Daily Comment

Confluence INVESTMENT MANAGEMENT

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[Posted: March 2, 2026 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is down 0.1% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.6%. Chinese markets were higher, with the Shanghai Composite up 0.4% and the Shenzhen Composite up 0.3%. US equity index futures are signaling a lower open.

With 481 companies having reported so far, S&P 500 earnings for Q4 are running at $74.30 per share compared to estimates of $71.07, which is up 8.3% from Q4 2024. Of the companies that have reported thus far, 73.4% exceeded expectations, while 21.6% 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 Great Chinese Purge" (2/23/26) + **podcast (2/27/26)**	**"The Dip That Didn't Bounce" (3/2/26)**	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* today opens with some thoughts on the new war against Iran that the US and Israel launched on Saturday. We next review several other international and US developments that could affect the financial markets today, including more signs of weak consumer demand in China and a continued effort by Canada and India to reduce their trade dependency on the US.

United States-Israel-Iran: Obviously, the weekend launch of a joint US-Israeli military attack on Iran is the key news that will drive the markets today. The news has been widely reported, so we'll just focus on the key highlights for investors. Importantly, the attacks targeted both Iran's political leadership and its military, resulting in the death of supreme leader Ayatollah Khamenei on Saturday as well as dozens of other high officials. Nevertheless, the Iranian military has launched retaliatory strikes across the region, and military operations continue.

- Reports suggest that Khamenei dispersed political and military authority before the fighting started, ensuring in particular that the Iranian military had standing orders to keep fighting even if he were killed. Indeed, some reports suggest the Iranian Revolutionary Guards Corps is now fighting nearly independently. That could make it difficult to stop the fighting even if some political leaders or groups in Iran decide they want peace.
- More broadly, the chaos has the potential to spark secession efforts by various groups within Iran, similar efforts by groups in other regional countries, and/or intervention by other regional powers. In other words, the situation continues to pose the risk of a wider regional war.
- The main goals of the US appear to be further degrading Iran's military capability (especially its nuclear and missile programs) and prompting a popular uprising that would lead to a new regime or at least a serious alteration of the current one. However, if that doesn't occur within the next several weeks, we suspect President Trump would declare victory and stop the operation. We believe Trump is especially cognizant that US voters have little stomach for yet another long war aimed at regime change in the Middle East.
- All the same, military operations are notoriously difficult to control. At the moment, much risk remains, and investors are rightly on edge about further conflict and risks related to the region's energy supplies.
- Reports this morning say Iran has now staged a drone attack on one of Saudi Arabia's most important oil facilities at Ras Tanura and is expanding its attacks on shipping through the Strait of Hormuz. That will raise the risk of Saudi Arabia joining the attacks on Iran and potentially spur Iran to further escalate its attacks on Saudi Arabia.
- Separately, other reports say Iranian attacks have forced Qatar to shut down its liquefied natural gas production, causing global prices to soar and risking bringing Qatar into the conflict.
- As a result, global oil prices are surging this morning, with Brent up about 8.6% to $79.04 per barrel. Natural gas prices have also surged. Gold prices are up 3.1% to $5,409.40 per ounce, but Treasury obligations have weakened, probably on concerns about rising consumer price inflation. Benchmark 10-year Treasury yields as of this writing are up modestly to 4.006%. Finally, US and European defense stocks are getting a strong bid.

China: BYD, which is now the world's largest electric vehicle maker, said its February sales were down a whopping 41% year-over-year as a 50% rise in export sales was more than offset by a 65% plunge in domestic sales. The figures show how Chinese firms' efforts to make up for China's weak domestic demand by going abroad won't necessarily work. The figures therefore illustrate a key vulnerability for Chinese stocks that are heavily focused on sales to domestic consumers.

South Korea: According to new data from the Trade Ministry, exports in February were up a strong 29% year-over-year, beating expectations and almost matching the 34% rise in January.

The data show that much of the strength came from semiconductors, reflecting South Korea's strength in producing memory chips. This serves as a reminder that foreign economies and stocks are also benefiting from the surge in US data-center construction for artificial intelligence.

Canada-India: During Canadian Prime Minister Carney's visit to New Delhi today, he and Indian Prime Minister Modi agreed to accelerate their talks on a free-trade deal, seeking to sign a pact by the end of the year. The agreement illustrates how both countries are trying to broaden their trade relationships to reduce their dependence on the US. Over time, the plethora of new non-US trade deals could potentially rejigger world trade flows and affect global stocks, although it's probably too early to identify the winners and losers at this point.

Argentina: In President Milei's biggest legislative victory so far, the Senate on Friday passed a major deregulation of the labor market that will make it easier for firms to lay off employees. The reform will also roll back rigid restraints on hiring and working hours. By giving companies greater flexibility, the reform could improve economic efficiency and ease business conditions. That could also help boost foreign investment in the country. Overall, the reform is likely to be positive for the Argentine economy and stock values.

US Artificial Intelligence (AI) Industry: As threatened, the White House late Friday ordered all federal agencies to halt use of Anthropic's Claude AI model over the company's insistence on specific prohibitions against the Pentagon using the model for mass surveillance of US citizens or the autonomous killing of foreign adversaries. The Pentagon also designated Anthropic a "Supply-Chain Risk to National Security," preventing any company doing business with the US military from also having a commercial relationship with Anthropic.

- The big winner from the confrontation is likely to be OpenAI, which closed on a new funding round worth $110 billion on Friday and then later announced that it had reached a deal in which the Pentagon would use its AI models subject to red lines similar to those that Anthropic had demanded.
- Nevertheless, the incident is another example of how the US government has now become much more aggressive about intervening in the economy and pressuring private firms to adopt or abandon specific policies.

Global Asset-Backed Securities Market: Investors in the asset-backed securities market have become alarmed by the collapse of British mortgage lender Managed Financial Solutions last week after it was discovered that the firm double-pledged collateral on some of its bonds. The scandal echoed recent concerns about similar shenanigans in the US asset-backed markets. These incidents are likely to make asset-backed investors increasingly skittish, which would likely raise the risk of a credit crunch and financial disruptions.

US Economic Releases

There were no economic releases prior to the publication of this report. The table below lists the economic releases and Fed events scheduled for the rest of the day.

Economic Releases						
EST	Indicator			Expected	Prior	Rating
9:45	S&P Global US Manufacturing PMI	m/m	Feb F	51.4	51.2	***
10:00	ISM Manufacturing	m/m	Feb	51.5	52.6	***
10:00	ISM Prices Paid	m/m	Mar	60.0	59.0	**
10:00	ISM New Orders	m/m	Apr	53.3	57.1	*
10:00	ISM Employment	m/m	May	48.3	48.1	*
Federal Reserve						
No Fed speakers or events for the rest of today						

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	Tokyo CPI	y/y	Feb	1.6%	1.5%	1.4%	**	Equity and bond neutral
	Tokyo CPI Ex-Fresh Food	y/y	Feb	1.8%	2.0%	1.7%	***	Equity and bond neutral
	Tokyo CPI Ex-Fresh Food & Energy	y/y	Feb	2.5%	2.4%	2.3%	*	Equity and bond neutral
	Retail Sales	y/y	Jan	1.8%	-0.9%	0.1%	**	Equity bullish, bond bearish
	Depart. Store & Supermarket Sales	y/y	Jan	2.6%	-0.1%		*	Equity and bond neutral
	Industrial Production	y/y	Jan P	2.3%	2.6%	5.0%	***	Equity bearish, bond bullish
	Japan Buying Foreign Bonds	w/w	20-Feb	-¥1898.8b	-¥487.9b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	20-Feb	¥408.5b	-¥26.2b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	20-Feb	¥1887.2b	-¥393.1b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	20-Feb	¥402.0b	¥1428.0b		*	Equity and bond neutral
	Housing Starts	y/y	Jan	-0.4%	-1.3%	-2.1%	**	Equity bullish, bond bearish
	Annualized Housing Starts	y/y	Jan	0.755m	0.756m	0.760m	*	Equity and bond neutral
Australia	Private Sector Credit	y/y	Jan	7.7%	7.7%		**	Equity and bond neutral
New Zealand	ANZ Consumer Confidence Index	m/m	Feb	100.1	107.2		*	Equity and bond neutral
India	GDP	y/y	4Q	7.8%	8.2%	7.4%	*	Equity and bond neutral
EUROPE								
Germany	Import Price Index	y/y	Jan	-2.3%	-2.3%	-2.8%	**	Equity and bond neutral
	Unemployment Change	m/m	Feb	1.0k	1.0k	2.0k	***	Equity and bond neutral
	Unemployment Claims Rate	m/m	Feb	6.3%	6.3%	6.3%	**	Equity and bond neutral
	CPI	y/y	Feb P	1.9%	2.1%	2.0%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Feb P	2.0%	2.1%	2.1%	**	Equity and bond neutral
France	CPI	y/y	Feb P	1.0%	0.3%	0.8%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Feb p	1.1%	0.4%	0.8%	**	Equity and bond neutral
	GDP	y/y	Q4 F	1.2%	1.1%	1.1%	**	Equity and bond neutral
	PPI	y/y	Jan	-2.3%	-1.9%		*	Equity and bond neutral
Italy	Industrial Sales WDA	y/y	Dec	3.6%	-0.2%		*	Equity and bond neutral
UK	GfK Consumer Confidence	m/m	Feb	-19	-16	-15	***	Equity and bond neutral
Switzerland	KOF Leading Indicator	m/m	Feb	104.2	103.3	103.0	**	Equity and bond neutral
	GDP	y/y	4Q	0.7%	0.6%	0.5%	**	Equity and bond neutral
Russia	Money Supply, Narrow Definition	w/w	20-Feb	19.68t	19.61t		*	Equity and bond neutral
	Gold and Forex Reserves	m/m	20-Feb	$797.2b	806.1b		***	Equity and bond neutral
AMERICAS								
Canada	Current Account Balance	m/m	4Q	-$0.71b	-$5.27b	-$8.21b	**	Equity and bond neutral
Mexico	Exports	m/m	Jan	48008m	$60651m		*	Equity and bond neutral
	Imports	m/m	Jan	54489m	$58221m		*	Equity and bond neutral
	Trade Balance	m/m	Jan	-6481.1m	$2429.6m	-2563.5m	**	Equity and bond neutral
Brazil	Primary Budget Balance	y/y	Jan	103.7b	6.3b	105.7b	*	Equity and bond neutral
	Net Debt % GDP	m/m	Jan	65.00%	65.30%	64.80%	**	Equity and bond neutral
	IBGE Inflation IPCA-15	m/m	Feb	4.10%	4.50%	3.83%	***	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)	358	358	0	Down
U.S. Sibor/OIS spread (bps)	367	365	2	Down
U.S. Libor/OIS spread (bps)	364	363	1	Down
10-yr T-note (%)	3.99	3.94	0.05	Down
Euribor/OIS spread (bps)	201	201	0	Down
Currencies	**3 Mo**			
Dollar	Up	US		Down
Euro	Down	Euro		Up
Yen	Up	Japan		Down
Pound	Down	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.

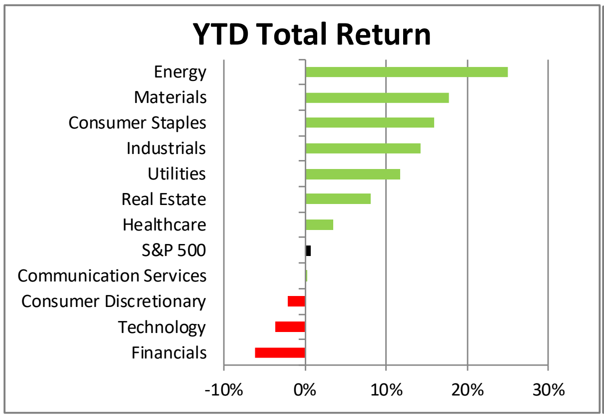
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$79.36	$72.87	8.91%	Middle East Conflict
WTI	$72.78	$67.02	8.59%	
Natural Gas	$3.03	$2.86	5.81%	
Crack Spread	$36.52	$33.36	9.47%	
12-mo strip crack	$30.63	$28.48	7.56%	
Ethanol rack	$1.92	$1.92	-0.06%	
Metals				
Gold	$5,392.92	$5,278.93	2.16%	
Silver	$95.20	$93.79	1.51%	
Copper Contract	$602.65	$605.95	-0.54%	
Grains				
Corn contract	$448.50	$448.50	0.00%	
Wheat contract	$590.75	$591.50	-0.13%	
Soybeans contract	$1,167.25	$1,170.75	-0.30%	
Shipping				
Baltic Dry Freight	2,140	2,117	23	

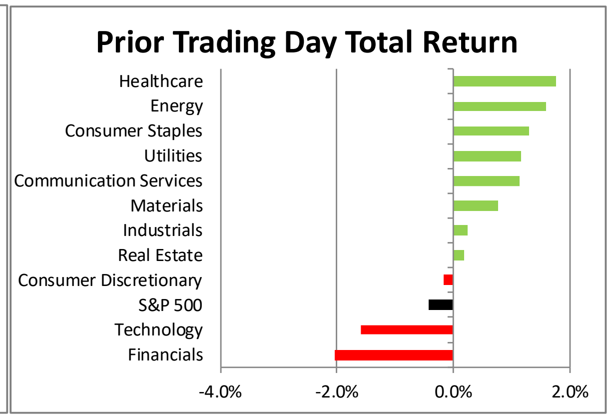
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in the Pacific and Eastern third of the US, with near-normal temperatures everywhere else. The outlook calls for wetter-than-normal conditions for most of the country, with dry conditions expected in the Pacific region.

Data Section

US Equity Markets – (as of 2/27/2026 close)

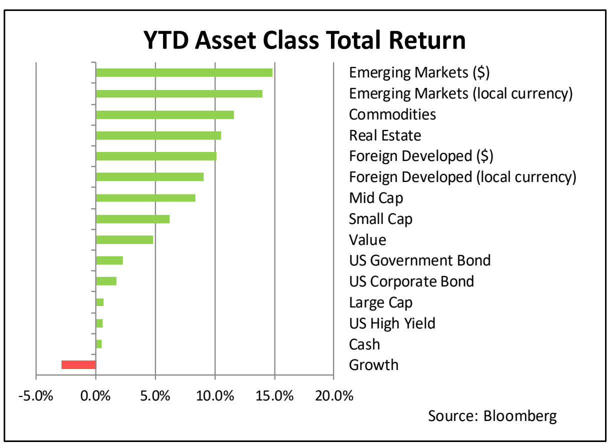




(Source: Bloomberg)

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 2/27/2026 close)

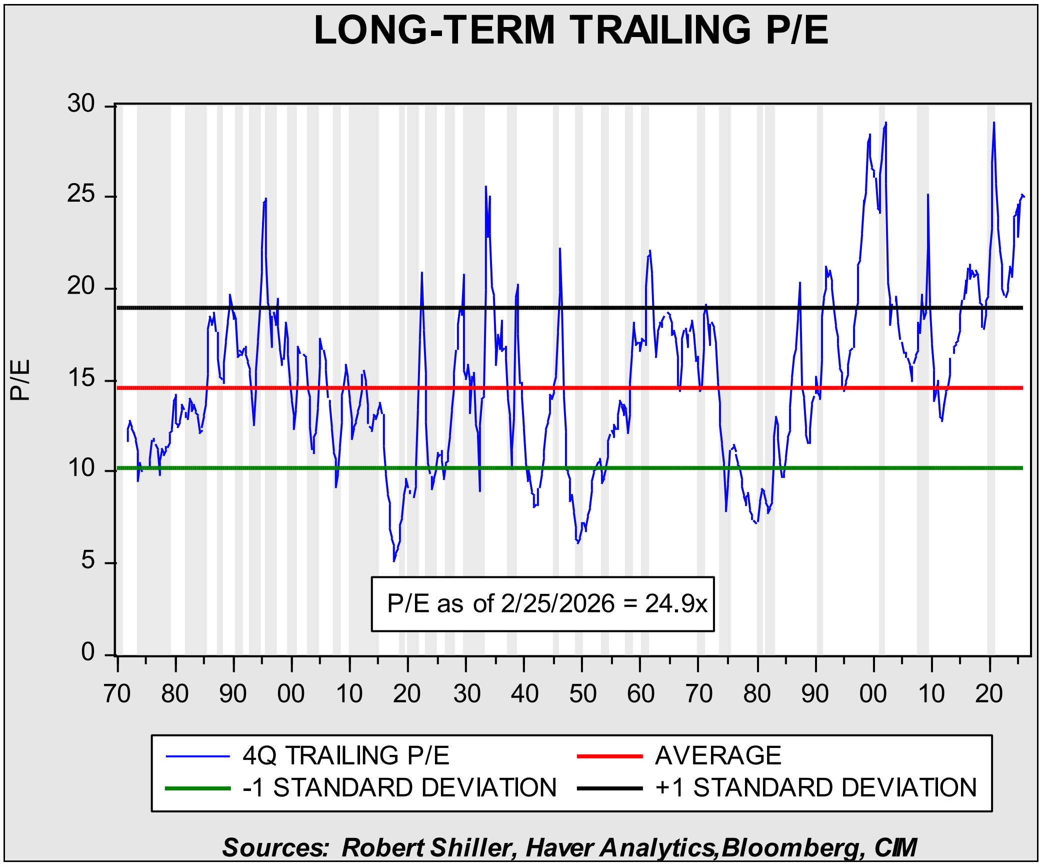


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

February 26, 2026



Based on our methodology,[1] the current P/E is 24.9x and is unchanged from the previous report. Last week, the stock price index and 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.

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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.