Daily Comment

Confluence INVESTMENT MANAGEMENT

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: July 15, 2026 — 9:30 AM ET] Global equity markets are mixed 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 3.1%. Chinese markets were lower with the Shanghai Composite down 0.3% and the Shenzhen Composite down 0.7%. US equity index futures are signaling a higher open.

With 25 companies having reported so far, S&P 500 earnings for Q2 are running at $82.40 per share, compared to estimates of $82.54, which is up 23.3% from Q2 2025. Of the companies that have reported thus far, 88.0% exceeded expectations while 0% 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.

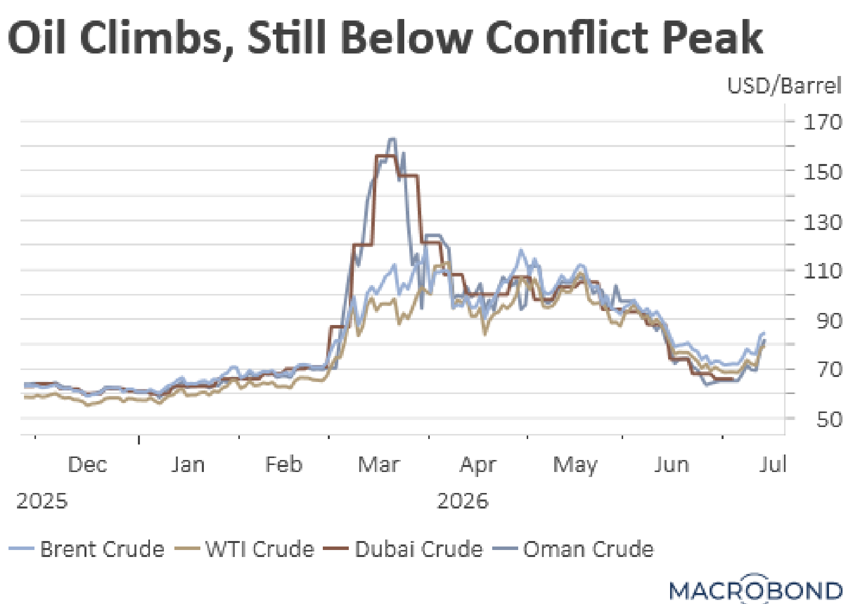
Bi-Weekly Geopolitical Report	Asset Allocation Bi-Weekly	Asset Allocation Quarterly	Of Note
"Dragon Boat Diplomacy" (7/13/26) + podcast	"The Evolution of the Tech Life Cyle" (6/29/26) + podcast	Q2 2026 Report Q2 2026 Rebalance Presentation	Confluence Mailbag Podcast VE Insights: A Narrow Market

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* opens with our key takeaways on the latest escalation in the US-Iran conflict. We then turn to Fed Chair Warsh's congressional testimony and its implications for inflation expectations. Next, we briefly discuss the State Department's new grant initiative in Europe, IBM's sharp sell-off on Tuesday, and the meeting between Supreme Court justices and lawmakers. As always, we close with a review of recent domestic and international economic data.

Iran Escalation: The ceasefire talks now appear effectively dead, as President Trump has opted to intensify strikes on Iran in an effort to reassert control over the strait. On Wednesday, he ordered an increase in airstrikes targeting Iranian assets until attacks on commercial shipping cease. The strikes follow a US decision to reinstate its naval blockade in order to ensure safe passage through the strait after repeated Iranian attacks. Oil prices have risen but remain below their prior highs during the conflict, offering some reassurance to markets.

- Although the tempo of strikes has increased, it remains below the peak levels seen before the ceasefire, pointing to a deliberate, gradual escalation with scope to surpass the earlier bombing campaign. The president has also signaled that he may begin targeting Iran's power infrastructure as soon as next week if Tehran does not return to the negotiating table, raising the risk that the conflict may become even more intense than it was prior to the ceasefire.
- In response, Iran has threatened to halt all Middle Eastern exports transiting the strait. It has also launched attacks on targets in Kuwait, Jordan, and Bahrain, all of which host US airbases. These retaliatory moves are intended to signal Tehran's ability to influence control over the Strait of Hormuz. While Iran lacks the military capacity to fully seal off the waterway, its capability to target commercial vessels has made passage increasingly hazardous for any cargo attempting to move through the strait.

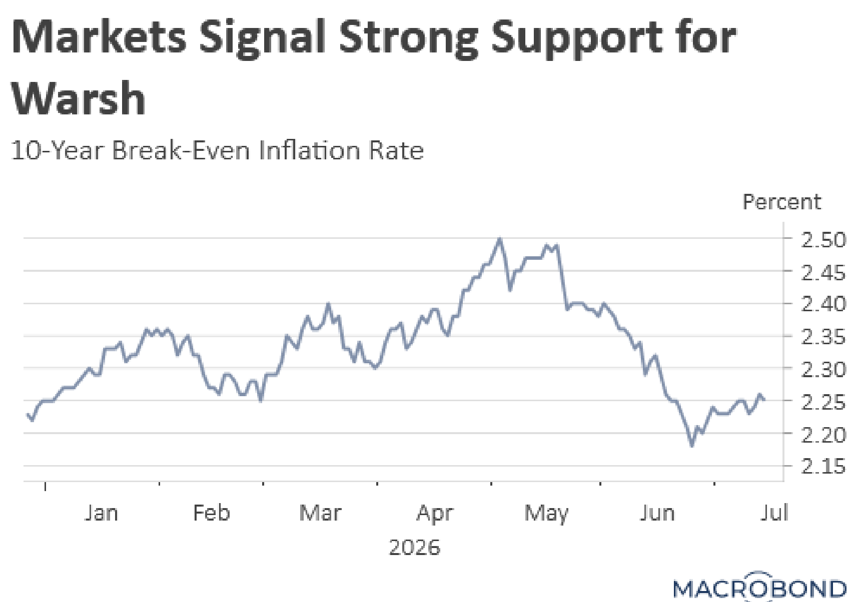


- Oil markets have reacted to the latest escalation with prices drifting higher. Benchmarks around the world have moved above $80 per barrel as markets price in heightened geopolitical risk. Even so, the move has been relatively contained, in part because exporters are increasingly using routes that bypass the strait. Additionally, China has cut its crude purchases and drawn down some inventories, adding further relief on prices.
- The latest escalation is unlikely to generate the same degree of disruption seen at the outset of the conflict. As a result, we remain cautiously optimistic that equities can continue to advance even as tensions rise in the Middle East, provided the conflict stays relatively contained. That said, in periods of elevated uncertainty, maintaining some

exposure to lower-risk assets can be beneficial, helping to cushion portfolios against rising volatility.

Warsh Speaks: Federal Reserve Chair Kevin Warsh testified before Congress for the first time since assuming leadership of the central bank, using the appearance to address concerns about his commitment to returning inflation to the Fed's 2% target. His remarks came amid renewed inflation risks tied to the escalating conflict in the Middle East, which has driven oil prices higher, and ongoing questions about the central bank's independence as the administration continues to assert its preference for lower interest rates.

- Chair Warsh was unequivocal in his testimony before Congress that the Federal Reserve remains committed to returning inflation to its 2% target. He emphasized that inflation control is ultimately the Fed's responsibility, regardless of external factors beyond its direct control. Warsh also underscored that the central bank retains the necessary tools to restrain inflation, including adjustments to interest rates and management of its balance sheet.
- Warsh also addressed the latest CPI report, which came in significantly softer than expected. According to the Bureau of Labor Statistics, headline inflation declined 0.4% month-over-month, marking its first drop since 2020 and well below the expected 0.1% decline. Core CPI was also weaker than anticipated, coming in flat relative to the prior month versus expectations of a 0.2% increase. Despite the encouraging data, Warsh emphasized that he remains unsatisfied, noting that inflation is still above the Fed's 2% target.



- Since taking office, Warsh appears to be in a market honeymoon phase. He has reassured investors of his commitment to tackling inflation, and that credibility is beginning to shape expectations. The 10-year breakeven inflation rate has declined from roughly 2.5%

to around 2.25%. While still above the Fed's target, the move suggests markets have become more confident that inflation will be coming down over the long-term — even amid renewed hostilities between the United States and Iran.

- While we remain optimistic that Warsh can help restore credibility, given his reputation and emphasis on price stability, the real test will be how he responds if the data begins to move against him. A key area to watch is his focus on balance sheet management, which is emerging as a monetarist-leaning way to tighten policy without further rate hikes. Any meaningful shift in this direction is likely to occur only after his task force on the Federal Reserve's balance sheet completes its review.

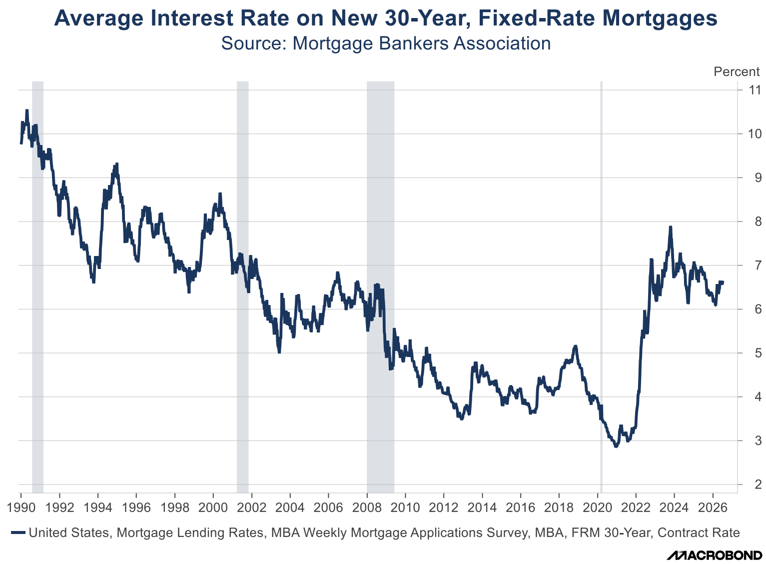
US Outreach: The White House is seeking to exert greater influence over European politics. The State Department is preparing to offer up to $3 million in grants to European organizations that align with its preferred political agenda. These funds are intended to support nongovernmental organizations, civil society groups, and educational institutions that promote US-backed values, with political parties explicitly excluded. Even so, the initiative effectively gives Washington a stronger voice in Europe's political debate.

Tech Concerns? IBM suffered its largest single-day share price decline since 1972 after issuing its latest earnings guidance. The company warned that sales may come under pressure as more clients shift away from software purchases and toward hardware-focused spending. Management's outlook reflects a broader pattern in which traditional software providers are seeing demand disrupted by the AI investment cycle. This reaction underscores how vulnerable many firms remain to abrupt shifts in the tech spending cycle.

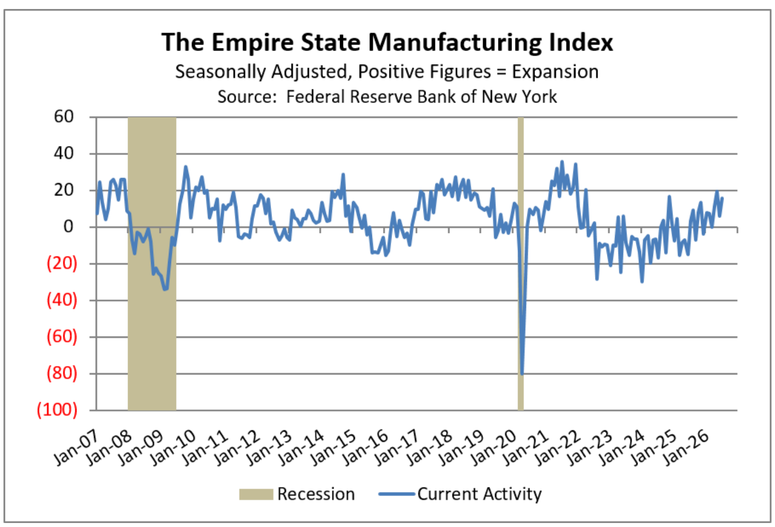
Supreme Court: Two Supreme Court justices, Elena Kagan and Amy Coney Barrett, testified before Congress on enforcement of the Court's new ethics code. The hearing is part of a broader effort to consider creating an independent body to review ethics complaints against sitting justices. Both expressed general openness to an ethics review mechanism but differed over how such a body should be structured and how its members should be selected. The push for greater oversight reflects the growing political scrutiny the judges have faced following their rulings.

US Economic Releases

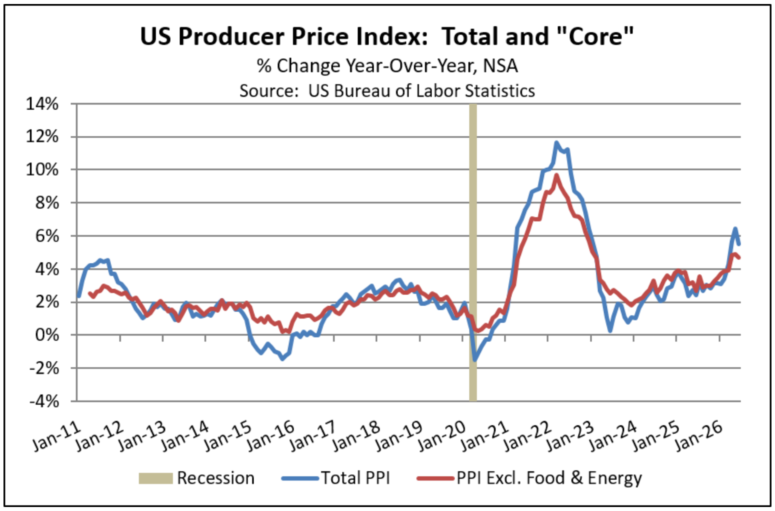
The Mortgage Bankers Association said ***mortgage applications*** in the week ended July 10 fell 2.7%, following their 2.2% decline in the previous week. Applications for home purchase mortgages declined 7.3%, after a drop of 0.6% in the prior week. Applications for refinancing mortgages rose 3.5%, but that was insufficient to offset their 4.1% decline the week before. The average interest rate on a 30-year, fixed-rate mortgage rose 7 basis points to 6.65%. The chart below shows how mortgage rates have changed over time.



Separately, the New York FRB said its July Empire State Manufacturing Index increased to a seasonally adjusted 15.6, exceeding the expected level of 9.2 and improving markedly from the June reading of 5.7. This index is designed so that positive readings point to expanding factory activity in New York state. At its current level, the index suggests New York manufacturing is now growing briskly again. The chart below shows how the index has fluctuated since just before the Great Financial Crisis.



Finally, the June ***producer price index (PPI)*** fell by a seasonally adjusted 0.3%, contradicting expectations that it would be unchanged after rising a revised 0.6% in May. Of course, much of the reason for the decline last month was the retreat in energy prices because of the ceasefire in the Iran war. Excluding the volatile food and energy components, the June ***"core" PPI*** rose 0.2%, versus an anticipated rise of 0.3% and a revised May increase of 0.1%. The overall PPI in June was up 5.5% from the same month one year earlier, while the core PPI was up 4.7%. The chart below shows the annual 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		
	No economic releases for the rest of today	
Federal Reserve		
EST	**Speaker or Event**	**District or Position**
8:45	John Williams Delivers Keynote Remarks	President of the Federal Reserve Bank of New York
10:00	Kevin Warsh Testifies Before the Senate Banking Committee	Chairman of the Board of Governors
13:00	Lisa Cook Speaks on the Economic Outlook	Members of the Board of Governors
14:00	U.S. Federal Reserve Releases Beige Book	Federal Reserve Board
18:30	Alberto Musalem Delivers Welcoming Remarks	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	Tertiary Industry Index	m/m	May	1.1%	0.8%	0.4%	***	Equity bullish, bond bearish
	Core Machine Orders	y/y	May	-1.9%	15.6%	12.3%	**	Equity bullish, bond bearish
South Korea	Export Price Index	y/y	Jun	48.9%	47.1%		*	Equity and bond neutral
	Import Price Index	y/y	Jun	20.6%	25.4%		*	Equity and bond neutral
	Unemployment Rate	m/m	Jun	2.7%	2.8%	2.8%	***	Equity and bond neutral
China	GDP	y/y	2Q	4.3%	5.0%	4.5%	***	Equity and bond neutral
	Retail Sales	y/y	Jun	1.0%	-0.6%	-0.1%	**	Equity bullish, bond bearish
	Industrial Production	y/y	Jun	5.3%	4.5%	4.6%	***	Equity bullish, bond bearish
	Fixed Assets Ex Rural YTD	y/y	Jun	-5.7%	-4.1%	-5.0%	**	Equity bearish, bond bullish
EUROPE								
Eurozone	Industrial Production WDA	y/y	May	-1.2%	0.3%	0.2%	**	Equity bullish, bond bearish
AMERICAS								
Mexico	International Reserves Weekly	w/w	10-Jul	$255322m	$255496m		*	Equity and bond neutral
Brazil	IBGE Services Volume NSA	y/y	May	0.4%	2.0%	0.5%	*	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)	370	370	0	Up
U.S. Sibor/OIS spread (bps)	375	374	1	Up
U.S. Libor/OIS spread (bps)	372	372	0	Up
10-yr T-note (%)	4.61	4.59	0.02	Up
Euribor/OIS spread (bps)	245	243	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	$85.29	$84.73	0.66%	
WTI	$79.83	$79.34	0.62%	
Natural Gas	$2.90	$2.90	-0.24%	
Crack Spread	$67.56	$66.79	1.15%	
12-mo strip crack	$47.16	$46.56	1.28%	
Ethanol rack	$2.08	$2.09	-0.01%	
Metals				
Gold	$4,032.20	$4,052.85	-0.51%	
Silver	$58.02	$58.70	-1.17%	
Copper Contract	$636.30	$637.80	-0.24%	
Grains				
Corn contract	$465.25	$460.50	1.03%	
Wheat contract	$664.25	$645.00	2.98%	
Soybeans contract	$1,195.50	$1,191.00	0.38%	
Shipping				
Baltic Dry Freight	2,980	2,960	20	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		-1.82		
Gasoline (mb)		-2.00		
Distillates (mb)		-2.00		
Refinery run rates (%)		-0.20%		
Natural gas (bcf)		58		

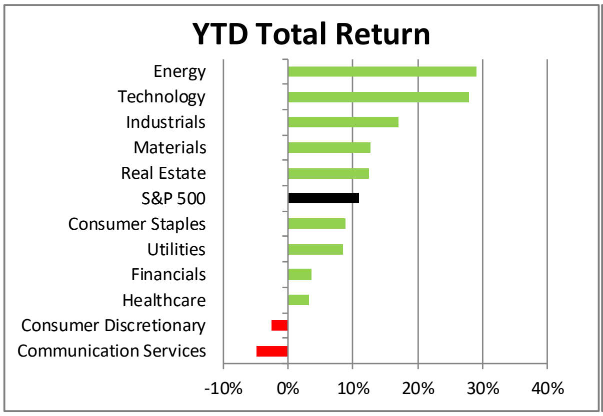
Weather

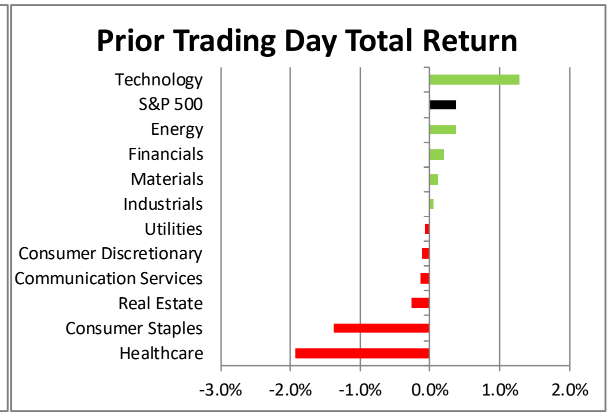
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in the Far West, the southern Great Plains, and the Deep South, with cooler-than-normal temps in the Midwest and the Northeast. The outlook calls for wetter-than-normal conditions throughout the Far West and along the entire East Coast, with dry conditions in southern Texas.

An area of low pressure is currently developing over northern Florida and along the Georgia and South Carolina coasts. However, it is assessed to have only a 20% chance of cyclonic formation within the next 48 hours.

Data Section

US Equity Markets – (as of 7/14/2026 close)

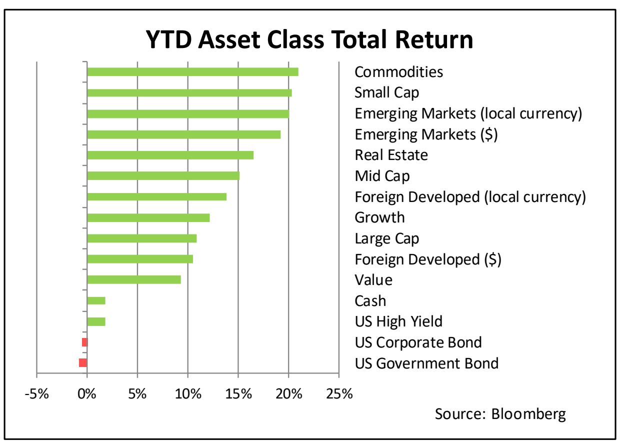




(Source: Bloomberg)

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 7/14/2026 close)

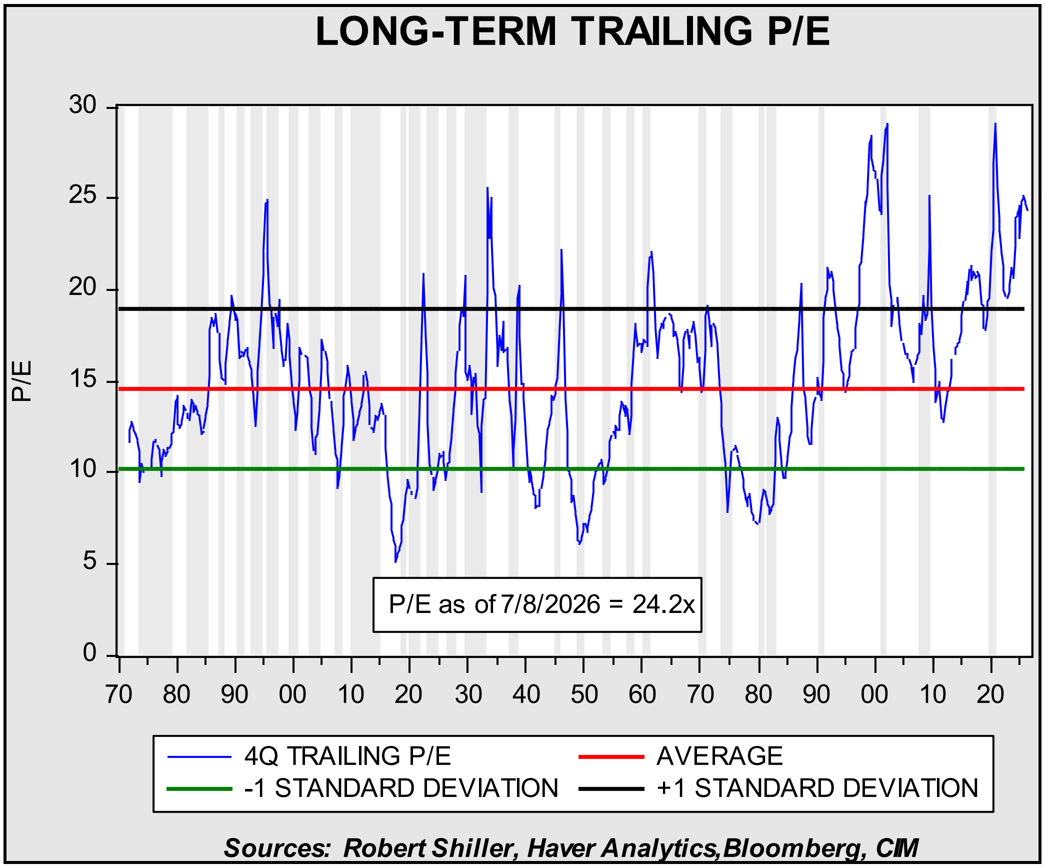


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.