Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: February 26, 2026 — 9:30 AM ET] Global equity markets are mostly higher this morning. In Europe, the Euro Stoxx 50 is up 0.4% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.8%. Chinese markets were mixed, with the Shanghai Composite essentially unchanged and the Shenzhen Composite up 0.3%. US equity index futures are signaling a higher open.

With 453 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, 74.2% exceeded expectations, while 20.8% 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* opens with an analysis of the market's reaction to Nvidia's earnings before turning to the ongoing negotiations between the US and Iran. We continue with a brief overview of the Cuban attack on a US-registered vessel, the White House's push to advance the president's retirement proposal, and our take on the Texas primary. We conclude with a summary of key economic data from US and global markets.

AI Uncertainty: Despite another strong quarter, Nvidia's results did little to dispel lingering concerns about the AI trade. The chipmaker reported quarterly revenue of $68.1 billion, topping expectations of $66.2 billion, and guided to $78 billion for the current quarter, well above the

consensus of $72.1 billion. The stock initially moved higher on the news but quickly gave back gains, underscoring persistent worries about the broader AI and semiconductor sector.

- The market continues to closely track Nvidia, whose semiconductors remain in heavy demand among the major players driving the AI boom. Investors view the company's performance as a key gauge of capital expenditure trends across the industry. During the quarter, Microsoft, Google, Amazon, and Meta collectively announced plans to invest around $650 billion in coming years. The sheer scale of these commitments has become a central source of market anxiety over the sustainability of AI-related spending.

- The shift in sentiment underscores a marked change in how markets view tech firms, from a "build, baby, build" mentality to a "show me the money" mindset. Investors, once content with ambitious growth narratives, are now scrutinizing the massive capital commitments big tech has made to AI infrastructure and other long-horizon projects. The focus has turned to how quickly these investments can deliver measurable, durable returns, especially amid rising political and regulatory pushback.

- Although Nvidia recently caught a break after the White House approved limited sales of some H200 chips to China, other tech companies may soon face fresh headwinds. President Trump is reportedly preparing to require major tech firms to pledge to supply their own energy for data centers. While this move could help defuse political backlash over the sector's heavy resource usage, it would also likely push project costs higher by forcing companies to invest more heavily in dedicated power infrastructure.

- Given the significant demand for AI, which shows no signs of abating, and with optimism in the sector beginning to reaccelerate, the underlying growth story remains intact. However, this renewed momentum is accompanied by considerable uncertainty, suggesting that volatility will remain a defining feature of the market. In this environment, investors may benefit from adding selective international exposure to help balance regional risks and reduce concentration within their portfolios.

Iran-US talks: As the March 1-6 deadline for an agreement with Iran approaches, the two sides appear to be moving closer to a deal. Reports on Thursday indicated that negotiators were holding a third round of indirect talks in Geneva, with Oman acting as mediator. The discussions remain tense, with each side pressing for additional concessions while seeking to avoid open conflict. Financial markets have been closely tracking the negotiations to assess the likelihood of a broader war and its potential impact on asset prices.

- Going into the latest round of talks, Iran appears to believe it has already shown sufficient flexibility for a deal to be reached in the coming days. A representative of the Iranian delegation has reiterated that the country intends to maintain its uranium enrichment program for peaceful purposes. However, Iran is reportedly willing to make significant economic concessions, including potential investments in the US in areas such as oil, mining, and aircraft purchases, in an effort to secure an agreement.

- That said, the United States appears determined to secure as many concessions as possible and to ensure that any agreement has real staying power. US officials continue to press for limits on Iran's ballistic missile program, despite Tehran's resistance. Meanwhile, White House envoy Steve Witkoff has indicated that he wants any deal to

avoid a "sunset clause" that would allow key provisions to lapse over time, a feature that was widely criticized in the 2015 Iran agreement.

- Although talks are ongoing, there is a growing sense in the markets that conflict remains a real possibility. The United States has deployed more than 150 aircraft to bases in Europe and the Middle East, in what officials describe as the largest regional buildup since the 2003 Iraq war. At the same time, Iran has warned that it is prepared to retaliate both militarily and through asymmetric means, including potential cyberattacks, if it is targeted by a US strike.

- Our base case remains one of cautious optimism, assuming that geopolitical tensions ultimately will deescalate. Nevertheless, the risk of a direct conflict cannot be ruled out. In the near term, this backdrop is likely to favor commodity markets, supporting energy and precious metals. Conversely, meaningful deescalation would likely see that premium unwind, allowing prices to normalize. In this context, we continue to advocate for maintaining gold exposure in portfolios as a hedge against geopolitical uncertainty.

Cuba Strikes: Cuban forces shot and killed several passengers on a US registered speedboat headed for the island. According to Cuban security officials, the confrontation began when border patrol agents approached the vessel and the passengers opened fire. The United States has launched an investigation to verify Cuba's account of the incident. The episode threatens to raise tensions between the two nations as the US continues to pressure the Cuban government into negotiations regarding its regime.

New Retirement Plan: US Treasury Secretary Scott Bessent on Wednesday provided further details on the White House's new retirement proposal. He indicated that the president's plan to extend to all Americans access to the type of retirement accounts currently available to federal workers could be advanced through the budget reconciliation process, allowing it to pass the Senate with a simple majority. If enacted, the measure would likely expand market participation which could support equity prices.

Texas Primary: The largest red state is emerging as one of the most consequential Senate battlegrounds of the midterm cycle. Incumbent John Cornyn now trails Ken Paxton in the Republican primary, while Representative Jasmine Crockett leads State Senator James Talarico on the Democratic side. Cornyn would likely be favored in a general election, but a primary loss could suddenly put a traditionally safe Republican seat in play and reshape the broader battle for Senate control.

US Economic Releases

In the week ended February 21, ***initial claims for unemployment benefits*** rose to a seasonally adjusted 212,000, below the expected level of 216,000 but above the previous week's revised level of 208,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, rose to 220,250. The chart below shows how initial jobless claims have fluctuated since just before the Great Financial Crisis (GFC). The chart is truncated through much of the pandemic period because of the extremely high level of claims at that time.

Weekly Initial Jobless Claims
Seasonally Adjusted (Truncated at Start of Pandemic)
Source: US Department of Labor
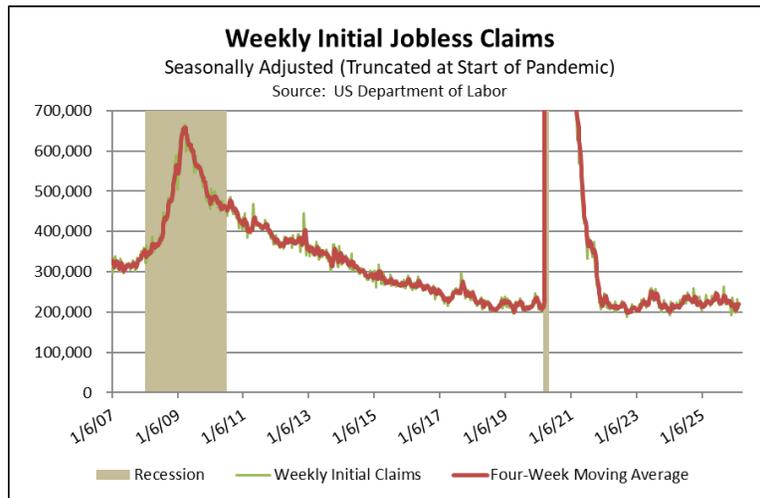
In the week ended February 14, the number of ***continuing claims for unemployment benefits*** (people continuing to draw benefits) fell to a seasonally adjusted 1.833 million, below both the anticipated reading of 1.858 million and the prior week's revised reading of 1.864 million. The four-week moving average of continuing claims rose to 1,847,500. 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.

Continuing Jobless Claims
Seasonally Adjusted (Truncated at Start of Pandemic)
Source: US Department of Labor
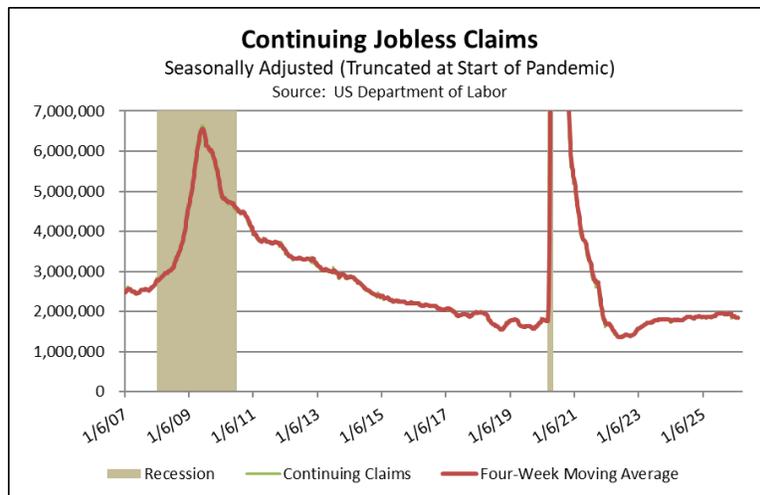
The table below lists the economic releases and Fed events scheduled for the rest of the day.

Economic Releases							
EST	Indicator				Expected	Prior	Rating
11:00	Kansas City Fed Manfacturing Activity	m/m	Feb		2	0	*
Federal Reserve							
EST	Speaker or Event		District or Position				
8:45	Stephen Miran on Fox Business		Members of the Board of Governors				
10:00	Michelle Bowman Testifies Before Senate Banking on Regulation		Member of the Board of Governors				
14:30	Austan Goolsbee Appears on Fox News		President of the Federal Reserve Bank of Chicago				

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	Leading Economic Index	m/m	Dec F	110.0	110.2		**	Equity and bond neutral
	Coincident Index	y/y	Dec F	114.3	114.5		**	Equity and bond neutral
	Machine tool orders	y/y	Jan F	25.3%	25.3%		**	Equity and bond neutral
Australia	Private Capital Expenditure	q/q	4Q	0.4%	6.4%	0.0%	**	Equity and bond neutral
New Zealand	ANZ Activity Outlook	m/m	Feb	52.6	51.6		*	Equity and bond neutral
	ANZ Business Confidence	m/m	Feb	59.2	64.1		**	Equity and bond neutral
EUROPE								
Eurozone	M3 Money Supply	y/y	Jan	3.3%	2.8%	2.9%	***	Equity bearish, bond bullish
	Economic Confidence	m/m	Feb	98.3	99.3	99.8	***	Equity bearish, bond bullish
	Industrial Confidence	m/m	Feb	-7.1	-6.8	-6.2	***	Equity bearish, bond bullish
	Services Confidence	m/m	Feb	5	6.8	7.4	**	Equity bearish, bond bullish
	Consumer Confidence	m/m	Feb	-12.2	-12.2		**	Equity and bond neutral
Italy	Consumer Confidence	m/m	Feb	97.4	96.8	97.0	***	Equity and bond neutral
	Economic Sentiment	m/m	Feb	97.4	97.7		**	Equity and bond neutral
	Manufacturing Confidence	m/m	Feb	88.5	89.2	89.6	***	Equity bearish, bond bullish
AMERICAS								
Mexico	Current Account Balance	q/q	4Q	$7702m	$1556m	$12750m	*	Equity and bond neutral
	Unemployment Rate NSA	m/m	Jan	2.70%	2.39%	2.67%	***	Equity and bond neutral
Brazil	FGV Inflation IGPM	y/y	Feb	-2.67%	-0.91%	-2.55%	***	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	4.05	0.00	Down
Euribor/OIS spread (bps)	201	204	-3	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**	
Bank of Korea Base Rate	2.50%	2.50%	2.50%	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.
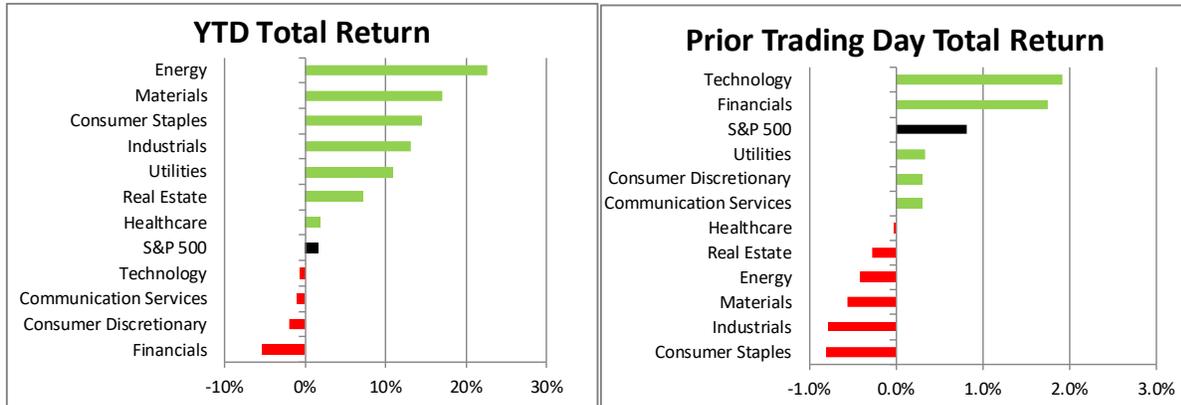
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$69.58	$70.85	-1.79%	
WTI	$64.00	$65.42	-2.17%	
Natural Gas	$2.78	$2.87	-2.96%	
Crack Spread	$32.98	$32.76	0.66%	
12-mo strip crack	$27.74	$27.57	0.60%	
Ethanol rack	$1.90	$1.89	0.94%	
Metals				
Gold	$5,183.02	$5,164.78	0.35%	
Silver	$86.97	$89.23	-2.53%	
Copper Contract	$601.20	$604.50	-0.55%	
Grains				
Corn contract	$443.75	$442.00	0.40%	
Wheat contract	$570.25	$569.75	0.09%	
Soybeans contract	$1,168.00	$1,165.00	0.26%	
Shipping				
Baltic Dry Freight	2,121	2,129	-8	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	15.99	1.93	14.06	
Gasoline (mb)	-1.01	-1.50	0.49	
Distillates (mb)	0.25	-2.00	2.25	
Refinery run rates (%)	-0.24%	0.50%	-0.74%	
Natural gas (bcf)		-50		

Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures everywhere except New England, where temperatures will be near normal. The outlook calls for wetter-than-normal conditions everywhere except California, where conditions will be dry.
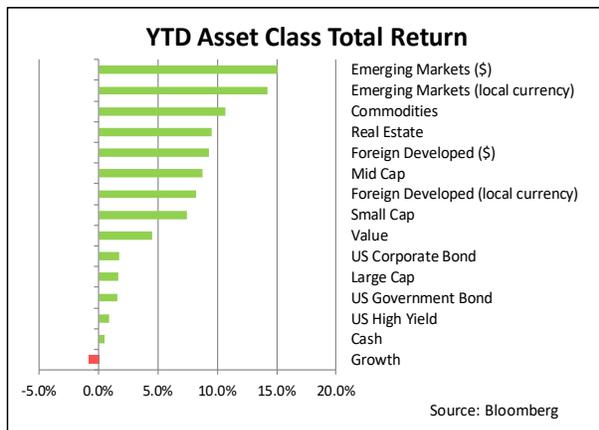
Data Section

US Equity Markets – (as of 2/25/2026 close)

YTD Total Return

Sector	Return
Energy	~23%
Materials	~17%
Consumer Staples	~14%
Industrials	~13%
Utilities	~10%
Real Estate	~6%
Healthcare	~2%
S&P 500	~1%
Technology	negative
Communication Services	negative
Consumer Discretionary	negative
Financials	~-4%

Prior Trading Day Total Return

Sector	Return
Technology	~1.9%
Financials	~1.7%
S&P 500	~0.8%
Utilities	~0.3%
Consumer Discretionary	~0.3%
Communication Services	~0.3%
Healthcare	~0.0%
Real Estate	negative
Energy	negative
Materials	negative
Industrials	negative
Consumer Staples	~-0.8%

(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 2/25/2026 close)

YTD Asset Class Total Return

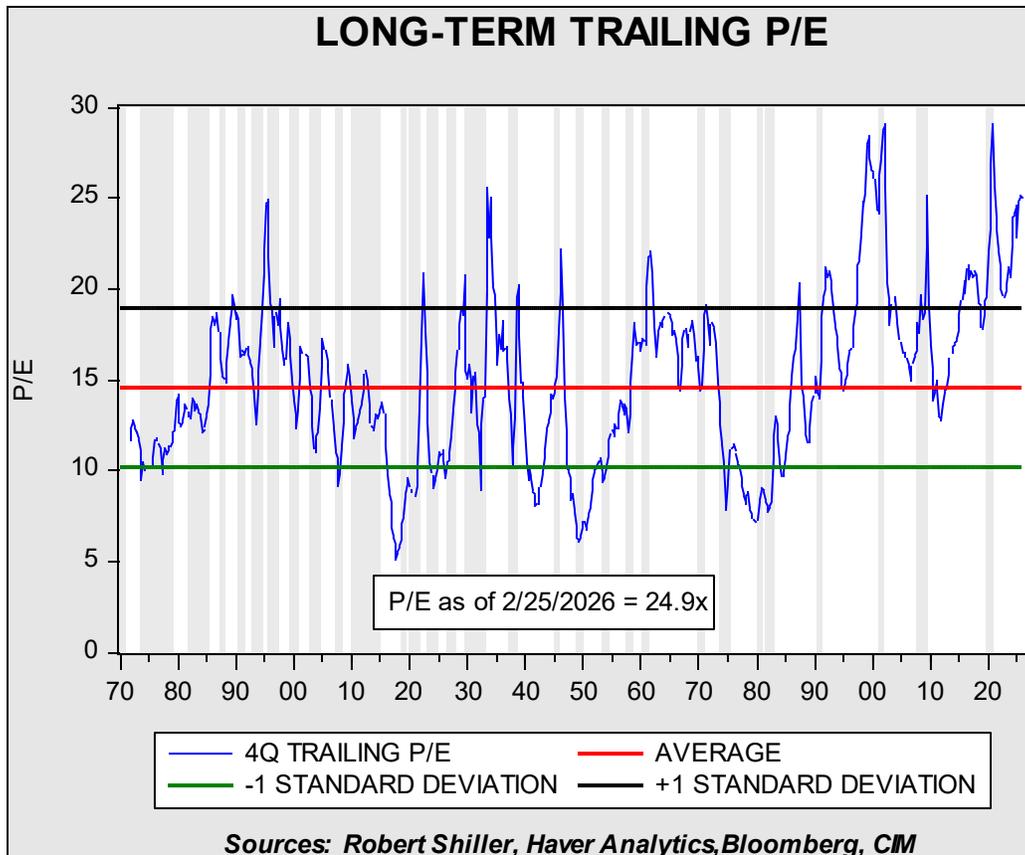| Asset Class	Return
Emerging Markets ($)	~14%
Emerging Markets (local currency)	~13%
Commodities	~11%
Real Estate	~9%
Foreign Developed ($)	~9%
Mid Cap	~8%
Foreign Developed (local currency)	~8%
Small Cap	~7%
Value	~4%
US Corporate Bond	~2%
Large Cap	~1%
US Government Bond	~1%
US High Yield	~1%
Cash	~0.5%
Growth	negative

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).

P/E Update

February 26, 2026

LONG-TERM TRAILING P/E

P/E as of 2/25/2026 = 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 unchanged from the previous report. Last week, the stock price index and earnings were relatively unchanged from the previous week.

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.