Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: July 17, 2026 — 9:30 AM ET] Global equity markets are lower this morning. In Europe, the Euro Stoxx 50 is down 0.9% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 3.8%. Chinese markets were lower with the Shanghai Composite down 3.1% and the Shenzhen Composite down 5.3%. US equity index futures are signaling a lower open.

With 45 companies having reported so far, S&P 500 earnings for Q2 are running at $82.80 per share, compared to estimates of $82.54, which is up 23.3% from Q2 2025. Of the companies that have reported thus far, 91.1% 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.

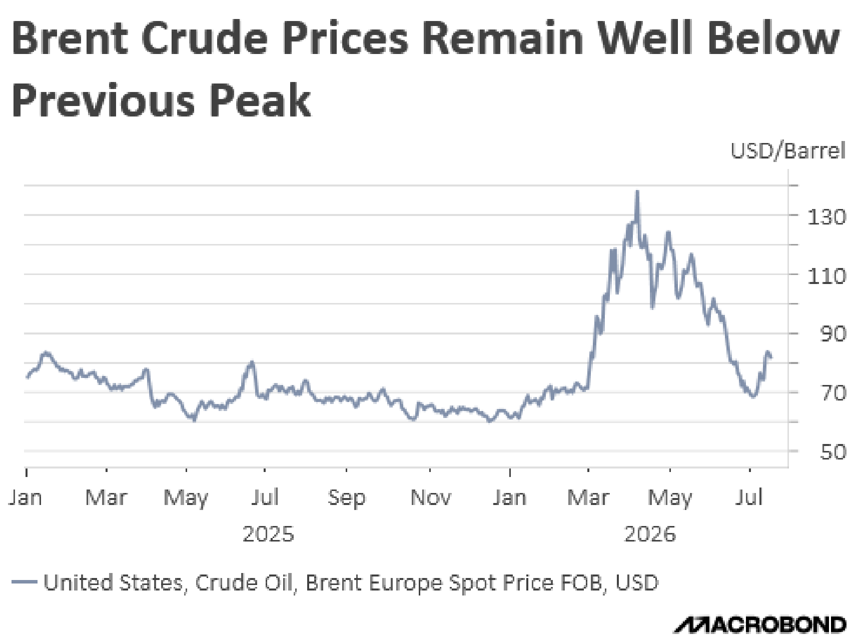
Bi-Weekly Geopolitical Report	Asset Allocation Bi-Weekly	Asset Allocation Quarterly	Of Note
"Dragon Boat Diplomacy" (7/13/26) + podcast	"The Evolution of the Tech Life Cyle" (6/29/26) + podcast	Q2 2026 Report Q2 2026 Rebalance Presentation	Confluence Mailbag Podcast VE Insights: A Narrow Market

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 escalation in the US-Iran conflict. We then turn to chipmakers, where there are signs that investors have grown hesitant to support capacity expansion plans. Next, we examine Iraq's collaboration with an oil company to develop a route bypassing the Strait of Hormuz, China's push to become an AI powerhouse, and the president's election interference claims. As always, we conclude with a review of recent domestic and international economic data.

Escalation in Iran In another sign of escalating conflict, US forces have intensified their attacks on Iran. On Thursday, local news agencies reported that American forces have begun targeting airports, bridges, and railways as part of a broader effort to further degrade Iran's military capabilities. The strikes represent a major escalation, signaling that Washington is following through on its plan to use aerial bombardment to cripple the country's infrastructure. The latest developments suggest the conflict could worsen heading into the weekend.

- The attacks appear to mark the president's follow-through on his threat to ramp up pressure on Iran, as he seeks a swift conclusion to the war. Earlier this week, the president warned that he would target the country's bridges and power plants unless Iranian leaders returned to the negotiating table. While the recent campaign has not yet escalated to the worst-case outcome, the president has hinted that his most significant move could be unveiled as soon as next week.
- The president's escalation appears to be fostering internal divisions within the White House, with competing factions emerging over the necessity of an aggressive approach. Vice President JD Vance used a three-hour appearance on Joe Rogan's podcast to question the administration's hawks regarding their strategic calculus, warning that an overly aggressive posture could replicate the Libya experience and precipitate a significant humanitarian crisis.



- Markets have so far shown little concern, with the muted response suggesting investors believe the conflict is contained and oil prices will remain stable despite heightened tensions. We expect this calm to persist as long as supply is not disrupted. However, any meaningful interruption to oil flows could quickly revive inflation fears and prompt markets to price in a higher likelihood of tighter monetary policy.
- It is too early to know whether the escalation will continue, but further action remains on the table. A diplomatic breakthrough with Iran could calm markets and ease regional tensions. Yet, the risk of an expanded US military campaign, even an outright invasion, cannot be dismissed. While that latter outcome faces significant political constraints

given the war's unpopularity, its likelihood increases over time. We expect this uncertainty may trigger portfolio rotations, as investors move to manage risk.

Chipmaker Worries: Growing signs of AI fatigue are emerging, as investors grow increasingly wary of elevated valuations. The latest market reaction followed Taiwan Semiconductor's earnings release. Despite a strong earnings beat, sentiment soured after the company announced plans to commit an additional $100 billion to its US expansion. While the move is officially tied to strong demand, lingering concerns persist over the role of pressure from the White House in shaping the decision.

- TSMC's second-quarter earnings failed to impress investors, despite the company's strong performance. In the second quarter, net profit surged 77% year-over-year, comfortably beating the 51% consensus forecast. This time, however, the spotlight shifted to the company's expanded Arizona capex, where the costly production ramp-up is projected to pressure gross margins, tempering enthusiasm for the earnings beat.
- The investor pushback appears to reflect concerns that the expanded Arizona capex may be influenced by geopolitical considerations alongside commercial demand. Earlier this year, the president threatened tariffs on countries that did not establish US production facilities. Following TSMC's announcement, Commerce Secretary Howard Lutnick welcomed the increased spending, characterizing it as an endorsement of the administration's broader trade and investment strategy.
- TSMC is not alone in facing pressure to expand US production. Just last week, Commerce Secretary Lutnick called out Samsung and SK Hynix — both major beneficiaries of the AI buildout — stating that they too need to bring more manufacturing to the United States. The move appears to be part of a broader US effort to persuade companies that American national security concerns must carry equal weight alongside their commitments to shareholders.
- Although the recent sell-off in chipmakers may prove temporary given the enduring nature of the AI buildout, questions regarding shareholder primacy are likely to emerge as these firms aggressively expand capacity. Consequently, investors may begin seeking returns outside the technology sector to diversify their holdings. We continue to believe a well-balanced portfolio is an excellent strategy for those seeking to mitigate outsized tech exposure.

Hormuz Alternative: Chevron and the Iraqi government are jointly advancing a pipeline project designed to provide an alternative to the Strait of Hormuz. The plan calls for the restoration of two pipelines originally slated to traverse Syrian territory to the port of Baniyas. The project would enable Iraq to resume oil exports that have been constrained by the conflict. Before proceeding, however, Chevron will conduct a feasibility study, given that substantial segments of the route traverse regions with active insurgency risks.

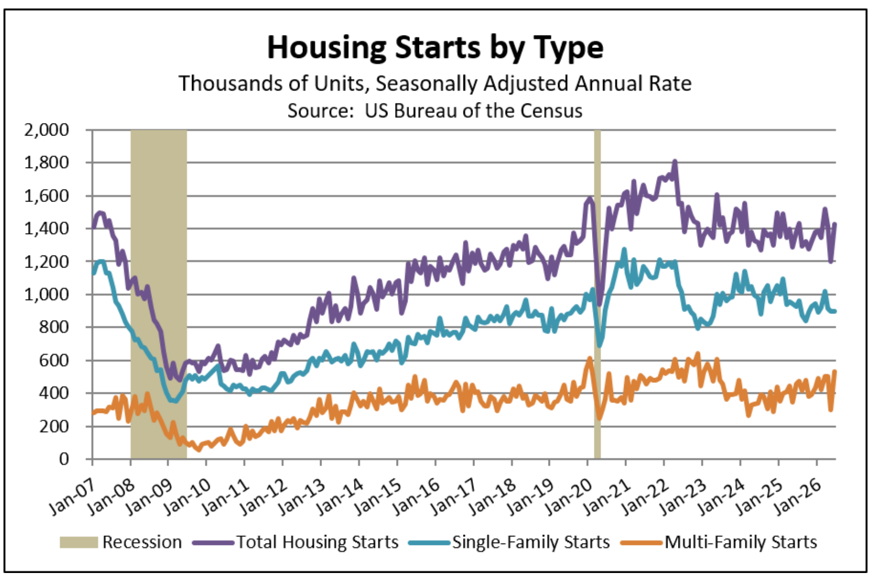
China AI Power? Xi Jinping used his opening speech at the World Artificial Intelligence Conference to present China's open-source AI ecosystem as an emerging-market alternative to US-led models. He framed it as a way to ensure that developing economies have a voice in and can help shape the global trajectory of AI. The remarks fit into his broader effort to position

China as a standard-setter in AI and coincided with Chinese startup Moonshot releasing a model pitched as a rival to offerings from OpenAI and Anthropic.

Election Interference? President Donald Trump used a [prime-time address to accuse China of interfering in the 2020 US elections]() as he pushes Congress to pass his SAVE America Act. He dismissed prior US intelligence findings that no foreign actor altered votes in 2020, claiming evidence has been suppressed by the "deep state." His comments are likely to raise concerns about election security going into the midterm elections as well as possibly undoing the truce with China.

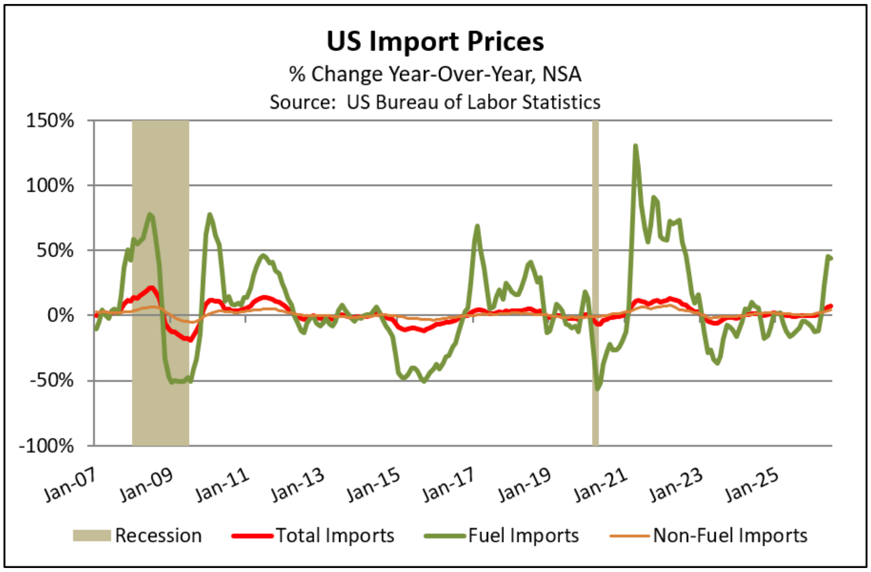
US Economic Releases

June ***housing starts*** rose to a seasonally adjusted, annualized rate of 1.427 million units, beating the expected rate of 1.310 million units and the revised May rate of 1.199 million units. The rate of housing starts in June was up 19.0% on the month, erasing the revised 15.2% decline in May. However, June ***housing permits*** fell to an annual rate of 1.367 million units, short of the anticipated rate of 1.403 million units and the May rate of 1.410 million units. Permits issued for new housing units in June were down 3.0% from the previous month. Compared with the same month one year earlier, housing starts in June were up 4.0%, while permits were down 0.2%. The chart below shows the change in new housing starts by type of property since just before the Great Financial Crisis.

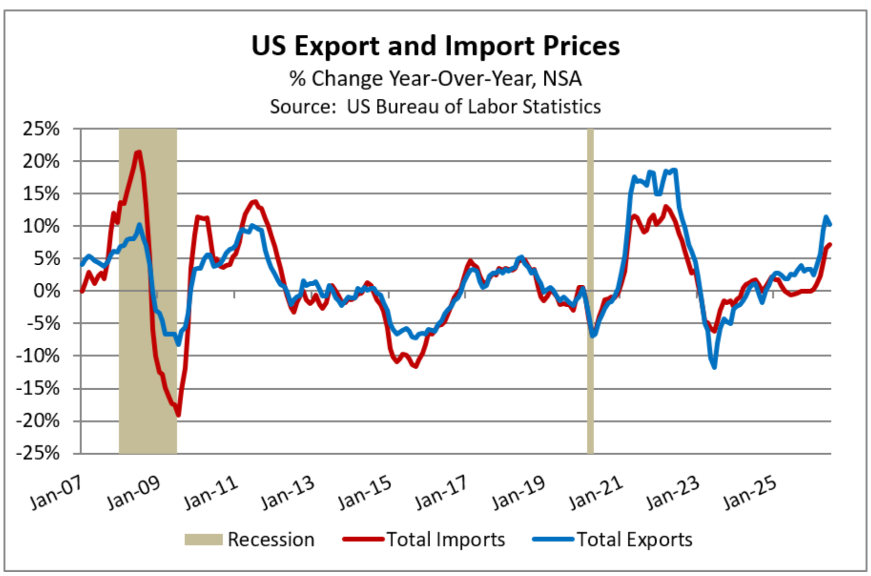


Separately, June ***import prices*** were up 0.3% from the previous month, contradicting expectations that they would fall 0.7% but still decelerating from their revised May gain of 1.7%. Of course, import prices are often driven by volatility in the petroleum fuels category. June ***import prices excluding fuels*** were up 0.5%, exceeding the expected increase of 0.4% but still decelerating from their revised May rise of 0.7%. Overall import prices in June were up 7.1%

year-over-year, while import prices excluding fuels were up 4.2%. The chart below shows the year-over-year change in import prices since just before the GFC.



Meanwhile, ***export prices*** in June were up 10.2% from one year earlier. Comparing the annual change in export prices versus import prices provides a sense of the US "terms of trade," or the relative advantage or disadvantage the country is facing because of trends in international trade prices. The chart below compares the year-over-year change in US export and import prices 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	U. of Michigan Consumer Sentiment	m/m	Jul P	51.0	49.5	***
10:00	U. of Michigan Current Conditions	m/m	Jul P	48.7	47.7	**
10:00	U. of Michigan Future Expectations	m/m	Jul P	51.9	507.0	**
10:00	U. of Michigan 1-Year Inflation Expectation	m/m	Jul P	4.4%	4.6%	*
10:00	U. of Michigan 5-10 Year Inflation Expectation	m/m	Jul P	3.3%	3.3%	*
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								
India	Foreign Exchange Reserves	w/w	10-Jul	$675.2b	$674.2b		*	Equity and bond neutral
EUROPE								
Eurozone	CPI	y/y	Jun F	2.8%	2.8%	2.8%	***	Equity and bond neutral
	Core CPI	y/y	Jun F	2.4%	2.4%	2.4%	**	Equity and bond neutral
Italy	Current Account Balance	m/m	May	594m	2548m		*	Equity and bond neutral
Russia	Gold and Forex Reserves	m/m	10-Jul	$7224b	$721.7b		***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	10-Jul	21.82t	51.59t		*	Equity and bond neutral
AMERICAS								
Canada	Housing Starts	m/m	Jun	239.0k	253.1k	255.0k	**	Equity and bond neutral
Brazil	FGV Inflation IGP-10	m/m	Jul	2.68%	2.15%	2.70%	**	Equity and bond neutral
	Econimic Activity	y/y	May	0.8%	1.1%		**	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)	369	370	-1	Up
U.S. Sibor/OIS spread (bps)	372	373	-1	Up
U.S. Libor/OIS spread (bps)	371	371	0	Up
10-yr T-note (%)	4.52	4.55	-0.03	Down
Euribor/OIS spread (bps)	249	249	0	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	$85.95	$84.23	2.04%	
WTI	$80.92	$78.95	2.50%	
Natural Gas	$2.87	$2.86	0.28%	
Crack Spread	$69.64	$69.16	0.70%	
12-mo strip crack	$47.93	$47.19	1.56%	
Ethanol rack	$2.07	$2.07	0.00%	
Metals				
Gold	$3,993.58	$3,976.50	0.43%	
Silver	$55.40	$55.52	-0.22%	
Copper Contract	$621.10	$634.20	-2.07%	
Grains				
Corn contract	$463.00	$464.00	-0.22%	
Wheat contract	$677.25	$674.75	0.37%	
Soybeans contract	$1,195.00	$1,195.00	0.00%	
Shipping				
Baltic Dry Freight	2,840	2,929	-89	
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)	41	39	2	

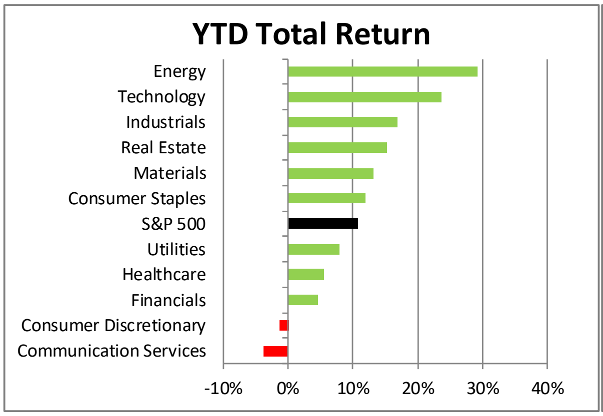
Weather

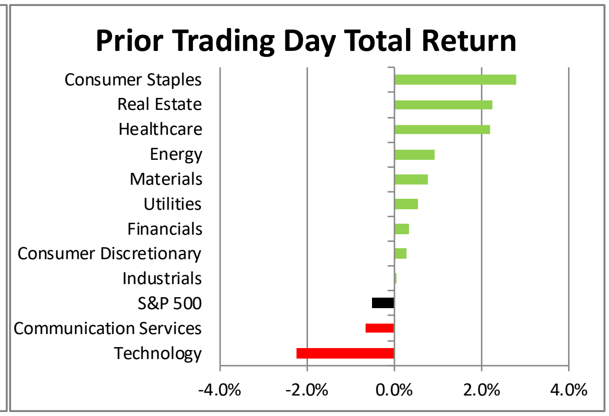
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in the Far West, the Great Plains, and the Deep South, with cooler-than-normal temps in the Northeast. The outlook calls for wetter-than-normal conditions throughout the Far West and along the entire East Coast,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

An area of low pressure continues to straddle northern Florida, but it is assessed to have only a 20% chance of cyclonic formation within the next seven days. There is also a new atmospheric disturbance off the western coast of Africa, but it is assessed to have only a 10% chance of cyclonic formation in the next seven days.

Data Section

US Equity Markets – (as of 7/16/2026 close)

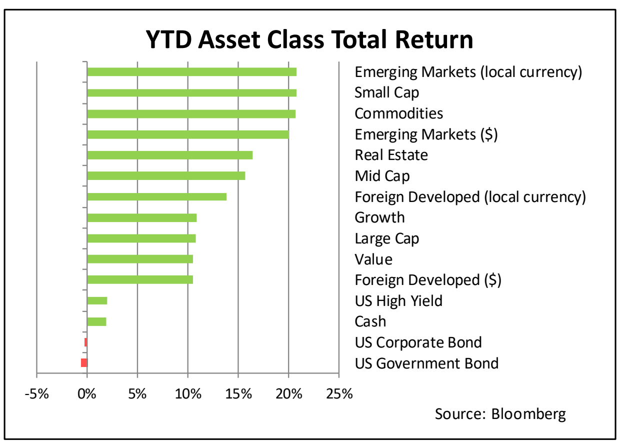




(Source: Bloomberg)

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 7/16/2026 close)

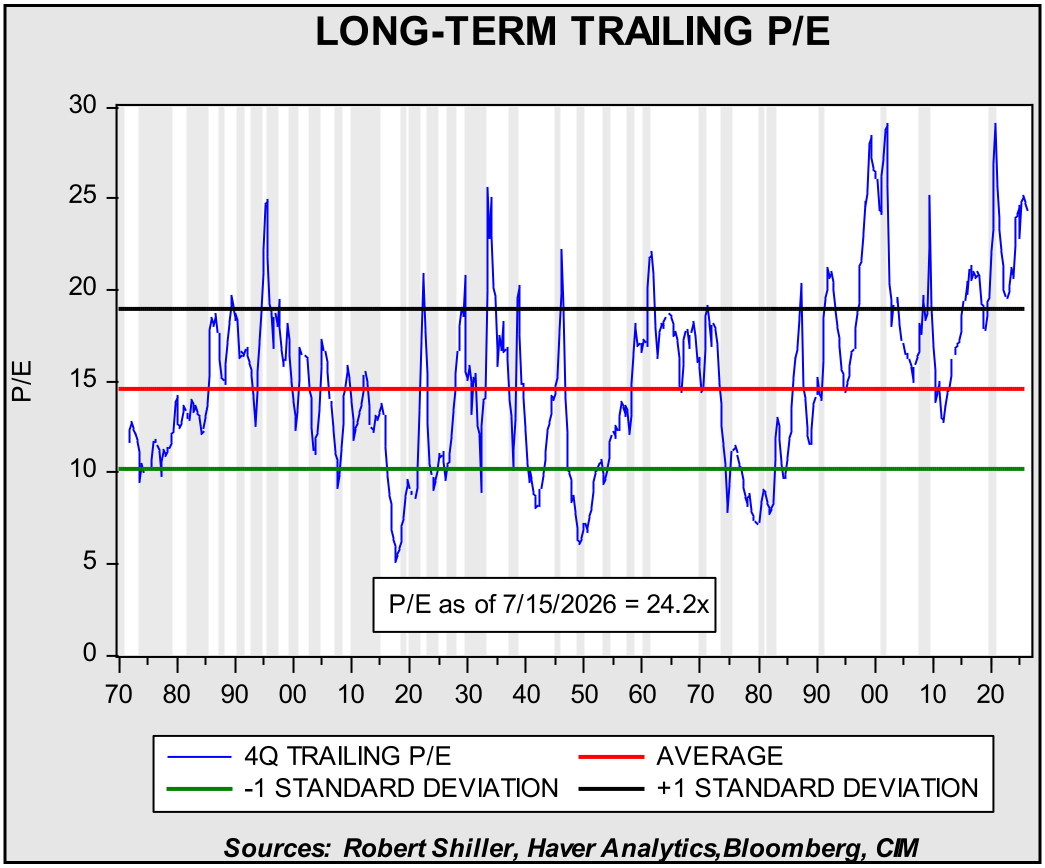


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 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.