Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: August 4, 2026 — 9:30 AM ET] Global equity markets are mostly higher this morning. In Europe, the Euro Stoxx 50 is up 0.8% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.6%. Chinese markets were higher with the Shanghai Composite up 0.3% and the Shenzhen Composite up 2.7%. US equity index futures are signaling a higher open.

With 322 companies having reported so far, S&P 500 earnings for Q2 are running at $85.90 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 9.9% 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. We next review several other international and US developments that could affect the financial markets today, including a new immigration crisis in Europe and an unexpected early test of the Federal Reserve's independence arising from Japan's effort to put a floor under the yen.

United States-Israel-Iran: The Iranian Foreign Ministry yesterday denied President Trump's claim over the weekend that the US and Iran have launched a new set of negotiations to reopen shipping through the Strait of Hormuz. The Iranians said they were only in talks with Oman on how to share control of the waterway. The Iranian statement prompted Trump to later issue an angry complaint that Iran's leaders are "unbelievably duplicitous" for requesting talks and then denying them. Meanwhile, another cargo ship was attacked while transiting the strait today.

- As we discussed in our *Comment* yesterday, the Iranians appear to have the advantage in the conflict, as they have proven capable of absorbing intense US barrages without losing key offensive capabilities and can shut down shipping with only minimal attacks on civilian vessels. The attack today is a reminder of that. The Iranians remain in a strong position to keep imposing costs on the US in hopes of weakening it, forcing it to withdraw, and leaving Tehran with a free hand to control the strait into the future.
- We suspect Trump is correct when he asserts that the US and Iran are talking. Therefore, the Iranian denials are probably just a power play aimed at embarrassing Trump and getting under his skin. So long as Iranian leaders think they're making Trump look impotent, they're likely to continue playing the game.
- For these reasons, we suspect the Iranians have every incentive to keep behaving the way they have been. For its part, if the US administration can't find a way to impose more painful costs on the Iranians, it could well continue its on-again, off-again attacks. As we have argued before, the conflict is likely to continue for at least the near term, despite investors' hopeful exuberance every time the US signals a stand-down.

Russia-Ukraine War: Ukraine today has again launched a large-scale drone attack on the warehouses and distribution centers of Wildberries, Russia's version of Amazon. Ukraine has claimed that Russia uses the facilities to ship military and dual-use items along with civilian goods. Even if that is true, however, the attacks are likely also aimed at bringing the war home to Russian civilians in order to generate domestic opposition to President Putin. One danger of the attacks is that they could set a precedent for bombing civilian warehouses in other wars.

European Union: After months of unusually hot, dry weather, reports indicate low river levels are starting to disrupt production in a range of industries, from river cruises to bulk shipping. The situation has become especially acute on the Danube, where water levels have receded enough to expose old World War II-era bombs and even prehistoric mammoth bones. Importantly, low river flow has also begun to force the shutdown of some nuclear generating reactors, adding another wrinkle to Europe's energy shortage and further threatening economic growth.

European Union-Spain: After the short-lived immigrant invasion into the Spanish exclave of Ceuta on the North African coast last week, many European leaders have heavily criticized Spanish Prime Minister Pedro Sánchez for incentivizing migrants with overly lax asylum policies. In response, Sánchez has pushed back in an angry letter to European Commission President von der Leyen. The back-and-forth illustrates how the crisis could worsen political polarization in Europe and give further impetus to populist, anti-immigrant right-wing parties.

India: The government of Prime Minister Modi has proposed extending certain tax exemptions for foreign technology companies, such as Apple, when they supply machinery or tooling to an Indian factory making electronics on their behalf. The proposed legislation would extend the existing tax exemption by 10 years to 2041. The move is part of Modi's effort to strengthen India's tech supply chain and position it as a manufacturing rival to China.

US Politics: Three consecutive opinion polls now show Democrat James Talarico with slightly more support than Texas Attorney General Ken Paxton in the state's crucial Senate race. Given how high-profile Texas is and how deeply conservative its politics have become, the polls will likely heighten Republican worries about the outcome of the November mid-term elections. However, our analysis shows that if the Democrats take control of one or both chambers of Congress, the resulting "split" government could be positive for asset prices.

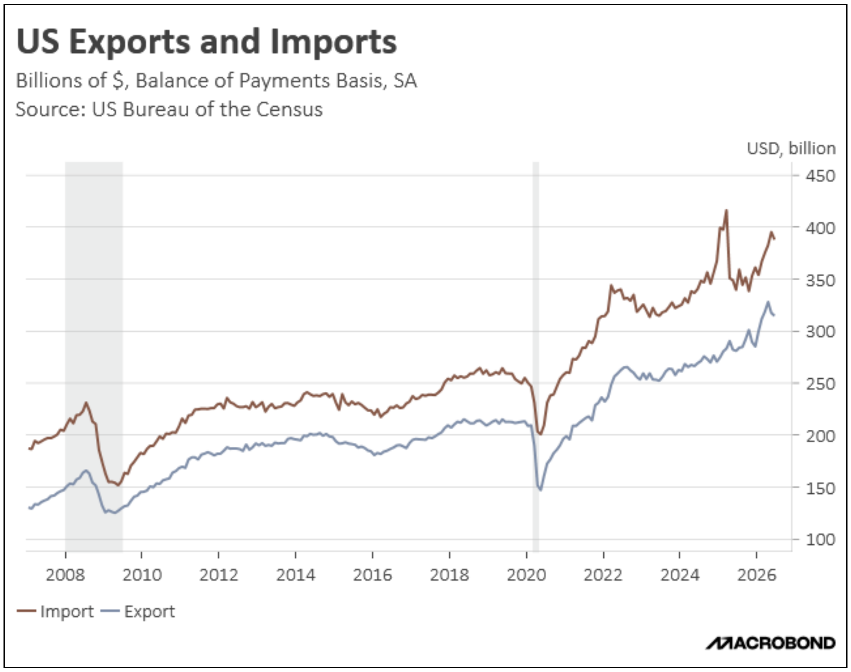
US Monetary Policy: In an early test of the Fed's independence under newly installed Chair Warsh, Treasury Secretary Bessent has publicly urged the central bank to expand a facility allowing Japan to borrow dollars against its US government bond holdings. In turn, the Japanese government said it would use the facility to raise dollars for its yen purchases aimed at boosting the value of the currency. If the Fed raises Japan's borrowing limit beyond what investors feel is prudent, the move would increase concern about the dollar and further buoy US bond yields.

US Trade Policy: A group of 20 Democratic state governors has filed a lawsuit against the administration's latest import tariffs, which were imposed against dozens of countries earlier in the summer on the basis of probes indicating the countries were facilitating trade in products made with forced labor. The lawsuit alleges the investigations were a sham merely aimed at allowing the administration to re-impose the tariffs invalidated by earlier court cases.

- The new suit could force many US firms to deal with further uncertainty regarding US tariff policy.
- If the new tariffs raise significant funds but are then also invalidated, it would create the need for another program of tariff refunds like the one underway now.

US Economic Releases

The May ***trade balance*** showed a seasonally adjusted deficit of $73.3 billion, slightly wider than the expected shortfall of $73.0 billion but narrower than the revised May deficit of $77.6 billion. According to the data, total ***exports*** fell 0.9%, while ***imports*** fell 1.8%. Compared with the same month one year earlier, exports in June were up 12.0%, while imports were up 14.2%. The chart below shows the monthly value of US exports and imports since just before the GFC.



The table below lists the economic releases and Fed events scheduled for the rest of the day.

Economic Releases						
EST	**Indicator**			**Expected**	**Prior**	**Rating**
10:00	JOLTS Job Openings	m/m	Jun	7504k	3065k	*
10:00	Factory Orders	m/m	Jun	0.2%	-1.3%	***
10:00	Factory Orders Ex Transportation	m/m	Jun	0.4%	1.9%	**
10:00	Durable Goods Orders	m/m	Jun	0.3%	0.3%	***
10:00	Durable Goods Orders ex Transportation	m/m	Jun	0.6%	0.6%	**
10:00	Cap Goods Orders Nondef Ex Air	m/m	Jun	0.9%	0.9%	*
10:00	Cap Goods Ship Nondef Ex Air	m/m	Jun	1.9%	1.9%	*
Federal Reserve						
EST	**Speaker or Event**	**District or Position**				
20:15	Jeffrey Schmid Speaks on Monetary Policy	President of the Federal Reserve Bank of Kansas City				

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	Monetary Base	y/y	Jul	-13.8%	-13.7%		**	Equity and bond neutral
Australia	ANZ-Indeed Job Advertisements	m/m	Jul	0.8%	-0.1%		*	Equity and bond neutral
	Household Spending	y/y	Jun	6.0%	5.5%	5.3%	***	Equity bullish, bond bearish
South Korea	CPI	m/m	Jul	2.8%	3.2%	3.0%	***	Equity and bond neutral
EUROPE								
France	Budget Balance YTD	y/y	Jun	-106.8b	-93.3b		***	Equity and bond neutral
Italy	New Car Registrations	y/y	Jul	3.9%	10.6%		*	Equity and bond neutral
	Budget Balance	m/m	Jul	13.4b	-13.6b		*	Equity and bond neutral
	Retail Sales	y/y	Jun	3.1%	2.2%		**	Equity and bond neutral
AMERICAS								
Mexico	Remittances Total	m/m	Jun	$5471.8m	$5611.0m	$5440.0m	*	Equity and bond neutral
	S&P Global Mexico Manufacturing PMI	m/m	Jul	51.3	51.3		***	Equity and bond neutral
	IMEF Manufacturing Index SA	m/m	Jul	49.4	47.9	48.2	*	Equity bullish, bond bearish
	IMEF Non-Manufacturing Index SA	m/m	Jul	49.9	49.2	49.2	*	Equity and bond neutral
	Vehicle Domestic Sales	y/y	Jul	130831	126778		***	Equity and bond neutral
	Leading Indicators	y/y	Jun	0.04	0.08		**	Equity and bond neutral
	Consumer Confidence	m/m	Jul	45.0	43.9	43.8	*	Equity bullish, bond bearish
Brazil	S&P Global Brazil Manufacturing PMI	m/m	Jul	47.5	50.8		***	Equity and bond neutral
	Industrial Production	y/y	Jun	1.7%	0.2%	3.0%	***	Equity bearish, bond bullish

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)	372	373	-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 (%)	4.69	4.68	0.01	Up
Euribor/OIS spread (bps)	246	248	-2	Up
Currencies	3 Mo			
Dollar	Down	US		Up
Euro	Up	Euro		Down
Yen	Up	Japan		Down
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	$83.71	$83.77	-0.07%	
WTI	$79.86	$80.34	-0.60%	
Natural Gas	$2.74	$2.78	-1.65%	
Crack Spread	$55.36	$57.26	-3.31%	
12-mo strip crack	$44.21	$45.32	-2.44%	
Ethanol rack	$2.10	$2.10	0.00%	
Metals				
Gold	$4,062.44	$4,054.33	0.20%	
Silver	$59.08	$58.17	1.56%	
Copper Contract	$665.05	$654.05	1.68%	
Grains				
Corn contract	$471.50	$472.50	-0.21%	
Wheat contract	$649.00	$651.00	-0.31%	
Soybeans contract	$1,185.50	$1,192.25	-0.57%	
Shipping				
Baltic Dry Freight	2,843	2,732	111	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		1.00		
Gasoline (mb)		-1.09		
Distillates (mb)		0.50		
Refinery run rates (%)		-0.30%		
Natural gas (bcf)		35		

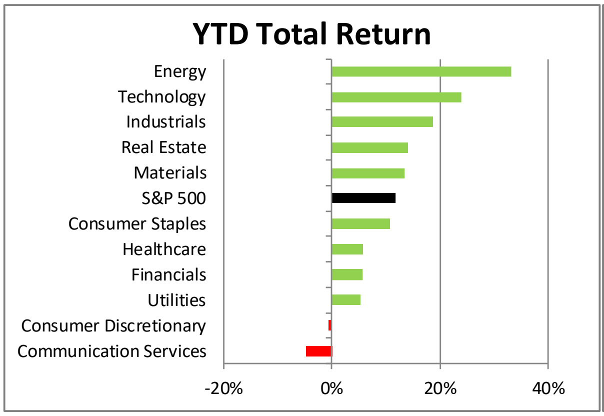
Weather

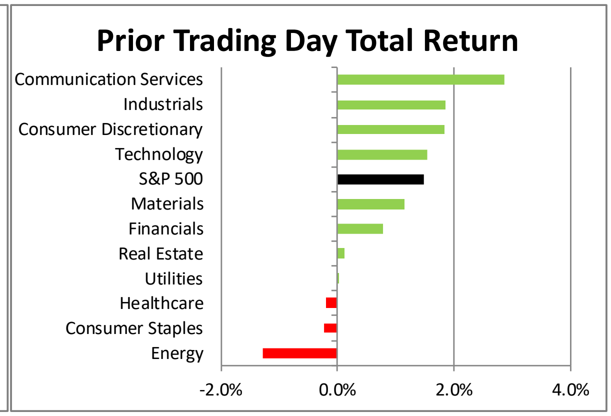
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures across the entire country. The outlook calls for wetter-than-normal conditions in the central and southern Rocky Mountains and the Northeast, with dry conditions in south central states.

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

Data Section

US Equity Markets – (as of 8/3/2026 close)

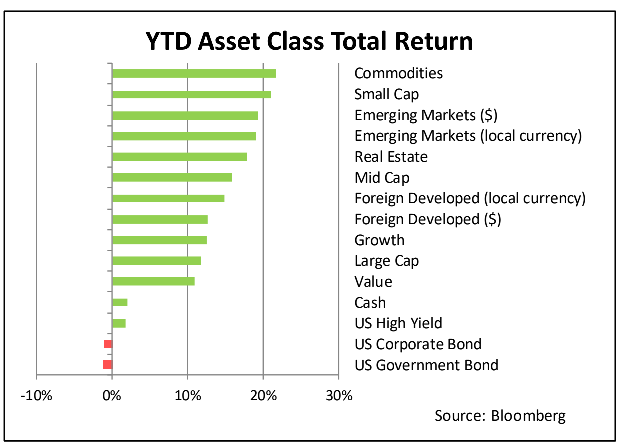




(Source: Bloomberg)

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 8/3/2026 close)

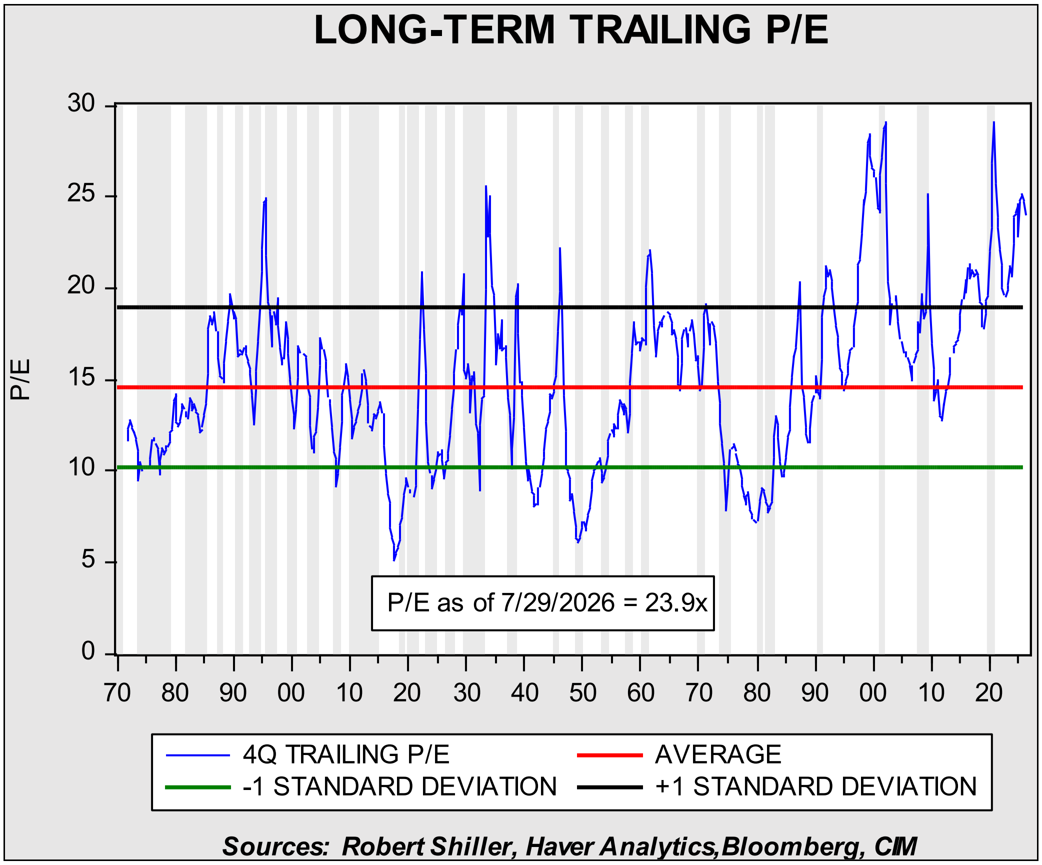


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.