



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: March 12, 2026 – 9:30 AM ET] Global equity markets are lower this morning. In Europe, the Euro Stoxx 50 is down 0.4% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 1.7%. Chinese markets were lower, with the Shanghai Composite down 0.1% and the Shenzhen Composite down 0.7%. 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.

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

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 an update on the war in Iran, focusing on rising tensions around the Strait of Hormuz. We then review the February CPI report and assess how the Middle East conflict could shape the path of inflation. Next, we highlight key market developments, including shifts in the US trade strategy and China’s recent incursions into Taiwan’s airspace. As always, we include a summary of recent US and international economic data releases.

Rising Tensions: Trade tensions have escalated following reports that shipping lanes in the Strait of Hormuz are becoming increasingly impassable. On Wednesday, [an attack on six oil tankers in Iraqi waters signaled the growing risks for vessels](#) navigating the region. The incident has raised concerns that the war is showing signs of becoming prolonged and that trade

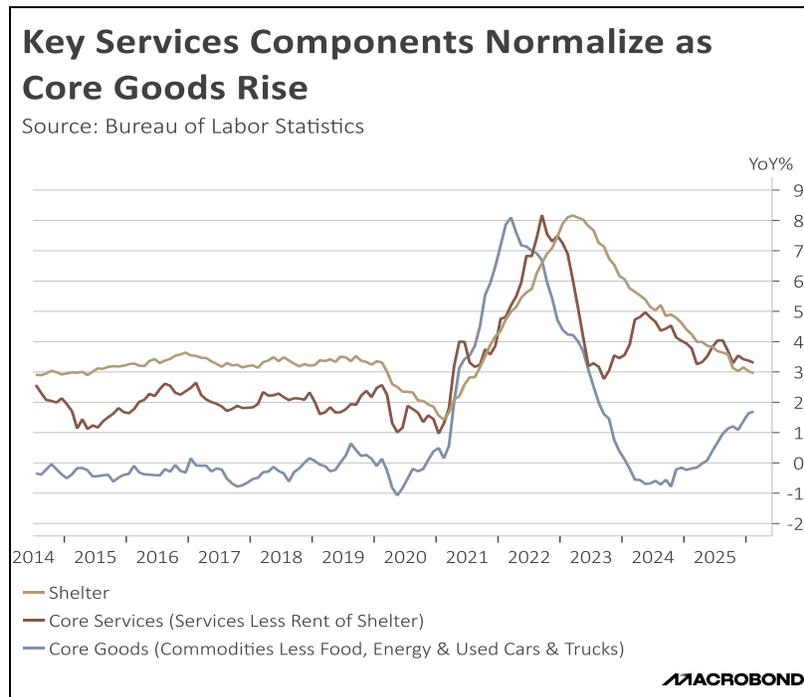
throughout the region is likely to remain restricted, leading to a significant rise in oil prices due to renewed fears of a supply shock.

- Rising tensions in the Strait of Hormuz have underscored Iran's capacity to prolong the conflict well beyond earlier expectations. The latest attacks came about just as the United States had tried to reassure shippers by destroying Iranian mine-laying vessels, warning Tehran over the use of naval mines, and considering naval escorts to safeguard commercial traffic and keep the waterway open.
- These incidents have reignited fears of prolonged disruptions to trade flows, despite a historic, coordinated effort to stabilize markets through strategic oil releases. On Wednesday, the [International Energy Agency said member countries will collectively release 400 million barrels](#), with Japan initiating the first drawdowns and the [United States planning to contribute 172 million barrels](#) from its Strategic Petroleum Reserve.
- Additionally, there are growing signs that Iran is prepared to widen the scope of its attacks to ensure that more countries bear the costs of the war. On Wednesday, [the United Arab Emirates reported that it had intercepted another wave of missiles](#) after Iran threatened to target Israeli-linked banks in the region. US officials have also warned of indications that Iran is considering plotting strikes as far afield as California, underscoring the expanding geographic reach of its threat posture.
- Despite the latest attacks, it appears that Iran may be seeking an off-ramp from the conflict. Tehran has reportedly signaled a willingness to de-escalate in exchange for international guarantees that the United States and Israel will halt military strikes on its territory. [While this is unlikely to bring both sides to the negotiating table on its own](#), it does suggest that Iran recognizes it cannot prevail in a direct confrontation and may be looking to limit further escalation.
- While we remain cautiously optimistic that the war will begin to wind down over the next couple of weeks in line with the president's timeline, we are increasingly mindful that its economic and market aftershocks could persist for months. In our view, this evolving backdrop continues to favor value over growth, and we advocate for maintaining broad diversification away from riskier market segments, particularly as the conflict's trajectory remains uncertain.

Inflation Risk: The latest CPI report offers fresh evidence [that inflation is holding mostly steady](#) but not quite enough to fully dispel concerns about renewed price pressures. According to the BLS, both headline and core inflation held steady in February at 2.5% and 2.4%, respectively, reinforcing the view that some of last year's inflationary momentum is easing. In a world without the current conflict in the Middle East, this pattern likely would have opened the door to more serious discussions about a potential summer rate cut.

- The modest headline inflation reading reflects gradually easing underlying price pressures, particularly in services, even as some energy components ticked higher. In February, shelter inflation continued to exhibit tentative moderation, with its annual pace the slowest since August 2021. By contrast, the energy index rose for the month, driven by gains in gasoline and natural gas, while electricity prices edged slightly lower after strong increases over the past year.

- The inflation report indicates that price pressures are gradually returning to more normal levels but there are signs that they were starting to lose steam while moving toward the Fed’s 2% target. Shelter inflation has moved back into its typical historical range, and core services inflation, while still slightly elevated, is drifting closer to its longer-run pace. Goods inflation, which has been influenced by shifting tariffs and supply-chain costs, also appears to be stabilizing after prior bouts of volatility.



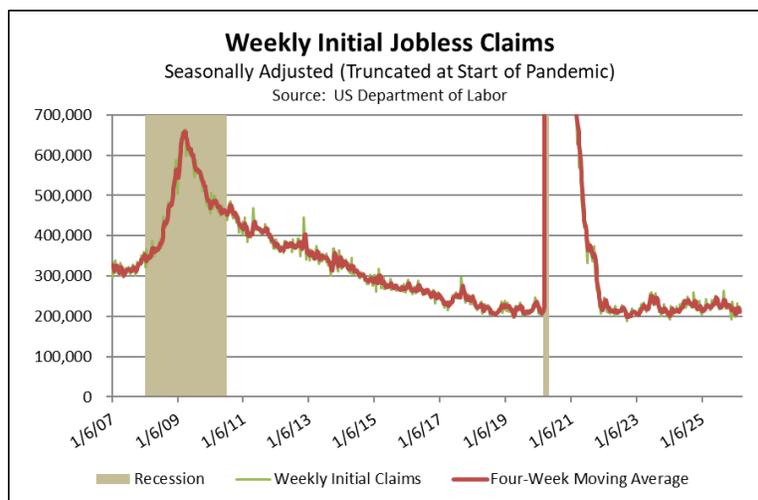
- Renewed turmoil in the Middle East has reignited concerns that supply-chain stress will once again feed into the inflationary pipeline. As higher energy and raw-material costs filter through the production process, core goods prices could face sustained upward pressure. Services may face “cost-push” inflation as energy-intensive services like air travel — currently facing rising fuel, insurance, and rerouting expenses — are likely to face margin pressure due to the conflict.
- The supply chain risks emanating from the Middle East could collide with surging demand pressures stemming from last year's tax bill. Beyond stimulating household consumption, the legislation's aggressive investment incentives have triggered a significant capital expenditure boom. The resulting scramble for materials to build AI data centers has already tightened markets for critical inputs like aluminum and energy, a situation poised to worsen as the conflict in the Middle East persists.
- While the current hostilities are contributing to higher inflation, the full magnitude of the impact remains unclear at this time. At present, we do not anticipate a return to the peak inflation levels seen in the post-pandemic era as the current supply-chain disruptions lack the breadth of the 2021–2022 lockdowns. However, the duration of the conflict remains the critical variable. We expect the resulting inflationary pressure to push back the timeline for the Fed to achieve its 2% target, a dynamic that will likely weigh on bonds.

Tariff Wall: The White House [is preparing a new trade investigation targeting major partners](#) as it seeks to reimpose tariffs recently struck down by the Supreme Court. The probe will focus on economies with excess manufacturing capacity. While the administration has pivoted from now-illegal IEEPA tariffs to temporary duties tied to current account imbalances, those measures will expire after 150 days unless Congress intervenes. The new investigation is therefore likely to stoke concerns about renewed tariff hikes and greater trade policy uncertainty.

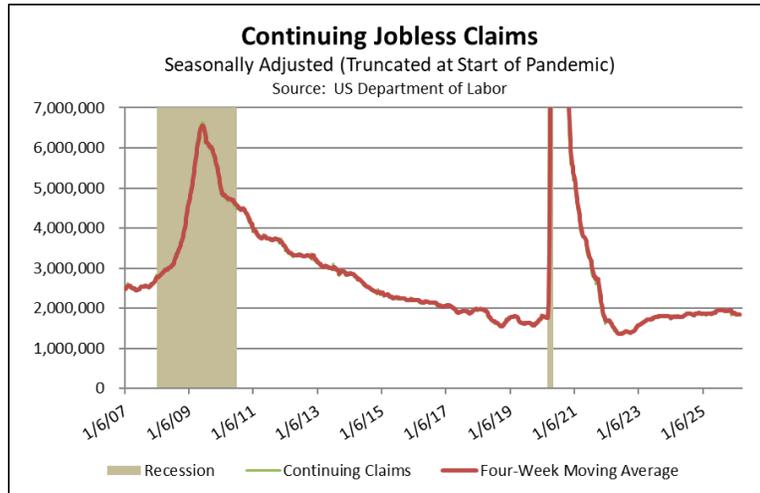
China's Moves: [Beijing sent warplanes into Taiwan's airspace on Wednesday](#) in a provocative move that signals rising tensions. The incursion followed a period of relative calm, during which China appeared to scale back such flights after trade and diplomatic talks with the United States. However, the move seems to be a test of what China can get away with while the US is focused on the Middle East, potentially setting a precedent for future actions.

US Economic Releases

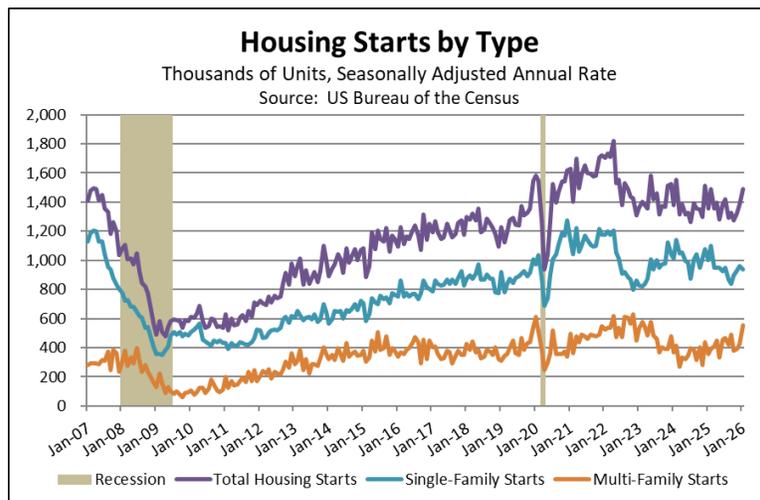
In the week ended March 7, **initial claims for unemployment benefits** fell to a seasonally adjusted 213,000, slightly below both the expected level of 215,000 and the previous week's revised level of 214,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, fell to 212,000. 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.



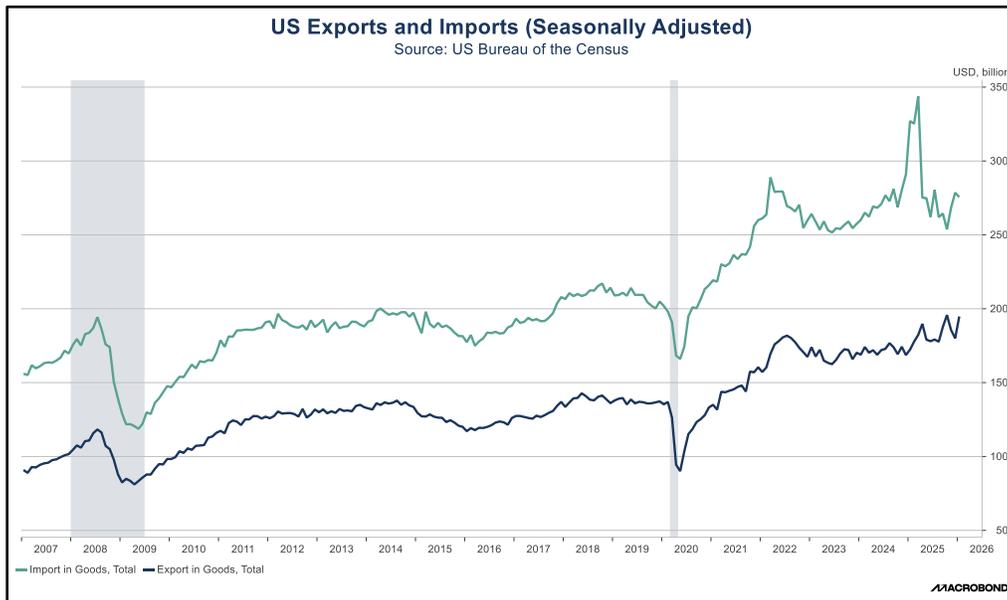
In the week ended February 28, the number of **continuing claims for unemployment benefits** (people continuing to draw benefits) fell to a seasonally adjusted 1.850 million, above the anticipated reading of 1.849 million but below the prior week's revised reading of 1.871 million. The four-week moving average of continuing claims fell to 1,851,750. 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, January **housing starts** rose to a seasonally adjusted, annualized rate of 1.487 million units, beating both the expected rate of 1.341 million units and the revised December rate of 1.387 million units. The rate of housing starts in January was up 7.2% from the rate in the previous month. On a less positive note, January **housing permits** fell to a rate of 1.376 million units, trailing their anticipated rate of 1.410 million units and the unrevised December rate of 1.455 million units. Permits issued for new housing units in January were down 5.4% from the previous month. Compared with the same month one year earlier, housing starts in January were up 9.8%, while permits were down 10.8%. The chart below shows the growth in new home starts by type of property since just before the GFC.



In a final major report so far today, the January **trade balance** showed a seasonally adjusted deficit of \$54.5 billion, narrower than the expected shortfall of \$66.0 billion and the revised December deficit of \$72.9 billion. According to the data, total **exports** rose 5.5%, while **imports** declined 0.7%. The chart below shows the monthly value of US exports and imports since just before the GFC.



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 |
| 11:00 | Michelle Bowman Speaks on Basel III | 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 |
|---------------------|--------------------------------|-----|-------|----------|----------|----------|--------|------------------------------|
| ASIA-PACIFIC | | | | | | | | |
| Japan | Japan Buying Foreign Bonds | w/w | 6-Mar | ¥399.8b | -¥673.1b | | * | Equity and bond neutral |
| | Japan Buying Foreign Stocks | w/w | 6-Mar | ¥163.1b | ¥100.7b | | * | Equity and bond neutral |
| | Foreign Buying Japan Bonds | w/w | 6-Mar | -¥963.6b | ¥1365.1b | | * | Equity and bond neutral |
| | Foreign Buying Japan Stocks | w/w | 6-Mar | ¥385.5b | ¥973.9b | | * | Equity and bond neutral |
| Australia | Consumer Inflation Expectation | m/m | Mar | 5.2 | 5.0% | | * | Equity and bond neutral |
| New Zealand | Mfg Activity Volume | q/q | 4Q | -0.5% | 1.2% | | ** | Equity and bond neutral |
| | Mfg Activity SA | q/q | 4Q | 0.6% | 2.6% | | * | Equity and bond neutral |
| India | CPI | m/m | Feb | 3.21% | 2.74% | 3.14% | ** | Equity and bond neutral |
| EUROPE | | | | | | | | |
| UK | RICS House Price Balance | y/y | Feb | -12.0% | -10.0% | -8.0% | ** | Equity bearish, bond bullish |
| AMERICAS | | | | | | | | |
| Brazil | IBGE Inflation IPCA | y/y | Feb | 3.81% | 4.44% | 3.76% | *** | 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) | 359 | 360 | -1 | Up |
| U.S. Sibor/OIS spread (bps) | 368 | 368 | 0 | Down |
| U.S. Libor/OIS spread (bps) | 364 | 364 | 0 | Up |
| 10-yr T-note (%) | 4.22 | 4.23 | -0.01 | Up |
| Euribor/OIS spread (bps) | 212 | 214 | -2 | 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.

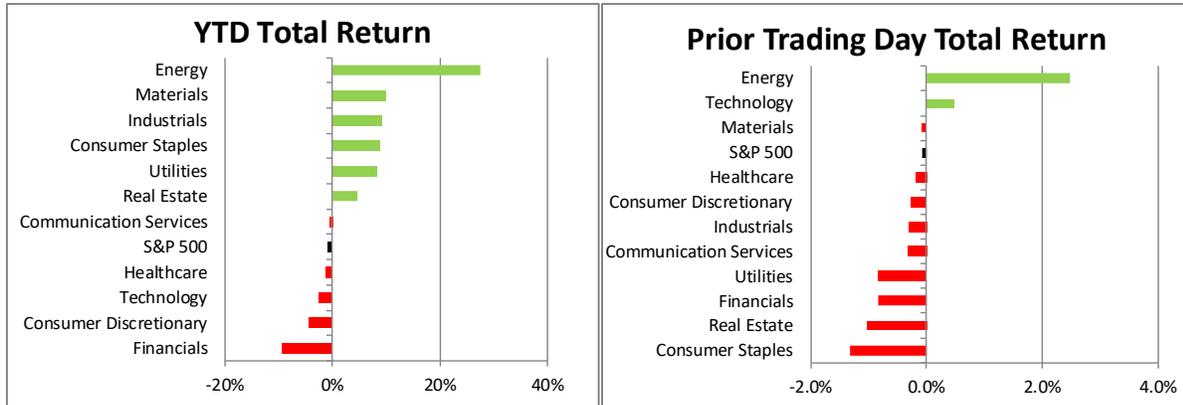
| | Price | Prior | Change | Explanation |
|-----------------------------|---------------|-----------------|-------------------|----------------------|
| Energy Markets | | | | |
| Brent | \$97.00 | \$91.98 | 5.46% | Middle East Conflict |
| WTI | \$91.69 | \$87.25 | 5.09% | Middle East Conflict |
| Natural Gas | \$3.17 | \$3.21 | -1.12% | |
| Crack Spread | \$42.55 | \$42.25 | 0.69% | |
| 12-mo strip crack | \$31.98 | \$31.96 | 0.06% | |
| Ethanol rack | \$1.99 | \$1.99 | 0.47% | |
| Metals | | | | |
| Gold | \$5,178.72 | \$5,176.46 | 0.04% | |
| Silver | \$86.90 | \$85.74 | 1.35% | |
| Copper Contract | \$588.15 | \$589.15 | -0.17% | |
| Grains | | | | |
| Corn contract | \$465.75 | \$460.25 | 1.20% | |
| Wheat contract | \$602.25 | \$594.75 | 1.26% | |
| Soybeans contract | \$1,226.75 | \$1,214.00 | 1.05% | |
| Shipping | | | | |
| Baltic Dry Freight | 1,926 | 1,919 | 7 | |
| DOE Inventory Report | | | | |
| | Actual | Expected | Difference | |
| Crude (mb) | 3.82 | 2.50 | 1.32 | |
| Gasoline (mb) | -3.65 | -2.00 | -1.65 | |
| Distillates (mb) | -1.35 | -0.95 | -0.40 | |
| Refinery run rates (%) | 0.16% | -0.50% | 0.66% | |
| 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 Mississippi River, with cooler-than-normal temperatures in the Northeast. The outlook calls for wetter-than-normal conditions along the Canadian border, with dry conditions in the southern half of the country excluding southern Florida.

Data Section

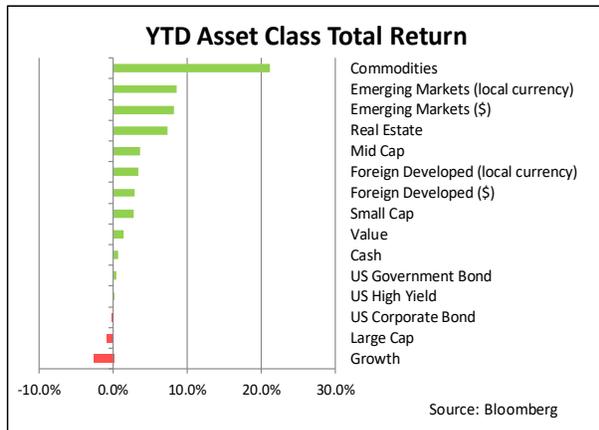
US Equity Markets – (as of 3/11/2026 close)



(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 3/11/2026 close)

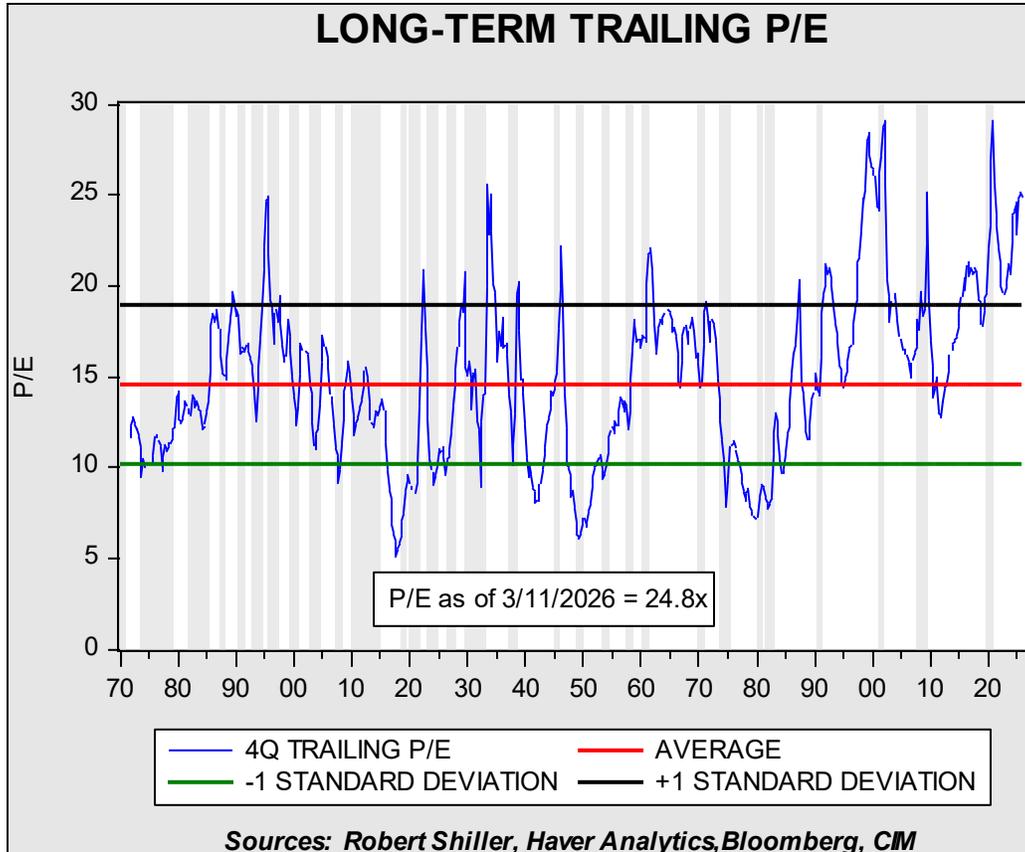


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 12, 2026



Based on our methodology,¹ the current P/E is 24.8x, unchanged from the previous report. Last week, the stock price index fell slightly, 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.

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.