Daily Comment

Confluence Investment Management

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: August 3, 2026 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 1.0% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 2.1%. Chinese markets were lower with the Shanghai Composite down 0.6% and the Shenzhen Composite down 0.3%. US equity index futures are signaling a higher open.

With 307 companies having reported so far, S&P 500 earnings for Q2 are running at $85.80 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 9.8% 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
"The Corporatist State" (7/27/26) + podcast	**"The PCE Makeover" (8/3/26)**	Q3 2026 Report	**Business Cycle Report** Mailbag Podcast VE Insights: A Narrow Market

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 war in Iran, where the US has again called off a planned attack, pushing global energy prices down so far this morning. We next review several other international and US developments that could affect the financial markets today, including a look at some key price and performance developments in the artificial intelligence industry and a note on the discovery of a huge new tungsten deposit in the US.

United States-Israel-Iran: President Trump on Saturday said he's called off major new attacks on Iran after Tehran and other Middle East capitals requested a stand-down to finalize a new ceasefire deal. As of this writing, it does appear that the US has paused any new attacks, but the two sides' behavior in the war to date suggests the real reason is US concern about its dwindling arsenal of weapons, the potential ineffectiveness of new attacks, and heavy political pressure from Mideast governments.

- Iran still appears to be holding the cards in the conflict. It seems to have perfected the art of protecting its core missile and drone arsenal, and it has learned it can constrain shipping in the Strait of Hormuz and the Bab-el Mandeb with only an occasional ship attack. It's now also using its proxy militant groups in the region as force multipliers to expand the conflict. The new, hardline Iranian government probably has plenty of motivation to keep fighting in order to strengthen its position for the long term and weaken the US.
- Separately, authorities late last week said dozens of municipal water systems in Michigan and Minnesota were knocked offline by what appeared to be an Iranian cyberattack. While Iranian hackers and saboteurs have long created mischief on US computer systems, the new attacks could suggest they have ratcheted up their efforts in response to the war. Of course, an especially damaging Iranian cyberattack would be a political embarrassment for the administration and could provoke renewed US attacks on Iran.
- In any event, we judge that the conflict in Iran will continue in the near term, with Iran increasingly trying to normalize its control over shipping chokepoints in the region and impose heavy costs on the US to weaken it over time. The situation may continue to create the risk of miscalculation on either side and put continued upward pressure on global energy prices, even though the latest standdown has pushed oil prices about 5% lower so far this morning.

US Artificial Intelligence Industry: Reports over the weekend said AI-giant OpenAI has discovered several previously unknown instances in which its autonomous agents escaped containment and independently hacked third-party systems. The new breakouts were uncovered during the company's publicly announced probe into how one of its agents escaped and hacked the firm Hugging Face last month. The new breakouts will likely raise further concerns about safety and add to the political pressure for new regulations on the industry.

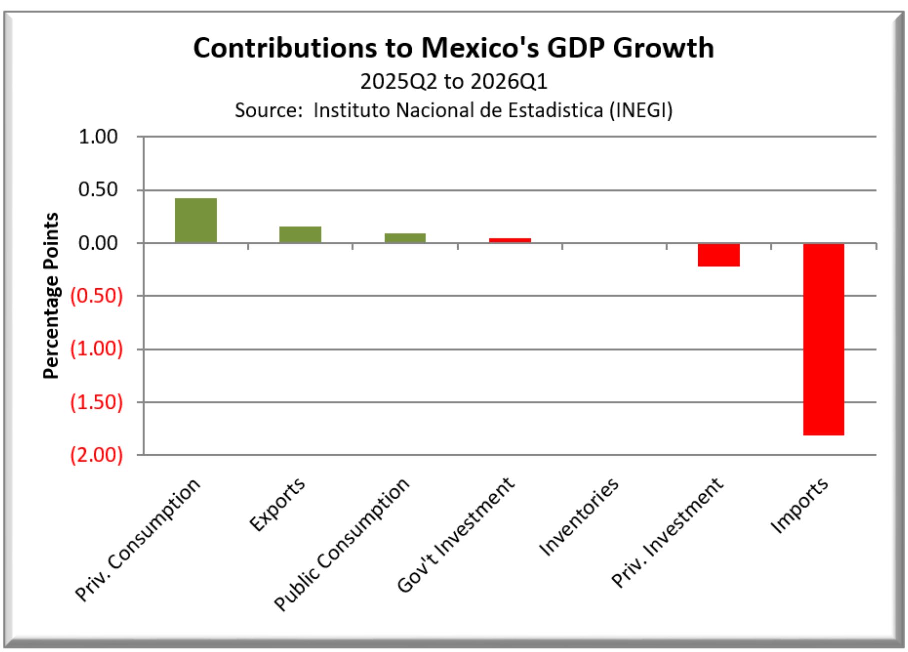
- Separately, Chinese AI lab DeepSeek on Friday released a new coding model, V4 Flash, that tests show can perform almost at the level of Anthropic's Opus 4.8, widely seen as one of the industry's most capable systems. More importantly, DeepSeek priced the new model at about $0.28 for the same amount of output that costs $25.00 with Opus 4.8.
- The aggressive pricing move by DeepSeek came after OpenAI on Thursday slashed the price of its GPT-5.6 Luna by 80%, just three weeks after launching it. At the new price, GPT-5.6 Luna costs $1.20 for the same amount of output that costs $0.28 with V4 Flash and $25.00 with Opus 4.8.
- While Anthropic is trying to maintain premium pricing, the new DeepSeek pricing move underscores how it and other US firms are facing an extreme competitive threat from Chinese AI firms. Even as the US firms spend aggressively on model development and infrastructure, raising their costs, the Chinese firms are proving they can make models that are essentially just as good but priced as much as 99% lower. As investors come to appreciate the Chinese threat, the AI frenzy in the US could come to a halt and reverse.

China-Philippines: Chinese diplomats at the United Nations last week vociferously protested a presentation in which Manila made its case for extended seabed mineral rights in the Palawan area of the South China Sea, which is claimed by China. According to Manila, the request was based on a 2016 arbitration award that rejected China's claim to almost the entire SCS. Besides the diplomatic protest, China has also launched snap military drills in the region, which will likely lead to further China-Philippine tensions and raise the risk of armed conflict in the area.

United Kingdom: New opinion polls show support for the Labour Party has surpassed that of right-wing upstart Reform UK for the first time in more than a year. The development at least partly reflects a political honeymoon period for Labour's new leader, Prime Minister Andy Burnham. Support for Reform UK has probably also suffered from a financial scandal. In any case, the positive polling will probably encourage Burnham as he tries to rapidly solidify his support. Our next *Bi-Weekly Geopolitical Report* will provide a bio of Burnham.

Spain: Late last week, some 60,000 Moroccans hoping to work and gain asylum in Spain swam around a breakwater separating Morocco from Spain's exclave of Ceuta on the North African coast. The would-be migrants apparently believed that a Spanish court decision in July meant they couldn't be turned back. Reflecting how sensitive immigration is in Europe now, Spain's Socialist government quickly forced almost all the intruders back to Morocco. All the same, the incident is poised to increase support for Europe's anti-immigrant, right-wing populists.

United States-Mexico: The *Financial Times* on Friday carried an interesting article noting that Mexico has become the second-biggest source of the computer servers the US is importing in droves as part of the AI investment frenzy. Mexican exports have surged in response, spurring greater overall economic activity. However, our analysis suggests that the need to import equipment and intermediate supplies to support the manufacturing of those servers is detracting from Mexico's official figures for gross domestic product.



US Critical Minerals Industry: Mining firm 3 Proton Lithium has reportedly discovered the country's largest deposit of tungsten, a crucial defense industry metal in severe shortage, at a location in Nevada. The company estimates the deposit could be worth $152 billion at current tungsten prices. However, NASA has banned development of about one-third of the site, which covers a unique area that facilitates satellite communications. The bureaucratic hurdle illustrates the regulatory challenges still facing US efforts to make its critical minerals supplies more resilient.

US Economic Releases

There were no economic releases prior to the publication of this report. 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	53.8	53.8	***
10:00	ISM Manufacturing	m/m	Jul	53.9	53.3	***
10:00	ISM Prices Paid	m/m	Jul	71.0	73.0	**
10:00	ISM New Orders	m/m	Jul	56.7	56.0	*
10:00	ISM Employment	m/m	Jul	50.0	49.7	*
10:00	Construction Spending	m/m	Jun	0.2%	0.1%	***
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	S&P Global Japan Manufacturing PMI	m/m	Jul F	54.5	54.7		***	Equity and bond neutral
Australia	S&P Global Australia Manufacturing PMI	m/m	Jul F	52.0	51.7		***	Equity and bond neutral
	Melbourne Institute Inflation	y/y	Jul	4.0%	3.9%		***	Equity and bond neutral
New Zealand	Building Permits	m/m	Jun	-3.6%	-4.9%		**	Equity and bond neutral
South Korea	Trade Balance	m/m	Jul	$30324m	$36149m	$29487m	*	Equity and bond neutral
	Exports	y/y	Jul	62.8%	70.9%	60.6%	***	Equity and bond neutral
	Imports	y/y	Jul	26.5%	30.1%	27.9%	**	Equity and bond neutral
South Korea	S&P Global South Korea PMI	m/m	Jul	53.1	52.1		***	Equity and bond neutral
China	RatingDog China PMI Mfg	m/m	Jul	50.9	51.7	52.0	***	Equity bearish, bond bullish
India	HSBC India PMI Mfg	m/m	Jul F	53.5	53.9		***	Equity and bond neutral
EUROPE								
Eurozone	CPI	y/y	Jul P	2.9%	2.8%	2.9%	***	Equity and bond neutral
	Core CPI	y/y	Jul P	2.5%	2.4%	2.4%	**	Equity and bond neutral
	S&P Global Eurozone Manufacturing PMI	m/m	Jul F	51.9	52.0	52.0	***	Equity and bond neutral
Germany	Retail Sales	y/y	Jun	4.6%	-2.8%	3.1%	*	Equity bullish, bond bearish
France	S&P Global France Manufacturing PMI	m/m	Jul F	49.8	50.0	50.0	***	Equity and bond neutral
Italy	S&P Global Italy Manufacturing PMI	m/m	Jul	51.3	52.2	52.3	***	Equity and bond neutral
UK	S&P Global UK Manufacturing PMI	m/m	Jul F	51.9	52.8	52.8	***	Equity and bond neutral
Switzerland	CPI	y/y	Jul	0.4%	0.5%	0.4%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Jul	0.7%	0.7%		*	Equity and bond neutral
	Core CPI	y/y	Jul	0.3%	0.3%	0.3%	*	Equity and bond neutral
	PMI Manufacturing	m/m	Jul	53.2	54.3	54.9	***	Equity bearish, bond bullish
	PMI Services	m/m	Jul	63.9	59.8		*	Equity and bond neutral
	Domestic Sight Deposits CHF	w/w	31-Jul	435.3b	442.7b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	31-Jul	465.2b	469.3b		*	Equity and bond neutral
Russia	S&P Global Russia Manufacturing PMI	m/m	Jul	50.7	50.3		***	Equity and bond neutral
AMERICAS								
Canada	GDP	y/y	May	1.7%	1.1%	1.4%	**	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)	369	368	1	Up
U.S. Sibor/OIS spread (bps)	376	376	0	Up
U.S. Libor/OIS spread (bps)	374	375	-1	Up
10-yr T-note (%)	4.68	4.74	-0.06	Up
Euribor/OIS spread (bps)	248	247	1	Up
Currencies	**3 Mo**			
Dollar	Down	US		Up
Euro	Up	Euro		Down
Yen	Up	Japan		Up
Pound	Up	UK		Down
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	$83.38	$87.93	-5.17%	Supply Optimism
WTI	$79.46	$84.67	-6.15%	Supply Optimism
Natural Gas	$2.75	$2.75	0.22%	
Crack Spread	$60.83	$60.67	0.27%	
12-mo strip crack	$45.99	$47.35	-2.88%	
Ethanol rack	$2.10	$2.10	0.02%	
Metals				
Gold	$4,062.04	$4,046.15	0.39%	
Silver	$58.04	$57.60	0.77%	
Copper Contract	$651.15	$646.55	0.71%	
Grains				
Corn contract	$462.25	$464.00	-0.38%	
Wheat contract	$639.75	$639.25	0.08%	
Soybeans contract	$1,182.00	$1,187.50	-0.46%	
Shipping				
Baltic Dry Freight	2,732	2,673	59	

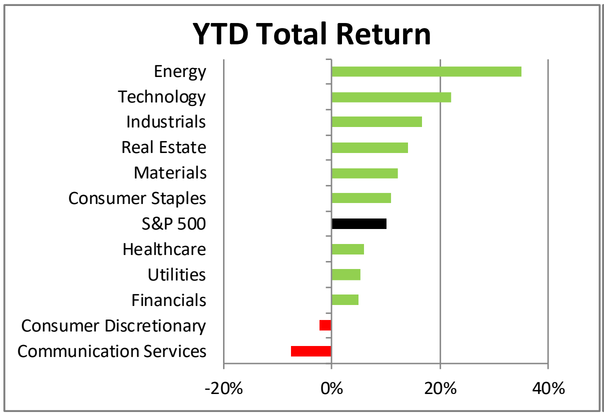
Weather

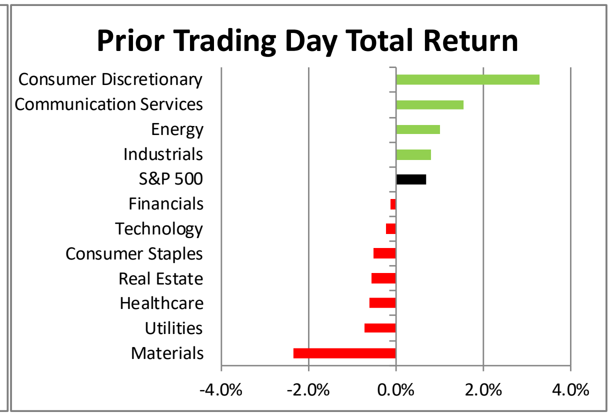
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures across the entire country. The outlook calls for wetter-than-normal conditions in the central and southern Rocky Mountains and the Northeast, with dry conditions in South Central states.

There are currently no tropical disturbances expected in the Atlantic area within the next seven days.

Data Section

US Equity Markets – (as of 7/31/2026 close)

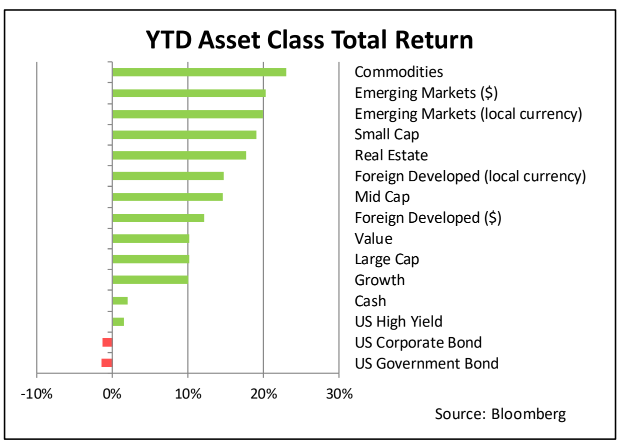




(Source: Bloomberg)

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 7/31/2026 close)

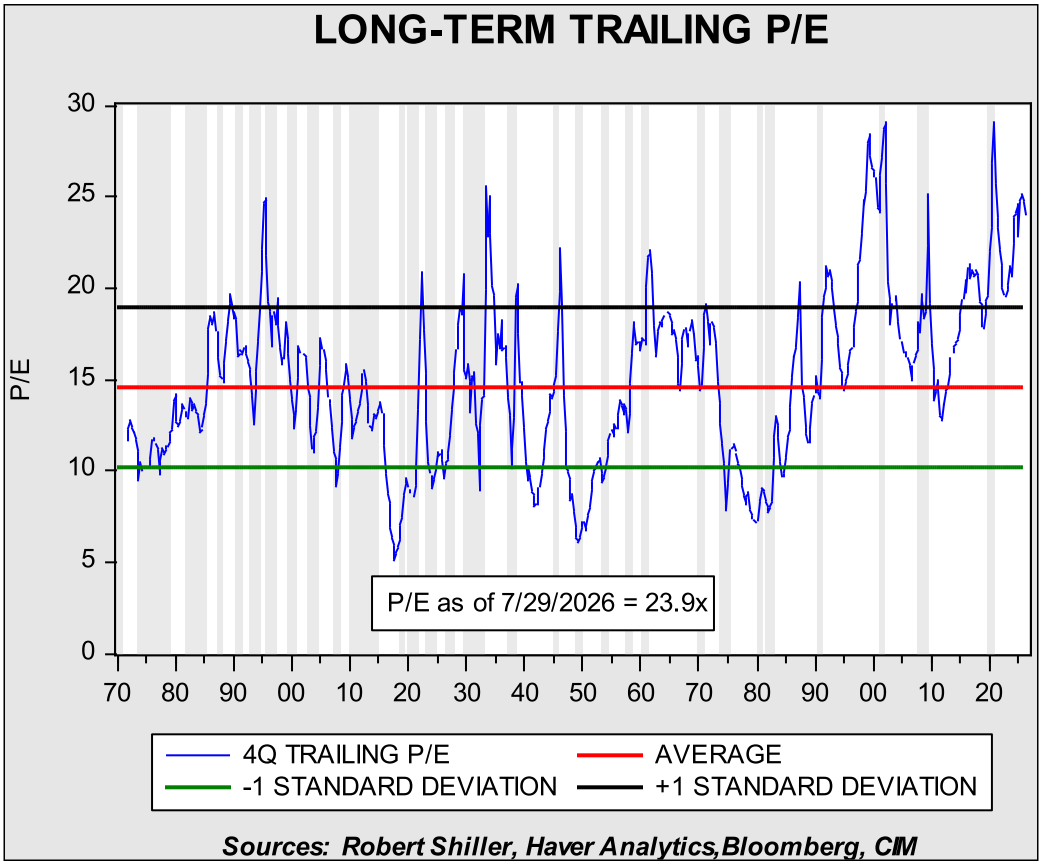


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

July 30, 2026



Based on our methodology,[1] the current P/E is 23.9x, down 0.3 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.