Daily Comment

Confluence INVESTMENT MANAGEMENT

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[Posted: February 25, 2026 — 9:30 AM ET] Global equity markets are 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 up 1.8%. Chinese markets were higher, with the Shanghai Composite up 0.7% and the Shenzhen Composite up 1.2%. US equity index futures are signaling a higher open.

With 450 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, 74.0% exceeded expectations, while 20.9% fell 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 reports of new mass protests in Iran that could potentially help spur the US to launch its expected attack on the country. We next review several other international and US developments that could affect the financial markets today, including the nomination of two dovish academics to the Bank of Japan's policy board and growing concerns in Germany and Canada that their new defense budget hikes will disproportionately benefit large, incumbent defense suppliers.

Iran: Anti-regime protestors and pro-government militias clashed on college campuses across the nation yesterday for a fourth consecutive day. The protests haven't spread beyond campuses so far, but if they do, there would be a heightened risk of a violent crackdown by the government like the one in early January that killed some 7,000 civilians. In turn, such a crackdown could spur the US administration to launch its long-awaited attack against Iran, potentially sparking political disintegration or an economically disruptive war across the region.

Japan: Prime Minister Takaichi today nominated two dovish academics for positions on the Bank of Japan's nine-member monetary policy committee, following through with her intention to push through more stimulative monetary and fiscal policies. In response, the yen has weakened some 0.5% to 156.61 per dollar ($0.00639). If concerns about overly dovish monetary policy take hold in Japan, the yen could weaken further, potentially boosting consumer price inflation and drawing the ire of the US.

Thailand: Today, the Bank of Thailand unexpectedly cut its benchmark short-term interest rate from 1.25% to 1.00%, reflecting the country's persistently weak economic growth and low price inflation. Since the pandemic, the Thai economy has been weighed down by high household debt, weak consumption, and a slow tourism recovery. While the central bank has cut rates to help address those issues, it has also called on the government to take more proactive steps in fiscal, regulatory, and industrial policy to address the problem.

Germany: According to the *Financial Times*, Chancellor Merz and his government are probing the way major defense firms such as Rheinmetall benefit disproportionately from Germany's increased military budget. The government reportedly wants to ensure that the hundreds of billions of euros in new defense funds also reach start-ups focused on unmanned systems and military applications for AI and quantum technology.

- We have long believed that changing geopolitics will give a boost to European defense stocks, and that has been borne out over the last few years.
- If the Merz government's initiative leads to major procurement policy changes, it could remove some of the opportunity for big, incumbent defense firms in Germany and the broader European Union. Over time, however, it could also help spawn a new class of smaller, more agile, and more innovative firms that could eventually list shares.

Canada: The German-style concern about concentrated military spending is also now playing out in Canada. While the government intends to boost its defense budget to 5.0% of gross domestic product by 2035 and channel at least 70% of the total into Canadian defense firms, smaller companies are warning that a risk-averse Ottawa might channel the bulk of increased defense funding to well-established players such as Bombardier or continue with legacy US military providers such as Lockheed Martin.

US Politics: In his State of the Union speech last night, President Trump focused on painting a positive picture of the US economy, while offering several initiatives to address the cost of living. For example, he reiterated his intention to impose limits on investors buying large numbers of homes, and he announced a plan to shield consumers from electricity price hikes caused by AI data centers. He also floated a plan to give citizens without access to a retirement savings plan at work the opportunity to invest in the retirement plan for federal workers.

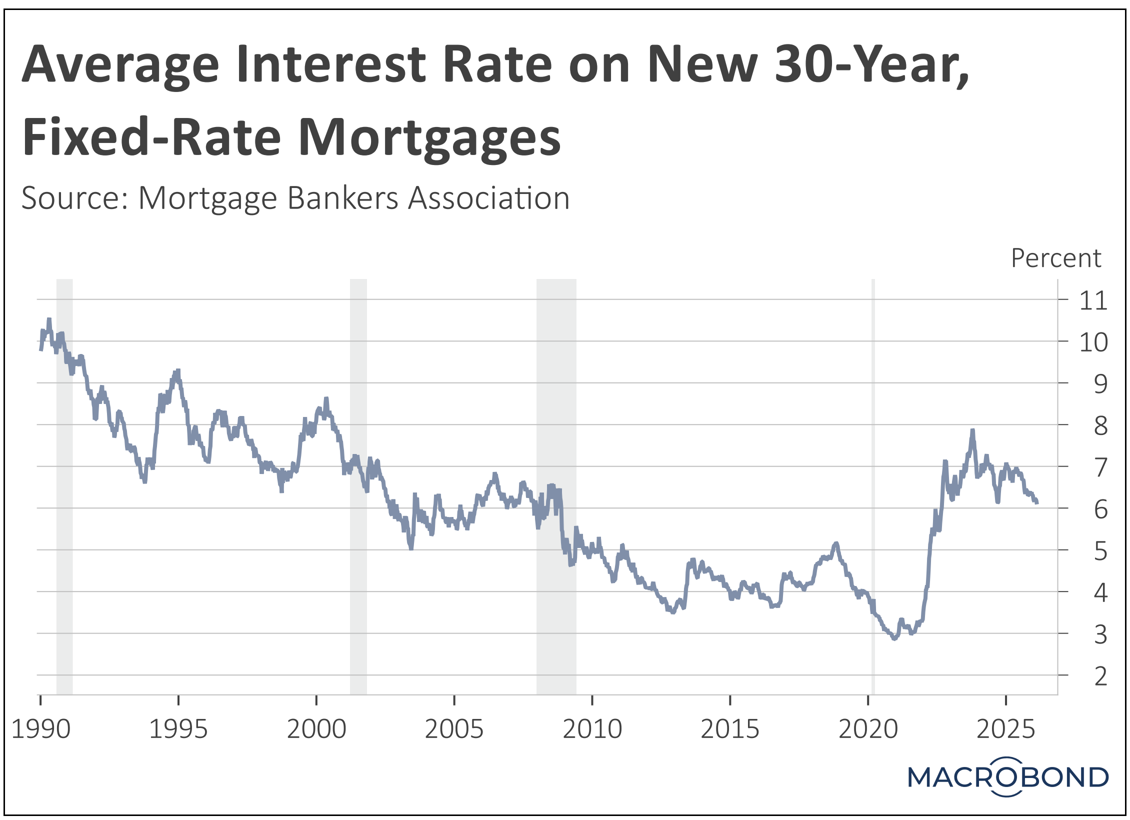
- Of course, a major goal of the speech would have been to bolster Republican chances ahead of the mid-term Congressional elections in November.

- With public opinion polls showing widespread dissatisfaction with the current economy, it is not yet clear whether the rosy picture painted by the president will do much to help Republican prospects when it is time to vote. As of right now, the polls continue to suggest the Republicans will at least lose their majority in the House of Representatives.

US Artificial Intelligence Industry: AI firm Anthropic, which has touted its strict guardrails on its models, yesterday said it will relax its core safety policy to stay competitive with other AI labs. The move may mean the firm will cave to the Pentagon’s demand for free rein to use Anthropic’s well-regarded Claude model. More broadly, it also signals that competitive pressures may also push other AI firms to loosen their safety standards, increasing the risk of dangerous results from the use of their models.

US Economic Releases

The Mortgage Bankers Association said ***mortgage applications*** in the week ended February 20 rose 0.4%. Applications for home purchase mortgages fell 4.7%. Applications for refinancing mortgages rose 4.1%. According to the report, the average interest rate on a 30-year, fixed-rate mortgage fell 8bps to 6.09%. The chart below shows how mortgage rates have changed over time.



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

Economic Releases		
No economic releases for the rest of today		
Federal Reserve		
EST	**Speaker or Event**	**District or Position**
10:40	Thomas Barkin Speaks on Panel	President of the Federal Reserve Bank of Richmond
11:00	Jeffrey Schmid Speaks on Monetary Policy and the Economy	President of the Federal Reserve Bank of Kansas City
13:20	Alberto Musalem Speaks on Role of Fed	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	PPI Services	y/y	Jan	2.6%	2.6%	2.6%	*	Equity and bond neutral
	Nationwide Dept Sales	y/y	Jan	2.30%	-1.10%		***	Equity and bond neutral
	Tokyo Dept Store Sales	y/y	Jan	2.00%	-0.20%		***	Equity and bond neutral
Australia	CPI	y/y	Jan	3.8%	3.8%	3.7%	**	Equity and bond neutral
South Korea	Retail Sales	y/y	Jan	4.4%	4.4%		**	Equity and bond neutral
	Depart. Store Sales	y/y	Jan	13.4%	9.3%		*	Equity and bond neutral
	Discount Store Sales	y/y	Jan	-18.8%	-9.0%		*	Equity and bond neutral
EUROPE								
Eurozone	CPI	y/y	Jan F	1.7%	1.7%	1.7%	***	Equity and bond neutral
	Core CPI	y/y	Jan F	2.2%	2.2%	2.2%	**	Equity and bond neutral
Germany	GfK Consumer Confidence	m/m	Mar	-24.7	-24.2	-23.0	**	Equity bearish, bond bullish
	GDP NSA	y/y	4Q F	0.6%	0.6%	0.6%	**	Equity and bond neutral
	GDP WDA	y/y	4Q F	0.4%	0.4%	0.4%	**	Equity and bond neutral
France	Consumer Confidence	m/m	Feb	91.0	90.0	90.0	***	Equity and bond neutral
	Retail Sales SA	y/y	Jan	1.2%	-0.9%		*	Equity and bond neutral
AMERICAS								
Mexico	International Reserves Weekly	w/w	20-Feb	$256649m	$256242m		*	Equity and bond neutral
Brazil	Total Outstanding Loans	m/m	Feb	7116b	7130b		**	Equity and bond neutral
	Central Govt Budget Balance	m/m	Feb	86.9b	22.1b	89.0b	*	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)	359	359	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 (%)	4.05	4.03	0.02	Down
Euribor/OIS spread (bps)	204	203	1	Down
Currencies	**3 Mo**			
Dollar	Down	US		Down
Euro	Up	Euro		Up
Yen	Up	Japan		Down
Pound	Up	UK		Up
Franc	Up	Switzerland		Up

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.

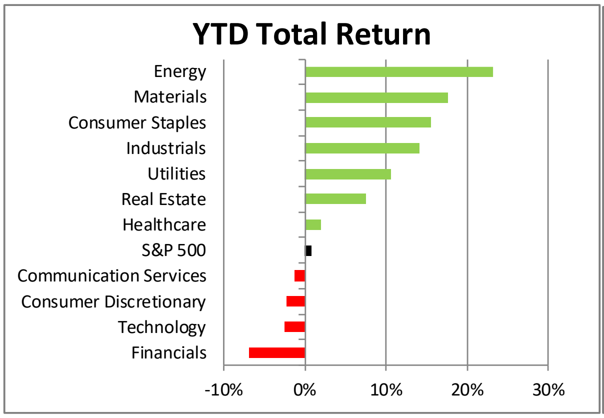
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$71.20	$70.77	0.61%	
WTI	$65.98	$65.63	0.53%	
Natural Gas	$2.90	$2.92	-0.38%	
Crack Spread	$32.08	$31.73	1.10%	
12-mo strip crack	$27.24	$26.97	1.01%	
Ethanol rack	$1.86	$1.86	0.08%	
Metals				
Gold	$5,184.46	$5,143.85	0.79%	
Silver	$90.36	$87.16	3.67%	
Copper Contract	$602.70	$599.15	0.59%	
Grains				
Corn contract	$439.50	$438.50	0.23%	
Wheat contract	$569.00	$573.25	-0.74%	
Soybeans contract	$1,158.25	$1,155.25	0.26%	
Shipping				
Baltic Dry Freight	2,129	2,112	17	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		1.93		
Gasoline (mb)		-1.50		
Distillates (mb)		-2.00		
Refinery run rates (%)		0.50%		
Natural gas (bcf)		-49		

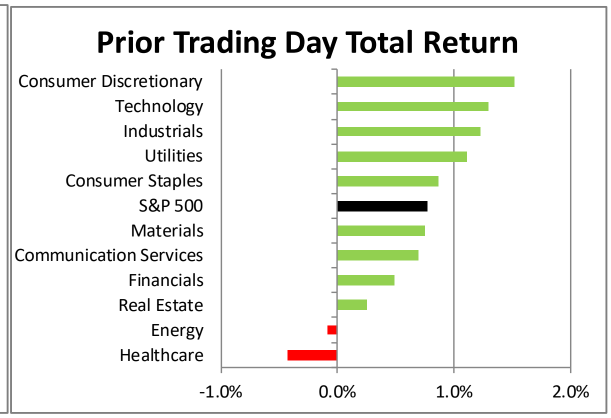
Weather

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 the Pacific Northwest.

Data Section

US Equity Markets – (as of 2/24/2026 close)

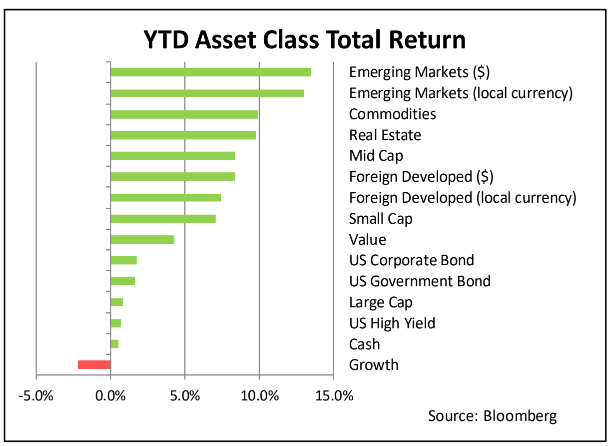




(Source: Bloomberg)

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 2/24/2026 close)

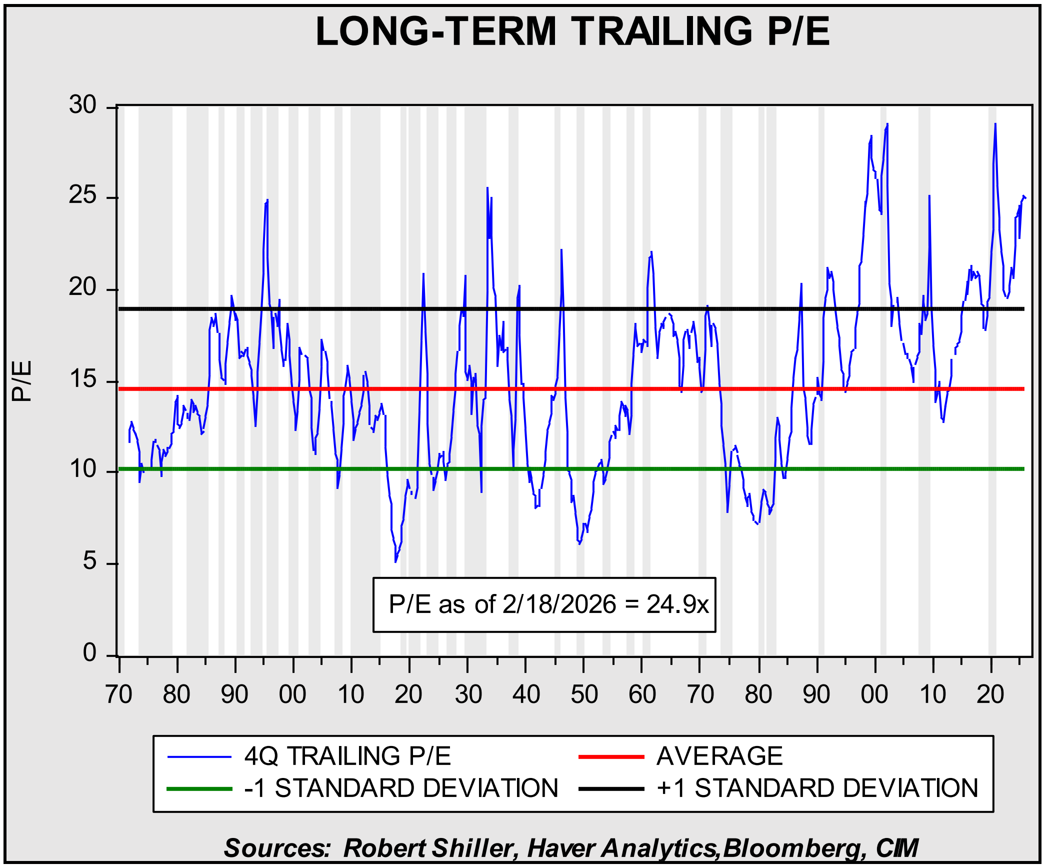


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

February 19, 2026



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.

[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.