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[Posted: May 19, 2026 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 0.7% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 1.9%. Chinese markets were higher, with the Shanghai Composite up 0.9% and the Shenzhen Composite up 0.5%. 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
“The Trade Trilemma Revisited” (5/18/26)	“The Power of Gold” (5/11/26)	Q2 2026 Report	Confluence of Ideas podcast 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 a short update on the war in Iran. We next review several other international and US developments that could affect the financial markets today, including a report of stronger-than-expected economic growth in Japan in the first quarter and several items on the US artificial intelligence and energy industries.

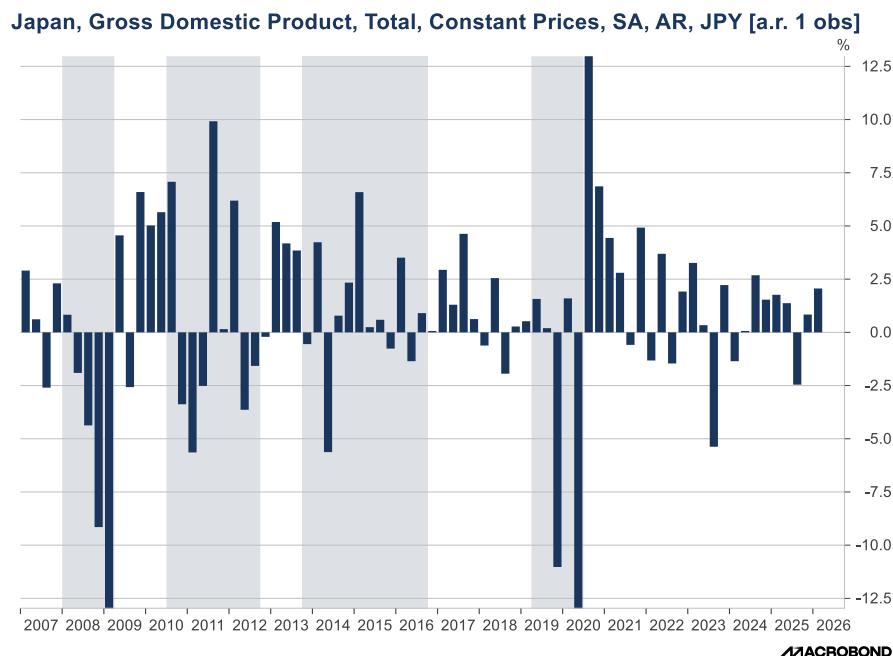
United States-Israel-Iran: President Trump yesterday [said he’d delayed a plan for new military attacks on Iran today at the request of leaders in the Middle East](#). According to Trump, the delay was justified because Iranian leaders have finally entered into “serious negotiations.” However, the US has now gone through several cycles of ultimatums and threats followed by backdowns,

so the latest retreat could increase investor concern that the US is having no success convincing the Iranians to reopen the Strait of Hormuz to shipping.

- If so, the continued disruptions to global energy and commodity supplies are increasingly likely to spark a fresh spike in price inflation.
- In turn, that is likely to keep undermining bond values, driving up yields, while also increasing the risk of a pullback in stock prices.

Japan-South Korea: In a summit meeting today, Japanese Prime Minister Sanae Takaichi and South Korean President Lee Jae Myung [agreed to a broad program of cooperation geared at shoring up their energy supplies](#). The program includes joint reserves of crude oil, shared supplies of critical refined products, such as jet fuel, and swap arrangements for liquified natural gas. Besides pointing to improved Japanese-South Korean relations as the two nations face bigger external threats, the program also highlights their vulnerability to energy supply shocks.

Japan: Excluding price changes and seasonal impacts, first-quarter gross domestic product [grew at an annualized rate of 2.1%, far better than the anticipated increase](#) and more than double the revised 0.8% growth rate in the previous quarter. The strong growth came mostly from surprisingly robust increases in personal consumption spending and international trade. Coupled with continued high price inflation, the GDP figure will likely help prompt the Bank of Japan to keep raising interest rates, perhaps explaining why Japanese stocks have declined on the news.



China-Russia: General Secretary Xi today [will host Russian President Putin for a summit](#) in Beijing, with much media expectation that the two leaders could sign a deal on the proposed Power of Siberia 2 natural gas pipeline, which would channel some 50 billion cubic meters of Russian gas to China each year. The leaders last year agreed to move forward with the design of

the pipeline, which is a priority for Putin, but Xi is driving a hard bargain on the price of the gas and appears reluctant to make a long-term commitment as he develops China's other energy sources.

- If Xi and Putin reach a deal on POS 2, the Chinese and Russian economies would be even more tightly integrated, replacing some of Russia's prior focus on supplying energy to Europe and reducing China's reliance on energy shipped through the Strait of Hormuz.
- Longer term, if Russia's war against Ukraine ends and the Europeans want to buy more energy from Russia again, any deal for POS 2 could divert supplies that would otherwise be available for Europe.

China: In an interview with the *Financial Times*, the CEO of Tianqi Lithium, one of China's biggest lithium producers, [warned that even the most bullish investors were underestimating the likely demand for the mineral](#) as battery power is applied to more industries. For example, the CEO discussed how batteries will be increasingly used in trucking, mining equipment, and ships. The CEO, Frank Ha, may well be "talking his book," but his statement does highlight how the demand for batteries is booming (see note below regarding Ford's new battery business).

France-Sweden: The Swedish government today [selected France's state-owned Naval Group to build four new frigates aimed at helping modernize the Swedish navy](#). The losing bidders were a joint effort by the UK's Babcock International and Sweden's own Saab and a group led by Spain's Navantia, both of which offered newly designed vessels. Importantly, Stockholm said it awarded the contract to Naval Group because its FDI frigates are already in service with France and Greece.

- As European militaries rush to rebuild and modernize amid increasing threats from Russia and growing US reluctance to support the Continent's defense, we continue to believe that international defense stocks are likely to perform well into the future.
- Because of today's revolution in defense technology, including new weapons such as drones and hypersonics, much of the opportunity will likely come from start-up "defense tech" companies after they hold their initial public offerings. In the meantime, the Swedish deal shows how established defense firms with tried-and-true weapons systems will also benefit in the near term.

US Artificial Intelligence Industry: Bucking the enthusiasm for AI investments among many technology executives, the CEO of storage disk maker Seagate Technology yesterday [said his firm won't meet surging data center demand because new factory buildouts would take too long and risk future overcapacity](#). In response, Seagate's stock price plunged 6.9%. We think the statement could signal the beginning of increased capital discipline and caution against the current AI frenzy. If so, it could portend a correction in tech prices in the future.

US Electricity Industry: While most investors yesterday focused on the announcement of a major AI-driven merger of electricity utilities NextEra and Dominion, we found it just as notable that Ford Motor Company [has launched a new unit to build large-scale industrial batteries](#). In fact, the firm announced yesterday that it has struck a deal to provide up to 20 gigawatt-hours of

battery energy storage capability over five years to power company EDF. Together, these transactions illustrate how the AI boom continues to spark new electricity investment and innovation.

US Stock Market: According to the *Wall Street Journal* today, stock buybacks by the six Magnificent 7 firms that have reported first-quarter earnings so far [were down 71% from their level one year earlier](#). The article posits that Nvidia, the last of the Mag 7 companies to report, could buck the trend with an increase in its buybacks.

- Still, the overall figures illustrate how increased capital investment due to the AI boom is affecting the financial position of top tech firms.
- Importantly, fewer stock buybacks will be a headwind for earnings per share growth, potentially weighing on the major tech firms’ valuations.

US Economic Releases

There were no domestic releases prior to the publication of this report. 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	Pending Home Sales	m/m	Apr	1.0%	1.5%	**
10:00	Pending Home Sales NSA	y/y	Apr	2.1%	1.8%	*
Federal Reserve						
EST	Speaker or Event	District or Position				
8:00	Christopher Waller in Moderated Discussion	Member of the Board of Governors				
19:00	Anna Paulson Speaks on Economic Outlook	President of the Federal Reserve Bank of Philadelphia				

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	GDP SA	q/q	1Q P	0.5%	0.2%	0.4%	***	Equity and bond neutral
	GDP Deflator	q/q	1Q P	3.4%	3.4%	3.1%	***	Equity and bond neutral
	Industrial Production	y/y	Mar F	2.4%	2.3%		***	Equity and bond neutral
	Capacity Utilization	y/y	Mar	-1.2%	-0.1%		**	Equity and bond neutral
	Tertiary Industry Index	m/m	Mar	-0.2%	-0.7%	-0.5%	***	Equity and bond neutral
Australia	Westpac Consumer Conf Index	m/m	May	3.5	-12.5		**	Equity and bond neutral
	Westpac Consumer Conf SA	m/m	May	83.0%	80.1%		**	Equity and bond neutral
EUROPE								
Eurozone	Trade Balance SA	m/m	Mar	3.5b	6.5b		**	Equity and bond neutral
UK	Average Weekly Earnings 3M/YoY	m/m	Mar	4.10%	3.90%	3.80%	**	Equity and bond neutral
	ILO Unemployment Rate 3Mths	m/m	Mar	5.00%	4.90%	4.90%	**	Equity and bond neutral
	Claimant Count Rate	m/m	Apr	4.40%	4.40%		**	Equity and bond neutral
	Jobless Claims Change	m/m	Apr	26.5k	4.9k		**	Equity and bond neutral
Russia	Current Account Balance	q/q	1Q P	12200m	9365m		**	Equity and bond neutral
AMERICAS								
Mexico	ANTAD Same-Store Sales	y/y	Apr	4.4%	1.7%		*	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)	356	357	-1	Up
U.S. Sibor/OIS spread (bps)	364	364	0	Down
U.S. Libor/OIS spread (bps)	365	365	0	Up
10-yr T-note (%)	4.61	4.59	0.02	Up
Euribor/OIS spread (bps)	222	223	-1	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.

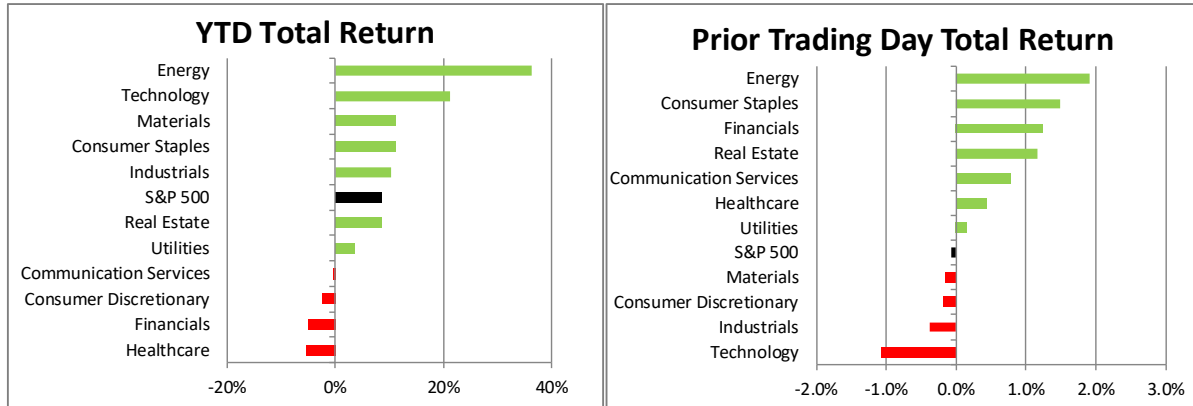
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$110.88	\$112.10	-1.09%	
WTI	\$108.27	\$108.66	-0.36%	
Natural Gas	\$3.05	\$3.02	0.73%	
Crack Spread	\$52.74	\$52.89	-0.28%	
12-mo strip crack	\$43.18	\$43.83	-1.48%	
Ethanol rack	\$2.20	\$2.19	0.54%	
Metals				
Gold	\$4,538.56	\$4,566.67	-0.62%	
Silver	\$75.97	\$77.72	-2.25%	
Copper Contract	\$623.80	\$631.55	-1.23%	
Grains				
Corn contract	\$479.50	\$477.00	0.52%	
Wheat contract	\$671.00	\$664.50	0.98%	
Soybeans contract	\$1,218.00	\$1,213.00	0.41%	
Shipping				
Baltic Dry Freight	3,092	3,151	-59	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-2.45		
Gasoline (mb)		-3.05		
Distillates (mb)		-2.73		
Refinery run rates (%)		0.60%		
Natural gas (bcf)		87		

Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures throughout the entire country. The precipitation outlook calls for wetter-than-normal conditions for most states, with dry conditions in the Pacific Northwest, New England, and the Great Lakes region.

Data Section

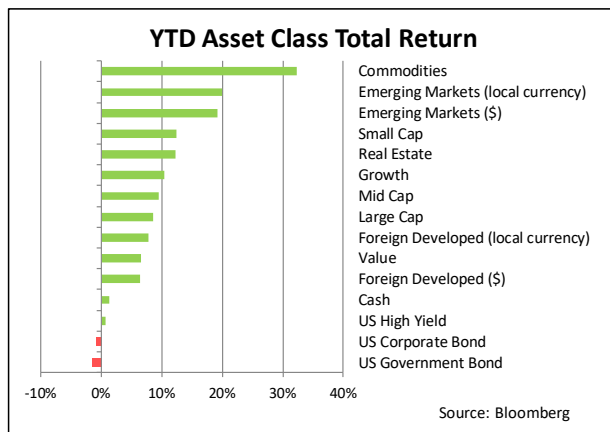
US Equity Markets – (as of 5/18/2026 close)



(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 5/18/2026 close)

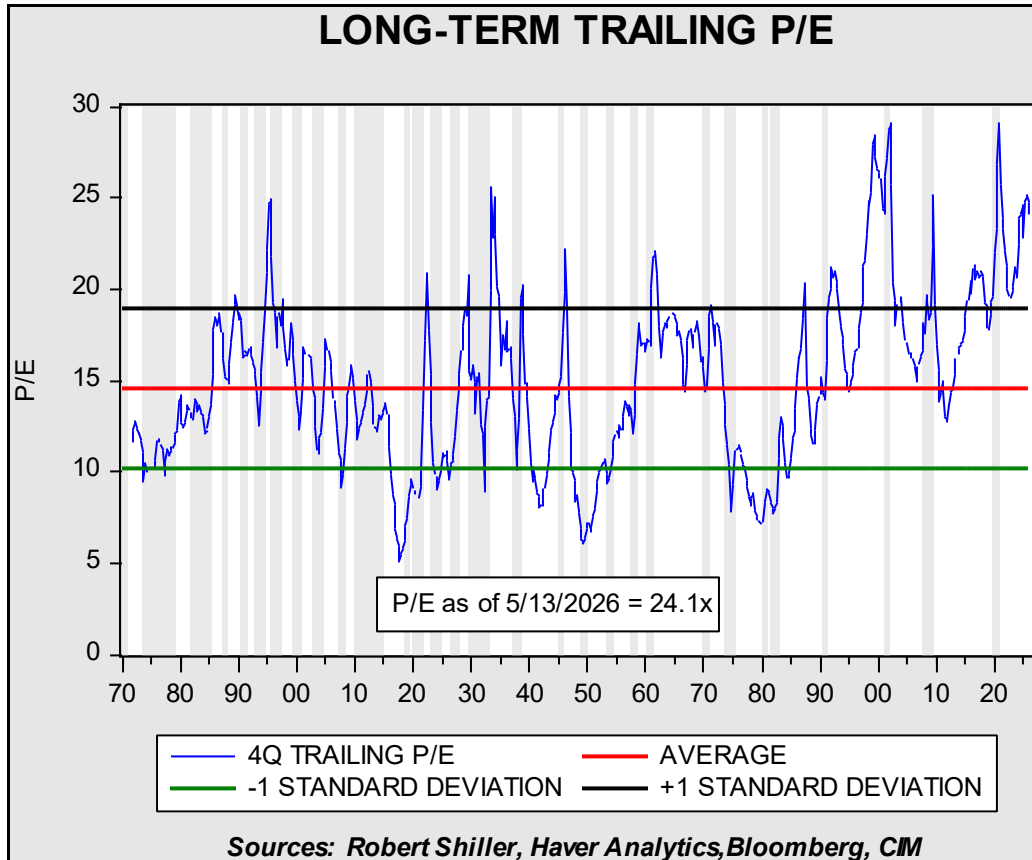


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.