Daily Comment

Confluence Investment Management

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: July 30, 2026 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 0.9% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.3%. Chinese markets were lower with the Shanghai Composite down 0.6% and the Shenzhen Composite down 2.5%. US equity index futures are signaling a higher open.

With 243 companies having reported so far, S&P 500 earnings for Q2 are running at $84.90 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, 85.6% have exceeded expectations while 9.9% 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
"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* begins with our take on the latest FOMC meeting and the shift away from forward guidance. We then examine the ongoing debate concerning open versus closed AI, followed by a brief update on the Iran conflict, central bank gold buying, and the Bank of England's rate decision. As always, we conclude with a review of recent domestic and international economic data.

Fed Family Fight? At its latest meeting, the FOMC held interest rates steady at a target range of 3.5%–3.75%, though the decision was not unanimous. Three Fed officials dissented, advocating instead for a rate hike. This reluctance to tighten policy comes as market patience with Fed Chair Kevin Warsh wears thin, with investors increasingly questioning the central bank's commitment to its 2% inflation target. Consequently, markets are beginning to price in a less responsive Federal Reserve.

- The FOMC's decision to hold rates steady comes as Fed officials maintain a patient stance on inflation, particularly given ongoing conflicts in the Middle East. In its post-meeting statement, the Fed reaffirmed that Middle East tensions remain a source of economic uncertainty, even as the economy and job market stay solid. The only notable revision was to its balance sheet strategy, shifting from language stating it is "reaffirming" its approach to instead stating that it "is continuing" its policy of maintaining ample reserves in the banking system.
- During the press conference, the Fed chair said the central bank continues to be committed to its objectives, but offered little clarity beyond that. He began by framing the discussion around several questions raised during the two-day meeting: whether the past really is past, whether shocks affect output or employment, whether capex spending feeds into inflation, and whether the balance sheet is still providing policy accommodation. He did not provide any clear answers.
- Additionally, Warsh seemed to double down on moving away from forward guidance. He suggested that while the market is functioning as intended, the Fed will not be bound by market expectations. He specifically cited rising bond yields as evidence that the market is reacting to data and setting rate expectations independently rather than waiting on the Fed. However, when pressed about market expectations for higher rates, he reiterated that these forecasts will not dictate Fed policy.
- Following the meeting, markets seemed to grow uneasy that the Fed was not treating its price-stability mandate with sufficient seriousness. In response, the 30-year US Treasury sold off and the dollar softened after the speech. That said, we see these moves as potentially short-lived, as the three dissents still suggest that a rate hike remains firmly on the table for the next meeting. If incoming data improves over the coming weeks, the market reaction could prove temporary.

Open vs. Closed AI: Major tech companies are pushing back against sweeping AI regulatory changes, as national security concerns intensify both domestically and abroad. On Wednesday, Meta CEO Mark Zuckerberg voiced support for more open-source AI, arguing that it could make the technology more widely accessible. His remarks come amid growing unease that increased centralization and tighter restrictions could stifle innovation and raise broader questions about the appropriate use of AI.

- AI systems fall into three categories: open source, open weight, and closed source. Open-source AI makes the code and, in some cases, training data available for anyone to use, modify, and share; open-weight models make the trained parameters publicly available but may still keep the code and architecture proprietary; and closed-source systems, such as those from Anthropic and OpenAI, keep the underlying code private and offer limited customization.
- The drive for more open-source AI comes as companies grow increasingly worried that closed platforms lack the same level of flexibility as their open counterparts. Much of this unease stems from industry players who do not want to be constrained by the rigid

guardrails and safety protocols inherent in proprietary systems. Last week's hacking of Hugging Face, a prominent AI company, by a rogue AI agent underscored these concerns. The breach could not be immediately remedied by Anthropic's or OpenAI's models, forcing the company's operators to turn to open-source Chinese models.

- The push for AI is reshaping how the United States competes in the global AI race. While China has made open AI a central feature of its strategy, the US is still debating its own path forward. Proponents of closed systems argue that AI remains too dangerous to make openly available to the public, while advocates of open-weight models contend that broader accessibility would not only accelerate technological growth but also lower barriers for new businesses to enter the space.
- If the US continues to favor closed-source models, development could slow, leaving it vulnerable to pressure from Chinese competitors. On the other hand, shifting toward open-source or open-weight models could hurt the profitability of AI companies like OpenAI and Anthropic, both of which are reportedly eyeing IPOs. While this debate is unlikely to affect AI momentum in the short term, it could shape the industry's trajectory going forward.

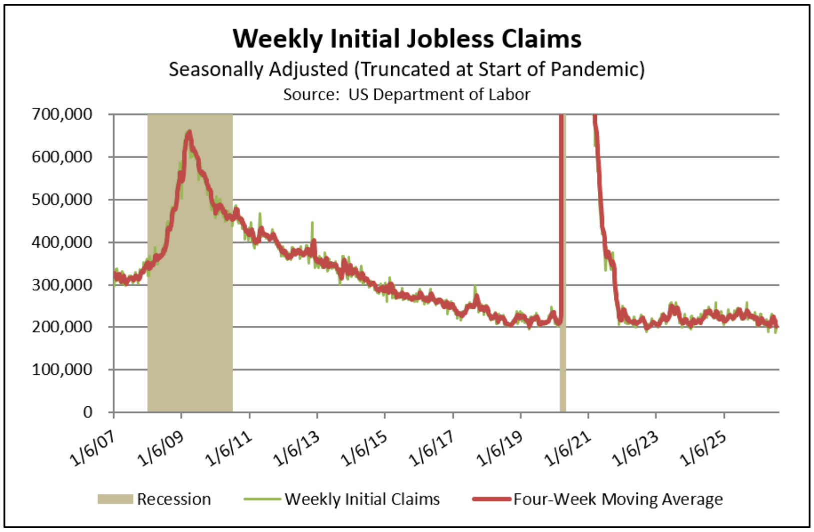
US Strikes Back: The US responded to Iranian attacks on Wednesday, retaliating for a surprise strike on American airbases the day prior. The response follows earlier Iranian attacks on US allies in the Middle East, including Jordan, Kuwait, Bahrain, Qatar, and Oman, as well as strikes on shipping in the Strait of Hormuz. In turn, the US has targeted Iran and is coordinating with Saudi Arabia to go after Iranian forces and their proxies in Iraq. The latest attacks suggest that the conflict may be broadening across the region.

Central Bank Gold: There were downward revisions to estimated central bank gold purchases in the first half of the year. The slowdown appears to reflect, in part, the conflict involving Iran, which led some central banks to reduce gold holdings to offset lost revenue from weaker oil sales. There is also a possibility that central banks became more price sensitive, particularly early in the year. The pullback removes an important source of support for gold.

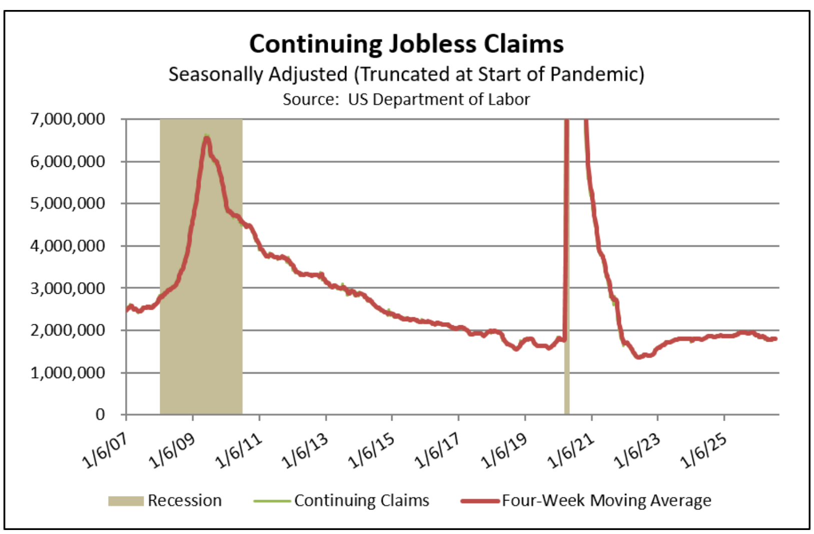
BOE Pause: The Bank of England voted to keep its benchmark rate steady amid ongoing tensions in the Middle East. The vote was 6-3, with the three dissenters favoring a quarter-point increase. Officials left rates unchanged, appearing more apprehensive about GDP slowing faster than expected than about the inflation outlook. The decision underscores the pressure central banks face as they try to bring inflation down while still supporting growth.

US Economic Releases

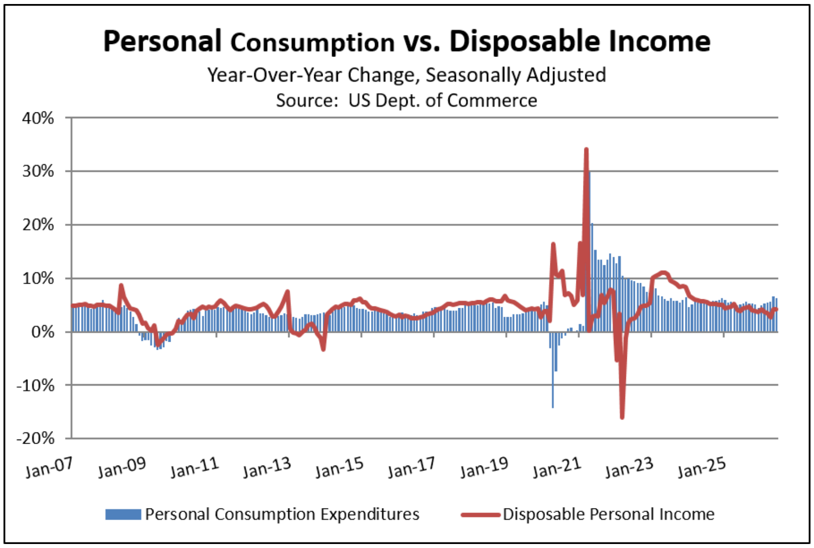
In the week ended July 25, ***initial claims for unemployment benefits*** rose to a seasonally adjusted 197,000, below the expected level of 200,000 but above the prior week's revised level of 188,000. Despite the increase, the four-week moving average of initial claims, which helps smooth out some of the volatility in the series, fell to 202,750. 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.



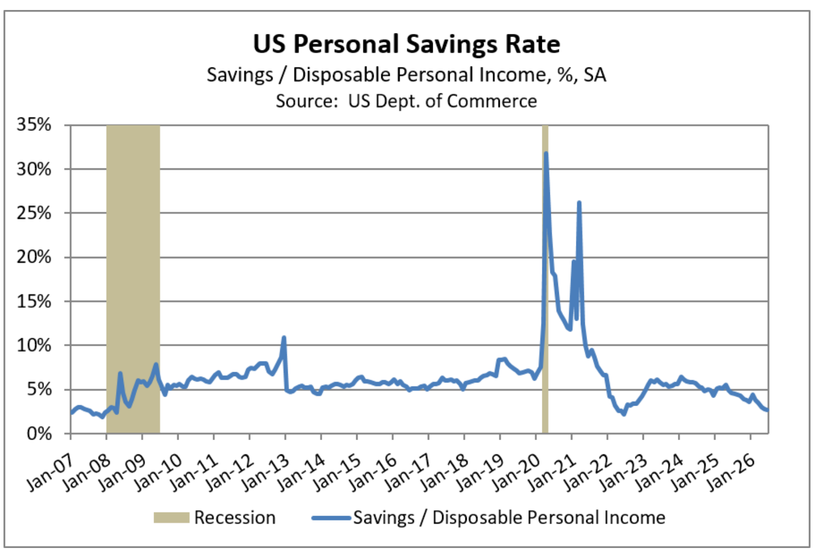
In the week ended July 18, the number of ***continuing claims for unemployment benefits*** (people continuing to draw benefits) fell to a seasonally adjusted 1.782 million, below both the anticipated reading of 1.795 million and the previous week's revised reading of 1.789 million. The four-week moving average of continuing claims fell to 1,797,500. 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.



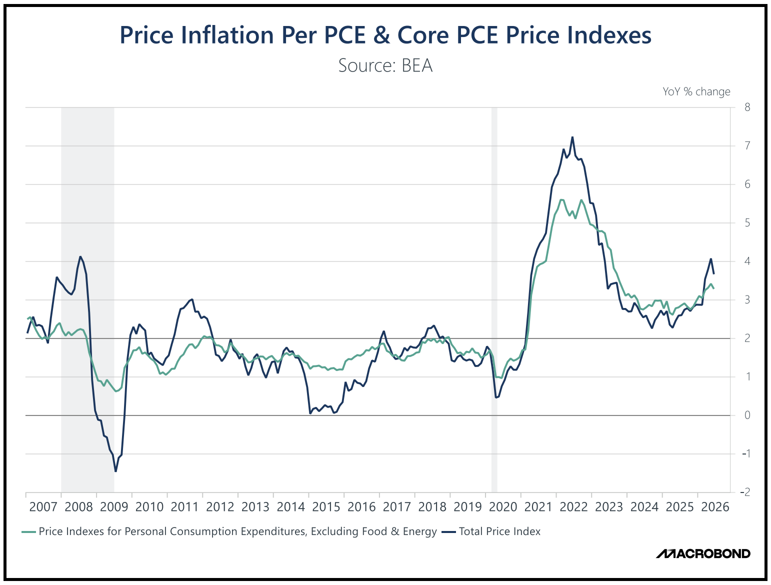
Separately, June ***personal income*** rose by a seasonally adjusted 0.2%, short of both the expected rise of 0.3% and the strong May increase of 0.7%. Meanwhile, the report indicated that June ***personal consumption expenditures (PCE)*** rose 0.3%, short of both the anticipated rise of 0.4% and the revised May increase of 0.9%. Personal income in June was up 3.9% from the same month one year earlier, while PCE was up 6.3%. The chart below shows the year-over-year change in personal income and PCE since just before the GFC.



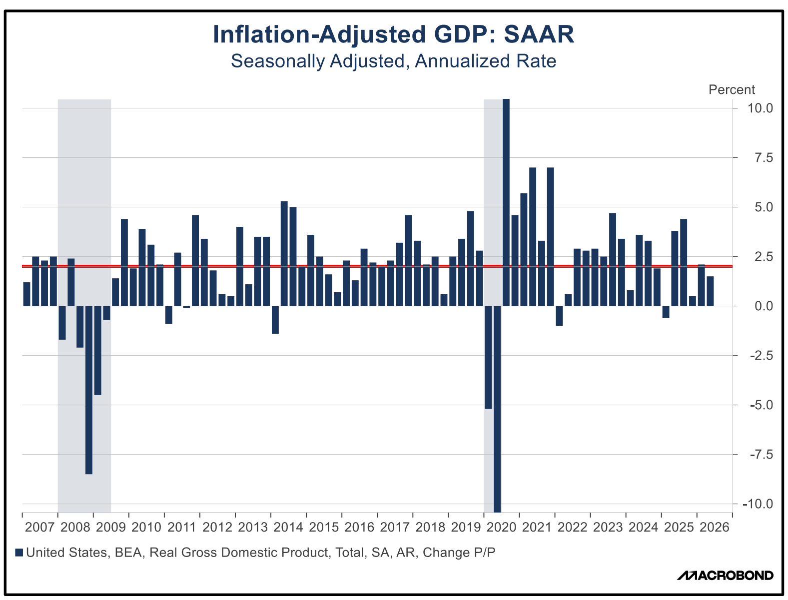
The personal income and spending report also includes a measure of personal saving, defined as disposable (after tax) income less consumption spending on goods and services. The June ***personal savings rate***, on a seasonally adjusted basis, fell to a very low 2.7%. The chart below shows how the personal savings rate has fluctuated since just before the GFC.



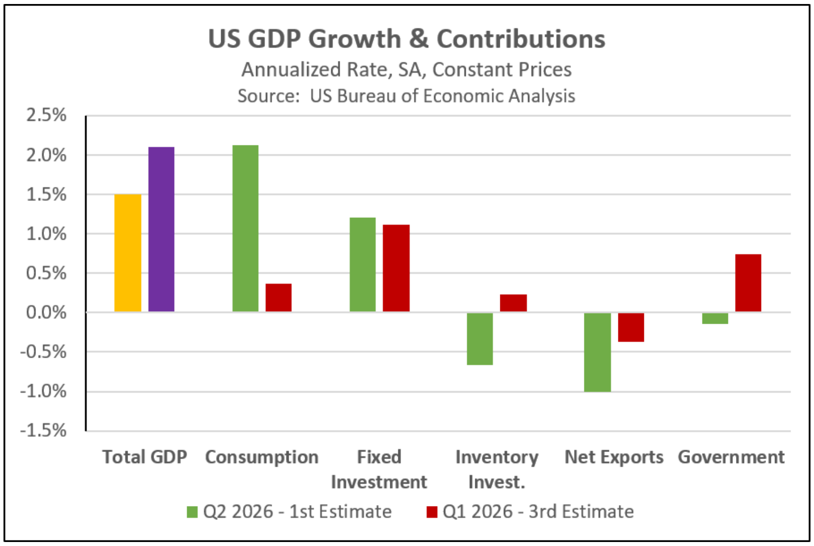
Finally, the income and spending report includes the Fed's preferred measure of consumer price inflation. After stripping out the volatile food and energy components, the ***Core PCE Deflator*** for June was up 3.3% from the same month one year earlier, far above the Fed's target of 2.0%. The chart below shows the year-over-year change in the Core PCE Deflator since just before the GFC.



In a final major report so far this morning, the Commerce Department released its first estimate of economic activity in the April-to-June quarter. After stripping out seasonal factors and price changes, second-quarter ***gross domestic product (GDP)*** rose at a modest annualized rate of 1.5%. That was well below both the expected rate of 2.0% and the first-quarter growth rate of 2.1%. The chart below shows the annualized growth rate of US GDP since just before the GFC; the horizontal red line indicates the average growth rate of about 2.0% over the last two decades.



A close look at the details in the report shows that the main source of growth in the quarter was personal consumption spending, followed by fixed investment. The main detractor from growth was international trade, owing to a surge in imports. The chart below shows the contributions to the annualized growth rate in the second quarter.



There are no economic releases or Fed events scheduled for the rest of the day.

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	Japan Buying Foreign Bonds	w/w	24-Jul	-¥811.4b	-¥723.7b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	24-Jul	-¥1513.9b	-¥185.0b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	24-Jul	¥320.2b	-¥121.3b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	24-Jul	¥912.1b	-¥81.9b		*	Equity and bond neutral
	Consumer Confidence Index	m/m	Jul	34.9	33.8	34.2	*	Equity and bond neutral
Australia	Building Approvals	m/m	Jun	7.2%	-1.6%	-0.5%	***	Equity bullish, bond bearish
New Zealand	ANZ Business Confidence	m/m	Jul	56.1	36.5		**	Equity and bond neutral
EUROPE								
Eurozone	Economic Confidence	m/m	Jul	96.9	95.5	96.0	***	Equity and bond neutral
	Industrial Confidence	m/m	Jul	-6.1	-7.5	-7.0	***	Equity bullish, bond bearish
	Services Confidence	m/m	Jul	4.7	4.2	3.8	**	Equity bullish, bond bearish
	Consumer Confidence	m/m	Mar	-15.9	18.7	-15.9	**	Equity and bond neutral
	GDP SA	y/y	2Q A	1.0%	0.5%	0.7%	***	Equity and bond neutral
	Unemployment Rate	m/m	Jun	6.3%	6.3%	6.2%	**	Equity and bond neutral
Germany	GDP NSA	y/y	2Q P	0.9%	0.8%	0.6%	**	Equity and bond neutral
	GDP WDA	y/y	2Q P	0.9%	0.7%	0.6%	**	Equity and bond neutral
	CPI	y/y	Jul P	2.8%	2.3%	2.7%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Jul P	2.8%	2.4%	2.8%	**	Equity and bond neutral
France	GDP	y/y	2Q P	0.7%	0.8%	0.9%	**	Equity and bond neutral
Italy	PPI	y/y	Jun	6.8%	9.1%		**	Equity and bond neutral
Switzerland	KOF Leading Indicator	m/m	Jul	103.5	102.1	100.9	**	Equity bullish, bond bearish
AMERICAS								
Mexico	GDP NSA	y/y	Q2 P	2.2%	0.1%	1.3%	***	Equity bullish, bond bearish
Brazil	FGV Inflation IGPM	y/y	Jul	2.76%	3.16%	2.85%	***	Equity and bond neutral
	Total Outstanding Loans	m/m	Jun	7356b	7304b		**	Equity and bond neutral
	National Unemployment Rate	m/m	Jun	5.4%	5.6%	5.4%	*	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)	367	368	-1	Up
U.S. Sibor/OIS spread (bps)	375	374	1	Up
U.S. Libor/OIS spread (bps)	374	373	1	Up
10-yr T-note (%)	4.69	4.68	0.01	Down
Euribor/OIS spread (bps)	246	245	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**	
FOMC Rate Decision (Upper Bour	3.75%	3.75%	3.75%	On Forecast
FOMC Rate Decision (Lower Bour	3.50%	3.50%	3.50%	On Forecast
FOMC Rate on Reserve Balance	3.65%	3.65%	3.65%	On Forecast
Bank of England Bank Rate	3.75%	3.75%	3.75%	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	$90.48	$90.74	-0.29%	
WTI	$83.81	$84.46	-0.77%	
Natural Gas	$2.71	$2.72	-0.40%	
Crack Spread	$63.47	$64.98	-2.32%	
12-mo strip crack	$47.55	$48.14	-1.22%	
Ethanol rack	$2.09	$2.09	0.00%	
Metals				
Gold	$4,077.36	$4,067.56	0.24%	
Silver	$58.01	$57.73	0.49%	
Copper Contract	$644.60	$631.15	2.13%	
Grains				
Corn contract	$474.25	$471.75	0.53%	
Wheat contract	$683.50	$660.75	3.44%	
Soybeans contract	$1,196.25	$1,192.75	0.29%	
Shipping				
Baltic Dry Freight	2,632	2,664	-32	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	-7.17	1.00	-8.17	
Gasoline (mb)	0.01	-1.09	1.10	
Distillates (mb)	1.06	0.50	0.56	
Refinery run rates (%)	0.11%	-0.30%	0.41%	
Natural gas (bcf)		35		

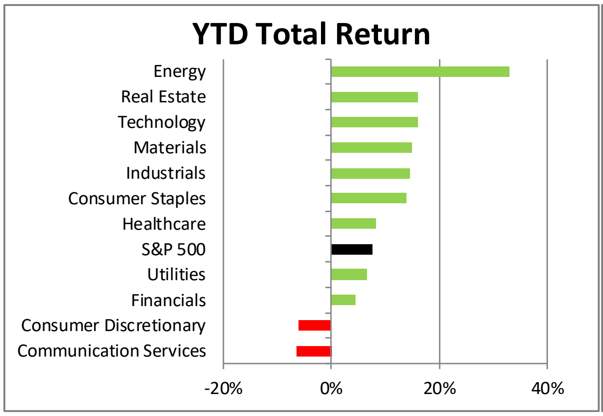
Weather

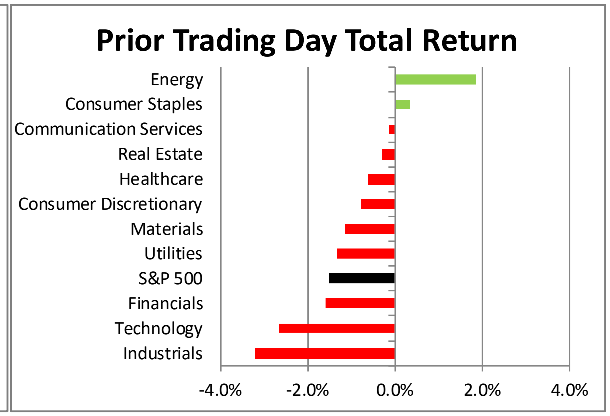
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures essentially throughout the entire country. The outlook calls for wetter-than-normal conditions in the Desert Southwest and the Northeast, with dry conditions in the Pacific Northwest.

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

Data Section

US Equity Markets – (as of 7/29/2026 close)

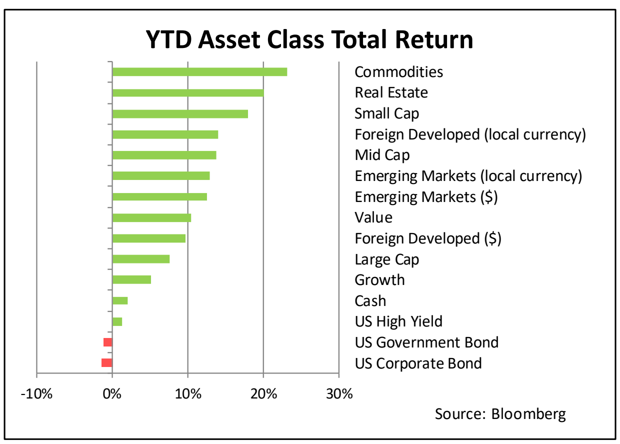




(Source: Bloomberg)

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 7/29/2026 close)

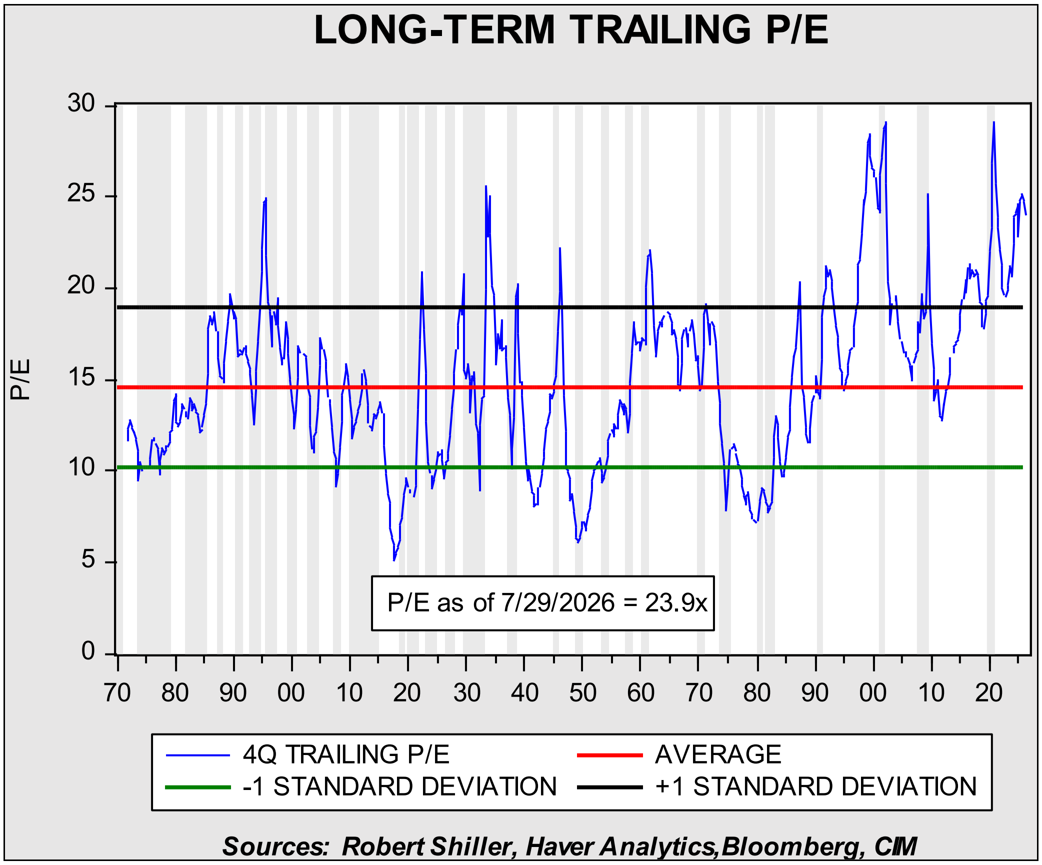


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 30, 2026



Based on our methodology,[1] the current P/E is 23.9x, down 0.3 from the previous report. The multiple contraction was driven by an increase earnings and a decline in the stock price index.

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.