Daily Comment

Confluence Investment Management

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[Posted: March 18, 2026 — 9:30 AM ET] Global equity markets are higher 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 up 2.6%. Chinese markets were higher, with the Shanghai Composite up 0.3% and the Shenzhen Composite up 1.0%. 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
"The Geopolitics of US Dollar Stablecoins" (3/9/26) + podcast (3/13/26)	"Are Long-Term Treasurys No Longer a Safe Haven?" (3/16/26) + podcast	Q1 2026 Report Q1 2026 Rebalance Presentation	The Case for Hard Assets **Confluence of Ideas podcast**

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 our views on the upcoming Fed announcement following its two-day meeting. We then provide an update on the conflict in the Middle East. Next, we highlight key market developments, including a US company's acquisition of a mining firm in Africa, Beijing's greenlight for Nvidia to sell more chips into China, and the drag on the Chinese economy from higher aluminum prices. As always, we include a summary of recent US and international economic data releases.

Fed Thoughts: The FOMC will issue its statement and hold a press conference after its two-day meeting, setting out its latest views on inflation and the economic outlook in the wake of the recent Middle East conflict. In the run-up to the decision, markets have pared back expectations for rate cuts this year, and some participants are even speculating that a hike could be back on the table. Fed funds futures now price in roughly one rate cut over the course of the year, and the outcome of this meeting is likely to be a key driver of Wednesday's market action.

- In the run-up to the meeting, there were already signs that some Fed officials were growing more cautious about cutting rates. Minutes from the prior meeting suggested that the combination of prospective tariffs and a stronger-than-expected economy warranted at least a shift in the committee's language, including clearer guidance on the conditions under which another rate hike could be considered if inflation failed to make progress toward the Fed's 2% target.

- The escalating conflict in the Middle East is likely to push US officials toward a more hawkish stance. Just before the Fed entered its 10-day blackout period, several officials downplayed the possibility of further rate cuts. Both Boston Fed President Susan Collins and Minneapolis Fed President Neel Kashkari signaled their opposition to another cut this year. Meanwhile, New York Fed President John Williams acknowledged the risks but left the door open for a potential move.
- Although the market expects the Fed to moderate its rate-cut outlook, attention will remain fixed on any signals of a potential hike. The last major oil shock, in 2022, prompted the Fed to aggressively tighten policy to address supply and demand imbalances. This time, however, a less tight labor market and considerably lower inflation suggest the central bank may have more room for patience before considering a similar action.
- While we expect the Fed to keep rates on hold, a pivot in signaling from cuts to potential hikes could still provoke a sharp market reaction. Any indication of future tightening would likely amplify concerns that the economy may come under increasing strain from the combination of higher interest rates and elevated oil prices. In turn, this could spur a broad de-risking shift, pushing investors toward a more defensive stance in their portfolio positioning.

US Fights On: The US-Israeli conflict with Iran has kept oil prices below $100 a barrel, though they remain elevated as the timeline for a resolution remains unclear. On Tuesday, President Trump stated that the US is prepared to act unilaterally to defend the Strait of Hormuz following pushback from NATO allies. Simultaneously, Iran has intensified its regional campaign, targeting natural gas facilities in the UAE. Despite these tensions, equity prices have remained resilient, as the market continues to have optimism that conditions will not worsen from here.

- The White House appears determined to press ahead with the conflict as it seeks to disarm Iran. In an Oval Office meeting, the president sharply criticized allies that refused his request for assistance in the strait, openly questioning their loyalty but vowing to continue the campaign. He has also ordered continued strikes on Iran's key oil facilities on Kharg Island in an effort to pressure Tehran back to the negotiating table.
- Iran's security establishment has suffered a major setback following the confirmed death of Ali Larijani, a key architect of the country's military strategy. His loss removes one of Tehran's more pragmatic power brokers, potentially tilting the balance of power in favor of hardliners. Yet despite the blow, Iran remains resolute in pursuing its campaign to disrupt maritime traffic through the Strait of Hormuz.
- While some investors fear oil prices could breach the psychologically significant $100 mark, broader market sentiment reflects confidence that such a move is unlikely in the near term. The White House has been actively working to stabilize energy supplies and prevent a sharp price surge. On Tuesday, it announced plans to ease sanctions on

Venezuela to help ease supply constraints and authorized the reopening of an offshore oil pipeline in California.

- So far, markets have largely digested the conflict through a rotation rather than a broad-based selloff. The S&P 500 is only modestly lower year-to-date, even after a relatively weak start, while the S&P SmallCap 600 index and S&P MidCap 400 have surrendered most of their earlier gains. We expect large caps to continue to outperform if the conflict worsens, but we see room for that leadership to reverse should geopolitical tensions begin to ease.

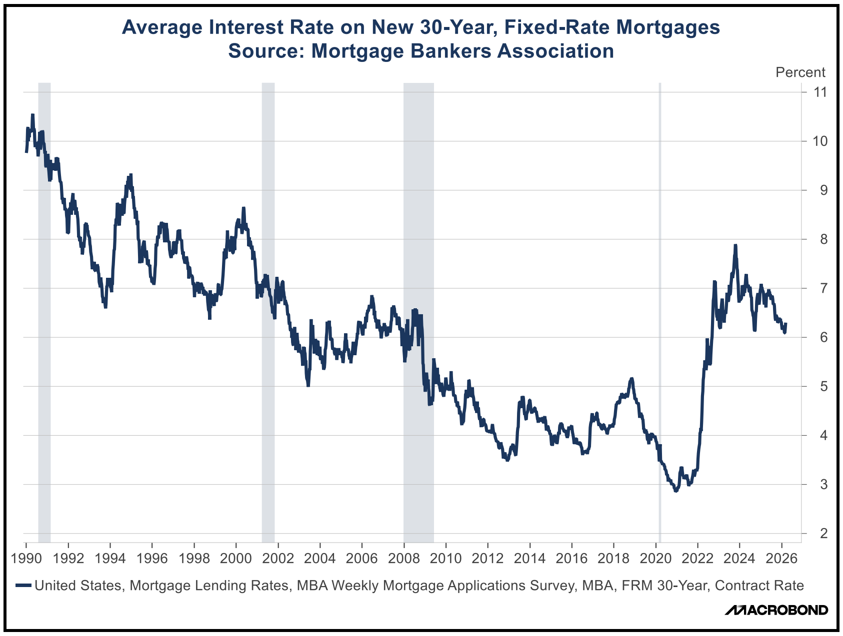
US Mining Expansion: A US-based minerals company is set to acquire a mining operation in the Democratic Republic of the Congo. The deal reflects a broader shift in Washington's Africa strategy, moving from humanitarian aid toward strategic investment partnerships. The DRC, the world's largest producer of cobalt and the second-largest producer of copper, sought US security assistance in exchange for its mineral wealth. The move highlights that the US is building close relationships with countries through security rather than trade guarantees.

China Approves Chips: Nvidia has received approval from Beijing to resume selling certain chips into China. This decision will allow the company to once again supply its H200 processors to Chinese firms, following a tense standoff between Washington and Beijing over chip and materials exports aimed at curbing each side's AI ambitions. While the partial resumption of trade suggests a modest easing in tech-related trade frictions between the two powers, it is unlikely to mark the end of their broader strategic dispute.

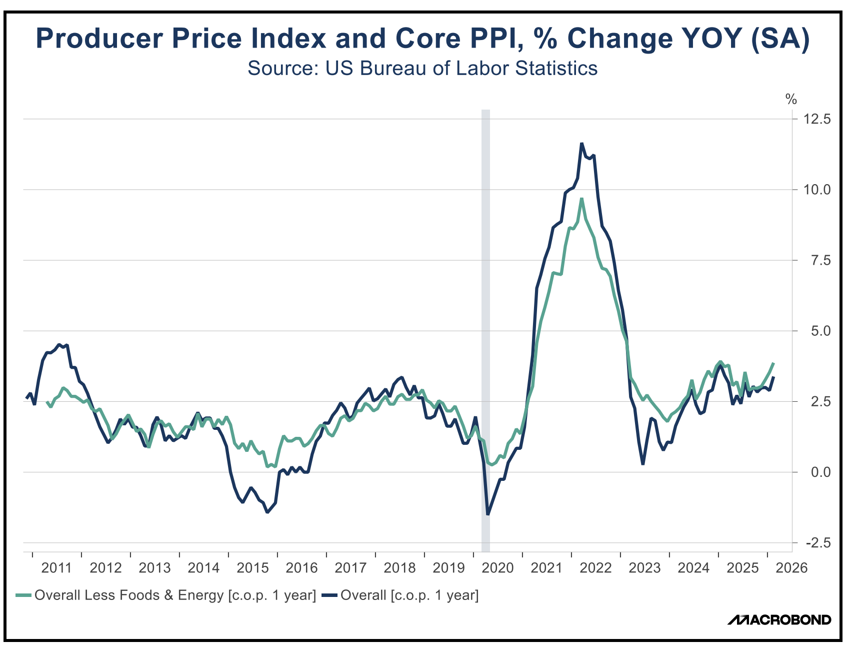
Aluminum Woes: A pickup in aluminum prices has begun to dampen demand in China, as many manufacturers grow reluctant to place new orders. The resulting drag on aluminum-intensive activity is likely to weigh on the economy at a time when it is already contending with higher oil prices and tighter trade tariffs. Taken together, these pressures suggest that the conflict in Iran is likely to further restrain China's growth outlook.

US Economic Releases

The Mortgage Bankers Association said ***mortgage applications*** in the week ended March 13 fell 10.9%, easily erasing their 3.2% rise in the previous week. Applications for home purchase mortgages rose 0.9%, but that was a big slowdown from their rise of 7.8% in the prior week. Applications for refinancing mortgages plunged 18.5%, after edging up 0.5% the week before. The average interest rate on a 30-year, fixed-rate mortgage rose 11 basis points to 6.30%. The chart below shows how mortgage rates have changed over time.



Separately, the February ***producer price index (PPI)*** jumped by a seasonally adjusted 0.7%, more than twice as much as the expected rise of 0.3% and up from its increase of 0.5% in January. Excluding the volatile food and energy components, the February ***"core" PPI*** rose 0.5%, also beating its anticipated rise of 0.3% but slowing from its 0.8% jump in the previous month. The overall PPI in February was up 3.4% from the same month one year earlier, while the core PPI was up 3.9%. The chart below shows the year-over-year change in the PPI and the core PPI since 2011.



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	Factory Orders	m/m	Jan	0.1%	-0.7%	***
10:00	Factory Orders Ex Transportation	m/m	Jan	0.3%	0.4%	**
10:00	Durable Goods Orders	m/m	Jan F	0.0%	0.0%	***
10:00	Durable Goods Orders ex Transportation	m/m	Jan F	0.4%	0.4%	**
10:00	Cap Goods Orders Nondef Ex Air	m/m	Jan F	0.0%	0.0%	*
10:00	Cap Goods Ship Nondef Ex Air	m/m	Jan F	-0.1%	-0.1%	*
14:00	FOMC Rate Decision (Lower Bound)	w/w	18-Mar	3.50%	3.50%	***
14:00	FOMC Rate Decision (Upper Bound)	w/w	18-Mar	3.75%	3.75%	***
14:00	Interest on Reserve Balances Rate	w/w	19-Mar	3.65%	3.7%	**
16:00	Total Net TIC Flows	m/m	Jan		$44.9b	**
16:00	Net Long-Term TIC Flows	m/m	Jan		$28.0b	**
Federal Reserve						
EST	Speaker or Event	District or Position				
14:30	U.S. Federal Reserve Holds press Conference	Federal Reserve Board				

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	Feb	¥57.3b	-¥1152.6b	-¥460.0b	**	Equity and bond neutral
	Exports	y/y	Feb	4.20%	16.80%	1.90%	*	Equity bullish, bond bearish
	Imports	y/y	Feb	10.20%	-2.50%	11.30%	*	Equity bearish, bond bullish
	Tokyo Condominiums for Sale	y/y	Feb	36.8%	1.3%		*	Equity and bond neutral
Australia	Westpac Leading Index	m/m	Feb	-0.09%	-0.01%		**	Equity and bond neutral
New Zealand	BOP Current Account Balance NZD	m/m	Q4	-5.984b	-8.357b	-4.800b	*	Equity bearish, bond bullish
South Korea	Unemployment Rate	m/m	Feb	2.9%	3.0%	3.0%	***	Equity and bond neutral
EUROPE								
Eurozone	CPI	y/y	Feb F	1.9%	1.9%	1.9%	***	Equity and bond neutral
	Core CPI	y/y	Feb F	2.4%	2.4%	2.4%	**	Equity and bond neutral
AMERICAS								

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)	360	360	0	Up
U.S. Sibor/OIS spread (bps)	369	369	0	Flat
U.S. Libor/OIS spread (bps)	365	365	0	Up
10-yr T-note (%)	4.19	4.20	-0.01	Down
Euribor/OIS spread (bps)	215	216	-1	Up
Currencies	**3 Mo**			
Dollar	Down	US		Up
Euro	Up	Euro		Down
Yen	Up	Japan		Down
Pound	Up	UK		Down
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.

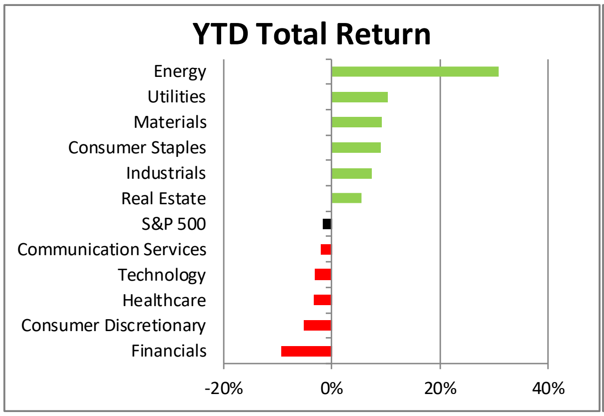
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$103.70	$103.42	0.27%	
WTI	$94.67	$96.21	-1.60%	
Natural Gas	$2.96	$3.03	-2.51%	
Crack Spread	$50.03	$47.47	5.40%	Middle East Conflict
12-mo strip crack	$34.42	$33.20	3.70%	Middle East Conflict
Ethanol rack	$2.03	$2.02	0.50%	
Metals				
Gold	$4,954.17	$5,005.61	-1.03%	
Silver	$79.04	$79.29	-0.31%	
Copper Contract	$573.30	$576.70	-0.59%	
Grains				
Corn contract	$452.00	$454.00	-0.44%	
Wheat contract	$587.75	$589.75	-0.34%	
Soybeans contract	$1,150.25	$1,157.00	-0.58%	
Shipping				
Baltic Dry Freight	2,024	2,038	-14	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		-1.50		
Gasoline (mb)		-2.00		
Distillates (mb)		-1.50		
Refinery run rates (%)		0.60%		
Natural gas (bcf)		39		

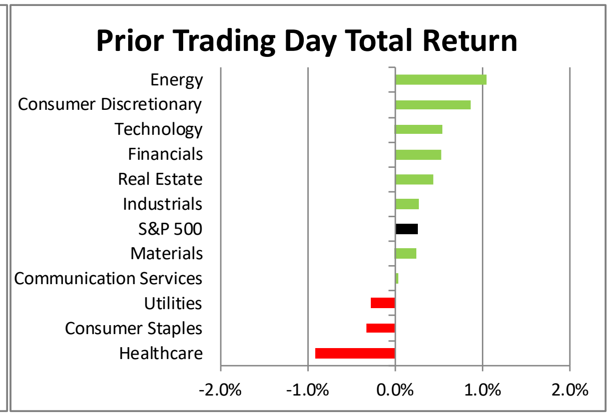
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures across the entire country except for the areas directly on the Canadian border, where temps will be below normal. The outlook calls for wetter-than-normal conditions along the Canadian border and in southern Texas and Florida, with dry conditions in the Southwest, the southern Great Plains, and the Deep South.

Data Section

US Equity Markets – (as of 3/17/2026 close)

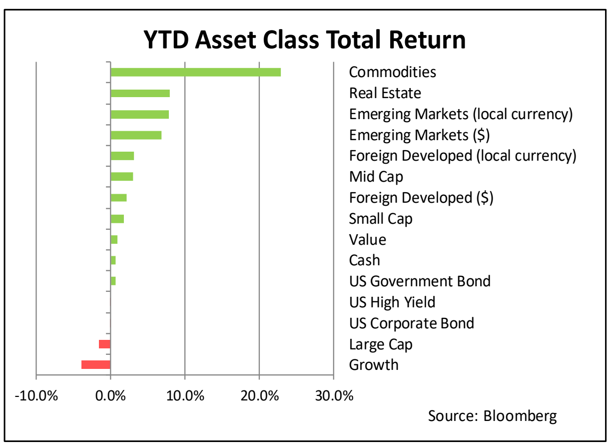




(Source: Bloomberg)

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 3/17/2026 close)

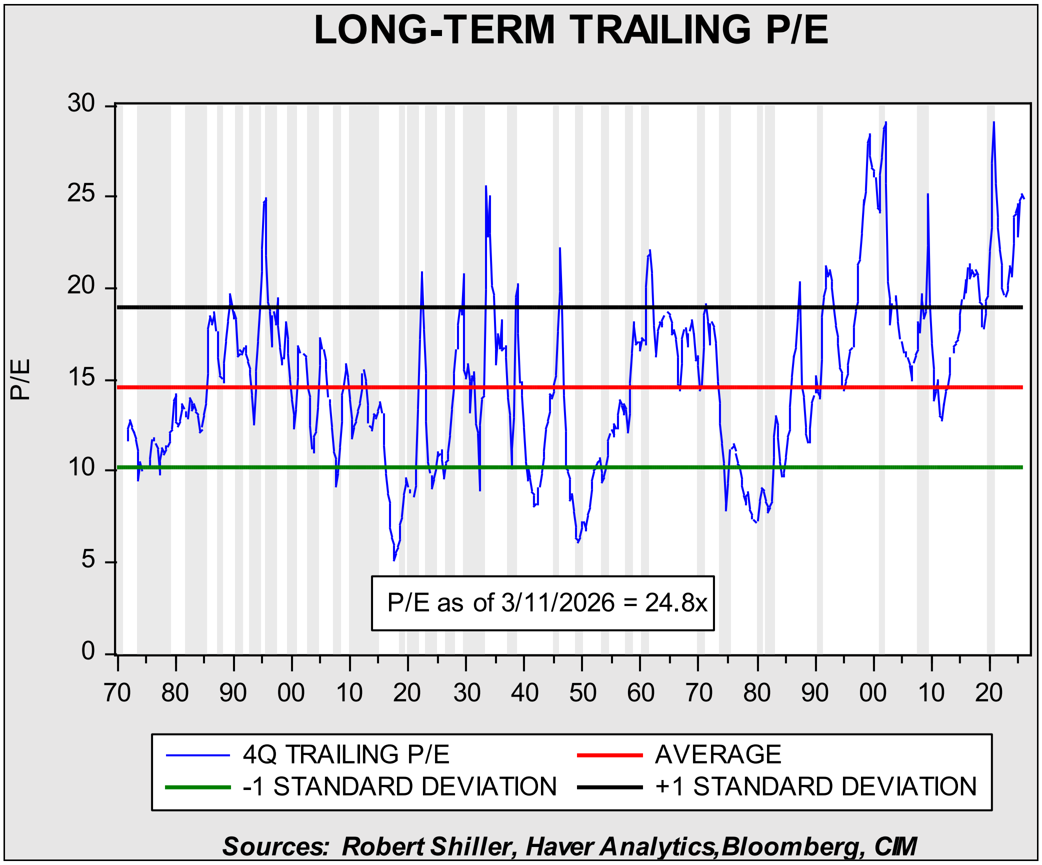


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.

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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.