Daily Comment

Confluence INVESTMENT MANAGEMENT

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[Posted: July 7, 2026 — 9:30 AM ET] Global equity markets are lower 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 2.3%. Chinese markets were lower with the Shanghai Composite down 1.3% and the Shenzhen Composite down 1.9%. US equity index futures are signaling a lower open.

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
"Mid-Year Geopolitical Outlook" (6/22/26)	"The Evolution of the Tech Life Cyle" (6/29/26) + podcast	Q2 2026 Report Q2 2026 Rebalance Presentation	Value Equity: "Déjà vu for Dividends?" Confluence of Ideas Podcast

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 news that Iranian forces have fired missiles at two commercial ships in the Strait of Hormuz, putting at risk the current US-Iran ceasefire and negotiations toward a permanent end to the war. We next review several other US and international developments that could affect the financial markets today, including a statement by Federal Reserve board member Christopher Waller on monetary policy and a French court decision allowing far-right leader Marine Le Pen to run in the country's 2027 presidential election.

United States-Israel-Iran: US officials say Iran's Islamic Revolutionary Guards Corps this morning fired missiles at two commercial ships passing through the Strait of Hormuz. The action shows how the IRGC continues trying to scuttle the current US-Iran ceasefire. However, it's not yet clear whether the new attacks will put an end to the current recovery in shipping through the strait, which has been proceeding faster than expected. Global oil prices are little changed so far this morning.

US Monetary Policy: Fed board member Christopher Waller, whom President Trump had once considered elevating to the chairmanship, yesterday voiced support for Chair Warsh's plan to cut back on "forward guidance" regarding the direction of monetary policy. According to Waller, the Fed's forward guidance on keeping interest rates low during and right after the coronavirus pandemic had "tied the hands" of policymakers and helped spark the excessive price inflation that occurred from 2022 to 2024.

- Waller's statement helps ensure that the Fed's forward guidance will indeed be rolled back.
- Weaker forward guidance could well leave investors less sure about the future direction of monetary policy, so it may lead to increases in the policy risk premium in market interest rates. Along with the likelihood of higher and more volatile inflation in the future, that could mean higher interest rates going forward, which would likely weigh on fixed-income and equity valuations.

US Stock Market: SpaceX joins the Nasdaq index today, meaning investors holding mutual funds or exchange-traded funds linked to the index will have exposure to the stock whether they want it or not. However, because of the rules determining how the index is constructed, SpaceX will start out representing less than 1% of the index. Over time, the company's weight will fluctuate not only as its share price changes but also as its free float changes.

US Artificial Intelligence Industry: The *Wall Street Journal* today carries an article describing how major AI firms are offering big discounts on compute resources to land and/or keep corporate customers. In some cases, customers have been able to play one AI firm against another to get huge price reductions on needed computing power. The article is likely to further raise concerns about tough competition and excess investment in the sector, which will increase the risk of another correction in AI stock prices.

Canada-Germany: Canadian Prime Minister Carney yesterday announced that his government has selected German shipbuilder TKMS as its preferred supplier for a fleet of 12 new diesel-powered submarines capable of operating in Arctic waters. The government's second choice is South Korean defense firm Hanwha Ocean. Either way, the selection shows how Canada's government is seeking to cut its reliance on US suppliers as relations between Washington and Ottawa continue to fray over a number of military, political, and economic disagreements.

Germany: The government of Chancellor Merz yesterday released new budget projections showing it plans to boost borrowing by 838 billion EUR ($958 billion) by 2030, largely to pay for big defense budget increases. The projections illustrate the extent to which even center-right parties in Germany now embrace the idea of borrowing to achieve high-priority public goals, after decades of insisting on fiscal austerity.

- As we've argued in the past, the boost in defense spending will likely help spur faster economic growth in Germany in the coming years.

- Coupled with rising orders from foreign governments, higher demand from the German government will likely provide an ongoing boost to the financial performance of Germany's top defense firms.

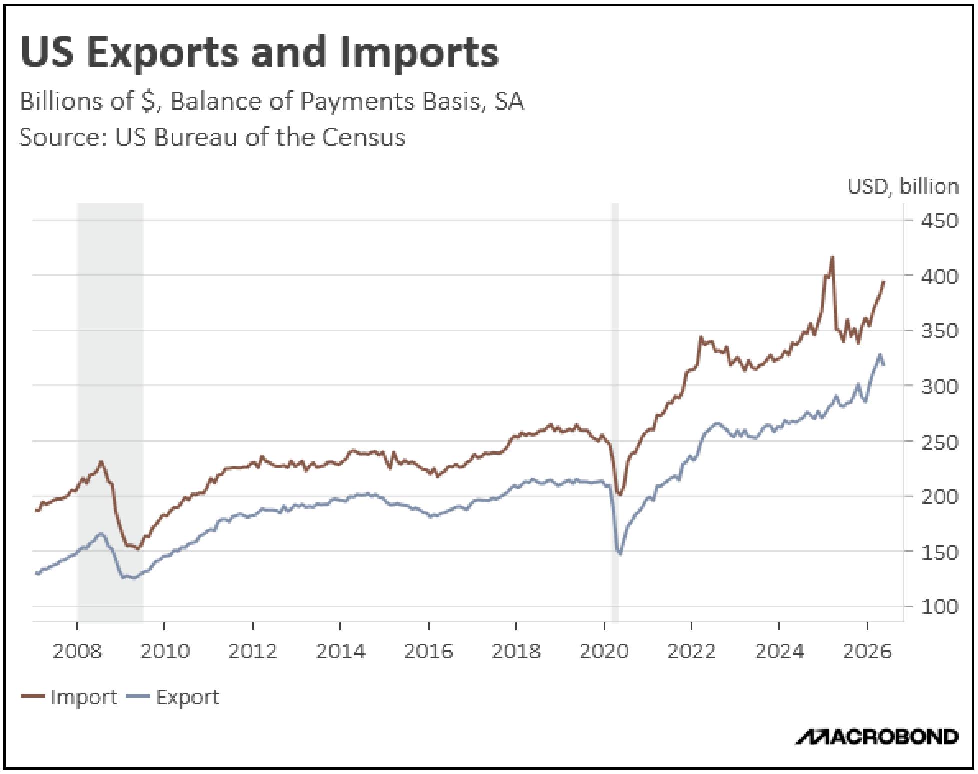
France: An appeals court today confirmed the embezzlement conviction of Marine Le Pen, leader of the far-right National Rally party. However, the court also said she would not be banned from running in next year's presidential election. Opinion polls currently show Le Pen would beat any expected first-round challenger, but she did not immediately say whether she will run. Later today, she is expected to make a statement clarifying whether she will run herself or allow 30-year-old party leader Jordan Bardella to compete in her place.

- If National Rally beats the established centrist parties in the election next year, the result would likely be a sea change in French foreign and domestic policy, including much less support for the European Union and the North Atlantic Treaty Organization.
- The associated political upheaval alone could unsettle European stock markets. If a National Rally-led government also adopted more populist economic policies, investors could also become concerned about a worsening fiscal deficit and higher debt.

South Korea: Memory chip giant SK Hynix late yesterday said American Depositary Receipts (ADR) representing its stock will begin trading in the US on Friday, making it significantly easier for US investors to invest in the surging equity. However, given that the underlying stock's value has already jumped some 765% over the last year on higher memory-chip prices tied to the artificial intelligence boom, its high valuation likely presents the risk of a correction in the ADR price at some point.

US Economic Releases

The May ***trade balance*** showed a seasonally adjusted deficit of $77.6 billion, narrower than the expected shortfall of $78.5 billion but wider than the revised April deficit of $54.6 billion. According to the data, total ***exports*** fell 3.1%, while ***imports*** rose 3.2%. Compared with the same month one year earlier, exports in May were up 12.6%, while imports were up 13.2%. The chart below shows the monthly value of US exports and imports since just before the GFC.



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

Economic Releases		
No economic releases for the rest of today		
Federal Reserve		
EST	**Speaker or Event**	**District or Position**
7:00	Michelle Bowman Delivers Opening Remarks	Member of the Board of Governors

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	Labor Cash Earnings	y/y	May	3.2%	3.5%	3.4%	**	Equity and bond neutral
	Real Cash Earnings	m/m	May	1.4%	1.9%	1.7%	*	Equity and bond neutral
	Household Spending	y/y	May	-0.4%	-0.5%	-2.6%	**	Equity bullish, bond bearish
	Leading Economic Index	m/m	May P	116.8	116.1	116.9	**	Equity and bond neutral
	Coincident Index	y/y	May P	118.5	118.1	118.5	**	Equity and bond neutral
Australia	Foreign Reserves	m/m	Jun	A$102.5b	A$100.6b		**	Equity and bond neutral
EUROPE								
Germany	Industrial Production WDA	y/y	May	0.9%	0.2%	0.1%	**	Equity and bond neutral
France	Trade Balance	m/m	May	0.00%	-0.90%	-0.60%	*	Equity and bond neutral
Italy	S&P Global Italy Services PMI	m/m	Jun	50.2	49.4	50.2	**	Equity and bond neutral
	S&P Global Italy Composite PMI	m/m	Jun	50.8	50.4	50.9	**	Equity and bond neutral
	Retail Sales	y/y	May	2.2%	1.7%	1.7%	**	Equity and bond neutral
Switzerland	Foreign Currency Reserves	m/m	Jun	758.8b	710.9b		***	Equity and bond neutral
AMERICAS								
Canada	S&P Global Canada Services PMI	m/m	Jun	47.1	50.6		*	Equity and bond neutral
	S&P Global Canada Composite PMI	m/m	Jun	47.9	50.8		*	Equity and bond neutral
	BOC Business Outlook Survey	q/q	2Q	-0.4	-0.4		**	Equity and bond neutral
	Gross Fixed Investment NSA	y/y	Apr	5.9%	-2.4%	4.2%	**	Equity bullish, bond bearish
Brazil	Trade Balance	m/m	Jun	$9758m	$7679m	$11000m	**	Equity and bond neutral
	Exports	m/m	Jun	$36277m	$31753m	$37900m	*	Equity and bond neutral
	Imports	m/m	Jun	$26520m	$24074m	$26600m	*	Equity and bond neutral
	FGV Inflation IGP-DI	y/y	Jun	3.59%	2.53%		**	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)	369	370	-1	Up
U.S. Sibor/OIS spread (bps)	374	374	0	Up
U.S. Libor/OIS spread (bps)	372	372	0	Up
10-yr T-note (%)	4.49	4.47	0.02	Up
Euribor/OIS spread (bps)	232	232	0	Up
Currencies	**3 Mo**			
Dollar	Down	US		Up
Euro	Up	Euro		Down
Yen	Up	Japan		Down
Pound	Up	UK		Up
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	$72.73	$71.99	1.03%	
WTI	$69.16	$68.55	0.89%	
Natural Gas	$3.27	$3.25	0.77%	
Crack Spread	$60.35	$61.67	-2.13%	
12-mo strip crack	$42.30	$42.78	-1.13%	
Ethanol rack	$2.08	$2.08	0.00%	
Metals				
Gold	$4,137.61	$4,165.23	-0.66%	
Silver	$61.04	$62.05	-1.62%	
Copper Contract	$623.75	$623.20	0.09%	
Grains				
Corn contract	$458.50	$457.75	0.16%	
Wheat contract	$613.50	$614.00	-0.08%	
Soybeans contract	$1,194.25	$1,192.25	0.17%	
Shipping				
Baltic Dry Freight	2,797	2,717	80	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		-2.26		
Gasoline (mb)		-0.86		
Distillates (mb)		1.00		
Refinery run rates (%)		-0.40%		
Natural gas (bcf)		84		

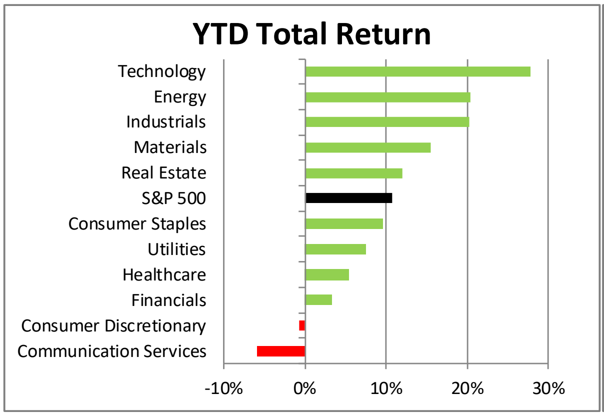
Weather

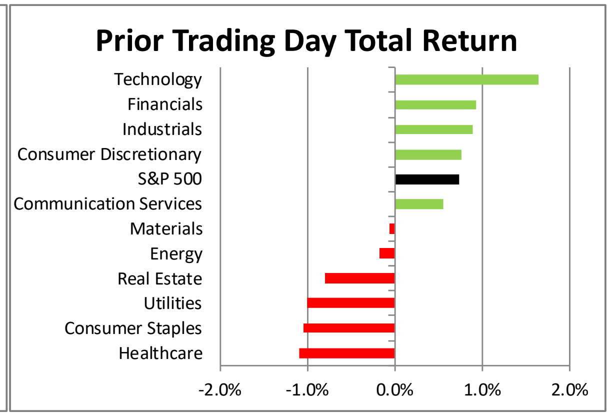
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for the entire country. The precipitation outlook forecasts wetter-than-normal conditions across the Southeast, New England, and the central Pacific, with dry conditions expected in the Midwest and Great Plains.

There is no tropical cyclone activity expected within the next seven days.

Data Section

US Equity Markets – (as of 7/6/2026 close)

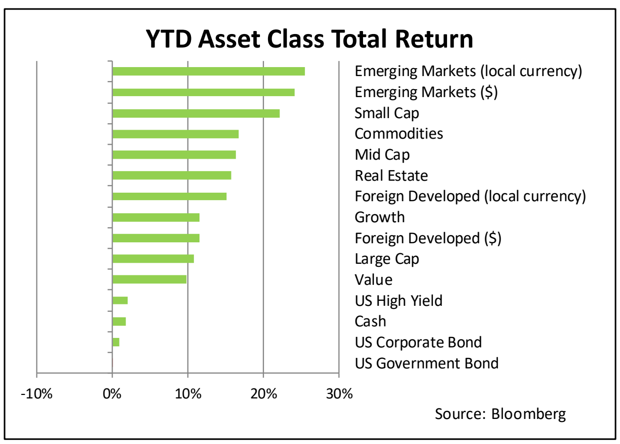




(Source: Bloomberg)

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 7/6/2026 close)

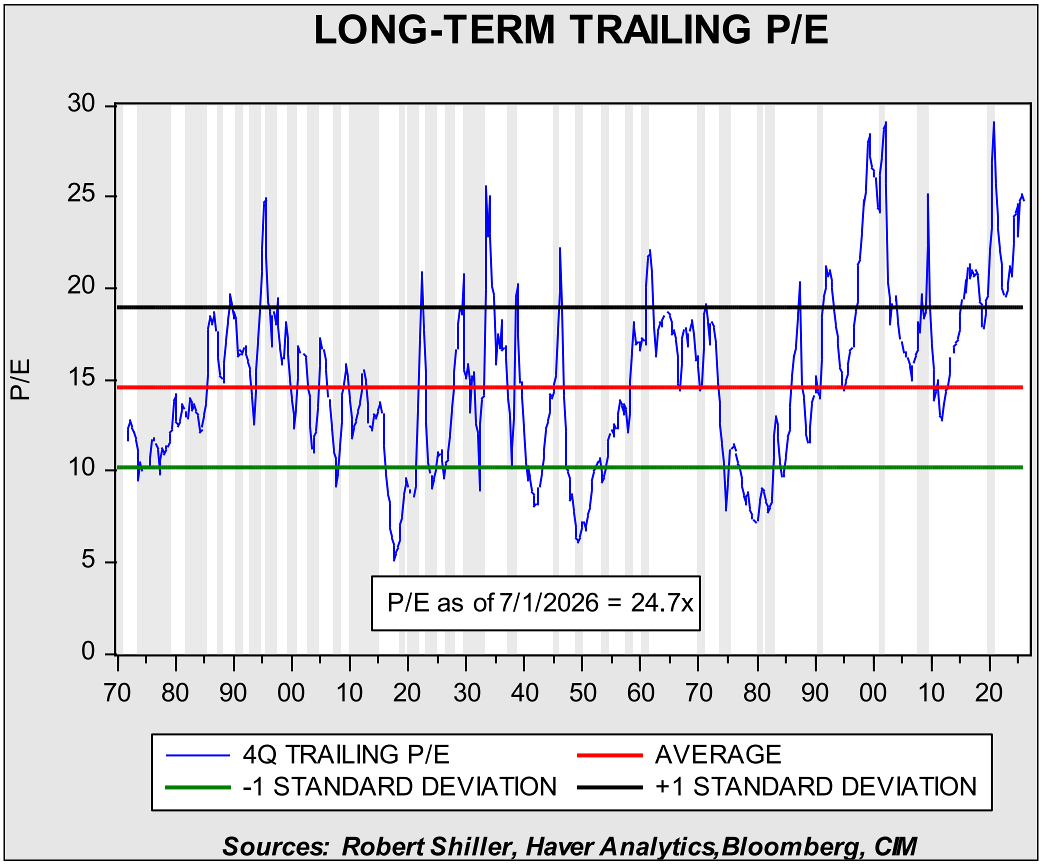


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 2, 2026



Based on our methodology,[1] the current P/E is 24.7x, up 0.1 from the previous report. The rise in the stock price index outpaced the rise in earnings.

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 (Q1, Q2, Q4) and one estimate (Q3). 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.