Daily Comment

Confluence INVESTMENT MANAGEMENT

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: July 14, 2026 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is down 0.6% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.4%. Chinese markets were higher with the Shanghai Composite up 1.4% and the Shenzhen Composite up 2.3%. 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
"Dragon Boat Diplomacy" **(7/13/26)** **+ 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* today opens with an update on the conflict in Iran, where the June ceasefire has essentially collapsed and produced an enormous spike in global oil prices. We next review several other developments that could affect the financial markets today, including new data showing that Chinese exports are benefiting from the global artificial intelligence boom in the same way that South Korean and Taiwanese firms are, and a preview of Federal Reserve Chair Warsh's first semiannual testimony before Congress today.

United States-Israel-Iran: The US yesterday re-imposed its embargo against Iran's ports and launched a new wave of attacks on the country, with President Trump also announcing that the US will begin to charge a 20% fee on international shipping through the Strait of Hormuz. In turn, the Iranian government said it would never allow the US to control the strait and launched its own new strikes against US and allied military targets across the region. As we asserted yesterday, it appears that the June ceasefire between the US and Iran is now abandoned.

- In response to the renewed fighting and the US's reimposition of its embargo, Brent crude futures prices jumped 9.6% yesterday to settle at $83.30 a barrel. That marked the largest daily percentage gain for Brent since May 2020. The jump in crude prices yesterday brought prices essentially back to the level they were at one month ago, right before the announcement of the US-Iran ceasefire.
- Separately, Dubai-based port operator DP World reportedly plans to build a new port and container terminal on the United Arab Emirates' east coast that would reduce Dubai's dependence on its flagship Jebel Ali hub and bypass the Strait of Hormuz. The move is consistent with our expectation that Persian Gulf countries in the coming years will build many new pipelines and other infrastructure to cut their reliance on the Strait of Hormuz. Once completed, those facilities will reduce Iran's importance in the region.

Israel: As the Israeli government announced that its next parliamentary elections will be held on October 27, several new opinion polls show voters now favor centrist former military chief Gadi Eisenkot over Prime Minister Netanyahu. The polls suggest Eisenkot's new Yashar party could become the biggest faction in the new parliament, setting the stage for it to potentially lead the government. Such an outcome would likely shift Israel away from its current aggressive stance toward Iran, among other implications.

China: The June trade balance showed a surplus of $125.6 billion, beating expectations and rising from the May surplus of $105.4 billion. Exports in June were up 27.0% from the same month one year earlier, beating expectations and accelerating from their 19.4% rise in the year to May. The surge in export revenue mostly reflected higher prices for semiconductors and related computer equipment, showing that China is benefiting from the AI boom just as South Korea and Taiwan are.

Japan: New opinion polls show support for conservative Prime Minister Takaichi now stands at 65.9%, little changed from the similar reading of 71.9% in March. Support for Takaichi's cabinet also remains unusually steady and robust, currently at 58.0%, versus 59.0% in March. The figures point to an unusually stable political environment in Japan, which is likely a positive environment for Japanese stocks.

- Separately, with the yen plumbing new lows, the Takaichi government has embarked on a push to encourage Japanese firms and individuals to invest more domestically.
- In the latest initiative, Finance Minister Katayama has proposed adding Japanese government bonds to a tax-free investment program for individuals and said the nation's massive pension fund could adjust its asset allocation strategy to put more emphasis on domestic investments.
- However, it's not clear whether those and other new initiatives would help buoy the yen and remove the headwind of currency depreciation for US investors with exposure to Japanese stocks and bonds.

France: Soaring temperatures yesterday forced state-owned electricity giant EDF to shut down three of France's 57 nuclear reactors and reduce production at another seven, resulting in an

8.7% dip in power production. The shutdowns were driven by high temperatures in the river water used to cool the reactors. The problem wasn't so much that the river water couldn't sufficiently cool the reactors, but that returning the heated water to the rivers would kill aquatic life.

- The increasingly frequent problem could require billions of euros of new equipment and infrastructure to keep up production in France's vaunted nuclear power sector.
- Without that investment, reduced electricity supply in the summer could threaten the government's effort to attract AI and other energy-intensive industries to France.

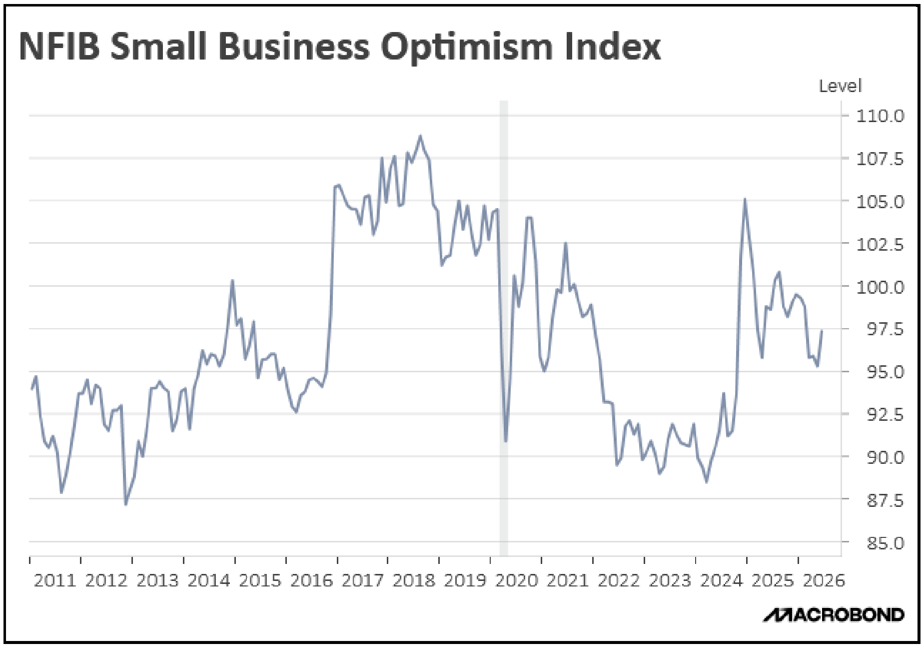
US Politics: President Trump yesterday said on social media that he will deliver a televised address to the nation on Thursday evening at 9:00 PM ET. According to White House officials, the president will tackle a range of topics, from the war against Iran to election security. Given that Congress has refused to pass Trump's high-priority "SAVE America Act," with its strict voter identification rules, it appears that one reason for the speech will be to go over the heads of Congress and try to build support for the legislation directly with the voters.

US Monetary Policy: Federal Reserve Chair Warsh will deliver his first Semiannual Monetary Report to Congress this morning at 10:00 AM ET, giving investors a chance to potentially get more insight into his goals for interest rates, the Fed's balance sheet, forward guidance, bank regulation, and other key issues. In our view, how he performs under the Congressional grilling could potentially prompt some market volatility today.

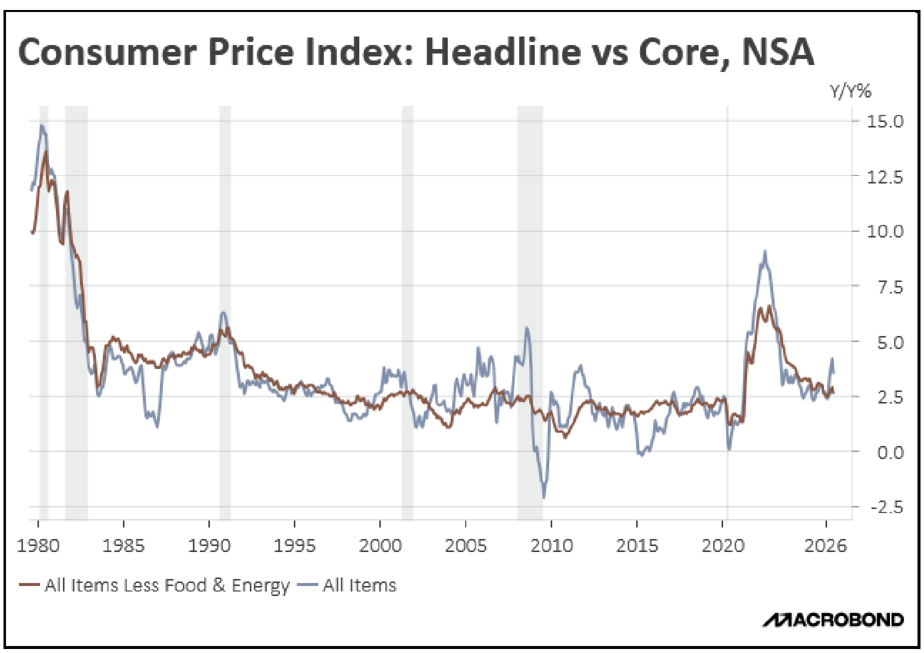
- Separately, Fed board member Waller warned yesterday that the central bank will need to consider raising interest rates soon if underlying inflation comes in "hot" this week.
- Specifically, Waller said an acceleration in inflation as measured by the "core" consumer price index would likely require consideration of rate hikes.

US Economic Releases

The ***NFIB Small Business Optimism Index*** rose in June, jumping from 95.3 to 97.4, above the 95.8 consensus expectation. This rise reflects easing concerns over rising geopolitical risks following the ceasefire agreement between the US and Iran. However, overall sentiment is still below the historical average of 98.0. The chart below shows the index since 2011.



The June ***consumer price index (CPI)*** fell 0.4% from the previous month, below expectations of a decline of 0.1% and May's rise of 0.5%. As might be expected because of the impacts from the easing conflict in the Middle East, most of the decline in June came from the volatile food and energy components. The June ***"core" CPI*** was relatively unchanged, well below its anticipated rise of 0.2%. The overall CPI in June was up 3.5% from the same month one year earlier, while the core CPI was up 2.6%. The chart below shows the year-over-year change in the CPI and the core CPI since 1980.



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

Economic Releases						
EST	**Indicator**			**Expected**	**Prior**	**Rating**
16:00	Net Long-Term TIC Flows	m/m	May		$103.1b	**
16:00	Total Net TIC Flows	m/m	May		$26.1b	**
Federal Reserve						
EST	**Speaker or Event**	**District or Position**				
10:00	Kevin Warsh Testifies at House Finacial Services Committee	Chairman of the Board of Governors				
12:40	Michael Barr Speaks on Artificial Intelligence	Members of the Board of Governors				
13:00	Austan Goolsbee in Fireside Chat	President of the Federal Reserve Bank of Chicago				
13:30	Lisa Cook Speaks at Conference on Financial Inclusion	Members of the Board of Governors				
14:55	Michelle Bowman Speaks at Conference on Financial Inclusion	Member of the Board of Governors				

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	Capacity Utilization	y/y	May	0.1%	-0.8%		**	Equity and bond neutral
	Industrial Production	y/y	May F	-2.1%	-1.7%		***	Equity and bond neutral
Australia	Westpac Consumer Conf SA	m/m	Jul	4.1%	-2.9%		**	Equity and bond neutral
	Westpac Consumer Conf Index	m/m	Jul	83.9	80.6		**	Equity and bond neutral
	NAB Business Confidence	m/m	Jun	-5	-14		***	Equity and bond neutral
	NAB Business Conditions	m/m	Jun	3	3		***	Equity and bond neutral
China	Exports	y/y	Jun	27.0%	19.4%		**	Equity and bond neutral
	Imports	y/y	Jun	36.0%	27.4%		**	Equity and bond neutral
	Trade Balance	m/m	Jun	$120.1b	150.43b		***	Equity and bond neutral
India	Wholesale Prices	m/m	Jun	9.87%	9.68%	9.20%	*	Equity bearish, bond bullish
EUROPE								
Germany	Wholesale Price Index	y/y	Jun	4.9%	5.9%		*	Equity and bond neutral
Switzerland	Producer & Import Prices	y/y	Jun	-2.1%	-1.8%		**	Equity and bond neutral
Russia	Trade Balance	m/m	May	14.2b	11.0b		**	Equity and bond neutral
	Exports	m/m	May	42.9b	39.1b		*	Equity and bond neutral
	Imports	m/m	May	28.7b	28.1b		*	Equity and bond neutral
AMERICAS								
Brazil	Trade Balance Weekly	w/w	12-Jul	$2288m	$2273m		*	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)	373	374	-1	Up
U.S. Sibor/OIS spread (bps)	379	380	-1	Up
U.S. Libor/OIS spread (bps)	377	378	-1	Up
10-yr T-note (%)	4.61	4.62	-0.01	Up
Euribor/OIS spread (bps)	243	241	2	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	$86.42	$83.30	3.75%	
WTI	$80.01	$78.14	2.39%	
Natural Gas	$2.89	$2.90	-0.41%	
Crack Spread	$65.98	$64.14	2.86%	
12-mo strip crack	$46.66	$45.39	2.80%	
Ethanol rack	$2.10	$2.10	0.00%	
Metals				
Gold	$4,028.30	$4,002.39	0.65%	
Silver	$57.99	$57.66	0.58%	
Copper Contract	$637.70	$628.10	1.53%	
Grains				
Corn contract	$457.50	$463.25	-1.24%	
Wheat contract	$630.50	$635.25	-0.75%	
Soybeans contract	$1,187.75	$1,194.75	-0.59%	
Shipping				
Baltic Dry Freight	2,960	2,944	16	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		-2.41		
Gasoline (mb)		-2.00		
Distillates (mb)		-1.25		
Refinery run rates (%)		-0.19%		
Natural gas (bcf)		58		

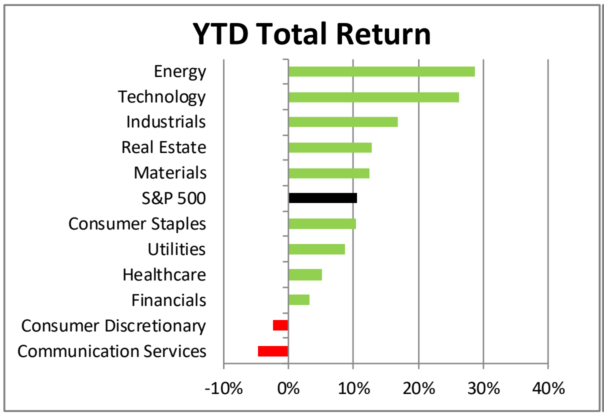
Weather

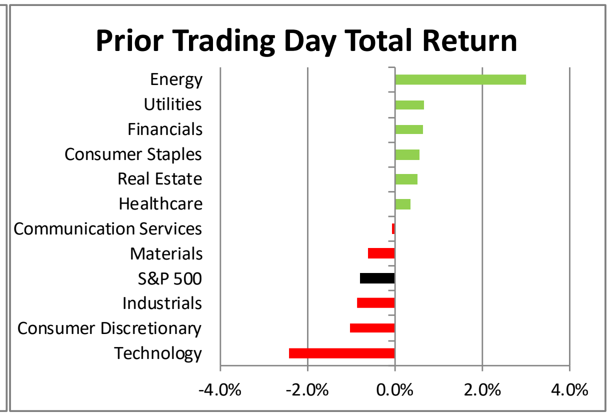
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for most of the country, with near-normal temperatures in New England and parts of the Midwest. The outlook calls for wetter-than-normal conditions in most states outside of the Mississippi valley.

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

Data Section

US Equity Markets – (as of 7/13/2026 close)

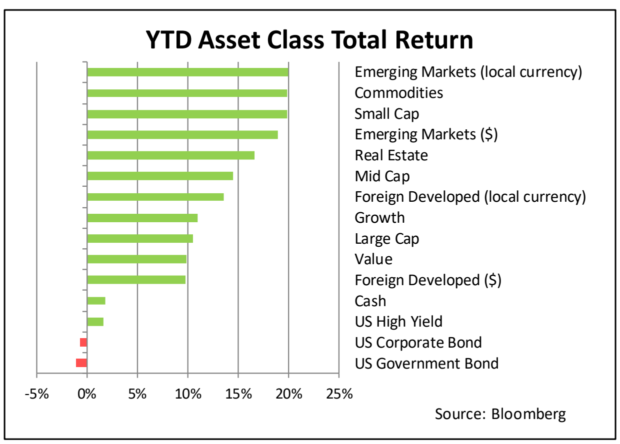




(Source: Bloomberg)

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 7/13/2026 close)

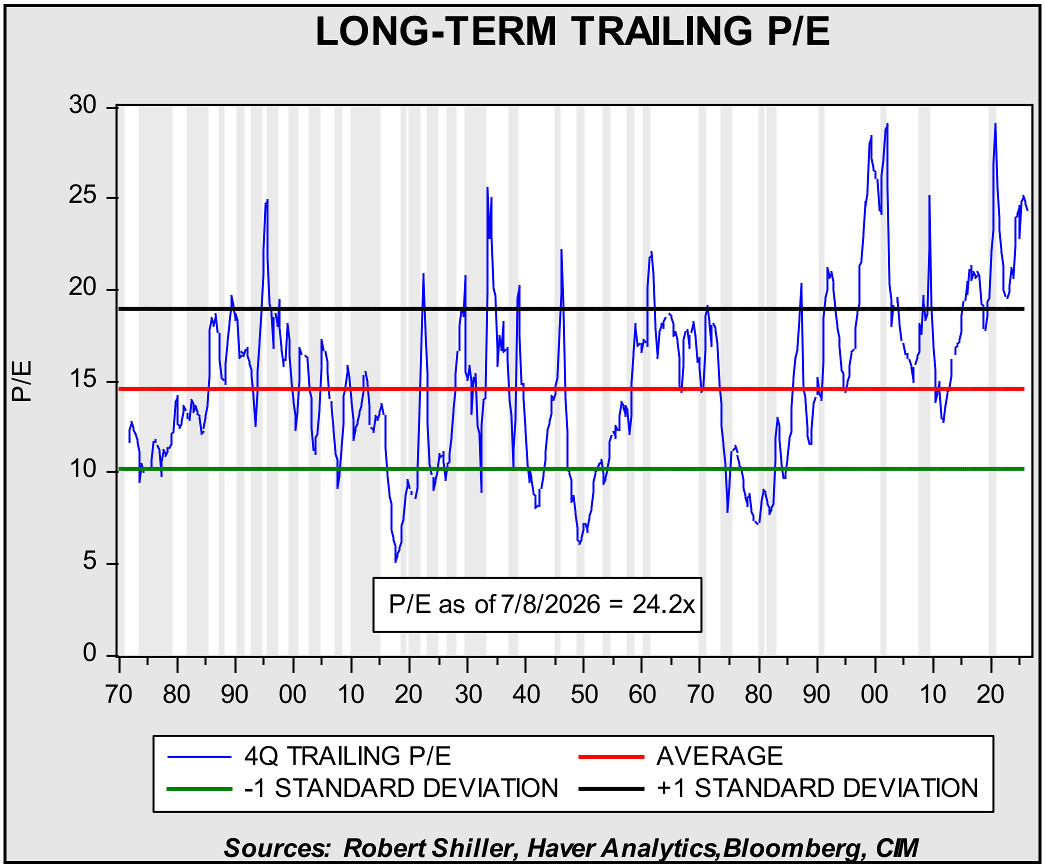


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.

[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.