Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: June 17, 2026 — 9:30 AM ET] Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 is up 0.5% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.4%. Chinese markets were higher with the Shanghai Composite up 0.4% and the Shenzhen Composite up 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) + podcast (6/11/26)	"China Cuts Its Energy Imports" (6/15/26) + 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 a discussion of how the United States is leveraging AI capabilities to keep key allies within its strategic orbit. We then turn to the Federal Reserve, outlining our views on its next policy direction. Next, we provide briefings on SpaceX's rising valuation, newly released details of the US-Iran ceasefire agreement, and risks of a potential oil glut next year. As always, we include a review of recent domestic and international economic data.

AI Foreign Policy: The United States is increasingly turning to artificial intelligence as a tool to reshape its foreign policy. Just one week after the White House prohibited foreign nationals, including those working within the US, from using the Anthropic tools Mythos and Fable 5, Washington has initiated talks with European partners regarding access to American-made AI tools. These discussions reflect the US's growing willingness to leverage its technological edge as an instrument of geopolitical influence.

- During the G7 Summit, the United States discussed a "trusted partner" scheme that would grant close allies privileged access to the latest AI models. The scheme could mean that

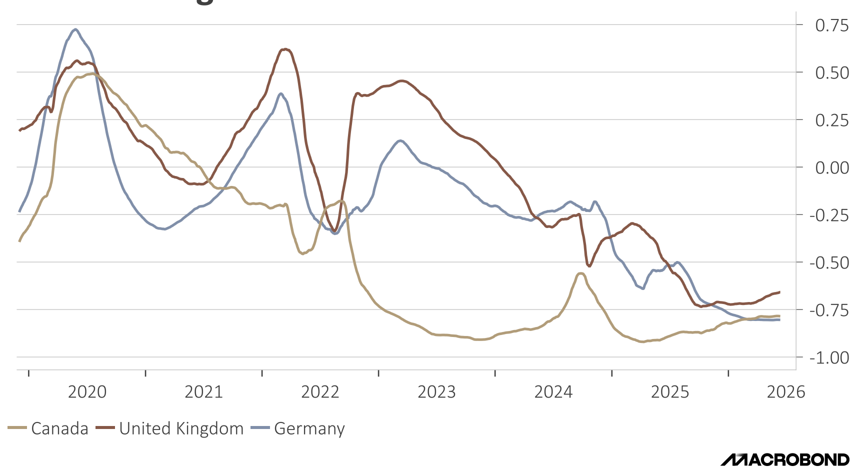
AI providers would be restricted from selling their products to certain countries — or, in some cases, specific companies. A broad agreement may allow participating nations to leverage these advanced technologies in order to assist in the ramping up of their defenses against rivals such as China.

- The decision reflects growing US concern over the capabilities of Anthropic's latest models. Last week, Commerce Secretary Howard Lutnick warned that the company may require special export licenses to provide certain tools to foreign nationals, citing national security risks. While the White House has not formally explained the directive, it is widely believed to be linked to the discovery of a jailbreak in Fable 5 that could circumvent Anthropic's safety guardrails.
- The move to restrict AI exports mirrors the semiconductor controls that expanded from 2022 to 2024, which sharply limited advanced chip sales to China and other "countries of concern." In both domains, Washington aims to guarantee allies' access to US technology while constraining rivals, underscoring how protective it has become of its technological edge and how it is using that edge to keep key states within its strategic orbit.
- The government push to limit advanced AI-model use by foreign nationals is likely to weigh on the earnings of major technology firms, which are more dependent than most sectors on international revenue. These restrictions also highlight the risk that tech valuations may be elevated relative to rising policy and regulatory headwinds. We continue to advocate sector diversification as a way to hedge against over-concentration, given the growing dominance of large technology companies within equity indexes.

Warsh Takes the Lead: All eyes will be on Fed Chair Kevin Warsh this afternoon as he presides over his first meeting since taking office. Markets will be focused on how the central bank assesses the inflation outlook, particularly in light of recent progress toward de-escalation in Iran. While easing geopolitical tensions should help improve the near-term inflation outlook, uncertainty around the policy path remains elevated amid persistent signs of underlying price pressures.

- Warsh inherits a more hawkish Federal Reserve than his predecessor. Ahead of today's meeting, several Fed officials have signaled that further rate hikes may be warranted if inflation remains above the 2% target, citing not only pressures from the Iran conflict but also demand strength from the AI boom and a firming labor market. The departure of a noted dove, Governor Stephen Miran, further removes a key counterweight to tightening.
- Further reinforcing the hawkish bias are recent moves by peer central banks. Despite the agreement between Iran and the US to reopen the strait, policymakers elsewhere remain cautious about declaring victory on inflation. The Bank of Japan raised rates on Tuesday, citing ongoing inflation concerns, while ECB Chief Economist Philip Lane signaled that additional tightening remains possible following this month's hike.

2-Year Rolling Correlation: US 10Y Yield Spreads vs. USD Exchange Rates



- Markets will be paying very close attention to Warsh as he offers his views on the direction of Fed policy. Over the past several years, the dollar has grown increasingly sensitive to shifts in interest rate differentials, as investors have come to view central banks with relatively dovish stances less favorably against a backdrop of persistently elevated inflation. Against that environment, any hawkish tilt from the Fed could lay the groundwork for another sustained dollar bull market.
- Heading into his first meeting, we expect Warsh to signal that the Fed will stay the course while keeping its options open. Such a stance would leave room for potential rate cuts later this year, which could act as a headwind for the dollar. That said, any shift toward a more hawkish tone could prompt a reassessment of current equity valuations while simultaneously supporting the dollar.

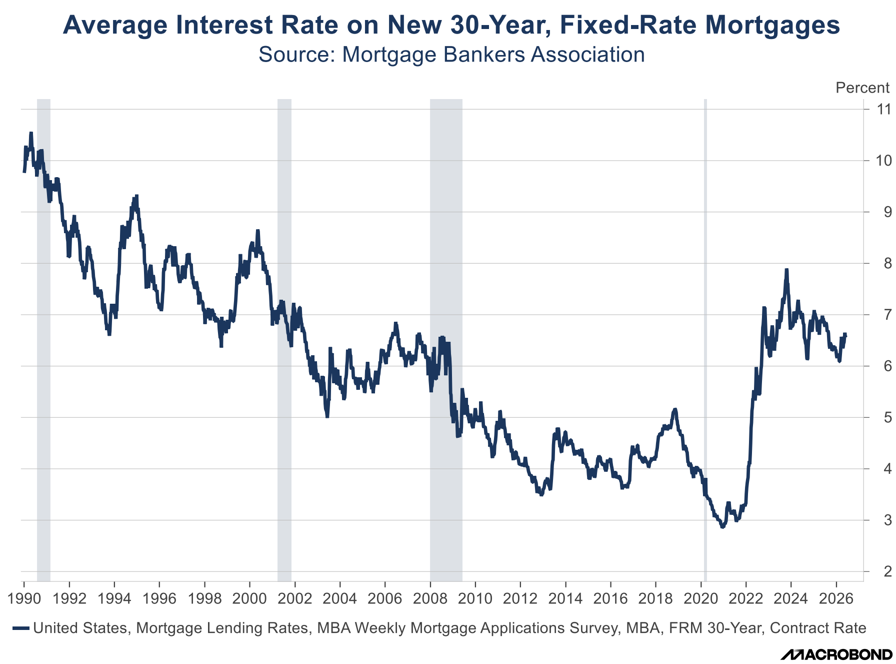
SpaceX's Rise: The Musk-owned company's stock is off to a strong start, having just surpassed Amazon's valuation to become the fifth-largest firm by market capitalization. The sharp move reflects robust post-IPO demand, but much of the recent upside also appears tied to a broader relief rally following progress in Iran-US talks. The rise of SpaceX reflects the growing dominance of tech companies in the S&P 500.

Iran Deal: There remains significant debate surrounding the reported agreement between Iran and the United States to reopen the Strait of Hormuz later this week. While the official framework has been released, subsequent leaks suggested the possibility of a $300 billion investment fund tied to Iran's compliance with the terms of the deal. The White House has denied any direct US involvement in such a mechanism, but the emergence of these reports underscores the intensifying political pressure and scrutiny surrounding the agreement.

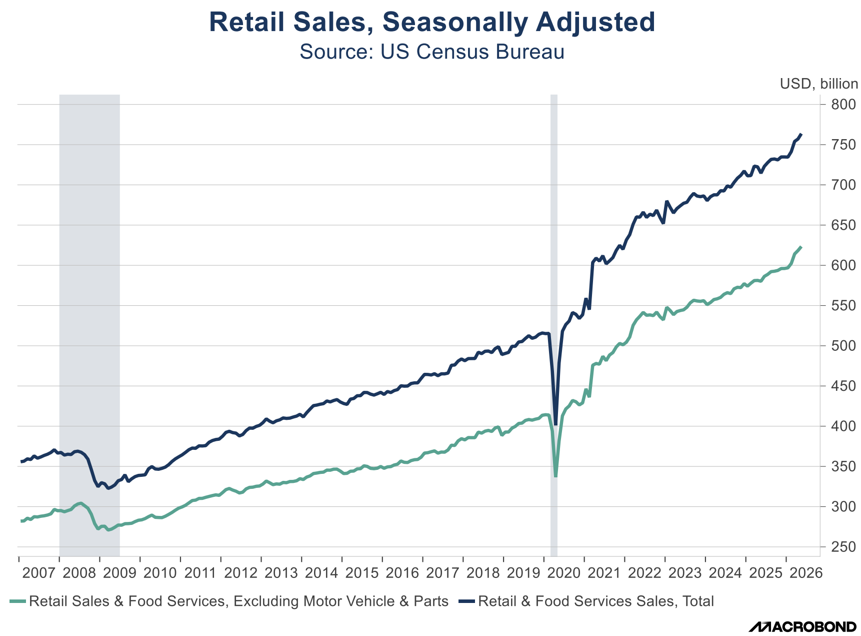
Oil Glut? The International Energy Agency warns that the Middle East agreement could set the stage for oil overproduction during the next few years. Although it does not expect exports to rebound immediately once the conflict ends, it anticipates that as shut-in capacity and war-affected facilities gradually return to operation, global output could rise sharply, creating a substantial supply overhang by next year. This prospective increase in production is likely to exert downward pressure on oil prices and related inflation measures in the coming months.

US Economic Releases

The Mortgage Bankers Association said ***mortgage applications*** in the week ended May 12 fell 3.8%, wiping out much of their 10.8% rise in the previous week. Applications for home purchase mortgages fell 3.4%, after rising 7.3% in the prior week. Applications for refinancing mortgages dropped 4.5%, after jumping 15.3% the week before. The average interest rate on a 30-year, fixed-rate mortgage was unchanged at 6.60%. The chart below shows how mortgage rates have changed over time.



Separately, May ***retail sales*** rose by a seasonally adjusted 0.9%, essentially double the expected increase of 0.5% and the revised April gain of 0.4%. Overall retail sales are often driven by the volatile auto and auto parts sector, which makes up almost one-fifth of the total, but that wasn't really the case this time. May ***retail sales excluding autos and auto parts*** were up 0.8%, versus an expected rise of 0.5% and an April increase of 0.7%. What probably did drive the sales gain in May was the surge in energy prices due to the war in Iran. In any case, overall retail sales in May were up 5.2% from the same month one year earlier, while sales excluding autos and auto parts were up 6.1%. The chart below shows how retail sales have changed 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
10:00	Business Inventories	m/m	Apr	0.5%	0.9%	*
10:00	Pending Home Sales	m/m	May	0.9%	1.4%	**
10:00	Pending Home Sales NSA	y/y	May	2.0%	3.3%	**
14:00	FOMC Rate Decision (Lower Bound)	w/w	17-Jun	3.75%	3.75%	***
14:00	FOMC Rate Decision (Upper Bound)	w/w	17-Jun	3.50%	3.50%	***
14:00	Interest on Reserve Balances Rate	w/w	18-Jun	3.65%	3.65%	**
Federal Reserve						
EST	Speaker or Event	District or Position				
14:30	Kevin Warsh Holds Press Conference	Chairman 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	Trade Balance	y/y	May	-¥378.6b	¥301.9b	-¥547.6b	**	Equity and bond neutral
	Exports	y/y	May	17.0%	14.8%	16.5%	*	Equity bullish, bond bearish
	Imports	y/y	May	12.5%	9.7%	12.8%	*	Equity and bond neutral
	Core Machine Orders	y/y	Apr	15.6%	5.9%	8.9%	**	Equity bullish, bond bearish
Australia	Westpac Leading Index	m/m	May	-0.04%	0.06%		**	Equity and bond neutral
New Zealand	Wespac Consumer Confidence	m/m	2Q	80.4	94.7		*	Equity and bond neutral
	BOP Current Account Balance NZd	q/q	1Q	-1.008b	-5.639b	-0.9667b	*	Equity and bond neutral
	Non Resident Bond Holdings	m/m	May	59.6%	58.9%		*	Equity and bond neutral
EUROPE								
Eurozone	CPI	y/y	May F	3.2%	3.2%	3.2%	***	Equity and bond neutral
	Core CPI	y/y	May F	2.6%	2.5%	2.5%	**	Equity and bond neutral
UK	CPI	y/y	May	2.8%	2.8%	3.0%	***	Equity and bond neutral
	CPI Core	y/y	May	2.6%	2.5%	2.7%	***	Equity and bond neutral
	CPI Services	y/y	May	3.7%	3.2%	3.6%	*	Equity and bond neutral
	Retail Price Index	y/y	May	415.3	414.4	416.4	***	Equity and bond neutral
	RPI	y/y	May	3.1%	3.0%	3.3%	**	Equity and bond neutral
	RPI Ex Mort Int.Payments	y/y	May	3.0%	3.0%		*+	Equity and bond neutral
	House Price Index	y/y	Apr	3.8%	0.0%		***	Equity and bond neutral
AMERICAS								
Canada	Int'l Securities Transactions	m/m	May	46.91b	4.40b		**	Equity and bond neutral
Mexico	International Reserves Weekly	w/w	12-Jun	$255183m	$255731m		*	Equity and bond neutral
Brazil	Econimic Activity	y/y	Aug	0.92%	3.07%	1.50%	**	Equity bearish, bond bullish

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)	368	367	1	Down
U.S. Libor/OIS spread (bps)	366	366	0	Up
10-yr T-note (%)	4.44	4.44	0.00	Down
Euribor/OIS spread (bps)	241	241	0	Up
Currencies	**3 Mo**			
Dollar	Down	US		Flat
Euro	Up	Euro		Up
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.

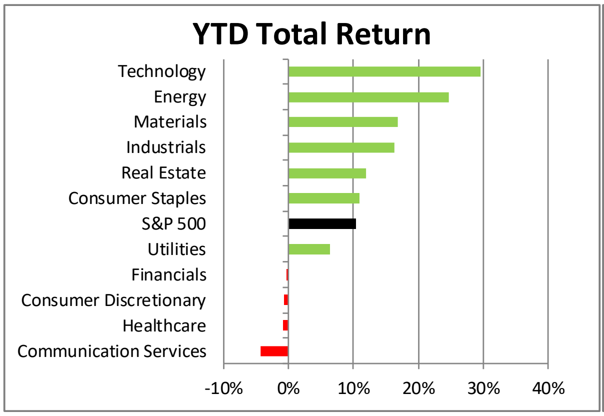
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$79.29	$78.96	0.42%	
WTI	$76.45	$76.05	0.53%	
Natural Gas	$3.29	$3.24	1.61%	
Crack Spread	$48.93	$49.13	-0.43%	
12-mo strip crack	$39.07	$39.41	-0.84%	
Ethanol rack	$2.05	$2.05	-0.43%	
Metals				
Gold	$4,330.64	$4,331.21	-0.01%	
Silver	$69.91	$70.02	-0.16%	
Copper Contract	$659.35	$656.65	0.41%	
Grains				
Corn contract	$444.00	$442.50	0.34%	
Wheat contract	$611.50	$604.25	1.20%	
Soybeans contract	$1,153.50	$1,146.50	0.61%	
Shipping				
Baltic Dry Freight	2,670	2,720	-50	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		-3.00		
Gasoline (mb)		-1.00		
Distillates (mb)		-0.50		
Refinery run rates (%)		0.06%		
Natural gas (bcf)		80		

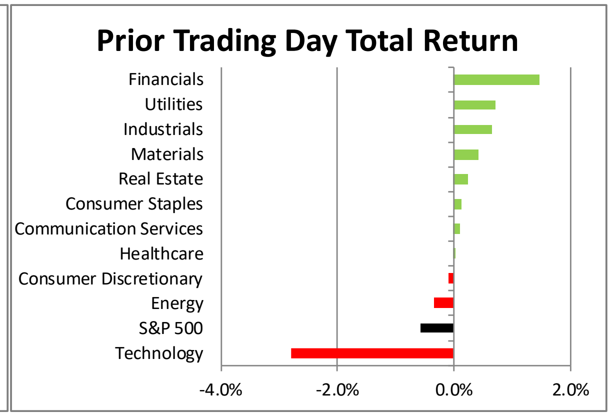
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures throughout the Far West, the southern Great Plains, and in the Southeast, with cooler-than-normal temperatures in the Midwest. The outlook calls for wetter-than-normal conditions in the northern Rocky Mountains, the northern and central Great Plains, the Midwest, and the Northeast, with dry conditions in Nevada and northern California.

Data Section

US Equity Markets – (as of 6/16/2026 close)

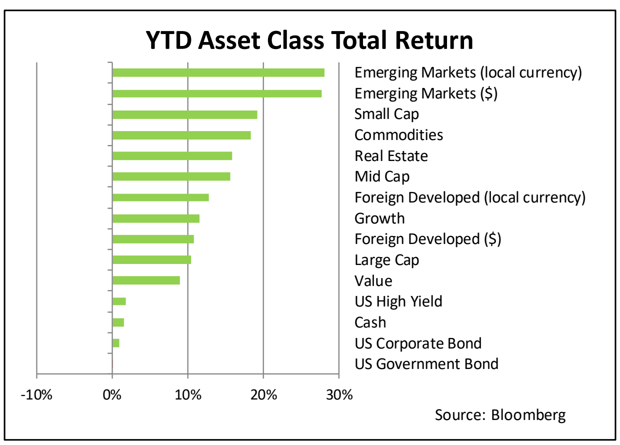




(Source: Bloomberg)

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 6/16/2026 close)

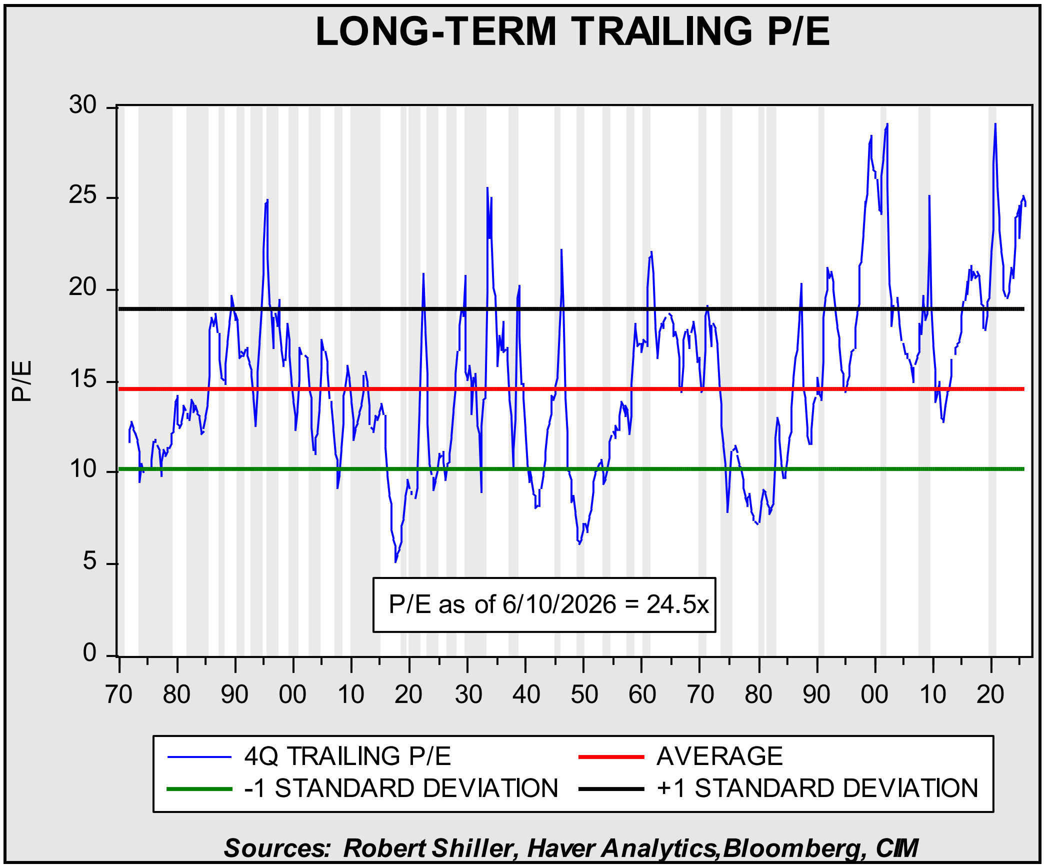


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.

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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.