.

[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.