Daily Comment

Confluence INVESTMENT MANAGEMENT

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: July 29, 2026 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is down 0.4% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 2.5%. Chinese markets were higher with the Shanghai Composite up 0.4% and the Shenzhen Composite up 0.9%. US equity index futures are signaling a higher open.

With 187 companies having reported so far, S&P 500 earnings for Q2 are running at $84.60 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, 86.1% have exceeded expectations while 10.7% 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 2026 Report**	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 the latest escalation in the Iran conflict. We then turn to the Federal Reserve, examining the growing speculation of a potential rate hike at this meeting. Next, we briefly cover Ukraine's drone campaign inside Russia, the US crackdown on imports of Chinese-made robots, and China's deepening involvement in the Iran conflict. As always, we also include a review of recent domestic and international economic data.

Surprise Attack: Tensions between the United States and Iran are likely to intensify following reported attacks on US military bases. On Tuesday, US officials said ballistic missiles targeting American bases in the Middle East were successfully intercepted, with no reported damage. Still, the incident has renewed apprehension that the fragile de-escalation between the two sides could quickly unravel. The attacks also raise the risk that the conflict could reaccelerate and broaden beyond its current scope.

- The timing coincides with growing signs that the conflict is spreading across the Middle East. On Tuesday, an Iran-backed militia in Iraq launched a drone attack targeting oil fields in Saudi Arabia, marking an apparent expansion of strikes that began Monday across multiple locations, including Kuwait and the United Arab Emirates. The pattern of attacks suggests a broader Iranian effort to deter regional actors from supporting US military operations.
- The attacks are likely to complicate efforts to wind down the conflict. Prior to the reports, President Trump met with Israeli Prime Minister Benjamin Netanyahu and indicated that the United States may be reluctant to deepen its involvement. At the same time, Trump struck an optimistic tone on negotiations, stating that talks with Iran were progressing well, while reiterating his threat to target Iranian infrastructure if a deal is not reached.
- The recent escalation underscores how this war may not have a clear off-ramp. Iran's attacks indicate it is prepared to prolong the conflict so long as it believes that doing so preserves leverage in negotiations. The US, meanwhile, is left with a difficult choice between widening a highly unpredictable conflict or adopting a more restrained approach that acknowledges the limits of its willingness to defend maritime interests in the region.
- While the US may prefer to de-escalate, the continuation of the conflict could well keep it involved. US forces may ultimately be pressed to take more aggressive steps to reassert deterrence, including the potential deployment of troops and broader operations in Iran. This uncertainty is expected to support energy prices and weigh on bond markets going forward. Equities, however, may remain relatively resilient as investors stay more focused on earnings.

Fed Talks: There is growing speculation that the Federal Reserve may hike rates following today's meeting. According to Citadel Securities, new Fed Chair Kevin Warsh may look to surprise markets with a rate hike as a way to strengthen his inflation-fighting credentials. The move would coincide with growing unease about inflation, as the conflict in the Middle East continues to rattle energy markets. While markets still favor a pause, the potential for a surprise hike could shock markets.

- Speculation about the Fed's next move has intensified as markets try to assess how the central bank will preserve credibility amid uncertainty in the Middle East. The resurgence in fighting between the US and Iran has pushed oil prices higher again, with crude approaching $100 a barrel last week. More broadly, renewed tariffs have raised questions about the ability of firms to manage cost pressures, adding to concerns about whether businesses will pass those costs on to consumers.
- Additionally, there has been a notable hawkish shift within the FOMC. In the latest dots plot, a majority of committee members favored either keeping rates unchanged or raising them this year, with only one participant, most likely Fed Governor Michelle Bowman, expecting a rate cut. This marks a sharp departure from the previous dots plot, released at the onset of the Iran conflict, when the majority favored rate cuts and none anticipated a hike.

- The push for more hawkish policy comes as markets begin to question the Fed's willingness to address rising inflation pressures. The 10-year yield has risen by as much as 30 basis points since the last FOMC meeting, suggesting that inflation premia have begun to increase. That move comes as investors appear to be losing confidence in the Fed's ability to use its policy tools to bring inflation back down. As a result, a rate hike could help restore some of that confidence.
- Although a rate hike at today's meeting is not our base case, we think it remains possible given Warsh's desire to restore the Fed's credibility. In our view, any rate hike would probably be described as a one-off move, as the central bank seeks to keep its options open for the next few meetings. While the prospect of a rate hike would probably weigh on equities, it may offer some relief for long-term bond yields.

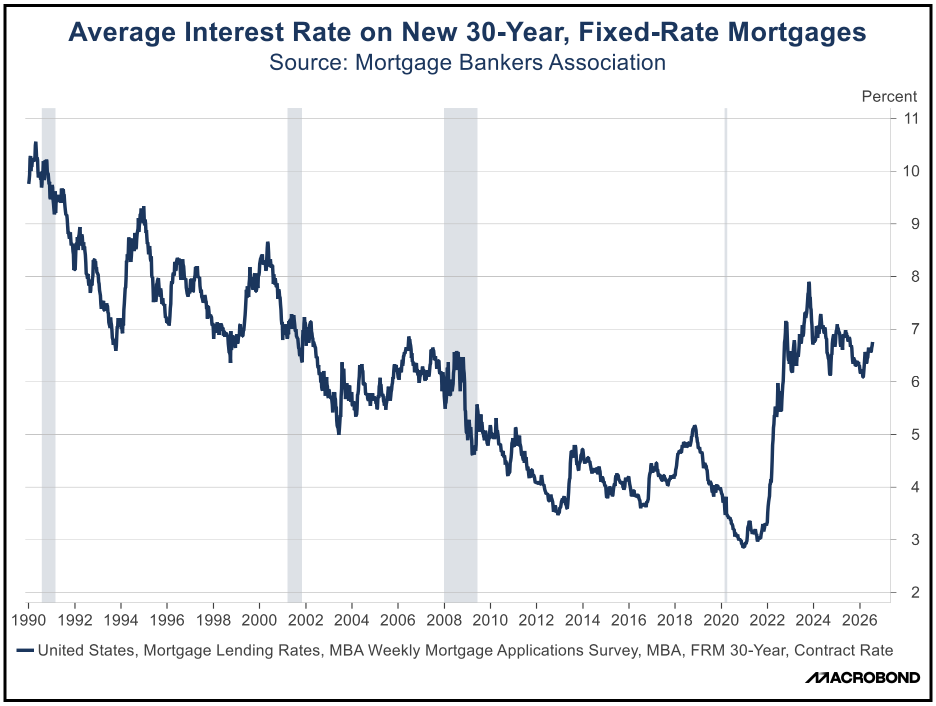
Ukraine Expands: Kyiv has intensified its campaign against Russian energy infrastructure, broadening its focus beyond oil refineries to other hard-to-replace critical assets. The shift comes as Ukraine's long-range strikes have grown more effective, and as Kyiv seeks to raise the economic cost of the war and pressure Moscow back to the negotiating table. By targeting infrastructure that is difficult and slow to rebuild, Ukraine aims to compound the financial and logistical strain on Russia's war effort.

AI Protectionism: The White House has announced a ban on Chinese-made humanoid robots over national security concerns. The decision to restrict the use of Chinese robots comes as the US seeks to prevent Chinese technology from being embedded in its supply chains. The move also reflects China's growing role as a market leader in AI-powered robotics. It could pave the way for additional measures as Washington looks to maintain its edge over China in the AI race.

China Backing Iran? Iran is expected to receive a shipment of Chinese-made air defense missile launchers in the coming weeks. The move comes as Iran seeks to strengthen its air defenses in preparation for a potentially prolonged conflict with the US. Chinese involvement is apt to heighten concerns amid rising tensions between Washington and Beijing. The shipment also underscores Beijing's support for rivals of the US and could further strain relations between the two powers.

US Economic Releases

The Mortgage Bankers Association said ***mortgage applications*** in the week ended July 24 fell 6.4%, more than erasing their 1.9% increase in the previous week. Applications for home purchase mortgages declined 3.6%, after rising 5.5% in the prior week. Applications for refinancing mortgages dropped 9.9%, after falling 2.4% the week before. The average interest rate on a 30-year, fixed-rate mortgage rose 7 basis points to 6.76%. The chart below shows how mortgage rates have changed over time.



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

Economic Releases						
EST	**Indicator**			**Expected**	**Prior**	**Rating**
14:00	FOMC Rate Decision (Lower Bound)	w/w	29-Jun	3.50%	3.50%	***
14:00	FOMC Rate Decision (Upper Bound)	w/w	29-Jun	3.75%	3.75%	***
14:00	Interest on Reserve Balances Rate	w/w	30-Jun	3.65%	3.65%	**
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	Machine tool orders	y/y	Jun F	52.7%	52.8%		**	Equity and bond neutral
Australia	CPI	y/y	Jun	3.8%	4.0%	4.0%	**	Equity and bond neutral
	CPI Trimmed Mean	y/y	2Q	3.6%	3.6%	3.7%	***	Equity and bond neutral
	CPI QoQ	q/q	2Q	0.6%	1.4%	0.7%	**	Equity and bond neutral
South Korea	Retail Sales	y/y	Jun	9.5%	9.0%		**	Equity and bond neutral
	Depart. Store Sales	y/y	Jun	22.2%	24.5%		*	Equity and bond neutral
	Discount Store Sales	y/y	Jun	-10.5%	-5.1%		*	Equity and bond neutral
EUROPE								
Germany	Import Price Index	y/y	Jun	6.1%	6.8%	6.0%	**	Equity and bond neutral
Italy	Industrial Sales WDA	y/y	May	5.3%	2.7%		*	Equity and bond neutral
UK	Net Lending Sec. on Dwellings	m/m	Jun	7.7b	3.3b	3.9b	*	Equity and bond neutral
	Mortgage Approvals	m/m	Jun	58.2k	56.6k	57.1k	***	Equity and bond neutral
	M4 Money Supply	y/y	Jun	5.0%	4.3%		*	Equity and bond neutral
AMERICAS								
Mexico	International Reserves Weekly	w/w	24-Jul	$255297m	$255330m		*	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)	376	376	0	Up
U.S. Sibor/OIS spread (bps)	384	382	2	Up
U.S. Libor/OIS spread (bps)	382	380	2	Up
10-yr T-note (%)	4.63	4.61	0.02	Down
Euribor/OIS spread (bps)	245	245	0	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	$88.44	$84.09	5.17%	Escalating Geopolitical Tensions
WTI	$83.13	$79.26	4.88%	Escalating Geopolitical Tensions
Natural Gas	$2.65	$2.66	-0.60%	
Crack Spread	$64.89	$65.14	-0.38%	
12-mo strip crack	$47.23	$46.95	0.61%	
Ethanol rack	$2.08	$2.08	0.00%	
Metals				
Gold	$4,032.46	$4,029.61	0.07%	
Silver	$57.64	$57.15	0.86%	
Copper Contract	$631.55	$635.95	-0.69%	
Grains				
Corn contract	$477.50	$480.50	-0.62%	
Wheat contract	$660.25	$662.50	-0.34%	
Soybeans contract	$1,206.75	$1,220.00	-1.09%	
Shipping				
Baltic Dry Freight	2,664	2,696	-32	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		1.00		
Gasoline (mb)		-1.09		
Distillates (mb)		0.50		
Refinery run rates (%)		-0.30%		
Natural gas (bcf)		37		

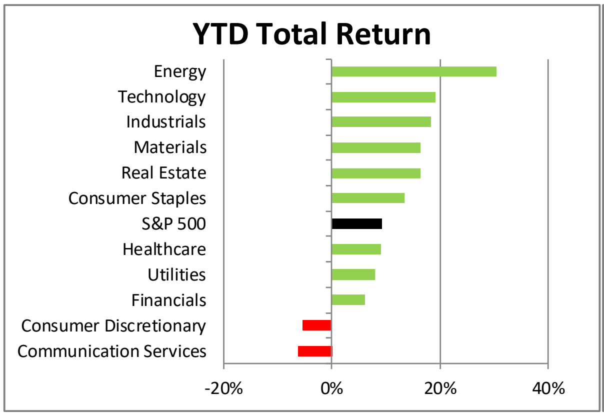
Weather

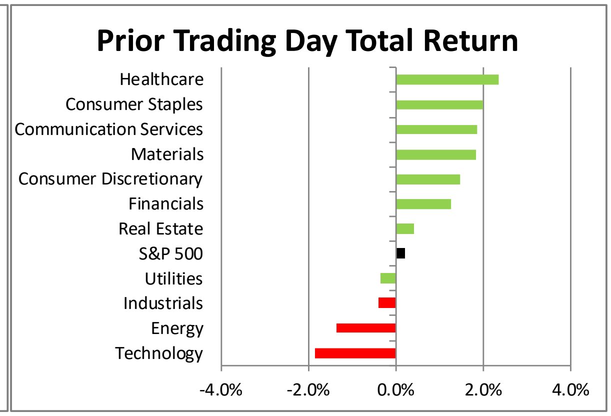
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures everywhere except the Canadian border areas of Washington, Idaho, and Montana, where temperatures will be near normal. The outlook calls for wetter-than-normal conditions in the Desert Southwest, western Texas, the Midwest, and the Northeast, with dry conditions in the Pacific Northwest, the northern Rocky Mountains, and the northern 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 7/28/2026 close)

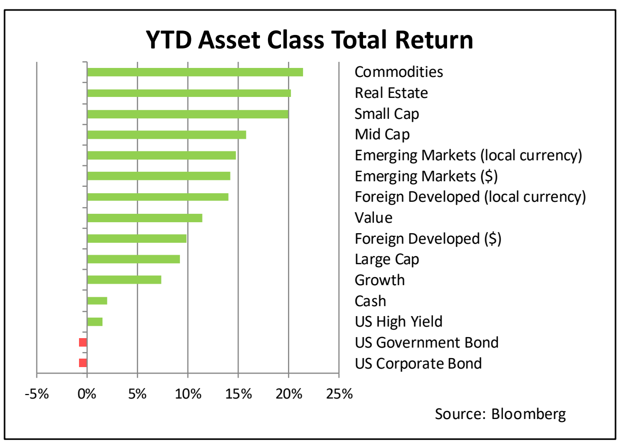




(Source: Bloomberg)

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 7/28/2026 close)

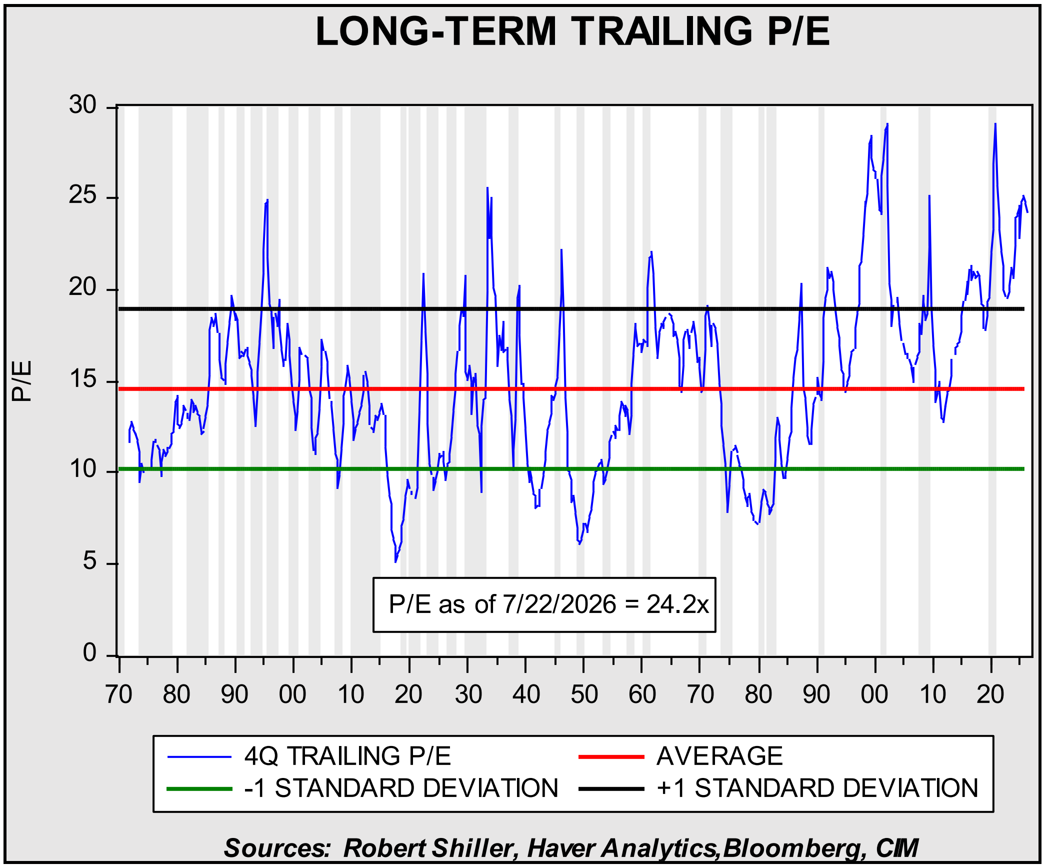


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.