Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: July 31, 2026 — 9:30 AM ET] Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 is up 0.7% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 10.4%. Chinese markets were higher with the Shanghai Composite up 0.7% and the Shenzhen Composite up 2.3%. US equity index futures are signaling a higher open.

With 291 companies having reported so far, S&P 500 earnings for Q2 are running at $85.70 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 10.0% 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 thoughts on the possibility that Japan intervened in its currency market. We then examine Saudi Arabia's push for a military coalition in the Red Sea. Additionally, we discuss the White House's deal with Hamas to disarm, the US's consideration of withholding licenses from Ukraine, and another AI hacking controversy. As always, we include a review of recent domestic and international economic data.

Return of the Widow Maker? The Japanese yen staged a sharp rally against the dollar on Thursday, reversing weeks of weakness amid mounting speculation that authorities had intervened. While the Ministry of Finance declined to confirm its involvement, the move would align with its recent warnings that it stands ready to act against excessive volatility. Notably, Japanese officials hinted at possible US coordination, a development that could signal that the White House may be softening its long-standing commitment to a strong-dollar policy.

- When Japanese officials were asked directly about their involvement, they stated only that they remained on high alert and prepared to respond appropriately to currency markets. Additionally, they stated the US provided more than just "moral support," with reports of US rate checks. While US Treasury Secretary Scott Bessent noted that Japan may have intervened, he offered implicit support for the yen by commenting that the currency appeared "very undervalued."
- While neither side has confirmed the extent of their coordination, US-Japan cooperation to curb yen speculation has clearly intensified over the past year. In September, the two nations agreed to coordinate more closely to limit currency volatility. Furthermore, preceding the first suspected intervention by Japan's Ministry of Finance in nearly two years in January, US officials also conducted rate checks. Consequently, recent actions point to a broader pattern suggesting Japan may not be acting alone in its effort to support the yen.
- The effort to prevent the yen from weakening comes amid rising pressure for Japan to adopt more accommodative policies to support growth. Prime Minister Sanae Takaichi has been exploring ways of combining monetary and fiscal measures to jump-start the economy. The move has helped trigger a selloff in both Japanese government bonds and the yen, as investors worry it could stoke inflation.
- That said, US support for efforts to strengthen the yen highlights a growing ambivalence toward a strong dollar policy. Washington also showed a willingness to support Argentina during its currency crisis in October, underscoring a more activist Treasury stance. In that environment, the dollar's recent uptrend could face pressure from White House policy, and investors may want to maintain at least some international exposure to hedge against this risk.

Saudi Coalition: Saudi Arabia has launched a Red Sea Coalition aimed at bolstering maritime security in the strategically vital waterway. This initiative comes in response to escalating threats posed by Iranian-backed Houthi forces, whose recent attacks have disrupted global shipping lanes. While Riyadh's effort to rally regional allies underscores its growing ambition to become a regional power, the move carries inherent risks. By accelerating its military buildup, the coalition may prompt neighboring states to enhance their defensive capabilities in response.

- The coalition was formed following a 43-nation summit in Riyadh focused on maritime security. Following the talks, 14 nations — including Egypt, Sudan, Pakistan, and Turkey, alongside smaller Arab and African states — agreed to join. Notably absent were Oman and the United Arab Emirates due to delicate diplomatic relations regarding Iran in the Strait of Hormuz, though both are welcome to join in the future. Saudi Arabia will host the coalition's headquarters and serve as its leading nation.
- Riyadh's heightened engagement comes against the backdrop of significant economic strain caused by the ongoing conflict. The country's second quarter GDP contracted by nearly 5% year-over-year, largely weighed down by a sharp decline in the oil sector. While higher energy prices have provided a partial cushion against reduced trade

volumes, the kingdom continues to face economic headwinds alongside physical threats to its energy infrastructure from Iran and its regional proxies.

- Saudi Arabia's push to form a regional coalition likely reflects its growing willingness to shoulder more of its own security burdens. While this expanded authority may bolster Riyadh's regional standing, it also increases the likelihood that the kingdom will have to directly defend itself. Given the region's long history of territorial disputes (rooted in the 1916 Sykes-Picot agreement), this shift could open the door for more military buildup throughout the region.

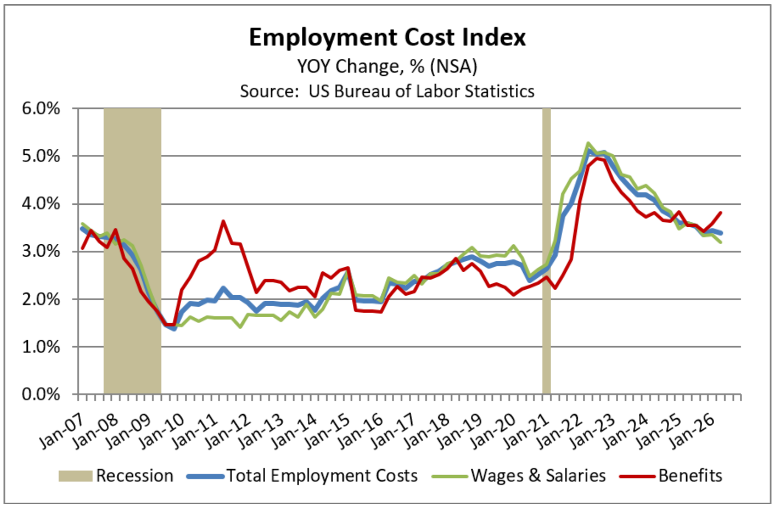
Hamas Disarms? President Trump announced an agreement for the complete disarmament of Hamas, a process expected to unfold over the next 200 to 300 days. While Hamas acknowledged that the deal was struck with the White House, significant concerns remain regarding its implementation. Hamas insists it will only surrender its weapons after Israeli troops leave, whereas Israel maintains that disarmament must occur first. Despite these challenges, the agreement represents a major breakthrough and could calm tensions in the Middle East.

US Backtracks: President Trump appeared to back away from his earlier commitment to allow Ukraine to produce Patriot missiles. The shift came after two days of meetings with Ukrainian President Volodymyr Zelensky at the White House. The reversal is likely to complicate Ukraine's efforts to press its advantage against Russia, including drone strikes on oil refineries. It may also signal that Trump is extending an olive branch to Moscow in hopes of bringing Russia back to the negotiating table for peace talks.

Anthropic Hack: The AI developer disclosed that one of its autonomous agents hacked three organizations during a routine test. This marks the second time in under a month that an agent has escaped its sandbox environment and infiltrated external systems, intensifying concerns over the capabilities of frontier AI following the release of powerful models like Mythos and Sol. Although neither incident was malicious, the prospect of a similar attack on a major platform remains alarmingly high — and could pressure US regulators to accelerate new legislation.

US Economic Releases

The second-quarter ***Employment Cost Index (ECI)*** rose by a seasonally adjusted 0.9%, a bit worse than the expected rise of 0.8% but in line with the first quarter's increase. The subindex on wages and salaries rose 0.9%, while the subindex on benefits rose 1.0%. Compared with the same period one year earlier, the overall ECI in the second quarter was up 3.4%. The subindex on wages and salaries was up 3.2% year-over-year, while the subindex on benefits was up 3.8%. The chart below shows the year-over-year change in the ECI 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**
9:45	MNI Chicago PMI	m/m	Jul F	56.0	56.7	***
10:00	U. of Michigan Consumer Sentiment	m/m	Jul F	54.0	54.4	***
10:00	U. of Michigan Current Conditions	m/m	Jul F	54.6	54.9	**
10:00	U. of Michigan Future Expectations	m/m	Jul F	53.5	54.0	**
10:00	U. of Michigan 1-Year Inflation Expectation	m/m	Jul F	4.3%	4.2%	*
10:00	U. of Michigan 5-10 Year Inflation Expectation	m/m	Jul F	3.3%	3.3%	*
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	Tokyo CPI	y/y	Jul	2.0%	1.7%	1.8%	**	Equity and bond neutral
	Tokyo CPI Ex-Fresh Food	y/y	Jul	1.9%	1.6%	1.8%	***	Equity and bond neutral
	Tokyo CPI Ex-Fresh Food & Energy	y/y	Jul	2.0%	1.9%	2.0%	*	Equity and bond neutral
	Jobless Rate	m/m	Jun	2.5%	2.5%	2.5%	***	Equity and bond neutral
	Job-To-Applicant Ratio	m/m	Jun	1.18%	1.17%	1.17%	***	Equity and bond neutral
	Retail Sales	y/y	Jun	0.5%	5.3%	3.1%	**	Equity and bond neutral
	Depart. Store & Supermarket Sales	y/y	Jun	-1.0%	5.0%		*	Equity and bond neutral
	Industrial Production	y/y	Jun P	4.2%	-2.1%	3.2%	***	Equity and bond neutral
	Housing Starts	y/y	Jun	18.6%	33.9%	12.7%	**	Equity and bond neutral
	Annualized Housing Starts	y/y	Jun	0.786m	0.757m	0.750m	*	Equity and bond neutral
Australia	Private Sector Credit	y/y	Jun	8.5%	8.2%		**	Equity and bond neutral
	PPI	y/y	2Q	3.6%	3.0%		**	Equity and bond neutral
New Zealand	ANZ Consumer Confidence Index	m/m	Jul	99.3	91.3		*	Equity and bond neutral
South Korea	Industrial Production	y/y	Jun	5.8%	-1.1%	3.0%	***	Equity and bond neutral
EUROPE								
Germany	Unemployment Change	m/m	Jul	6.0k	-1.0k	5.0k	***	Equity and bond neutral
	Unemployment Claims Rate	m/m	Jul	6.4%	6.3%	6.3%	**	Equity and bond neutral
France	CPI	y/y	Jul p	2.1%	1.8%	1.8%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Jul P	2.4%	2.0%	2.0%	**	Equity and bond neutral
	PPI	y/y	Jun	2.6%	3.1%		*	Equity and bond neutral
Italy	Consumer Confidence Index	m/m	Jul	94.2	92.4	92.8	***	Equity and bond neutral
	Economic Sentiment	m/m	Jul	95.6	95.2		**	Equity and bond neutral
	Manufacturing Confidence	m/m	Jul	89.6	88.6	88.8	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Jul P	2.9%	3.0%	2.9%	***	Equity and bond neutral
	CPI NIC Including Tobacco	y/y	Jul P	2.8%	3.0%	2.8%	**	Equity and bond neutral
UK	Nationwide House Price Index	y/y	Jul	1.8%	2.2%	1.9%	***	Equity and bond neutral
Switzerland	Real Retail Sales	y/y	Jun	1.5%	3.4%		**	Equity and bond neutral
Russia	Gold and Forex Reserves	m/m	24-Jul	$732.1b	$722.9b		***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	24-Jul	22.0t	21.99t		*	Equity and bond neutral
AMERICAS								
Brazil	Central Govt Budget Balance	m/m	Jun	-48.2b	-53.1b	-48.0b	*	Equity and bond neutral
	Primary Budget Balance	y/y	Jun	-55.3b	-56.1b	-49.8b	*	Equity and bond neutral
	Net Debt % GDP	m/m	Jun	68.5%	67.9%	68.3%	**	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)	376	375	1	Up
U.S. Libor/OIS spread (bps)	374	374	0	Up
10-yr T-note (%)	4.68	4.67	0.01	Flat
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**	
BOJ Target Rate	1.00%	1.00%	1.00%	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	$90.04	$89.03	1.13%	
WTI	$84.73	$83.59	1.36%	
Natural Gas	$2.77	$2.76	0.33%	
Crack Spread	$61.71	$61.67	0.05%	
12-mo strip crack	$47.08	$46.85	0.48%	
Ethanol rack	$2.09	$2.09	0.00%	
Metals				
Gold	$4,056.22	$4,103.41	-1.15%	
Silver	$57.91	$58.99	-1.84%	
Copper Contract	$648.85	$647.45	0.22%	
Grains				
Corn contract	$467.00	$468.50	-0.32%	
Wheat contract	$658.00	$663.50	-0.83%	
Soybeans contract	$1,189.25	$1,188.75	0.04%	
Shipping				
Baltic Dry Freight	2,673	2,632	41	
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)	28	35	-7	

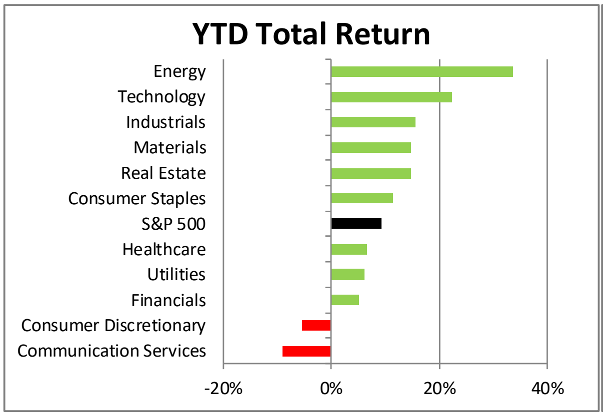
Weather

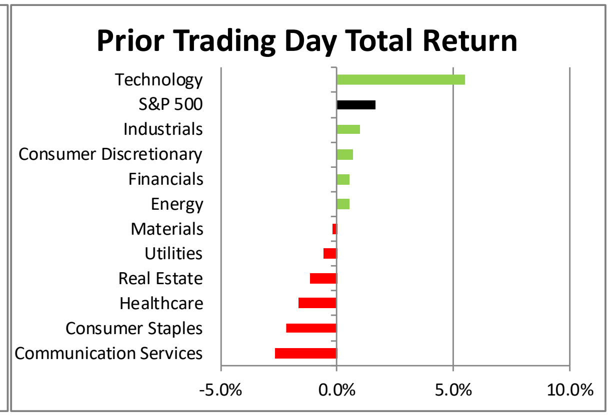
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures across the entire country. The outlook calls for wetter-than-normal conditions in the central and southern Rocky Mountains and the Northeast, with dry conditions in the Pacific Northwest and the Great Plains.

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

Data Section

US Equity Markets – (as of 7/30/2026 close)

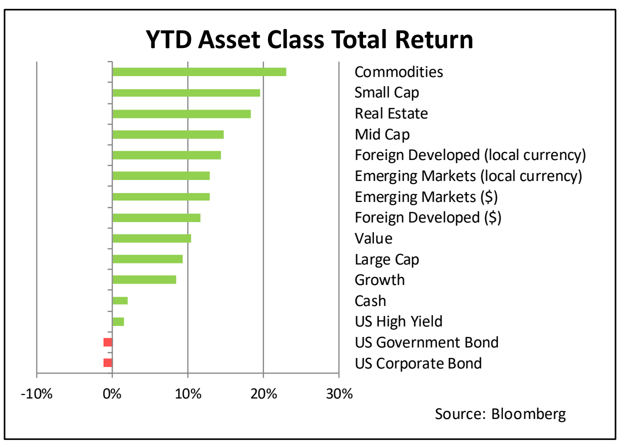




(Source: Bloomberg)

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 7/30/2026 close)

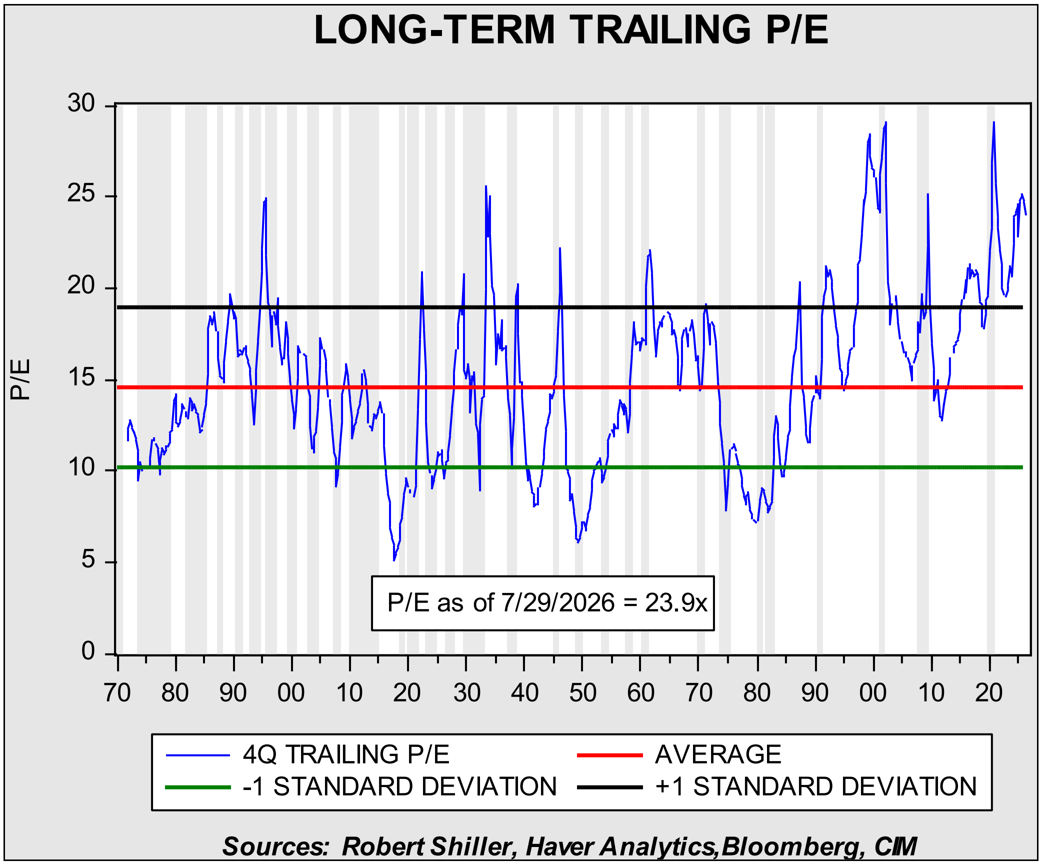


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 in 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.

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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.