Daily Comment

Confluence Investment Management

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: May 15, 2026 — 9:30 AM ET] Global equity markets are lower this morning. In Europe, the Euro Stoxx 50 is down 1.9% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 3.2%. Chinese markets were lower, with the Shanghai Composite down 1.0% and the Shenzhen Composite down 0.9%. US equity index futures are signaling a lower 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.

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	Chart Worth Noting 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* opens with our views on the new Federal Reserve chair. We then examine recent signs that the US is seeking greater influence in Latin America. After that, we briefly cover a potential challenger to UK Prime Minister Keir Starmer, provide an update on the US-China summit, and highlight an AI robot now capable of performing blue-collar work. As always, we include an overview of the latest international and domestic economic data.

New Fed Chair: Kevin Warsh has officially taken the helm as Fed chair, stepping into a role that is likely to become more contentious as he works to define his legacy. He inherits a central bank grappling with a renewed bout of inflation, the rapid emergence of AI, and a president who has made clear his desire for greater influence over monetary policy. How Warsh navigates these issues will be critical, not just for the Fed's credibility, but for bond markets that have already fallen out of favor amid growing doubts about the central bank's commitment to price stability.

- The new chair takes over a Fed that has grown increasingly hawkish in recent months. While Warsh had previously signaled openness to a potential rate cut, [the latest FOMC meeting revealed three dissents] in favor of language that deliberately avoided any suggestion of a pivot toward easing, particularly in light of the recent uptick in inflation. This shift has been [further cemented by the departure of Fed Governor Stephen Miran], the most dovish member, which has tilted the Committee's balance even more firmly in a hawkish direction.

- Warsh is also assuming leadership at a moment of significant change and uncertainty, complicating the policy outlook. Although the war in Iran has pushed headline inflation to its highest level since 2022, many observers still view this shock as potentially temporary. At the same time, optimism around AI's ability to lift productivity persists, even as the associated infrastructure build-out contributes to higher prices in energy as well as other parts of the economy.

- While Warsh may find it difficult to build consensus, he does appear to be prepared for the Fed to have tougher, more candid internal debates. Unlike his predecessor, he does not see it as the FOMC's job to keep markets continuously updated on every nuance of its thinking, warning that excessive communication can backfire when members disagree and send mixed signals. Instead, he is expected to keep more of the discussion behind closed doors and communicate externally on a more selective, need-to-know basis.

- Warsh will need to establish his credibility quickly if he wants to earn the bond market's trust. His first meeting on June 15-16 will be an important early test, as investors will look for a clear framework for how he intends to address the recent uptick in inflation. If he is successful, he should be able to reduce some of the volatility that we have seen in bond markets.

"Donroe Doctrine": While attention has been fixed on the Middle East, the US continues to deepen its engagement in Latin America. The CIA director has reportedly traveled to Cuba to signal that Havana will need to undertake significant changes if it wants sustained US support. At the same time, President Trump has floated the idea of Venezuela becoming the 51st US state, underscoring a more assertive regional posture. This renewed focus on the Americas highlights Washington's efforts to curb China's influence within the US's own hemisphere.

- On Thursday, [CIA Director John Ratcliffe traveled to Havana for talks with Cuban leaders] focused on relief efforts. Cuba recently announced that it now has sufficient diesel and fuel oil supplies for power generation following the US blockade. During his visit, Ratcliffe indicated that Washington would be open to offering economic and security guarantees if Cuba undertakes significant reforms, including changes to its economic system.

- Further south, President Trump has sparked confusion by suggesting that he would like [Venezuela to become the next US state]. Earlier this week, he posted a map depicting Venezuela covered in American flags, fueling speculation that Washington intends to deepen its ties with Caracas. Although the US Constitution requires both congressional approval and the consent of the country itself for statehood, this rhetoric signals an ambition for the US to exert greater influence over the region.

- The push to draw two China-aligned regional players more firmly into the US orbit reflects Washington's broader effort to reassert influence in its own hemisphere. This ambition likely extends well beyond Venezuela and Cuba, encompassing Latin America. In our view, the US's backing of Argentine President Javier Milei and prior White House support for former Brazilian President Jair Bolsonaro are examples of Washington's interest in shaping political and economic outcomes across the region.
- US efforts to exert greater influence over Latin America are likely to benefit capital markets in the region. We believe deeper economic and security ties could pave the way for increased US investment while also helping the US secure local resources. As a result, we see Latin America as a potentially overlooked investment opportunity.

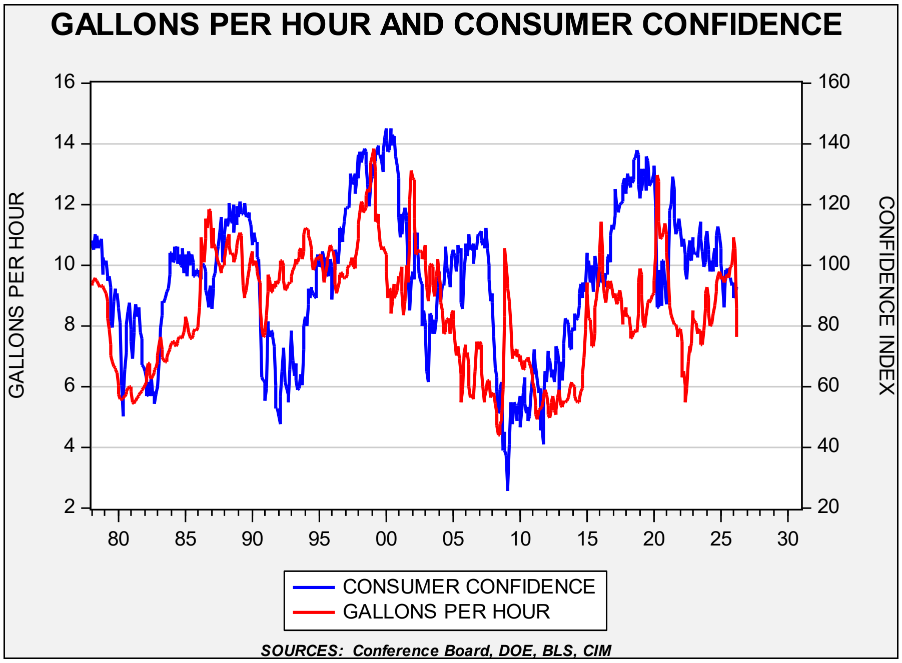
Starmer Challenge: Andy Burnham has emerged as a possible challenger to Keir Starmer's leadership of the Labour Party. Currently serving as the mayor of Greater Manchester, Burnham has signaled plans to seek a parliamentary seat in an upcoming Manchester by-election as a springboard for a future leadership bid. If successful, he could ultimately force a leadership vote that might position him to become prime minister. Repeated shifts in party leadership have heightened political risk, contributing to upward pressure on regional bond yields.

US-China Talks: There was no grand bargain after the two-day meeting between the US and China. However, Beijing said both sides reached an important consensus on a new "strategic relationship." While the talks did not produce any formal agreements, US officials indicated they discussed creating a Board of Investment to coordinate projects in non-sensitive sectors, as well as potential Chinese purchases of Boeing aircraft and US agricultural products. The meeting likely paves the way for future talks.

AI Workers: While most of the focus has been on AI's replacement of white-collar workers, there are growing signs that automation is moving into blue-collar roles as well. A new AI-enabled robot can reportedly change tires in about half the time of a human worker, helping to address labor shortages in this area. Developments like this suggest that the potential for job displacement may be broader and more pervasive than is often acknowledged.

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.

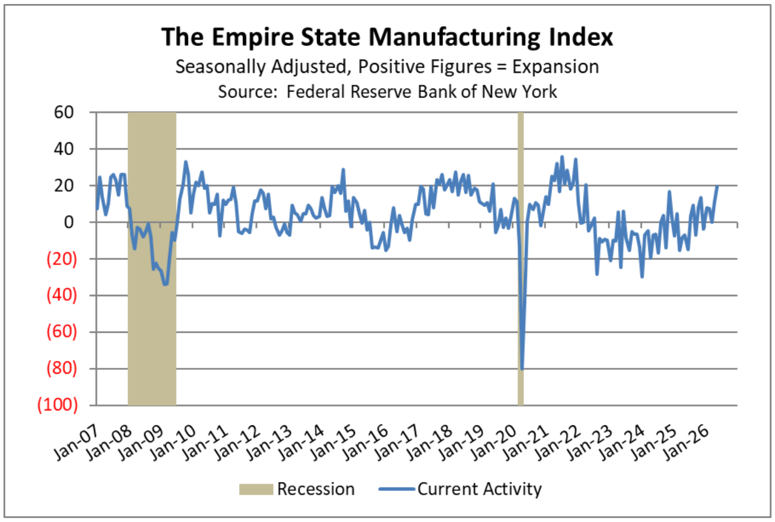


We divide the gasoline price into the hourly wage to see how many gallons of gasoline the typical worker can purchase by working an hour. In April, the typical worker could purchase 7.6 gallons. Note that this number is not unusually low; the average since 1973 is 8.5 gallons, and the current reading is well above the lowest reading of 4.4 gallons recorded in June 2008. On this chart, we have overlayed 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

The New York FRB said its May ***Empire State Manufacturing Index*** rose to a seasonally adjusted 19.6, well above the expected reading of 7.2 and even better than the April reading of 11.0. This index is designed so that positive readings point to expanding factory activity in the state of New York. At its current level, the index suggests New York manufacturing is now growing at its best rate in more than five years. The chart below shows how the index has fluctuated since just before the Great Financial Crisis.



There are no economic releases or Fed events scheduled for the rest of the day.

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	PPI	y/y	Apr	4.9%	2.9%	3.0%	***	Equity bearish, bond bullish
	Machine tool orders	y/y	Apr P	45.1%	28.0%		**	Equity and bond neutral
New Zealand	BusinessNZ Manufacturing PMI	m/m	Apr	50.5	52.8		***	Equity and bond neutral
	Food Prices	m/m	Apr	0.0%	-0.6%		***	Equity and bond neutral
South Korea	Export Price Index	y/y	Apr	40.8%	29.5%		*	Equity and bond neutral
	Import Price Index	y/y	Apr	20.2%	20.4%		*	Equity and bond neutral
India	Trade Balance	m/m	Apr	-$28383m	-$20674m	-$26350m	**	Equity and bond neutral
	Exports	y/y	Apr	13.8%	-7.4%		**	Equity and bond neutral
	Imports	y/y	Apr	10.0%	-6.5%		**	Equity and bond neutral
EUROPE								
Italy	CPI, EU Harmonized	y/y	Apr F	2.8%	2.9%	2.9%	***	Equity and bond neutral
	CPI NIC Including Tobacco	y/y	Apr F	2.7%	2.8%	2.8%	**	Equity and bond neutral
Russia	Trade Balance	m/m	Mar	14.0b	5.1b		**	Equity and bond neutral
	Exports	m/m	Mar	41.1b	29.9b		*	Equity and bond neutral
	Imports	m/m	Mar	27.1b	24.8b		*	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	8-May	20.86t	20.65t		*	Equity and bond neutral
AMERICAS								
Canada	Wholesale Sales ex Petroleum	m/m	Mar	1.9%	2.4%	1.30	**	Equity and bond neutral
Mexico	ANTAD Same-Store Sales	y/y	Apr	4.4%	1.7%		*	Equity and bond neutral
Brazil	IBGE Services Volume	y/y	Mar	3.0%	0.4%	4.6%	*	Equity bearish, bond bullish

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	364	1	Down
U.S. Libor/OIS spread (bps)	364	364	0	Up
10-yr T-note (%)	4.54	4.48	0.06	Up
Euribor/OIS spread (bps)	224	228	-4	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.

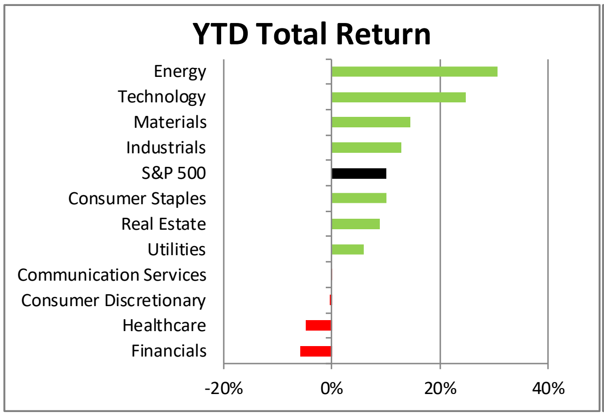
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$109.16	$105.72	3.25%	
WTI	$105.04	$101.17	3.83%	
Natural Gas	$2.93	$2.89	1.28%	
Crack Spread	$54.01	$53.73	0.51%	
12-mo strip crack	$42.88	$42.22	1.56%	
Ethanol rack	$2.19	$2.20	-0.26%	
Metals				
Gold	$4,560.62	$4,651.98	-1.96%	
Silver	$78.03	$83.53	-6.59%	
Copper Contract	$633.10	$661.15	-4.24%	
Grains				
Corn contract	$466.25	$467.50	-0.27%	
Wheat contract	$655.00	$658.00	-0.46%	
Soybeans contract	$1,187.25	$1,192.50	-0.44%	
Shipping				
Baltic Dry Freight	3,195	3,189	6	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
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)	85	87	-2	

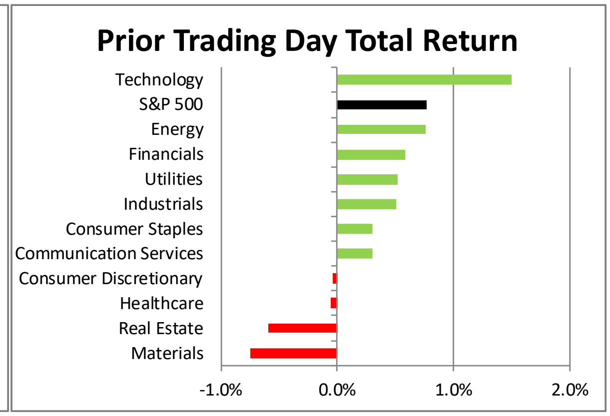
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in the northern and central Rocky Mountains and from the Mississippi River to the East Coast, with near-normal temperatures elsewhere. The outlook calls for wetter-than-normal conditions in the southern Rocky Mountains, the southern Great Plains, and the Southeast, with dry conditions in the Pacific Northwest.

Data Section

US Equity Markets – (as of 5/14/2026 close)

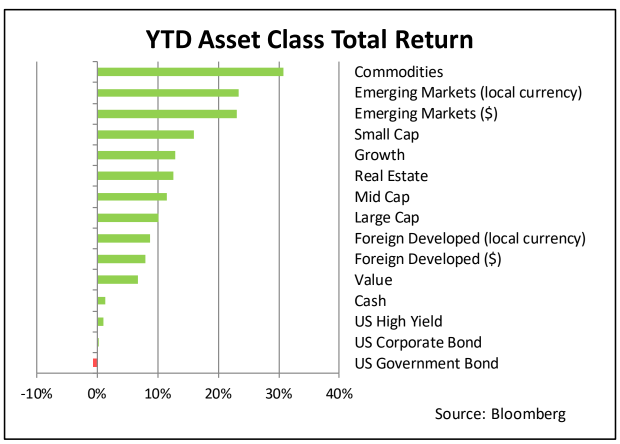




(Source: Bloomberg)

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 5/14/2026 close)

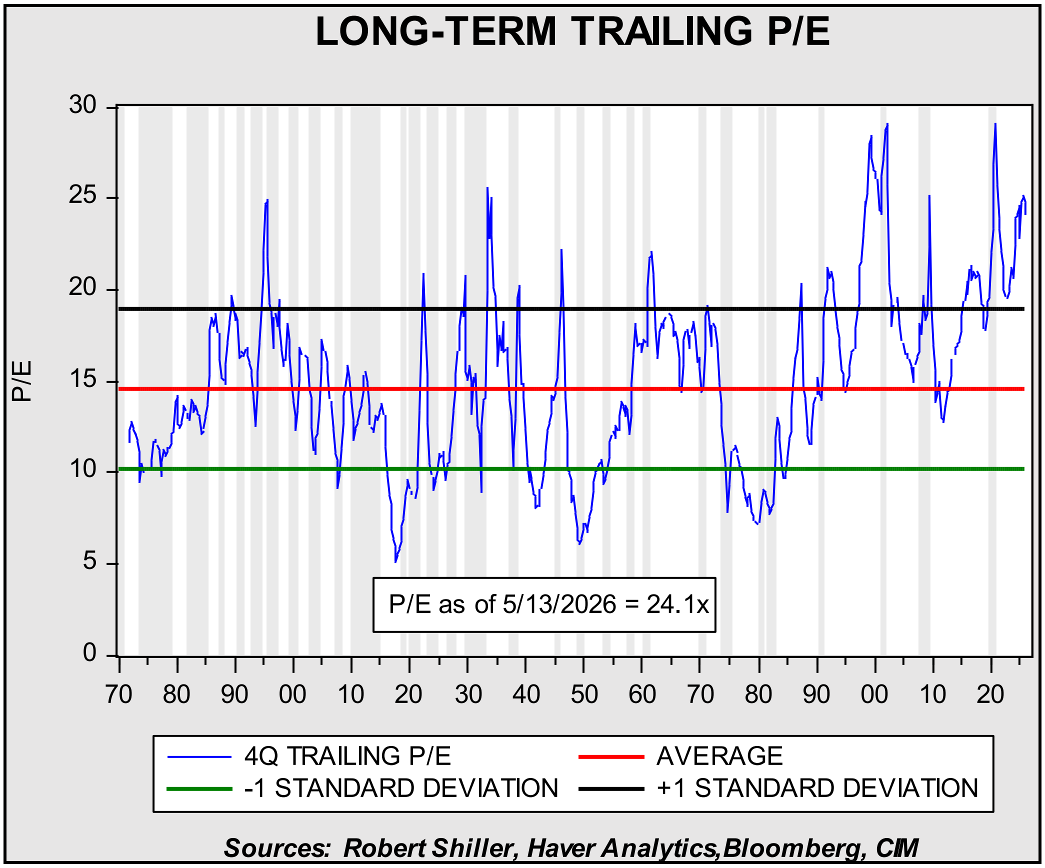


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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,[1] 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.

[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.