Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: June 4, 2026 — 9:30 AM ET] Global equity markets are mostly lower this morning. In Europe, the Euro Stoxx 50 is up 0.2% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 2.4%. Chinese markets were lower with the Shanghai Composite down 0.6% and the Shenzhen Composite down 0.4%. 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
"The Trade Trilemma *Revisited*" (5/18/26) + podcast (5-21/26)	"The UAE's Exit From OPEC" (6/1/26) + podcast	Q2 2026 Report Q2 2026 Rebalance Presentation	Confluence Mailbag Value Equity Quarterly Update

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 an assessment of recent business survey reports, including the ISM surveys and the Federal Reserve's Beige Book. We then examine the rising political costs associated with the war in Iran. Next, we discuss European efforts to initiate peace talks between Russia and Ukraine, AI-related concerns following Broadcom's weaker-than-expected outlook, and emerging risks in leveraged loan markets as delinquencies rise. As always, we include a review of recent domestic and international economic data releases.

Economic Resilience: Recent data suggests that AI-driven investment momentum continues to support growth. The latest Fed Beige Book and ISM Services survey indicate that the economy remained in expansion territory in May. Firms appear to be accelerating purchases in anticipation of potential supply disruptions linked to the Iran conflict, while AI continues to drive greater investment. While the headline resilience reinforces the view that the economy is absorbing geopolitical shocks, it also points to emerging risks beneath the surface.

- The May ISM Services PMI rose from 53.6 to 54.5, exceeding expectations of 53.8. The gain was driven by a notable acceleration in new orders and a sharp buildup in inventories, as firms moved to meet stronger demand and preempt potential supply disruptions. Inventories climbed to their highest level since 2010. While the pickup in activity itself is not particularly alarming, it did contribute to firmer input cost pressures, which could have implications for the inflation outlook.
- The report is consistent with the Beige Book's characterization of overall activity as expanding at a slight to moderate pace, with manufacturing supported in part by strong demand tied to data centers and related infrastructure. While the Beige Book does not explicitly attribute this strength to policy, the pattern is consistent with the broader impact of tax incentives and elevated defense spending in underpinning activity.
- That said, there are clear areas of concern, particularly in the labor market and in sentiment. While the ADP report showed that the economy added 122,000 private sector jobs in May, surveys from both the Federal Reserve and the ISM suggest firms remain cautious about hiring. At the same time, inflation concerns continue to weigh on households and businesses, as budget constraints and margin pressures shape spending and investment decisions.
- While we remain constructive on the near-term economic outlook over the next three to six months, emerging signs of softness suggest the economy is increasingly vulnerable to a pullback. A prolonged conflict involving Iran could amplify these risks, particularly as households continue to face pressure from rising inflation and a decline in savings. At the same time, robust investment in AI-related infrastructure and technology remains a key source of support and is likely to partially offset broader moderation in consumption.

Iran Pushback: The conflict involving Iran is increasingly becoming a political liability for the White House. On Wednesday, a Republican-led House voted to restrict the president's ability to initiate military strikes in Iran without congressional approval, marking a meaningful setback. This constraint is particularly significant given the administration's reliance on targeted strikes to enforce its blockade in the Strait of Hormuz. In response, the White House appears to be pivoting back toward more nationalist policy positioning in an effort to rebuild political support.

- While the measure is unlikely to become law, it signals that support for the president may be beginning to erode. The Democrat-backed bill passed with the support of four Republicans, marking the first time such legislation has cleared the House after previous failures in both chambers. The vote is likely to prompt similar action in the Senate, which could further underscore growing political resistance to a conflict now entering its fourth month.
- The vote comes amid signs that the ceasefire is beginning to fray. On Wednesday, Iran launched a series of missiles targeting US airbases in Kuwait and Bahrain. While no American troops were killed, the strikes did result in at least one casualty. Although the president downplayed the incident publicly, reports suggest he may be willing to abandon the ceasefire if future attacks result in US fatalities.
- In an effort to regain momentum amid the conflict, the White House has revived nationalist rhetoric, including renewed references to territorial expansion. Secretary of

State Marco Rubio noted that Greenland remains part of Denmark "for now," echoing prior interest in acquiring the territory, while the US ambassador to Canada referred to the country as the "51st state." While largely symbolic, these moves highlight the administration's attempt to rebuild political support.

- We think the longer the war continues, the greater the political toll on the president, particularly as the midterms approach. While this dynamic may increase pressure to reach a settlement, it is unlikely to compel the administration to accept an agreement that falls short of its core objective of preventing Iran from acquiring a nuclear weapon. Consequently, in our view, the risk of a prolonged conflict remains elevated.

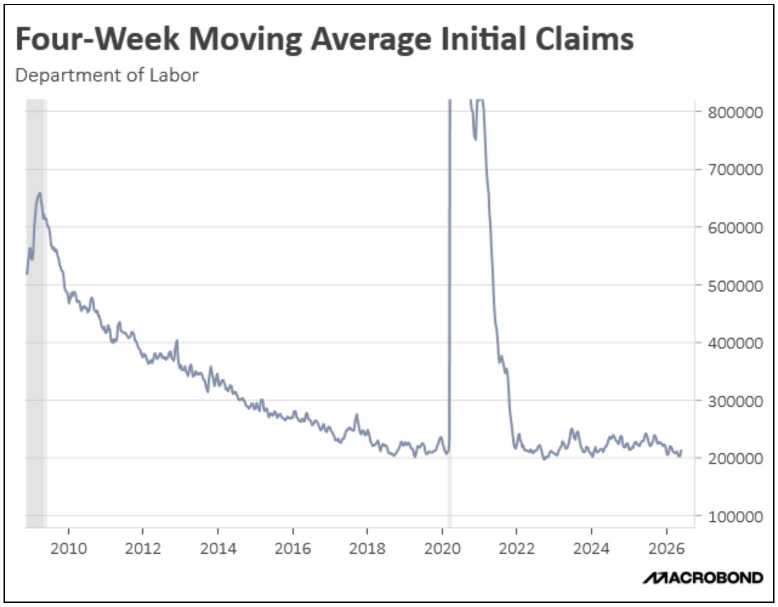
Europe Talks: European allies are stepping up efforts to open negotiations with Putin aimed at ending the war in Ukraine. Germany, France, and the UK are expected to take the lead, seeking to ensure a meaningful role after earlier US-led talks stalled. Although Putin still appears to prefer engaging directly with Washington, he has not ruled out serious discussions with European counterparts. Taken together, these moves suggest that a diplomatic breakthrough in Ukraine may be closer than markets currently reflect.

AI Doubts? Tech shares fell after Broadcom issued a softer-than-expected AI revenue outlook. The company projected AI semiconductor revenue of about $16 billion for its fiscal third quarter, below consensus expectations of roughly $17.2 billion. The sharp sell-off underscores how dependent the AI trade has become on chipmakers meeting or beating ambitious growth expectations to support elevated valuations, and may foreshadow further downside if earnings momentum starts to fade.

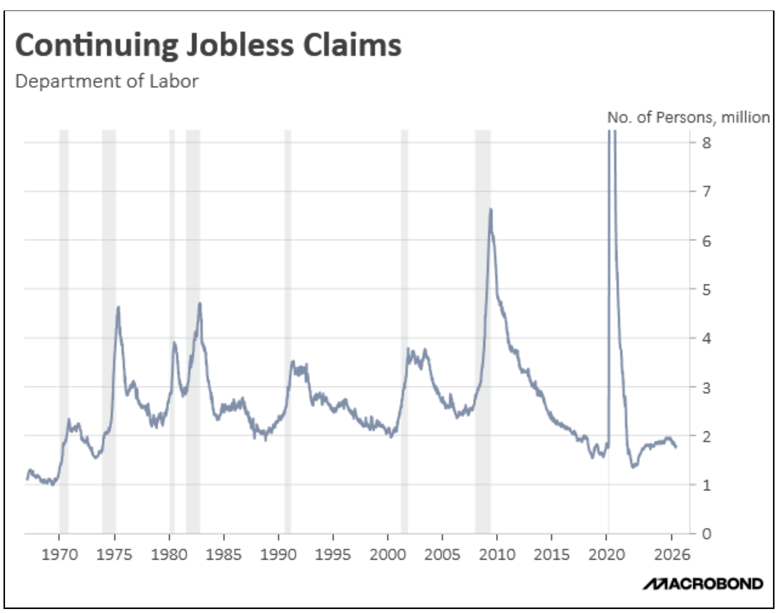
Credit Concerns: There are growing concerns that a default cycle may already be underway. PIMCO's Chief Investment Officer has warned that the market could face higher losses than those to which investors have become accustomed. This comes as several financial firms caution that delinquencies may rise as leveraged buyout debt from 2021-2022 approaches maturity, even as credit spreads remain near historic lows. While systemic risks appear contained for now, the economy's heavy reliance on credit leaves it vulnerable to a deterioration in liquidity.

US Economic Releases

In the week ended May 30, ***initial claims for unemployment benefits*** rose to a seasonally adjusted 225,000, above both the expected level of 213,000 and the prior week's revised level of 212,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, rose to 214,750. 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.

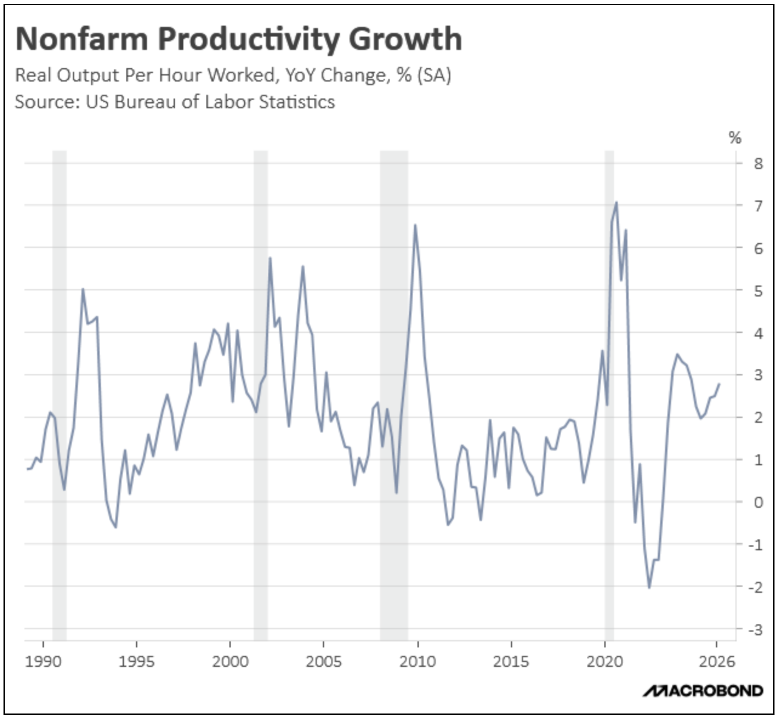


In the week ended May 23, the number of ***continuing claims for unemployment benefits*** (people continuing to draw benefits) fell to a seasonally adjusted 1.777 million, below both the anticipated reading of 1.785 million and previous week's revised reading of 1.780 million. The four-week moving average of continuing claims fell to 1,777,250. 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.

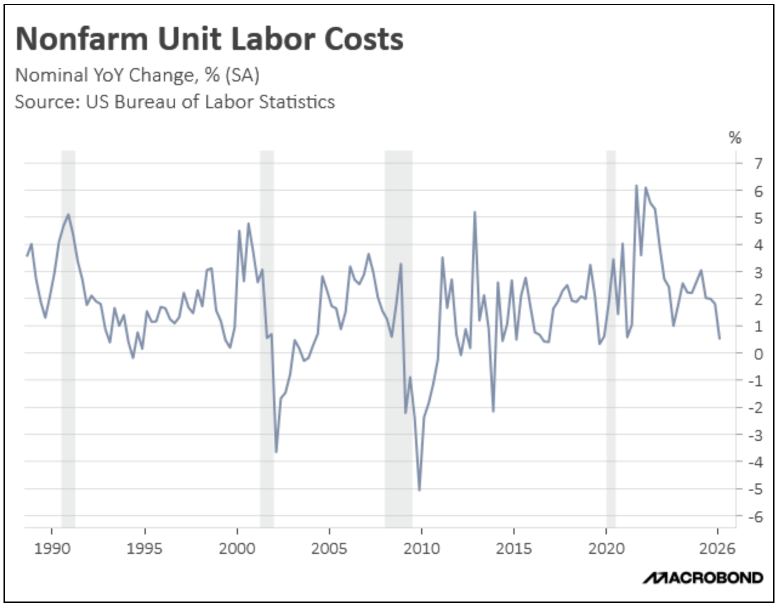


A preliminary report today focused on the productivity of US workers, defined as the average value of output per hour worked. After stripping out price changes and seasonal fluctuations, first quarter ***nonfarm productivity*** rose at a strong annualized rate of 0.3%, slightly below expectations of anticipated growth rate of 0.5% but still much more modest than the revised

1.8% rate in the fourth quarter of 2025. Taking into account the fluctuations in each of the last four quarters, productivity in the first quarter was up 2.8% from the same period one year earlier. The next chart shows the year-over-year growth in real productivity over the last quarter-century or so.



Additionally, first quarter ***unit labor costs*** rose at an annualized rate of 0.5%, below expectations that they would rise at a rate of 1.8% and well below the previous quarter's revised increase of 4.4%. Unit labor costs in the fourth quarter were up 0.5% year-over-year, far below the 4.0% increase that has often been associated with the start of a recession. The chart below shows the year-over-year growth in unit labor costs since 1996.



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**
8:30	Thomas Barkin in Fireside Chat	President of the Federal Reserve Bank of Richmond
10:00	Michelle Bowman Testifies Before House Financial Services Committee	Member of the Board of Governors
11:40	Mary Daly Appears on Bloomberg TV	President of the Federal Reserve Bank of San Francisco
16:00	Jeffrey Schmid Speech in Fireside Chat	President of the Federal Reserve Bank of Kansas City
13:10	Mary Daly at Bloomberg Technology Summnt	President of the Federal Reserve Bank of San Francisco

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	29-May	-¥184.8b	¥12.9b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	29-May	¥1072.0b	-¥367.8b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	29-May	¥1245.8b	¥1350.2b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	29-May	-¥491.2b	¥1079.7b		*	Equity and bond neutral
Australia	Private Sector Credit	y/y	Apr	8.0%	8.1%		**	Equity and bond neutral
Australia	Trade Balance	m/m	Apr	A$1791m	-A$1024m	A$1600m	***	Equity and bond neutral
	Exports	m/m	Apr	7.2%	-2.5%		*	Equity and bond neutral
	Imports	m/m	Apr	0.8%	12.2%		*	Equity and bond neutral
New Zealand	ANZ Commodity Price	m/m	May	0.7%	-0.8%		**	Equity and bond neutral
South Korea	Foreign Reserves	m/m	May	$426.99b	$427.88b		**	Equity and bond neutral
EUROPE								
Eurozone	Retail Sales	y/y	Apr	1.0%	1.2%	0.3%	*	Equity and bond neutral
Germany	S&P Global Germany Construction PMI	m/m	May	42.4	42.1		*	Equity and bond neutral
UK	S&P Global UK Construction PMI	m/m	May	38.2	39.7	40.5	**	Equity bearish, bond bullish
	New Car Registrations	y/y	May	7.1%	24.0%		*	Equity and bond neutral
Switzerland	CPI	y/y	May	0.6%	0.6%	0.7%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	May	0.9%	0.5%		*	Equity and bond neutral
	Core CPI	y/y	May	0.3%	0.3%	0.3%	*	Equity and bond neutral
	Unemployment Rate	m/m	May	3.0%	3.0%	3.0%	**	Equity and bond neutral
Russia	Retail Sales	m/m	Apr	6.5%	6.2%	5.2%	***	Equity and bond neutral
	Unemployment Rate	m/m	Apr	2.2%	2.2%	2.2%	***	Equity and bond neutral
AMERICAS								
Canada	Labor Productivity	q/q	1Q	-0.5%	-0.3%	0.3%	*	Equity bearish, bond bullish
	S&P Global Canada Services PMI	m/m	May	50.6	49.2		*	Equity and bond neutral
	S&P Global Canada Composite PMI	m/m	May	50.8	49.9		*	Equity and bond neutral
Mexico	Gross Fixed Investment NSA	y/y	Mar	-2.6%	-4.0%	-3.3%	**	Equity bullish, bond bearish
Brazil	S&P Global Brazil Composite PMI	m/m	May	49.5	52.4		***	Equity and bond neutral
	S&P Global Brazil Services PMI	m/m	May	50.4	52.3		***	Equity and bond neutral
	Trade Balance	m/m	Mar	$7823m	$10578m	$7,500	**	Equity and bond neutral
	Exports	m/m	Mar	$31904m	$34211m	$31300m	*	Equity and bond neutral
	Imports	m/m	Mar	$24081m	$23633m	$23800m	*	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)	365	365	0	Down
U.S. Libor/OIS spread (bps)	365	365	0	Up
10-yr T-note (%)	4.46	4.50	-0.04	Up
Euribor/OIS spread (bps)	230	228	2	Up
Currencies	3 Mo			
Dollar	Down	US		Up
Euro	Up	Euro		Flat
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.

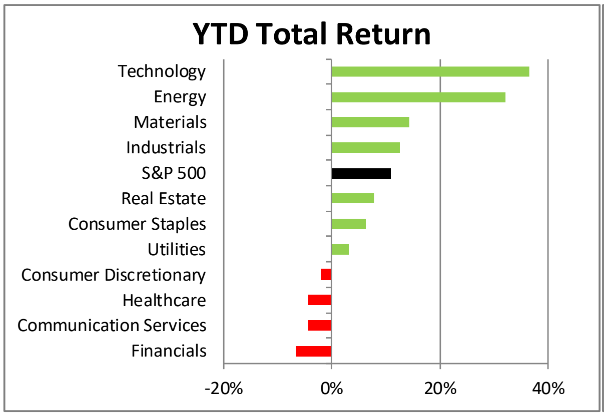
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$95.42	$97.81	-2.44%	
WTI	$93.77	$96.02	-2.34%	
Natural Gas	$3.27	$3.21	1.74%	
Crack Spread	$45.00	$45.51	-1.13%	
12-mo strip crack	$41.24	$42.18	-2.22%	
Ethanol rack	$2.15	$2.15	-0.02%	
Metals				
Gold	$4,495.78	$4,434.81	1.37%	
Silver	$74.11	$72.71	1.92%	
Copper Contract	$652.40	$650.75	0.25%	
Grains				
Corn contract	$427.75	$431.50	-0.87%	
Wheat contract	$587.25	$587.25	0.00%	
Soybeans contract	$1,148.25	$1,154.00	-0.50%	
Shipping				
Baltic Dry Freight	3,124	3,205	-81	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	-7.97	-3.05	-4.92	
Gasoline (mb)	3.36	-2.45	5.81	
Distillates (mb)	1.50	-1.95	3.45	
Refinery run rates (%)	0.02%	0.22%	-0.20%	
Natural gas (bcf)		99		

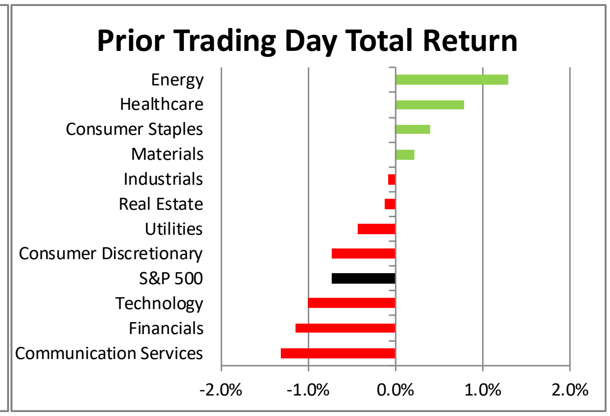
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures throughout the entire country. The precipitation outlook calls for wetter-than-normal conditions in most states, with dry conditions expected on the northwest Pacific coast.

Data Section

US Equity Markets – (as of 6/3/2026 close)

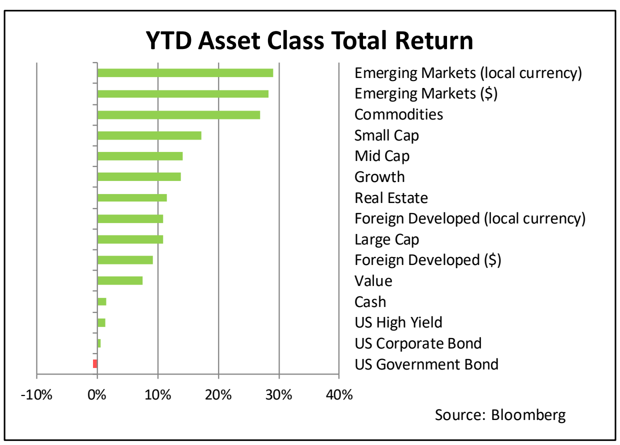




(Source: Bloomberg)

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 6/3/2026 close)

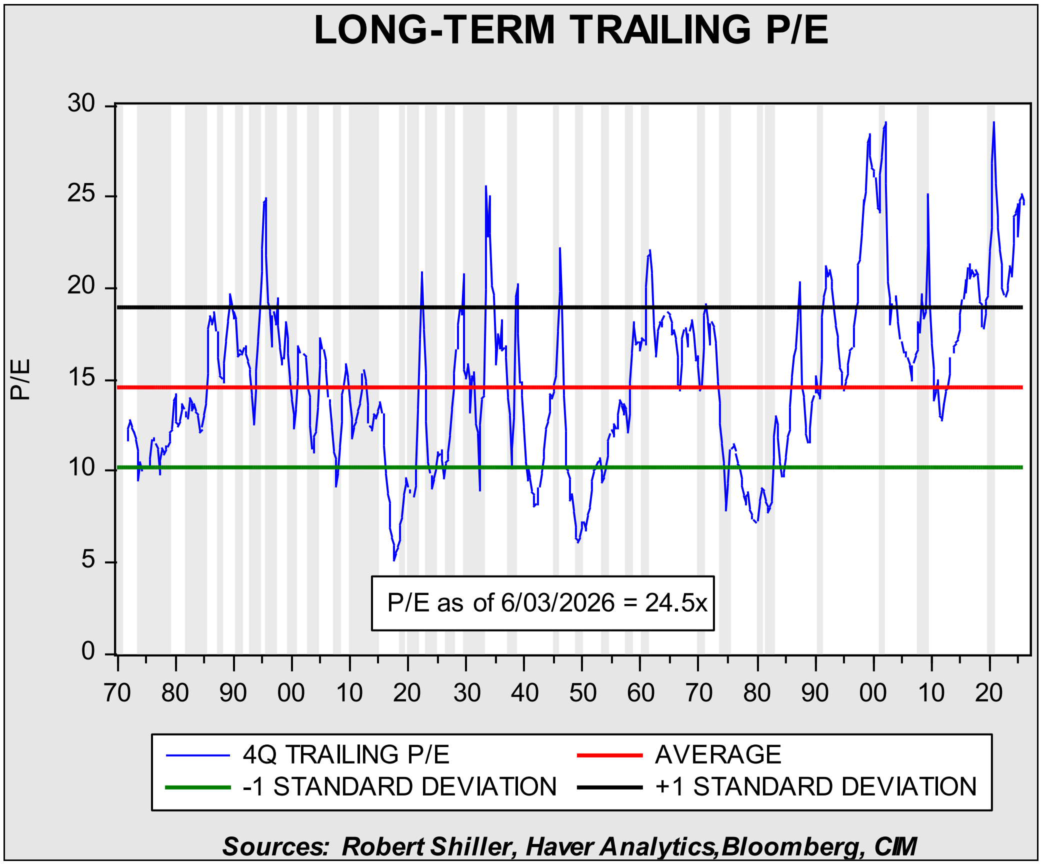


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 3, 2026



Based on our methodology,[1] the current P/E is 24.5x, up 0.2 from the previous report. Last week, the increase 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.