Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: July 27, 2026 — 9:30 AM ET] Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 is up 1.4% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 1.0%. Chinese markets were higher with the Shanghai Composite up 1.2% and the Shenzhen Composite up 2.9%. US equity index futures are signaling a higher open.

With 135 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, 85.9% have exceeded expectations while 10.4% 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* today opens with an update on the war in Iran, where both the US and Iran have paused their attacks on each other, sparking a sharp fall in oil prices. We next review several other international and US developments that could affect the financial markets today, including a discussion of Japan's vulnerability to extended oil supply disruptions and some notes on US monetary and fiscal policy.

United States-Israel-Iran: As the US unexpectedly paused its attacks on Iran over the weekend, sources in the administration said a key reason was concern about dwindling US stockpiles of air defense weapons. Reflecting investor hopes for a new, extended ceasefire, global oil prices have fallen about 6.1% so far this morning, with near Brent futures at $86.14 per barrel. Still, the Iranbacked Houthi rebels in Yemen have expanded their attacks beyond shipping in the Red Sea and have hit at least one oil refinery in Saudi Arabia, raising new risks to global refined product supplies.

- President Trump's decision not to launch further attacks on Iran over the weekend came despite his assertions last week that he was prepared to greatly intensify US strikes. At the time, at least one administration official said the president was becoming frustrated with the war and had shifted into a vengeful mood. If true, the dwindling US weapon inventory may provide a useful brake on decision making.
- Still, the report about the president's mood bears watching. Launching any war is risky, as leaders have known since at least the days of the ancient Greeks. Emotions such as frustration, desperation, or a desire for revenge can cloud a leader's judgment of benefits and costs. Even in the Ukraine war, periodic reports that President Putin is frustrated have raised concerns that he might try a risky "Hail Mary" attack with unpredictable consequences.
- Indeed, any leader getting bogged down in a war could be tempted to escalate in dangerous ways, potentially miscalculating the other side's response or unleashing a chain reaction that can't be easily controlled. Of course, one critical risk would be the temptation to use the very strongest weapons in the US arsenal, violating the nuclear taboo and probably touching off a new, global nuclear arms race. A less dramatic but still highly dangerous move would be to destroy or seize Iran's oil infrastructure on Kharg Island.
- In any case, even without those extreme outcomes, the conflict in Iran remains volatile despite the current standdown.

Russia-Ukraine War: President Zelensky said over the weekend that Ukraine has intelligence showing the Kremlin has asked North Korea to send 30,000 more troops and additional ballistic missile launchers to help Russia defend itself against Ukraine's increasingly effective attacks. According to Zelensky, Russia is already preparing to accept the new troops and other aid in the frontier region around Voronezh. In return, Russia is reportedly giving North Korea cash, military technology, food, and energy.

- Although Zelensky would have a political incentive to exaggerate North Korea's cooperation with Russia, his assertion would be consistent with Ukraine's expanded drone strikes across Russia.
- Those strikes have brought significant fuel shortages, commercial disruptions, and casualties home to the Russian people for the first time. Faced with rising anger and worry among everyday Russian citizens, President Putin probably feels pressure to turn the tide of the war back in Russia's favor.
- Reports indicate that a lack of manpower for air defense units is one key reason why Ukrainian drones have become so successful in reaching their targets in Russia. The additional North Korean troops could free up troops to staff more air defense batteries, while the new missile launchers could allow Russia to intensify its offense strikes. Still, it's unclear how much the additional North Korean aid would help Russia.

- Over the longer term, the bigger significance of any new round of Russian-North Korean cooperation could be a strengthening of bilateral relations and further technological sophistication for North Korean weaponry — a move that would make the country an even more dangerous actor.

Japan: Prime Minister Takaichi issued a statement on Saturday that the country has procured enough oil to meet the country's needs in July, and that the supplies needed for August are also on track to be procured. She said the government, therefore, doesn't plan to tap its strategic reserves any further in the near term. As for naphtha-derived plastic products, Takaichi said there has been no change in the outlook that they will remain available until next spring.

- Takaichi's statement was clearly aimed at calming concerns in Japan about further petroleum supply disruptions now that the Iran conflict has flared up again.
- However, we're struck by her statement about naphtha-derived products being available until spring. Given that there's no end in sight for the war, it doesn't seem inconceivable that global petroleum supplies could still be subject to disruption into 2027. For a highly developed country like Japan, it's striking that it may only have eight months or so of visibility into its naphtha supplies.
- This underscores a concern that we've discussed repeatedly as the world fractures into relatively separate geopolitical and economic blocs and the wars in Ukraine and Iran further sever key global supply chains. As countries and companies increasingly face this reality, we think they will continue to prioritize resilience and stockpile resources. In turn, stockpiling demand will likely be a long-term support to commodity prices.

China: Memory-chip maker CXMT had its initial public offering on the Shanghai stock market today, with its share price at closing up a whopping 466% from its offering price. The price surge left CXMT with a market capitalization of $484 billion, making it the most valuable stock trading on mainland Chinese markets. The strong performance underlines how the frenzy for stocks related to artificial intelligence and the infrastructure to support it has now extended to China, the US's main rival for the technology.

India: An interesting new article in the *South China Morning Post* indicates that India is now churning out a new warship roughly every six weeks as it seeks to expand its navy from about 150 hulls currently to at least 200 hulls by 2035. The report shows the new vessels coming out of India's shipyards are made with about 75% local content. The article is more evidence that the global surge in the defense industry continues apace and is increasingly expanding from Europe to Asia, likely creating new investment opportunities there.

Indonesia: Long-serving central bank chief Perry Warjiyo resigned today, further raising concerns about central bank independence and volatile economic policymaking. Warjiyo's resignation follows a period in which he was hiking interest rates to battle a crushing depreciation of the rupiah (IDR). The weakness in the currency is likely tied to President Prabowo's big increases in social spending, which have widened the budget deficit.

United States-European Union: President Trump on Friday threatened to hit the European Union with "substantial" new tariffs over its decision to fine Google about $1 billion for violating its Digital Markets Act. If the president follows through with the threat, it could unravel last year's US-EU trade deal, which ended the administration's trade war against the EU. Such a development could pose new economic headwinds for many European companies and even US firms that rely on inputs from the EU.

US Politics: As we flagged in a *Comment* last week, a Democratic convention in Maine on Saturday officially chose Troy Jackson as the party's candidate in the state's November election for US Senate. Jackson replaces the initial candidate, Graham Platner, who 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, but he began his political career as a Republican who embraced conservative social policies.

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

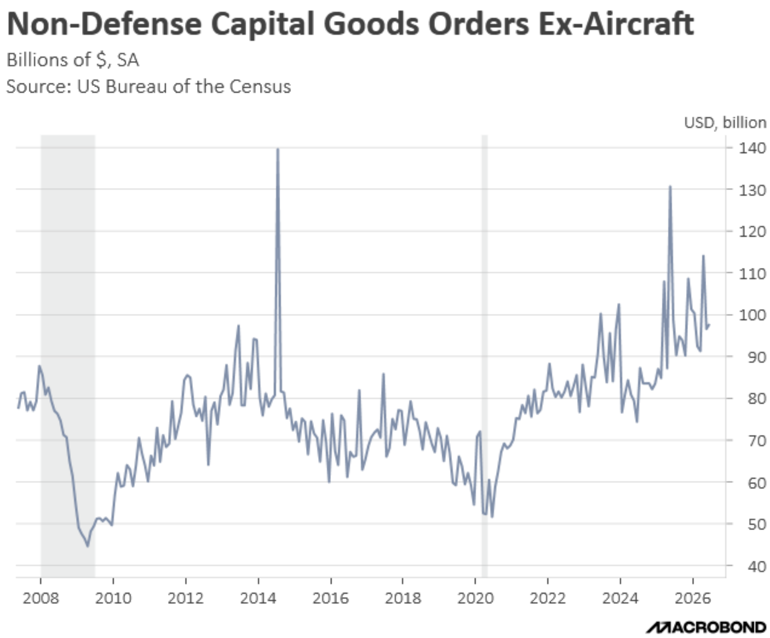
US Monetary Policy: The Fed tomorrow begins its latest policy meeting, with its decision due on Wednesday at 2:00 PM ET. Based on current interest-rate futures trading, the policymakers are expected to hold the benchmark short-term interest rate, the fed funds rate, unchanged at 3.50% to 3.75%. However, the trading suggests investors see a 1-in-3 chance that the policymakers could hike rates in response to persistently high price inflation and the new price pressures arising from the war in Iran. That highlights the risk of an unexpected rate hike that would unsettle markets.

US Fiscal Policy: Reports on Friday revealed that administration officials in little-noticed court filings admitted they canceled more than $7.5 billion in Biden-era federal grants for clean energy projects last October "based solely" on political criteria, targeting projects in states that were represented by Democrats or had voted for Democrat Kamala Harris in the 2024 election.

- Many politicians are likely to use their power to reward allies and punish opponents, but the new reports show how the president's extraordinarily strong political position and aggressive approach to using power have affected US fiscal policy.
- We discuss this phenomenon further in our latest *Bi-Weekly Geopolitical Report*, which will be published later today. We note in that report that strong, populist leaders in the US and some other developed countries are starting to push their political systems to new forms that look quite different from the traditional systems of the past.

US Economic Releases

June ***durable goods orders*** rose by a seasonally adjusted 0.3%, well below the expected increase of 2.5% but better than the previous month's decline of 4.0%. Of course, durable goods orders are often driven by transportation equipment, where just a few airliner orders can have a big impact. June ***durable goods orders excluding transportation*** rose 0.6%, less than the expected increase of 0.8%. Also, the durable goods report also includes a key proxy for corporate capital investment. Last month, non-defense capital goods orders ex-aircraft rose 0.9%, beating the anticipated rise of 0.8%.



The chart above shows the progression of non-defense capital goods orders ex-aircraft since just before the GFC. Compared with the same month one year earlier, overall durable goods orders in June were up 7.4%, while durable orders ex-transport were up 11.0%. Nondefense capital goods orders ex-aircraft were down 1.1%.

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

Economic Releases						
EST	Indicator			Expected	Prior	Rating
10:30	Dallas Fed Manufacturing Activity	m/m	Jul	2.0	0.0	**
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	PPI Services	y/y	Jun	3.2%	3.4%	3.4%	*	Equity and bond neutral
	Leading Economic Index	m/m	May F	116.5	116.8		**	Equity and bond neutral
	Coincident Index	y/y	May F	117.9	118.5		**	Equity and bond neutral
China	Industrial Profits	y/y	Jun	15.1%	21.1%		*	Equity and bond neutral
EUROPE								
Eurozone	M3 Money Supply	y/y	Jun	3.3%	3.0%	3.3%	***	Equity and bond neutral
Germany	IFO Business Climate	m/m	Jul	88.6	85.7	86.0	***	Equity and bond neutral
	IFO Current Assessment	m/m	Jul	86.5	87.0	87.3	**	Equity and bond neutral
	IFO Expectations	m/m	Jul	86.7	84.3	84.8	**	Equity and bond neutral
Switzerland	Domestic Sight Deposits CHF	w/w	24-Jul	442.7b	433.0b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	24-Jul	469.3b	469.4b		*	Equity and bond neutral
AMERICAS								
Canada	Industrial Product Price	m/m	Jun	-1.4%	1.4%	-0.4%	**	Equity and bond neutral
	Raw Material Prices	m/m	Jun	-6.9%	0.5%	-1.3%	*	Equity and bond neutral
Mexico	Trade Balance	m/m	Jun	4089.9m	2259.2m		**	Equity and bond neutral
	Exports	m/m	Jun	72551m	69544m		*	Equity and bond neutral
	Imports	m/m	Jun	68461m	67285m		*	Equity and bond neutral
Brazil	FGV Consumer Confidence	m/m	Jul	88.3	88.7		*	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	381	-2	Up
U.S. Sibor/OIS spread (bps)	383	384	-1	Up
U.S. Libor/OIS spread (bps)	381	382	-1	Up
10-yr T-note (%)	4.64	4.68	-0.04	Up
Euribor/OIS spread (bps)	249	247	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

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	$89.42	$96.78	-7.60%	Easing geopolitcal tesions
WTI	$83.39	$89.31	-6.63%	Easing geopolitcal tesions
Natural Gas	$2.77	$2.87	-3.55%	
Crack Spread	$61.07	$59.00	3.50%	
12-mo strip crack	$46.25	$46.69	-0.93%	
Ethanol rack	$2.08	$2.08	0.11%	
Metals				
Gold	$4,098.29	$4,052.79	1.12%	
Silver	$59.18	$58.17	1.73%	
Copper Contract	$640.10	$635.75	0.68%	
Grains				
Corn contract	$473.25	$487.50	-2.92%	
Wheat contract	$669.00	$678.00	-1.33%	
Soybeans contract	$1,219.00	$1,253.50	-2.75%	
Shipping				
Baltic Dry Freight	2,743	2,725	18	

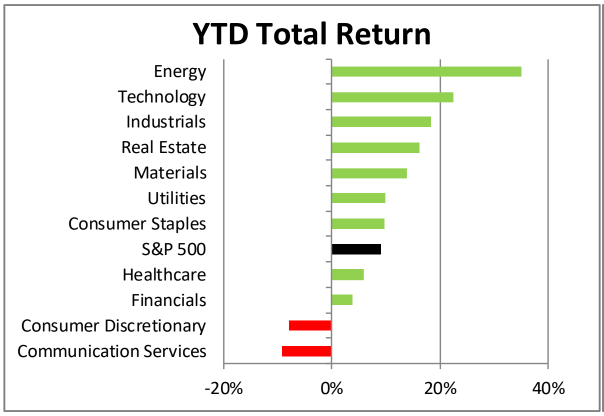
Weather

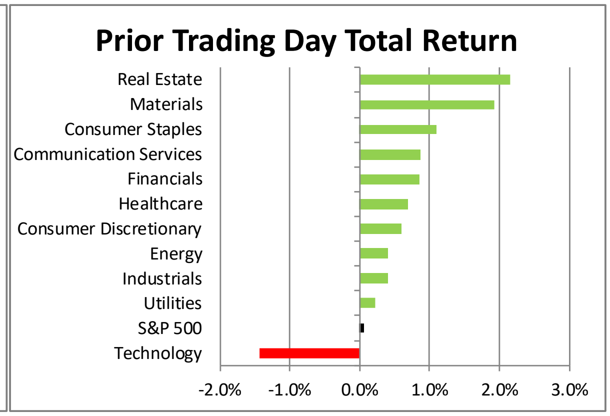
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for the entire country. The outlook calls for wetter-than-normal conditions in the New England and Southwest regions, with dry conditions in the Pacific Northwest and Great Plains.

There are currently no tropical disturbances expected in the Atlantic area within the next seven days.

Data Section

US Equity Markets – (as of 7/24/2026 close)

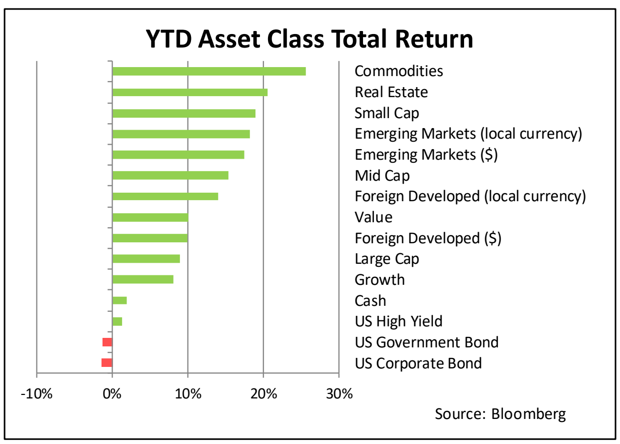




(Source: Bloomberg)

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 7/24/2026 close)

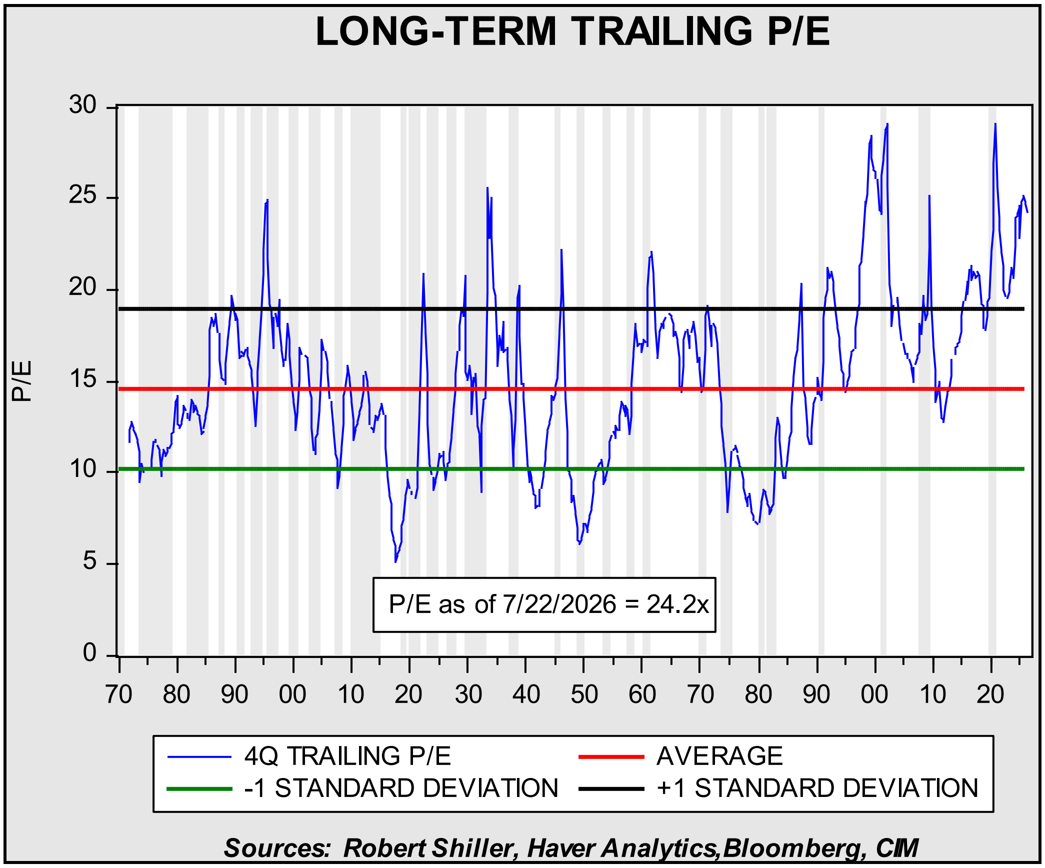


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.