



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: February 27, 2026 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is down 0.1% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.6%. Chinese markets were higher, with the Shanghai Composite up 0.4% and the Shenzhen Composite up 0.3%. US equity index futures are signaling a lower open.

With 481 companies having reported so far, S&P 500 earnings for Q4 are running at \$74.30 per share compared to estimates of \$71.07, which is up 8.3% from Q4 2024. Of the companies that have reported thus far, 73.4% exceeded expectations, while 21.6% 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 our thoughts on the recent disagreement between Anthropic and the Department of Defense. We then turn to the UK by-election, examining the broader populist wave sweeping across the West. Following that, we discuss the ongoing global chip shortage, provide an update on the Iran nuclear talks, and highlight recent solar funding advocacy within the White House. We also include a summary of key economic data from the United States and developments in global markets.

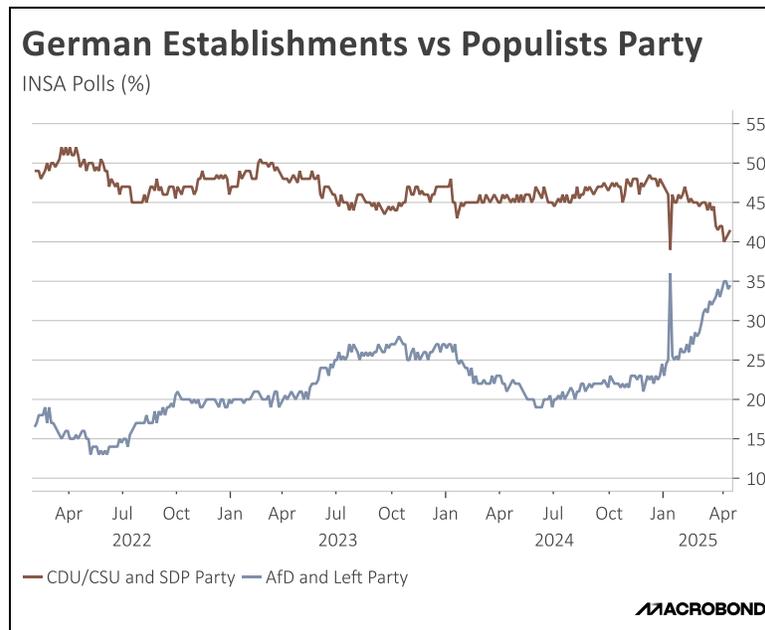
Pentagon Anthropic: Tensions between the US government and Anthropic escalated this week after [the company said it cannot, in good conscience](#), agree to the Pentagon’s [demand that its AI models be available for “all lawful purposes.”](#) The stance puts Anthropic at risk of losing a Defense Department contract worth up to \$200 million and of being labeled a “supply chain

risk,” potentially barring its technology from Pentagon programs and key contractors. It also leaves the company vulnerable to the risk of being compelled to comply under the Defense Production Act.

- The two sides have spent weeks negotiating over the Defense Department’s use of Anthropic’s systems for military and intelligence applications. Anthropic has insisted on explicit limits barring domestic mass surveillance and fully autonomous weapons that make targeting decisions without human oversight, while the Pentagon argues that existing law and internal policy already constrain such uses and that its contractors should not be able to veto lawful military operations.
- AI is becoming increasingly integrated across the broader economy, and Anthropic has played a particularly prominent role. Its powerful AI tools have been a major catalyst for the so-called “SaaS collapse,” reshaping how businesses use and value traditional software. As a result, the company is widely regarded as one of the leading players in the technology sector and is becoming strategically important to the country.
- While there has been no official announcement on the government’s next steps, we see a meaningful risk that it could invoke its authority to assume control of Anthropic technology. If so, this would likely mark another step in a longer-term shift toward a more activist state role in the economy and a further blurring of lines between the public and private sectors.
- This shift in the global economy is unlikely to have a meaningful short-term impact on markets as companies will, for now, continue to operate in a relatively market-friendly environment. However, this could change over the longer term, perhaps over the next decade, with firms increasingly prioritizing government demands over shareholder interests. As a result, investors might consider greater international diversification to avoid excessive concentration in any single region.

Populist Wave: A [strong performance by a left-wing party in the UK](#) highlights the growing appeal of populist movements across the West. On Friday, the Green Party won a key parliamentary by-election in southeast Manchester, a seat long considered safe for the incumbent Labour Party. Labour not only lost to the Greens but also finished behind the right-wing populist Reform UK party. The result is likely to fuel concerns that Labour is losing support just a year after taking power and may also signal the emergence of a new populist wave.

- The Green Party’s election victory underscores the growing appeal of populist movements across the Western world. During its campaign, the party emphasized tackling the poverty crisis, arguing that poverty is a political choice that can be addressed through changes in tax policy. This approach mirrors that of the Reform UK Party, which similarly seeks to raise workers’ wages, though it frames the issue around curbing immigration rather than fiscal reform.
- This growing populist trend is also evident in Europe and the United States. In Germany, the CDU/CSU has come under pressure as the far-right AfD has at times overtaken it in the polls, while some [disaffected centrist voters have drifted toward parties on the left](#). Meanwhile, in the United States, populist figures have risen to prominence in major cities; local leaders such as [New York Mayor Zohran Mamdani have cultivated high-profile relationships with populist President Donald Trump](#).



- The ascendancy of populist movements appears to be a structural shift rather than a fleeting trend, driven by a public mandate for intervention in the face of rising cost of living. Should establishment parties continue to lose ground, we anticipate a tangible shift toward higher social spending and more accommodative monetary policies.
- From a purely market perspective, right-wing populism is often regarded as the “lesser of two evils” compared to its left-wing counterpart. This preference stems from a right-wing lean toward deregulation and decentralization, which typically lowers the cost of doing business. However, investor sentiment is not strictly partisan; as demonstrated by Spain’s Socialist Party, markets are willing to tolerate left-wing administrations provided they maintain rigorous fiscal discipline.

Chip Shortage: According to IDC, [the smartphone market is expected to shrink by 12.9% in 2026](#) due to a shortage of memory chips. This shortage is driven by a drop in the global supply of chips needed to power new technology. The report highlights how the rise of AI is starting to have a crowding-out effect, in which the sector’s enormous demand is beginning to price out other industries. As a result, we believe the surge in demand for chips could lead to either higher inflation or lower margins for certain goods.

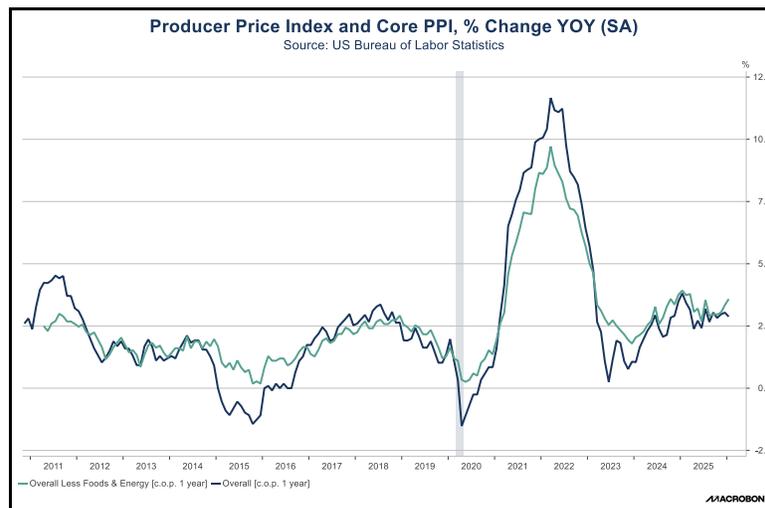
Iran Progress: Momentum appears to be building toward a potential US-Iran deal. On Thursday, the [two sides held intensive talks on Iran’s uranium enrichment program](#). Tehran rejected a US proposal to transfer its enriched uranium abroad but left the issue open for further negotiation. The White House continues to favor diplomacy. Vice President Vance [stressed that the US has no intention of entering a prolonged war with Iran](#). The parties are expected to meet again next week in Vienna.

MAGA Goes Solar: The [solar lobby has partnered with conservative influencer Katie Miller and former Trump adviser Kellyanne Conway](#) to promote solar power among right-leaning

voters. The move comes as the White House has signaled skepticism toward renewable energy, reflecting concerns about its impact on traditional fuel industries. However, growing recognition of solar as a diversified source of power, with the potential to ease pressure on the electricity grid and improve energy security, appears to have softened that stance somewhat.

US Economic Releases

The January *producer price index (PPI)* rose by a seasonally adjusted 0.5%, much more than both the expected increase of 0.3% and the revised December rise of 0.4%. Excluding the volatile food and energy components, the January “*core*” PPI jumped 0.8%, nearly triple its anticipated increase of 0.3% and well above its revised December gain of 0.6%. The overall PPI in January was up 2.9% from the same month one year earlier, while the core PPI was up 3.6%. The chart below shows the year-over-year change in the PPI and the core PPI over the last decade or so.



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

Economic Releases						
EST	Indicator			Expected	Prior	Rating
9:45	MNI Chicago PMI	m/m	Feb	52.1	54.0	***
10:00	Construction Spending	m/m	Dec	0.2%		**
11:00	Kansas City Fed Services Activity Index	m/m	Feb	2	2	*
Federal Reserve						
No Fed speakers or events for the rest of today						

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	Tokyo CPI	y/y	Feb	1.6%	1.5%	1.4%	**	Equity and bond neutral
	Tokyo CPI Ex-Fresh Food	y/y	Feb	1.8%	2.0%	1.7%	***	Equity and bond neutral
	Tokyo CPI Ex-Fresh Food & Energy	y/y	Feb	2.5%	2.4%	2.3%	*	Equity and bond neutral
	Retail Sales	y/y	Jan	1.8%	-0.9%	0.1%	**	Equity bullish, bond bearish
	Depart. Store & Supermarket Sales	y/y	Jan	2.6%	-0.1%		*	Equity and bond neutral
	Industrial Production	y/y	Jan P	2.3%	2.6%	5.0%	***	Equity bearish, bond bullish
	Japan Buying Foreign Bonds	w/w	20-Feb	-¥1898.8b	-¥487.9b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	20-Feb	¥408.5b	-¥26.2b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	20-Feb	¥1887.2b	-¥393.1b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	20-Feb	¥402.0b	¥1428.0b		*	Equity and bond neutral
	Housing Starts	y/y	Jan	-0.4%	-1.3%	-2.1%	**	Equity bullish, bond bearish
	Annualized Housing Starts	y/y	Jan	0.755m	0.756m	0.760m	*	Equity and bond neutral
Australia	Private Sector Credit	y/y	Jan	7.7%	7.7%		**	Equity and bond neutral
New Zealand	ANZ Consumer Confidence Index	m/m	Feb	100.1	107.2		*	Equity and bond neutral
India	GDP	y/y	4Q	7.8%	8.2%	7.4%	*	Equity and bond neutral
EUROPE								
Germany	Import Price Index	y/y	Jan	-2.3%	-2.3%	-2.8%	**	Equity and bond neutral
	Unemployment Change	m/m	Feb	1.0k	1.0k	2.0k	***	Equity and bond neutral
	Unemployment Claims Rate	m/m	Feb	6.3%	6.3%	6.3%	**	Equity and bond neutral
	CPI	y/y	Feb P	1.9%	2.1%	2.0%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Feb P	2.0%	2.1%	2.1%	**	Equity and bond neutral
France	CPI	y/y	Feb P	1.0%	0.3%	0.8%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Feb p	1.1%	0.4%	0.8%	**	Equity and bond neutral
	GDP	y/y	Q4 F	1.2%	1.1%	1.1%	**	Equity and bond neutral
	PPI	y/y	Jan	-2.3%	-1.9%		*	Equity and bond neutral
Italy	Industrial Sales WDA	y/y	Dec	3.6%	-0.2%		*	Equity and bond neutral
UK	GfK Consumer Confidence	m/m	Feb	-19	-16	-15	***	Equity and bond neutral
Switzerland	KOF Leading Indicator	m/m	Feb	104.2	103.3	103.0	**	Equity and bond neutral
	GDP	y/y	4Q	0.7%	0.6%	0.5%	**	Equity and bond neutral
Russia	Money Supply, Narrow Definition	w/w	20-Feb	19.68t	19.61t		*	Equity and bond neutral
	Gold and Forex Reserves	m/m	20-Feb	\$797.2b	806.1b		***	Equity and bond neutral
AMERICAS								
Canada	Current Account Balance	m/m	4Q	-\$0.71b	-\$5.27b	-\$8.21b	**	Equity and bond neutral
Mexico	Exports	m/m	Jan	48008m	\$60651m		*	Equity and bond neutral
	Imports	m/m	Jan	54489m	\$58221m		*	Equity and bond neutral
	Trade Balance	m/m	Jan	-6481.1m	\$2429.6m	-2563.5m	**	Equity and bond neutral
Brazil	Primary Budget Balance	y/y	Jan	103.7b	6.3b	105.7b	*	Equity and bond neutral
	Net Debt % GDP	m/m	Jan	65.00%	65.30%	64.80%	**	Equity and bond neutral
	IBGE Inflation IPCA-15	m/m	Feb	4.10%	4.50%	3.83%	***	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	359	-1	Down
U.S. Sibor/OIS spread (bps)	366	366	0	Down
U.S. Libor/OIS spread (bps)	363	363	0	Down
10-yr T-note (%)	3.99	4.01	-0.02	Down
Euribor/OIS spread (bps)	201	201	0	Down
Currencies	3 Mo			
Dollar	Down	US		Down
Euro	Up	Euro		Up
Yen	Up	Japan		Up
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.

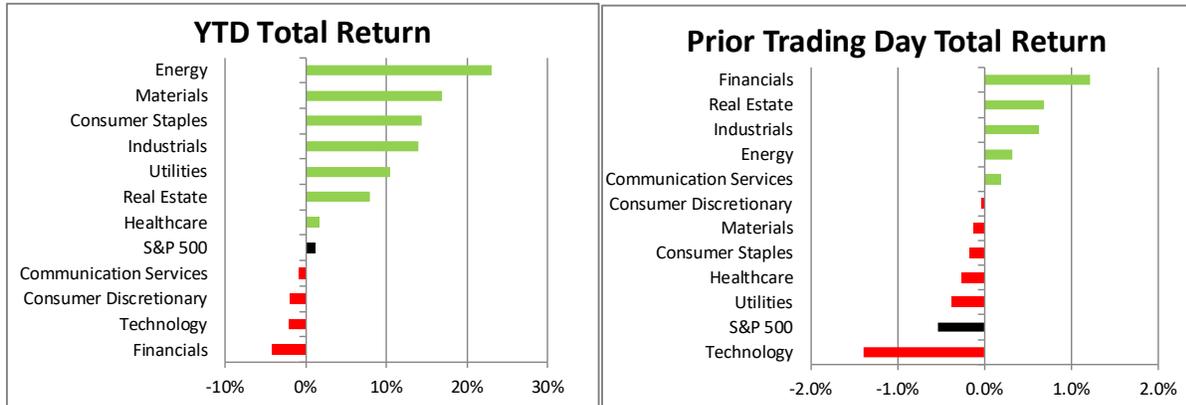
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$72.20	\$70.75	2.05%	
WTI	\$66.81	\$65.21	2.45%	
Natural Gas	\$2.87	\$2.83	1.34%	
Crack Spread	\$33.03	\$33.06	-0.12%	
12-mo strip crack	\$28.31	\$28.08	0.83%	
Ethanol rack	\$1.91	\$1.91	0.00%	
Metals				
Gold	\$5,186.96	\$5,184.97	0.04%	
Silver	\$89.81	\$88.30	1.71%	
Copper Contract	\$612.65	\$600.50	2.02%	
Grains				
Corn contract	\$445.50	\$443.50	0.45%	
Wheat contract	\$585.25	\$574.50	1.87%	
Soybeans contract	\$1,167.75	\$1,163.50	0.37%	
Shipping				
Baltic Dry Freight	2,117	2,121	-4	
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)	-52	-50	-2	

Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures over every square inch of the Continental US. The outlook calls for wetter-than-normal conditions everywhere except California, where conditions will be dry.

Data Section

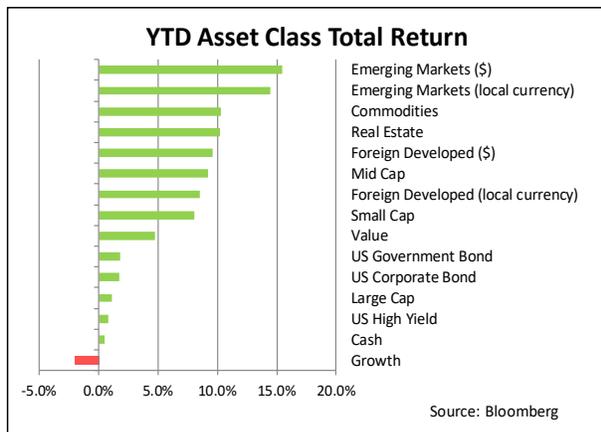
US Equity Markets – (as of 2/26/2026 close)



(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 2/26/2026 close)

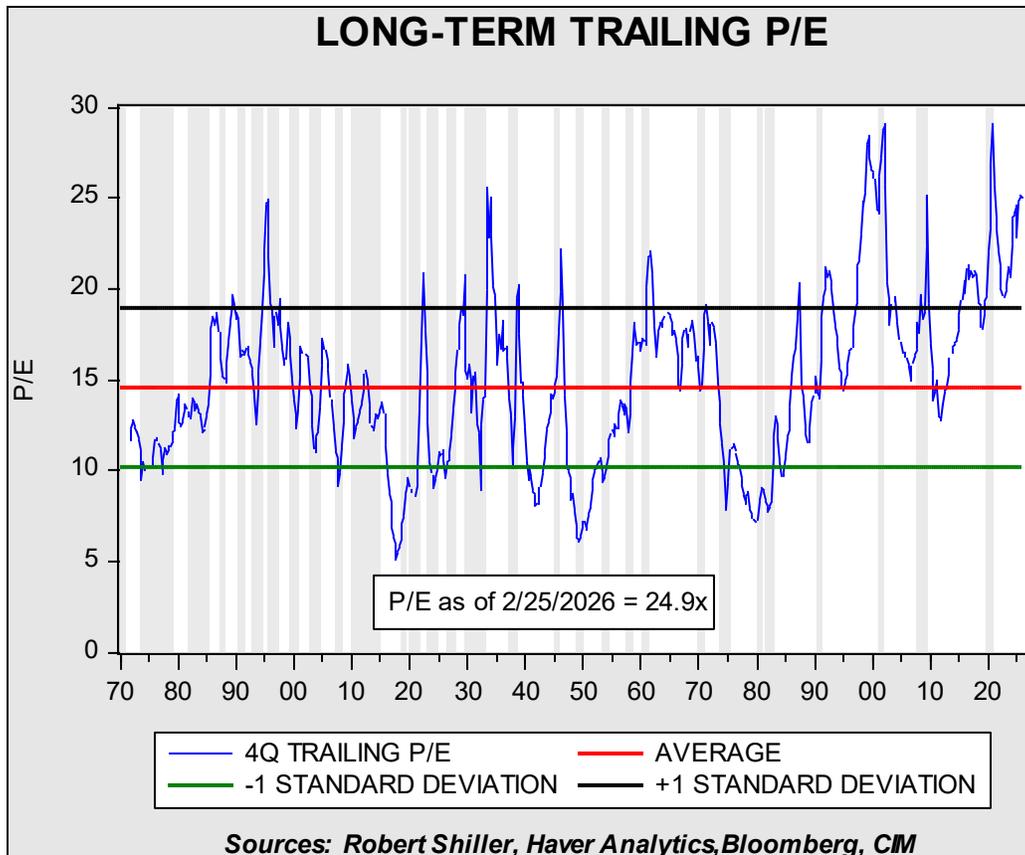


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 26, 2026



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.