Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: March 20, 2026 — 9:30 AM ET] Global equity markets are mostly lower this morning. In Europe, the Euro Stoxx 50 is up 0.3% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.6%. Chinese markets were lower, with the Shanghai Composite down 1.2% and the Shenzhen Composite also down 1.2%. 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 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	Confluence of Ideas podcast **Confluence Mailbag**

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 latest central bank rate decisions and their implications for the dollar. We then examine why the US and Israel may be seeking a way to transition the conflict into its next phase. In addition, we discuss why Washington has ruled out an export ban and highlight fresh signs of distrust between the US and its allies. As always, we also include a summary of recent US and international economic data releases.

A Global Pause: In the same week that the Federal Reserve signaled that it would not rush to judge the war's impact on the US economy, several other major central banks followed suit. On Thursday, the Bank of Japan, the Bank of England, the European Central Bank, and the Bank of Canada all kept policy rates on hold. Their decisions reflect uncertainty about whether the conflict will have a short- or long-term effect on inflation and the economy, and these decisions are expected to shape market views of the dollar.

- The choice to remain on hold comes as central banks grapple with the severity of the war's impact on the economy. ECB President Christine Lagarde stated that while she believes the EU can absorb economic shocks, she is no longer confident that the economy remains in a strong position. Additionally, Bank of Canada Governor Tiff Macklem noted that the Middle East conflict has increased downside risks to the global economic outlook.

- That said, there are signs that some central banks may pivot toward additional rate hikes if inflation shows signs of re-accelerating. Bank of Japan Governor Kazuo Ueda has reiterated that the bank still expects to raise interest rates, judging inflation risks to be more pressing than growth concerns. At the same time, the Bank of England has adopted a more hawkish tone, signaling a renewed focus on inflation risks in its policy deliberations.
- A potential shift in monetary policy is also likely to influence foreign exchange markets. When investors expect foreign central banks to adopt a more hawkish stance than the Federal Reserve, their currencies tend to appreciate against the dollar, and the reverse is true when they are seen as more dovish. As a result, the dollar could weaken if other central banks are viewed as more assertive than the US in responding to inflation.
- Futures markets have so far priced in a hawkish pivot globally as investors react to rising inflation risks. Following the recent central bank meetings, futures now imply that the US has shifted from one rate cut to holding steady, while expectations for the BoE and ECB have moved from unchanged policy to as many as two hikes this year. By contrast, the implied probability of a rate hike by year-end for the Bank of Canada and the Bank of Japan has remained largely unchanged.
- In the near term, the dollar is likely to find support as investors raise cash and seek safety amid sharply higher oil and energy prices. However, this strength could fade once the conflict begins to stabilize, particularly if the Federal Reserve rules out the possibility of further rate hikes. In that scenario, a weaker dollar could re-emerge over time, depending on how the situation in Iran evolves in the coming weeks.

US Reinforcements: Now entering its third week, the conflict with Iran appears to be shifting into a new phase. On Thursday, the Pentagon submitted a $200 billion supplemental funding request to the White House to continue ongoing military operations. At the same time, several US allies pledged formal support for Washington's efforts to secure and reopen the Strait of Hormuz. The shift follows Israeli assessments that the campaign has effectively destroyed much of Iran's uranium enrichment and ballistic missile infrastructure.

- The proposed surge in defense spending is expected to receive a cool reception on Capitol Hill. Defense Secretary Pete Hegseth said the funds would be used to replenish critical weapons and ammunition expended in the campaign, likely pushing stocks above prewar levels. House leaders have signaled that they are prepared to take up the legislation, but its passage is far from assured, given the GOP's slim majority and Democrats' outright opposition.
- Internationally, NATO partners appear eager to ease tensions with Washington by committing to help secure the Strait of Hormuz. On Thursday, seven allies — the UK, Japan, France, Germany, Italy, the Netherlands, and Canada — joined a pledge to take appropriate measures to ensure safe passage through the waterway. Although the

statement did not explicitly commit naval forces, it signals a growing willingness among these countries to coordinate military efforts to protect vital sea lanes.

- The escalating costs of the war may be pushing the US and Israel toward a point where declaring victory becomes an appealing option. However, whether this happens within days remains unclear, as it would likely require a settlement that leaves the current Iranian regime in place — a prospect that seems improbable given the ongoing attacks. Furthermore, even if a declaration is made, there is no guarantee the conflict will not reignite, particularly given the network of Iranian proxy groups across the Middle East.
- While a de-escalation should reduce geopolitical uncertainty and offer some relief for equities, attention will quickly shift to logistics. Reopening trade routes, restoring production, and preventing a spike in interest rates driven by higher inflation expectations and heavier debt issuance are likely to become key priorities. In this environment, firms that are less energy-intensive and carry relatively low debt burdens should be better positioned to benefit from the transition.

No Export Bans: The White House has so far ruled out imposing a ban on crude oil and natural gas exports to keep domestic energy prices in check. The decision comes as the Trump administration explores ways to cushion households from the economic fallout of the conflict. While an export ban could lower prices at home, it would likely drive them higher globally. The refusal to take that step may increase pressure on Washington to pursue diplomatic off-ramps to the war instead.

NATO Tensions: Denmark was preparing for the possibility of a US invasion earlier this year. The government sent soldiers with explosives to Greenland to destroy a runway near the capital, as well as a former fighter base, if necessary. They were also supplied with blood reserves in case they were forced to confront US forces. This approach was backed by France and Germany, underscoring growing distrust of the US among key allies. We believe this could signal that Europe intends to become less dependent on the US for its security.

US Economic Releases

No major US economic reports have been released so far today. 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**
8:00	Michelle Bowman Speaks on Fox Business	Member of the Board of Governors
8:30	Christopher Waller Speaks on CNBC	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	Capacity Utilization	y/y	Jan	2.9%	0.5%		**	Equity and bond neutral
	Industrial Production	y/y	Jan F	0.7%	2.3%		***	Equity and bond neutral
New Zealand	Exports NZD	m/m	Feb	6.63b	6.10b		**	Equity and bond neutral
	Imports NZD	m/m	Feb	6.89b	6.73b		**	Equity and bond neutral
	Trade Balance NZD	m/m	Feb	-257m	-627m		**	Equity and bond neutral
EUROPE								
Eurozone	ECB Current Account SA	m/m	Jan	37.9b	114.6b		*	Equity and bond neutral
	Trade Balance SA	m/m	Jan	-1.9b	12.6b		**	Equity and bond neutral
Germany	PPI	y/y	Feb	-3.3%	-3.0%	-2.7%	**	Equity bearish, bond bullish
France	Retail Sales	y/y	Feb	-0.4%	-0.9%		***	Equity and bond neutral
Italy	Current Account Balance	m/m	Jan	-1785m	3406m		*	Equity and bond neutral
UK	Public Finances (PSNCR)	m/m	Feb	7.6b	-59.4b		*	Equity and bond neutral
	Public Sector Net Borrowing	m/m	Feb	14.3b	-31.9b	8.8b	*	Equity bullish, bond bearish
	PSNB ex Banking Groups	m/m	Feb	14.3b	-31.9b	8.8b	**	Equity and bond neutral
Russia	Gold and Forex Reserves	m/m	13-Mar	$803.2b	$802.2b		***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	13-Mar	19.92t	19.81t		*	Equity and bond neutral
AMERICAS								
Mexico	Aggregate Supply and Demand	y/y	4Q	4.5%	1.2%		*	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)	361	361	0	Up
U.S. Sibor/OIS spread (bps)	371	370	1	Up
U.S. Libor/OIS spread (bps)	367	367	0	Up
10-yr T-note (%)	4.30	4.25	0.05	Up
Euribor/OIS spread (bps)	211	212	-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
Central Bank Action	**Actual**	**Prior**	**Expected**	
ECB Deposit Facility Rate	2.00%	2.00%	2.00%	On Forecast
ECB Main Refinancing Rate	2.15%	2.15%	2.15%	On Forecast
ECB Marginal Lending Facility	2.40%	2.40%	2.40%	On Forecast
Bank of Russia Key Rate	15.00%	15.50%	15.00%	On Forecast
PBOC 1-Year Loan Prime Rate	3.00%	3.00%	3.00%	On Forecast
PBOC 5-Year Loan Prime Rate	3.50%	3.50%	3.50%	On Forecast

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.

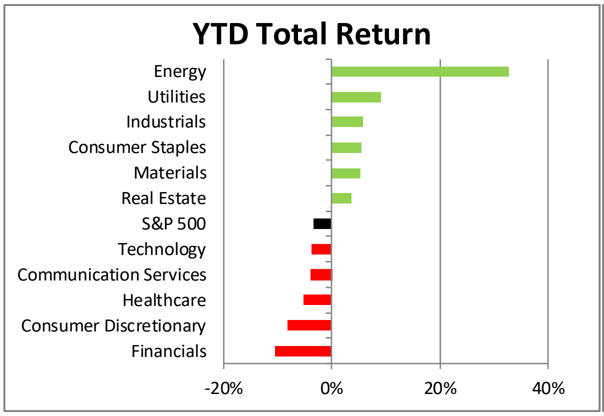
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$108.11	$108.65	-0.50%	
WTI	$96.47	$96.14	0.34%	
Natural Gas	$3.12	$3.17	-1.33%	
Crack Spread	$54.89	$52.63	4.28%	Middle East Conflict
12-mo strip crack	$36.69	$35.69	2.79%	
Ethanol rack	$2.12	$2.12	0.03%	
Metals				
Gold	$4,660.22	$4,650.02	0.22%	
Silver	$72.03	$72.83	-1.10%	
Copper Contract	$547.05	$546.90	0.03%	
Grains				
Corn contract	$466.25	$469.75	-0.75%	
Wheat contract	$600.50	$608.00	-1.23%	
Soybeans contract	$1,169.25	$1,168.50	0.06%	
Shipping				
Baltic Dry Freight	2,057	2,064	-7	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	6.16	-1.50	7.66	
Gasoline (mb)	-5.44	-2.00	-3.44	
Distillates (mb)	-2.53	-1.50	-1.03	
Refinery run rates (%)	0.06%	0.60%	-0.54%	
Natural gas (bcf)	35	39	-4	

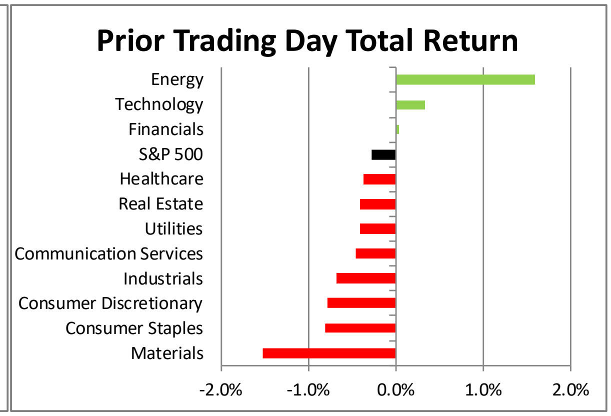
Weather

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 northern reaches of the Great Lakes region and the Northeast, where temperatures will be below normal. The outlook calls for wetter-than-normal conditions in the northern Great Lakes region, southern Texas and southern Florida, with dry conditions in the Southwest, the southern Great Plains, and the Deep South.

Data Section

US Equity Markets – (as of 3/19/2026 close)

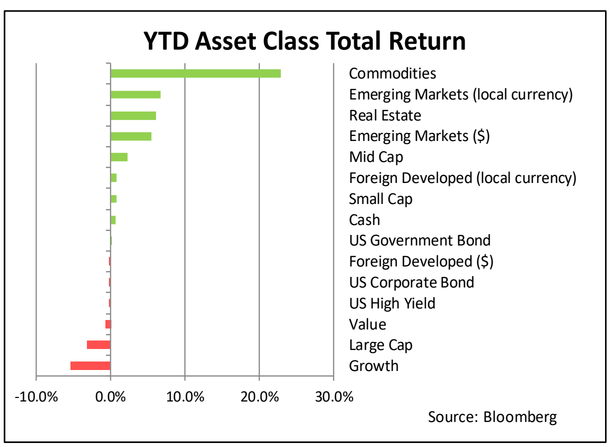




(Source: Bloomberg)

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 3/19/2026 close)

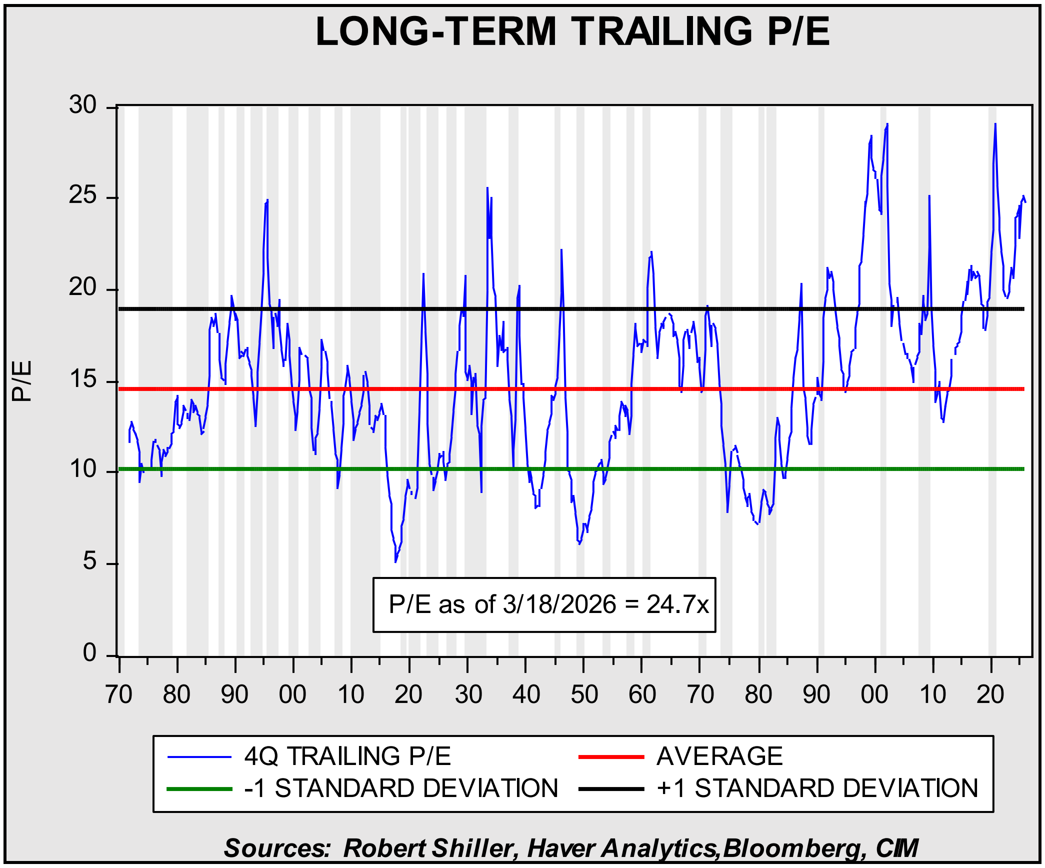


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 19, 2026



Based on our methodology,[1] the current P/E is 24.7x, down 0.1 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.