Daily Comment

Confluence INVESTMENT MANAGEMENT

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: July 20, 2026 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 0.4% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.3%. Chinese markets were mixed with the Shanghai Composite up 0.9% and the Shenzhen Composite down 1.3%. US equity index futures are signaling a higher open.

With 49 companies having reported so far, S&P 500 earnings for Q2 are running at $83.00 per share, compared to estimates of $82.54, which is up 23.3% from Q2 2025. Of the companies that have reported thus far, 91.8% 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	**"In Warsh, We Trust?" (7/20/26) + 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 weekend events related to the war in Iran. We next review several other international and US developments that could affect the financial markets today, including the naming of a new prime minister in the United Kingdom and the latest Chinese threat to the US's cutting-edge artificial intelligence models.

United States-Israel-Iran War: The Iranian military continued to launch missile and drone strikes against US military bases throughout the Persian Gulf region over the weekend, killing at least two US troops at the Muwaffaq Salti Air Base in Jordan. The US had already been escalating its attacks on Iran again to short-circuit its effort to control the Strait of Hormuz, but we believe that because of President Trump's "Jacksonian" approach to foreign policy, he will likely respond to the US troop deaths by ratcheting up the attacks even further.

- The expectation of US retaliation caused global oil prices to surge over the weekend, with the price of near Brent futures jumping about 6% to more than $90.00 per barrel. Nevertheless, oil prices have retreated so far this morning. As of this writing, they are only slightly above where they were late last week.
- Separately, Iran's successful attacks have prompted questions about how the country is improving its technology so rapidly. US officials and military analysts say Iran's missiles now fly faster and are more maneuverable than before, suggesting the country is getting help from Russia and/or China. If so, the continued attacks could inflame US tensions with those countries as well.

Russia-Ukraine War: At a defense industry conference late last week, CIA Director Ratcliffe said the average Russian recruit arriving on the front lines in Ukraine survives only 20 to 30 minutes before being killed or wounded. The statistic shows how violent the Russia-Ukraine war has become and how efficiently Ukrainian drones and other military technologies can kill. It also helps explain why so many Western defense firms have begun seeking deals with Ukrainian companies to gain access to their technologies and processes.

Japan: Defense Minister Koizumi on Friday said in an interview that Japan must begin debating whether and how it might adopt nuclear weapons, especially considering the precedent of Russia's invasion of Ukraine and the way that France and Finland have responded by seeking a stronger nuclear deterrent. The statement underlines our expectations that the world could be on the cusp of a new nuclear arms race. Such a development would likely boost uranium prices.

China: Investment funds closely aligned with the government yesterday announced that they have bought approximately $8.9 billion worth of domestic stocks related to artificial intelligence, taking advantage of the sharp pullback in prices for the equities on Friday. The purchases by the "national team" suggest the government is deliberately trying to prop up the market. In response, the Chinese market has performed better today than many other Asian markets.

India: Thousands of youth-led "Cockroach" protesters demonstrated against India's weak educational system today in New Delhi as the national legislature opened a new session. In response, police tried to disperse them by firing tear gas and beating the protesters with sticks and plastic batons. Even though Prime Minister Modi's pro-business party recently did well in regional elections, the incident illustrates how the Cockroach movement appears to be gaining steam and could eventually threaten Modi's grip on power.

European Union: The EU this week begins enforcing new rules that largely ban companies from destroying unsold clothes or footwear. The ban was approved in 2024 to help curb overproduction, reduce waste, and keep valuable materials in circulation for longer. Under the new rules, large companies will be prohibited from incinerating or sending to landfills unsold clothes, accessories, and footwear, including products returned by customers.

- The ban is anticipated to be especially problematic for luxury goods makers, which try to support their products' high prices by strictly limiting what's available on the market.
- Now, rather than destroying unsold merchandise, luxury firms may be forced to hold it in inventory and offer discounts to get it sold — initiatives that could hurt their ability to maintain high prices.

United Kingdom: Former Manchester mayor Andy Burnham today becomes the UK's seventh prime minister in the last decade. Based on his left-wing reputation, Burnham is expected to push for an early package of spending hikes to boost economic growth. Over the longer term, he is also likely to push for measures to shift power out of London, give voters more control over public utilities, and increase spending on public housing.

US Artificial Intelligence Industry: Chinese AI firm Moonshot unveiled its new Kimi K3 open-source model on Friday, with third-party assessments suggesting it is more capable than the most cutting-edge US models, at a far lower price. The development has caused deep concern that the US models could soon become uncompetitive on both performance and price. In turn, that could prompt investors to rethink the value of the US's leading AI firms and other stocks dependent on the AI investment boom.

US Economic Releases

There were no economic releases prior to the publication of this report. 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	Leading Economic Index	m/m	Jun	-0.1%	0.1%	***
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								
New Zealand	Trade Balance NZD	m/m	Jun	23m	577m		**	Equity and bond neutral
	Exports NZD	m/m	Jun	809b	8.65b		**	Equity and bond neutral
	Imports NZD	m/m	Jun	8.07b	8.07b		**	Equity and bond neutral
EUROPE								
Eurozone	Construction Output	y/y	May	1.2%	0.2%		*	Equity and bond neutral
Germany	PPI	y/y	Jun	1.8%	2.2%	1.8%	**	Equity and bond neutral
UK	Rightmove House Prices	y/y	Jul	-0.40%	-0.50%		**	Equity and bond neutral
Switzerland	Domestic Sight Deposits CHF	w/w	17-Jul	443.0b	444.8b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	17-Jul	469.4b	471.3b		*	Equity and bond neutral
AMERICAS								
Canada	Int'l Securities Transactions	m/m	May	7.90b	46.92b		**	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	371	-1	Up
U.S. Sibor/OIS spread (bps)	374	374	0	Up
U.S. Libor/OIS spread (bps)	372	372	0	Up
10-yr T-note (%)	4.55	4.55	0.00	Down
Euribor/OIS spread (bps)	248	249	-1	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**	
PBOC 5-Year Loan Prime Rate	3.50%	3.50%	3.50%	On Forecast
PBOC 1-Year Loan Prime Rate	3.00%	3.00%	3.00%	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	$88.30	$88.10	0.23%	
WTI	$82.21	$82.49	-0.34%	
Natural Gas	$2.85	$2.91	-2.10%	
Crack Spread	$69.93	$69.56	0.53%	
12-mo strip crack	$48.18	$48.24	-0.12%	
Ethanol rack	$2.06	$2.06	0.00%	
Metals				
Gold	$4,035.11	$4,017.39	0.44%	
Silver	$57.26	$55.91	2.42%	
Copper Contract	$631.80	$626.50	0.85%	
Grains				
Corn contract	$474.75	$467.50	1.55%	
Wheat contract	$683.25	$682.75	0.07%	
Soybeans contract	$1,219.25	$1,203.00	1.35%	
Shipping				
Baltic Dry Freight	2,752	2,840	-88	

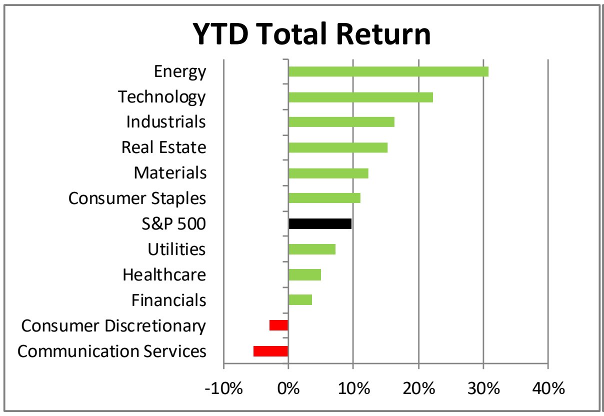
Weather

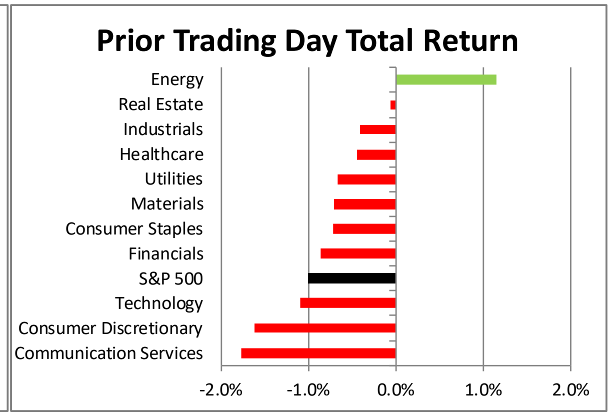
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for most of the country, with cooler temperatures expected for the New England and northern Pacific regions. The outlook calls for wetter-than-normal conditions throughout the Southwest and along the entire East Coast, with near normal conditions everywhere else.

A tropical depression has formed near the Florida Panhandle and Alabama coast. It is expected to strengthen over the next few days as it moves along the Southern coastline.

Data Section

US Equity Markets – (as of 7/17/2026 close)

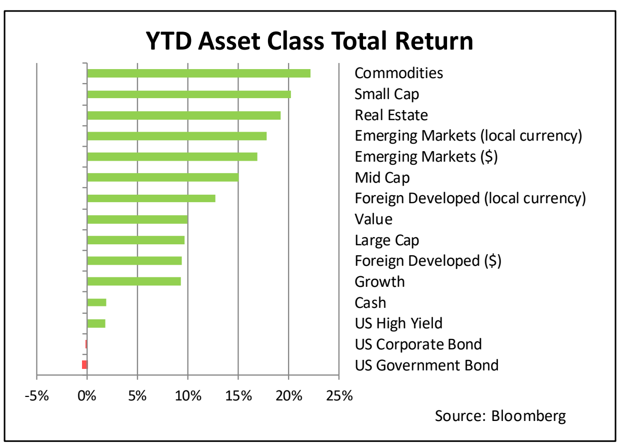




(Source: Bloomberg)

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 7/17/2026 close)

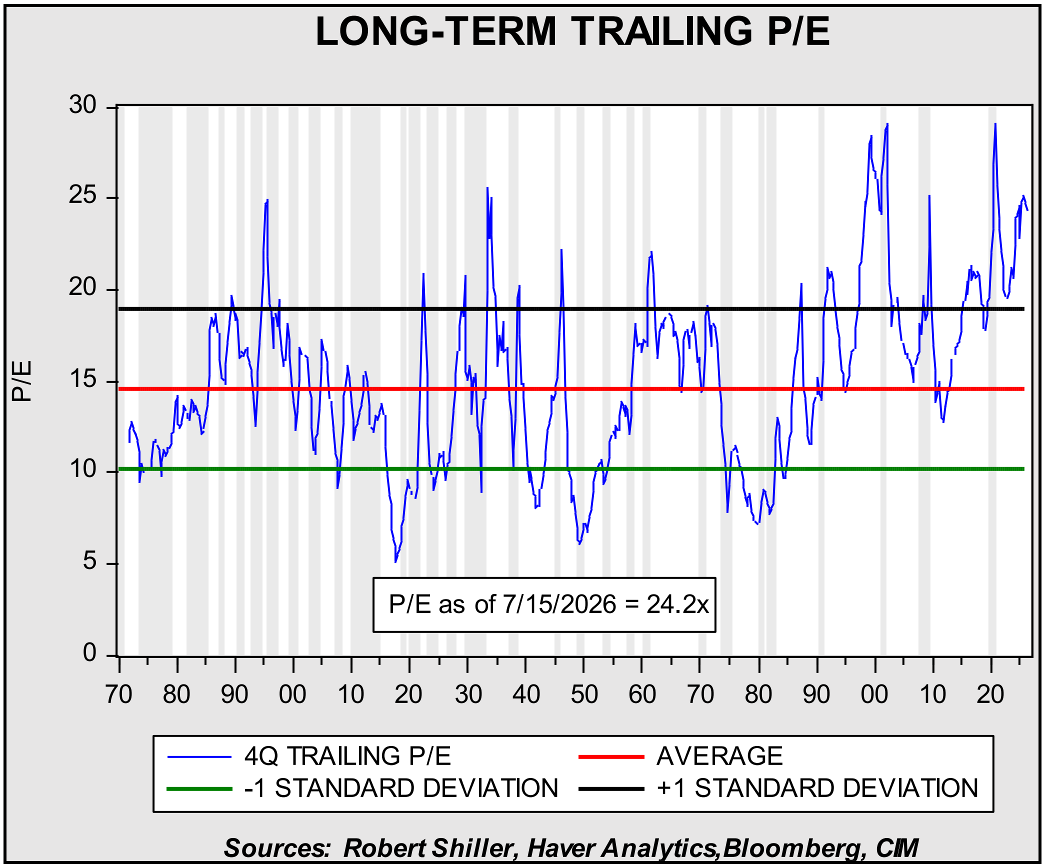


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.

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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.