Daily Comment

Confluence Investment Management

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[Posted: May 26, 2026 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is down 0.7% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.7%. Chinese markets were lower, with the Shanghai Composite down 0.2% and the Shenzhen Composite down 0.6%. US equity index futures are signaling a higher open.

With 475 companies having reported so far, S&P 500 earnings for Q1 are running at $80.80 per share compared to estimates of $72.32, up 12.6% from Q1 2025. Of the companies that have reported thus far, 83.2% exceeded expectations, while 11.4% 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

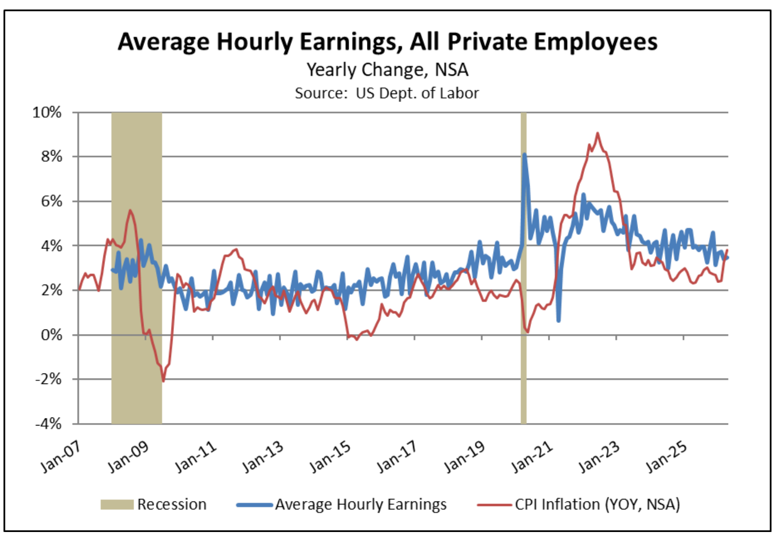
Have a question on the economy, markets, geopolitics, or other important topics? You can submit your queries to our monthly podcast, *Confluence Mailbag*! Submit your question to mailbag@confluenceim.com.

Our *Comment* today opens with an update on the Iran war, where the optimism over a potential new peace deal late last week has started to give way in the face of new US attacks on Iran's military over the last 24 hours. We next review several other international and US developments that could affect the financial markets today, including new data showing that rising prices are starting to push down consumer purchasing power around the world and new research indicating that deregulation has opened up huge new lending opportunities for US banks.

United States-Israel-Iran: Despite statements late last week by President Trump and other US and Iranian officials indicating a 60-day ceasefire extension was in the works, the president, starting on Saturday, suggested the deal could still take several days to be finalized. Of course, the hints of a new deal could be mostly political posturing as in the past. It would not be a surprise if no deal materializes this week. The US yesterday also launched attacks on Iranian missile sites and mine-laying boats, further undermining hopes for a more permanent end to the fighting.

- In any case, the key point is probably that even if a peace deal is struck, normalizing global energy and commodity flows in the Middle East would likely take a year or more. That suggests global energy and commodity prices are likely still at risk of further increases, which would potentially weigh on economic growth around the world, drive government bond yields even higher, and cause important political implications.
- Separately, Israeli Prime Minister Netanyahu ordered his military to step up its attacks on the Islamist militant group Hezbollah in southern Lebanon. The move came after far-right members of Netanyahu's cabinet demanded a full-scale resumption of Israel's offensive there in defiance of the US administration's preference that they stand down to support the current US-Iranian ceasefire.
- While global oil prices had fallen sharply into the weekend on hopes for a peace deal, the new US strikes on Iran and Iranian threats to retaliate have given a boost to oil prices this morning. Near futures prices for Brent crude are up some 2.9% so far today to about $96.20 per barrel.

Global Labor Market: An article in the *Financial Times* today notes that spiking prices for energy and other commodities are threatening to cut the total purchasing power of workers around the world. In the US, for example, we have noted that the consumer price index in April was up 3.8% from the same month one year earlier, while average hourly earnings were only up 3.5%. The *FT* article notes that the trend is moving in the same direction in economies such as the UK and the eurozone, which will likely weigh on growth and asset values.



European Union-China: Five key EU countries have signed a paper calling for the bloc to respond more aggressively to "systemic and structural industrial overcapacity," a phrase that is often taken as shorthand for China. The paper by the Netherlands, France, Spain, Italy, and

Lithuania illustrates how the EU is increasingly riven by disagreements over whether to engage more closely with Beijing to offset a fraying US relationship or erect strong trade barriers to protect domestic industries.

- The issue will be discussed at an EU summit on Friday.
- For investors, the risk is that if trade and investment flows between the EU and China remain relatively unfettered, EU companies could gradually be weakened, even if they preserve some economic opportunities in the short term. However, tougher trade and investment barriers could lead to a trade war that results in immediate disruptions.

United States-Japan: The US has reportedly warned Japan that its purchase of 400 Tomahawk cruise missiles will be severely delayed as Washington works to rebuild its depleted arsenal after the Iran war. Japan's Tomahawk purchase was meant to give it advanced strike capabilities and help it defend itself against China while it worked to develop its own missiles. The delay will likely spur Japan to redouble its missile development efforts, potentially giving further impetus to its expanding defense industry and creating new investment opportunities.

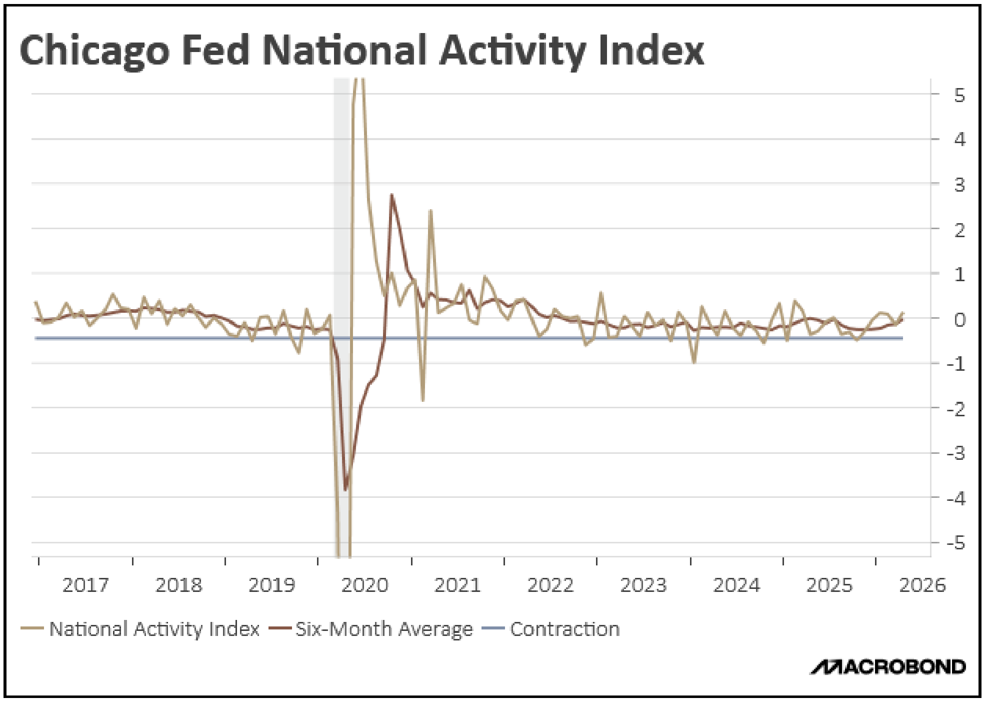
United Kingdom: New data yesterday said bank lending to non-financial companies fell to 59% of the UK's GDP in the third quarter of 2025, marking the lowest level in almost 30 years. The figures were especially weak for lending to small- and medium-sized firms. The reduced bank lending reflects both weak economic growth and tougher bank regulation.

Indonesia: In a little noticed announcement last week, President Prabowo said the government will take control of the country's major commodity exports. The first two commodities brought into the plan will be coal and palm oil. By taking the control of foreign commodity sales away from legions of middlemen, Prabowo's goal is to curb tax evasion and improve efficiency. However, few details have been released, leaving producers and current middlemen unsure of how to proceed.

US and UK Banking Industries: New research by consultancy Alvarez & Marsal has found that deregulation allowed major banks in the US and UK to expand their balance sheets by a cumulative $1.3 trillion over just the last two quarters, giving them a significant leg up on their more constrained rivals in the eurozone and Switzerland. The figure illustrates the under-appreciated impact of recent reforms in the US and UK, which should be supportive of those countries' bank stocks.

US Economic Releases

The Chicago Fed said its April ***National Activity Index (CFNAI)*** increased to +0.14, well above both the expected reading of -0.30 and the March revised reading of -0.15. The CFNAI, which encompasses dozens of separate indicators to capture all aspects of current economic activity, is designed so that readings of 0.00 reflect the economy growing at trend. Our analysis shows that when the six-month moving average of the CFNAI falls below about -0.45, it suggests the economy is in recession. With the latest reading, the index suggests the economy continues to grow slightly below trend, but well above the recession indicator. The chart below shows how the CFNAI has fluctuated over the last several decades.



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	Conf. Board Consumer Confidence	m/m	May	92.0	92.8	***
10:30	Dallas Fed Manufacturing Activity	m/m	May	0.0	-2.3	**
Federal Reserve						
EST	Speaker or Event	District or Position				
20:20	Neel Kashkari Speaks at Bank of Japan Conference	President of the Federal Reserve Bank of Minneapolis				

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	Nationwide Dept Sales	y/y	Apr	5.20%	3.20%		***	Equity and bond neutral
	Leading Economic Index	m/m	Mar F	114.0	114.5		**	Equity and bond neutral
	Coincident Index	y/y	Mar F	116.4	116.5		**	Equity and bond neutral
	Machine tool orders	y/y	Apr F	45.1%	45.1%		**	Equity and bond neutral
EUROPE								
Switzerland	Domestic Sight Deposits CHF	w/w	22-May	437.9b	438.4b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	22-May	468.9b	471.1b		*	Equity and bond neutral
AMERICAS								
Canada	Retail Sales	m/m	Mar	0.9%	0.7%	0.6%	**	Equity and bond neutral
	Retail Sales Ex-Autos	m/m	Mar	1.4%	0.6%	0.9%	**	Equity and bond neutral
	Industrial Product Price	m/m	Apr	2.0%	2.8%	1.3%	**	Equity bearish, bond bullish
	Raw Material Prices	m/m	Apr	2.6%	11.9%	2.6%	*	Equity and bond neutral
Mexico	Exports	m/m	Apr	72042m	70727m		*	Equity and bond neutral
	Imports	m/m	Apr	67522m	64795m		*	Equity and bond neutral
	Trade Balance	m/m	Apr	4520.0m	5932.0m	476.4m	**	Equity and bond neutral
Brazil	FGV Construction Costs	m/m	May	0.77%	1.04%	0.80%	*	Equity and bond neutral
	Current Account Balance	m/m	Apr	-$1765m	-$5941m	-$150m	**	Equity and bond neutral
	Foreign Direct Investment	m/m	Apr	$8912m	$6037m	$5433m	**	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)	358	359	-1	Up
U.S. Sibor/OIS spread (bps)	366	366	0	Flat
U.S. Libor/OIS spread (bps)	365	366	-1	Up
10-yr T-note (%)	4.49	4.56	-0.07	Down
Euribor/OIS spread (bps)	220	220	0	Up
Currencies	**3 Mo**			
Dollar	Down	US		Up
Euro	Up	Euro		Down
Yen	Up	Japan		Down
Pound	Up	UK		Flat
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.

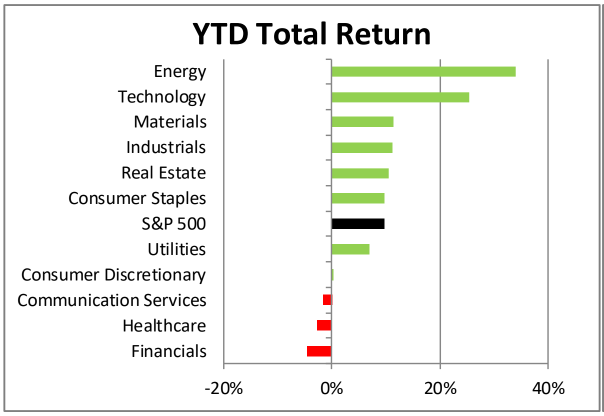
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$99.03	$96.14	3.01%	
WTI	$92.68	$96.60	-4.06%	Easing Geopolitical Tensions, supply growth, demand pessimism
Natural Gas	$2.93	$2.91	0.83%	
Crack Spread	$49.47	$50.42	-1.87%	
12-mo strip crack	$40.12	$40.97	-2.09%	
Ethanol rack	$2.23	$2.23	0.00%	
Metals				
Gold	$4,511.44	$4,570.50	-1.29%	
Silver	$76.07	$78.08	-2.58%	
Copper Contract	$637.65	$637.90	-0.04%	
Grains				
Corn contract	$458.50	$463.25	-1.03%	
Wheat contract	$638.25	$646.25	-1.24%	
Soybeans contract	$1,189.75	$1,196.50	-0.56%	
Shipping				
Baltic Dry Freight	2,991	2,964	27	

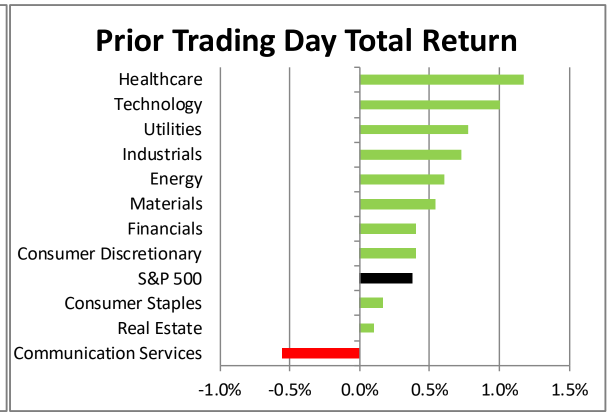
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures throughout most of the country, with cooler temperatures in the Southeast region and Texas. The precipitation outlook calls for wetter-than-normal conditions throughout most of the South, with dry conditions in the Great Lakes and Northeast regions.

Data Section

US Equity Markets – (as of 5/22/2026 close)

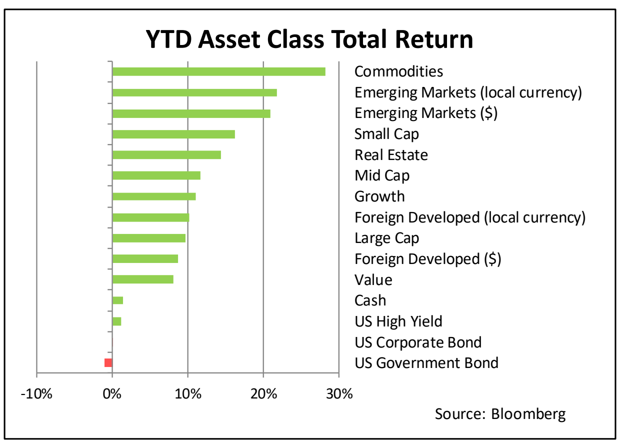




(Source: Bloomberg)

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 5/22/2026 close)

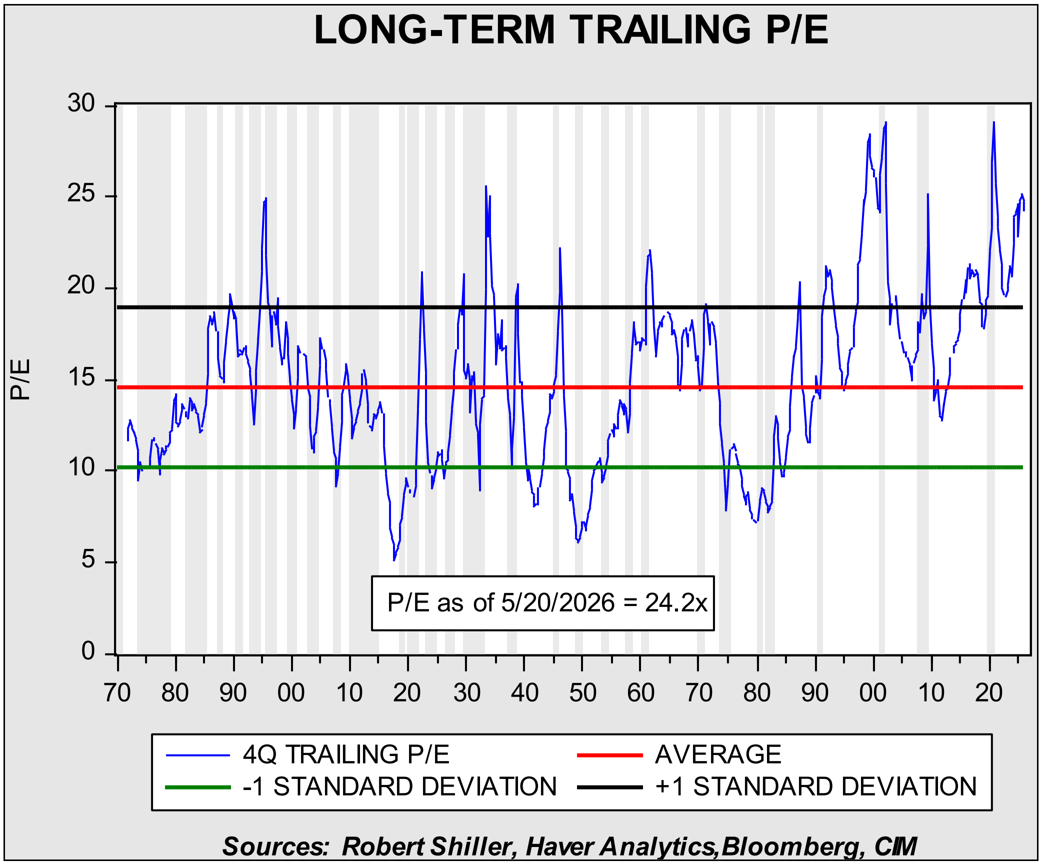


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.

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[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.