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**[Posted: May 13, 2026 — 9:30 AM ET]** Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 is up 0.4% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.7%. Chinese markets were higher, with the Shanghai Composite up 0.7% and the Shenzhen Composite up 1.6%. US equity index futures are signaling a higher open.

With 454 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, 82.6% exceeded expectations, while 11.9% fell short of expectations.

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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
<a href="#">“Europe’s Push to Close the AI Gap”</a> (5/4/26) + <a href="#">podcast</a> (5/11/26)	<a href="#">“The Power of Gold”</a> (5/11/26)	<a href="#">Q2 2026 Report</a>	<a href="#">Keller Quarterly</a> April 2026 <a href="#">Confluence Mailbag</a>

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Our *Comment* opens with our assessment of the latest CPI report and its implications for Fed policy. We then turn to AI, focusing on mounting concerns over the cybersecurity risks associated with these tools. Next, we briefly address Jamie Dimon’s call for closer US-EU ties, the delegation of business leaders accompanying the Trump administration on its trip to China, and a potential leadership challenge in the UK. As always, we conclude with an overview of recent domestic and international economic data.

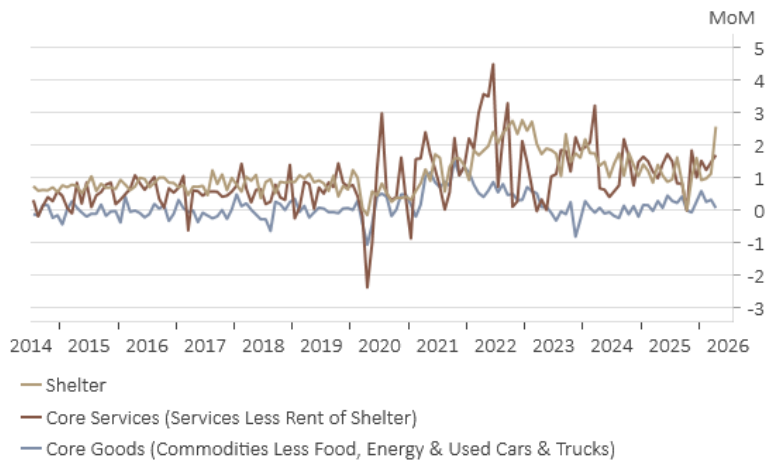
**CPI Inflation:** The April CPI report suggests that the war in Iran is now feeding directly into household costs, making it harder for the Federal Reserve to justify rate cuts this year. [Headline inflation rose 3.8% year-over-year in April](#), the highest reading since 2023, while core CPI

increased 2.8%, signaling that price pressures are no longer confined to energy alone. That rebound in inflation weakens the case for looser monetary policy and adds to the challenge facing a more divided Fed.

- While inflation did rise, the pickup still appears relatively narrow, particularly on the goods side. Although fuel oil prices eased from the prior month, they remained elevated, rising 5.8% in April after a 30.7% jump in March. Excluding the more volatile categories of food and energy, commodity prices were little changed, while services inflation was concentrated in higher shelter costs, with most other services categories remaining relatively contained.

## Shelter Costs Were the Primary Driver of Core CPI

Source: Bureau of Labor Statistics



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- The recent increase in inflation is likely to complicate efforts by incoming Fed Chair Kevin Warsh to justify rate cuts. While he has repeatedly emphasized his commitment to the Fed’s price-stability mandate, he has also questioned the wisdom of maintaining restrictive policy in the face of supply-driven inflation. In addition, he has argued that monetary policy should support the development of AI, where appropriate, given its potential to lower inflation over time by boosting productivity.
- Warsh’s position is likely to widen divisions within the FOMC, where many officials remain wary of recalibrating policy in response to supply-side shocks. Several policymakers have recently argued that the Fed should abandon any residual easing bias, while some stress that rate hikes can no longer be ruled out. More broadly, those concerns have pushed much of the committee away from its earlier tilt to cuts and toward a more neutral stance that keeps all policy options open.
- The rise in inflation is likely to spur more intense debate among Fed officials over the appropriate policy path. While Warsh appears to welcome this confrontation, inviting colleagues to make their case for where rates should be set, markets may be less

receptive, given expectations that he will be less transparent than his predecessor. In our view, the [combination of higher inflation and greater internal disagreement over Fed policy](#) could lead to increased volatility in the bond market, especially for longer-duration Treasuries.

**AI Risks:** Fears over the cybersecurity risks posed by AI tools are mounting as lawmakers and companies confront the broader economic implications. [Anthropic is set to brief the House Committee on Homeland Security](#) on the dangers linked to its latest model, Mythos, which has reportedly exposed security flaws and breached cybersecurity systems. Growing scrutiny of Mythos is prompting Washington to reconsider both its regulatory approach and its foreign policy, given the likelihood that advanced AI tools will play a central role in future cyberwarfare.

- The closed-door meeting is scheduled for Wednesday and is expected to focus on national security risks, as well as potential safeguards. This marks the [second time in two weeks that Anthropic has been called to testify before Congress](#), underscoring the growing urgency among lawmakers to contain emerging AI-related risks. Adding to these concerns, Alphabet noted this week that hackers may have already begun developing their own AI tools to enhance the sophistication and scale of cyberattacks.
- The [White House is also planning talks with China to address AI safety risks](#) as both countries race to develop advanced capabilities. Officials say the discussions will aim to manage competition and lower the risk that AI technologies could be weaponized against either side. The goal is to establish open channels of communication to reduce the chance of miscalculation or retaliation if AI systems are used to cause harm.
- Concerns about AI safety and distrust over how rival states might use these tools have highlighted the risk that lawmakers could move to slow adoption. Although no laws have been passed yet, the rising number of hearings suggests legislators may consider measures to limit AI systems that pose national security threats. Companies developing these models could also face pressure to restrict sales and access to prevent state actors from acquiring tools that might be used to harm the country.
- While the tech sector still has significant momentum, we continue to advise investors to maintain a more balanced portfolio. The potential safety risks of AI could lead to increased regulatory scrutiny, which may weigh on the earnings of companies that are already trading at high valuations. We continue to favor some exposure to value stocks, as these companies should be able to outperform growth stocks when doubts emerge around technology.

**Jamie's EU Push:** [JP Morgan CEO Jamie Dimon has called for the US to forge closer ties with the EU](#). In a recent interview with Bloomberg, he argued that Washington and Brussels should resolve their disputes in ways that leave both sides stronger. His remarks reflect a broader view that the EU needs to modernize its regulatory framework to create a more supportive business environment. We suspect this perspective is part of a wider trend among global investors who are positioning their portfolios to increase exposure to Europe if US-EU relations improve.

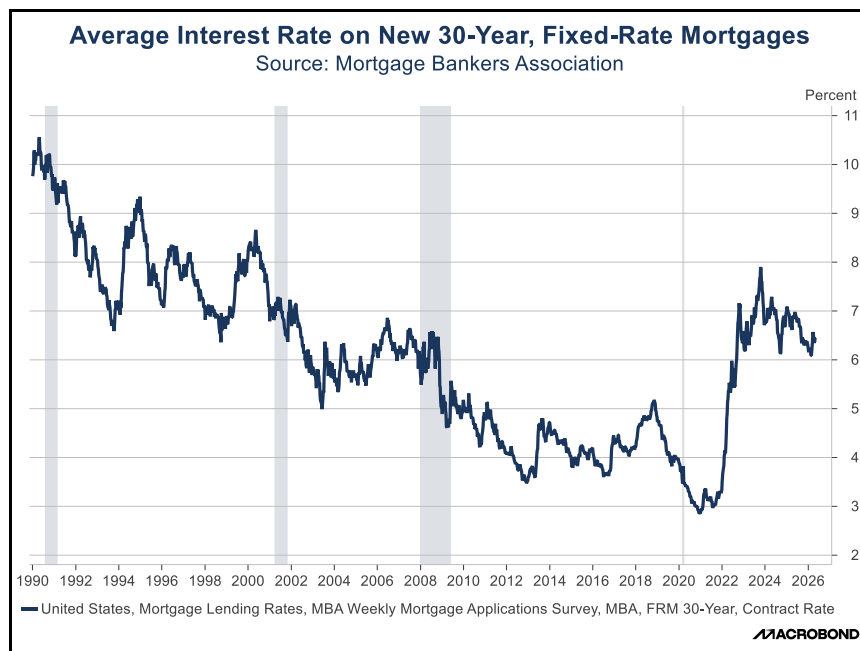
**White House and Friends:** [Several prominent business leaders are traveling with the Trump administration](#) to take part in talks between the world's two largest economies. The discussions

are expected to cover not only trade, but also the countries’ deepening technology ties as they work to resolve ongoing disputes. Nvidia’s Jensen Huang, Apple’s Tim Cook, and Tesla’s Elon Musk will join the delegation as they seek to help both sides reach an agreement that avoids any broad disruption to global supply chains.

**Labour Party Challenge:** Following a poor showing in last week’s local elections, [Prime Minister Keir Starmer appears to be bracing for a potential leadership challenge](#). Health Secretary Wes Streeting is reportedly sounding out colleagues to see if he can secure the backing needed to trigger a confidence vote. At this stage, he is believed to have support from around 40 MPs, well short of the 81 required to initiate the process, but a successful challenge could draw in additional contenders and pave the way for yet another change in UK leadership.

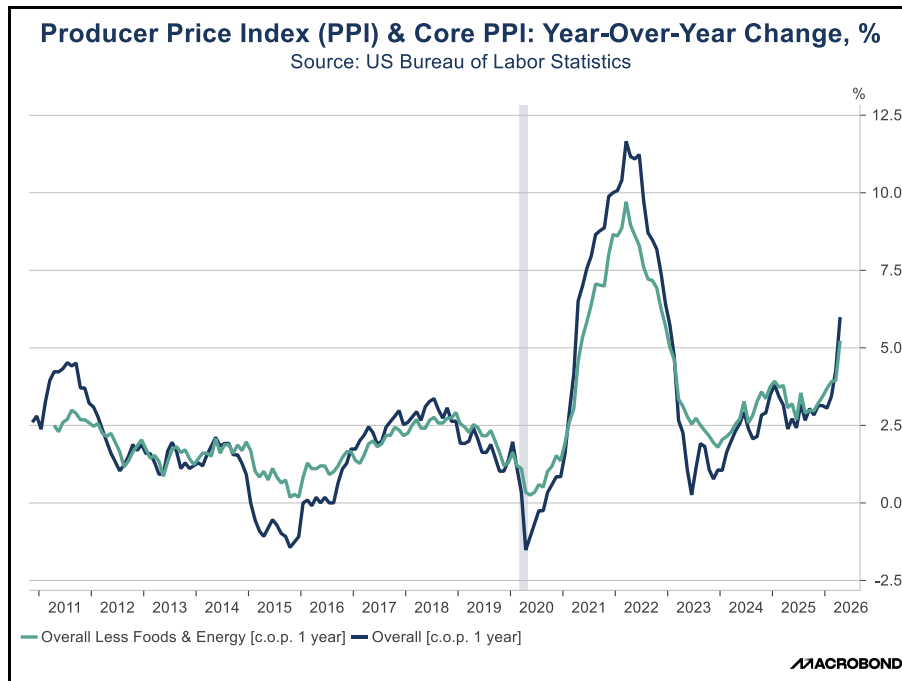
## US Economic Releases

The Mortgage Bankers Association said *mortgage applications* in the week ended May 8 rose 1.7%, partially reversing their 4.4% decline in the previous week. Applications for home purchase mortgages rose 3.9%, fully reversing their 3.7% pullback in the prior week. Applications for refinancing mortgages edged down 0.8%, after a 5.0% drop the week before. The average interest rate on a 30-year, fixed-rate mortgage rose 1 basis point to 6.46%. The chart below shows how mortgage rates have changed over time.



Separately, the April *producer price index (PPI)* jumped by a seasonally adjusted 1.4%, nearly three times the expected increase of 0.4% and two times the revised March increase of 0.7%. Excluding the volatile food and energy components, the April “*core*” PPI rose 1.0%, versus an anticipated rise of 0.3% and a revised March increase of 0.2%. The overall PPI in April was up

6.0% from the same month one year earlier, while the core PPI was up 5.2%. The chart below shows the year-over-year change in the PPI and the core PPI since 2011.



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		
No Fed speakers or events for the rest of today		
EST	Speaker or Event	District or Position
11:30	Susan Collins Speaks on US Economy	President of the Federal Reserve Bank of Boston
13:15	Neel Kashkari in Moderated Discussion	President of the Federal Reserve Bank of Minneapolis
19:00	Lorie Logan in Moderated Conversation	President of the Federal Reserve Bank of Dallas

### 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
<b>ASIA-PACIFIC</b>								
Japan	BoP Current Account Balance	m/m	Mar	¥4681.5b	¥3932.7b	¥3896.1b	***	Equity and bond neutral
	BoP Trade Balance	m/m	Mar	¥830.5b	¥267.6b	¥783.5b	**	Equity and bond neutral
Australia	Wage Price Index	m/m	1Q	3.30%	3.40%	3.30%	***	Equity and bond neutral
New Zealand	2-Year Inflation Expectations	q/q	2Q	2.53%	2.37%		**	Equity and bond neutral
<b>EUROPE</b>								
Eurozone	GDP	y/y	Q1 S	0.8%	0.8%	0.8%	***	Equity and bond neutral
	Industrial Production WDA	y/y	Mar	-2.1%	-0.8%	-1.7%	**	Equity bearish, bond bullish
	Employment	y/y	Q1 P	0.5%	0.7%		*	Equity and bond neutral
Germany	Wholesale Price Index	y/y	Apr	6.3	4.1		*	Equity and bond neutral
France	ILO Unemployment Rate	q/q	Q1	8.1%	7.9%	7.8%	*	Equity and bond neutral
	CPI, EU Harmonized	y/y	Apr F	2.5%	2.5%	2.5%	**	Equity and bond neutral
	CPI	y/y	Apr F	2.2%	2.2%	2.2%	***	Equity and bond neutral
	CPI Ex-Tobacco Index	q/q	Mar	102.2%	101.2%	102.2%	*	Equity and bond neutral
<b>AMERICAS</b>								
Mexico	International Reserves Weekly	w/w	8-May	\$257030m	\$256264m		*	Equity and bond neutral
Brazil	Retail Sales	y/y	Mar	4.0%	0.4%	2.8%	***	Equity bullish, bond bearish

## 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)	360	361	-1	Up
U.S. Sibor/OIS spread (bps)	365	365	0	Flat
U.S. Libor/OIS spread (bps)	364	364	0	Up
10-yr T-note (%)	4.46	4.47	-0.01	Up
Euribor/OIS spread (bps)	225	225	0	Up
<b>Currencies</b>				
	<b>3 Mo</b>			
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.

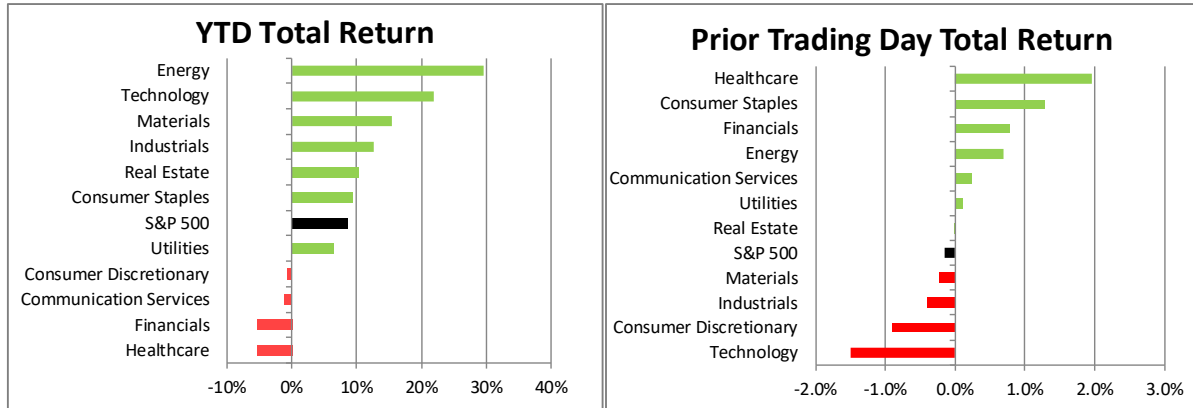
	Price	Prior	Change	Explanation
<b>Energy Markets</b>				
Brent	\$107.61	\$107.77	-0.15%	
WTI	\$101.76	\$102.18	-0.41%	
Natural Gas	\$2.83	\$2.84	-0.49%	
Crack Spread	\$59.11	\$59.58	-0.78%	
12-mo strip crack	\$44.56	\$45.38	-1.80%	
Ethanol rack	\$2.18	\$2.17	0.34%	
<b>Metals</b>				
Gold	\$4,704.00	\$4,715.13	-0.24%	
Silver	\$87.45	\$86.46	1.15%	
Copper Contract	\$665.80	\$653.10	1.94%	
<b>Grains</b>				
Corn contract	\$480.75	\$480.00	0.16%	
Wheat contract	\$681.00	\$679.00	0.29%	
Soybeans contract	\$1,229.00	\$1,226.75	0.18%	
<b>Shipping</b>				
Baltic Dry Freight	3,063	3,001	62	
<b>DOE Inventory Report</b>				
	<b>Actual</b>	<b>Expected</b>	<b>Difference</b>	
Crude (mb)		-2.45		
Gasoline (mb)		-3.05		
Distillates (mb)		-2.73		
Refinery run rates (%)		0.60%		
Natural gas (bcf)		91		

## Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures everywhere except the northern parts of Washington, Idaho, Montana, North Dakota, and Minnesota, where temps will be near normal. The outlook calls for wetter-than-normal conditions from the Great Plains to the East Coast, with dry conditions in the Pacific Northwest.

## Data Section

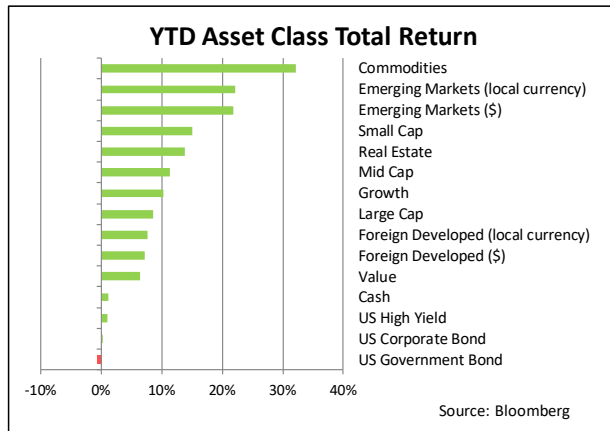
### US Equity Markets – (as of 5/12/2026 close)



(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 5/12/2026 close)

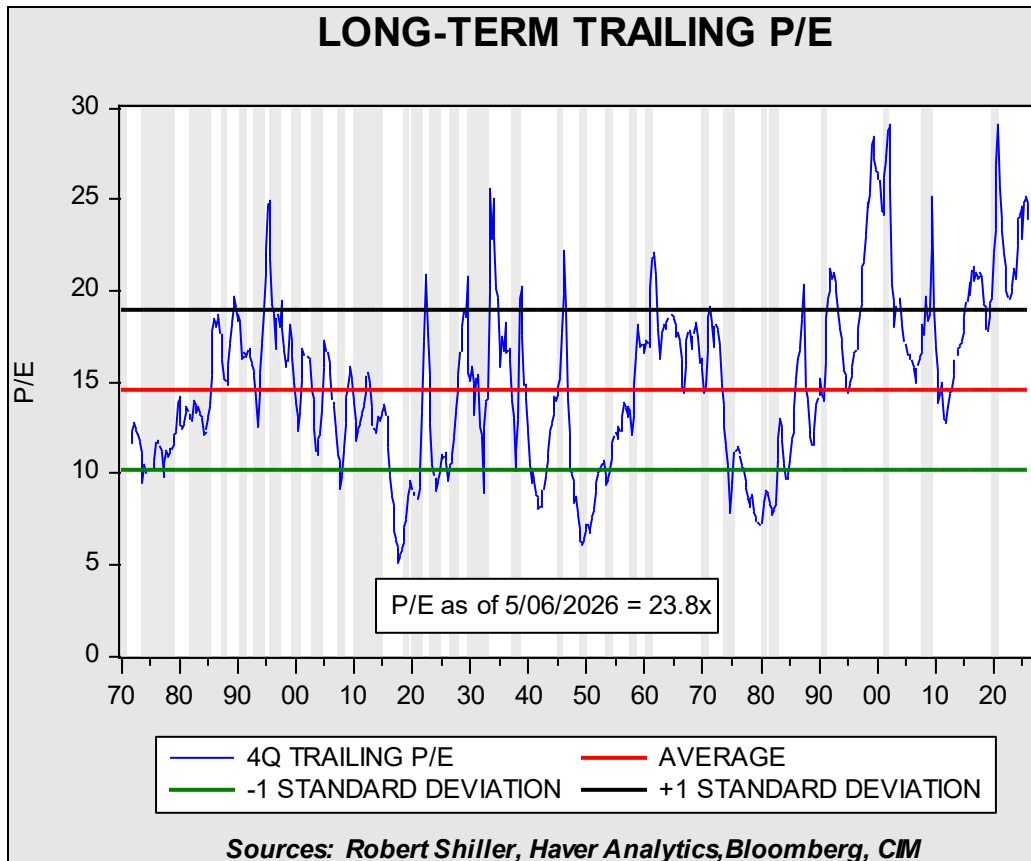


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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,<sup>1</sup> 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.*

<sup>1</sup> 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.