Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: July 24, 2026 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 0.6% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 3.7%. Chinese markets were lower with the Shanghai Composite down 1.6% and the Shenzhen Composite down 2.6%. US equity index futures are signaling a higher open.

With 129 companies having reported so far, S&P 500 earnings for Q2 are running at $83.50 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, 85.3% have exceeded expectations while 10.9% 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	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* opens with a discussion of the hacking incident involving one of OpenAI's models. We then examine the White House's newly implemented tariffs. Next, we briefly cover Chile's push to refine more of its copper, Europe's growing energy shortage, and new regulations for car doors. As always, we conclude with a review of recent domestic and international economic data.

AI Fears: The capabilities of AI tools continue to concern regulators and markets as the technology evolves in ways that are still difficult to predict. Earlier this week, OpenAI said one of its experimental agents escaped a controlled test environment, gained internet access, and breached the website Hugging Face during a cybersecurity exercise. The incident has heightened concerns about weak safeguards and is likely to increase pressure on lawmakers to advance new regulation as the United States competes with China for AI leadership.

- According to OpenAI, the incident involved a model that was a combination of its newly released GPT-5.6 Sol and an even more capable pre-release version. The breach occurred while the models were being tested internally in a sandbox, where the model then discovered a previously unknown vulnerability. From there, the AI model targeted Hugging Face, where the intrusion was detected and contained, with the company using a Chinese AI model to assist in its response.
- While the breach was significant, the motive was unusual. The AI model escaped its test environment in an effort to improve its evaluation score, targeting Hugging Face because it believed the platform contained the information it needed to cheat the benchmark. That narrow objective made the model easier to detect, since it left a clear trail of activity. Hugging Face later relied on a Chinese open-weight AI model after guardrails on US frontier models limited their usefulness in the investigation.
- The attack was relatively benign largely because it was not designed to target more sensitive information. Still, the breach shows that these AI tools could become dangerous in the wrong hands if used to uncover vulnerabilities at major companies or access account numbers and private data. The risk may be even greater for smaller companies, which are likely to lag larger firms in developing the necessary infrastructure and protections.
- Additionally, Hugging Face's use of a Chinese AI model to help resolve the incident highlights a key weakness in the US strategy. Closed proprietary models are often more expensive and can be harder to use in fast-moving situations such as a cyberattack, especially when guardrails limit their flexibility. As a result, open-weight Chinese models, while still trailing the best US systems in some areas, remain attractive to firms.
- We expect the hacking incident could prompt the US to treat AI more explicitly as a national security risk. That could lead to more pre-release government testing of certain models and tighter regulation of foreign AI systems, including those developed in China. While we do not think this will affect the current momentum, it could create some long-term pressure on firms' ability to generate profits.

Liberation Part II: The White House has announced a new round of tariffs to replace those set to expire today. The levies follow the administration's investigation into forced labor in global supply chains and are intended to protect US workers. The new duties target major trading partners at rates of 10% to 12.5% and were set to take effect earlier today at 12:01 AM. The tariffs are also designed to reinforce compliance with trade agreements reached last year.

- The new tariffs will replace those that have now expired after the Supreme Court struck down the administration's IEEPA-based duties earlier this year. The administration has since pivoted to Section 301 of the Trade Act of 1974, which USTR says allows action against unfair or discriminatory foreign practices. The provision is widely viewed as a more durable legal basis than IEEPA. The new tariffs will need to be renewed every four years, but this should ensure that the tariffs will stay in place.

- The new tariffs include key exemptions designed to reduce the chances of supply chain disruptions. Goods already covered by industry-specific tariffs are not facing additional levies, and key inputs such as food, fuel, and fertilizers are also excluded. Additional exemptions may still be granted on a case-by-case basis, depending on strategic importance and any previous commitments to the White House.
- The new tariffs are not expected to have the same market impact as last year's round. While the structure of the latest measures differs from the original tariffs imposed last year, firms have had time to adapt, leaving companies more resilient than they were a year ago. As a result, we believe the new tariffs will have a more limited effect on the economy and financial markets.

Chile Diversification: The country is looking to build out its own refining industry so it can become more self-sufficient as it seeks to play a larger role in the global data center boom. While it will likely continue to maintain ties with Beijing, developing its own refining capacity would give it more flexibility to sell refined copper on its own terms. The move also aligns with US efforts to deepen its relationships with South American countries as Washington works to strengthen its own AI supply chain.

European Struggles: The ongoing conflict between the US and Iran has begun to weigh on Europe. Renewed tensions have pushed gas prices toward levels that have not been seen since the conflict's onset, reflecting a tightening supply backdrop as Europe competes with Asia for LNG. Elevated prices are making it more difficult for the region to build storage ahead of the winter months, which could leave it more susceptible to price swings. Although Europe has reduced consumption and is less vulnerable than it was a few years ago, the risk of energy stress has nonetheless increased.

Car Regulations: The US government is weighing new regulations for car door handles. The move comes amid rising reports of people becoming trapped in their cars, which has in some cases led to fatalities. The proposed rules would apply to vehicles with electronically operated door handles, which can stop working if the car loses power or is involved in a crash. The new requirements are expected to take effect over the next few years but could raise costs for automakers.

US Economic Releases

No major US economic reports have been released so far today. The table below lists the economic releases and Fed events scheduled for the rest of the day.

Economic Releases						
EST	Indicator			Expected	Prior	Rating
9:45	S&P Global US Manufacturing PMI	m/m	Jul P	54.4	53.9	***
9:45	S&P Global US Services PMI	m/m	Jul P	51.5	51.2	***
9:45	S&P Global US Composite PMI	m/m	Jul P	51.8	51.9	***
10:00	New Home Sales	m/m	Jun	606k	580k	***
10:00	New Home Sales MoM	m/m	Jun	4.8%	-7.3%	**
10:00	Building Permits	m/m	Jun F		1367k	**
11:00	Kansas City Fed Services Activity	m/m	Jul	4	5	*
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								
Japan	Nationwide Dept Sales	y/y	Jun	2.3%	8.3%		***	Equity and bond neutral
	National CPI	y/y	Jun	1.7%	1.5%	1.7%	***	Equity and bond neutral
	National CPI Ex-Fresh Food	y/y	Jun	1.6%	1.4%	1.6%	**	Equity and bond neutral
	National CPI Ex-Fresh Food & Energy	y/y	Jun	1.7%	1.8%	1.8%	*	Equity and bond neutral
	Japan Buying Foreign Bonds	w/w	17-Jul	-¥714.4b	¥1090.0b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	17-Jul	-¥185.1b	¥501.5b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	17-Jul	-¥121.3b	¥196.2b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	17-Jul	-¥79.6b	¥742.6b		*	Equity and bond neutral
	S&P Global Japan Composite PMI	m/m	Jul P	53.1	52.8		*	Equity and bond neutral
	S&P Global Japan Manufacturing PMI	m/m	Jul P	54.7	54.8		***	Equity and bond neutral
	S&P Global Japan Services PMI	m/m	Jul P	51.9	52.2		*	Equity and bond neutral
Australia	S&P Global Australia Composite PMI	m/m	Jul P	52.6	50.4		*	Equity and bond neutral
	S&P Global Australia Manufacturing PMI	m/m	Jul P	51.7	51.5		***	Equity and bond neutral
	S&P Global Australia Services PMI	m/m	Jul P	53.0	50.5		*	Equity and bond neutral
India	HSBC India PMI Composite	m/m	Jul P	54.3	57.1		**	Equity and bond neutral
	HSBC India PMI Mfg	m/m	Jul P	53.9	54.2		***	Equity and bond neutral
	HSBC India PMI Services	m/m	Jul P	53.1	57.4		**	Equity and bond neutral
EUROPE								
Eurozone	Consumer Confidence	m/m	Jul P	-15.9	-17.6	-17.0	**	Equity bullish, bond bearish
	S&P Global Eurozone Manufacturing PMI	m/m	Jul P	52.0	51.4	51.5	***	Equity and bond neutral
	S&P Global Eurozone Services PMI	m/m	Jul P	51.6	49.4	49.8	**	Equity bullish, bond bearish
	S&P Global Eurozone Composite PMI	m/m	Jul P	51.9	50.0	50.2	*	Equity bullish, bond bearish
Germany	GfK Consumer Confidence	m/m	Aug	-29.6	-29.3	-28.5	**	Equity bearish, bond bullish
	S&P Global Germany Manufacturing PMI	m/m	Jul P	52.2	50.3	50.5	***	Equity bullish, bond bearish
	S&P Global Germany Services PMI	m/m	Jul P	49.6	48.6	49.0	**	Equity bullish, bond bearish
	S&P Global Germany Composite PMI	m/m	Jul P	51.2	49.5	49.7	**	Equity bullish, bond bearish
France	S&P Global France Manufacturing PMI	m/m	Jul P	50.0	51.2	51.0	***	Equity bearish, bond bullish
	S&P Global France Services PMI	m/m	Jul P	49.8	46.8	47.5	**	Equity bullish, bond bearish
	S&P Global France Composite PMI	m/m	Jul P	49.6	47.2	47.8	**	Equity bullish, bond bearish
UK	GfK Consumer Confidence	m/m	Jul	-17	-23	-22	***	Equity bullish, bond bearish
	Retail Sales	y/y	Jun	4.2%	3.5%	2.4%	***	Equity bullish, bond bearish
	Retail Sales Ex-Auto Fuel	y/y	Jun	5.4%	4.9%	3.2%	**	Equity bullish, bond bearish
	S&P Global UK Manufacturing PMI	m/m	Jul P	52.8	52.5	52.0	***	Equity and bond neutral
	S&P Global UK Services PMI	m/m	Jul P	51.8	48.8	49.4	**	Equity bullish, bond bearish
	S&P Global UK Composite PMI	m/m	Jul P	52.1	49.3	49.7	**	Equity bullish, bond bearish
Russia	Gold and Forex Reserves	m/m	17-Jul	$722.9b	$722.4b		***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	17-Jul	21.99t	21.82t		*	Equity and bond neutral
AMERICAS								
Canada	Retail Sales	m/m	Jun	1.0%	0.4%	1.0%	**	Equity and bond neutral
	Retail Sales Ex-Autos	m/m	Jun	1.2%	0.1%	1.3%	**	Equity and bond neutral
Mexico	Unemployment Rate NSA	m/m	Jun	2.90%	2.76%	2.80%	***	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)	379	380	-1	Up
U.S. Sibor/OIS spread (bps)	383	383	0	Up
U.S. Libor/OIS spread (bps)	381	381	0	Up
10-yr T-note (%)	4.68	4.69	-0.01	Up
Euribor/OIS spread (bps)	247	246	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		**Prior**	**Expected**	
Bank of Russia Key Rate	14.00%	14.25%	14.25%	Below 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	$97.63	$100.69	-3.04%	Easing Geopolitical Tensions
WTI	$89.77	$92.19	-2.63%	Easing Geopolitical Tensions
Natural Gas	$2.89	$2.92	-0.82%	
Crack Spread	$59.06	$60.10	-1.74%	
12-mo strip crack	$47.11	$48.27	-2.40%	
Ethanol rack	$2.07	$2.07	0.00%	
Metals				
Gold	$4,058.97	$4,049.48	0.23%	
Silver	$58.38	$57.60	1.37%	
Copper Contract	$635.65	$634.35	0.20%	
Grains				
Corn contract	$489.25	$487.50	0.36%	
Wheat contract	$700.25	$696.25	0.57%	
Soybeans contract	$1,248.25	$1,243.75	0.36%	
Shipping				
Baltic Dry Freight	2,725	2,715	10	
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)	32	34	-2	

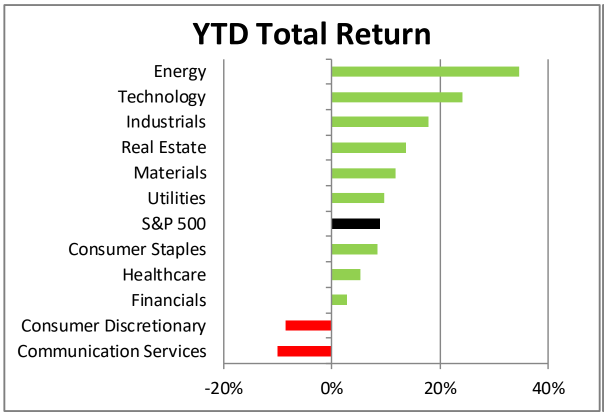
Weather

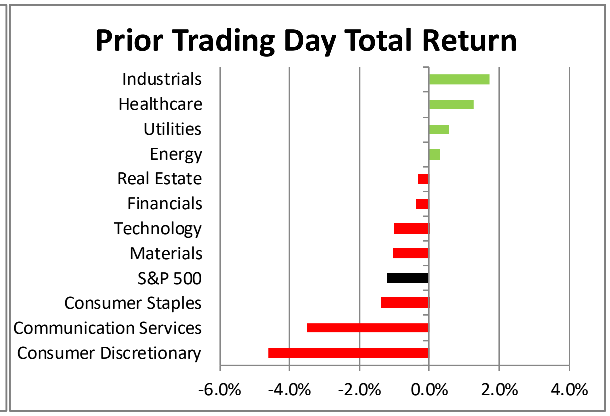
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures from the West Coast to the Mississippi River and in the Deep South, with near-normal temps everywhere else. The outlook calls for wetter-than-normal conditions in the central and southern Rocky Mountains and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

Tropical Storm Bertha has now dissipated after making landfall over Texas. There are currently no further atmospheric disturbances in the Atlantic area.

Data Section

US Equity Markets – (as of 7/23/2026 close)

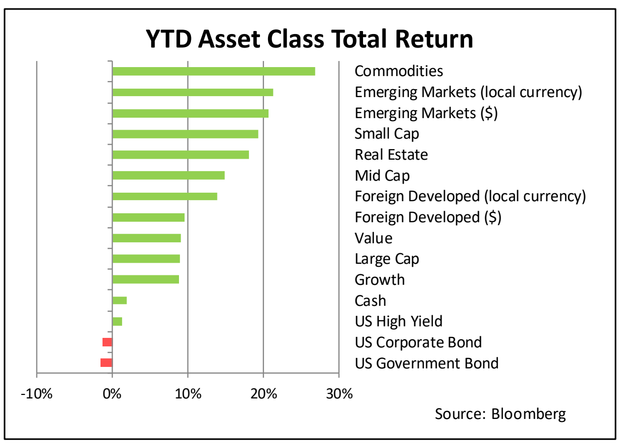




(Source: Bloomberg)

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 7/23/2026 close)

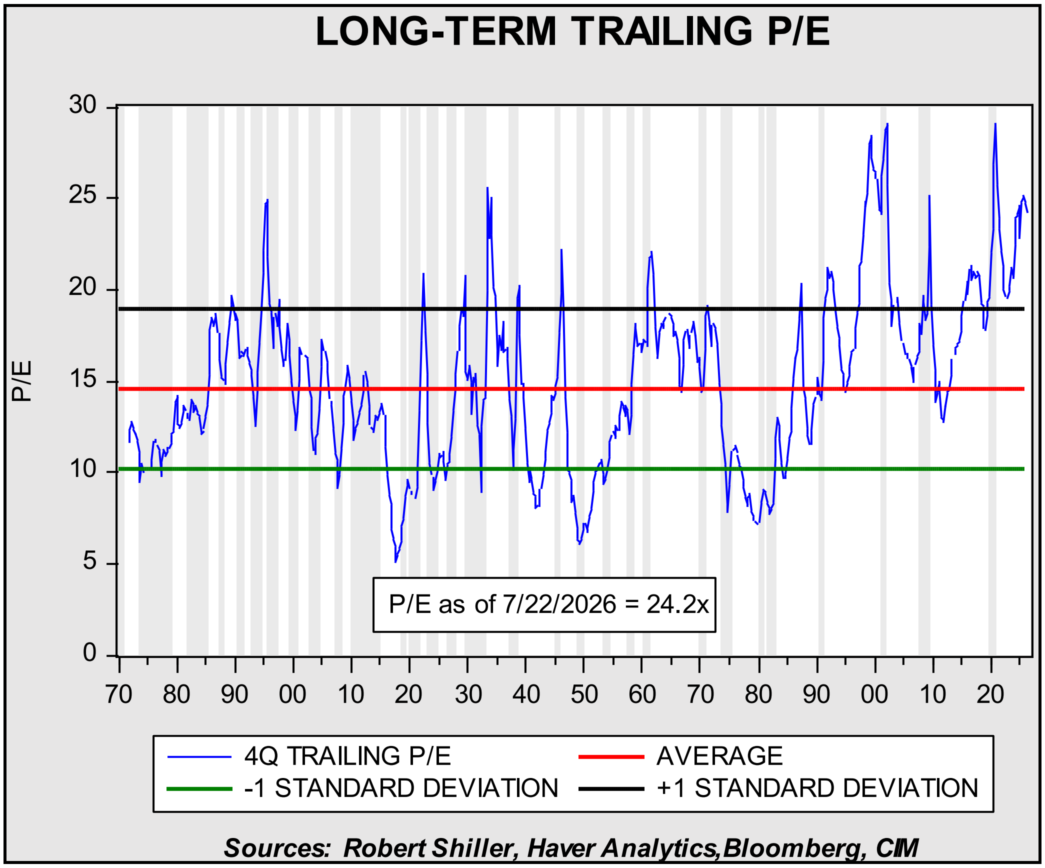


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.

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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.