Daily Comment

Confluence INVESTMENT MANAGEMENT

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[Posted: July 10, 2026 — 9:30 AM ET] Global equity markets are mostly lower this morning. In Europe, the Euro Stoxx 50 is down 0.2% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.7%. Chinese markets were lower with the Shanghai Composite down 1.0% and the Shenzhen Composite down 1.2%. US equity index futures are signaling a lower open.

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
"Mid-Year Geopolitical Outlook" (6/22/26) + podcast	"The Evolution of the Tech Life Cyle" (6/29/26) + podcast	Q2 2026 Report Q2 2026 Rebalance Presentation	Confluence 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 assessment of Chair Warsh's newly announced task force and the group of experts selected to lead it. We then examine the White House's push to have foreign chipmakers expand manufacturing capacity in the US. Next, we briefly cover the latest developments in the US, including relations with Iran and recent reports of AI companies providing services to blacklisted entities. As always, we include a review of recent domestic and international economic data.

The Task Force: Fed Chair Kevin Warsh has released a list of names of people who will be tasked with reshaping the Federal Reserve's operational framework. The group will focus on five key reform areas identified by Warsh: inflation targeting, communication strategy, balance sheet management, data utilization, and the interplay between productivity and employment. The initiative aims to deliver research by year-end, potentially paving the way for significant institutional reforms. However, skeptics remain unconvinced that the task force will provide any meaningful insights.

- Warsh is driving the task force initiative to address two key concerns: the Fed's recent credibility gaps and the disruptive impact of AI. He cites the "transitory" inflation misstep and the failure to hit the target as clear evidence of lost trust. He also worries that the existing framework is poorly equipped for an AI-altered world, and that conventional surveys may not detect shifts quickly enough to inform policy.
- The newly formed task force comprises a cross-section of experts from both the public and private sectors. Among the most prominent public-sector appointees are former Bank of England Governor Mervyn King, ex-Reserve Bank of India Governor Raghuram Rajan, former Fed Governor Jeremy Stein, and noted economic advisor Greg Mankiw. On the private side, the group includes venture capitalist Marc Andreessen and Chad Jones, a leading AI economist at Anthropic.
- While the task force boasts an impressive roster of names, questions linger over whether it can generate genuinely novel insights for the Federal Reserve. In 2025, the central bank completed a five-year review of its strategy, tools, and communications — an exercise that overlaps significantly with the very areas this task force seeks to address. Moreover, the five-month timeline allocated for this new research has raised doubts about whether a sufficiently comprehensive review is even feasible.
- That said, while there are still questions about the task force itself, markets appear to retain confidence in Chair Warsh. Bond market volatility has begun to ease, suggesting that investors view his proposed direction — at least in terms of the goals he has articulated — as broadly credible. As a result, we think this task force is likely to help restore some confidence in the Fed, even if it ultimately falls short of delivering a sweeping set of structural reforms.

Chip Onshoring: The US continues to press foreign companies to expand investment domestically as it seeks to boost its chipmaking capacity. Commerce Secretary Howard Lutnick has implicitly urged Samsung and SK Hynix to increase their US memory chip production in order to help ease emerging supply shortages. His comments underscore that the AI investment cycle has become so dominant that the administration is unwilling to rely solely on US firms, a stance that could intensify competitive pressure on domestic chipmakers.

- During a Micron-hosted event, Lutnick urged South Korean chipmakers to accelerate efforts to expand production in the United States. He acknowledged that greater participation from firms such as Samsung and SK Hynix could intensify competition for domestic players like Micron but argued that a broader manufacturing base would help create a more resilient supply chain for US companies dependent on advanced memory chips.
- His comments come as SK Hynix and Samsung have emerged as major beneficiaries of the AI infrastructure boom. In recent months, US imports of memory chips from South Korea have surged as demand has far outstripped domestic supply. The strength of this cycle has led SK Hynix and Samsung to commit to massive capacity expansion plans, running into the hundreds of billions of dollars, in an effort to keep pace with the current shortfall.

- Lutnick's comments on South Korean firms expanding manufacturing in the US point to a broad, "big-tent" approach to building out domestic chip capacity. While the White House remains keen to support homegrown players such as Micron and Intel, it also wants to reduce vulnerability to supply chains centered outside US borders by encouraging allied foreign producers to localize more production. Therefore, this could be a sign that the US may start to target chip firms that are not invested in the US.
- We see the US push to have foreign chipmakers invest domestically as a clear example of a more hands-on governmental approach to the economy. Over time, this is likely to foster tighter coordination between the public sector and firms in strategic industries. While such policies may be supportive in the current boom, they could leave domestic companies relatively more disadvantaged in a downturn, as added capacity and competition weigh more heavily on local producers.

Ceasefire On? Iran and the US appear to be continuing talks even as tensions remain elevated. A US official has indicated that the two sides have begun technical discussions. While there were clashes earlier in the week, the pause in negotiations was reportedly tied to Iran's funeral ceremonies for the ayatollah killed in the initial strikes. The fact that dialogue is ongoing is likely to help ease fears of a broader conflict between the two countries.

AI Crosshairs: OpenAI and Google were reported to have supplied AI services to blacklisted Chinese firms, activity that was legal under current rules but has raised national security concerns. Officials have signaled that such dealings could put future government contracts at risk, increasing pressure on providers to police access more aggressively. OpenAI has since moved to restrict access from mainland China, and Alphabet has disputed any wrongdoing, but the episode is likely to spur calls for stricter limits on AI exports and usage.

US Economic Releases

No major US economic reports have been released so far today. There are no economic releases or Fed events scheduled for the rest of the day.

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	y/y	Jun	7.1%	6.6%	6.8%	***	Equity and bond neutral
EUROPE								
Germany	CPI	y/y	Jun F	2.3%	2.3%	2.3%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Jun F	2.4%	2.4%	2.4%	**	Equity and bond neutral
France	CPI	y/y	Jun F	1.8%	1.8%	1.8%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Jun F	2.0%	2.0%	2.0%	**	Equity and bond neutral
	CPI Ex-Tobacco Index	m/m	Jun	102.09	102.37		*	Equity and bond neutral
Italy	Industrial Production WDA	y/y	May	1.1%	1.1%	1.3%	***	Equity and bond neutral
Russia	Gold and Forex Reserves	m/m	3-Jul	$721.7b	$715.2b		***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	3-Jul	21.59t	21.37t		*	Equity and bond neutral
AMERICAS								
Mexico	Industrial Production	y/y	May	-0.7%	2.3%	0.1%	***	Equity and bond neutral
	Manufacturing Production	y/y	May	-1.5%	0.0%	-1.2%	*	Equity and bond neutral
	CPI	y/y	Jun	3.37%	3.94%	3.50%	***	Equity and bond neutral
	Core CPI	y/y	Jun	4.03%	4.19%	4.10%	**	Equity and bond neutral
Brazil	IBGE Inflation IPCA	y/y	Jun	4.64%	4.77%	4.80%	***	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)	367	369	-2	Up
U.S. Sibor/OIS spread (bps)	374	374	0	Up
U.S. Libor/OIS spread (bps)	372	373	-1	Up
10-yr T-note (%)	4.54	4.55	-0.01	Up
Euribor/OIS spread (bps)	238	235	3	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	$76.50	$76.30	0.26%	
WTI	$72.20	$72.08	0.17%	
Natural Gas	$2.99	$3.01	-0.80%	
Crack Spread	$62.29	$63.29	-1.58%	
12-mo strip crack	$43.94	$45.19	-2.77%	
Ethanol rack	$2.08	$2.08	0.00%	
Metals				
Gold	$4,107.04	$4,123.64	-0.40%	
Silver	$59.49	$59.96	-0.78%	
Copper Contract	$625.20	$626.55	-0.22%	
Grains				
Corn contract	$448.00	$452.00	-0.88%	
Wheat contract	$615.50	$619.75	-0.69%	
Soybeans contract	$1,176.75	$1,181.50	-0.40%	
Shipping				
Baltic Dry Freight	2,910	2,871	39	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	3.00	-1.90	4.90	
Gasoline (mb)	-1.90	-1.72	-0.18	
Distillates (mb)	-4.98	1.05	-6.03	
Refinery run rates (%)	-0.08%	-0.24%	0.16%	
Natural gas (bcf)	61	58	3	

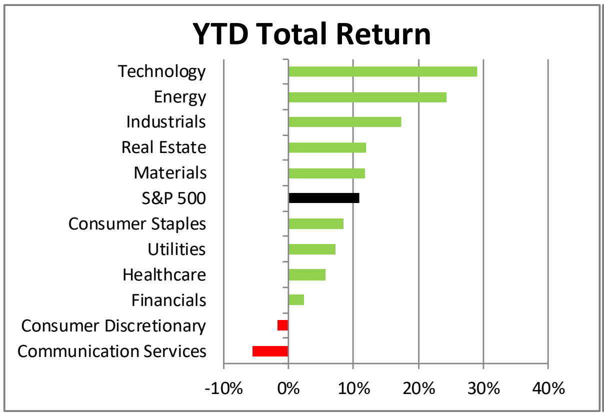
Weather

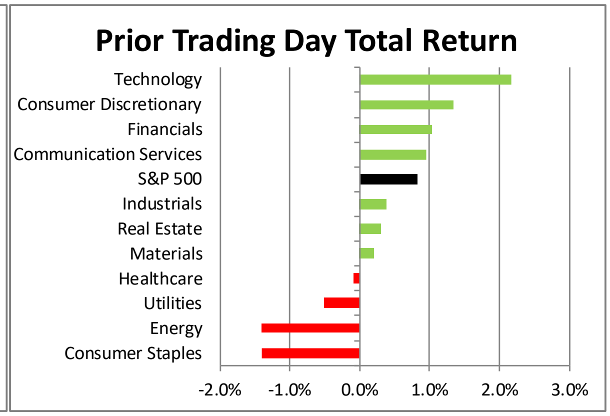
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in all areas except for southern New Mexico, western Texas, and New England, where temps will be near normal. The outlook calls for wetter-than-normal conditions in the Desert Southwest and Texas, with dry conditions in the northern Great Plains and southern Florida.

No tropical cyclone activity is expected in the Atlantic area within the next seven days.

Data Section

US Equity Markets – (as of 7/9/2026 close)

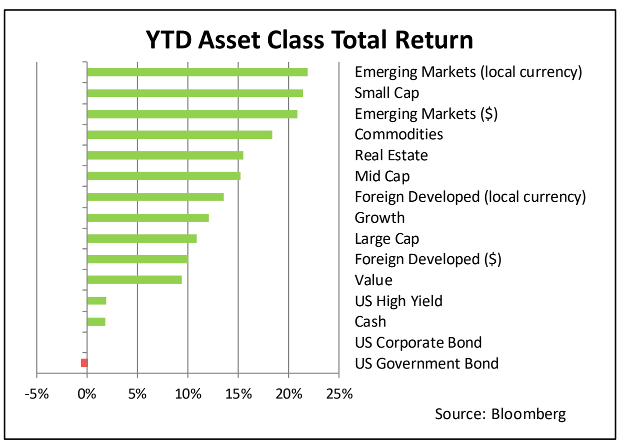




(Source: Bloomberg)

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 7/9/2026 close)

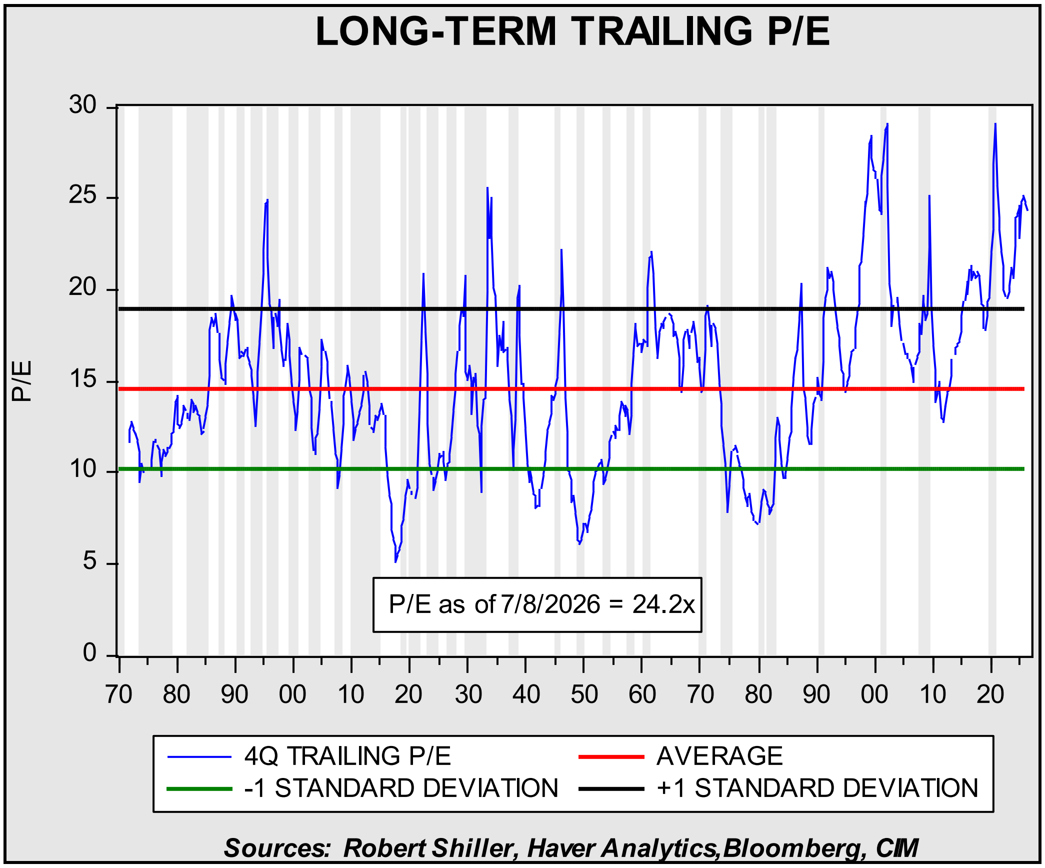


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

July 9, 2026



Based on our methodology,[1] the current P/E is 24.2x, down 0.5 from the previous report. The decline in the multiple was due to the increase in earnings outpacing the increase 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.