# Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

**[Posted: July 22, 2026 — 9:30 AM ET]** Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 0.2% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.4%. Chinese markets were mixed with the Shanghai Composite up 0.1% and the Shenzhen Composite down 1.1%. US equity index futures are signaling a lower open.

With 70 companies having reported so far, S&P 500 earnings for Q2 are running at $83.00 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, 90.0% have exceeded expectations while 4.3% have fallen short.

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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<br>Q2 2026 Rebalance Presentation | **Keller Quarterly**<br>Confluence Mailbag Podcast<br>VE Insights: A Narrow Market |

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Our *Comment* opens with the latest developments in Iran. We then discuss the White House's move to maintain the current trade regime even as some tariffs are set to expire on Friday. Next, we briefly cover the Treasury's concerns about tax-strategy abuse, progress on crypto legislation, and the formation of a new political party in Turkey. As always, we conclude with a review of recent domestic and international economic data.

**Iran Escalation:** Tensions between the United States and Iran are intensifying as the renewed conflict enters its eleventh day. On Tuesday, President Trump threatened to target Iran's nuclear facilities in the coming days, vowing further military action if Tehran does not de-escalate. The threat comes as Iran-aligned Houthis have announced they will block shipping in the Red Sea, raising the risk of a wider regional confrontation. Oil prices have continued to climb amid persistent concerns over supply disruptions, as attacks on key trade routes undermine global energy flows.

- The current pressure campaign appears to be part of a broader Trump administration strategy to force Tehran back to the negotiating table. In a recent interview, the president suggested that the US has precise intelligence on critical infrastructure in central Iran and threatened military action unless Iran agrees to engage in "meaningful" discussions. He also issued a warning to the Houthis, vowing to respond forcefully if they disrupt maritime shipping, though such disruptions have not materialized to date.
- That said, there are signs of a tentative appeasement effort. Behind the scenes, the United States has moved to strengthen ties with Lebanon, including the White House's decision on Tuesday to lift a four-decade ban on flights to the country. This step coincided with a meeting between President Trump and Lebanon's president and appears to be part of a wider effort to re-engage diplomatically, particularly as Lebanon has pressed Israel to withdraw its troops from the country's southern region.
- The Middle East conflict has produced a mixed market response. Oil prices have continued to climb, with Brent crude pushing above $90 a barrel for the first time since May, adding to inflation concerns and putting upward pressure on Treasury yields, which have drifted back above 4.6%. Equities, meanwhile, have held up relatively well as investors return to chipmakers and buy the dip following recent weakness.
- While the war in Iran remains the primary geopolitical risk, markets seem more focused on the strength of AI-related momentum. Although the conflict may persist, we do not expect it to be the main driver of equity performance over the next several days unless talks lead to a major breakthrough or US involvement appears to deepen. In our view, the elevated uncertainty argues for limiting exposure to the riskier segments of the market.

**Trade Wall:** The White House is moving to reimpose tariffs before the current measures are set to expire on Friday. This week, the president announced a new round of tariffs, including reciprocal duties on Canadian goods over trade practices affecting products that were previously protected under the USMCA. He also said he would impose restrictive tariffs on generic pharmaceutical products, starting at 100% in 2028 before rising to 200% in 2029. The moves underscore his effort to build a new trading regime.

- The decision to raise tariffs follows the United States' refusal to renew the July 1 trade agreement with Mexico and Canada. The president has said that Canada maintains discriminatory trade practices and has responded by imposing reciprocal tariffs intended to push Ottawa to change course in exchange for relief. The tariffs were increased to 50% on about 500 Canadian goods, representing roughly 2% of bilateral trade.
- Separately, the president's push to raise tariffs on pharmaceutical companies reflects a broader effort to reshore strategically important sectors. The new tariffs will apply only to generic drugs and are set to take effect in two years. The measure targets companies that have been accused of undercutting domestic competitors, even though many of their products are made using US intellectual property. The change is intended to curb competition and protect domestic producers.

- The use of tariffs for both reciprocal and restrictive purposes stems from a shift away from a trade system that once prioritized free trade. The push to add tariffs to Canadian goods will likely face pushback from both sides of the aisle, as lawmakers seek to shield voters from a possible rise in the cost of living. Meanwhile, the pharmaceutical tariffs should give drugmakers time to adjust their supply chains and become more domestically oriented.
- While trade policy is important to households and firms, its impact on markets has been limited over the past two years. We think this illustrates the White House's relatively accommodative approach to imposing tariffs in order to avoid disruptions, as well as the market's broader focus on earnings, which has largely remained resilient despite rising trade uncertainty.

**Tax Abuse:** The US Treasury Department has raised concerns about popular tax-minimization strategies known as "tax alpha." These practices include Section 351 conversions, box-spread ETFs, dividend-shifting between ETFs, and products designed to offset ordinary income. While the Treasury stopped short of announcing new restrictions, it confirmed plans to actively evaluate regulatory tools to address these strategies. The push by the Treasury to reduce the use of loopholes comes as the government looks to address the growing fiscal deficit.

**Crypto Breakthrough:** The Clarity Act is gaining momentum as both parties work to finalize the bill. The legislation would establish a framework for regulating the crypto industry. On Tuesday, the president agreed to ethics rule changes that had prevented Democrats from backing the bill previously. Although the measure is close to a vote that is expected to draw bipartisan support, debate continues over who will enforce the rules.

**Turkish Opposition:** A new opposition party is emerging as a potential threat to President Recep Tayyip Erdoğan's hold on power. The party is being formed by Özgür Özel, who has faced legal pressure and investigations, and he plans to build a broad opposition coalition ahead of the next election. Reporting suggests the new party could quickly become a major political force, though there are concerns about a possible government crackdown. As a key NATO ally, any shift in Turkey's leadership could also affect US foreign policy.

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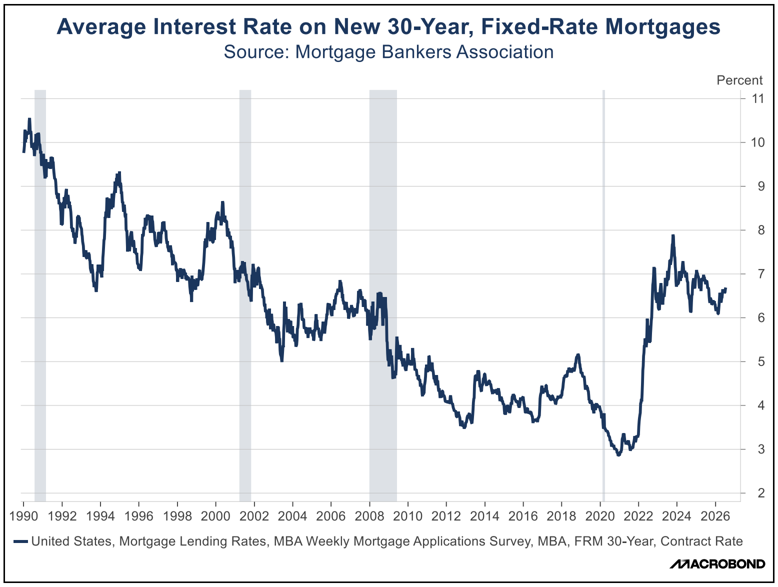
## US Economic Releases

The Mortgage Bankers Association said ***mortgage applications*** in the week ended July 17 rose 1.9%, partially reversing their 2.7% decline in the previous week. Applications for home purchase mortgages rose 5.5%, partially offsetting their 7.3% drop in the prior week. Applications for refinancing mortgages fell 2.4%, after rising 3.5% the week before. The average interest rate on a 30-year, fixed-rate mortgage rose 4 basis points to 6.69%. The chart below shows how mortgage rates have changed over time.




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** | Trade Balance | y/y | Jun | -¥406.9 | -¥378.6b | -¥120.0b | ** | Equity and bond neutral |
| | Exports | y/y | Jun | 19.3 | 17.0 | 18.0 | * | Equity and bond neutral |
| | Imports | y/y | Jun | 25.4 | 12.5 | 21.2 | * | Equity and bond neutral |
| **Australia** | Westpac Leading Index | m/m | Jun | 0.40% | -0.80% | | ** | Equity and bond neutral |
| **South Korea** | PPI | y/y | Jun | 8.6% | 8.6% | | ** | Equity and bond neutral |
| **EUROPE** | | | | | | | | |
| **UK** | CPI | y/y | Jun | 2.6% | 2.8% | 2.7% | *** | Equity and bond neutral |
| | CPI Core | y/y | Jun | 2.6% | 2.6% | 2.5% | *** | Equity and bond neutral |
| | CPI Services | y/y | Jul | 3.6% | 3.7% | 3.5% | * | Equity and bond neutral |
| | Retail Price Index | m/m | Jun | 416.5. | 415.3 | 416.4 | ** | Equity and bond neutral |
| | RPI | y/y | Jun | 3.0% | 3.1% | 2.9% | ** | Equity and bond neutral |
| | RPI Ex Mort Int.Payments | y/y | Jun | 2.9% | 3.0% | | *+ | Equity and bond neutral |
| | House Price Index | y/y | May | 2.7% | 3.9% | | *** | Equity and bond neutral |
| **AMERICAS** | | | | | | | | |
| **Mexico** | International Reserves Weekly | w/w | 17-Jul | $255330m | $255322m | | * | 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)** | 373 | 372 | 1 | Up |
| **U.S. Sibor/OIS spread (bps)** | 379 | 378 | 1 | Up |
| **U.S. Libor/OIS spread (bps)** | 377 | 376 | 1 | Up |
| **10-yr T-note (%)** | 4.64 | 4.63 | 0.01 | Up |
| **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 |

## 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 | $94.49 | $91.01 | 3.82% | |
| WTI | $87.38 | $84.34 | 3.60% | |
| Natural Gas | $2.90 | $2.87 | 1.05% | |
| Crack Spread | $61.73 | $68.03 | -9.27% | Contract Rollover |
| 12-mo strip crack | $47.11 | $48.78 | -3.42% | |
| Ethanol rack | $2.07 | $2.07 | 0.00% | |
| **Metals** | | | | |
| Gold | $4,119.45 | $4,076.99 | 1.04% | |
| Silver | $59.36 | $58.79 | 0.96% | |
| Copper Contract | $651.75 | $655.25 | -0.53% | |
| **Grains** | | | | |
| Corn contract | $481.00 | $475.25 | 1.21% | |
| Wheat contract | $690.50 | $678.00 | 1.84% | |
| Soybeans contract | $1,227.50 | $1,222.75 | 0.39% | |
| **Shipping** | | | | |
| Baltic Dry Freight | 2,670 | 2,671 | -1 | |
| **DOE Inventory Report** | | | | |
| | **Actual** | **Expected** | **Difference** | |
| Crude (mb) | | -1.95 | | |
| Gasoline (mb) | | -1.91 | | |
| Distillates (mb) | | 0.83 | | |
| Refinery run rates (%) | | -0.33% | | |
| Natural gas (bcf) | | 29 | | |

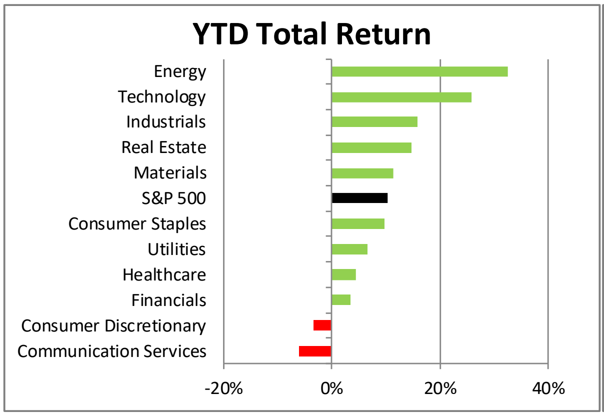
## Weather

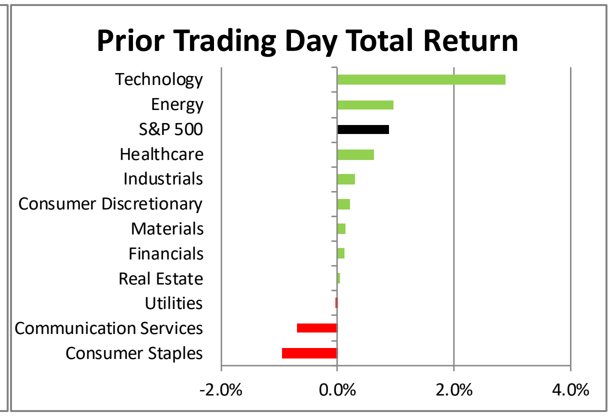
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in California, the Rocky Mountains, the Great Plains, the Midwest, and the Deep South, with near-normal temperatures everywhere else. The outlook calls for wetter-than-normal conditions in the Pacific Northwest, southern Rocky Mountains, and East Coast regions, with dry conditions in the Midwest.

Tropical Storm Bertha is currently to the east of New Orleans and moving westward along the Gulf Coast. It is expected to begin dissipating in the next day or two as it moves inland over Texas.

## Data Section

### US Equity Markets – (as of 7/21/2026 close)

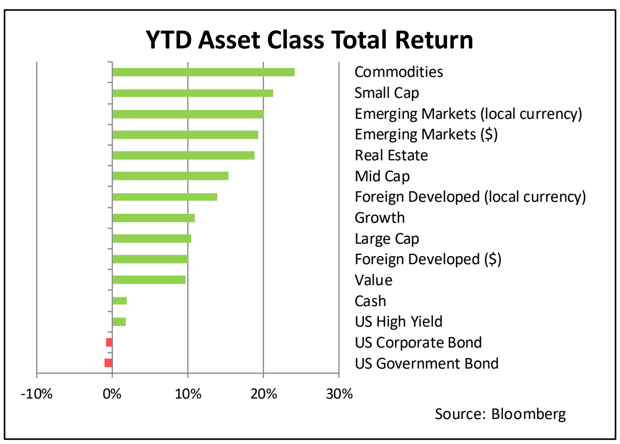



*(Source: Bloomberg)*

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 7/21/2026 close)

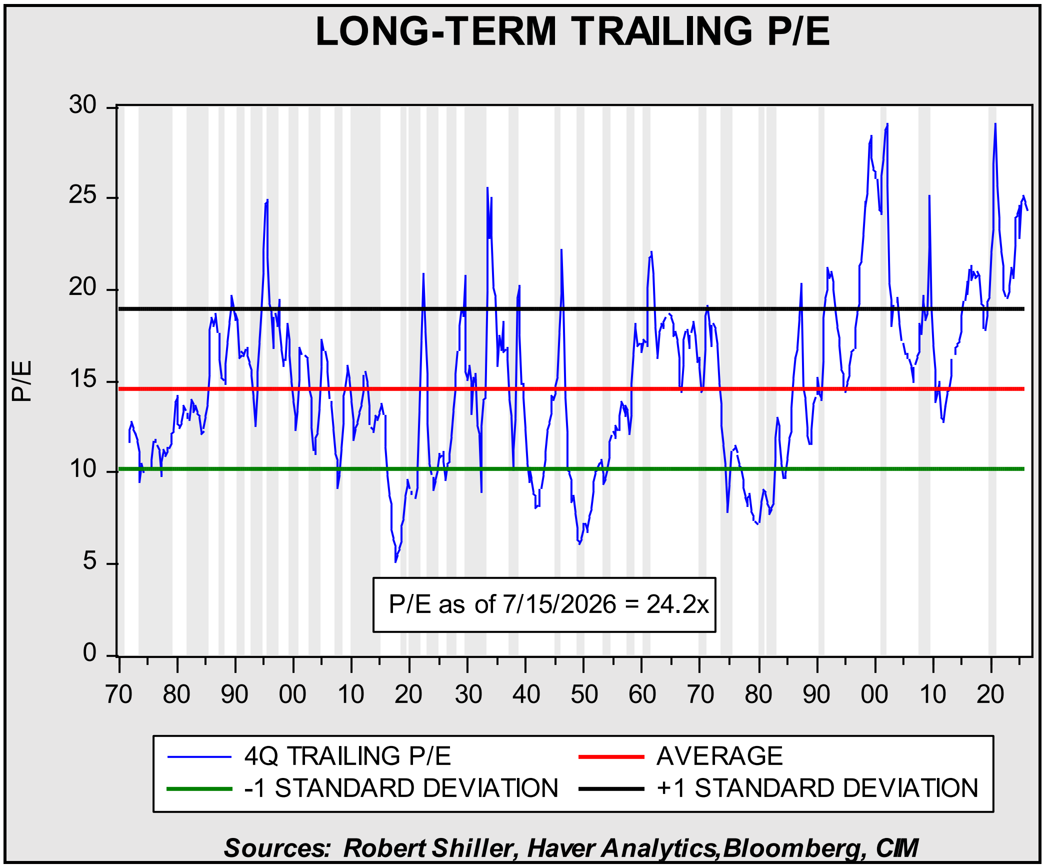



This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.