Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: July 16, 2026 — 9:30 AM ET] Global equity markets are lower 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 down 2.1%. Chinese markets were lower with the Shanghai Composite down 1.6% and the Shenzhen Composite down 1.5%. US equity index futures are signaling a lower open.

With 36 companies having reported so far, S&P 500 earnings for Q2 are running at $82.60 per share, compared to estimates of $82.54, which is up 23.3% from Q2 2025. Of the companies that have reported thus far, 88.9% exceeded expectations while none have fallen short.

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* begins with an assessment of the latest developments in Iran. We then turn to AI, where early signs of public resistance to data center expansion are beginning to emerge. Next, we examine Microsoft's strategy to reinforce its competitive positioning against AI-native firms, the fading post-IPO momentum in SpaceX shares, and the growing controversy surrounding President Volodymyr Zelensky's cabinet. As always, we conclude with a review of recent domestic and international economic data.

All Options Open? The White House appears to be bracing for a prolonged conflict. As the two sides continue to jostle over the Strait of Hormuz, President Trump has indicated that he is not yet prepared to engage in direct negotiations with Iran. He acknowledged that oil prices may remain elevated in the near term, given ongoing military objectives. While the standoff has fueled anxiety over the adequacy of existing crude stocks, there are signs that the US has not entirely closed the door on a diplomatic resolution.

- US strikes against Iran have now entered their fifth day, with the strait emerging as the central flashpoint in the conflict. While there has been some progress toward reopening the waterway, conditions remain highly contested. US officials report that naval support has enabled 10 vessels to transit the strait, though disruptions persist. Seven-day average oil flows have declined from 4.6 million to 3.9 million barrels per day.
- Efforts to keep the strait open have heightened concerns that global oil supply could tighten if the conflict persists. According to the IEA, member countries have already released roughly three-quarters of the 400 million barrels of emergency reserves pledged in March, raising the prospect that these buffers could be largely depleted within weeks. Absent additional supply, the drawdown risks amplifying existing pressures in an already constrained market.
- As the conflict drags on, the White House remains determined to keep all strategic options on the table. The Trump administration has signaled that, at least in theory, it could directly intervene in the energy futures markets to help curb surging oil prices. Meanwhile, the possibility of deploying ground troops has not been completely ruled out, though Vice President JD Vance has made it clear that a ground operation to change Iran's government would not succeed without the genuine support of the Iranian people.
- On a positive note, even as fighting persists over the strait, both sides remain committed to the memorandum of understanding. Because the conflict appears strictly localized to this shipping corridor, there is hope that one side will eventually make concessions to break the deadlock. However, while a prolonged conflict will likely trigger near-term oil market volatility, we are confident that the US will intervene to keep prices in check.

AI Pushback: As more AI companies prepare to go public, early signs suggest they may face mounting headwinds. This week, New York became the first state to implement a data center moratorium, underscoring growing political resistance. The move has drawn criticism from the White House, with the president explaining that these data centers have more pros than cons. These tensions are emerging as the United States takes a more active role in integrating AI into the global economy.

- On Tuesday, New York implemented a one-year moratorium on data centers with power usage of 50 megawatts or more. The decision follows rising opposition from local communities over the strain these facilities could place on energy and water resources. The governor has also backed legislation to repeal tax exemptions for data centers. While this marks the first successful implementation of such restrictions, other states are considering similar measures.
- Following the signing of the bill, the president expressed dismay over the legislation and called for it to be reversed. In a Truth Social post, he described the decision as a mistake, warning that failure to change course could cost the state jobs and investment as activity shifts elsewhere. He also argued that slowing development could undermine the United States' ability to compete with China in the AI race.

- Resistance to data centers has rapidly emerged as a volatile political flashpoint, driven by deep community distrust of these massive projects. A Gallup poll from March reveals that seven out of 10 Americans oppose local data center construction, with nearly half of all voters being strongly opposed. Consequently, this tension is poised to heavily influence this year's midterm elections and will likely remain a defining challenge for candidates through 2028.
- While we do not expect this political disapproval to derail AI momentum in the near term, intermediate-term risks are starting to crystallize. Should localized opposition delay additional data center projects, the earnings outlook for infrastructure beneficiaries could face mounting pressure. Although the broader equity backdrop remains constructive, we anticipate elevated volatility within the technology sector. In this climate, a well-diversified portfolio is the best option.

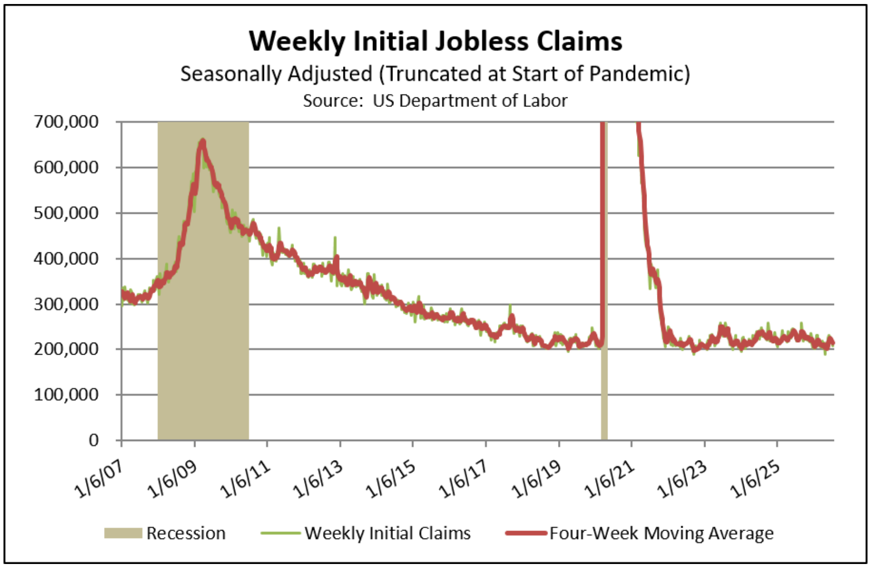
Microsoft Fights Back? Microsoft's sales teams are increasingly positioning the company to compete more directly with AI-native firms such as OpenAI and Anthropic. Their pitch emphasizes that, despite the growing drive behind specialized AI providers, Microsoft retains key advantages in cost efficiency, enterprise-grade security, and the breadth of its integrated product suite. This effort comes as software companies more broadly seek to demonstrate continued relevance, in light of rapidly advancing AI tools.

SpaceX Slide: Shares of SpaceX fell below their $135 IPO price on Wednesday as initial enthusiasm continued to fade. The stock, which once traded as high as $225, has declined roughly 40% from its peak. While such drawdowns are not uncommon for newly listed companies, the weak post-IPO performance could cast a shadow over anticipated offerings from Anthropic and OpenAI later this year.

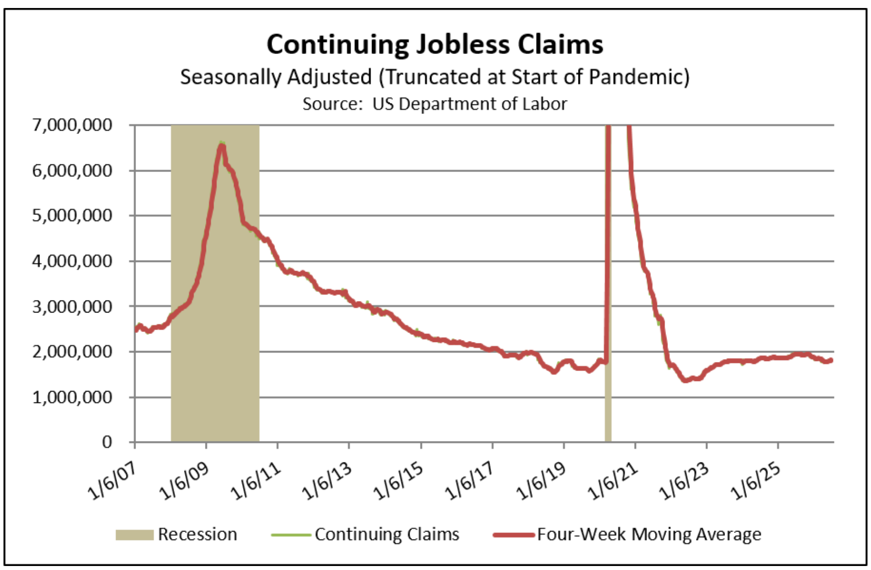
Zelensky Under Fire: President Volodymyr Zelensky is facing public backlash following the dismissal of his defense minister. The move appears to be part of a broader government reshuffle, reflecting a view that the war is entering a new phase. However, critics argue the decision may be tied to resistance against entrenched interests seeking to benefit from Ukraine's expanding defense budget. The rare emergence of political friction comes at a sensitive time, as Ukraine has recently regained traction on the battlefield and risks undermining that progress.

US Economic Releases

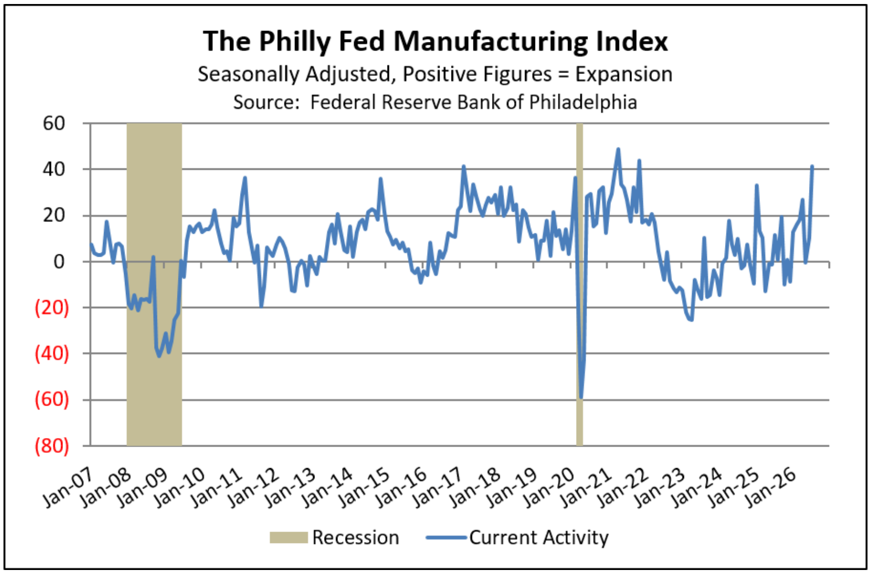
In the week ended July 11, ***initial claims for unemployment benefits*** fell to a seasonally adjusted 208,000, below both the expected level of 217,000 and the prior week's revised level of 216,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, fell to 214,250. The chart below shows how initial jobless claims have fluctuated since just before the Great Financial Crisis. The chart is truncated through much of the pandemic period because of the extremely high level of claims at that time.



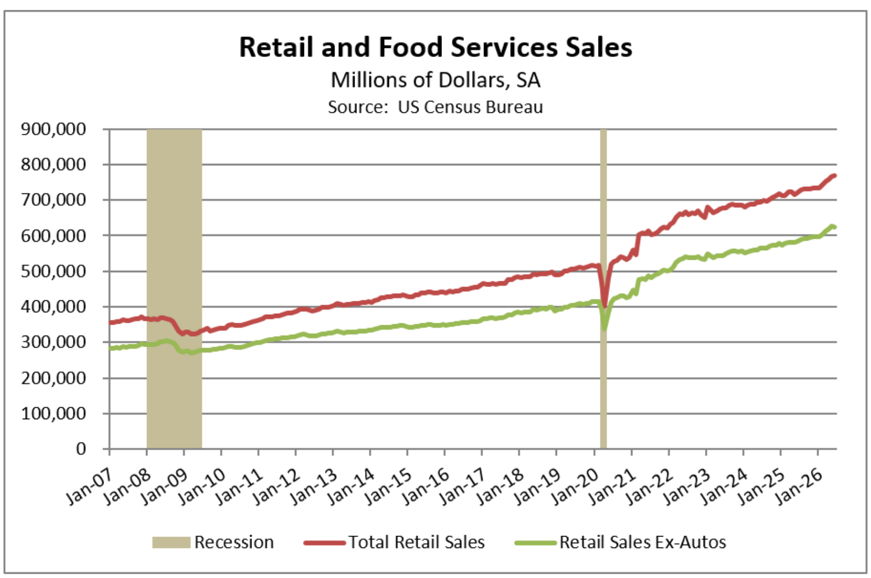
In the week ended July 4, the number of ***continuing claims for unemployment benefits*** (people continuing to draw benefits) fell to a seasonally adjusted 1.805 million, below both the anticipated reading of 1.818 million and the previous week's revised reading of 1.821 million. The four-week moving average of continuing claims nevertheless rose to a seasonally adjusted 1.811 million. 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.



Separately, the Philadelphia FRB said its July ***Philly Fed Index*** rose to a seasonally adjusted 41.4, far outpacing the expected level of 12.5 and jumping dramatically from its June level of 10.3. The index, officially designated as the Philadelphia FRB Manufacturing Activity Index, is designed so that positive readings point to expanding factory activity in the mid-Atlantic region. At its current level, the index suggests mid-Atlantic manufacturing is again expanding smartly. The chart below shows how the index has fluctuated since just before the GFC.



In a final major report so far this morning, June ***retail sales*** rose by a seasonally adjusted 0.2%, matching expectations but decelerating sharply from the revised jump of 1.0% in May. Of course, overall retail sales are often driven by the volatile auto and auto parts sector, which makes up almost one-fifth of the total. June ***retail sales excluding autos and auto parts*** were down 0.2%, even worse than the anticipated decline of 0.1% but not enough to reverse their revised May increase of 1.0%. Overall retail sales and sales excluding autos and auto parts in June were up a strong 8.4% from the same month one year earlier. The chart below shows how retail sales have changed since just before the GFC.



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

Economic Releases						
EST	**Indicator**			**Expected**	**Prior**	**Rating**
10:00	NAHB Housing Market Index	m/m	Jul	35	35	*
10:00	Business Inventories	m/m	May	0.3%	0.5%	*
10:00	Pending Home Sales	m/m	Jul	-0.5%	3.8%	**
10:00	Pending Home Sales NSA	y/y	Jul	2.0%	2.1%	**
Federal Reserve						
EST	**Speaker or Event**	**District or Position**				
12:30	Lorie Logan Speaks on the Economy and Monetary Policy	President of the Federal Reserve Bank of Dallas				
13:25	Jeffrey Schmid Speech at Kansas City Fed Economic Forum	President of the Federal Reserve Bank of Kansas City				
19:00	Philip Jefferson Speaks on Economy and Monetary Policy	Vice-Chair 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	Japan Buying Foreign Bonds	w/w	10-Jul	¥1090.1b	-¥217.5b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	10-Jul	¥499.8b	-¥38.4b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	10-Jul	¥196.2b	¥824.5b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	10-Jul	¥745.6b	-¥21.3b		*	Equity and bond neutral
Australia	Consumer Inflation Expectation	m/m	Jul	4.7%	5.5%		*	Equity and bond neutral
EUROPE								
Eurozone	Trade Balance SA	m/m	May	-5.0b	0.8b	2.8b	**	Equity bearish, bond bullish
Italy	CPI, EU Harmonized	y/y	Jun F	3.0%	3.1%	3.1%	***	Equity and bond neutral
	CPI NIC Including Tobacco	y/y	Jun F	3.0%	3.0%	3.0%	**	Equity and bond neutral
	Trade Balance Total	m/m	May	4793m	4421m		*	Equity and bond neutral
UK	GDP	m/m	May	0.1%	-0.1%	0.0%	**	Equity and bond neutral
	Industrial Production	y/y	May	1.0%	0.0%	1.3%	***	Equity and bond neutral
	Manufacturing Production	y/y	Mar	2.3%	1.0%	2.0%	**	Equity and bond neutral
	Construction Output	y/y	May	-1.8	-1.6%	-1.2%	*	Equity and bond neutral
	Index of Services 3M/3M	m/m	May	0.7	0.9%	0.6	**	Equity and bond neutral
	Visible Trade Balance GBP/Mn	m/m	May	-£18660m	-£24583m	-£23100m	**	Equity and bond neutral
	Trade Balance GBP/Mn	m/m	May	-£1044m	-£7053m	-£5500m	**	Equity and bond neutral
AMERICAS								
Canada	Manufacturing Sales	m/m	May	1.3%	3.9%	1.1%	**	Equity and bond neutral
	Wholesale Sales ex Petroleum	m/m	May	0.0%	1.4%	-0.70	**	Equity and bond neutral
Brazil	Retail Sales	y/y	May	0.4%	1.0%	1.2%	***	Equity bearish, bond bullish

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)	368	370	-2	Up
U.S. Sibor/OIS spread (bps)	373	372	1	Up
U.S. Libor/OIS spread (bps)	371	371	0	Up
10-yr T-note (%)	4.57	4.55	0.02	Up
Euribor/OIS spread (bps)	249	245	4	Up
Currencies	**3 Mo**			
Dollar	Down	US		Up
Euro	Up	Euro		Down
Yen	Up	Japan		Down
Pound	Up	UK		Down
Franc	Up	Switzerland		Down
Central Bank Action	**Actual**	**Prior**	**Expected**	
Bank of Korea Base Rate	2.75%	2.50%	2.75%	On Forecast
Bank of Canada Rate Decision	2.25%	2.25%	2.25%	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	$84.52	$84.95	-0.51%	
WTI	$79.36	$79.60	-0.30%	
Natural Gas	$2.91	$2.92	-0.44%	
Crack Spread	$69.14	$67.44	2.51%	
12-mo strip crack	$47.34	$46.79	1.19%	
Ethanol rack	$2.08	$2.08	0.00%	
Metals				
Gold	$4,031.43	$4,060.55	-0.72%	
Silver	$56.69	$57.80	-1.93%	
Copper Contract	$637.60	$634.10	0.55%	
Grains				
Corn contract	$470.75	$469.50	0.27%	
Wheat contract	$683.75	$677.50	0.92%	
Soybeans contract	$1,204.00	$1,201.75	0.19%	
Shipping				
Baltic Dry Freight	2,929	2,980	-51	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	-1.69	-2.41	0.72	
Gasoline (mb)	-1.53	-2.00	0.47	
Distillates (mb)	4.56	-1.85	6.41	
Refinery run rates (%)	0.04%	-0.04%	0.08%	
Natural gas (bcf)		44		

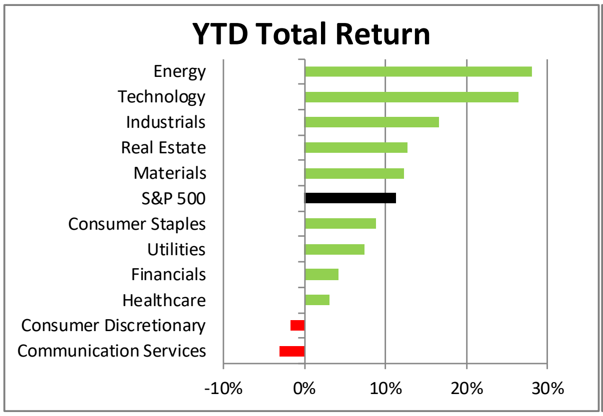
Weather

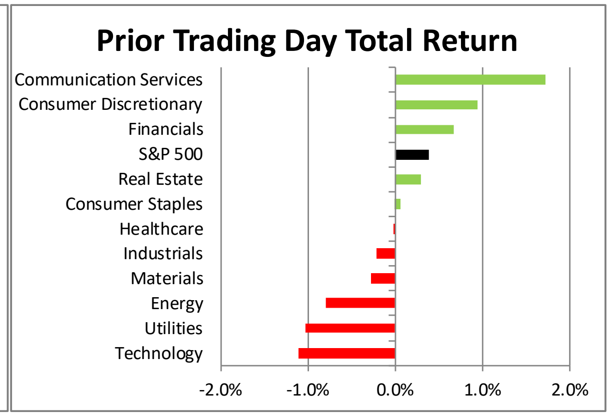
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in the Far West, the southern Great Plains, and the Deep South, with cooler-than-normal temps in the Midwest and the Northeast. The outlook calls for wetter-than-normal conditions throughout the Far West and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

An area of low pressure remains over northern Florida and along the Georgia and South Carolina coasts today, but it is assessed to have only a 20% chance of cyclonic formation within the next 48 hours. There is also a new atmospheric disturbance just off the western coast of Africa, but it is assessed to have only a 10% chance of cyclonic formation in the next 48 hours.

Data Section

US Equity Markets – (as of 7/15/2026 close)

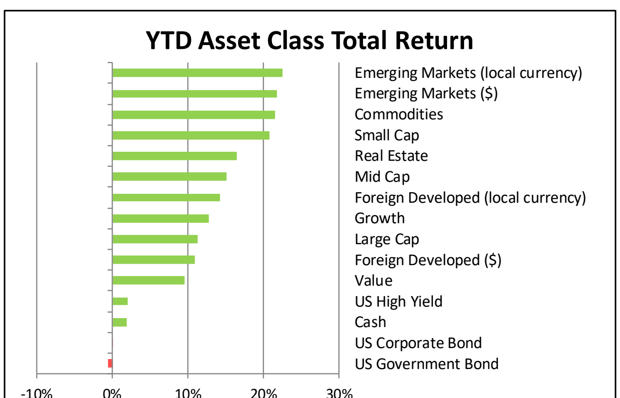




(Source: Bloomberg)

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 7/15/2026 close)



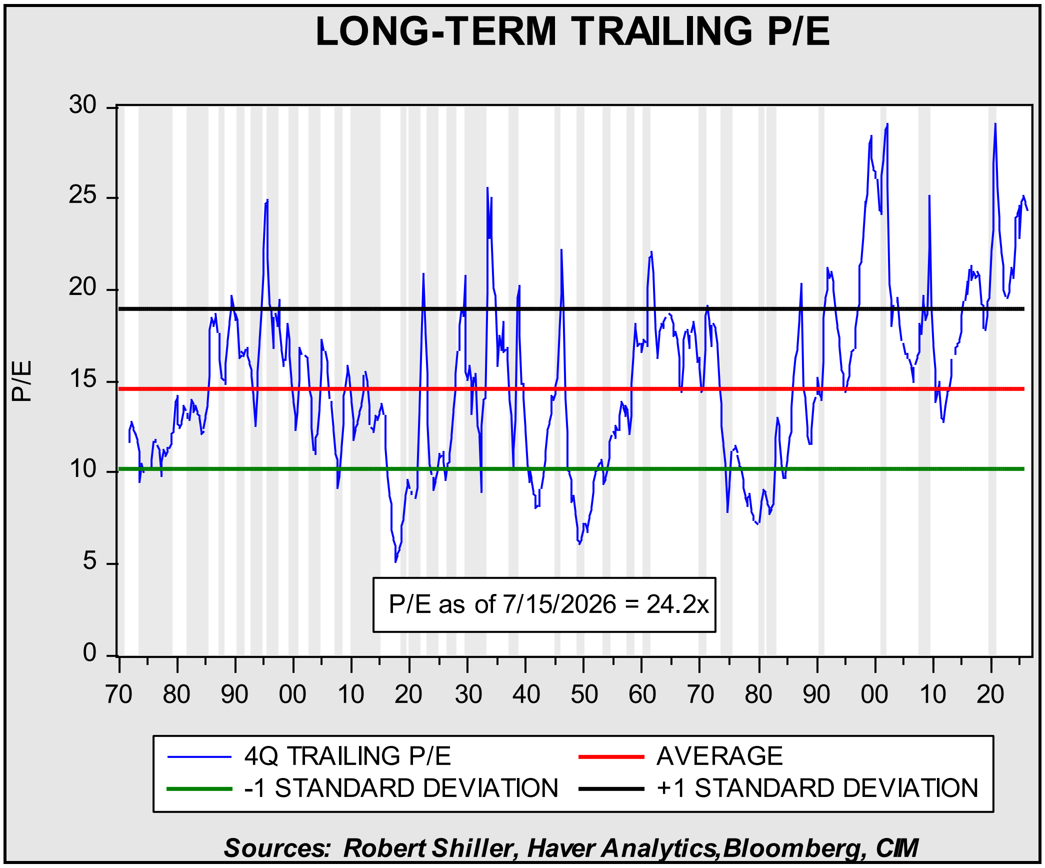
Source: Bloomberg

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

July 16, 2026



Based on our methodology,[1] the current P/E is 24.2x, relatively unchanged from the previous report. The increase in earnings was offset by 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.