Daily Comment

Confluence INVESTMENT MANAGEMENT

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: March 5, 2026 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is down 0.7% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 3.1%. Chinese markets were higher, with the Shanghai Composite up 0.6% and the Shenzhen Composite up 1.2%. 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* opens with our take on China's decision to revise its growth target. We then discuss the US economy in light of the latest ISM survey and ADP report. Next, we provide an update on Iran, examine another key breakthrough for crypto, and assess US shale's ability to meet incremental demand following the Middle East conflict. We close with a summary of key US economic data and notable moves across global markets.

China Rethinks Target: The world's second-largest economy has lowered its GDP target for the first time since 2023. On Wednesday, Beijing announced it would cut its growth target to a range of 4.5% to 5.0%, down from the previous target of 5.0%. The downgrade is being viewed as a signal that the government is willing to tolerate slower expansion as it pivots its growth model to address current challenges, including global pushback against its export-led strategy and a struggling real estate sector.

- Beijing's move to set a lower growth target range is widely seen as giving policymakers more room to tackle structural problems such as industrial overcapacity and weak domestic demand — issues that have also drawn criticism from key trading partners. At the same time, China's state-led growth model has come under intensifying scrutiny, with the IMF recently urging Beijing to scale back sizable industrial subsidies and shift toward a more consumption-led model.
- A transition in China's growth model would be desirable, but it is unclear if the government is prepared to make the pivot. Consumers are seeing their net worth erode as the real estate sector continues to struggle, depleting household savings. Meanwhile, rather than stepping in with stimulus to restore confidence, Beijing has chosen to trim subsidies for consumer goods, raising questions about its commitment to supporting households through the transition.
- That said, the shift represents an opportunity for China to negotiate a trade pact with the US as Presidents Xi Jinping and Donald Trump prepare to meet in a few weeks. The White House has signaled that any new agreement will require China to reform its export model and improve access for US business interests. Consequently, a lower growth target may signal China's willingness to alter its economic model in exchange for reduced tariffs.
- While the market ramifications of China reducing its growth target may not be immediate, we believe the move is a net positive if it paves the way for more productive trade talks. A potential agreement would benefit both equity markets but would be particularly impactful for US tech companies. In particular, a deal that loosens restrictions on Chinese rare earth minerals, critical components for emerging technologies, would provide a significant boost to the sector.

Economic Momentum: There are growing signs that the economy is gaining momentum as firms become more confident about future planning. The latest ISM Purchasing Managers' Index showed business activity accelerating at its fastest pace since 2022, rising from 53.8 to 56.1 in February. Meanwhile, new data from ADP revealed that private employers added 63,000 jobs last month, well above the downwardly revised 11,000 in January, marking the strongest gain since July and suggesting companies are increasingly optimistic about future demand.

- The latest ISM services report points to a clear pickup in demand. Key components such as inventories, backlogs, and new export orders are all in expansion territory, indicating a broad-based surge in activity. At the same time, the prices-paid index has fallen below its 12-month average, signaling that cost pressures, while still elevated, are starting to ease.
- Meanwhile, private payroll data show that healthcare remains the primary driver of job growth, adding 58,000 positions in February. Construction also contributed significantly, with a gain of 19,000 jobs, while the information sector added another 11,000. In contrast, employment across most other sectors either declined slightly or remained largely unchanged from the previous month.

- Despite ongoing economic improvement, business sentiment is being tempered by significant concerns over tariffs and the disruptive potential of AI. The latest ISM report underscores this shift, with anecdotal commentary revealing an intensified focus on cost pressures. On the labor front, the absence of robust job gains points to a prevailing "low hire, low fire" mentality. Crucially, this corporate caution regarding workforce expansion appears to be directly amplified by the rapid iteration and integration of AI technologies.
- Overall, the economy continues to demonstrate resilience and is likely to remain on solid footing barring a major external shock. However, uncertainty surrounding tariffs and AI disruption warrants a cautious stance. We recommend managing risk by maintaining a balanced portfolio that includes diversifying beyond technology into other overlooked large cap sectors poised for growth, while also adding international exposure to hedge against domestic volatility.

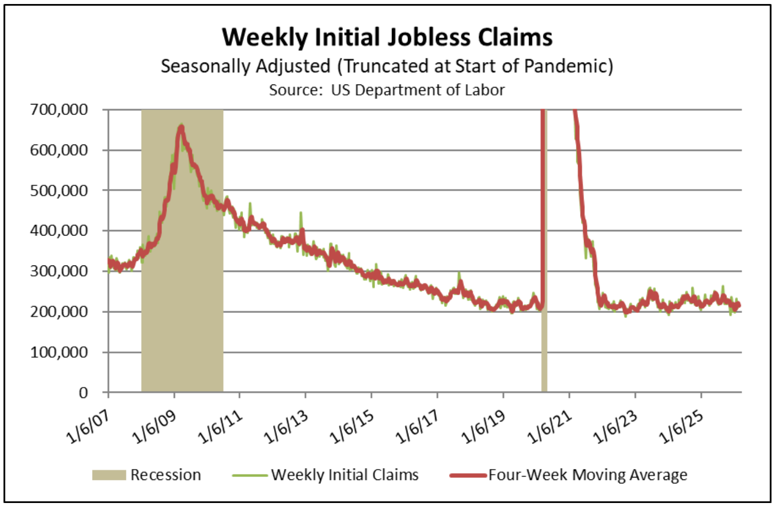
Iran Update: The conflict has now entered its sixth day, and there are still no clear signs of an off-ramp. Iranian officials on Wednesday rejected reports of backchannel talks with the United States and warned that their war efforts will intensify. The White House, however, continues to express confidence that it has degraded Iran's capacity to strike and is moving closer to bringing the conflict to an end. We continue to presume this turmoil will affect commodity markets, with higher oil prices and aluminum prices now also moving up.

Crypto Access: In a landmark move for digital assets, the Federal Reserve has granted its first master account to a cryptocurrency firm. Kraken Financial secured a limited-purpose master account, providing direct access to the Fedwire Funds Service. This integration allows for significantly faster transfers and serves as a pivotal signal that cryptocurrency is maturing into a mainstream fixture of the global financial system.

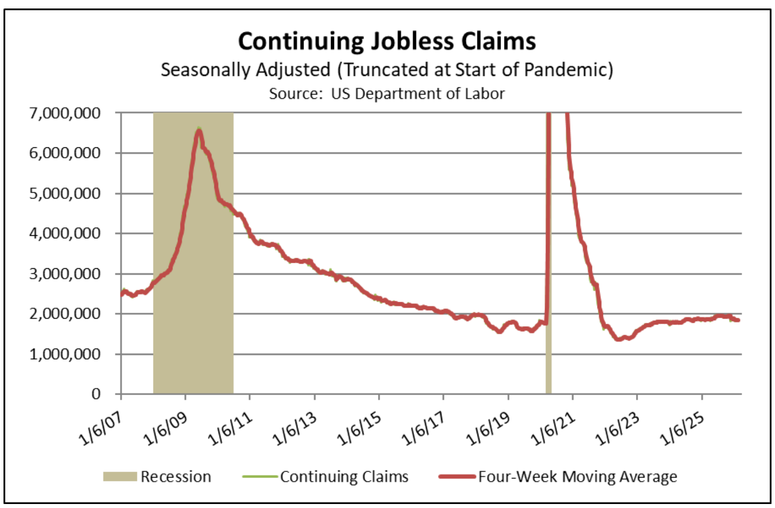
US Shale Constraints: US shale drillers are signaling they may struggle to meet additional supply needs in the wake of the recent Middle East turmoil. Their main concern is that the high cost of new projects could undermine competitiveness at a time when the industry is focused on repaying shareholders. New developments are also expected to take time before coming online, limiting the near-term response. Taken together, constrained US supply suggests a prolonged conflict in the Middle East could keep oil prices elevated.

US Economic Releases

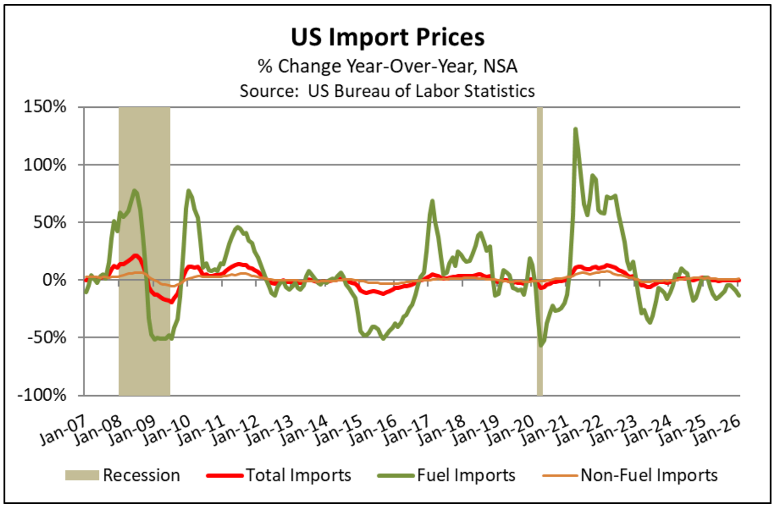
In the week ended February 28, ***initial claims for unemployment benefits*** came in at a seasonally adjusted 213,000, a bit lower than the expected level of 215,000 but equal to the revised figure for the previous week. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, fell to 215,750. The chart below shows how initial jobless claims have fluctuated since just before the Great Financial Crisis (GFC). The chart is truncated through much of the pandemic period because of the extremely high level of claims at that time.



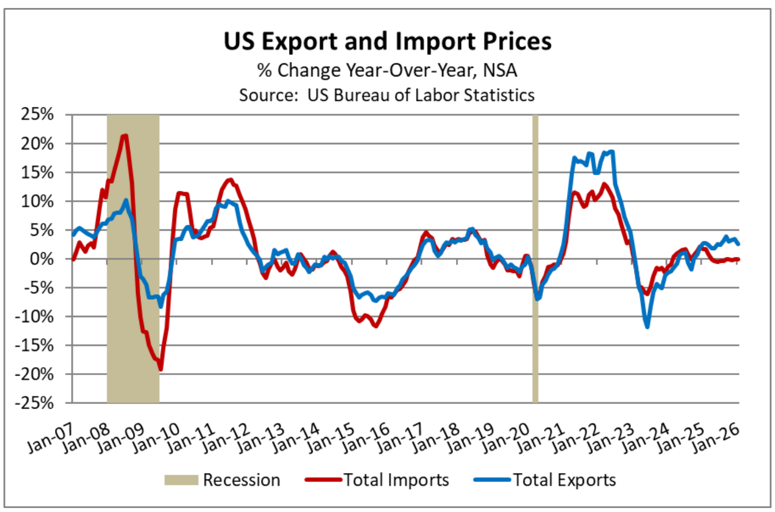
In the week ended February 21, the number of ***continuing claims for unemployment benefits*** (people continuing to draw benefits) rose to a seasonally adjusted 1.868 million, above both the anticipated reading of 1.845 million and the prior week's revised reading of 1.822 million. The four-week moving average of continuing claims rose to 1,851,500. The following chart 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.



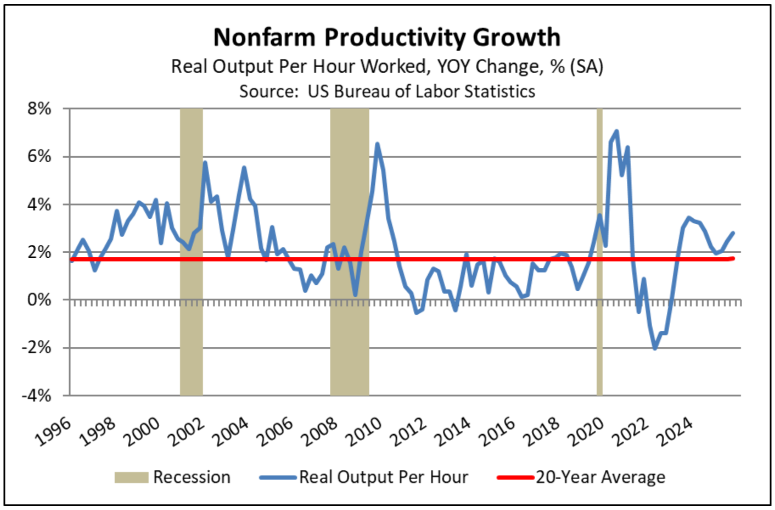
January ***import prices*** were up 0.2% from the previous month, less than the expected increase of 0.3% but equal to the revised rise in December. Of course, import prices are often driven by volatility in the petroleum fuels category. January ***import prices excluding fuels*** were up 0.4%, but that was below expectations that they would rise 0.5% as they did in the prior month. Overall import prices in January were down 0.1% year-over-year, while import prices excluding fuels were up 1.2%. The next chart shows the year-over-year change in import prices since just before the GFC.



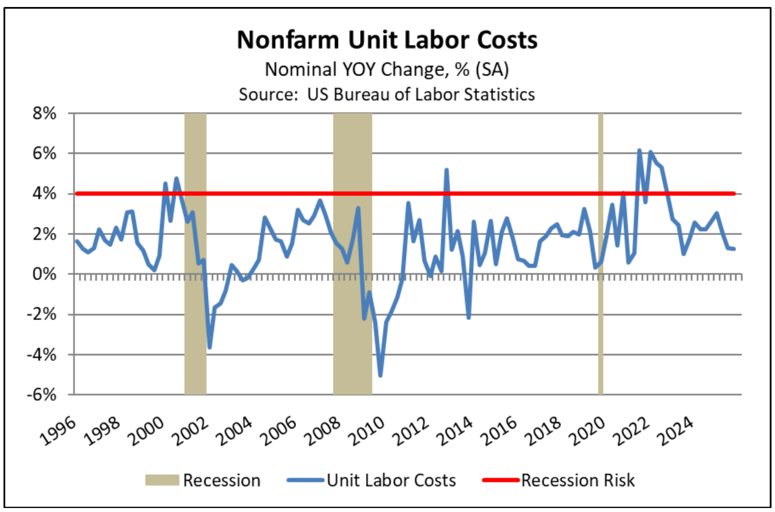
According to the report, ***export prices*** in January were up 2.6% from one year earlier. Comparing the annual change in export prices versus import prices provides a sense of the US "terms of trade," or the relative advantage or disadvantage the country is facing because of trends in international trade prices. The chart below compares the year-over-year change in US export and import prices since just before the GFC.



A final report today focused on the productivity of US workers, defined as the average value of output per hour worked. After stripping out price changes and seasonal fluctuations, fourth quarter ***nonfarm productivity*** rose at a strong annualized rate of 2.8%, far better than the anticipated growth rate of 1.9% but still much more modest than the revised 5.2% rate in the third quarter. Taking into account the fluctuations in each of the last four quarters, productivity in the fourth quarter was also up 2.8% from the same period one year earlier. The next chart shows the year-over-year growth in real productivity over the last quarter-century or so.



Fourth quarter ***unit labor costs*** also rose at an annualized rate of 2.8%, above expectations that they would rise at a rate of just 2.0% and more than enough to erase their revised decline at a rate of 1.8% in the previous period. Unit labor costs in the fourth quarter were up a modest 1.3% year-over-year, far below the 4.0% increase that has often been associated with the start of a recession. The chart below shows the year-over-year growth in unit labor costs since 1996.



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**
13:00	Michelle Bowman in Moderated Discussion	Member of the Board of Governors
19:00	Austan Goolsbee Speaks at Foreign Policy Association	President of the Federal Reserve Bank of Chicago

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	27-Feb	-¥673.1b	-¥1900.8b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	27-Feb	¥100.7b	¥405.2b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	27-Feb	¥1365.1b	¥1882.9b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	27-Feb	¥973.9b	¥399.7b		*	Equity and bond neutral
Australia	Trade Balance	m/m	Jan	A$2631m	A$3373m	A$3900m	***	Equity and bond neutral
	Exports	m/m	Jan	-0.9%	0.9%		*	Equity and bond neutral
	Imports	m/m	Jan	0.8%	-1.8%		*	Equity and bond neutral
South Korea	Foreign Reserves	m/m	Feb	$427.62b	$425.91b		**	Equity and bond neutral
EUROPE								
Eurozone	Retail Sales	y/y	Jan	2.0%	1.8%	1.7%	*	Equity and bond neutral
Germany	HCOB Germany Construction PMI	m/m	Feb	43.7	44.7		*	Equity and bond neutral
France	Industrial Production	y/y	Jan	2.4%	1.6%	2.3%	***	Equity and bond neutral
	Manufacturing Production	y/y	Jan	2.4%	1.6%	2.3%	**	Equity and bond neutral
Italy	Retail Sales	y/y	Jan	2.3%	1.1%		**	Equity and bond neutral
UK	New Car Registrations	y/y	Feb	7.2%	3.4%	--	*	Equity and bond neutral
	S&P Global UK Construction PMI	m/m	Feb	44.5	46.4	47.0	**	Equity and bond neutral
Switzerland	Unemployment Rate	m/m	Feb	3.2%	3.2%	3.2%	**	Equity and bond neutral
Russia	Retail Sales	m/m	Jan	0.70%	3.90%	1.90%	***	Equity bearish, bond bullish
	Unemployment Rate	m/m	Jan	2.2%	2.2%	2.3%	***	Equity and bond neutral
AMERICAS								
Canada	S&P Global Canada Services PMI	m/m	Feb	46.5	45.8		*	Equity and bond neutral
	S&P Global Canada Composite PMI	m/m	Feb	47.1	46.4		*	Equity and bond neutral
Mexico	Gross Fixed Investment NSA	y/y	Dec	0.0%	-6.5%	0.0%	**	Equity and bond neutral
Brazil	National Unemployment Rate	m/m	Jan	5.4%	5.1%	5.4%	*	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)	367	367	0	Down
U.S. Libor/OIS spread (bps)	364	364	0	Down
10-yr T-note (%)	4.13	4.10	0.03	Up
Euribor/OIS spread (bps)	206	204	2	Flat
Currencies	**3 Mo**			
Dollar	Down	US		Flat
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.

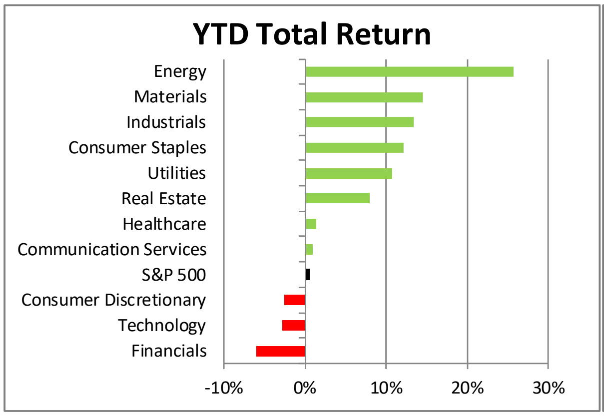
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$83.42	$81.40	2.48%	
WTI	$76.89	$74.66	2.99%	
Natural Gas	$2.95	$2.92	1.06%	
Crack Spread	$44.27	$41.10	7.72%	Middle East Conflict
12-mo strip crack	$31.49	$30.51	3.20%	Middle East Conflict
Ethanol rack	$1.92	$1.92	0.03%	
Metals				
Gold	$5,164.74	$5,140.36	0.47%	
Silver	$84.14	$83.55	0.70%	
Copper Contract	$582.05	$590.75	-1.47%	
Grains				
Corn contract	$445.25	$443.75	0.34%	
Wheat contract	$573.25	$568.25	0.88%	
Soybeans contract	$1,171.75	$1,169.50	0.19%	
Shipping				
Baltic Dry Freight	2,233	2,242	-9	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	3.48	3.00	0.48	
Gasoline (mb)	-1.70	-1.98	0.28	
Distillates (mb)	0.43	-2.36	2.79	
Refinery run rates (%)	0.06%	-0.20%	0.26%	
Natural gas (bcf)		-124		

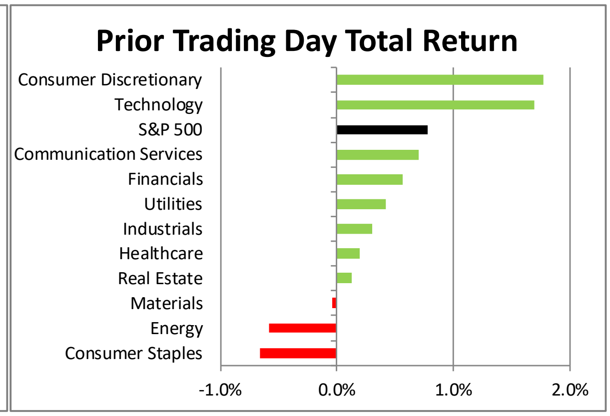
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for cooler-than-normal temperatures in the northern half of the West Coast, the Rocky Mountains, and the Midwest, with warmer-than-normal temperatures in the Southwest, the southern Great Plains, and the Southeast. The outlook calls for wetter-than-normal conditions everywhere except the Southwest, where conditions will be dry.

Data Section

US Equity Markets – (as of 3/4/2026 close)

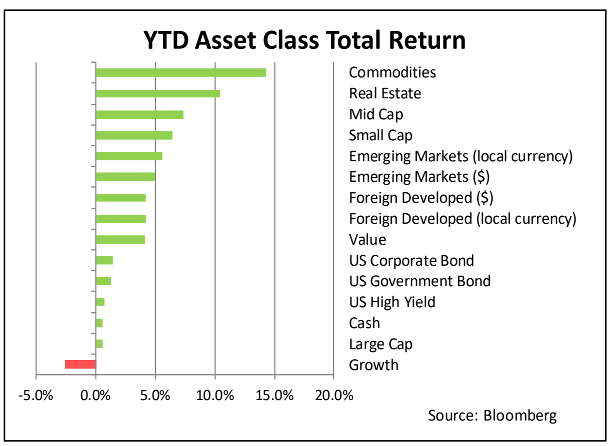




(Source: Bloomberg)

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 3/4/2026 close)

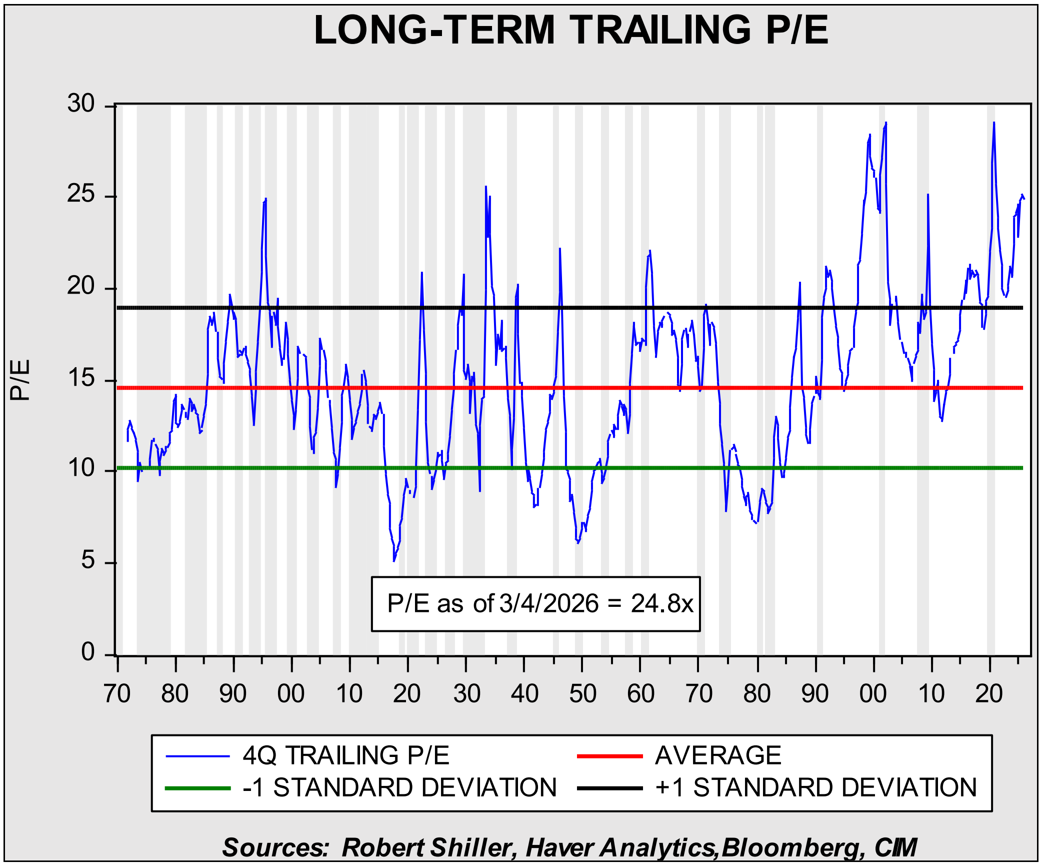


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 5, 2026



Based on our methodology,[1] the current P/E is 24.8x, down 0.1 from the previous report. Last week, the stock price index fell 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.