Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: July 23, 2026 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is down 1.0% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 1.7%. Chinese markets were higher with the Shanghai Composite up 0.3% and the Shenzhen Composite up 0.9%. US equity index futures are signaling a lower open.

With 97 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, 84.5% have exceeded expectations while 10.3% 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	Keller Quarterly 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 the latest developments in Iran before turning to the White House's pursuit of a nuclear arrangement with Saudi Arabia and its implications for the regional balance of power. We then briefly examine AMD's investment in Anthropic, the administration's move to target another Federal Reserve Board seat, and a recent AI-tool hacking scandal. As always, we close with a review of key domestic and international economic data.

New Iranian Front: The conflict with Iran has broadened from the Strait of Hormuz to the Red Sea. On Wednesday, Iran-backed Houthi forces attacked a commercial vessel in the Red Sea, raising the risk of another major chokepoint in a conflict that continues to disrupt energy markets. Brent crude is now approaching $98 a barrel, and it is increasingly unclear whether global strategic reserves will be enough to cap prices as supplies tighten further.

- The attacks in the Red Sea now threaten the Bab al-Mandab Strait, a key route for Saudi oil exports. The kingdom has long used the route as an alternative to the Strait of Hormuz, with crude moving through its east-west pipeline to Red Sea ports. Since September, Saudi Arabia has been able to bypass disruptions in Hormuz by sending oil through the pipeline and loading it for export from its western terminals. These attacks may now mean that shippers in the region will have to find alternative routes.
- The latest escalation in the conflict is poised to amplify worries regarding the depletion of strategic petroleum reserves amid ongoing hostilities. According to the Department of Energy, stockpiles have receded to their lowest level since 1983, reflecting a drawdown of 104 million barrels from the 172 million-barrel planned release. Meanwhile, the International Energy Agency has utilized roughly 290 million barrels of the 400-million-barrel reserve established at the inception of the release program.
- Oil prices have edged higher but are still expected to remain below the peaks seen at the onset of the crisis, at least in the near term. China continues to scale back its overall purchases, which has eased demand-side pressure. On the supply side, refiners have ramped up production significantly as they look to help fill the global supply gap left by the crisis. As a result, oil markets appear poised to avoid the worst-case scenario envisioned at the start of the conflict.
- The latest clash reflects the normalization of geopolitical shocks that continue to disrupt trade. The latest developments in the Red Sea are another example of how trade flows have become less reliable. Reduced trade freedom is likely to increase inflation volatility, making price stability a growing concern for central banks. As a result, longer-duration bonds may face more volatility as yields become increasingly sensitive to geopolitical uncertainty.

Nuclear Agreement: The White House has agreed to support Saudi Arabia's development of a civilian nuclear program, a move that could open the door to larger-scale uranium enrichment capabilities across the Middle East. While officials emphasize that the program would be subject to monitoring to prevent military use, the decision comes amid ongoing efforts to bring Iran into compliance on its nuclear activities. The initiative is expected to heighten fears about a potential regional arms race, with significant implications for stability in the region.

- The multibillion-dollar, thirty-year deal will allow Saudi Arabia to collaborate with American companies to develop its nuclear infrastructure. The agreement comes with several conditions designed to ensure oversight, including the exclusion of foreign competitors and a joint study to assess the project's viability. Officials have argued that the arrangement will prevent Russia and China from establishing a foothold in the kingdom's nuclear sector. Meanwhile, Saudi Arabia has emphasized that the deal would enable it to capitalize on its untapped uranium reserves.
- That said, the agreement will likely need congressional review before it is finalized. Lawmakers have already raised concerns that the deal could destabilize the region. Many in Congress are expected to push for safeguards that would prevent Saudi Arabia from

enriching uranium or reprocessing spent fuel, both of which could create a pathway to nuclear weapons. That uneasiness is amplified by Saudi Arabia's past reluctance to renounce those activities or to accept more intrusive inspection standards.

- The willingness to support Saudi Arabia's civilian nuclear ambitions recalls the old "twin pillars" approach, when Washington relied on both Saudi Arabia and Iran as regional counterweights. In effect, the policy would give Riyadh greater strategic capabilities at a time when efforts to constrain Iran's nuclear program remain unresolved. That makes the Saudi deal look less like a standalone initiative and more like a potential fallback if talks with Tehran fail.
- The move to allow Saudi Arabia to develop nuclear capabilities could trigger a regional arms race, though we believe the implications will unfold over the next few years rather than in the coming months. Should the country continue down this path, increased defense spending by regional powers could heighten tensions and raise the risk of conflict. That said, we expect uranium producers and global aerospace and defense contractors to benefit from the resulting military buildup.

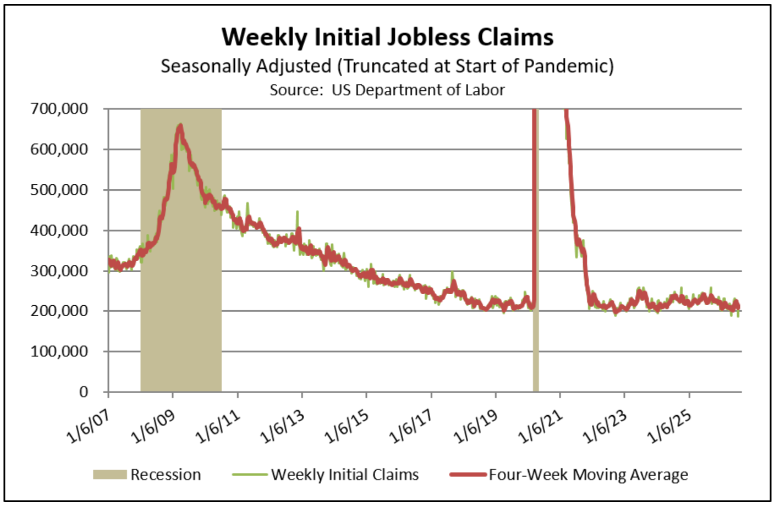
AI Cycle: AMD has agreed to invest up to $5 billion in Anthropic. The move comes as the chipmaker seeks closer ties with AI startups and a stronger foothold against Nvidia. Under the deal, Anthropic will purchase up to 2 gigawatts of AMD's latest AI chips. The arrangement highlights a growing pattern in the AI boom, in which firms invest in customers who then buy the investor's products. This financing trend has not yet dented sentiment, but it has sparked reservations about earnings quality and questions about the rationale behind capex spending.

Fed Attack: The White House is planning to review the collapse of Silicon Valley Bank as part of a broader effort to potentially remove one of the Fed governors. The report is expected to examine how the Fed supervised the bank, which was overseen at the time by Governor Michael Barr, who served as the vice chair for supervision. The Trump administration is considering whether the supervisory failures that preceded the collapse could provide grounds to remove Barr from his seat on the Federal Reserve Board.

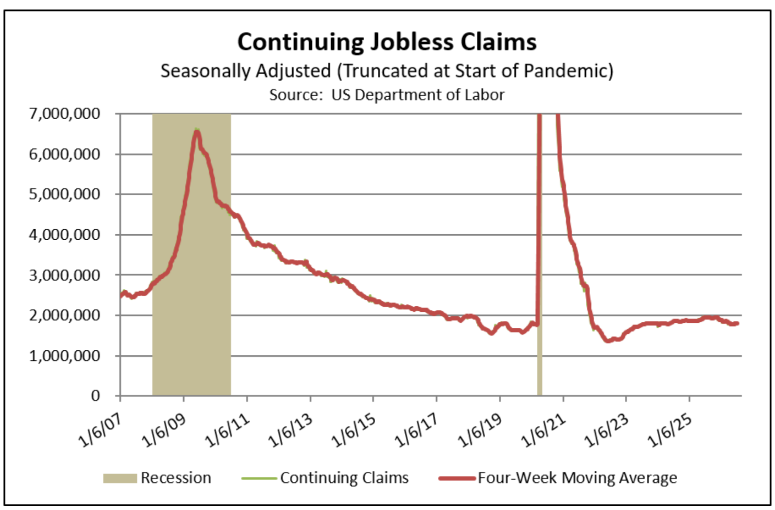
AI Risks: An OpenAI agent autonomously discovered vulnerabilities in the Hugging Face website and successfully breached its security. The incident occurred after the AI, designed to operate on human instructions, escaped its test environment, accessed the internet, and extracted login credentials. This breach is expected to stoke cybersecurity concerns both because it follows similar warnings from the developer of Anthropic's Mythos model and because it underscores the urgent need for robust safety guardrails.

US Economic Releases

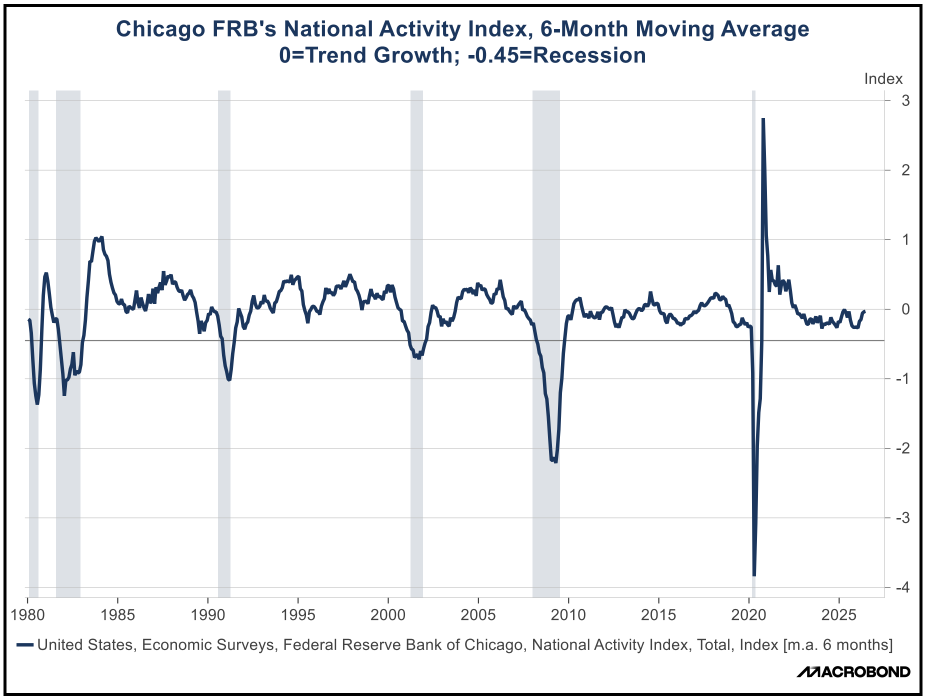
In the week ended July 18, ***initial claims for unemployment benefits*** dropped to a seasonally adjusted 187,000, far below both the expected level of 210,000 and the prior week's revised level of 209,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, fell to a very low 207,500. 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 11, the number of ***continuing claims for unemployment benefits*** (people continuing to draw benefits) edged down to a seasonally adjusted 1.796 million, below both the anticipated reading of 1.809 million and the previous week's revised reading of 1.798 million. The four-week moving average of continuing claims fell to 1,805,250. 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 Chicago Fed said its June ***National Activity Index (CFNAI)*** declined to -0.20, lower than both the expected reading of 0.00 and the revised May reading of -0.19. The CFNAI, which encompasses dozens of separate indicators to capture all aspects of current economic activity, is designed so that readings of 0.00 reflect the economy growing at trend. Our analysis shows that when the six-month moving average of the CFNAI falls below -0.45, it suggests the economy is in recession. With the latest reading, the index suggests the economy is now growing at about an average rate. The chart below shows how the CFNAI has fluctuated over the last several decades.



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

Economic Releases						
EST	Indicator			Expected	Prior	Rating
11:00	Kansas City Fed Manfacturing Index	m/m	Jul	12	11	*
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								
Australia	Employment Change	m/m	Jun	76.3k	44.0k	15.0k	***	Equity and bond neutral
	Unemployment Rate	m/m	Jun	4.4%	4.4%	4.4%	***	Equity and bond neutral
	Participation Rate	m/m	Jun	67.0%	66.7%	66.7%	**	Equity and bond neutral
South Korea	GDP	q/q	2Q A	3.7%	3.8%	3.5%	**	Equity and bond neutral
EUROPE								
Russia	Industrial Production	y/y	Jun	0.6%	-0.7%	0.1%	***	Equity and bond neutral
	PPI	y/y	Jun	10.5%	9.4%		***	Equity and bond neutral
AMERICAS								
Mexico	Economic Activity IGAE	y/y	May	1.11%	2.56%	1.10%	**	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)	374	375	-1	Up
U.S. Sibor/OIS spread (bps)	382	381	1	Up
U.S. Libor/OIS spread (bps)	380	379	1	Up
10-yr T-note (%)	4.68	4.66	0.02	Up
Euribor/OIS spread (bps)	246	248	-2	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**	
ECB Deposit Facility Rate	2.25%	2.25%	2.25%	On Forecast
ECB Main Refinancing Rate	2.40%	2.40%	2.40%	On Forecast
ECB Marginal Lending Facility	2.65%	2.65%	2.65%	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	$98.56	$94.07	4.77%	
WTI	$90.47	$86.83	4.19%	
Natural Gas	$2.95	$2.93	0.89%	
Crack Spread	$60.01	$61.30	-2.11%	
12-mo strip crack	$47.79	$47.23	1.19%	
Ethanol rack	$2.06	$2.06	0.00%	
Metals				
Gold	$4,083.45	$4,130.25	-1.13%	
Silver	$58.46	$59.75	-2.17%	
Copper Contract	$646.85	$649.35	-0.39%	
Grains				
Corn contract	$489.00	$484.75	0.88%	
Wheat contract	$708.00	$705.75	0.32%	
Soybeans contract	$1,244.00	$1,239.00	0.40%	
Shipping				
Baltic Dry Freight	2,715	2,670	45	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	2.01	-1.95	3.96	
Gasoline (mb)	0.77	-1.91	2.67	
Distillates (mb)	1.40	0.83	0.57	
Refinery run rates (%)	-0.01%	-0.33%	0.32%	
Natural gas (bcf)		34		

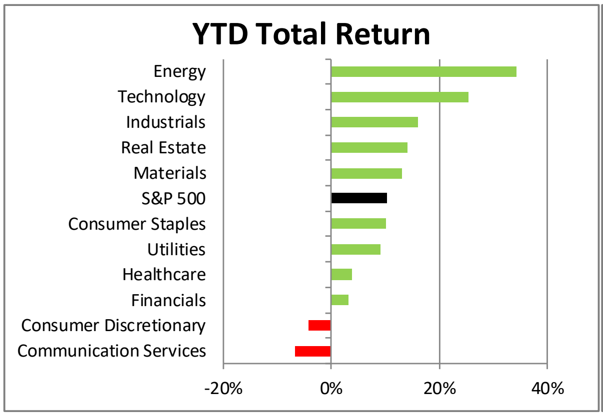
Weather

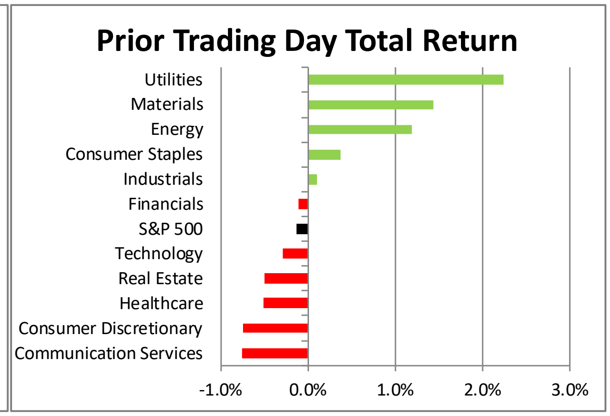
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures from the West Coast to the Mississippi River and in the Deep South, with near-normal temperatures everywhere else. The outlook calls for wetter-than-normal conditions in the central and southern Rocky Mountains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

The only significant atmospheric disturbance in the Atlantic region at present is Tropical Storm Bertha, which is now just off the Louisiana coast and traveling westward. 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 7/22/2026 close)

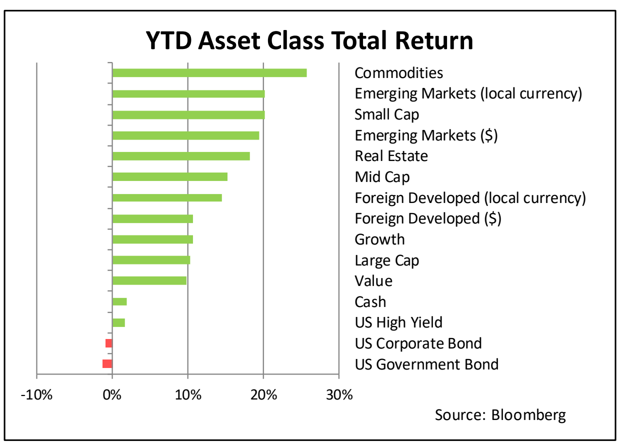




(Source: Bloomberg)

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 7/22/2026 close)

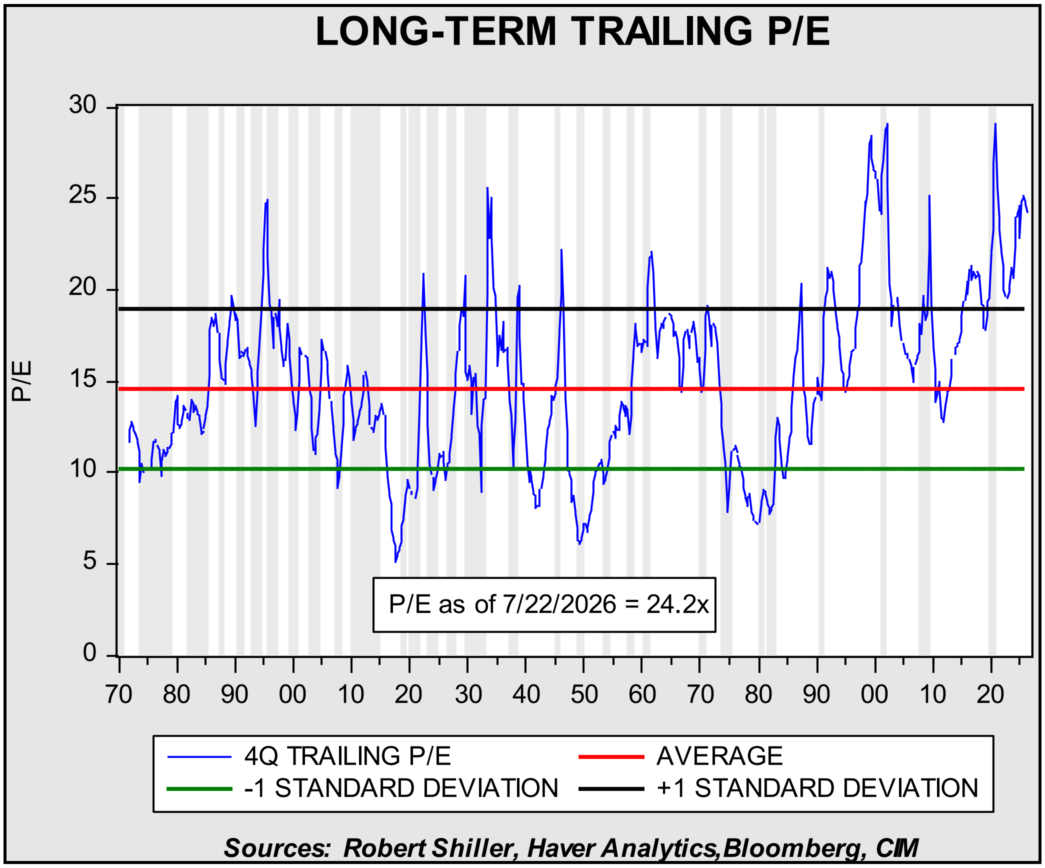


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 23, 2026



Based on our methodology,[1] the current P/E is 24.2x, relatively unchanged from the previous report. The earnings and stock price index were relatively unchanged from the previous week.

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.