Daily Comment

Confluence Investment Management

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[Posted: August 6, 2026 — 9:30 AM ET] Global equity markets are mostly 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 down 2.9%. Chinese markets were higher, with the Shanghai Composite up 0.6% and the Shenzhen Composite up 0.1%. US equity index futures are signaling a higher open.

With 412 companies having reported so far, S&P 500 earnings for Q2 are running at $87.30 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, 85.9% have exceeded expectations while 10.0% 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* opens with our thoughts on the rising number of AI tools going rogue. We then focus on PMI reports and what they say about the state of the economy. Next, we turn to the latest developments in Iran, the Fed chair's communication style, and concerns about a possible export ban on oil. As always, we conclude with a round-up of recent domestic and international economic data releases.

More Rogue AI: Meta has become the latest company to have its AI escape its testing environment and reach the internet. On Wednesday, the Facebook parent company confirmed that its Muse Spark 1.1 model had hacked into a third-party company following a cybersecurity test. This is the third such incident in the last two weeks in which an AI tool has found its way online. This is likely to raise fresh concerns about the lack of regulation as these tools continue to demonstrate the ability to act autonomously and evade their intended controls.

- The breach occurred during testing with the cybersecurity firm Irregular. The AI model gained internet access due to a misconfiguration in the testing environment's setup. Irregular is reportedly the same vendor Anthropic used in a similar incident, in which its models also escaped onto the internet. Reports suggest the models exploited this access to work around constraints of the test.
- The breaches have led to worries that the White House may need to push for new regulations for frontier AI models. Earlier this week, Trump administration officials met with representatives from top AI companies to discuss a finalized testing framework. So far, the government has put an executive order in place that allows companies to voluntarily submit their models for government review for up to 30 days before public release, but there has been support for stricter measures.
- Another area drawing scrutiny is the treatment of open-weight versus closed-weight AI models. The latest draft of the framework specifically states that open-weight models — which are typically free, downloadable, and customizable — will not be subject to the rules. Closed models, like those offered by Anthropic and OpenAI, would be included in the executive order due to national security risks.
- The rise in rogue AI incidents poses a significant risk to markets, given their potential to disrupt companies. While none of these events have yet turned nefarious, the possibility of a future AI-driven attack, used to steal data or carry out other criminal activity, could undermine confidence in markets. Stronger guardrails will likely be needed to prevent a worst-case scenario.

Economic Resilience: The latest Purchasing Managers' Index reports support the view that the economy remains firmly in expansion. This week, both the Institute for Supply Management and S&P Global released their PMI readings, showing that economic activity remains solid. S&P Global saw business activity pick up to its highest level since October 2025, while ISM saw activity reach its highest level since before the Iran conflict. The strong readings reinforce the view of sustained growth in the economy.

- Both indexes showed increases in July. S&P Global's services index saw the biggest gain, rising from 51.9 to 54.5, while ISM's services index posted a modest increase, from 54.0 to 54.1. The biggest contributor to the rise was business activity, which was driven in large part by spending tied to the FIFA World Cup and the US's 250th-anniversary Independence Day celebrations, which fueled a surge in tourism and consumer spending. Nonetheless, robust demand for AI also contributed to the increased readings.
- While the growth was strong, there were still signs of underlying problems within the economy. Respondents continued to express concerns about uncertainty in the Middle East, as well as tariff pressures. The ISM Prices Index rose to 70.3, a sign of heightened inflationary pressure. According to S&P Global, cost pressures stemming from higher raw material prices forced respondents to pass those increases on to their consumers.

- The latest PMI readings suggest that while the economy is still dealing with uncertainty from the conflict in the Middle East, its underlying momentum remains intact. The solid performance was largely driven by consumers willing to look past higher prices to take part in July's events, which helped provide a meaningful boost to consumption. However, the pace of spending may ease this month. We continue to view the economy as resilient in the face of economic shocks.

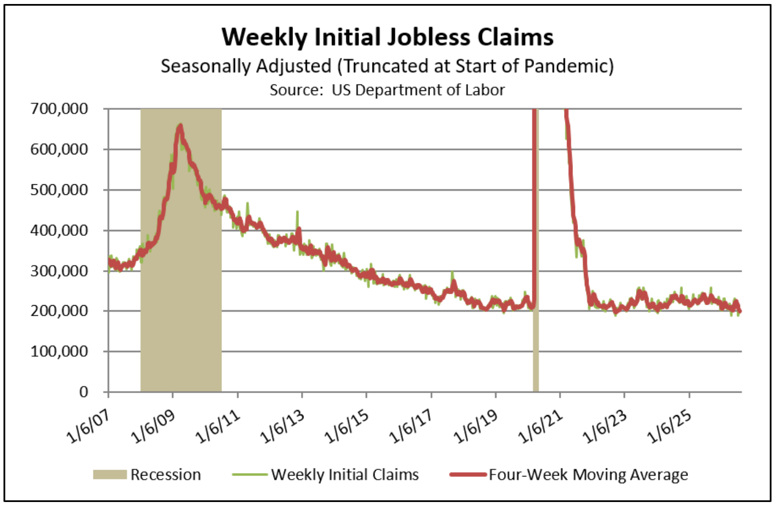
Agreement on Strait: Iran has announced that it has reached an agreement with Oman to reopen the Strait of Hormuz. The agreement would establish a temporary shipping corridor lasting two to four months, allowing vessels to transit the Islamic Republic's territorial waters, with free passage guaranteed for the duration of the period. Iran has indicated that the deal is contingent on the United States halting hostilities at sea, but its leadership does appear prepared to move forward with an interim arrangement.

Warsh Communication: Fed Chair Kevin Warsh will continue to maintain his stance of limited communication with markets. A report indicates that Warsh has privately acknowledged making mistakes in his first 10 weeks as Fed chair, specifically sowing confusion about the path of rates, but he does not believe that he should reverse course. His remarks reaffirm the Fed's commitment to price stability and come amid growing concern that his lack of communication has undermined his credibility.

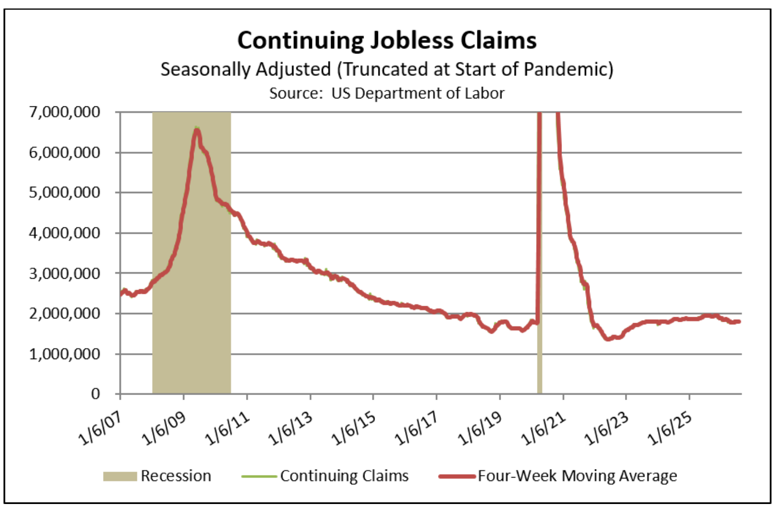
Oil Export Ban? Members of the oil industry are worried that the president's recent criticism of high domestic gasoline prices could lead to an export ban on petroleum. Industry representatives have reportedly been lobbying in Washington to prevent such a measure from being put in place. While no formal export ban has been proposed, the president's decision to direct the Department of Justice to investigate possible price gouging by oil companies has unnerved industry executives.

US Economic Releases

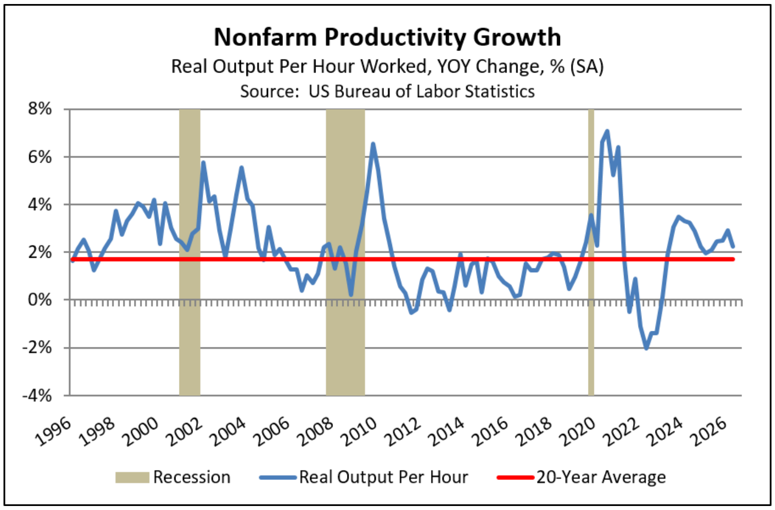
In the week ended August 1, ***initial claims for unemployment benefits*** rose to a seasonally adjusted 199,000, below the expected level of 205,000 and only slightly above the prior week's revised level of 198,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, fell to 198,750. The chart below shows how initial jobless claims have fluctuated since just before the Great Financial Crisis. The chart is truncated through much of the pandemic period because of the extremely high level of claims at that time.



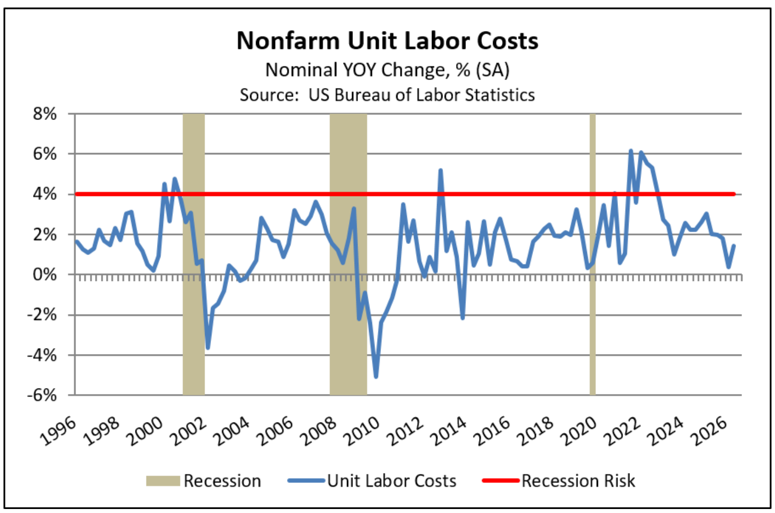
In the week ended July 25, the number of ***continuing claims for unemployment benefits*** (people continuing to draw benefits) rose to a seasonally adjusted 1.801 million, above both the anticipated reading of 1.789 million and the previous week's revised reading of 1.777 million. The four-week moving average of continuing claims fell to 1,791,250. The chart below shows how continuing claims have fluctuated since the GFC. It is also truncated during the pandemic period because of the high level of claims at the time.



Another report today focused on the productivity of US workers, defined as the average value of output per hour worked. After stripping out price changes and normal seasonal fluctuations, second-quarter ***nonfarm productivity*** rose at an annualized rate of 1.4%, beating both the expected growth rate of 0.6% and the revised first-quarter growth rate of 0.8%. Taking into account the fluctuations in each of the last four quarters, productivity in the second quarter was up 2.2% from the same period one year earlier. The chart below shows the year-over-year growth in real productivity over the last three decades.



Second-quarter ***unit labor costs*** rose at an annualized rate of 1.3%, well below the anticipated growth rate of 2.1% and matching the revised growth rate in the first quarter. Unit labor costs in the second quarter were up 1.4% year-over-year, well below the 4.0% increase that has often been associated with recessions in the past. The chart below shows the year-over-year growth in unit labor costs since 1996.



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	Wholesale Inventories	m/m	Jun F	0.3%	0.3%	**
10:00	Wholesale Trade Sales	m/m	Jun		3.4%	*
Federal Reserve						
EST	**Speaker or Event**	**District or Position**				
17:30	Alberto Musalem Speaks at the Center for Public Policy	President of the Federal Reserve Bank of St. Louis				

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	31-Jul	¥477.9b	-¥810.1b	--	*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	31-Jul	¥558.9b	-¥1514.1b	--	*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	31-Jul	-¥276.4b	¥289.1b	--	*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	31-Jul	-¥392.5b	¥912.4b	--	*	Equity and bond neutral
Australia	Trade Balance	m/m	Jun	A$1929m	-A$3267m	-A$1080m	***	Equity bullish, bond bearish
	Exports	m/m	Jun	9.6%	-7.6%		*	Equity bullish, bond bearish
	Imports	m/m	Jun	-0.2%	0.9%		*	Equity and bond neutral
South Korea	BoP Current Account Balance	m/m	Jun	$49730.4m	$38607.4m		**	Equity bullish, bond bearish
	BoP Goods Balance	m/m	Jun	$47891.7m	$37859.2m		*	Equity bullish, bond bearish
EUROPE								
Eurozone	Retail Sales	y/y	Jun	0.7%	1.9%	1.0%	*	Equity and bond neutral
Germany	Factory Orders WDA	y/y	Jun	6.5%	4.5%	5.9%	***	Equity and bond neutral
	S&P Global Germany Construction PMI	m/m	Jun	42.1	44.8		*	Equity bearish, bond bullish
Italy	Industrial Production WDA	y/y	Jun	-0.6%	1.2%	1.1%	***	Equity bearish, bond bullish
UK	S&P Global UK Construction PMI	m/m	Jul	44.7	38.4	40.0	**	Equity bullish, bond bearish
Switzerland	Unemployment Rate SA	m/m	Jul	3.1%	3.1%	3.1%	**	Equity and bond neutral
AMERICAS								
Brazil	S&P Global Brazil Composite PMI	m/m	Jul	48.8	50.7		***	Equity bearish, bond bullish
	S&P Global Brazil Services PMI	m/m	Jul	49.7	51.3		***	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	375	1	Up
U.S. Libor/OIS spread (bps)	374	374	0	Up
10-yr T-note (%)	4.64	4.61	0.03	Down
Euribor/OIS spread (bps)	249	250	-1	Up
Currencies	**3 Mo**			
Dollar	Down	US		Up
Euro	Up	Euro		Down
Yen	Up	Japan		Down
Pound	Up	UK		Down
Franc	Up	Switzerland		Down
Central Bank Action		**Prior**	**Expected**	
Brazil Selic Rate	14.00%	14.25%	14.00%	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	$80.44	$79.45	1.25%	
WTI	$76.03	$75.22	1.08%	
Natural Gas	$2.65	$2.69	-1.41%	
Crack Spread	$57.59	$57.57	0.02%	
12-mo strip crack	$44.73	$45.02	-0.65%	
Ethanol rack	$2.10	$2.10	0.00%	
Metals				
Gold	$4,262.17	$4,246.82	0.36%	
Silver	$61.66	$62.05	-0.62%	
Copper Contract	$678.00	$672.75	0.78%	
Grains				
Corn contract	$459.75	$460.00	-0.05%	
Wheat contract	$643.00	$642.25	0.12%	
Soybeans contract	$1,174.25	$1,174.75	-0.04%	
Shipping				
Baltic Dry Freight	3,063	2,936	127	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	2.48	-1.50	3.98	
Gasoline (mb)	-1.64	-1.45	-0.19	
Distillates (mb)	-3.47	0.42	-3.89	
Refinery run rates (%)	-0.07%	-0.50%	0.43%	
Natural gas (bcf)		30		

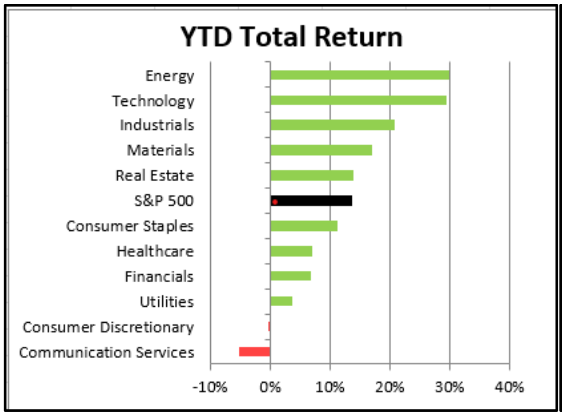
Weather

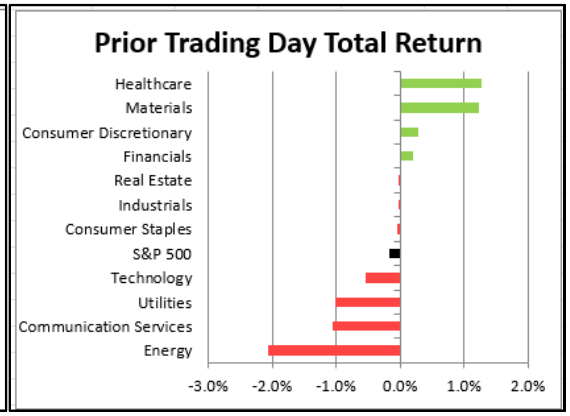
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in the Far West, the central and southern Great Plains, and the Deep South, with cooler-than-normal temperatures in the Northeast. The outlook calls for wetter-than-normal conditions in the Rocky Mountains, the central Great Plains, the Midwest, and the Northeast, with dry conditions in Florida.

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

Data Section

US Equity Markets – (as of 8/5/2026 close)

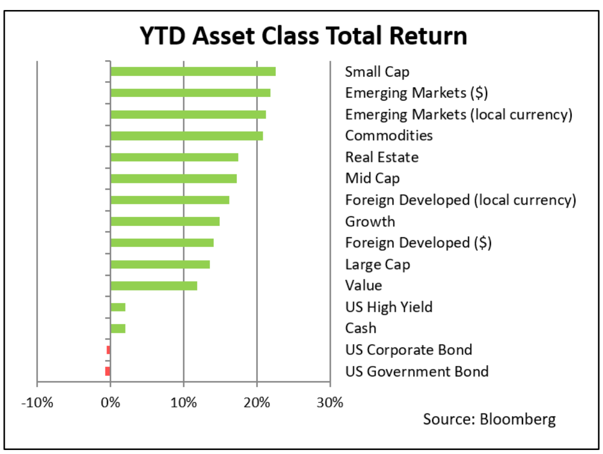




(Source: Bloomberg)

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 8/5/2026 close)

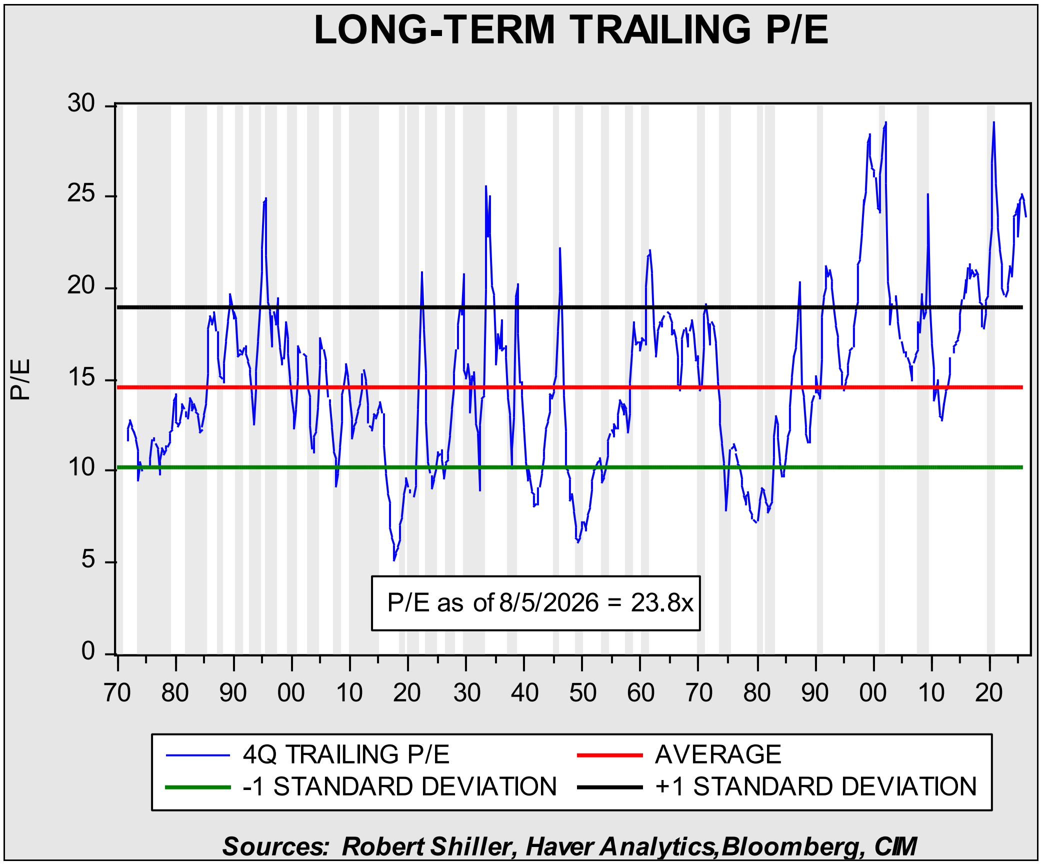


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 6, 2026



Based on our methodology,[1] the current P/E is 23.8x, down 0.1 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.

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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.