# Daily Comment

Confluence INVESTMENT MANAGEMENT

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

**[Posted: July 8, 2026 — 9:30 AM ET]** Global equity markets are lower this morning. In Europe, the Euro Stoxx 50 is down 1.9% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.1%. Chinese markets were lower with the Shanghai Composite down 0.5% and the Shenzhen Composite down 2.0%. US equity index futures are signaling a lower open.

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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<br>Q2 2026 Rebalance Presentation | **Confluence Mailbag Podcast**<br>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.

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Our *Comment* opens with an examination of the latest US-Iran confrontation and the potential collapse of the ceasefire. We then examine rising concerns around AI investment, particularly the fears of excessive spending. Next, we cover Marine Le Pen's decision to run for the French presidency, President Trump's renewed pressure on NATO, and speculation that the Democratic nominee for a key Senate seat may withdraw from the race. As always, we conclude with a review of recent domestic and international economic data.

**Ceasefire Done?** The United States and Iran exchanged strikes on Tuesday amid escalating tensions over control of the Strait of Hormuz. The confrontation was reportedly triggered by Iranian attacks on several commercial vessels transiting the strait, including a ship with a Qatari flag. In response, the US not only launched retaliatory strikes but also revoked sanctions waivers that had previously allowed limited Iranian oil exports. The escalation underscores the increasingly fragile balance between diplomacy and direct conflict.

- These latest attacks have cast renewed doubt on the prospects for negotiations between the two sides. President Trump has declared the ceasefire effectively over, while an Iranian official characterized the interim agreement as ineffective. It remains unclear whether talks will resume; however, disputes over control of the Strait of Hormuz continue to represent a central sticking point in any potential negotiations.
- Prior to the escalation, Tehran informed the UN's maritime body that it asserts jurisdiction over unspecified "parts" of the strait, which it argues would entitle it to levy charges on passing vessels. While Iran has not clarified the exact scope of its claim, it has emphasized that it is not a signatory to the United Nations Convention on the Law of the Sea (UNCLOS), the framework that governs navigational rights and explicitly prohibits the imposition of transit fees in international straits.
- Iran's push to expand control over maritime traffic comes just as oil flows through the region have begun to recover following the peace pact it signed with the United States last month. Although transit volumes remain well below pre-conflict levels, there are signs that vessels are moving through the strait more freely and analysts are expecting output to gradually return to normal by 2027.
- Iran's recent actions underscore its determination to assert control over surrounding waters. Its repeated use of force not only projects power across the Gulf but also signals that it views the strait as within its sphere of influence. However, the United States appears unwilling to tolerate such a shift, increasing the risk of renewed confrontation between the two sides. Should tensions escalate further, financial markets are likely to see heightened volatility, with risk assets facing the greatest pressure.

**AI Angst:** AI companies are aggressively raising capital to expand compute capacity in response to surging demand. On Tuesday, Amazon announced plans to raise at least $25 billion through a bond sale to support its AI infrastructure buildout. Meanwhile, South Korean chipmaker SK Hynix saw its US equity offering become oversubscribed. Despite robust earnings reports, the mounting need for funding continues to fuel market anxiety, as investors grow increasingly concerned that costs may be spiraling out of control.

- Rising concerns over the scale of AI-related spending have prompted a rotation out of the traditional mega-cap leaders that have supported broader equity markets and into companies more directly leveraged to that investment cycle. Most notably, capital has shifted away from the "Magnificent 7" and toward firms providing memory chips and data storage, which stand to benefit more immediately from the buildout of AI infrastructure.
- Even so, there are emerging signs that even the primary beneficiaries of AI infrastructure spending are beginning to face pressures. On Tuesday, Samsung's strong earnings failed to impress investors. Despite reporting a roughly 19-fold increase in year-over-year profits, the results exceeded expectations by only 6%, prompting some investors to take profits amid already-elevated forecasts.
- That said, there are signs that valuations are becoming more attractive. Most notably, Nvidia is now trading at its lowest multiple since 2019. While part of the compression reflects investor rotation out of the stock, it also underscores the company's consistent

ability to deliver strong earnings, with analysts continuing to revise estimates higher. As a result, the Magnificent 7 may now offer more compelling valuations than in recent periods, despite the turbulence they have recently faced.

- While there is a strong case for maintaining meaningful exposure to AI within portfolios, we believe opportunities are emerging elsewhere in the market. Sectors such as industrials and energy appear particularly attractive, as they benefit from AI-driven investment without being solely dependent on it for growth. In addition, dividend-paying equities may offer a compelling option for investors seeking more stable income streams.

**Le Pen 2027?** Marine Le Pen, the far-right leader of the populist National Rally party, has announced that she intends to run for the French presidency in 2027. Her declaration comes shortly after a court ordered her to wear an electronic ankle bracelet following her conviction for misusing public funds, while still permitting her to run for elected office. Her party is currently leading national polls and is widely seen as a frontrunner to form a government once parliamentary elections are called.

**NATO Tension:** President Trump's renewed push to acquire Greenland is increasingly straining relations with NATO allies. His insistence on revisiting the issue appears to stem from frustration over limited European support on Iran. Although NATO members have repeatedly asserted that Greenland is not for sale, the episode has left many allies deeply uneasy. The friction comes as Trump is mulling over skipping this year's summit, which has prompted several member states to question whether the event should even be hosted next year to avoid further confrontations.

**Platner Dropping Out?** Democratic candidate Graham Platner is expected to end his campaign as allegations of sexual misconduct continue to undermine his candidacy. Attention has now shifted to who will replace him on the ballot ahead of the July 27 deadline, with Troy Jackson emerging as a potential contender, alongside speculation that Janet Mills could enter the race. Platner’s withdrawal complicates the Democratic field and may improve the likelihood of Republicans maintaining control of the seat.

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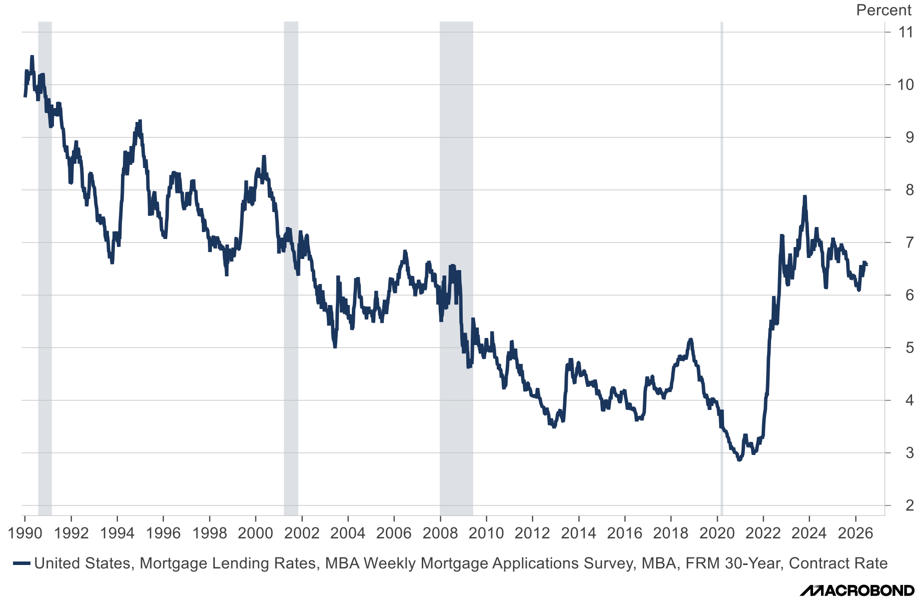
## US Economic Releases

The Mortgage Bankers Association said ***mortgage applications*** in the week ended July 3 fell 2.2%, after being unchanged in the previous week. Applications for home purchase mortgages fell 0.6%, just enough to erase their 0.5% rise in the prior week. Applications for refinancing mortgages dropped 4.1%, after falling 0.7% the week before. According to the report, the average interest rate on a 30-year, fixed-rate mortgage rose 1 basis point to 6.58%. The chart below shows how mortgage rates have changed over time.

Average Interest Rate on New 30-Year, Fixed-Rate Mortgages
Source: Mortgage Bankers Association




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** | Wholesale Inventories | m/m | May F | 0.3% | 0.3% | ** |
| **10:00** | Wholesale Trade Sales | m/m | May | 0.8% | 2.0% | * |
| **15:00** | Consumer Credit | m/m | Jul | $17.500b | $20.733b | * |
| **Federal Reserve** | | | | | | |
| **EST** | **Speaker or Event** | **District or Position** | | | | |
| **14:00** | U.S. Federal Reserve Releases Meeting Minutes | Federal Reserve Board | | | | |

## 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** | BoP Current Account Balance | m/m | May | ¥3968.3b | ¥3907.8b | ¥4110.5b | *** | Equity and bond neutral |
| | BoP Trade Balance | m/m | May | ¥3064.5b | ¥4211.1b | ¥3216.7b | ** | Equity and bond neutral |
| **South Korea** | BoP Current Account Balance | m/m | May | $38607.4m | $28292.3m | | ** | Equity and bond neutral |
| | BoP Goods Balance | m/m | May | $37859.2m | $33884.8m | | * | Equity and bond neutral |
| **China** | Foreign Reserves | m/m | Jun | $3416.26b | $3442.24b | $343550b | ** | Equity and bond neutral |
| **EUROPE** | | | | | | | | |
| **France** | Current Account Balance | m/m | May | -0.1b | -0.6b | | * | Equity and bond neutral |
| **Russia** | Official Reserve Assets | m/m | Jun | $720.4b | $747.4b | | * | Equity and bond neutral |
| **AMERICAS** | | | | | | | | |
| **Canada** | International Merchandise Trade | m/m | May | 4.24b | 3.41b | 2.50b | * | Equity and bond neutral |
| **Mexico** | Vehicle Production | y/y | Jun | 354221 | 342926 | | * | Equity and bond neutral |
| **Mexico** | International Reserves Weekly | w/w | 3-Jul | $255496m | $255181m | | * | 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)** | 372 | 371 | 1 | Up |
| **U.S. Sibor/OIS spread (bps)** | 376 | 375 | 1 | Up |
| **U.S. Libor/OIS spread (bps)** | 374 | 373 | 1 | Up |
| **10-yr T-note (%)** | 4.57 | 4.55 | 0.02 | Up |
| **Euribor/OIS spread (bps)** | 231 | 232 | -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** | **Actual** | **Prior** | **Expected** | |
| RBNZ Official Cash Rate | 2.50% | 2.25% | 2.50% | 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 | $78.40 | $74.16 | 5.72% | Geopolitical Tension and Supply Risk |
| WTI | $74.29 | $70.44 | 5.47% | Geopolitical Tension and Supply Risk |
| Natural Gas | $3.32 | $3.27 | 1.65% | |
| Crack Spread | $57.73 | $58.28 | -0.95% | |
| 12-mo strip crack | $42.32 | $42.13 | 0.46% | |
| Ethanol rack | $2.08 | $2.08 | 0.00% | |
| **Metals** | | | | |
| Gold | $4,051.22 | $4,106.24 | -1.34% | |
| Silver | $58.43 | $59.98 | -2.57% | |
| Copper Contract | $607.05 | $622.60 | -2.50% | |
| **Grains** | | | | |
| Corn contract | $463.50 | $464.25 | -0.16% | |
| Wheat contract | $622.25 | $618.50 | 0.61% | |
| Soybeans contract | $1,200.75 | $1,197.75 | 0.25% | |
| **Shipping** | | | | |
| Baltic Dry Freight | 2,875 | 2,797 | 78 | |
| **DOE Inventory Report** | | | | |
| | **Actual** | **Expected** | **Difference** | |
| Crude (mb) | | -1.90 | | |
| Gasoline (mb) | | -1.72 | | |
| Distillates (mb) | | 1.05 | | |
| Refinery run rates (%) | | -0.24% | | |
| Natural gas (bcf) | | 84 | | |

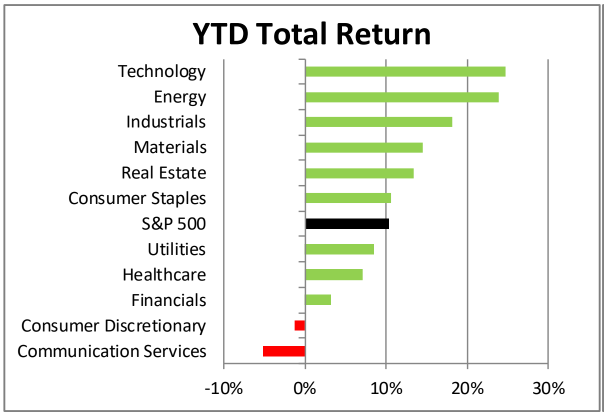
## Weather

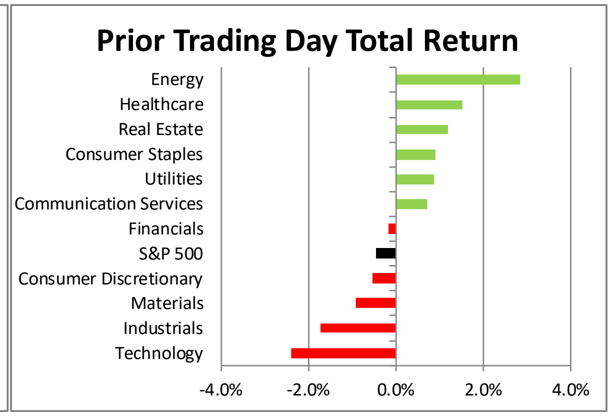
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in all areas except for the Northeast and the coastal areas of Washington, Oregon, and northern California, with cooler-than-normal temperatures in Maine. The outlook calls for wetter-than-normal conditions in the Desert Southwest, Maine, Texas, and the Gulf Coast excluding Florida, with dry conditions in the northern Great Plains and the Upper Midwest.

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

## Data Section

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

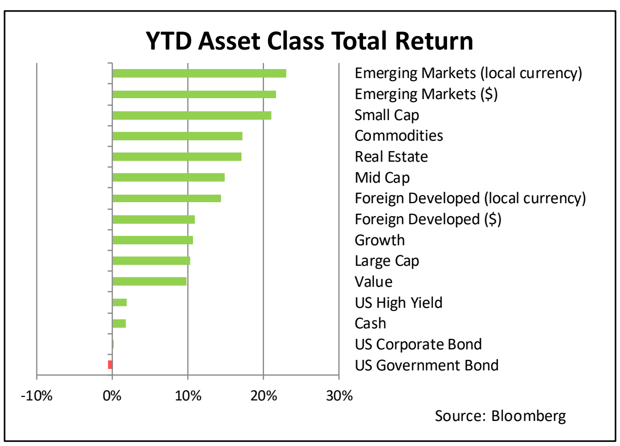



*(Source: Bloomberg)*

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 7/7/2026 close)

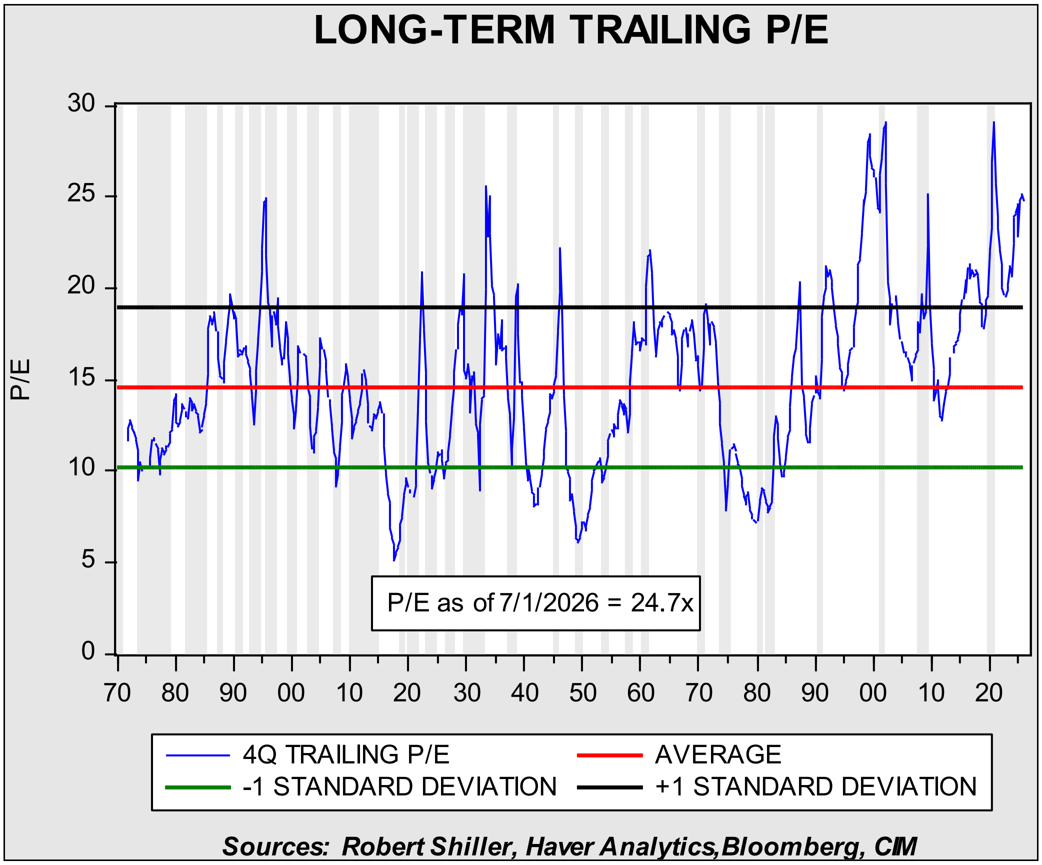



This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.*

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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 ( 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.