Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: February 24, 2026 — 9:30 AM ET] Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 is up 0.1% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.1%. Chinese markets were higher, with the Shanghai Composite up 0.9% and the Shenzhen Composite up 1.2%. US equity index futures are signaling a higher open.

With 433 companies having reported so far, S&P 500 earnings for Q4 are running at $73.90 per share compared to estimates of $71.07, which is up 8.3% from Q4 2024. Of the companies that have reported thus far, 73.9% exceeded expectations, while 21.0% have fallen short of expectations.

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 Great Chinese Purge" **(2/23/26)**	"The Warsh Doctrine" (2/17/26) + podcast	Q1 2026 Report Q1 2026 Rebalance Presentation	Confluence of Ideas podcast The Case for Hard Assets

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 a review of two key factors behind yesterday's stock sell-off: a report highlighting inaccurate accounting related to data centers and another report suggesting artificial intelligence will lead to massive economic dislocations. We next review several other international and US developments that could affect the financial markets today, including the first corporate lawsuit demanding a rebate for its tariffs paid and more China-Japan tensions.

US Technology Industry: Credit rater Moody's yesterday warned that a gap in US accounting rules is allowing big technology firms to conceal tens of billions of dollars of potential liabilities for their AI data centers. The problem stems from the firms' use of special-purpose, off-budget

vehicles that don't require a full accounting of the potential costs of failing to renew a data center lease. The report was one major reason for the downdraft in US stock prices yesterday.

- The report also illustrates the increasingly opaque financial accounting that is helping to support hyperscalers' stock prices even as they pump billions of dollars into new data center projects.

- In turn, the funky accounting is likely to be taken as one more sign that the sector is in an investment bubble. However, even if it is, it would be very difficult to predict when the bubble might definitively pop.

US Artificial Intelligence Industry: Another factor in yesterday's market action was a dire report by Citrini Research that warned of massive economic disruption as artificial intelligence begins to outstrip human capabilities. According to the report, "For the entirety of modern economic history, human intelligence has been the scarce input . . . We are now experiencing the unwind of that premium." Because of this, the report said the repricing of human knowledge will drive down asset values across a wide range of industries.

- Separately, Meta today announced that it has agreed to buy six gigawatts' worth of AI computing power from chipmaker Advanced Micro Devices, in a deal valued at more than $100 billion that could result in Meta owning as much as 10% of AMD's stock.

- The deal is only the latest transaction that has raised concerns about daisy-chain financing and excess capital investment related to AI. While such deal announcements initially were taken well by investors, sentiment has shifted, and the Meta-AMD deal could well weigh on technology shares today.

US Trade Policy: Responding to last week's Supreme Court decision invalidating much of President Trump's tariff policy, FedEx yesterday became the first US company to sue for a rebate of the tariffs it has paid. According to trade experts, the federal government could now potentially be on the hook for some $160 billion in rebates. We suspect that many firms will sue the federal government for rebates, potentially leading to cash windfalls but also signaling the start of long, complex, and expensive legal cases.

- The administration today began applying its temporary, blanket replacement tariffs at a rate of just 10%, as Trump initially announced, after key trading partners pushed back against his later vow to hike the rate to 15%. However, administration officials say the president still intends to raise the blanket tariff to 15% in the near future.

- Separately, the *Wall Street Journal* reports today that the administration is considering imposing national-security based tariffs on half a dozen key industries in order to help offset the impact of the court decision. The new tariffs being considered could cover industries such as large-scale batteries, cast iron and iron fittings, plastic piping, industrial chemicals, and power grid and telecom equipment

European Union-United States: In another response to the US administration's loss of its main trade cudgel, the European Parliament yesterday suspended work on two pieces of legislation needed to implement the US-EU trade deal tentatively agreed to last year. EU officials said US

policymaking is now in too much flux to set anything in stone. The move is likely to anger the US administration and lead to retaliation, which naturally could weigh on EU asset values.

United States-Iran: The *Wall Street Journal* said yesterday afternoon that Chairman of the Joint Chiefs of Staff Gen. Dan Cane and other senior Pentagon leaders have warned President Trump and his administration that a prolonged attack on Iran would carry significant risks, such as US and allied casualties, depleted air defenses, and an overtaxed force. Since Gen. Cane is reportedly trusted by the president, the news means there is possibly less of a chance of the attack going forward. If it doesn't materialize, one obvious result would likely be a retreat in global oil prices.

China-Japan: The Chinese government today widened its ban on the export of critical minerals and other key goods to Japan, adding 20 major Japanese companies to the blacklist. The prohibited exports include rare earths used in motors and magnets, machine tools, batteries, and semiconductor-making equipment. Affected companies include Mitsubishi Heavy Industries, IHI, and NEC.

- The move is the latest in a long series of actions Beijing has taken to punish Prime Minister Takaichi for her statement last autumn that a Chinese blockade of Taiwan would require a military response from Japan.

- The export ban could cause considerable disruptions for the affected companies, highlighting the importance of geopolitical risk as China becomes more aggressive on the world stage.

US Economic Releases

No major US data reports have been released so far today. 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	Richmond Fed Manufact. Index	m/m	Feb	-5	-6	**
10:00	Conf. Board Consumer Confidence	m/m	Feb	87.1	84.5	***
10:00	Wholesale Inventories	m/m	Dec F	0.2%	0.2%	**
10:00	Wholesale Trade Sales	m/m	Dec	0.2%	1.3%	*
10:30	Dallas Fed Manufacturing Activity	m/m	Feb		2.7	**
Federal Reserve						
EST	**Speaker or Event**	**District or Position**				
8:00	Austan Goolsbee Speaks on Economy	President of the Federal Reserve Bank of Chicago				
9:00	Susan Collins Gives Opening Remarks	President of the Federal Reserve Bank of Boston				
9:00	Raphael Bostic in Moderated Discussion	President of the Federal Reserve Bank of Atlanta				
9:10	Christopher Waller Gives Keynote Address	Member of the Board of Governors				
9:30	Lisa Cook Speaks on AI	Members of the Board of Governors				
9:30	Austan Goolsbee on Bloomberg TV	President of the Federal Reserve Bank of Chicago				
15:15	Thomas Barkin & Collins on Panel	Presidents of the Federal Reserve Banks of Boson & 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								
South Korea	PPI	y/y	Jan	1.9%	1.9%		**	Equity and bond neutral
	Consumer Confidence	m/m	Feb	112.1	110.8		*	Equity and bond neutral
EUROPE								
Eurozone	EU27 New Car Registrations	y/y	Jan	-3.9%	5.8%		***	Equity and bond neutral
France	Business Confidence	m/m	Feb	97	99	99	**	Equity and bond neutral
	Manufacturing Confidence	m/m	Feb	102	105	104	*	Equity and bond neutral
AMERICAS								
Brazil	Current Account Balance	m/m	Jan	-$8360m	-$3670m	-$6650m	**	Equity and bond neutral
	Foreign Direct Investment	m/m	Jan	$8168m	-$5248m	$6850m	**	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)	358	358	0	Down
U.S. Sibor/OIS spread (bps)	367	367	0	Down
U.S. Libor/OIS spread (bps)	364	364	0	Down
10-yr T-note (%)	4.03	4.03	0.00	Down
Euribor/OIS spread (bps)	203	202	1	Down
Currencies	**3 Mo**			
Dollar	Down	US		Down
Euro	Up	Euro		Up
Yen	Up	Japan		Up
Pound	Up	UK		Up
Franc	Up	Switzerland		Up
Central Bank Action	**Actual**	**Prior**	**Expected**	
PBOC 1-Year Loan Prime Rate	3.00%	3.00%	3.00%	On Forecast
PBOC 5-Year Loan Prime Rate	3.50%	3.50%	3.50%	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.
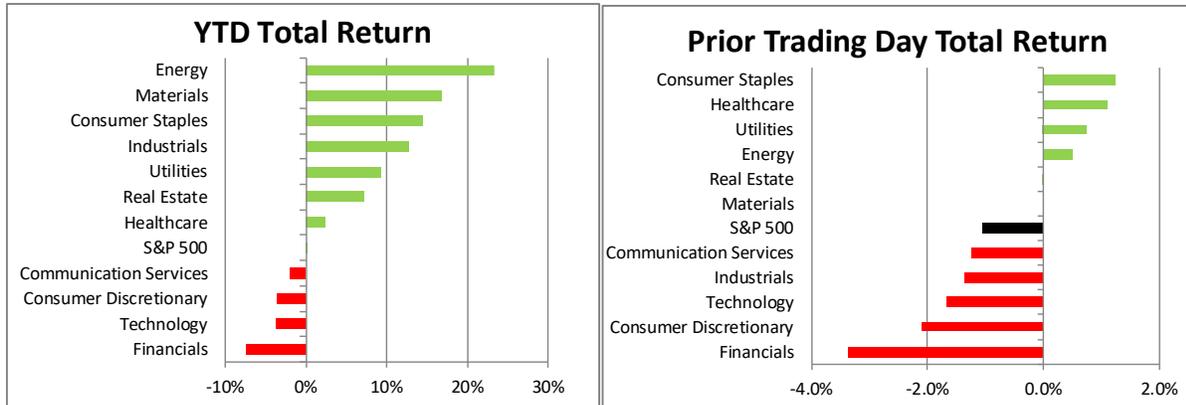
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$71.51	$71.49	0.03%	
WTI	$66.41	$66.31	0.15%	
Natural Gas	$2.93	$2.99	-1.78%	
Crack Spread	$31.68	$31.92	-0.75%	
12-mo strip crack	$26.81	$27.08	-1.00%	
Ethanol rack	$1.86	$1.86	0.22%	
Metals				
Gold	$5,156.86	$5,227.42	-1.35%	
Silver	$87.80	$88.20	-0.45%	
Copper Contract	$592.60	$584.10	1.46%	
Grains				
Corn contract	$439.75	$440.25	-0.11%	
Wheat contract	$574.50	$573.75	0.13%	
Soybeans contract	$1,144.75	$1,149.75	-0.43%	
Shipping				
Baltic Dry Freight	2,112	2,043	69	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		1.65		
Gasoline (mb)		-0.33		
Distillates (mb)		-1.95		
Refinery run rates (%)		0.95%		
Natural gas (bcf)		-149		

Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures everywhere except the Northeast, where temperatures will be near normal. The precipitation outlook calls for wetter-than-normal conditions in the southern Rocky Mountains, the Great Plains, the Mississippi Valley, and the Northeast, with dry conditions in Oregon, Nevada, and California.
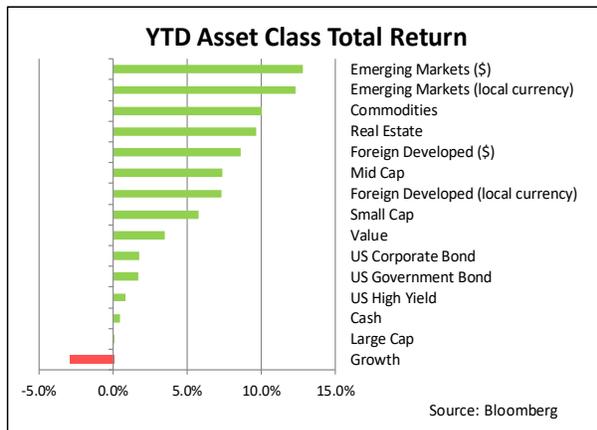
Data Section

US Equity Markets – (as of 2/23/2026 close)

YTD Total Return

Sector	
Energy	~23%
Materials	~17%
Consumer Staples	~15%
Industrials	~13%
Utilities	~9%
Real Estate	~7%
Healthcare	~2%
S&P 500	0%
Communication Services	~-2%
Consumer Discretionary	~-4%
Technology	~-4%
Financials	~-7%

(Axis: -10%, 0%, 10%, 20%, 30%)

Prior Trading Day Total Return

Sector	
Consumer Staples	~1.3%
Healthcare	~1.2%
Utilities	~0.7%
Energy	~0.5%
Real Estate	~0.0%
Materials	~0.0%
S&P 500	~-1.0%
Communication Services	~-1.2%
Industrials	~-1.4%
Technology	~-1.7%
Consumer Discretionary	~-2.2%
Financials	~-3.4%

(Axis: -4.0%, -2.0%, 0.0%, 2.0%)

(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 2/23/2026 close)

YTD Asset Class Total Return

Asset Class	
Emerging Markets ($)	~13%
Emerging Markets (local currency)	~12%
Commodities	~10%
Real Estate	~10%
Foreign Developed ($)	~9%
Mid Cap	~7%
Foreign Developed (local currency)	~7%
Small Cap	~6%
Value	~4%
US Corporate Bond	~2%
US Government Bond	~2%
US High Yield	~1%
Cash	~1%
Large Cap	~0%
Growth	~-2%

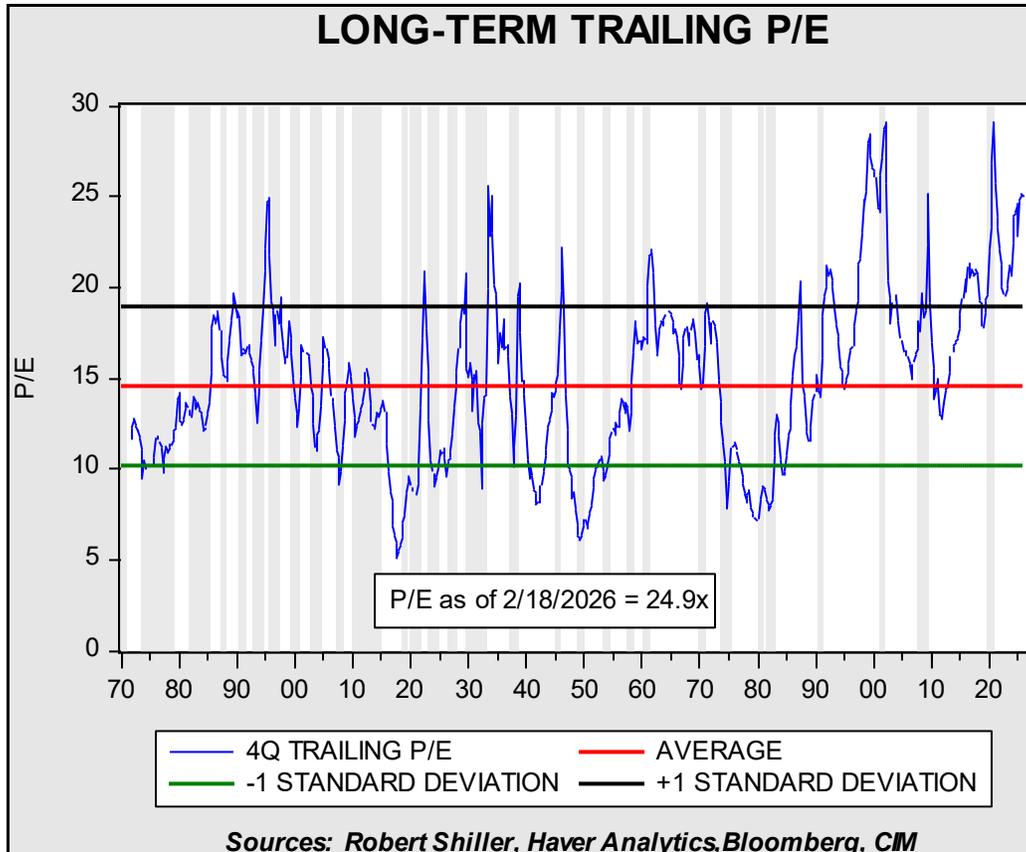(Axis: -5.0%, 0.0%, 5.0%, 10.0%, 15.0%)

Source: Bloomberg

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).

February 19, 2026

LONG-TERM TRAILING P/E

P/E as of 2/18/2026 = 24.9x

Legend:
— 4Q TRAILING P/E   — AVERAGE
— -1 STANDARD DEVIATION   — +1 STANDARD DEVIATION

Sources: Robert Shiller, Haver Analytics, Bloomberg, CIM

Based on our methodology,[1] the current P/E is 24.9x and is down 0.1 from the previous report. Last week, the stock price index fell slightly while earnings were relatively unchanged.

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 (Q1, Q2, Q4) and one estimate (Q3). 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.