Daily Comment

Confluence INVESTMENT MANAGEMENT

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[Posted: May 12, 2026 — 9:30 AM ET] Global equity markets are lower this morning. In Europe, the Euro Stoxx 50 is down 0.9% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 1.3%. Chinese markets were lower, with the Shanghai Composite down 0.3% and the Shenzhen Composite down 0.6%. US equity index futures are signaling a lower open.

With 450 companies having reported so far, S&P 500 earnings for Q1 are running at $80.30 per share compared to estimates of $72.32, which is up 12.6% from Q1 2025. Of the companies that have reported thus far, 82.9% exceeded expectations, while 11.6% 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
"Europe's Push to Close the AI Gap" (5/4/26) + podcast (5/11/26)	"The Power of Gold" (5/11/26)	Q2 2026 Report	Keller Quarterly April 2026 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* today opens with an update on the war in Iran, where President Trump appears to be increasingly frustrated that the Iranians are not caving to his demands in negotiations. We next review several other international and US developments that could affect the financial markets today, including an increasing risk that British Prime Minister Starmer will be forced to resign and surprising new data showing that major oil companies are starting to explore for oil again in Alaska.

United States-Iran-UAE: In a television interview yesterday, President Trump said the US ceasefire with Iran was on "life support," which may signal that he is considering a resumption of attacks against Tehran to extract concessions in the ongoing bilateral peace talks. Trump's statement came as both sides reportedly launched limited attacks on each other yesterday.

- We continue to believe that few investors are pricing in the risk of a new price spike for energy and other commodities as global stockpiles dwindle in response to the continued closure of the Strait of Hormuz. Even fewer investors are probably pricing in the risk that frustration with Iran's intransigence in the peace talks could prompt the administration to renew its military campaign against Iran much more aggressively than in the war to date.
- Separately, Trump said he supports the idea of temporarily suspending the US gasoline tax of 18.4 cents per gallon to ease soaring fuel costs for motorists. Lawmakers in Congress are already working on the required legislation. However, along with the cost of prosecuting the war, the move would further boost the US budget deficit and could put additional upward pressure on bond yields.
- In another important development, reports say the United Arab Emirates has secretly been launching military attacks on Iran, including a strike on its Lavan oil refinery in the Persian Gulf, to retaliate for Tehran's large-scale attacks on the UAE. The development provides further evidence that the war could still draw in other nations in the region.

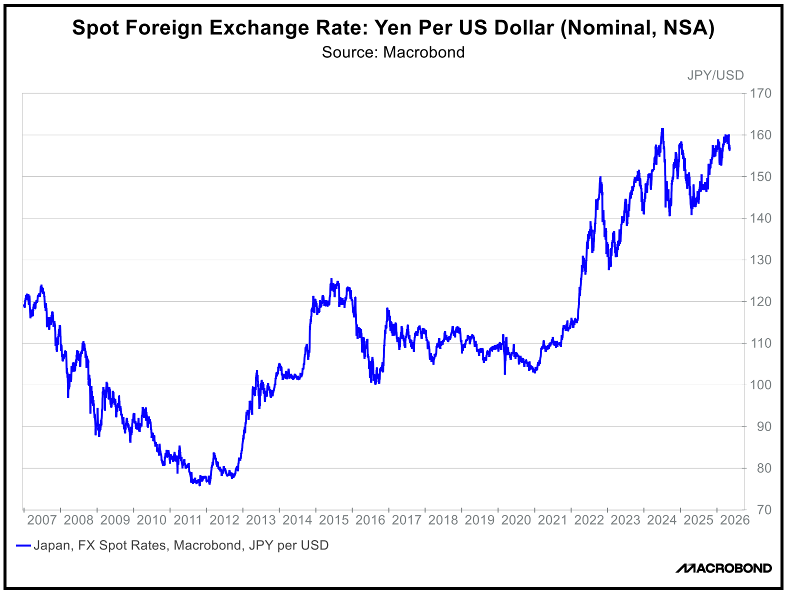
Germany: New polling shows that support for the far-right Alternative for Germany (AfD) has jumped to 27% since the party began criticizing President Trump for his war against Iran. That means the AfD's support is now stronger than that of the ruling Christian Democratic Party. The news also shows how Europe's far-right parties are rebuilding support not only by criticizing their national governments and advocating for better economic policies, but also by distancing themselves from the current US administration.

United Kingdom: As we flagged in our *Comment* yesterday, Prime Minister Starmer tried to rebuild his political support on Monday with a major speech calling for more leftist policies. However, the effort fell flat. More than 80 lawmakers from his own Labour Party have now publicly urged Starmer to set a timetable for his departure, and government ministers have begun to resign. Still, Starmer is refusing to step down.

- Amid the political instability, the yield on the UK's 10-year government bonds has topped 5.10%, reaching its highest level since 2008. In addition, the pound today has depreciated by about 0.6% to just $1.35. The FTSE 100 stock price index is now down approximately 6.3% from its most recent peak in late February.
- The market reaction suggests investors are becoming more concerned that the political situation will undermine British fiscal discipline and preclude economic reforms needed to reignite economic growth.

Philippines: In a chaotic day of politics yesterday, the lower house of the legislature voted to impeach Vice President Sara Duterte for plotting to assassinate President Marcos, among other charges. However, sensing where the vote was going, Duterte's party used a parliamentary procedure to seize control of the upper chamber, likely meaning that Duterte will be acquitted or have her trial delayed. The developments underscore the deep political fractures in Manila, which are also hindering needed economic reforms and discouraging investors.

United States-Japan: After a meeting today between US Treasury Secretary Bessent and Japanese Finance Minister Katayama, the Japanese side claimed Bessent had given them his "full understanding" regarding the weak yen. The statement suggests the US administration is satisfied with Tokyo's recent currency market interventions to keep the yen from weakening further and will not take more aggressive measures to force Japan to boost the yen.



US Politics: After three straight losses in court regarding their redistricting efforts, as we discussed in our *Comment* yesterday, Democrats have begun mulling new redistricting efforts to pick up additional House seats in states such as New York, Maryland, and Colorado. Of course, it's getting very close to the November mid-term elections, so it's not clear that the effort would tip the redistricting battle in the Democrats' favor, especially since the Republicans can also launch new efforts to squeeze more seats out of other states.

US Monetary Policy: With the success of procedural voting in recent days, a final Senate vote to confirm Kevin Warsh as the new chair of the Federal Reserve could come as early as Wednesday, setting the stage for Warsh to take over the central bank as soon as Chair Powell's term ends on Friday. However, as noted in a useful *Financial Times* article today, Warsh is likely to face a fractured policy committee and will need to manage a tough balancing act to cap consumer price inflation while also supporting the economic growth that the White House wants.

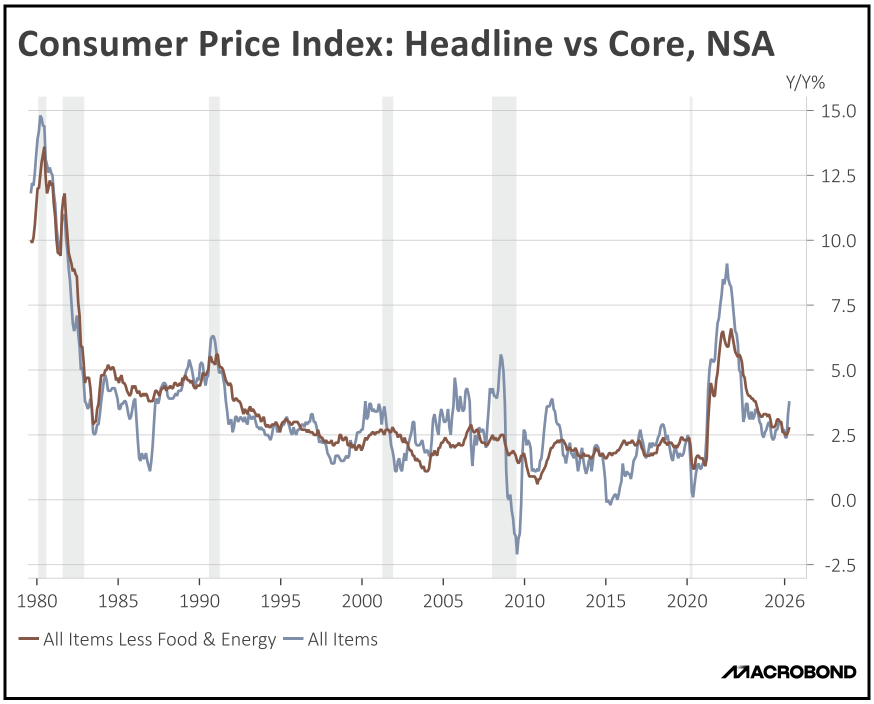
US Energy Industry: In a little-noticed development amid the war in Iran and the continuing productivity of the US shale fields, new reports say ExxonMobil, Shell, Repsol, and other major oil producers bid a record $163 million in March to secure drilling leases in Alaska's National Petroleum Reserve. In addition, ConocoPhillips and Australia's Santos bid on leases covering more than one million acres on Alaska's North Slope.

- The reports suggest that major oil companies have begun exploring in Alaska again to replenish reserves, diversify their portfolios, and capitalize on the US administration's greater support for fossil-fuel development.

- While it is costly to produce oil in Alaska, the investments could end up being lucrative if discoveries are made and global oil prices remain high.

US Economic Releases

The April ***consumer price index (CPI)*** rose by a seasonally adjusted 0.6%, matching expectations and decelerating from its 0.9% rise in March. As might be expected because of the impacts from the conflict in the Middle East, most of the increase in April came from the volatile food and energy components. The April ***"core" CPI*** rose just 0.4%, more than its anticipated rise of 0.3% and March increase of 0.2%. The overall CPI in April was up 3.8% from the same month one year earlier, while the core CPI was up 2.8%. The chart below shows the year-over-year change in the CPI and the core CPI since 1980.



The table below lists the economic releases and Fed events scheduled for the rest of the day.

Economic Releases						
EST	Indicator			Expected	Prior	Rating
14:00	Federal Budget Balance	m/m	Apr	$220.0b	-$164.1b	**

Federal Reserve		
EST	Speaker or Event	District or Position
3:15	John Williams Speaks on Monetary Policy Panel	President of the Federal Reserve Bank of New York
9:10	Austan Goolsbee Radio Appearance on NPR	President of the Federal Reserve Bank of Chicago
11:00	NY Fed Quarterly Report on Household Debt and Credit	Federal Reserve Board
13:00	Austan Goolsbee Speaks at Greater Rokford Chamber of Commerce	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	Household Spending	y/y	Mar	-2.9%	-1.8%	-1.3%	**	Equity bearish, bond bullish
	Coincident Index	y/y	Mar	116.5	116.2	116.6	**	Equity and bond neutral
	Leading Economic Index	m/m	Mar	114.5	113.2	114.5	**	Equity and bond neutral
Australia	NAB Business Confidence	m/m	Apr	-24	-29		***	Equity and bond neutral
	NAB Business Conditions	m/m	Apr	3	6		***	Equity and bond neutral
India	CPI	y/y	Apr		3.40%	3.78%	***	Equity and bond neutral
EUROPE								
Eurozone	ZEW Survey Expectations	m/m	May	-9.1	-20.4		**	Equity and bond neutral
Germany	CPI	y/y	Apr F	2.9%	2.9%	2.9%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Apr F	2.9%	2.9%	2.9%	**	Equity and bond neutral
	ZEW Survey Expectations	m/m	May	-10.2	-17.2	-19.5	**	Equity bullish, bond bearish
	ZEW Survey Current Situation	m/m	May	-77.8	-73.7	-78.0	**	Equity and bond neutral
Italy	Industrial Production WDA	y/y	Mar	1.5%	0.4%	0.3%	***	Equity bullish, bond bearish
Switzerland	Producer & Import Prices	y/y	Apr	-2.0%	-2.7%		**	Equity and bond neutral
AMERICAS								
Mexico	Industrial Production	y/y	Mar	-1.3%	-1.3%	-1.3%	***	Equity and bond neutral
	Manufacturing Production	y/y	Mar	-1.0%	-2.2%	-1.0%	*	Equity and bond neutral
Brazil	IBGE Inflation IPCA	y/y	Apr	4.39%	4.14%	4.40%	***	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)	365	365	0	Flat
U.S. Libor/OIS spread (bps)	365	364	1	Up
10-yr T-note (%)	4.43	4.41	0.02	Up
Euribor/OIS spread (bps)	225	223	2	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.

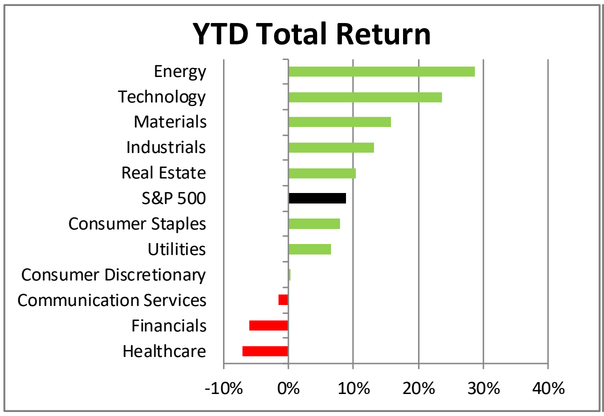
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$107.44	$104.21	3.10%	
WTI	$101.34	$98.07	3.33%	
Natural Gas	$2.91	$2.91	-0.07%	
Crack Spread	$58.81	$58.14	1.14%	
12-mo strip crack	$43.71	$42.92	1.82%	
Ethanol rack	$2.16	$2.16	-0.04%	
Metals				
Gold	$4,700.21	$4,736.17	-0.76%	
Silver	$83.63	$86.06	-2.82%	
Copper Contract	$647.50	$646.05	0.22%	
Grains				
Corn contract	$477.00	$475.25	0.37%	
Wheat contract	$646.25	$634.00	1.93%	
Soybeans contract	$1,215.75	$1,213.00	0.23%	
Shipping				
Baltic Dry Freight	3,001	2,978	23	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		-3.42		
Gasoline (mb)		-2.61		
Distillates (mb)		-2.26		
Refinery run rates (%)		1.11%		
Natural gas (bcf)		72		

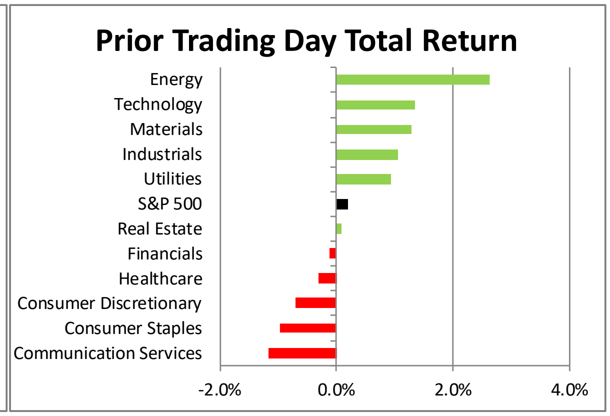
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for almost the entire country, with cooler temperatures in the northern Rockies. The precipitation outlook calls for wetter-than-normal conditions for most states west of the Mid-Atlantic region, with dry conditions in the northern Pacific and Mid-Atlantic states.

Data Section

US Equity Markets – (as of 5/11/2026 close)

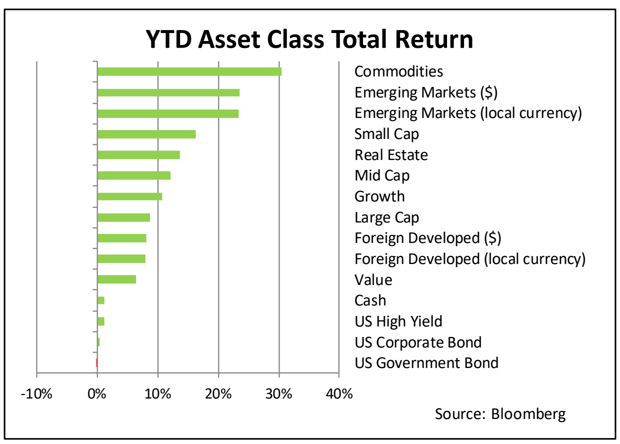




(Source: Bloomberg)

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 5/11/2026 close)

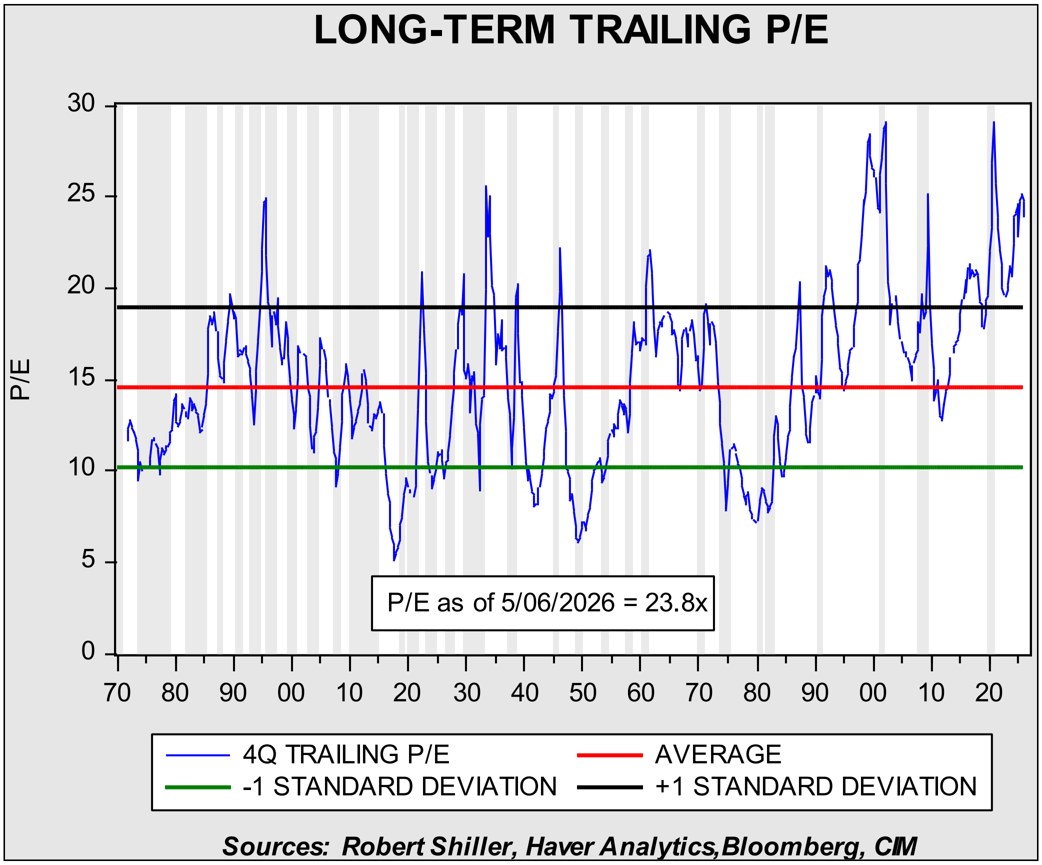


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

May 7, 2026



Based on our methodology,[1] the current P/E is 23.8x, down 0.6 from the previous report. Last week, the increase in earnings outpaced the rise in the stock price index.

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.