Daily Comment

Confluence INVESTMENT MANAGEMENT

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[Posted: July 21, 2026 — 9:30 AM ET] Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 is up 0.5% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 3.1%. Chinese markets were higher with the Shanghai Composite up 1.8% and the Shenzhen Composite up 3.6%. US equity index futures are signaling a higher open.

With 52 companies having reported so far, S&P 500 earnings for Q2 are running at $82.90 per share, compared to an estimate of $82.54, which is up 23.3% from Q2 2025. Of the companies that have reported thus far, 90.4% exceeded expectations while 1.9% 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 what appears to be the start of a new US effort to erect protectionist import tariffs on dozens of countries around the world, starting with Canada. We next review several other international and US developments that could affect the financial markets today, including a move by China to partially lift its ban on refined fuel exports and potential new US steps to bar domestic firms from using Chinese artificial intelligence models.

United States-Canada: The Trump administration yesterday said it will impose a new 50% tariff on a range of Canadian goods, but with exemptions for energy, potash, fish, and several other categories. The new tariffs are expected to affect about $20 billion of the $383 billion in Canadian goods imported into the US (using figures from last year). According to the White

House, the new tariffs aim to offset the burden from Canadian rules that it says discriminate against the US.

- The new tariffs against Canada serve as a reminder that US trade policy can still shift dramatically in ways that could affect US and foreign stocks.
- In fact, reports say the president is also mulling new tariffs on dozens of other countries as his 10% global duties are set to expire later this week.

United States-Israel-Iran: Now that the June ceasefire between the US and Iran has effectively collapsed and both sides are launching attacks against each other again, AAA yesterday said the average price of gasoline in the US has again risen above $4.00 per gallon, though it remains below the $4.56 peak reached in May before falling to $3.79 earlier this month. If sustained, the resurgence in gas prices could cause a rebound in the consumer price index and further complicate Republican prospects in the November elections.

China: On a more positive note, new reporting details how Beijing this month has lifted its ban on refined fuel exports, at least in part to take advantage of high global prices and ample inventory levels. However, the reports say that even as the government allows refiners to resume their exports, they can only ship fuels under allocated quotas while keeping their inventory levels above their end-February levels. The resumed exports could still help limit the price of global energy products, but not as much as if Chinese refiners could again export freely.

China-Philippines: After more than a year of calm around the disputed Second Thomas Shoal in the South China Sea, where the Philippines maintains a grounded navy ship as an outpost to deter China's efforts to take control of the outcropping, Chinese coast guard personnel and Philippine sailors in small boats clashed with one another yesterday using paddles, sticks, and batons. One Philippine sailor was reportedly injured in the melee before it ended.

- The fight at Second Thomas Shoal is further evidence that China is trying to take advantage of Washington's current effort to ease bilateral tensions to establish a kind of détente with Beijing.
- As the US pulls its punches with China on issues such as trade and technology policy, it appears that Beijing has started to see what kind of territorial aggression and other initiatives it can get away with. The risk is that the Chinese will go too far and force the US to act, potentially sparking a sudden, new escalation of tensions.

United Kingdom: As expected, newly minted Prime Minister Andy Burnham has begun his term with an expensive new fiscal proposal that would subsidize household energy prices this winter. By removing the value-added tax from electricity bills, the move would cut about 45 GBP ($60) off a typical annual electricity bill and would cost about 850 million GBP ($1.1 billion) in 2026-27, based on estimated electricity prices. The proposal has quickly generated accusations that the government hasn't clarified how the policy would be funded.

US Politics: In Maine's election for the US Senate, Democrat Troy Jackson has consolidated the support of his party and is now expected to become the Democrats' new official candidate after the initial candidate, Graham Platner, withdrew over a scandal. Jackson is a former state Senate president, a small-time lumberman, and a progressive Democrat who supports Medicare for all, abortion rights, and economic populism. However, he began his political career as a Republican who embraced conservative social policies.

- Despite morphing into a progressive Democrat from a conservative Republican, it is unclear how widely Jackson will be supported in the November mid-term election.
- Incumbent Republican Sen. Susan Collins is considered a formidable opponent with ample financial resources to protect her seat.

US Artificial Intelligence Industry: After our discussion in yesterday's *Comment* about the new, open-source Chinese AI models that rival cutting-edge US models at a fraction of the cost, new reports say the US government is considering a ban on US firms using the Chinese models. The discussion mostly revolves around the security risks from using a geopolitical rival's AI, but a ban would also insulate the US firms from competition and help protect their huge investment in models and computing capacity.

- Just as cheap Chinese products have decimated other US industries over recent decades, the powerful, inexpensive new Chinese AI models could potentially make the costly US models uncompetitive. Fear of such a development has already begun to weigh on the stock prices of major US firms related to AI and the AI infrastructure boom.
- Importantly, new reports say Beijing is mulling restrictions on Chinese firms exporting some aspects of their AI technology. For example, the government is considering banning Chinese firms from transferring key model training data overseas or allowing their model weights to be downloaded by foreign users. However, China would still let overseas customers access the models and services.
- If the US administration fails to ban the Chinese competitors, investors could be spooked and the AI frenzy could come to an end. If the administration does impose a ban, it could keep the AI boom going for a while yet, though at a steep economic cost.

US Stock Market: Consistent with investors' increasing concern about the big, AI-related tech firms that dominate the stock market, a useful *Wall Street Journal* article today highlights how market prices and breadth are currently diverging. The article notes that there have been 52 trading days so far this year when the S&P 500 price index went in one direction but most stocks in the index went the other way. That ties 2000 for the third highest number of such instances this century, and the year is barely over half-way finished.

US Economic Releases

There were no economic releases prior to the publication of this report. There are no economic releases or Fed events scheduled for the rest of the day.

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	Tokyo Condominiums for Sale	y/y	Jun	-4.7%	12.3%		*	Equity and bond neutral
New Zealand	CPI	y/y	Q2	4.1%	3.1%	4.0%	**	Equity and bond neutral
EUROPE								
Eurozone	ZEW Survey Expectations	m/m	Jul	23.4	9.5		**	Equity and bond neutral
Germany	ZEW Survey Expectations	m/m	Jul	26.3	10.5	15.4	**	Equity bullish, bond bearish
	ZEW Survey Current Situation	m/m	Jul	-77.6	-81.0	-77.7	**	Equity and bond neutral
UK	Public Finances (PSNCR)	m/m	Jun	15.2b	23.7b		*	Equity and bond neutral
	Public Sector Net Borrowing	m/m	Jun	16.0b	20.0b	17.8b	*	Equity and bond neutral
	PSNB ex Banking Groups	m/m	Jun	16.0b	20.0b		**	Equity and bond neutral
	Average Weekly Earnings 3M/YoY	m/m	May	4.30%	4.40%	4.50%	**	Equity and bond neutral
	ILO Unemployment Rate 3Mths	m/m	May	4.90%	4.90%	4.90%	**	Equity and bond neutral
	Claimant Count Rate	m/m	Jun	4.40%	4.40%		**	Equity and bond neutral
	Jobless Claims Change	m/m	Jun	6.7k	1.3k		**	Equity and bond neutral
Switzerland	Real Exports	m/m	Jun	-6.0%	4.5%		*	Equity and bond neutral
	Real Imports	m/m	Jun	-1.6%	0.5%		*	Equity and bond neutral
	M3 Money Supply	y/y	Jun	3.6%	4.5%		**	Equity and bond neutral
AMERICAS								
Canada	CPI	y/y	Jun	2.8%	3.2%	2.9%	***	Equity and bond neutral
Mexico	Retail Sales	y/y	May	1.6%	4.4%	3.1%	***	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)	370	371	-1	Up
U.S. Sibor/OIS spread (bps)	375	375	0	Up
U.S. Libor/OIS spread (bps)	373	373	0	Up
10-yr T-note (%)	4.60	4.59	0.01	Up
Euribor/OIS spread (bps)	249	248	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

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	$90.27	$89.22	1.18%	
WTI	$84.34	$83.23	1.33%	
Natural Gas	$2.88	$2.86	0.52%	
Crack Spread	$68.64	$69.33	-1.00%	
12-mo strip crack	$48.52	$48.47	0.09%	
Ethanol rack	$2.07	$2.07	0.03%	
Metals				
Gold	$4,056.88	$4,008.03	1.22%	
Silver	$58.82	$56.42	4.24%	Fed pause hopes, safe-haven demand.
Copper Contract	$652.20	$634.10	2.85%	
Grains				
Corn contract	$472.25	$473.00	-0.16%	
Wheat contract	$673.50	$674.00	-0.07%	
Soybeans contract	$1,229.00	$1,226.25	0.22%	
Shipping				
Baltic Dry Freight	2,671	2,752	-81	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		-2.41		
Gasoline (mb)		-2.00		
Distillates (mb)		-1.85		
Refinery run rates (%)		-0.04%		
Natural gas (bcf)		39		

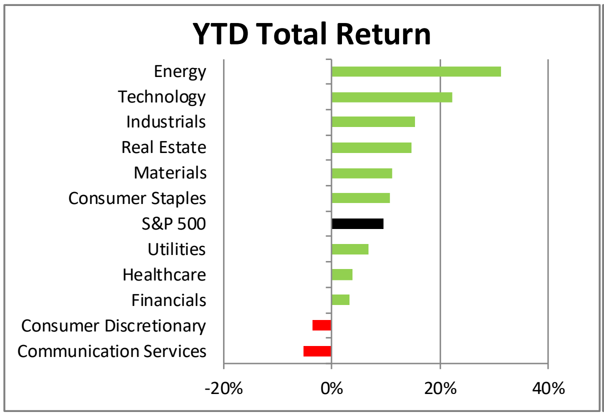
Weather

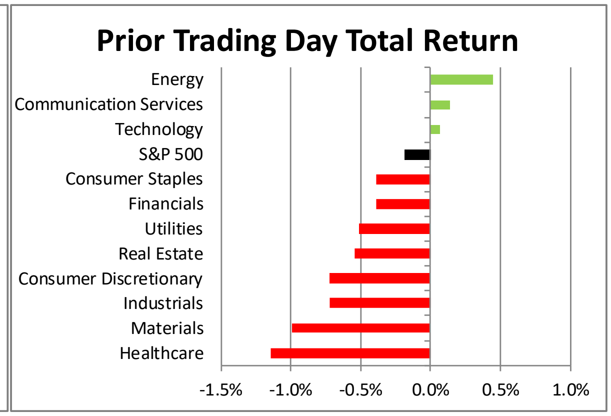
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for most of the country, with cooler temperatures expected for the New England and northern Pacific regions. The outlook calls for wetter-than-normal conditions throughout the Southwest and along the entire East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

Tropical Storm Bertha is moving along 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 7/20/2026 close)

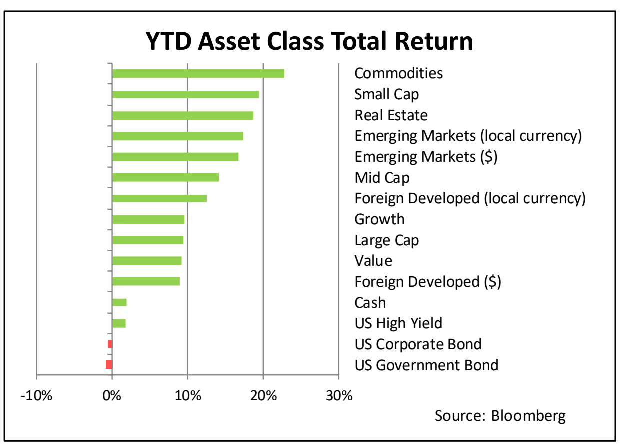




(Source: Bloomberg)

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 7/20/2026 close)

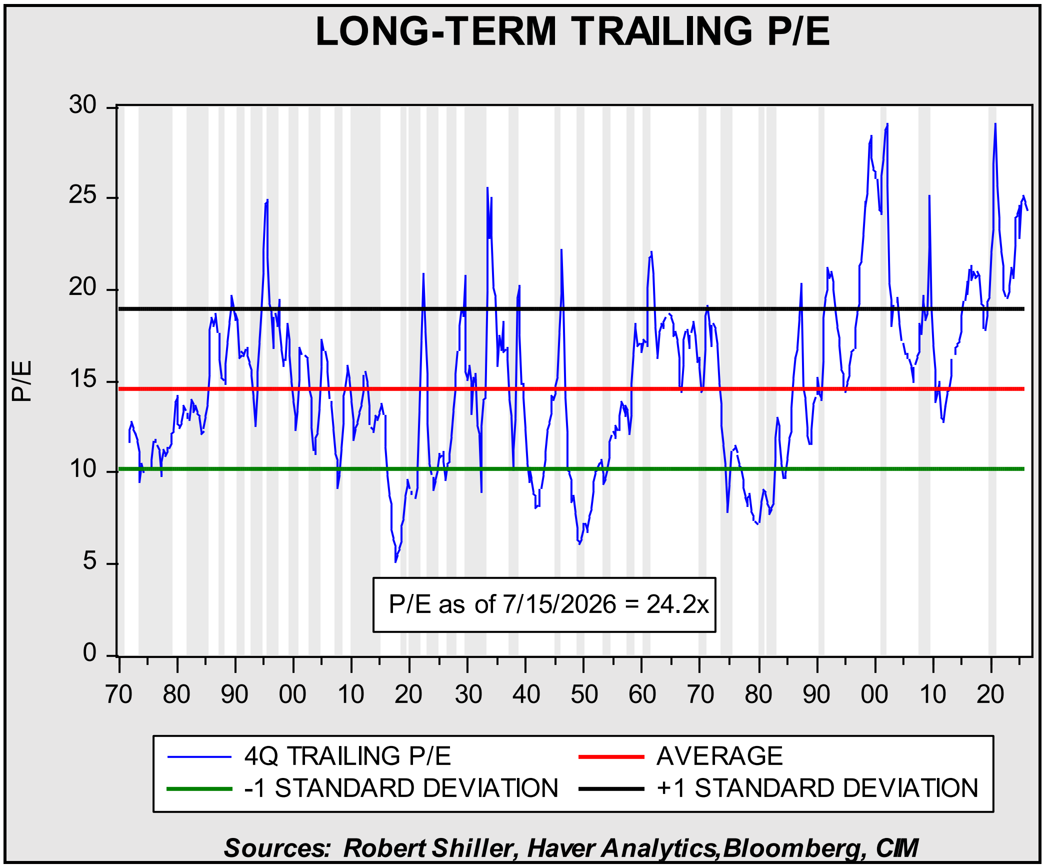


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.