



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: March 25, 2026 — 9:30 AM ET] Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 is up 1.7% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 1.6%. Chinese markets were higher, with the Shanghai Composite up 1.3% and the Shenzhen Composite up 2.0%. 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
“From the Shah to the Strait” (3/23/26) + podcast	“Are Long-Term Treasuries 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 by highlighting growing optimism that there is now a plausible pathway toward de-escalation in the Middle East conflict. We then examine why expectations are building that the Federal Reserve may be preparing for a more hawkish policy stance. In addition, we discuss the Pentagon’s potential setback in its lawsuit with Anthropic and the emergence of Arm as a serious new rival in the chipmaking space. As always, we include a summary of recent US and international economic data releases.

Easing Tensions? The market gained cautious optimism following signs that the White House is engaging in direct talks with the Iranian leadership. On Tuesday, President Trump suggested that negotiations were progressing, [claiming Tehran had offered a "present" as a sign of good faith](#). While these claims were quickly undermined [by additional US troop deployments](#) and Tehran’s refusal to acknowledge talks, the market continues to hold out hope that cooler heads will prevail as it awaits an end to the conflict.

- The easing of tensions appears to be part of a White House effort to build momentum after Monday’s announcement of a five-day pause before deciding whether to strike

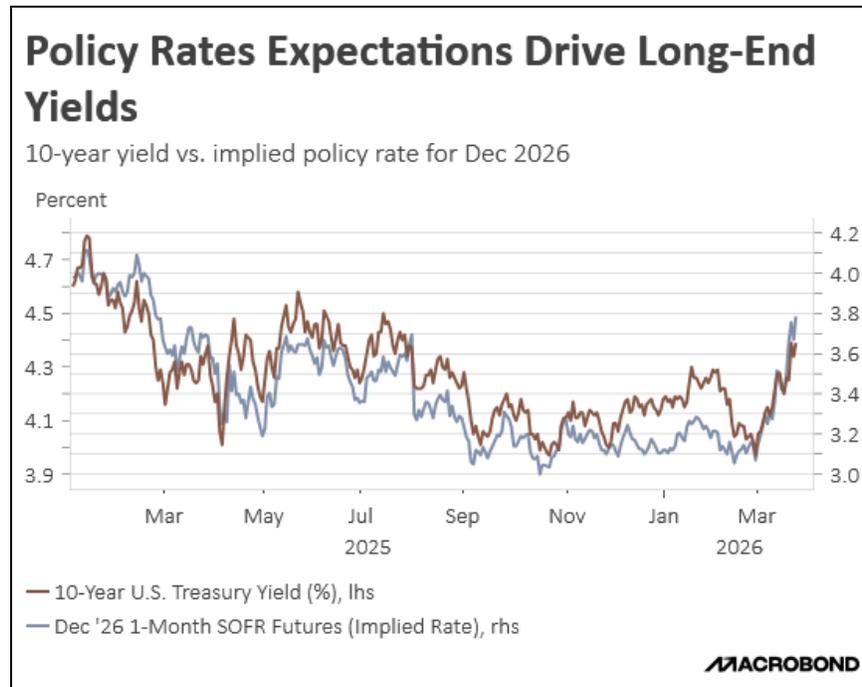
Iran's power infrastructure. [It has been reported that the US has presented a 15-point peace plan](#), several elements of which Iran had previously signaled it could accept. Although it is still unclear who will attend any meetings, US [officials are working to start talks with Iranian representatives on Thursday](#).

- While the White House has pushed for diplomacy, Iran has publicly rejected claims that it is willing to end the conflict. The failure to acknowledge talks comes as Iranian officials express distrust that the US, or even their own leadership, might use peace negotiations as a means to compromise their position or security. As a result, Iranian officials have stated they are [not prepared to engage in negotiations as long as attacks continue](#) and have warned that the Strait of Hormuz will remain closed.
- Despite Iranian resistance, there is growing international pressure to bring both sides to the negotiating table. China's foreign minister, Wang Yi, [has urged Iran to consider talks with the US](#), insisting the crisis should be resolved through diplomacy rather than force. At the same time, a group of Middle Eastern states, including [Pakistan, Egypt, and Turkey](#), has moved to establish a backchannel between Washington and Tehran to facilitate potential negotiations.
- Even so, Iran has offered a limited concession, indicating it will allow non-hostile vessels to transit the strait, amid [reports it is charging fees of up to \\$2 million per voyage](#). This levy signals Tehran's effort to assert de facto control over the waterway, while also suggesting that commercial shipments may face fewer outright blockages. On Tuesday, reports indicated that a [Thai-flagged vessel successfully passed through](#) the contested waters.
- Hopes of easing tensions have fueled a rebound in risk assets, with gold and silver prices recouping some of their recent losses. In the short term, we expect a fragile recovery that could strengthen over time as confidence grows that the conflict will end. This could lead market attention to shift from concerns about escalation to an assessment of the broader impact of the conflict. Looking ahead, investors may begin to favor companies that show earnings resilience and operational efficiency.

Fed Expectations: The sudden rise in energy and commodity prices has led to concerns that the Federal Reserve may need to make a hawkish pivot later this year. Earlier this week, Chicago Fed President [Austan Goolsbee was the first to publicly state that tightening could be on the table](#). Speaking with CNBC, he said he could be open to a rate hike depending on how the conflict plays out. Although he also noted that rate cuts remain a possibility, his remarks show that inflation concerns are rising within the FOMC.

- Goolsbee's comments suggest that the Fed's focus may be shifting away from its maximum employment mandate in favor of price stability. Following the recent Fed meeting on March 17–18, [Powell acknowledged that several board members could also see a rate hike in the future](#), though it is not the base case for the majority. However, he indicated the Fed is prepared to take appropriate action if inflationary pressures begin to build due to the Iran conflict.
- That said, even as the tone has shifted, the FOMC has also signaled that it is prepared to adopt a wait-and-see stance before pivoting toward rate hikes. On Tuesday, [Fed Governor](#)

[Michael Barr indicated that rates may need to be held steady](#) for some time as the conflict unfolds, while Governor Stephen Miran suggested that although higher oil prices could push up goods and energy costs, he remains optimistic that the Fed could still cut rates several times this year.



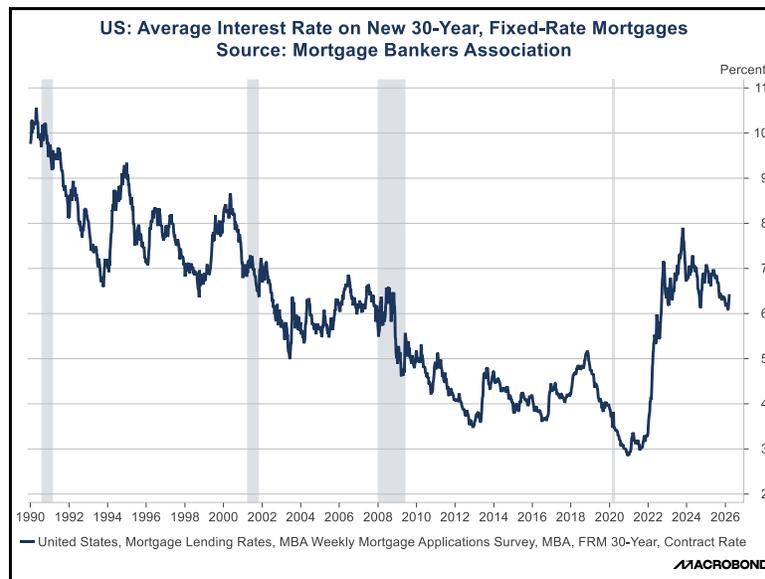
- Markets are already leaning more hawkish, even as Fed officials remain non-committal about how the Iran war will ultimately shape policy. The latest one-month SOFR futures for December indicate that investors now expect the Fed to keep rates on hold, with some probability assigned to a hike before year-end, whereas before the conflict, they had been pricing in as many as two cuts.
- A potential hawkish shift by the Federal Reserve is likely to remain a central theme even after the conflict ends, as the economy braces for renewed inflationary pressures in the coming months. For now, we remain skeptical that the Fed will be willing to vote for another rate hike, given the significant political pressure from the White House. That said, we have grown less optimistic about the Fed’s ability to cut rates without clear signs that the labor market outlook has begun to deteriorate.

Pentagon Anthropic: A judge signaled that [she may not side with the US government in its dispute with Anthropic](#). The judge overseeing the case stated that the Pentagon was using the removal of its contract as punishment for Anthropic taking its dispute public over the use of AI. The comments suggest that the government’s ability to award or withdraw contracts at will is likely to be taken up by the Supreme Court. The ongoing fight is expected to have implications for future public-private partnerships as the government gets more involved in the economy.

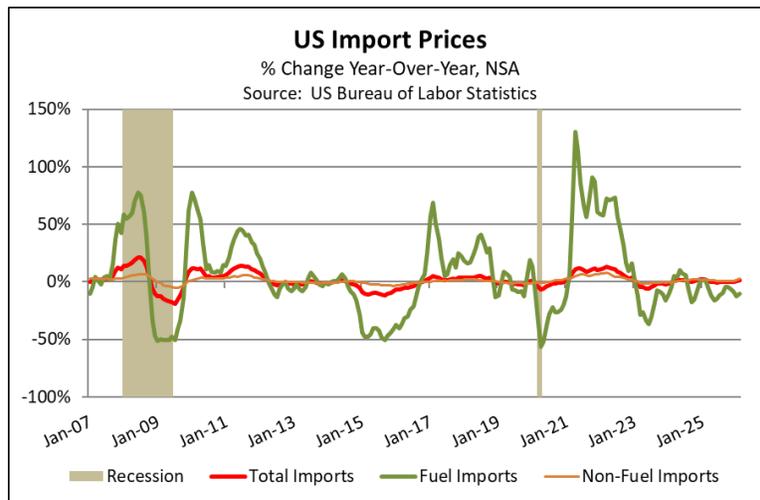
Chip Rivals: More companies are looking for ways to bypass major chipmakers by designing their own semiconductors. [Arm appears to be making headway in this shift](#) after announcing that it has developed its own chips, potentially allowing it to compete more directly with larger manufacturers. The company expects orders to rise following reported commitments from Meta and OpenAI. The emergence of new chip rivals is likely to accelerate as AI becomes a more prominent force in the global economy.

US Economic Releases

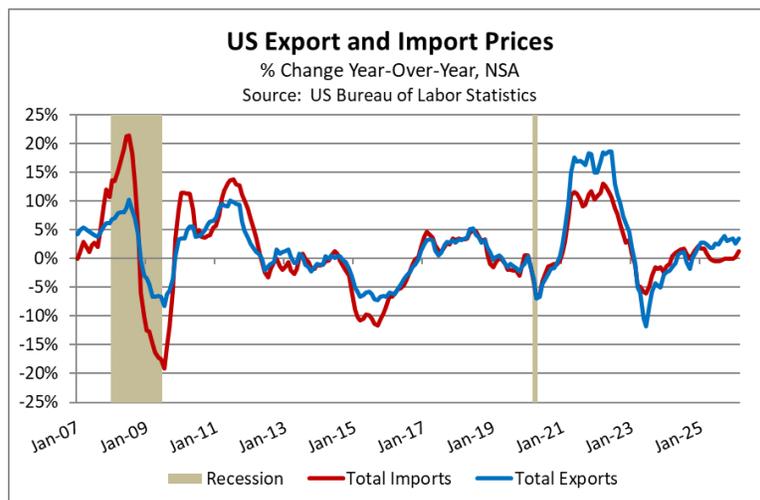
The Mortgage Bankers Association said *mortgage applications* in the week ended March 20 fell 10.5%, following their 10.9% decline in the previous week. Applications for home purchase mortgages fell 5.4%, erasing their 0.9% rise in the prior week. Applications for refinancing mortgages dropped 14.6%, after plunging 18.5% the week before. The average interest rate on a 30-year, fixed-rate mortgage rose 13 basis points to 6.43%. The chart below shows how mortgage rates have changed over time.



Separately, February *import prices* jumped 1.3% from the previous month, far worse than expectations that they would rise by the same 0.6% as in January. Of course, import prices are often driven by volatility in the petroleum fuels category, but that wasn't the case last month. February *import prices excluding fuels* were up 1.2%, three times their anticipated rise of 0.4% and much more than their revised January rise of 0.8%. Overall import prices in February were up 1.3% year-over-year, while import prices excluding fuels were up 2.5%. The chart below shows the year-over-year change in import prices since just before the Great Financial Crisis.



February *export prices* were up 3.5% from one year earlier. Comparing the annual change in export prices versus import prices provides a sense of the US “terms of trade,” or the relative advantage or disadvantage the country is facing because of trends in international trade prices. The chart below compares the year-over-year change in US export and import prices 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
16:10	Stephen Miran in Moderated Discussion on Digital Assets	Members 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	Leading Economic Index	m/m	Jan F	112.1	112.4		**	Equity and bond neutral
	Coincident Index	y/y	Jan F	117.9	116.8		**	Equity and bond neutral
	Machine tool orders	y/y	Feb F	24.2%	24.2%		**	Equity and bond neutral
Australia	CPI	y/y	Feb	3.7%	3.8%	3.8%	**	Equity and bond neutral
South Korea	Consumer Confidence	m/m	Mar	107.0	112.1		*	Equity and bond neutral
South Korea	Retail Sales	y/y	Feb	7.9%	4.4%		**	Equity and bond neutral
	Depart. Store Sales	y/y	Feb	25.6%	13.4%		*	Equity and bond neutral
	Discount Store Sales	y/y	Feb	15.1%	-18.8%		*	Equity and bond neutral
EUROPE								
Germany	IFO Business Climate	m/m	Mar	86.4	88.4	86.3	***	Equity and bond neutral
	IFO Current Assessment	m/m	Mar	86.7	86.7	86.2	**	Equity and bond neutral
	IFO Expectations	m/m	Mar	86.0	90.2	86.0	**	Equity and bond neutral
UK	CPI	y/y	Feb	3.0%	3.0%	3.0%	***	Equity and bond neutral
	CPI Core	y/y	Feb	3.2%	3.1%	3.1%	***	Equity and bond neutral
	CPI Services	y/y	Feb	4.3%	4.4%	4.2%	*	Equity and bond neutral
	Retail Price Index	m/m	Feb	408.2	406.4	408.8	**	Equity and bond neutral
	RPI	y/y	Feb	3.6%	3.8%	3.7%	**	Equity and bond neutral
	House Price Index	y/y	Jan	1.30%	1.90%		*	Equity and bond neutral
AMERICAS								
Mexico	International Reserves Weekly	w/w	20-Mar	\$254448m	\$256365m		*	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)	370	371	-1	Up
U.S. Libor/OIS spread (bps)	367	368	-1	Up
10-yr T-note (%)	4.32	4.36	-0.04	Up
Euribor/OIS spread (bps)	218	213	5	Up
Currencies	3 Mo			
Dollar	Down	US		Up
Euro	Up	Euro		Down
Yen	Up	Japan		Down
Pound	Up	UK		Down
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.

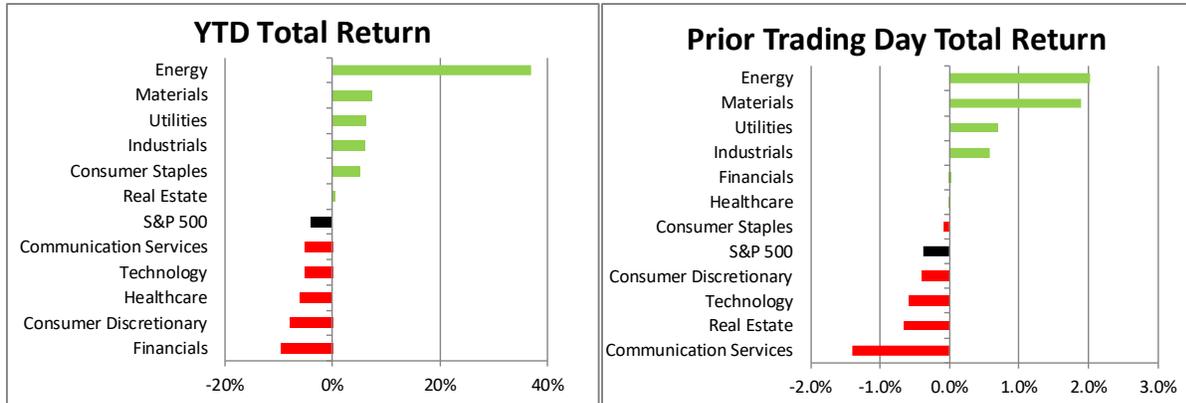
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$97.90	\$104.49	-6.31%	Middle East Conflict
WTI	\$86.77	\$92.35	-6.04%	Middle East Conflict
Natural Gas	\$2.88	\$2.94	-2.07%	
Crack Spread	\$44.95	\$50.34	-10.70%	Middle East Conflict
12-mo strip crack	\$32.95	\$35.23	-6.45%	Middle East Conflict
Ethanol rack	\$2.14	\$2.13	0.51%	
Metals				
Gold	\$4,585.17	\$4,475.51	2.45%	
Silver	\$73.33	\$71.22	2.97%	Middle East Conflict
Copper Contract	\$554.45	\$545.50	1.64%	
Grains				
Corn contract	\$458.50	\$462.50	-0.86%	
Wheat contract	\$580.75	\$590.00	-1.57%	
Soybeans contract	\$1,158.00	\$1,155.00	0.26%	
Shipping				
Baltic Dry Freight	1,989	2,037	-48	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-1.25		
Gasoline (mb)		-2.00		
Distillates (mb)		-1.95		
Refinery run rates (%)		0.65%		
Natural gas (bcf)		-49		

Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for the entire country except for the West Coast and the Northeast, with cooler-than-normal temperatures only in New England. The outlook calls for wetter-than-normal conditions from the West Coast to the Appalachian Mountains, with precipitation in all other areas near normal.

Data Section

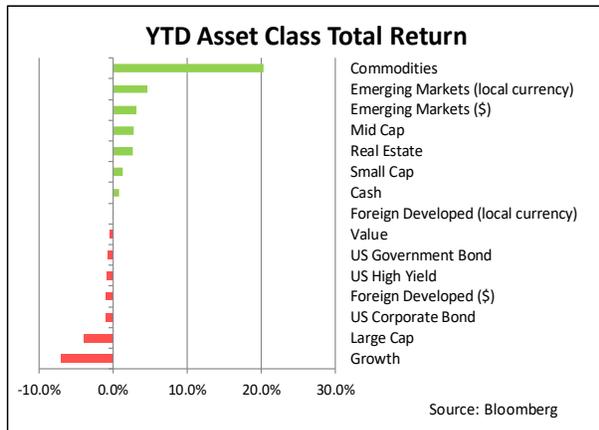
US Equity Markets – (as of 3/24/2026 close)



(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 3/24/2026 close)

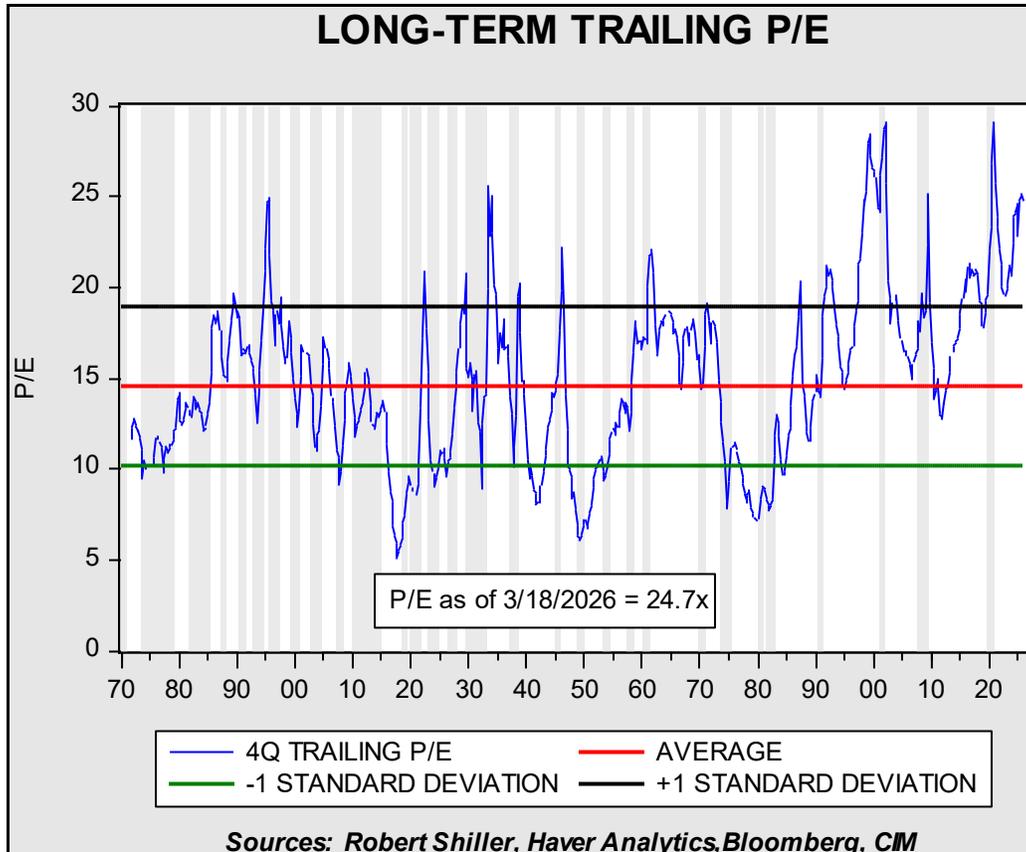


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.