Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: July 28, 2026 — 9:30 AM ET] Global equity markets are lower this morning. In Europe, the Euro Stoxx 50 is down 0.2% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 5.4%. Chinese markets were lower with the Shanghai Composite down 1.2% and the Shenzhen Composite down 3.2%. US equity index futures are signaling a lower open.

With 145 companies having reported so far, S&P 500 earnings for Q2 are running at $84.30 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, 85.5% 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
"The Corporatist State" **(7/27/26)** **+ podcast**	"In Warsh, We Trust?" (7/20/26) + podcast	Q3 Update Coming Soon	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 the latest reporting hints that the US might continue its pause in attacks in order to let its new financial sanctions on Iran have an impact. We next review several other international and US developments that could affect the financial markets today, including a few words on the new sell-off in semiconductor stocks related to artificial intelligence and the latest expectations for this week's Federal Reserve policy meeting.

United States-Israel-Iran: While initial reports suggested a key reason why the US paused its attacks on Iran over the weekend was concern about dwindling supplies of air defense weapons, new reporting suggests another key reason was a growing sense that more bombing would be less effective than a further tightening of financial sanctions on Tehran. New intelligence reportedly shows that the Iranian government is having trouble paying its troops, for example.

- If true, and if the administration is willing to be patient long enough for the new sanctions to have their full effect, the pause in hostilities could be more prolonged than earlier anticipated.
- If so, the risks associated with the conflict could be reduced, global energy prices could continue to retreat, and threats to the global economy and financial markets could cool.

Global Artificial Intelligence Industry: Semiconductor stocks related to AI remain under pressure so far this morning, a day after US chip stocks fell sharply on news of another "circular" investment deal in the AI space (this time between Nvidia and customer OpenAI). The sell-off today extended to Asia, pushing South Korea's tech-heavy Kospi stock price index 10% lower and Japan's Nikkei 4% lower. AI-related stocks could remain volatile this week as major US tech firms report earnings and China continues to announce new technology breakthroughs.

- With companies issuing mountains of new equity and debt to pay for their galloping AI investments, new data shows their cost of capital is also rising — a phenomenon that could help end the frenzy.
- New research from Bank of America indicates that the supply of new bonds this year from AI companies has already reached $270 billion in early July, almost double what was raised in all of 2025.

China-Germany: Mercedes-Benz has become the third German automaker to cut its 2026 sales forecast because of weakening sales in China. While automakers say they are still committed to the country, they face a range of headwinds there, from weak consumer demand to cutthroat competition from local brands. The news is likely to heighten Europe's growing concern about its trade relationship with China, including not just challenges for European firms selling there but also a flood of cheap Chinese imports that are hurting European manufacturers.

Poland: Prime Minister Tusk's main opposition, the right-wing Law and Justice party, will formalize a split today in which former prime minister Mateusz Morawiecki and other key politicians will establish a new, rival conservative party. The disarray in the right-wing opposition could help solidify Tusk's political position ahead of next year's parliamentary elections. If Tusk wins with a better position in parliament, Poland will likely continue to repair its ties with the European Union and be a stronger bulwark against Russian influence in the EU.

Singapore: The Monetary Authority of Singapore yesterday tightened monetary policy to address increased consumer price inflation because of the war in Iran. Since Singapore imports most of its goods, it tightens monetary policy by boosting the exchange value of the currency. In any case, the move highlights how global central banks are under pressure to tighten policy to address the rise in inflation resulting from the Iran conflict. Multiple other central banks are expected to hike interest rates, potentially putting new stress on the greenback.

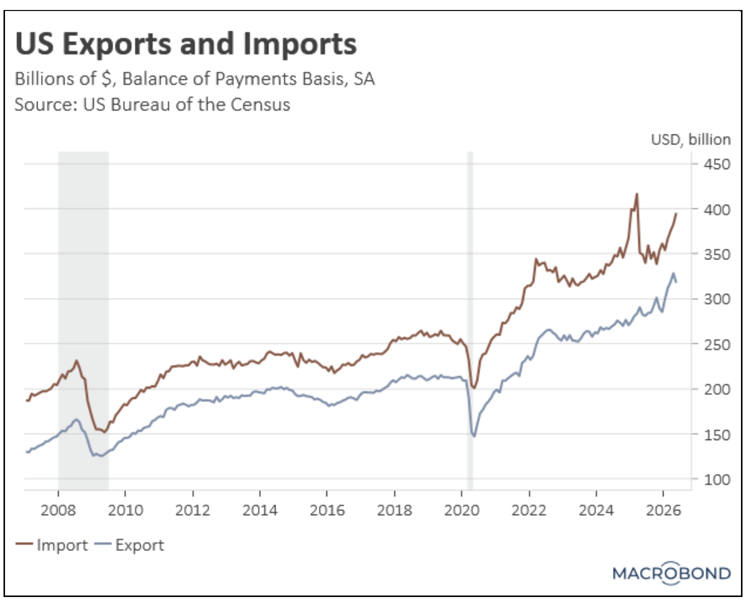
US Monetary Policy: The Fed today starts its latest policy meeting, with its decision due on Wednesday at 2:00 PM ET. Based on current interest-rate futures trading, the policymakers are expected to hold their benchmark short-term interest rate, the fed funds rate, unchanged at 3.50% to 3.75%. However, the trading suggests investors see more than a 1-in-3 chance that 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 Trade Policy: The same small firms that brought the lawsuits that led to the invalidation or undermining of President Trump's previous tariffs have now filed fresh lawsuits against the administration's new tariffs announced last week. At this point, it's still too early to know how vulnerable the new tariffs will be to legal scrutiny. Nevertheless, the new lawsuits will probably increase the sense of uncertainty regarding the US's future trade policy and will therefore likely be a headwind for US economic activity.

US Stock Market: Reflecting the new headwinds for once high-flying AI stocks, Nvidia yesterday saw its market capitalization eclipsed by Apple. As of yesterday's close, Apple was once again the world's most valuable public company, with its market cap rising to $4.95 trillion while Nvidia's market cap fell to $4.76 trillion. The development is likely to be especially welcomed by Apple, which one year ago was being criticized for what investors felt was a low-energy, lackluster AI program.

US Economic Releases

In a preliminary estimate today, the US ***merchandise trade balance*** in June showed a seasonally adjusted deficit of $101.5 billion, slightly bigger than the expected deficit of $100.0 billion and the revised May's revised shortfall of $105.9 billion. According to the data, total merchandise exports fell 3.2%, while imports rose 3.3%. The chart below shows the monthly value of US exports and imports since just before the Great Financial Crisis.



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

Economic Releases						
EST	Indicator			Expected	Prior	Rating
10:00	Richmond Fed Manufact. Index	m/m	Jul	6	4	**
10:00	Conf. Board Consumer Confidence	m/m	Jul	92.4	91.2	***
10:30	Dallas Fed Services Index	m/m	Jul	3.8	2.9	*
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								
South Korea	Consumer Confidence	m/m	Jul	106.8	106.6		*	Equity and bond neutral
India	Industrial Production	y/y	Jun	7.3%	5.0%	6.0%	***	Equity bullish, bond bearish
EUROPE								
France	Consumer Confidence	m/m	Jul	86.0	84	85	***	Equity and bond neutral
AMERICAS								
Brazil	Current Account Balance	m/m	Jun	-$233m	-$3322m	-$2203m	**	Equity and bond neutral
	Foreign Direct Investment	m/m	Jun	$9075m	$7974m	$5600m	**	Equity and bond neutral
	IBGE Inflation IPCA-15	m/m	Jul	4.52%	4.80%	4.68%	***	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)	380	381	-1	Up
U.S. Sibor/OIS spread (bps)	384	385	-1	Up
U.S. Libor/OIS spread (bps)	382	382	0	Up
10-yr T-note (%)	4.63	4.65	-0.02	Flat
Euribor/OIS spread (bps)	245	249	-4	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	$86.37	$88.36	-2.25%	
WTI	$81.04	$82.61	-1.90%	
Natural Gas	$2.72	$2.77	-1.55%	
Crack Spread	$63.96	$62.84	1.79%	
12-mo strip crack	$46.51	$46.85	-0.73%	
Ethanol rack	$2.08	$2.08	0.00%	
Metals				
Gold	$4,028.66	$4,076.26	-1.17%	
Silver	$57.30	$58.37	-1.82%	
Copper Contract	$630.95	$637.90	-1.09%	
Grains				
Corn contract	$474.75	$474.00	0.16%	
Wheat contract	$652.25	$660.00	-1.17%	
Soybeans contract	$1,207.25	$1,213.75	-0.54%	
Shipping				
Baltic Dry Freight	2,696	2,743	-47	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		1.00		
Gasoline (mb)		-1.00		
Distillates (mb)		0.50		
Refinery run rates (%)		-0.30%		
Natural gas (bcf)		34		

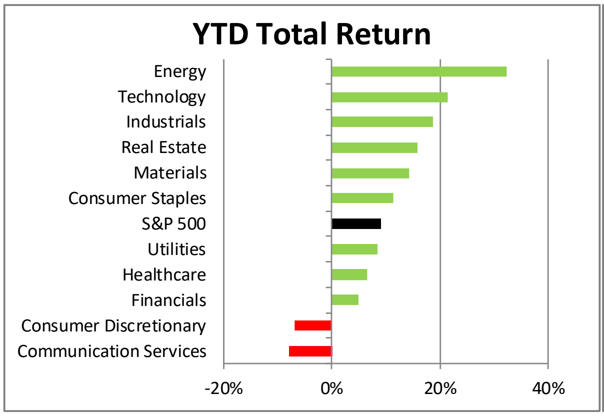
Weather

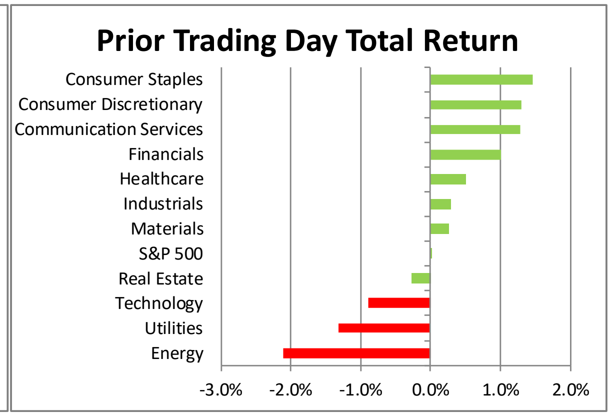
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for the entire country. The outlook calls for wetter-than-normal conditions in the New England and Southwest regions, with dry conditions in the Pacific Northwest and Great Plains.

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

Data Section

US Equity Markets – (as of 7/27/2026 close)

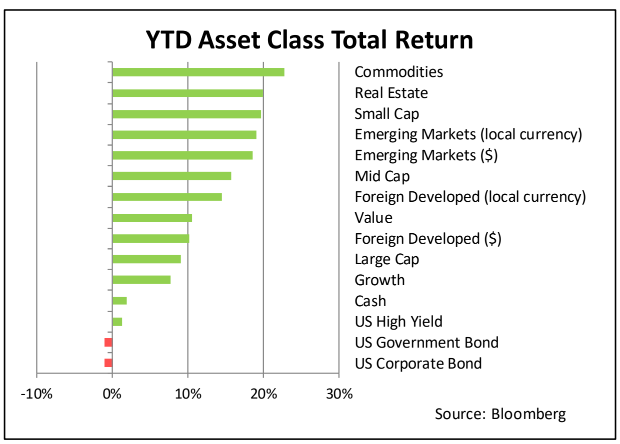




(Source: Bloomberg)

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 7/27/2026 close)

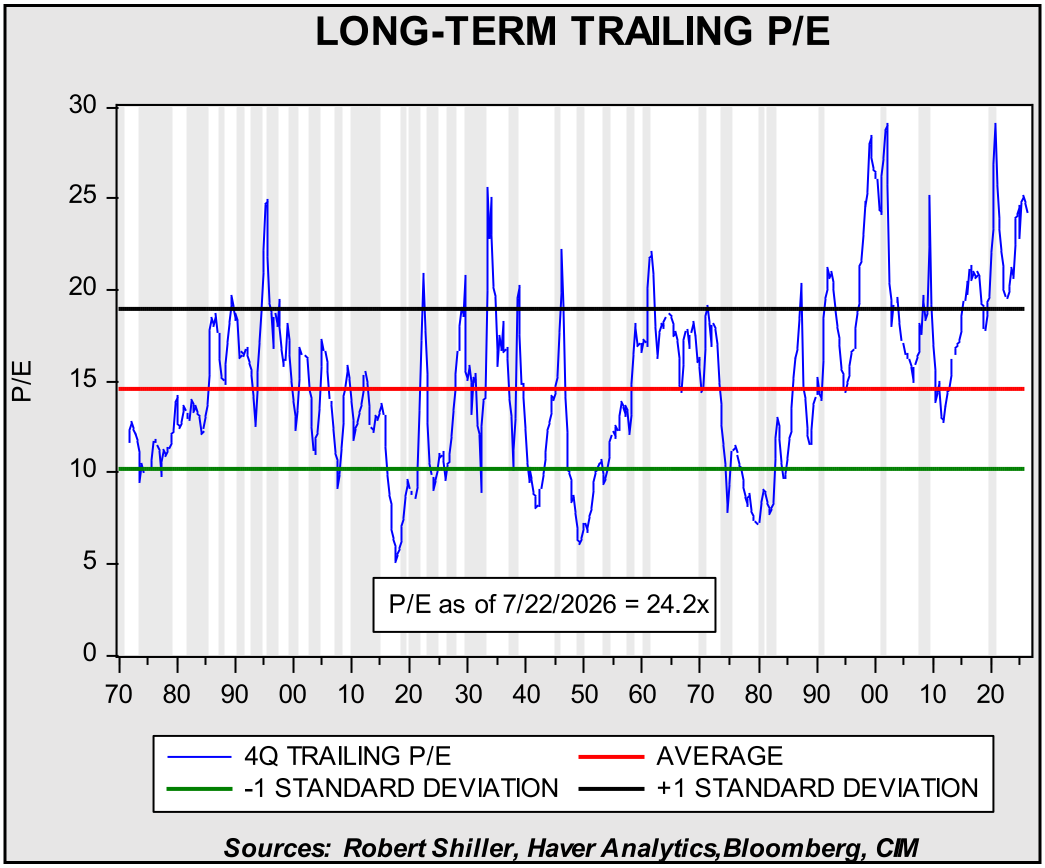


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.