



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: May 21, 2026 — 9:30 AM ET] Global equity markets are mostly lower this morning. In Europe, the Euro Stoxx 50 is down 0.5% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 3.3%. Chinese markets were lower, with the Shanghai Composite down 2.0% and the Shenzhen Composite down 2.4%. US equity index futures are signaling a lower open.

With 466 companies having reported so far, S&P 500 earnings for Q1 are running at \$80.70 per share compared to estimates of \$72.32, which is up 12.6% from Q1 2025. Of the companies that have reported thus far, 83.0% 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
“The Trade Trilemma Revisited” (5/18/26) + podcast (5-21/26)	“The Power of Gold” (5/11/26) + podcast (5/20/26)	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* opens with our assessment of the latest Fed meeting minutes and their implications for incoming Chair Kevin Warsh. We then examine the political backlash stemming from the energy crisis and how Europe is attempting to manage it. We also briefly touch on Nvidia’s earnings, the US indictment of former Cuban president Raúl Castro, and early signs that the EU is building out its security industry. As always, we provide a comprehensive roundup of the latest international and domestic economic indicators.

Hawkish Fed: The [April 28-29 FOMC meeting minutes suggest policymakers were more open to the possibility of additional rate hikes](#) than the official statement implied. Participants also expressed ongoing concern about the economic and inflationary risks associated with the conflict

in Iran. At the same time, some members favored preserving optionality for future rate cuts, noting that the labor market has yet to demonstrate clear, sustained strength. This divergence will likely complicate the efforts of incoming Fed Chair Kevin Warsh to develop a consensus on policy.

- Overall, the meeting minutes seemed to suggest that hawks may be in the driver's seat. While the recent Fed announcement showed that three officials dissented in favor of dropping an easing bias in the statement, the minutes revealed that a majority of members believed that "policy firming" would be appropriate if inflation were to persistently run above the Fed's 2% target.
- However, there did seem to be at least some openness for a rate cut. The minutes revealed that one member, outgoing Fed Governor Stephen Miran (the only dovish dissenter) had argued for a rate cut to help address fragility in the labor market. While he stood alone in that specific effort, other members expressed support for possible rate cuts in the future if inflation were to return to its downward trajectory.
- Given the ongoing concerns about the Middle East, Warsh will have limited time to make the case for easing policy. Before his confirmation, he argued that the Fed should incorporate AI-driven productivity gains into its framework and was explicit about his openness to lower rates. But his claim that ["inflation is a choice" and criticism that the Fed has drifted from its price-stability mandate](#) could complicate that effort, given lingering concerns about his independence from the White House.
- The Fed is not on a preset path and will likely seek clearer confirmation before moving rates in either direction. While some FOMC members may be open to further tightening, we think the committee will ultimately favor keeping rates steady, particularly given the political backdrop. If inflation stays elevated, longer-duration bonds could see continued volatility, though we still expect 10-year Treasury yields to trade broadly range-bound around the mid to low 4% area.

Hormuz Unrest: The energy shock stemming from the standoff in the Strait of Hormuz is [fueling rising political tensions across a number of countries](#). Governments have tried to calm nerves over potential shortages of energy and, in some cases food, to contain public anxiety. While political pushback in most developed economies remains limited for now, several emerging markets are already showing how severe the fallout could become if conditions do not improve.

- More governments are weighing measures such as stockpiling and price controls to avert a potential food crisis. Recent reports indicate that the EU is exploring the stockpiling of fertilizer [to safeguard future harvests and reduce the risk of shortages](#). Likewise, the UK [has floated temporary caps on select staple foods](#) to help ease the pressure from the increasing costs of living on households.
- Rising political risks also appear to be pushing the EU, in particular, to soften its stance toward both the US and Russia. In an effort to avoid an escalation in trade tensions that could further weaken its economic outlook, [EU leaders have finally agreed to put the US trade deal to a vote next month](#). At the same time, Brussels [is seeking a more prominent](#)

[role in talks with Moscow](#), positioning the EU to pursue a resolution to the conflict even in the absence of direct US involvement.

- Although risks remain elevated, there are signs of a broader push to finally resolve the Strait of Hormuz standoff. While US-Iran negotiations are ongoing, [recent developments suggest both sides may be edging closer to an agreement](#). At the same time, several Middle Eastern producers are investing in infrastructure to reduce their reliance on the strait. For example, the [UAE has indicated that a new pipeline project designed to roughly double its export capacity is already about halfway complete](#).
- We see a risk that the Strait of Hormuz crisis could spill over into broader global instability and potentially trigger a new migration wave, though this is not our base case. We remain cautiously optimistic that a deal can be reached in the coming weeks to reopen the strait and ease pressure on energy and commodity markets. In that scenario, we would expect European equities to be among the main beneficiaries, given their sensitivity to energy prices and vulnerabilities to rising geopolitical risks.

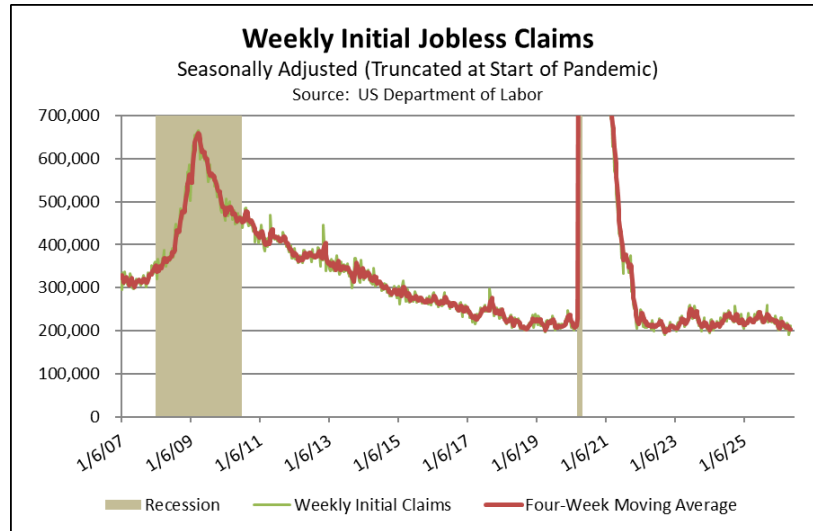
Nvidia Earnings: The [world's largest chipmaker and key bellwether for the AI boom beat expectations in the first quarter](#). The company reported revenue of \$91 billion, ahead of the \$87 billion consensus estimate. On the earnings call, CEO Jensen Huang highlighted that the firm is broadening its revenue base beyond data centers to areas such as robotics and autonomous vehicles, underscoring how AI demand is expanding beyond core infrastructure.

Castro Indictment: The US has indicted [former Cuban President Raúl Castro over the 1996 incident in which two civilian planes were shot down](#), marking a significant escalation in Washington's approach to Havana. In our view, this move fits into a broader effort to pressure authoritarian leaders in the region and, more broadly, to reassert a modern version of the Monroe Doctrine — what some have dubbed the “Donroe Doctrine” — as the US seeks to counter rival powers in its hemisphere.

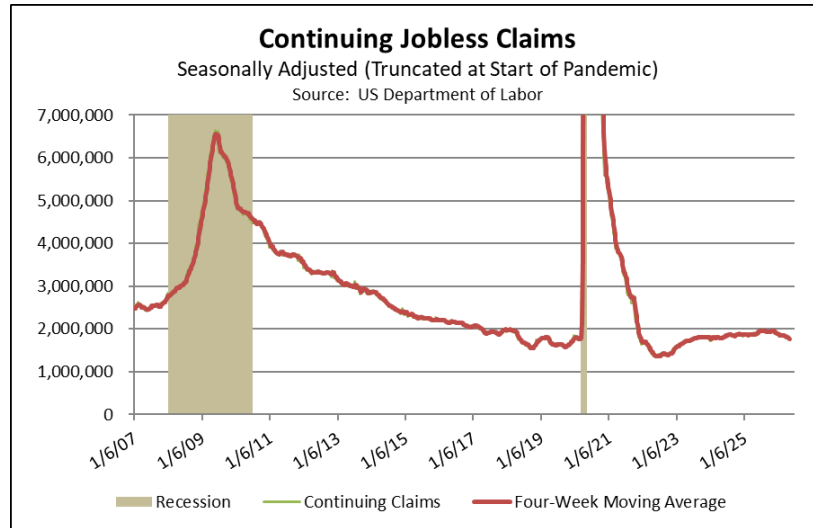
European Defense: In a further sign of rising European defense outlays, [Germany has acquired a 40% stake in tank maker KNDS](#). The move should help strengthen Europe's domestic armored-vehicle industry while reducing the region's reliance on US defense capabilities. We continue to see European defense as a key structural growth area as governments assume a larger share of their own security burden.

US Economic Releases

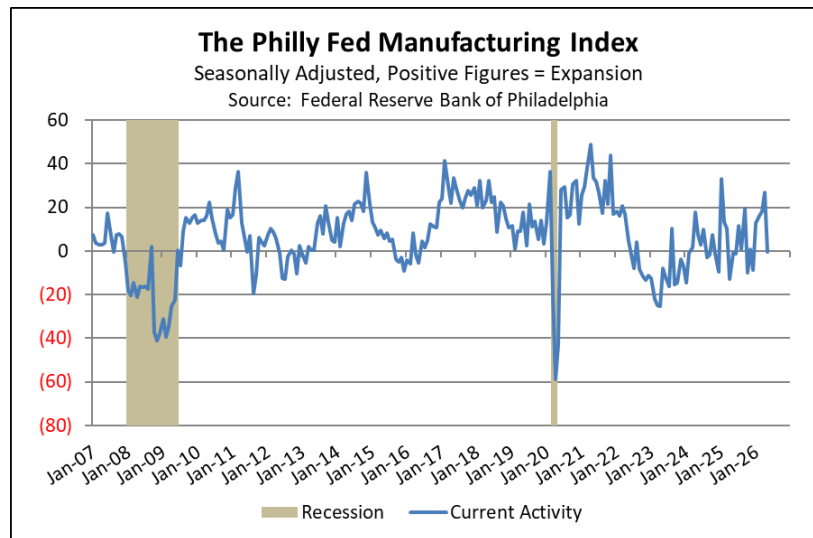
In the week ended May 16, *initial claims for unemployment benefits* fell to a seasonally adjusted 209,000, below both the expected level of 210,000 and the revised level of 212,000 in the previous week. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, fell to 202,500. 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.



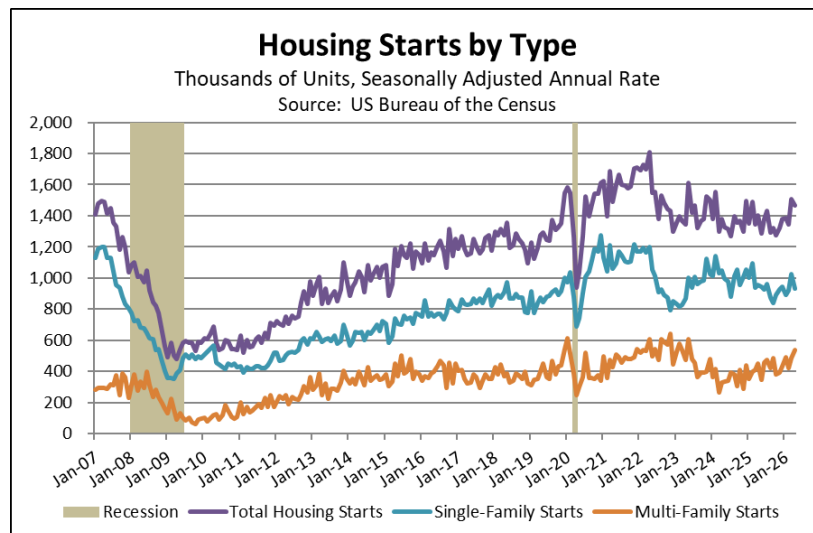
In the week ended May 9, the number of *continuing claims for unemployment benefits* (people continuing to draw benefits) rose to a seasonally adjusted 1.782 million, below the anticipated reading of 1.786 million but still above the revised reading of 1.776 million in the prior week. The four-week moving average of continuing claims fell to 1.773 million, the lowest level since early 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, the Philadelphia FRB said its May *Philly Fed Index* plunged to a seasonally adjusted -0.4, well below both the expected level of 17.8 and the April level of 26.7. The index, officially designated as the Philadelphia FRB Manufacturing Activity Index, is designed so that positive readings point to expanding factory activity in the mid-Atlantic region. At its current level, the index suggests mid-Atlantic manufacturing has suddenly stagnated. The chart below shows how the index has fluctuated since just before the GFC.



Finally, April *housing starts* fell to a seasonally adjusted, annualized rate of 1.465 million units, beating the anticipated rate of 1.410 million units but falling short of the revised March rate of 1.507 million units. The rate of housing starts in April was down 2.8% from the rate in the previous month. April *housing permits* rose to a rate of 1.442 million units, beating both their expected rate of 1.384 million units and the revised March rate of 1.363 million units. Permits issued for new housing units in April were up 5.8% from the previous month. Compared with the same month one year earlier, housing starts in April were up 4.5%, while permits were down 0.1%. The chart below shows the growth in new home starts by type of property since just before the Great Financial Crisis.



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

Economic Releases						
EST	Indicator			Expected	Prior	Rating
9:45	S&P Global US Manufacturing PMI	m/m	May P	53.8	54.5	***
9:45	S&P Global US Services PMI	m/m	May P	51.2	51.0	***
9:45	S&P Global US Composite PMI	m/m	May P	51.8	51.7	***
11:00	Kansas City Fed Manufacturing Index	m/m	May	9	10	*
Federal Reserve						
EST	Speaker or Event	District or Position				
11:20	Austan Goolsbee Speaks in Chicago Radio Interviews	President of the Federal Reserve Bank of Chicago				
12:20	Thomas Barkin Speaks on the Economy	President of the Federal Reserve Bank of Richmond				

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	Trade Balance	y/y	Apr	¥236.4b	¥94.5b	-¥200.2b	**	Equity and bond neutral
	Exports	y/y	Apr	14.8%	11.7%	9.2%	*	Equity bullish, bond bearish
	Imports	y/y	Apr	9.7%	10.9%	8.5%	*	Equity bullish, bond bearish
	Japan Buying Foreign Bonds	w/w	15-May	¥758.7b	¥1644.3b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	15-May	-¥41.4b	-¥582.6b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	15-May	-¥1033.4b	¥106.2b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	15-May	¥949.6b	¥1393.5b		*	Equity and bond neutral
	Core Machine Orders	y/y	Mar	5.9%	24.7%	0.5%	**	Equity bullish, bond bearish
	S&P Global Japan Composite PMI	m/m	May P	51.1	52.2		*	Equity and bond neutral
	S&P Global Japan Manufacturing PMI	m/m	May P	54.5	55.1		***	Equity and bond neutral
	S&P Global Japan Services PMI	m/m	May P	50.0	51.0		*	Equity and bond neutral
	Tokyo Condominiums for Sale	y/y	Apr	15.6%	-35.5%		*	Equity and bond neutral
Australia	S&P Global Australia Composite PMI	m/m	May P	47.8	50.4		*	Equity and bond neutral
	S&P Global Australia Manufacturing PMI	m/m	May P	50.2	51.3		***	Equity and bond neutral
	S&P Global Australia Services PMI	m/m	May P	47.0	50.7		*	Equity and bond neutral
	Employment Change	m/m	Apr	-18.6k	23.3k	15.0k	***	Equity and bond neutral
	Unemployment Rate	m/m	Apr	4.5%	4.3%	4.3%	***	Equity and bond neutral
	Participation Rate	m/m	Apr	66.7%	66.8%	66.8%	**	Equity and bond neutral
New Zealand	Trade Balance NZD	m/m	Apr	1920m	430m		**	Equity and bond neutral
	Exports NZD	m/m	Apr	8.62m	7.66m		**	Equity and bond neutral
	Imports NZD	m/m	Apr	6.70m	7.23m		**	Equity and bond neutral
South Korea	PPI	y/y	Apr	6.9%	4.1%		**	Equity and bond neutral
India	HSBC India PMI Composite	m/m	May P	58.1	58.2		**	Equity and bond neutral
	HSBC India PMI Mfg	m/m	May P	54.3	54.7		***	Equity and bond neutral
	HSBC India PMI Services	m/m	May P	58.9	58.8		**	Equity and bond neutral
EUROPE								
Eurozone	S&P Global Eurozone Manufacturing PMI	m/m	May P	51.4	52.2	51.8	***	Equity and bond neutral
	S&P Global Eurozone Services PMI	m/m	May P	46.4	47.6	47.8	**	Equity bearish, bond bullish
	S&P Global Eurozone Composite PMI	m/m	May P	47.5	48.8	48.8	*	Equity bearish, bond bullish
	Construction Output	y/y	Mar	-1.2%	-3.0%		*	Equity and bond neutral
Germany	S&P Global Germany Manufacturing PMI	m/m	May P	49.9	51.4	51.0	***	Equity and bond neutral
	S&P Global Germany Services PMI	m/m	May P	47.8	46.9	47.0	**	Equity and bond neutral
	S&P Global Germany Composite PMI	m/m	May P	48.6	48.4	48.5	**	Equity and bond neutral
France	S&P Global France Manufacturing PMI	m/m	May P	48.9	52.8	52.1	***	Equity and bond neutral
	S&P Global France Services PMI	m/m	May P	42.9	46.5	46.7	**	Equity and bond neutral
	S&P Global France Composite PMI	m/m	May P	43.5	47.6	47.7	**	Equity and bond neutral
Italy	Current Account Balance	m/m	Mar	1748m	3558m		*	Equity and bond neutral
UK	S&P Global UK Manufacturing PMI	m/m	May P	53.7	53.7	53.0	***	Equity and bond neutral
	S&P Global UK Services PMI	m/m	May P	47.9	52.7	51.7	**	Equity and bond neutral
	S&P Global UK Composite PMI	m/m	May P	48.5	52.6	51.6	**	Equity bearish, bond bullish
Switzerland	Industrial Output WDA	y/y	Q1	-7.1%	-0.4%		*	Equity and bond neutral
	M3 Money Supply	y/y	Apr	4.3%	4.5%		**	Equity and bond neutral
Russia	PPI	y/y	Apr	5.5%	-1.8%		***	Equity and bond neutral
AMERICAS								
Mexico	Retail Sales	y/y	Mar	2.9%	3.1%	2.0%	***	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	356	0	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)	218	220	-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.

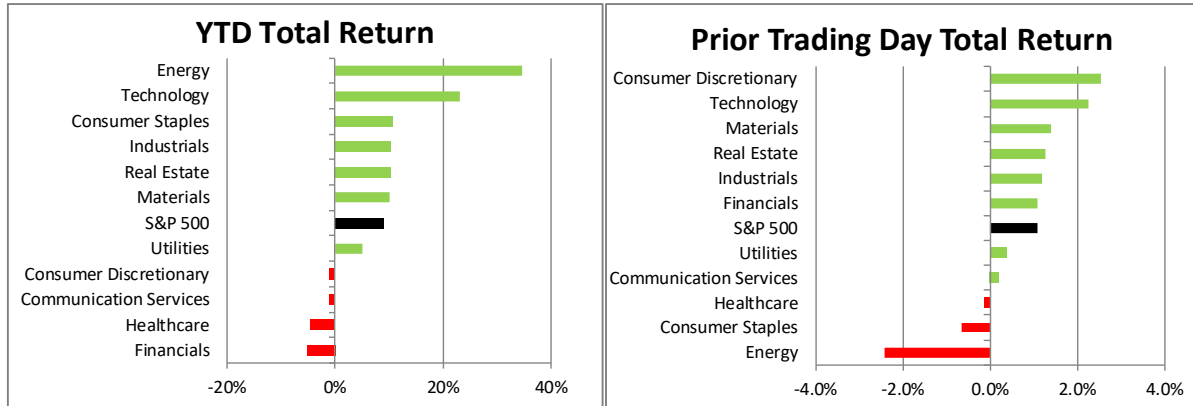
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$106.95	\$105.02	1.84%	
WTI	\$100.69	\$98.26	2.47%	
Natural Gas	\$3.03	\$3.00	0.73%	
Crack Spread	\$49.11	\$49.91	-1.60%	
12-mo strip crack	\$40.51	\$40.93	-1.02%	
Ethanol rack	\$2.21	\$2.21	0.05%	
Metals				
Gold	\$4,515.91	\$4,544.19	-0.62%	
Silver	\$74.89	\$75.90	-1.33%	
Copper Contract	\$626.45	\$633.05	-1.04%	
Grains				
Corn contract	\$464.25	\$465.75	-0.32%	
Wheat contract	\$654.50	\$660.50	-0.91%	
Soybeans contract	\$1,199.00	\$1,199.75	-0.06%	
Shipping				
Baltic Dry Freight	3,005	3,054	-49	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)	-7.86	-2.50	-5.36	
Gasoline (mb)	-1.55	-2.16	0.61	
Distillates (mb)	0.37	-1.65	2.02	
Refinery run rates (%)	-0.01%	0.90%	-0.91%	
Natural gas (bcf)		96		

Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures from the Great Plains to the East Coast, with near-normal temperatures elsewhere. The outlook calls for wetter-than-normal conditions in California, the northern and central Rocky Mountains, the Great Plains, and the Deep South, with dry conditions in the Great Lakes and Northeast regions.

Data Section

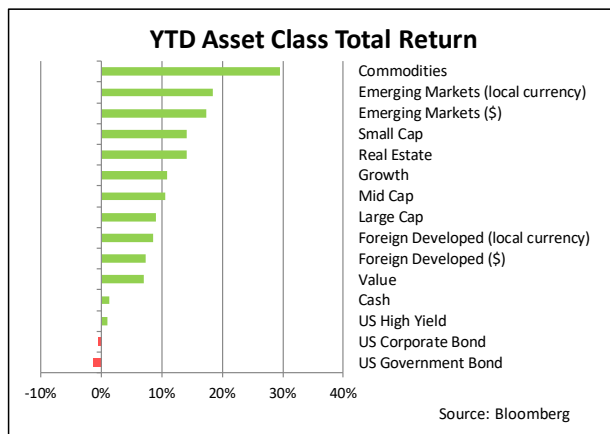
US Equity Markets – (as of 5/20/2026 close)



(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 5/20/2026 close)

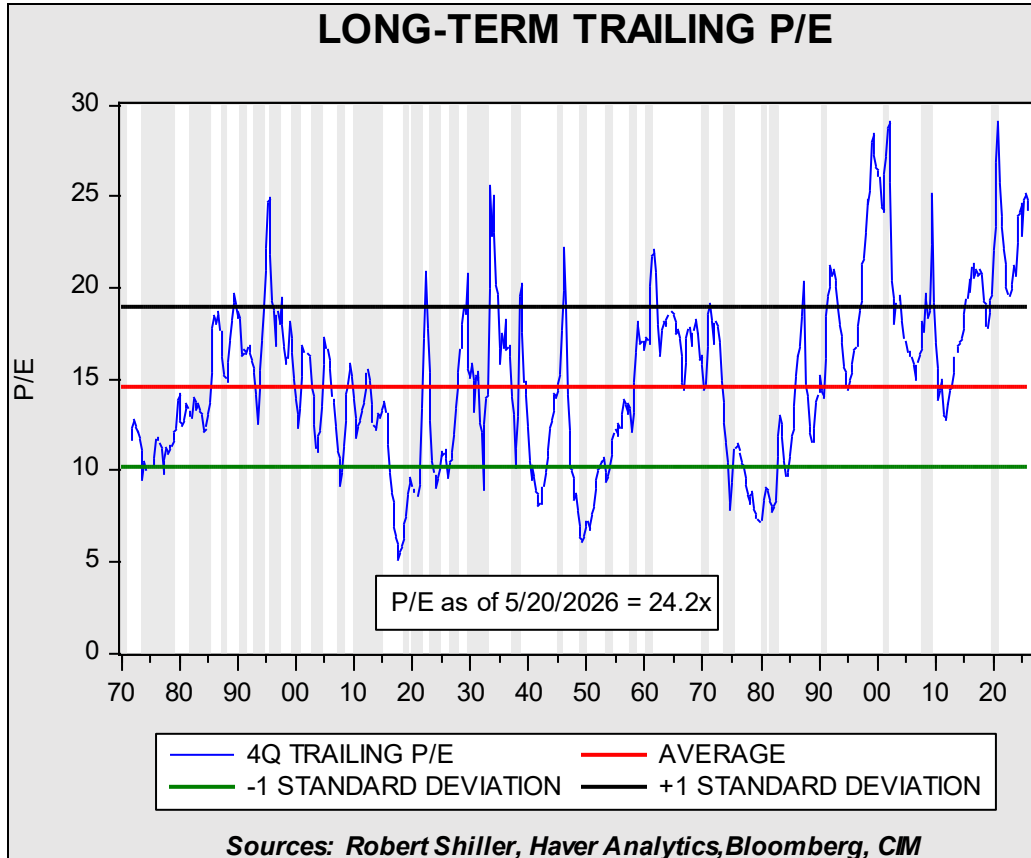


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 21, 2026



Based on our methodology,¹ the current P/E is 24.2x, up 0.1 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.