



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

**[Posted: May 14, 2026 — 9:30 AM ET]** Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 1.0% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 1.2%. Chinese markets were lower, with the Shanghai Composite down 1.5% and the Shenzhen Composite down 2.1%. 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="#">Chart Worth Noting</a> <a href="#">Confluence Mailbag</a>

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Our *Comment* opens with our takeaways from the first day of US-China trade talks. We then turn to fixed income and examine the drivers behind the 30-year Treasury yield’s move to 5%. Next, we briefly cover Federal Reserve Chair Warsh’s confirmation, the latest signs of rising US-Iran tensions, and the emerging controversy surrounding Brazil’s right-wing candidate Flávio Bolsonaro. As always, we include an overview of recent domestic and international economic data.

**The China Trip:** The Trump administration arrived in China for a two-day summit on Thursday. The White House [is aiming to reset the US-China trade relationship](#), a central source of friction between the two countries in recent years. Ahead of the talks, President Trump has

reiterated his push to expand US access to Chinese markets. Meanwhile, Beijing has outlined four red lines for talks, including its position on Taiwan. As the world's two largest economies convene, the outcome of these discussions is poised to be a major catalyst for markets.

- Following a two-hour meeting, early discussions between the two sides appear to have been focused on energy and Iran. According to a US readout, officials specifically raised the prospect of [China increasing purchases of US energy as part of a broader effort to diversify away from Middle Eastern supply](#). Both sides also emphasized the importance of keeping the Strait of Hormuz open to commercial traffic, underscoring the shared interest in maintaining stability in the waterway.
- Ahead of the talks, [Beijing outlined four red lines for the US](#), which were Taiwan, democracy and human rights, political systems and governance, and China's right to development. While it remains uncertain how US officials will navigate these constraints, President Trump acknowledged that the Taiwan issue could surface during discussions. However, he downplayed its importance to the US, suggesting it is a higher priority for China than for Washington.
- Markets are closely watching these talks, as much of the recent rally has been driven by optimism that trade ties, particularly in technology, could be reinforced. The Nasdaq has significantly outperformed the S&P 500, supported by expectations that the US may secure greater access to critical Chinese minerals, bolstering confidence in the durability of the AI cycle. Semiconductor stocks have also rallied on hopes that export restrictions could ease, potentially allowing US chipmakers to expand sales into China.
- The recent market rally is likely to continue as long as investors see meaningful progress in the talks. However, any sign of stalled momentum could quickly reverse market direction. While we view continued progress as the more probable scenario, a wrong call could trigger a swift market reaction. Against that backdrop, we still advocate for maintaining exposure to value for capital preservation should sentiment deteriorate abruptly.

**Bond Retreat:** The [30-year Treasury yield climbed to about 5%](#), its highest level since 2007, driven by rising inflation expectations and a Treasury auction that tailed amid weak demand. We think the rise is largely due to market rotation. Rather than moving into safe haven bonds, many [investors shifted toward large cap technology stocks as an alternative duration play](#). The move is reminiscent of what the market did in 2023 and 2024 and reflects the market's growing concern about a possible shift in Fed policy due to a re-acceleration of inflation.

- Rising long-duration bond yields appear to be a response to mounting inflation fears, with investors demanding higher compensation to hold government debt. Recent producer [price data showed input costs accelerating at their fastest pace in roughly three years](#), reinforcing the view that inflationary pressures are re-emerging. Much of this pickup has been linked to the war in Iran, which has driven a sharp increase in energy prices and pushed up related costs in transportation and warehousing.
- Investor wariness toward US long-duration debt was evident in Wednesday's Treasury auction. The [30-year bond drew a relatively soft bid, clearing at a high yield of 5.046%](#), only modestly above the when-issued level of 5.041%. This marked the third

underwhelming sale of the week, following lukewarm demand for both the 3-year and 10-year notes, reinforcing signs that investors are increasingly shunning US fixed income in favor of alternative assets.

- Investor concerns about inflation have pushed money back into leading technology names, as investors seek relative safety in companies with strong earnings track records. The sector also got a lift on Wednesday amid reports that the [Trump administration has invited major US tech leaders to join talks](#) with China on a potential “grand bargain,” aimed at preserving these firms’ access to both markets even as the two economies gradually pull back from one another.
- The recent rotation out of fixed income and into equities appears to be driven by investors seeking protection from tighter Fed policy. However, this positioning may prove short-lived if rate expectations moderate. Any signs of a potential rate cut could prompt investors to broaden their exposure toward lesser-known names, as a return of easier Fed policy would encourage risk-taking. In this context, we continue to favor value as a longer-term allocation, particularly as a hedge against lingering AI-related risks.

**New Fed Chair:** [Kevin Warsh was confirmed to lead the Federal Reserve on Friday](#), securing the position with a 54-45 Senate vote — a relatively narrow margin for such a role. His confirmation likely means Jerome Powell will now serve as a Fed governor, a shift that could unsettle bond investors who fear the central bank may become less independent. We expect Warsh's appointment to bring some volatility to bond markets as investors assess how he will handle rising inflation amid White House pressure for lower interest rates.

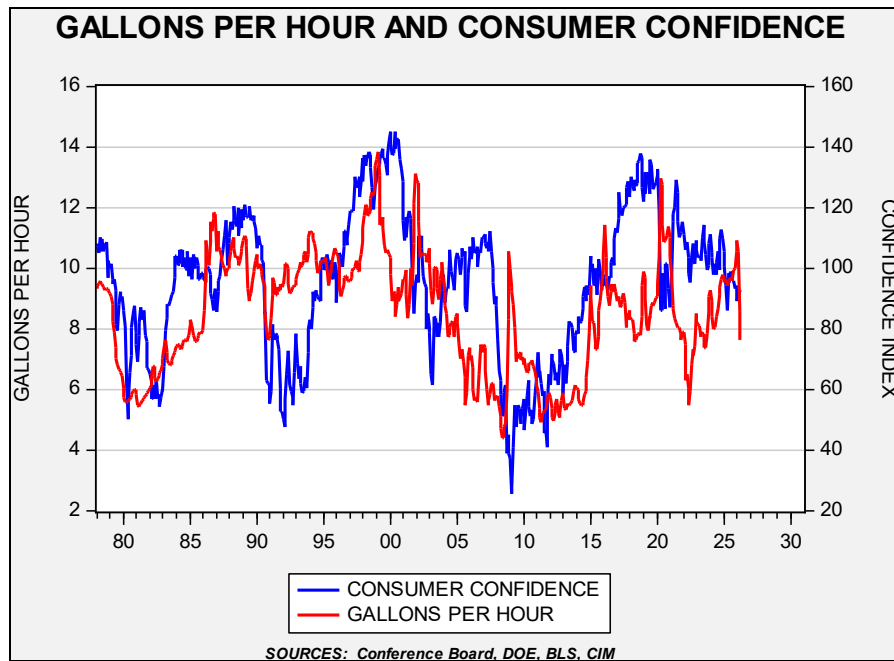
**Fragile Ceasefire:** Tensions between the US and Iran escalated on Wednesday after a [commercial vessel was seized near the United Arab Emirates](#). The unidentified ship now appears to be heading toward Iran, underscoring the persistent challenges with shipping through the Strait of Hormuz, which is at the heart of the global energy crunch. Rising friction between Washington and Tehran is likely to put renewed upward pressure on oil prices as investors grow more concerned about future supply and a possible return to fighting.

**Brazil Elections:** Right-wing candidate [Flávio Bolsonaro has been linked to disgraced banker Daniel Vorcaro](#) — a connection that has raised fresh doubts about his prospects in the upcoming election. Vorcaro is currently jailed for his role in bank fraud, and although Bolsonaro has denied any wrongdoing, saying their relationship stemmed from discussions about financing a film about his father, the association is still seen as politically damaging. In the wake of the report, the Brazilian real weakened as investors reassessed the political risk backdrop.

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## Chart Worth Noting

News reports of high gasoline prices are becoming ubiquitous. However, it’s important to note that these prices require context. Our preferred method of scaling is to compare regular gasoline prices to the hourly wage of non-supervisory workers.

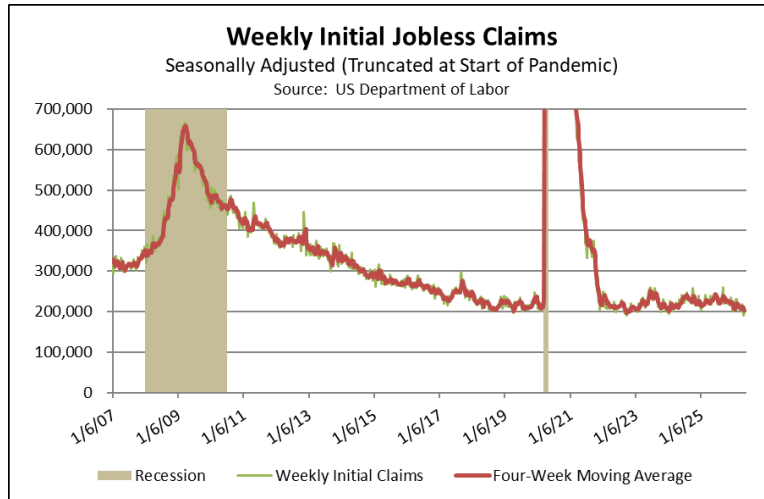


We divide the gasoline price into the hourly wage to see how many gallons of gasoline the typical worker can purchase by working an hour. In April, the typical worker could purchase 7.6 gallons. Note that this number is not unusually low; the average since 1973 is 8.5 gallons, and the current reading is well above the lowest reading of 4.4 gallons recorded in June 2008. On this chart, we have overlaid the Conference Board’s Consumer Confidence Survey. Although the fit isn’t perfect, the two series tend to move together over time in a positive correlation.

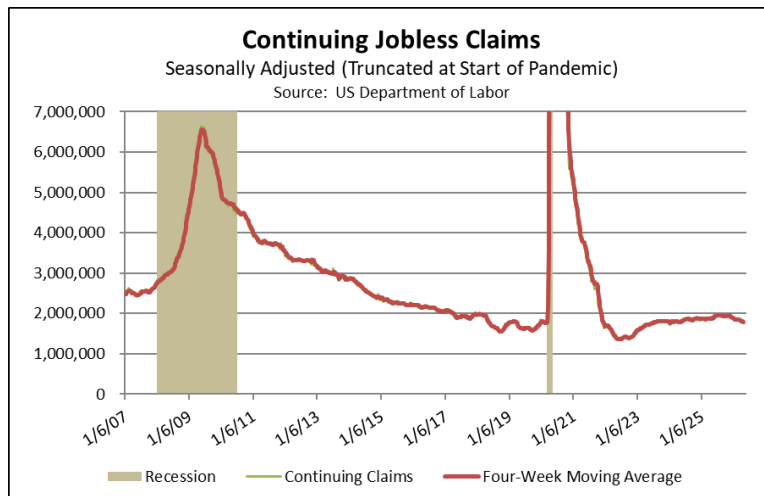
What this chart suggests is that the rise in gasoline prices is not extreme relative to typical hourly wages, helping to explain the economy’s overall resilience. Obviously, the situation bears close monitoring, but, for now, conditions are not dire.

## US Economic Releases

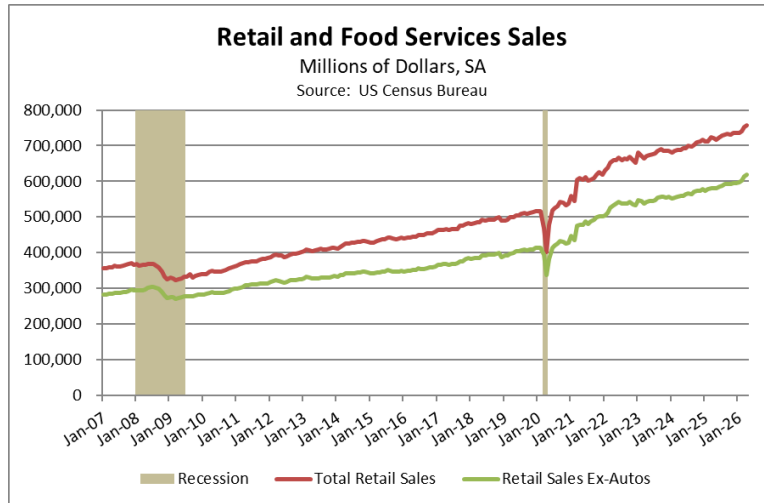
In the week ended May 9, **initial claims for unemployment benefits** rose to a seasonally adjusted 211,000, above both the expected level of 205,000 and the revised level of 199,000 in the prior week. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, rose to a still-low 203,750. The chart below shows how initial jobless claims have fluctuated since just before the Great Financial Crisis. The chart is truncated through much of the pandemic period because of the extremely high level of claims at that time.



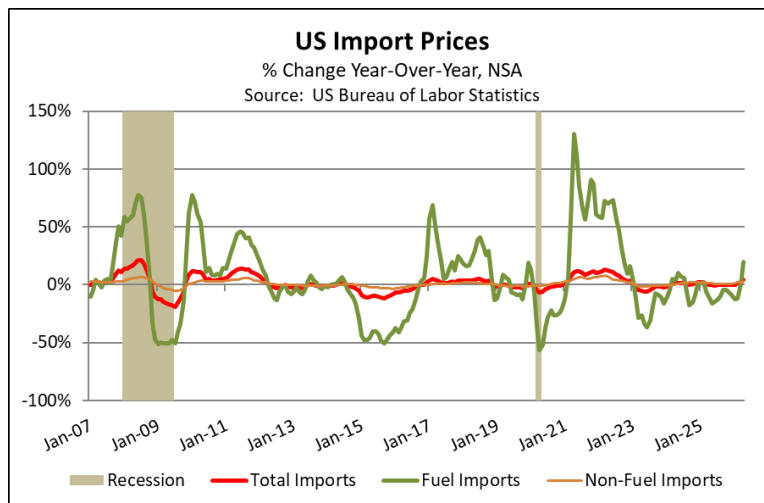
In the week ended May 2, the number of *continuing claims for unemployment benefits* (people continuing to draw benefits) rose to a seasonally adjusted 1.782 million, above both the anticipated reading of 1.780 million and the revised reading of 1.758 million in the previous week. The four-week moving average of continuing claims fell to 1.781 million, reaching its lowest level since January 2024. The chart below 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.



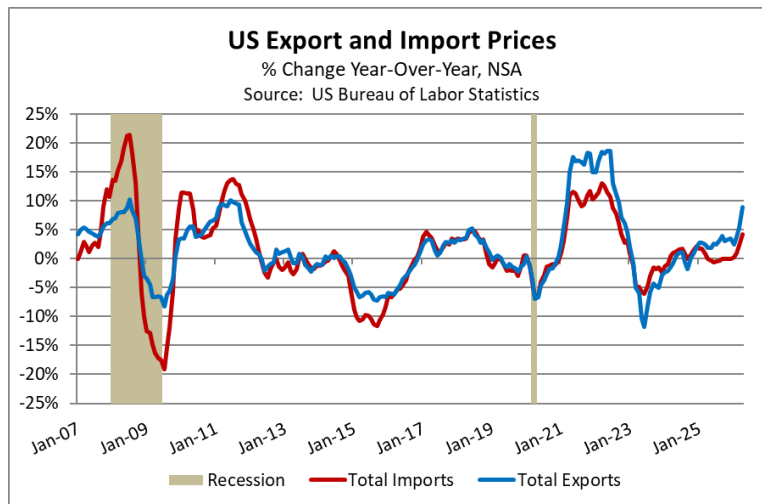
Separately, April *retail sales* rose by a seasonally adjusted 0.5%, matching expectations but decelerating from their revised March jump of 1.6%. Of course, overall retail sales are often driven by the volatile auto and auto parts sector, which makes up almost one-fifth of the total. April *retail sales excluding autos and auto parts* were up 0.7%, also matching expectations and decelerating from their March surge of 1.9%. Overall retail sales in April were up 4.6% from the same month one year earlier, while sales excluding autos and auto parts were up 6.1%. The chart below shows how retail sales have changed since just before the GFC.



Finally, April **import prices** were up a strong 1.9% from the previous month, almost double the expected rise of 1.0% and more than twice the revised March increase of 0.9%. Import prices are often driven by volatility in the petroleum fuels category. April **import prices excluding fuels** were up just 0.7%, but that was still higher than their expected increase of 0.5% and the revised flat performance in March. Overall import prices in April were up 4.2% year-over-year, while import prices excluding fuels were up 2.9%. The chart below shows the year-over-year change in import prices since just before the GFC.



The report showed **export prices** in April were up 8.8% 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						
EST	Indicator			Expected	Prior	Rating
10:00	Business Inventories	m/m	Mar	0.9%	0.4%	*
Federal Reserve						
EST	Speaker or Event	District or Position				
8:00	Stephen Miran Appears on Bloomberg TV	Members of the Board of Governors				
10:15	Jeffrey Schmid Speaks on Payments Innovation	President of the Federal Reserve Bank of Kansas City				
13:00	Beth Hammack Gives Opening Remarks	President of the Federal Reserve Bank of Cleveland				
13:00	Michelle Bowman Delivers Pre-Recorded Remarks	Member of the Board of Governors				
17:45	John Williams in Moderated Discussion	President of the Federal Reserve Bank of New York				
19:00	Michael Barr Speaks on Balance Sheet	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
<b>ASIA-PACIFIC</b>								
<b>Japan</b>	Japan Buying Foreign Bonds	w/w	8-May	¥1640.7b	¥2406.4b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	8-May	-¥593.6b	-¥2425.3b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	8-May	¥106.2b	¥729.2b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	8-May	¥1437.5b	¥301.5b		*	Equity and bond neutral
	Money Stock M2	y/y	Apr	2.3%	2.0%		**	Equity and bond neutral
	Money Stock M3	y/y	Apr	1.6%	1.4%		**	Equity and bond neutral
<b>China</b>	New Yuan Loans	m/m	Apr	8590.0b	8600.0b	8900.0b	**	Equity and bond neutral
	Aggregate Financing CNY YTD	m/m	Apr	15450.0b	14830.0b	16080.0b	**	Equity and bond neutral
	Money Supply M2	y/y	Apr	8.6%	8.5%	8.5%	***	Equity and bond neutral
	Money Supply M1	y/y	Apr	5.0%	5.1%	5.2%	*	Equity and bond neutral
	Money Supply M0	y/y	Apr	12.2%	12.5%		*	Equity and bond neutral
<b>India</b>	Wholesale Prices	m/m	Apr	8.30%	3.88%	5.50%	*	Equity bearish, bond bullish
<b>EUROPE</b>								
<b>UK</b>	RICS House Price Balance	y/y	Apr	-34%	-25%	-25%	**	Equity bearish, bond bullish
	GDP	y/y	1Q P	1.1%	1.0%	0.8%	***	Equity and bond neutral
	Industrial Production	y/y	Mar	0.0%	-0.5%	0.3%	***	Equity and bond neutral
	Manufacturing Production	y/y	Mar	1.2%	-0.8%	0.2%	**	Equity bullish, bond bearish
	Index of Services 3M/3M	m/m	Mar	0.8%	0.6%	0.6%	**	Equity and bond neutral
	Visible Trade Balance GBP/Mn	m/m	Mar	£27218m	£22799m		**	Equity and bond neutral
	Trade Balance GBP/Mn	m/m	Mar	-£9658m	-£5339m	-£2000m	**	Equity and bond neutral
<b>AMERICAS</b>								
<b>Canada</b>	Existing Home Sales	m/m	Apr	0.7%	-0.1%	0.7%	*	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)	364	365	-1	Down
U.S. Libor/OIS spread (bps)	364	364	0	Up
10-yr T-note (%)	4.45	4.47	-0.02	Up
Euribor/OIS spread (bps)	228	225	3	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.

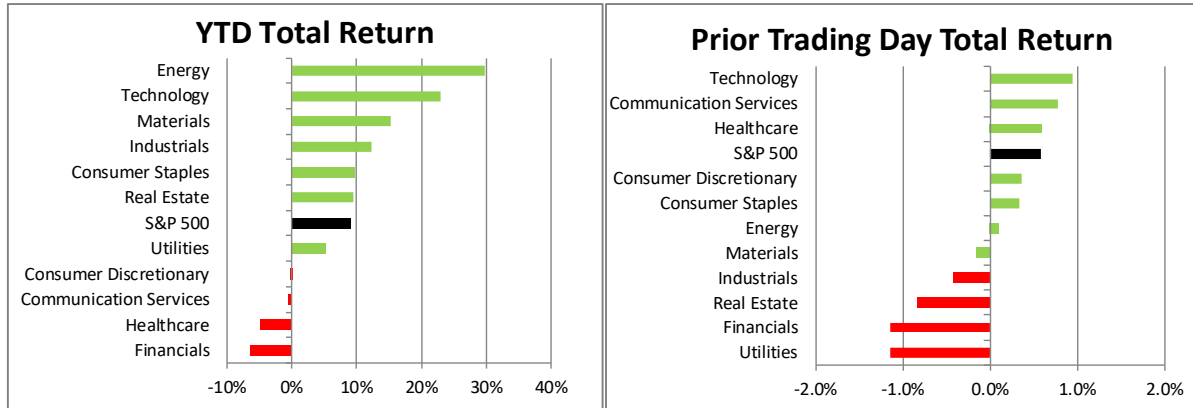
	Price	Prior	Change	Explanation
<b>Energy Markets</b>				
Brent	\$105.59	\$105.63	-0.04%	
WTI	\$100.98	\$101.02	-0.04%	
Natural Gas	\$2.86	\$2.86	-0.31%	
Crack Spread	\$54.31	\$55.84	-2.73%	
12-mo strip crack	\$43.02	\$43.87	-1.92%	
Ethanol rack	\$2.20	\$2.19	0.53%	
<b>Metals</b>				
Gold	\$4,692.26	\$4,688.76	0.07%	
Silver	\$86.62	\$87.55	-1.06%	
Copper Contract	\$663.85	\$667.90	-0.61%	
<b>Grains</b>				
Corn contract	\$477.25	\$480.75	-0.73%	
Wheat contract	\$678.25	\$675.50	0.41%	
Soybeans contract	\$1,208.50	\$1,229.00	-1.67%	
<b>Shipping</b>				
Baltic Dry Freight	3,189	3,063	126	
<b>DOE Inventory Report</b>				
	<b>Actual</b>	<b>Expected</b>	<b>Difference</b>	
Crude (mb)	-4.31	-2.45	-1.85	
Gasoline (mb)	-4.08	-3.05	-1.03	
Distillates (mb)	0.19	-2.73	2.92	
Refinery run rates (%)	0.16%	0.60%	-0.44%	
Natural gas (bcf)		87		

## Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures from the West Coast to the Rocky Mountains and from the Mississippi River to the East Coast, with cooler-than-normal temperatures in the Dakotas and Minnesota. 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**

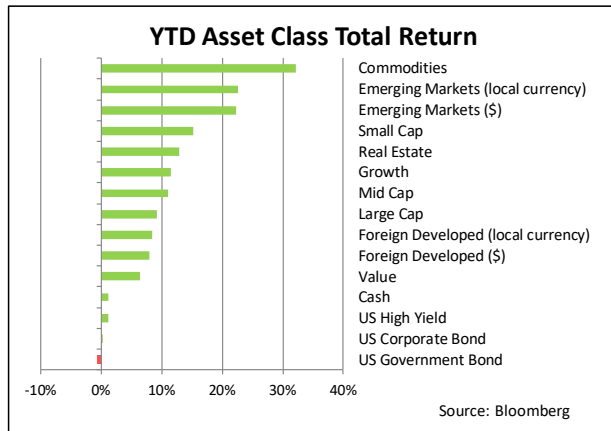
**US Equity Markets – (as of 5/13/2026 close)**



(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 5/13/2026 close)**

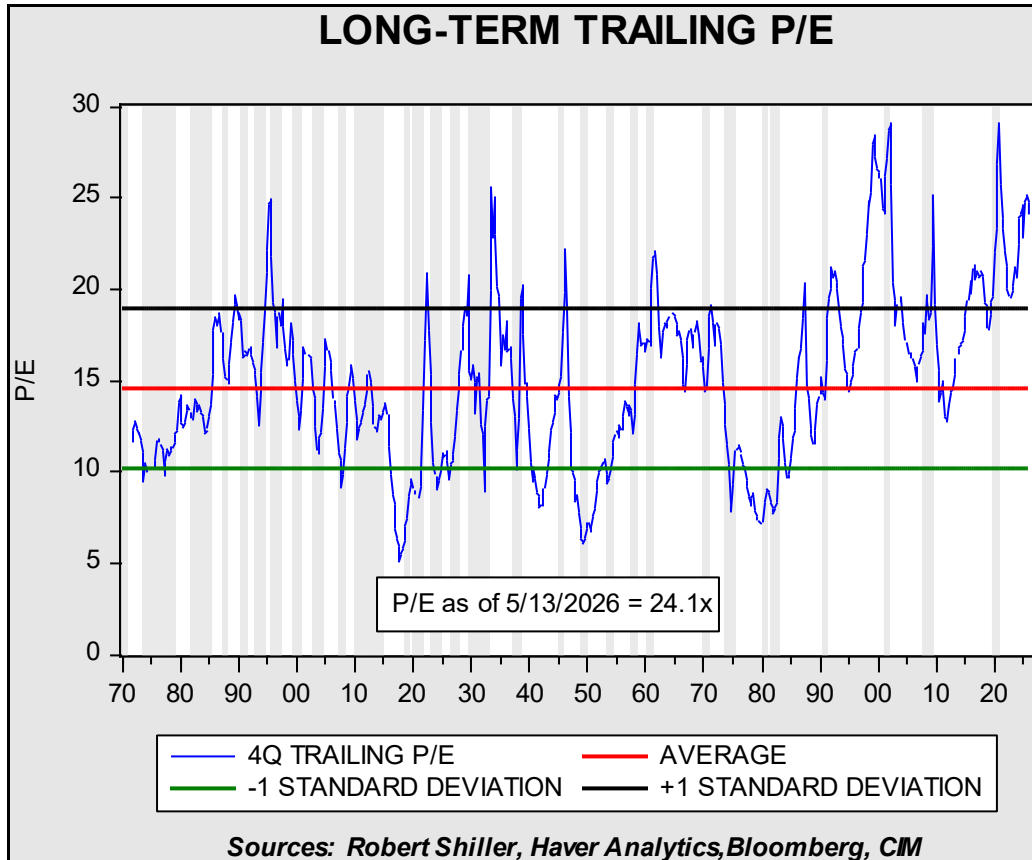


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 14, 2026



Based on our methodology,<sup>1</sup> the current P/E is 24.1x, up 0.3 from the previous report. Last week, the increase in the stock price index outpaced the rise in earnings.

*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.