Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: June 11, 2026 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 1.0% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.4%. Chinese markets were lower with the Shanghai Composite down 0.2% and the Shenzhen Composite down 0.7%. US equity index futures are signaling a higher 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
"Excess Capacity and Policy Change" (6/8/26)	"The UAE's Exit From OPEC" (6/1/26) + podcast	Q2 2026 Report Q2 2026 Rebalance Presentation	Confluence Mailbag Value Equity: "Déjà vu for Dividends?"

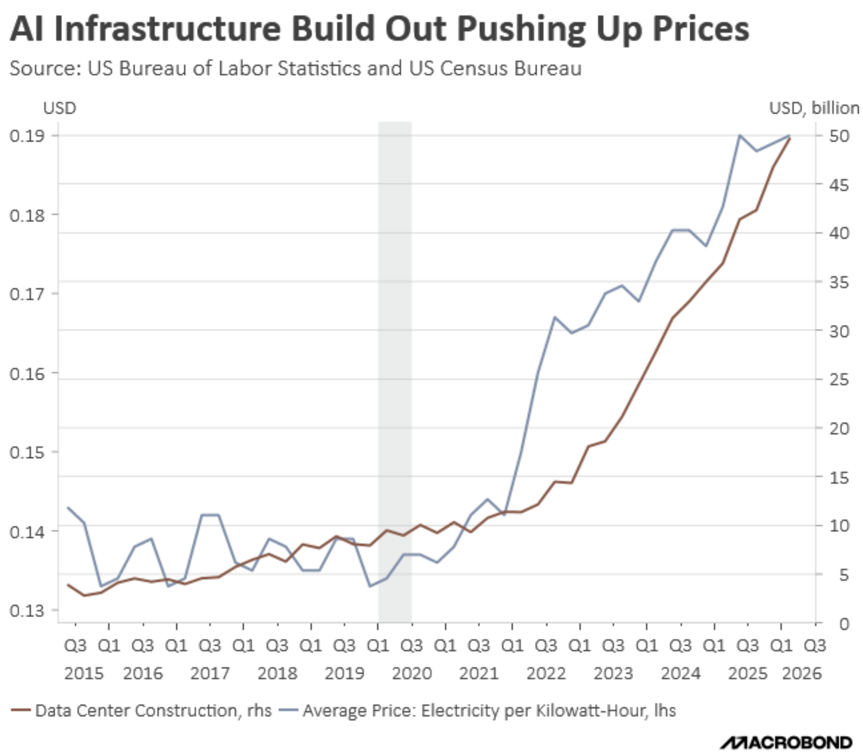
Have a question on the economy, markets, geopolitics, or other important topics? You can submit your queries to our monthly podcast, *Confluence Mailbag*! Submit your question to mailbag@confluenceim.com.

Our *Comment* opens with takeaways from the latest CPI report and its implications for monetary policy. We then provide an update on the US-Iran conflict, followed by an analysis of the oil markets. Next, we briefly cover PIMCO's growing concerns regarding financial weakness, Anthropic's latest funding round for its AI buildout, and the ECB's decision to hike interest rates. As always, we conclude with a review of recent domestic and international economic data.

Inflation Problems: Less than a week before Kevin Warsh will chair his first Federal Reserve meeting, policymakers appear to be confronting a renewed inflation problem. The latest CPI report showed headline inflation accelerated to 4.2%, its third consecutive monthly increase and its fastest pace in more than three years. This pickup in inflation is likely to complicate plans for a Fed chair who had previously signaled openness to rate cuts and could instead strengthen the hand of a Federal Reserve Board that has grown more inclined toward further tightening.

- In May, energy prices were the main driver of the latest CPI upturn, reflecting both the Iran-related supply shock and surging power demand from the AI buildout. Gasoline prices jumped 40.5% year over year, while fuel oil and other household energy costs climbed an even steeper 58.9%. Although such extreme moves are likely to normalize over time, a more troubling development is the nearly 6% increase in electricity prices, which appears increasingly tied to the growing power needs of data centers.

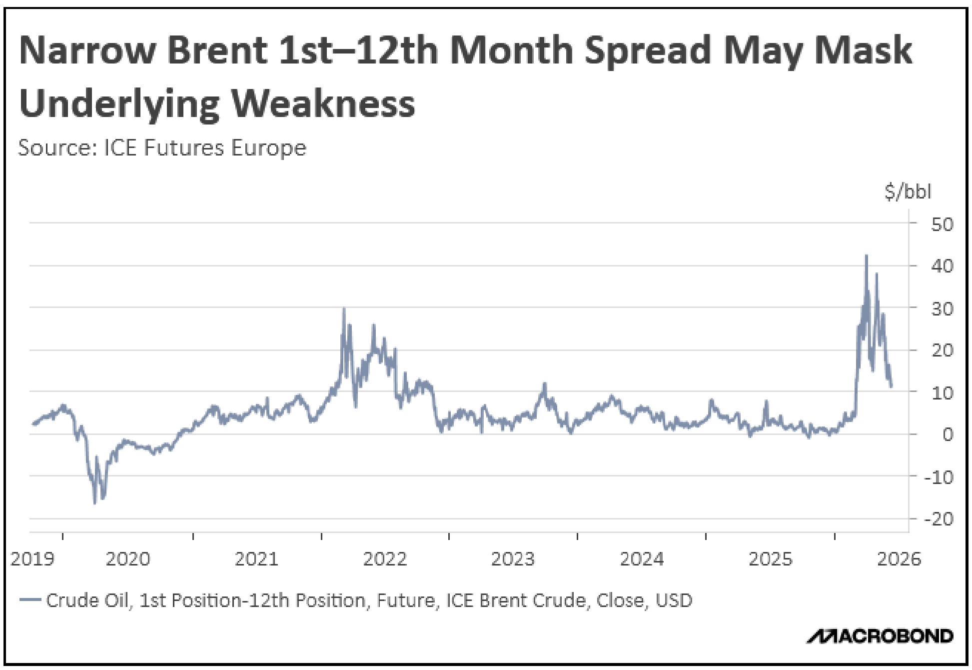
- The pickup in inflation is likely to complicate Kevin Warsh's efforts to set a monetary stance that accommodates the AI buildout. He has argued that the Fed should be willing to hold rates steady and allow a prospective AI-driven productivity boom to show up in the data. Yet, the recent energy-price surge associated with that same buildout risks having the opposite effect, forcing Warsh to persuade more hawkish officials to tolerate above-target inflation in the meantime.



- May's inflation data is likely to harden the stance of many Fed officials, several of whom only a month ago had pressed the central bank to drop its easing bias and openly entertain the prospect of a rate hike. Market pricing has moved in tandem — overnight rates have swung from implying a 25-50 basis point cut at the start of 2026 to instead assigning a roughly 70% probability to at least one hike by year end at the time of writing.
- While the latest CPI report likely gives the Fed cover to delay any rate cuts, we remain less convinced than fed funds futures that policymakers will deliver a hike this year. The 2023 episode showed the Fed's willingness to treat a rise in 10-year yields as a substitute for additional tightening at the front end, plus, given today's split among officials and the current chair's leanings, an extended pause looks more likely than an outright hike as the conflict plays out.

Ceasefire in Jeopardy? The [US has escalated its military operations in Iran](), reflecting growing impatience over stalled negotiations to reopen the Strait of Hormuz. Iran has retaliated by targeting other Gulf states and signaling its intent to further restrict access to the waterway. The renewed hostilities follow a breakdown in talks that had appeared close to a resolution just weeks earlier. As anticipated, the escalation is likely a strategic effort by both sides to strengthen their bargaining positions and extract additional concessions in forthcoming negotiations.

- Following the latest round of strikes, which lasted roughly four hours before pausing, the president stated that military operations will continue until Iran agrees to peace terms. While several issues remain unresolved, the primary sticking point appears to be US demands that Iran dismantle or relinquish its uranium stockpiles. Iran, in turn, has held firm on securing the unfreezing of approximately $10 billion in assets, along with a ceasefire in Lebanon, as preconditions for any agreement.
- Investors had taken comfort from Washington's reluctance to abandon the ceasefire, reflecting concerns that a broader escalation could prove difficult to control given Iran's ability to sustain strikes even after significant damage to its military capabilities. At the same time, although there has been speculation that US forces could reopen the strait with a more substantial ground presence, the White House appears wary of the domestic political backlash that a visible troop deployment could trigger.



- The stop-start pattern of strikes between the two sides has added to the volatility in crude, but it has also helped prevent prices from revisiting the peaks seen at the onset of the conflict. One area we have been watching closely is the spread between futures and physical barrels. While that spread has narrowed, the move appears driven less by easing tensions and more by buyers pulling forward deliveries amid concerns about future disruptions, even as some suppliers continue to face resistance in selling into Asian markets.

- While the worst may be behind us, we are reluctant to say that oil prices will normalize anytime soon. For one, it still appears that the US and Iran will continue to trade strikes even as they hold talks. Second, the spread between crude futures and the physical market suggests that near-term demand and delivery concerns are outweighing any longer-term optimism about a lasting deal, leaving room for another step higher in prices if negotiations fail in the coming weeks.

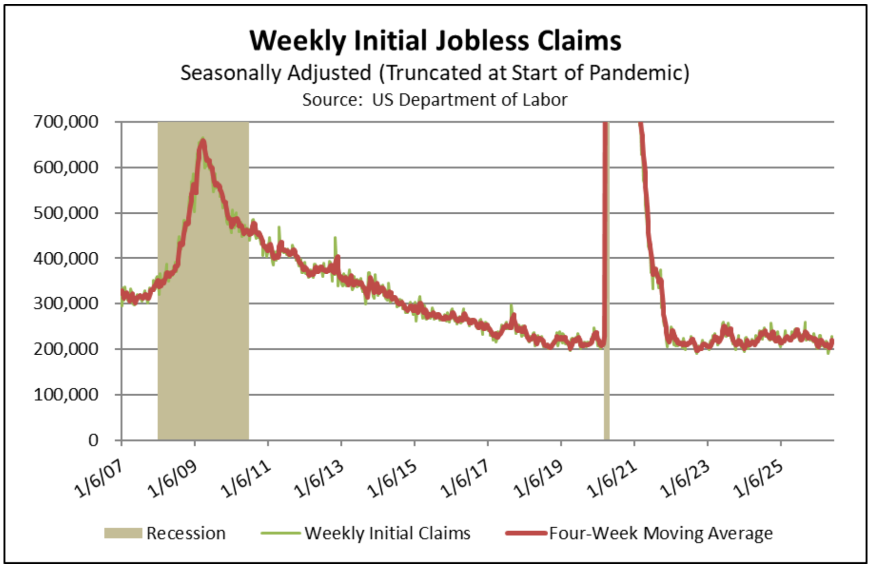
PIMCO Fears: PIMCO has reiterated its warning that a credit loss cycle may be approaching. In its latest outlook, the firm cautions that the AI buildout could leave lower-quality borrowers particularly exposed to defaults. While credit spreads remain near historical lows, PIMCO flags the growing use of maturity extensions and payment-in-kind structures — where interest is paid with additional debt — as key red flags. Even so, there are still no clear, broad-based signs of credit deterioration at this stage.

AI Debt: Apollo and Blackstone have partnered with Broadcom to help Anthropic finance additional chips for its AI buildout. The deal involves roughly $35 billion to fund purchases of Google-designed chips that Broadcom helped develop. The arrangement highlights both the growing reliance on credit and the increasingly circular financing needed to support the AI infrastructure boom. While this may bolster near-term growth, it also reinforces concerns about the longer-term sustainability of the current investment cycle.

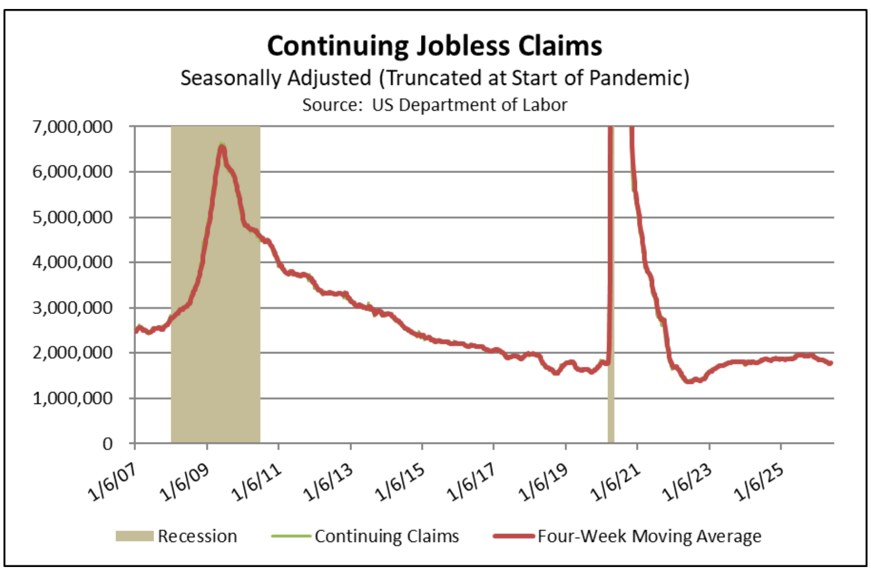
ECB Hawk: The European Central Bank raised interest rates by 25 bps for the first time in three years, marking a significant shift toward tighter policy. The move comes as the euro area contends with an energy shock that threatens its ability to maintain price stability. Although the hike was largely priced in and initially met with a muted market reaction, it could offer additional support to the euro if the Federal Reserve signals a pause at its meeting next week.

US Economic Releases

In the week ended June 6, ***initial claims for unemployment benefits*** rose to a seasonally adjusted 229,000, above both the expected level of 220,000 and the prior week's level of 225,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, rose to a still-modest 219,000. 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.

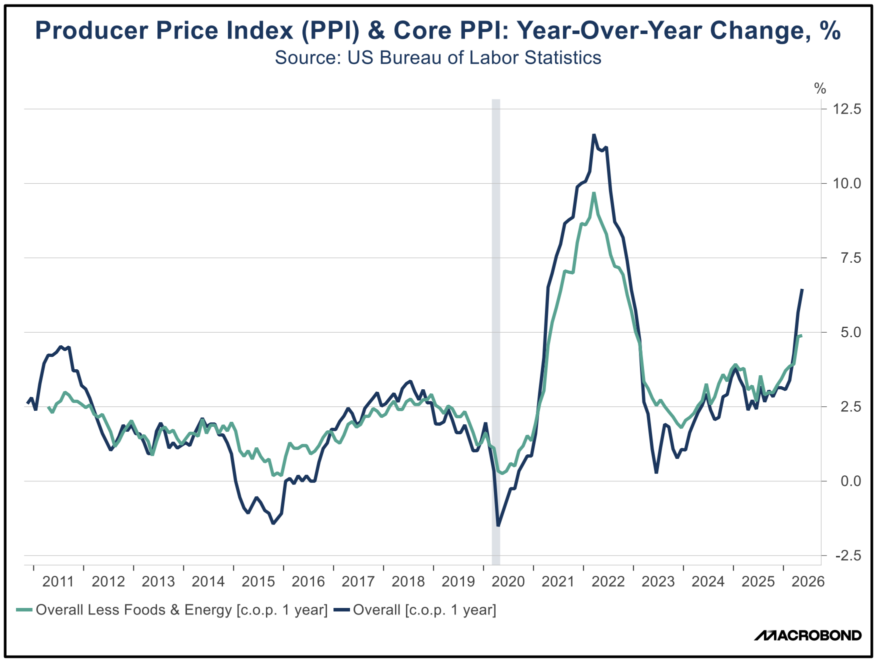


In the week ended May 30, the number of ***continuing claims for unemployment benefits*** (people continuing to draw benefits) rose to a seasonally adjusted 1.795 million, above both the anticipated reading of 1.785 million and the previous week's revised reading of 1.771 million. The four-week moving average of continuing claims rose to 1,780,500. 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, the May ***producer price index (PPI)*** jumped by a seasonally adjusted 1.1%, much worse than the expected rise of 0.7% and enough to match the big jump in April. Excluding the volatile food and energy components, however, the May ***"core" PPI*** rose just 0.4%, short of the anticipated rise of 0.5% and less than the revised gain of 0.7% in the previous month. The overall PPI in May was up 6.5% from the same month one year earlier, while the core PPI was up 4.9%.

The chart below shows the year-over-year change in the PPI and the core PPI over the last decade or so.



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	5-Jun	¥197.5b	-¥184.4b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	5-Jun	-¥943.6b	-¥1068.1b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	5-Jun	¥1038.5b	¥1250.2b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	5-Jun	-¥701.0b	-¥491.5b		*	Equity and bond neutral
South Korea	Unemployment Rate	m/m	May	2.8%	2.8%	2.8%	***	Equity and bond neutral
EUROPE								
UK	RICS House Price Balance	y/y	May	-35%	-35%	-32%	**	Equity and bond neutral
Russia	CPI	y/y	May	5.31%	5.58%	5.41%	***	Equity and bond neutral
	Core CPI	y/y	May	4.90%	4.96%		**	Equity and bond neutral
AMERICAS								
Mexico	Industrial Production	y/y	Apr	2.3%	-1.3%	-0.6%	***	Equity and bond neutral
	Manufacturing Production	y/y	Apr	0.0%	-1.0%	-1.6%	*	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)	362	363	-1	Up
U.S. Sibor/OIS spread (bps)	367	367	0	Down
U.S. Libor/OIS spread (bps)	366	366	0	Up
10-yr T-note (%)	4.52	4.55	-0.03	Up
Euribor/OIS spread (bps)	240	237	3	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**	
ECB Deposit Facility Rate	2.25%	2.00%	2.25%	On Forecast
ECB Main Refinancing Rate	2.40%	2.15%	2.40%	On Forecast
ECB Marginal Lending Facility	2.65%	2.40%	2.65%	On Forecast
Bank of Canada Rate Decision	2.25%	2.25%	2.25%	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.

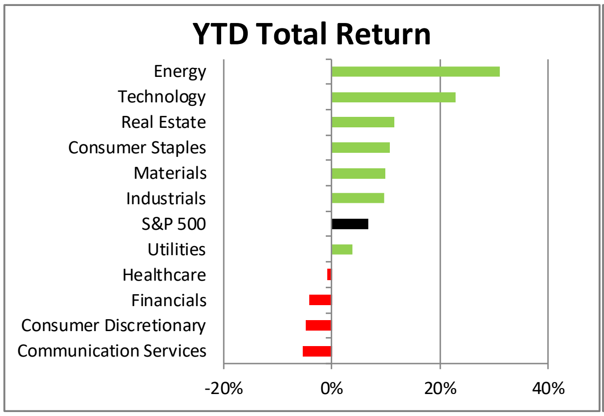
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$91.93	$93.10	-1.26%	
WTI	$88.95	$90.03	-1.20%	
Natural Gas	$3.11	$3.19	-2.45%	
Crack Spread	$47.41	$46.11	2.81%	
12-mo strip crack	$40.83	$40.31	1.27%	
Ethanol rack	$2.11	$2.11	-0.01%	
Metals				
Gold	$4,083.64	$4,072.31	0.28%	
Silver	$63.56	$63.36	0.32%	
Copper Contract	$624.25	$626.70	-0.39%	
Grains				
Corn contract	$444.25	$446.75	-0.56%	
Wheat contract	$584.00	$587.50	-0.60%	
Soybeans contract	$1,137.50	$1,138.50	-0.09%	
Shipping				
Baltic Dry Freight	2,771	2,818	-47	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	-7.23	-2.20	-5.03	
Gasoline (mb)	0.19	1.00	-0.81	
Distillates (mb)	-0.20	0.17	-0.37	
Refinery run rates (%)	0.06%	0.10%	-0.04%	
Natural gas (bcf)		100		

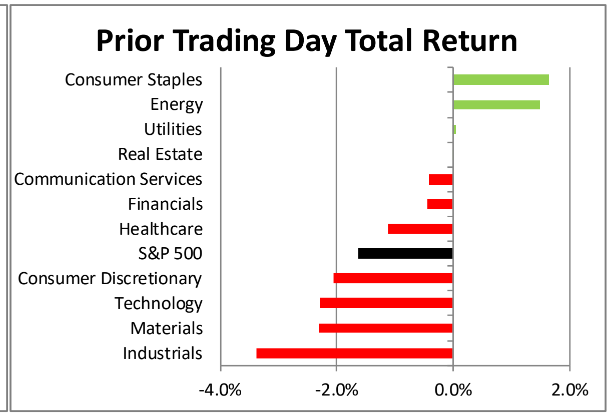
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in the Southwest, along the Gulf Coast, and in the Southeast, with cooler-than-normal temperatures in the Midwest. The outlook calls for wetter-than-normal conditions in the southern Rocky Mountains, the southern Great Plains, and in all areas east of the Mississippi River except for Florida, where conditions will be dry.

Data Section

US Equity Markets – (as of 6/10/2026 close)

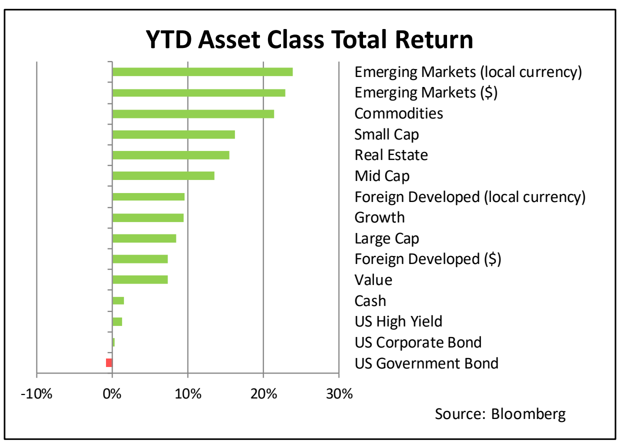




(Source: Bloomberg)

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 6/10/2026 close)

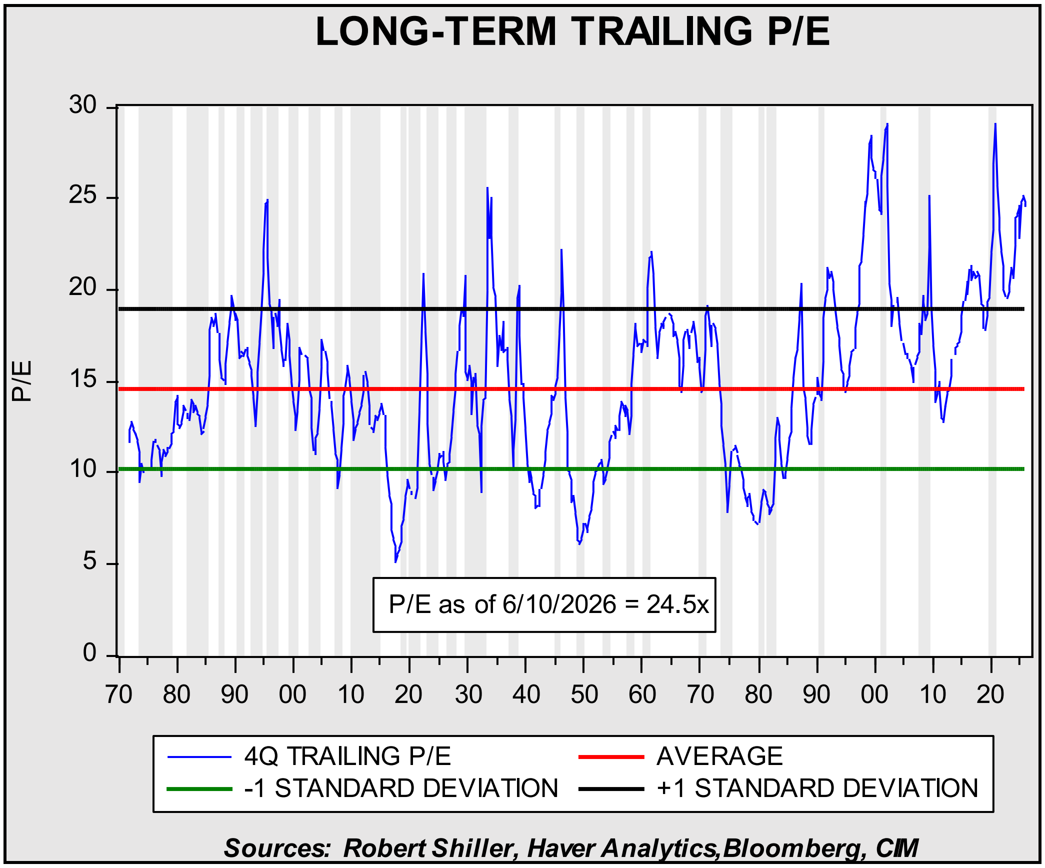


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

June 11, 2026



Based on our methodology,[1] the current P/E is 24.5x, unchanged from the previous report. The stock price index and earnings were little changed 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.

[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.