



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

**[Posted: March 11, 2026 – 9:30 AM ET]** Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is down 0.8% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 1.7%. Chinese markets were higher, with the Shanghai Composite up 0.3% and the Shenzhen Composite up 0.5%. US equity index futures are signaling a lower open.

With 492 companies having reported so far, S&P 500 earnings for Q4 are running at \$74.20 per share compared to estimates of \$71.07, which is up 8.3% from Q4 2024. Of the companies that have reported thus far, 74.0% exceeded expectations, while 21.1% fell short of expectations.

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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
<a href="#">“The Geopolitics of US Dollar Stablecoins”</a> (3/9/26)	<a href="#">“The Dip That Didn’t Bounce”</a> (3/2/26) + <a href="#">podcast</a> (3/6/26)	<a href="#">Q1 2026 Report</a>  <a href="#">Q1 2026 Rebalance Presentation</a>	<a href="#">Confluence of Ideas podcast</a>  <a href="#">The Case for Hard Assets</a>

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Our *Comment* opens with what Oracle’s earnings signal about the AI investment cycle, then examines how the US’s difficulty in securing passage through the Strait of Hormuz illustrates the challenges of confronting smaller asymmetric adversaries. We next highlight key market developments: the IEA’s reserve release, Google’s provision of AI technology to the Pentagon, and Israel’s expanded Red Sea presence. As usual, the report includes a summary of recent US and international economic data.

**AI Maturing:** Oracle surprised investors with a stronger-than-expected earnings report, though its financial statements also revealed a developing concern. On Tuesday, the company said [revenue from its cloud infrastructure business surged 84%](#) to \$4.9 billion in the quarter ended February 28, outpacing prior growth of 68% and topping analyst estimates. While these results

were warmly received, the release was not without controversy as Oracle's aggressive AI-related capital spending has pushed its free cash flow into negative territory for the first time in decades.

- The revenue beat reassured investors that Oracle is starting to turn its substantial AI-related bookings into actual sales. While the [company now counts more than 700 AI and cloud infrastructure customers](#), a significant portion of its remaining performance obligations remains tied to a single partner. [OpenAI's roughly \\$300 billion cloud infrastructure deal](#) represents a substantial share of Oracle's reported \$553 billion AI-driven backlog.
- Oracle has effectively emerged as a proxy for the broader AI infrastructure trade that rose to prominence last year, driven by investor focus on surging demand for cloud computing and storage capacity. This theme has been cemented by generous data-center tax incentives and supportive federal and state policies, which continue to encourage heavy capital investment while keeping the near-term tax burden low.
- Much of the market's attention has centered on tech companies' readiness to build out infrastructure and their tendency to keep raising the bar. Just this quarter alone, [Meta, Alphabet, Microsoft, and Amazon signaled as much as \\$700 billion](#) in combined capital expenditures for 2026 as they race to keep pace with demand. Nvidia, meanwhile, estimates that trillions of dollars' worth of infrastructure still needs to be built.
- While the AI build-out has delivered strong returns, it has also fueled growing concerns that an industry once considered capital-light is becoming capital-heavy. This shift has drawn scrutiny, as much of the spending has come [at the expense of free cash flow and is increasingly being financed by debt](#). Although deploying cash in this way is often viewed as a sign of confidence in future investment opportunities, it also raises questions about a company's ability to return capital to shareholders down the line.
- Although we remain confident that tech momentum still has room to run, we suspect that the heavy spending on infrastructure could lead investors to place a higher premium on profitability and strong cash flow. As a result, we could see sharper pullbacks if companies disappoint and a more muted upside if they beat expectations. We continue to believe that diversifying beyond tech could be beneficial for wealth preservation.

**Mixed Message:** Oil prices remain volatile as the White House continues to send mixed signals about the war's progress. On Tuesday, [President Trump encouraged oil tankers to take the risk of passing through the Strait of Hormuz](#), a move later reinforced by a [US general who said the military was considering ways to escort the vessels](#). However, market sentiment quickly shifted after reports surfaced that [Iran had deployed mines in the strait](#), prompting the [White House to announce that it was not ready to provide naval escorts](#) at this time.

- The controversy over transit within the strait underscores that the US's continued demonstration of military dominance may no longer be enough to ensure safe passage. Over the last four years, modern weaponry has evolved in ways that enable smaller nations to sustain prolonged engagements. Iran, for instance, has increasingly relied on inexpensive weapons such as drones to strike targets across the region. Ukraine has used similar tactics in its fight against Russia.

- This shift toward low-cost, high-impact warfare has made modern conflicts far less predictable. The resilience of smaller adversaries has made it far more difficult to compel outright, unconditional surrender in modern wars. Rather than seeking to defeat a stronger rival outright, these states can rely on cheap, easily produced weapons to prolong the fighting and steadily raise the political and financial cost of maintaining dominance over a region.
- Iran's ability to inflict outsized damage relative to its economic and military weight has become a major source of market uncertainty. This is reflected in recent oil price swings, which underscore investor unease as Iran disrupts traffic through the Strait of Hormuz — even after much of its conventional military capacity has been degraded. The underlying concern is that the conflict could broaden to include more countries.
- While we remain cautiously optimistic that the conflict will conclude within the president's stated four-to-five-week window, we recognize that the probability of a more protracted campaign is rising. This lingering uncertainty is likely to weigh further on market sentiment in the near term, particularly for risk assets. In our view, investors should focus on broad portfolio diversification, which can include exposure to precious metals and value-oriented sectors.

**Strategic Reserve:** Japan has [announced it will be the first country to draw on its strategic reserves](#) in an effort to cool energy prices. This follows a coordinated move by IEA members to undertake the largest collective release of strategic stocks in history to offset supply lost from the blockade of the Strait of Hormuz. While this action is likely to put near-term downward pressure on oil prices, it could also create significant future demand once markets stabilize and reserves need to be rebuilt.

**Google Defense Contract:** Tech companies are deepening their ties with the Pentagon. [Alphabet will provide AI agents to handle unclassified, routine tasks](#), highlighting Washington's growing use of AI to boost efficiency and manage staffing. This could leave the Defense Department more dependent on private tech firms for daily operations, while making those firms more reliant on government contracts. We see this as another step in the blurring of the line between the public and private sectors.

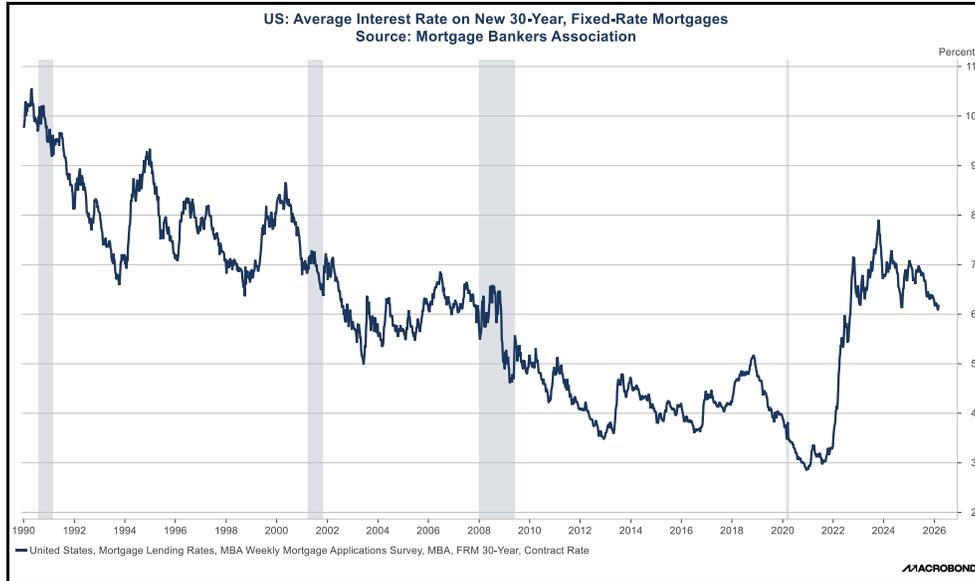
**Israel's New Base:** Israel [is moving to establish a foothold on the Red Sea](#) as it prepares to confront key Houthi strongholds and safeguard maritime trade routes. The planned security presence builds on Jerusalem's recent decision to recognize Somaliland, a breakaway region of Somalia, as an independent state. A base on Somaliland's coast would enhance Israel's ability to counter Iranian-backed proxies in Yemen. The expanding presence underscores how Israel is positioning itself as an increasingly important power in the Middle East and Red Sea basin.

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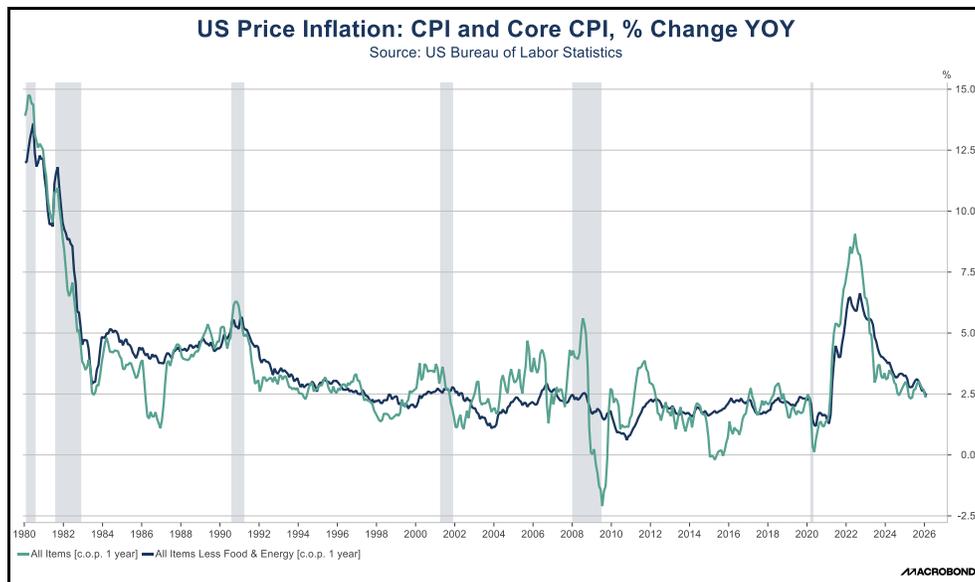
## US Economic Releases

The Mortgage Bankers Association said *mortgage applications* in the week ended March 6 rose 3.2%, decelerating from their 11.0% increase in the previous week. Applications for home purchase mortgages rose 7.8%, after increasing 6.1% in the prior week. Applications for

refinancing mortgages merely edged up by 0.5%, but that followed their jump of 14.3% the week before. The average interest rate on a 30-year, fixed-rate mortgage rose by 10 basis points to 6.19%. The chart below shows how mortgage rates have changed over time.



Separately, the February *consumer price index (CPI)* rose by a seasonally adjusted 0.3%, matching expectations and accelerating from its 0.2% increase in January. Excluding the volatile food and energy components, the “*core*” CPI rose 0.2%, matching its expected increase but decelerating from its January gain of 0.3%. The overall CPI in February was up 2.4% from the same month one year earlier, while the core CPI was up 2.5%. The chart below shows the year-over-year change in the CPI and the core CPI since 1980.



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

Economic Releases							
EST	Indicator			Expected	Prior	Rating	
14:00	Federal Budget Balance	m/m	Feb	-\$310.0b	-\$94.6b	**	
Federal Reserve							
EST	Speaker or Event	District or Position					
8:30	Michelle Bowman Speaks on Supervision and Regulation	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
<b>ASIA-PACIFIC</b>								
Japan	PPI	y/y	Feb	2.0%	2.3%	2.2%	***	Equity and bond neutral
<b>EUROPE</b>								
Germany	CPI	y/y	Feb F	1.9%	1.9%	1.9%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Feb F	2.0%	2.0%	2.0%	**	Equity and bond neutral
<b>AMERICAS</b>								
Mexico	International Reserves Weekly	w/w	6-Mar	\$257021m	\$257815m		*	Equity and bond neutral
Brazil	Retail Sales	y/y	Jan	2.8%	2.4%	1.6%	***	Equity bullish, bond bearish

## 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)	359	359	0	Up
U.S. Sibor/OIS spread (bps)	367	367	0	Down
U.S. Libor/OIS spread (bps)	364	364	0	Up
10-yr T-note (%)	4.17	4.16	0.01	Up
Euribor/OIS spread (bps)	214	208	6	Up
Currencies	3 Mo			
Dollar	Down	US		Up
Euro	Up	Euro		Down
Yen	Up	Japan		Down
Pound	Up	UK		Up
Franc	Up	Switzerland		Up

## 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.

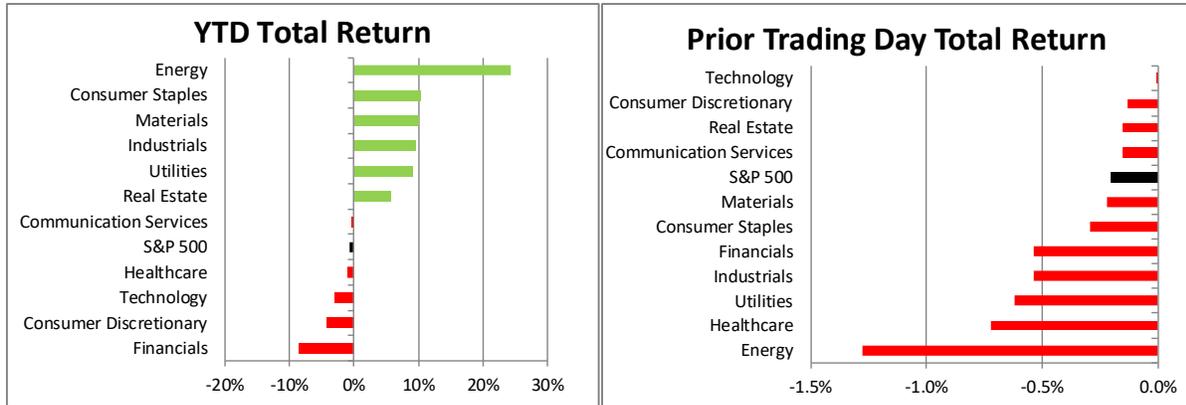
	Price	Prior	Change	Explanation
<b>Energy Markets</b>				
Brent	\$90.69	\$87.80	3.29%	Middle East Conflict
WTI	\$86.10	\$83.45	3.18%	Middle East Conflict
Natural Gas	\$3.08	\$3.02	1.85%	
Crack Spread	\$39.73	\$35.08	13.24%	Middle East Conflict
12-mo strip crack	\$30.58	\$28.83	6.07%	Middle East Conflict
Ethanol rack	\$1.97	\$1.99	-0.66%	
<b>Metals</b>				
Gold	\$5,187.29	\$5,191.98	-0.09%	
Silver	\$86.27	\$88.33	-2.33%	
Copper Contract	\$585.60	\$595.20	-1.61%	
<b>Grains</b>				
Corn contract	\$456.75	\$452.25	1.00%	
Wheat contract	\$597.00	\$591.00	1.02%	
Soybeans contract	\$1,216.25	\$1,201.75	1.21%	
<b>Shipping</b>				
Baltic Dry Freight	1,919	2,066	-147	
<b>DOE Inventory Report</b>				
	Actual	Expected	Difference	
Crude (mb)		2.50		
Gasoline (mb)		-2.00		
Distillates (mb)		-0.95		
Refinery run rates (%)		-0.50%		
Natural gas (bcf)		-41		

## **Weather**

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures from the West Coast to the Great Plains, with cooler-than-normal temperatures in the Northeast and southern Florida. The outlook calls for wetter-than-normal conditions along the Canadian border and in southern Florida, with dry conditions in the southern half of the country excluding Florida.

**Data Section**

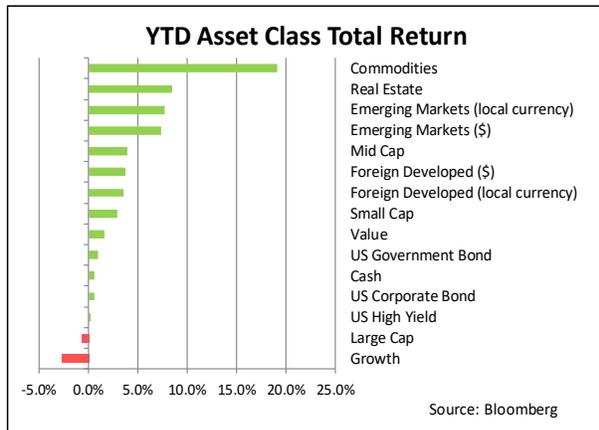
**US Equity Markets – (as of 3/10/2026 close)**



(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 3/10/2026 close)**

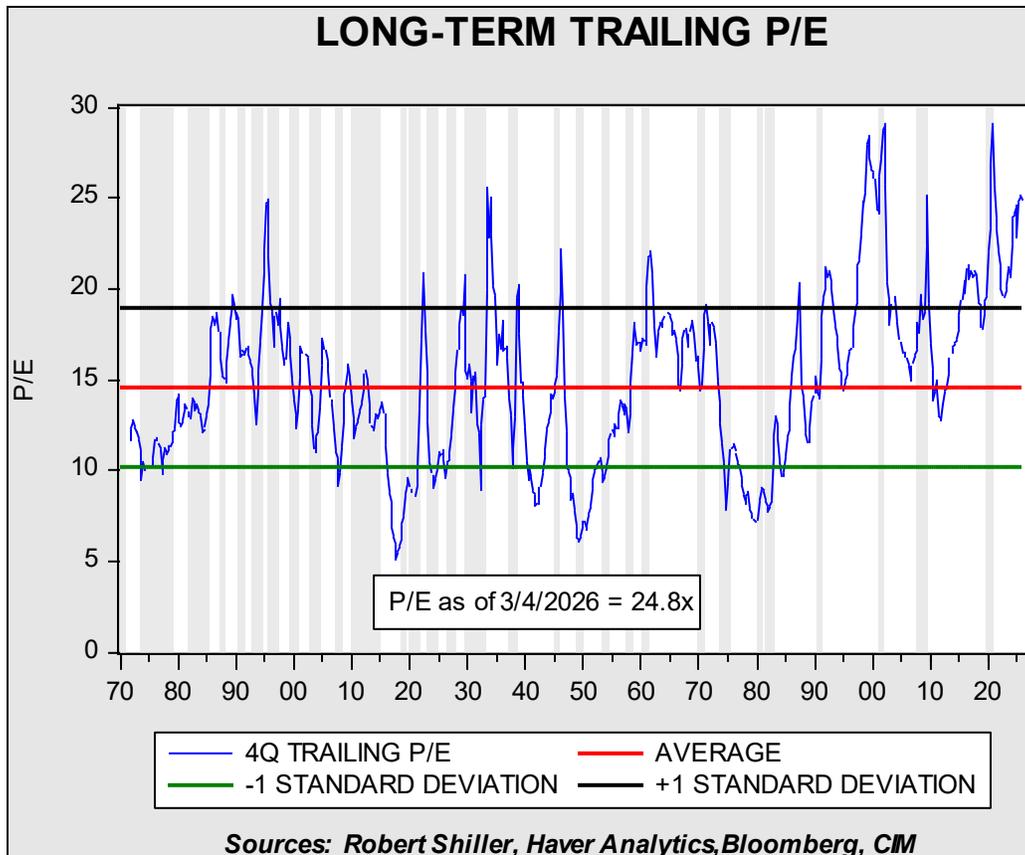


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

March 5, 2026



Based on our methodology,<sup>1</sup> the current P/E is 24.8x, down 0.1 from the previous report. Last week, the stock price index fell, while earnings were relatively unchanged 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.*

<sup>1</sup> 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.