Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: August 7, 2026 — 9:30 AM ET] Global equity markets are mostly higher this morning. In Europe, the Euro Stoxx 50 is up 0.7% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.3%. Chinese markets were higher, with the Shanghai Composite up 1.0% and the Shenzhen Composite up 1.4%. US equity index futures are signaling a higher open.

With 440 companies having reported so far, S&P 500 earnings for Q2 are running at $87.50 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 10.2% 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) + **podcast**	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 agreement to reopen the Strait of Hormuz, alongside signs that the conflict could spread deeper into the Middle East. We then focus on the Japanese yen and a possible return to currency intervention. Next, we review Alphabet's recent debt issuance, the decline in US Strategic Petroleum Reserve levels, and the early front-runner to succeed President Trump as leader of the Republican Party. As always, we conclude with a roundup of recent domestic and international economic data.

Iran Demands: Despite ongoing negotiations, the conflict shows little sign of nearing an end. On Thursday, Iran and Oman unveiled details of an agreement permitting passage through the strait, though US and Israeli vessels remain explicitly barred. Meanwhile, Houthi forces have intensified their attacks on Saudi-backed troops in Yemen. These developments highlight the volatile, stop-and-start nature of the regional crisis as tensions over the waterway persist.

- Despite a pending transit agreement with Oman, Iran maintains that the Strait of Hormuz remains restricted. Under the proposed dual-channel arrangement, commercial vessels would enter via Iranian-monitored routes and exit through Omani-controlled waters. Although the framework currently operates without transit fees, Iran asserts its right to impose tolls in the future. US acceptance is unlikely, as Washington continues to reject any permanent impediments to free navigation.
- Moreover, fighting between Saudi Arabia and the Iranian-backed Houthis has begun to escalate. The surge in violence follows a major Houthi-led attack on Saudi-backed forces in Yemen, which resulted in hundreds of casualties. The Houthis claimed the strike was a response to what they described as a Saudi military buildup in its final stages. This marks the largest offensive outside the core confrontation between the US and Iran.
- Conflict in the Middle East continues to sit in a no-man's-land, as signs of easing tensions are frequently followed by setbacks. The recent agreement between Iran and Oman may be another example of this trend: while it offers a welcome sign, it does not provide a final solution to the standoff over the Strait of Hormuz. Furthermore, the intensifying conflict in Yemen threatens to spark broader unrest throughout the region.
- At this time, we still expect ongoing geopolitical uncertainty in the Middle East to weigh on financial markets. Fortunately, resilient economic growth has helped prevent a prolonged downturn. We anticipate this underlying strength will persist, provided the regional conflict remains contained to a limited number of countries.

Another Yen Intervention: Nearly a week after the United States and Japan coordinated efforts to support the yen, the currency has already surrendered roughly half of its initial gains. The reversal reflects continued investor skepticism over whether the Bank of Japan can tighten policy sufficiently to contain inflation pressures stemming from recent energy-market volatility. The yen's renewed weakness has revived speculation that US and Japanese authorities could take further coordinated action to prevent a deeper decline.

- The prospect of further coordinated intervention comes as Japan pursues additional stimulus to support growth. Earlier this week, the government approved a two-year reduction in the consumption tax on food to 1% from 8%, effective April 2027. The measure is central to Prime Minister Sanae Takaichi's effort to ease cost-of-living pressures, but the resulting revenue loss has heightened concern over how the government will finance the shortfall given Japan's already strained fiscal situation.
- While the Bank of Japan has signaled its intention to normalize policy as it unwinds years of ultra-accommodative monetary settings, it has continued to raise interest rates gradually. However, last week the central bank left its policy rate unchanged at 1%, despite signs that higher energy costs could add to inflationary pressures. Its cautious approach appears to reflect, in part, the Takaichi administration's emphasis on weighing growth and financial conditions alongside inflation as the Bank considers further tightening.

- Japan's pursuit of fiscal stimulus, combined with the BOJ's gradual approach to monetary tightening, could leave FX intervention as a key tool for supporting the yen. However, if Tokyo were forced to fund large-scale intervention by selling its substantial Treasury holdings, this could put downward pressure on Treasury prices and push yields higher. In an extreme scenario, this could trigger a broader sell-off in global bonds, as other countries move to protect their own market liquidity.
- While Japan's actions have triggered a global bond sell-off, we see this as a temporary, event-driven phenomenon rather than a long-term risk. The liquidity squeeze stems primarily from government funding needs tied to the Strait of Hormuz energy disruption. As soon as this geopolitical issue stabilizes — and we are optimistic it will — yen and bond-market pressures should subside. Therefore, we view any US coordination efforts as finite and conditional, not open-ended.

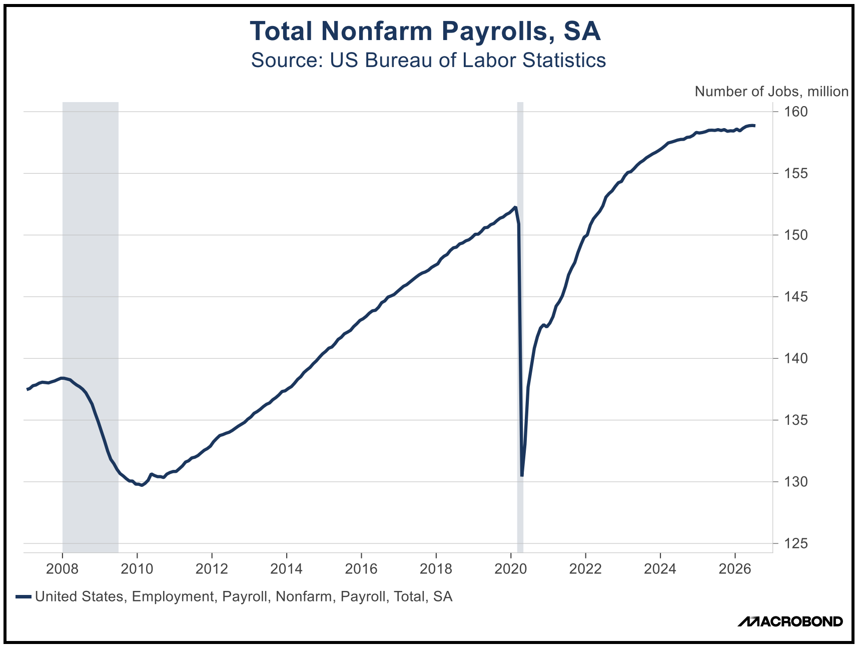
AI Debt: Alphabet is raising up to $25 billion through a new bond sale as it seeks to fund its expanding AI infrastructure. The Google parent company generated strong investor demand by offering attractive yields across multiple tranches. So far this year, hyperscale tech companies have issued historic levels of debt, with Alphabet joining peers like Amazon and Oracle in tapping global bond markets. This push to raise debt comes as major tech firms look to diversify their funding sources beyond cash reserves to secure the lowest possible cost of capital.

Crude Supplies Low: According to Bank of America, US Strategic Petroleum Reserves have fallen to their lowest level in 43 years. The sharp decline stems from the White House's ongoing effort to curb oil prices, which has involved releasing over 172 million barrels over a 120-day period. This substantial drawdown raises questions about Washington's ability and willingness to sustain its confrontational stance toward Iran, particularly with the midterm elections approaching.

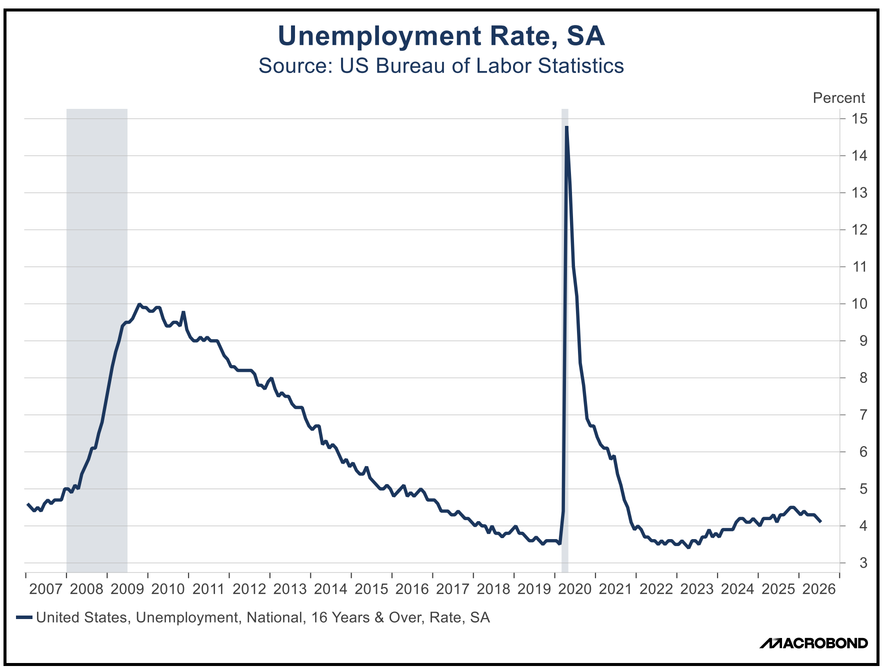
Vance 2028? President Trump has reportedly urged private donors to support Vice President JD Vance in the upcoming presidential election. While other potential contenders — such as Secretary of State Marco Rubio — could vie for the nomination, Trump appears to favor Vance as his successor to lead the party. This effort to groom a standard-bearer comes as Republicans build a formidable advantage over their Democratic counterparts, strengthening their bid to retain the White House.

US Economic Releases

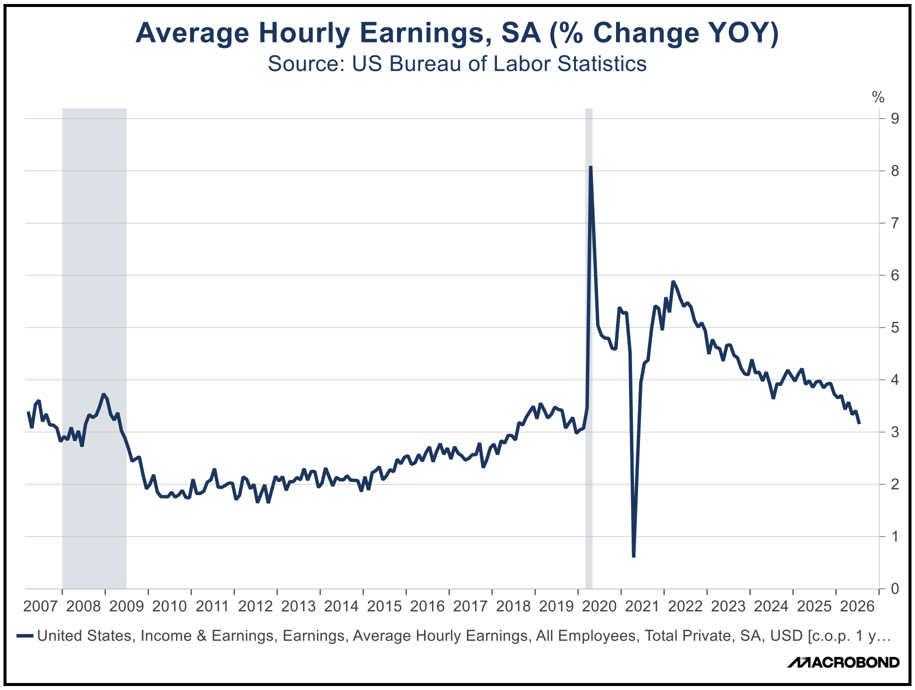
July ***nonfarm payrolls*** fell by a seasonally adjusted 23,000, far worse than the expected increase of 80,000 and enough to offset the revised weak gain of 20,000 in June. According to the report, private payrolls increased by 30,000 in July, just as they did in June. Therefore, it’s clear that much of the weakness in July came from a cut in government jobs, at least part of which might have come from the end of the World Cup. The chart below shows the change in nonfarm payrolls since shortly before the Great Financial Crisis.



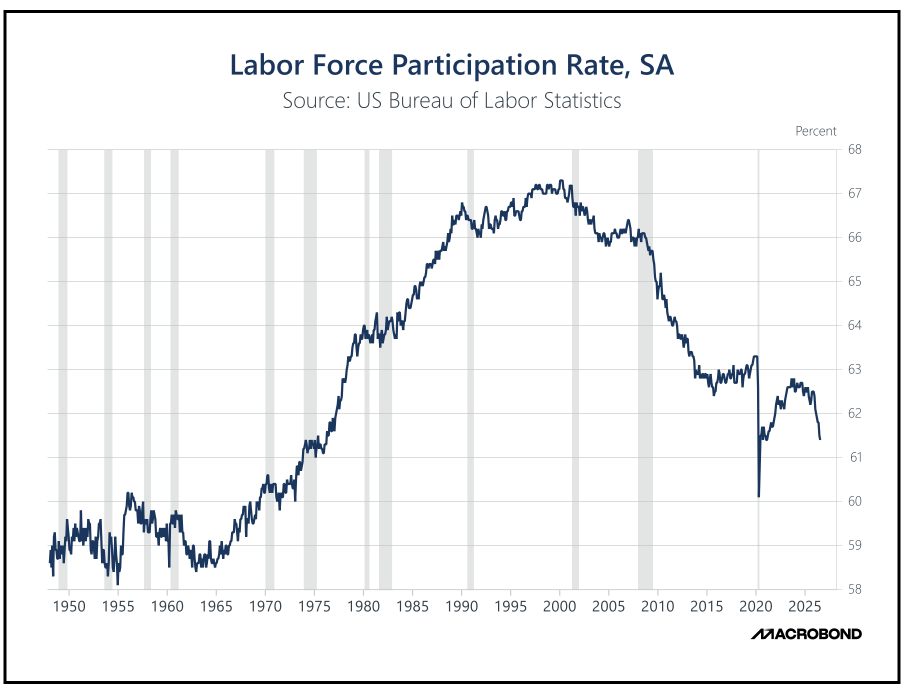
Despite the weak job growth, the July ***unemployment rate*** fell to a seasonally adjusted 4.1%, contrary to expectations it would remain at the same 4.2% rate registered in June. The chart below shows how the unemployment rate has evolved since just before the GFC.



Meanwhile, the report indicated that ***average hourly earnings*** in July rose to a seasonally adjusted $37.62, up 3.2% from the same month one year earlier. The chart below shows the year-over-year growth in average hourly earnings since just before the GFC.



A final key indicator in the monthly employment report focuses on the share of the adult, civilian, non-institutionalized population that is either working or looking for work. The July ***labor force participation rate (LFPR)*** fell to a seasonally adjusted 61.4%, short of both the expected rate of 61.6% and the June rate of 61.5%. The chart below shows how the LFPR has changed over the last several decades.



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

Economic Releases						
EST	Indicator			Expected	Prior	Rating
15:00	Consumer Credit	m/m	Jun	$11.850b	-$0.182b	*
Federal Reserve						
EST	Speaker or Event	District or Position				
10:00	Thomas Barkin Speaks at NABE Event	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	Household Spending	y/y	Jun	-3.3%	-0.4%	0.9%	**	Equity bearish, bond bullish
	Leading Economic Index	m/m	Jun P	116.4	116.5	116.5	**	Equity and bond neutral
	Coincident Index	y/y	Jun P	118.2	117.9	118.1	**	Equity and bond neutral
China	Foreign Reserves	m/m	Jul	$3418.78b	$3416.26b	$3426.00b	***	Equity and bond neutral
	Trade Balance	m/m	Jul	$112.50b	$125.62b	$107.10b	***	Equity bullish, bond bearish
	Exports	y/y	Jul	23.9%	27.0%	23.0%	**	Equity bullish, bond bearish
	Imports	y/y	Jul	27.5%	36.0%	29.7%	**	Equity bullish, bond bearish
EUROPE								
Germany	Trade Balance	m/m	Jun	15.4b	19.3b	17.2b	*	Equity bearish, bond bullish
	Exports	m/m	Jun	0.9%	0.9%	0.5%	*	Equity bullish, bond bearish
	Imports	m/m	Jun	4.4%	-2.5%	2.0%	*	Equity bearish, bond bullish
	Industrial Production WDA	y/y	Jun	-0.1%	0.0%	0.1%	**	Equity bearish, bond bullish
France	ILO Unemployment Rate	q/q	2Q	8.3%	8.1%	8.2%	*	Equity and bond neutral
	Current Account Balance	m/m	Jun	-1.4b	-1.2b		*	Equity and bond neutral
	Trade Balance	m/m	Jun	-5847m	-7729m		*	Equity and bond neutral
Switzerland	Foreign Currency Reserves	m/m	Jul	768.3b	758.9b		***	Equity and bond neutral
AMERICAS								
Canada	Net Change in Employment	m/m	Jul	75.1k	18.2k	20.0k	***	Equity bullish, bond bearish
	Unemployment Rate	m/m	Jul	6.4%	6.5%	6.5%	***	Equity and bond neutral
	Participation Rate	m/m	Jul	65.1%	65.0%	65.0%	*	Equity and bond neutral
Mexico	CPI	y/y	Jul	3.12%	3.37%	3.12%	***	Equity and bond neutral
	Core CPI	y/y	Jul	3.95%	4.03%	3.94%	**	Equity and bond neutral
	Vehicle Production	y/y	Jul	302673	354221		*	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)	373	374	-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	4.68	-0.02	Down
Euribor/OIS spread (bps)	248	249	-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

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	$81.76	$82.49	-0.88%	
WTI	$76.71	$77.29	-0.75%	
Natural Gas	$2.63	$2.64	-0.23%	
Crack Spread	$59.95	$58.43	2.60%	
12-mo strip crack	$46.15	$45.21	2.08%	
Ethanol rack	$2.09	$2.09	0.00%	
Metals				
Gold	$4,323.84	$4,239.42	1.99%	
Silver	$64.10	$61.54	4.16%	
Copper Contract	$664.20	$670.90	-1.00%	
Grains				
Corn contract	$464.50	$462.00	0.54%	
Wheat contract	$634.50	$631.25	0.51%	
Soybeans contract	$1,180.00	$1,177.75	0.19%	
Shipping				
Baltic Dry Freight	3,057	3,063	-6	
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)	33	30	3.00	

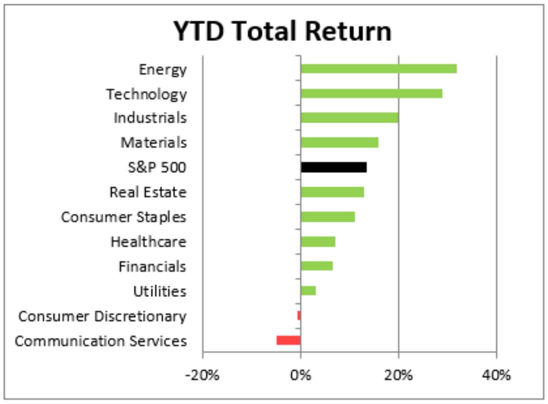
Weather

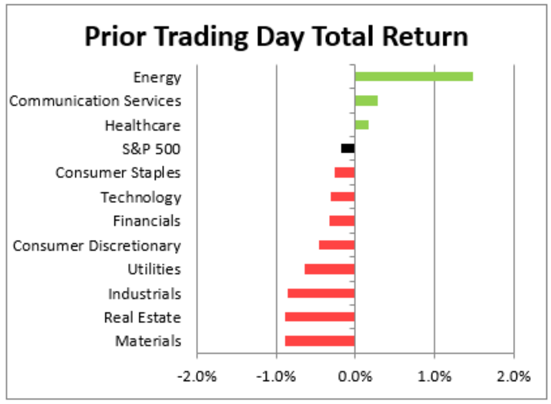
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in the Pacific Northwest, southern California, the southern Rocky Mountains, the southern Great Plains, and the Southeast, with cooler-than-normal temperatures in the Midwest and Northeast. The outlook calls for wetter-than-normal conditions everywhere except the immediate coastal areas of the West Coast and along the Gulf Coast, with dry conditions in the immediate coastal areas of Louisiana, Mississippi, Alabama, Georgia, and Florida.

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

Data Section

US Equity Markets – (as of 8/6/2026 close)

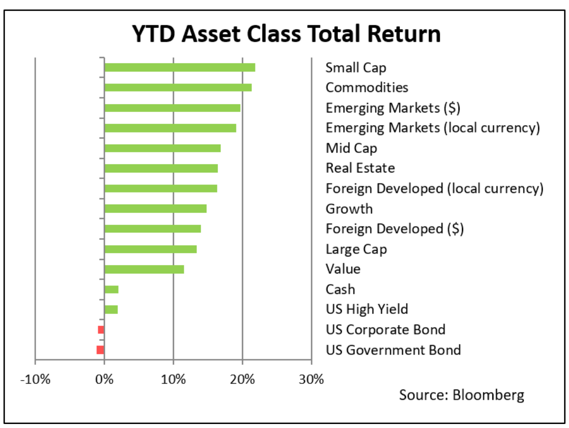




(Source: Bloomberg)

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 8/6/2026 close)

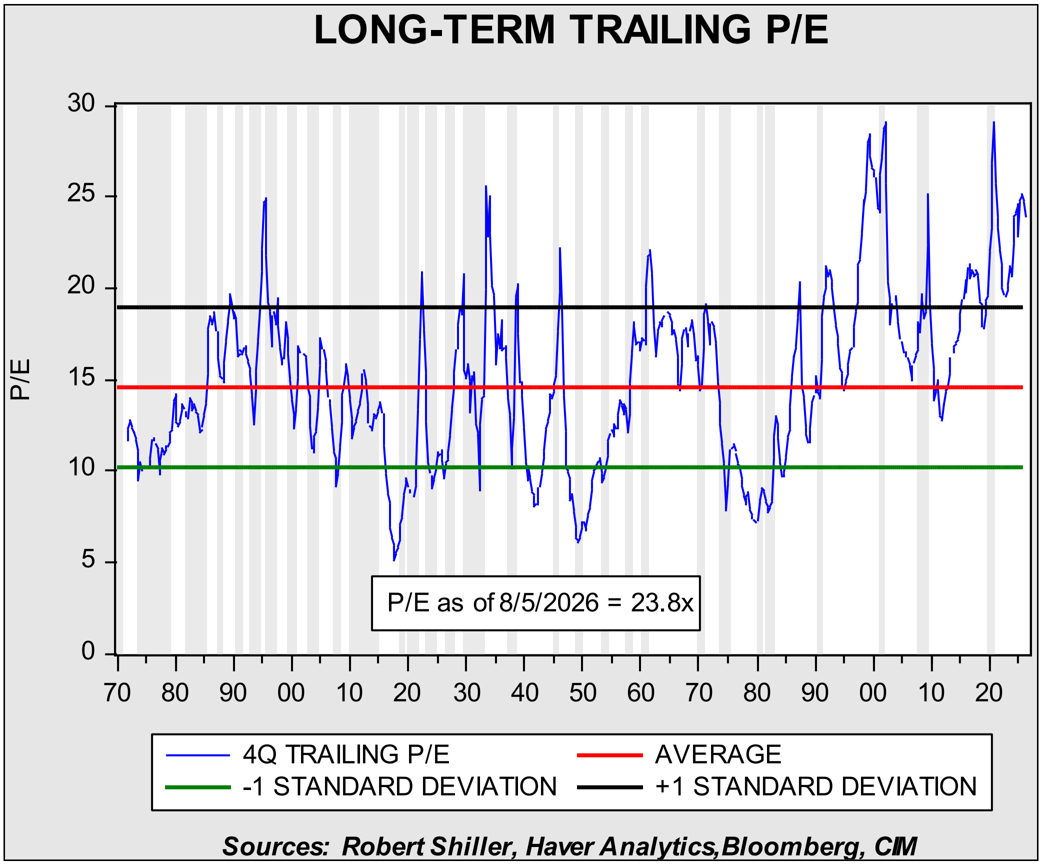


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.