



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: May 27, 2026 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 0.8% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 2.3%. Chinese markets were lower, with the Shanghai Composite down 1.3% and the Shenzhen Composite also down 1.3%. 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* opens with our takeaways from the pope’s first encyclical letter. We then turn to the war in Ukraine and its broader implications for modern conflict. Next, we briefly review the strong performance of chipmakers, the Texas primary, and the latest consumer confidence data. As always, we conclude with a summary of recent domestic and international economic developments.

Pope’s AI Warning: Although artificial intelligence is becoming more ubiquitous, there are growing calls for stronger guardrails. Over the weekend, [Pope Leo XIV compared the rush to develop AI to the Tower of Babel in Genesis](#), using the analogy to underscore rising unease

about both the pace of innovation and growing overconfidence in its ultimate impact. His remarks come amid broader concerns that the market’s enthusiasm for AI could prove vulnerable to a reversal if expectations run ahead of reality.

- In Genesis 11, the Tower of Babel serves as a cautionary account of human ambition outpacing restraint. The story describes a unified effort to build a city and a tower reaching the heavens — an expression of collective confidence and self-sufficiency. In response, God disrupts the project by confounding their language and dispersing the population, effectively halting progress. The episode is often interpreted as a warning about the risks of unchecked ambition and the limits of human control.
- The pope’s appeal comes at a moment when the rapid rollout of AI is generating significant disruption but, so far, only modest and uneven gains. A recent research paper from the [Federal Reserve Bank of San Francisco finds that AI’s impact on productivity has been mixed](#), with benefits concentrated in a few sectors and slow diffusion elsewhere. Reflecting similar concerns from the private sector, [Uber’s COO has acknowledged that the company’s substantial AI investments have yet to deliver consistently strong returns](#).



- AI remains the dominant market theme, but the related stocks have been highly volatile. They sold off in fall [2024 on worries about frothy valuations after Nvidia’s earnings underwhelmed sky-high expectations](#). The group weakened again [in early 2025 after DeepSeek’s launch](#), which investors saw as a competitive threat to leading US AI firms. Another downturn in [fall 2025 followed renewed concerns that circular revenue models](#) in the AI ecosystem were undermining the durability of underlying business momentum.
- AI still has strong momentum, but we think the rally is vulnerable to a sudden shock that could reset expectations, even if no such trigger is currently visible. We therefore recommend maintaining some exposure to value stocks as a buffer in periods of

uncertainty, given their tendency to outperform during past episodes of market stress. While this diversification can mean some relative underperformance in powerful growth-led rallies, it also supports better capital preservation over time.

The Forgotten War: While there are tentative discussions about ending the US-Iran standoff, the war between Russia and Ukraine appears to be entering a new phase. On Tuesday, [Moscow warned civilians and diplomats to leave Kyiv](#) as it announced plans to target “decision-making centers” in Ukraine’s capital. The escalation comes as Russia seeks to regain momentum after recent setbacks. The ongoing conflict in Ukraine also helps explain why the United States and Iran are struggling to find a clear off-ramp as markets push for de-escalation.

- Moscow’s decision to escalate the conflict comes as momentum on the battlefield has shifted against it. In recent months, Ukrainian forces have regained some territory, though it remains unclear whether they can decisively tilt the war in their favor. A key concern for the Kremlin is that domestic support for the campaign may be eroding, and authorities have reportedly tightened control over Telegram, a popular social media platform, in an effort to shape and contain the narrative.
- Moscow is contending with setbacks, but Ukraine is also facing mounting challenges. A report on Monday [indicated that roughly half of the countries participating in the Czech-led ammunition initiative](#) for Ukraine have pulled out, potentially constraining supplies of badly needed shells and other munitions. Although the specific states that withdrew were not identified, Germany and several Nordic countries are reported to be continuing their military support for Ukraine.
- Ukraine and Iran’s abilities to prolong conflict reflects how cheaper weapons, particularly drones, have made it easier and less costly for states to defend their territory. These capabilities mean that, even if they cannot decisively defeat a stronger adversary, smaller countries can continue fighting and inflicting damage despite losses of key military systems. In this environment, they have little incentive to accept unconditional surrender.
- Similar to the US-Iran conflict, the lack of a clear victory has made it difficult for the two sides to reach an agreement, largely due to concerns about political backlash from the costs incurred. Russia is in a particularly difficult position, as it needs something to show for its massive casualties and the likely continued isolation resulting from the invasion. These prolonged conflicts are likely to become more common, as cheaper weapons make it easier for smaller nations to fight larger ones.

Chip Demand: AI chipmakers Micron and SK Hynix have both crossed the \$1 trillion mark as demand for processors that power cloud-based AI services continues to outstrip supply. Memory chip producers, in particular, underscore the centrality of hardware to AI build-outs and have been among the largest beneficiaries of big tech’s infrastructure push. Yet, while these companies are thriving today, it is important to remember that the chip industry has historically been highly cyclical, with frequent booms and busts driven by shifts in supply and demand.

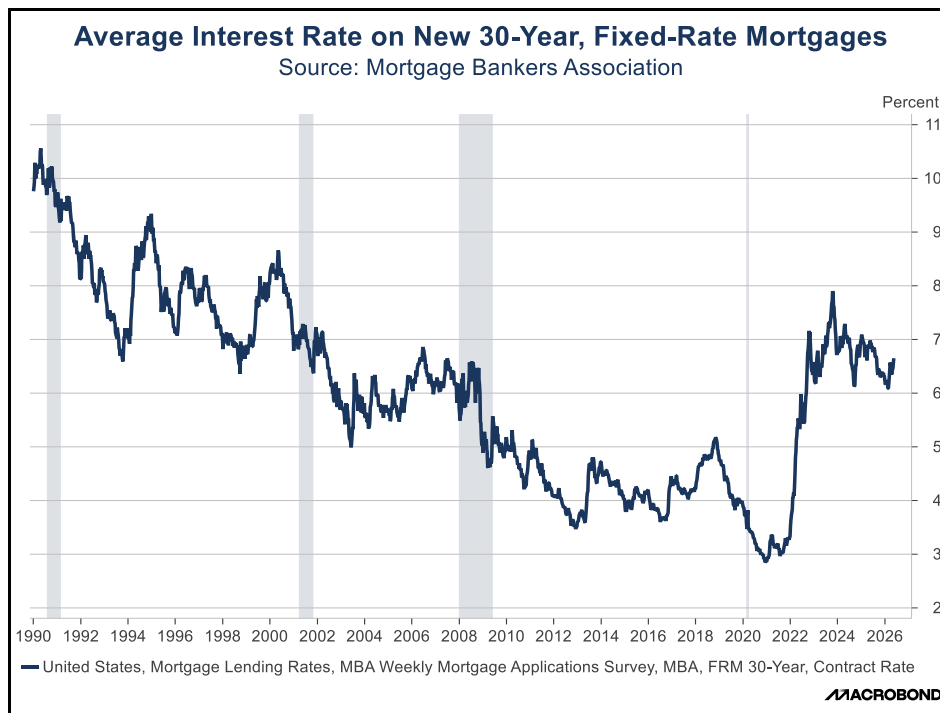
Texas Primary: [Texas Attorney General Ken Paxton defeated Senator John Cornyn in the Republican Senate primary](#). His victory has created an opening for Democrats, as [James Talarico is currently viewed as having a slight edge](#) in early polling. A Democratic pickup of this seat

would significantly increase the odds that Republicans lose their Senate majority. Reflecting this shift, the [Cook Political Report moved the race from “likely Republican” to “lean Republican.”](#)

Consumer Confidence: The Conference Board reported [a modest easing in consumer sentiment in May](#). The decline reflects persistent inflation concerns, which continue to weigh on household expectations for future prices of goods and services. Compared with the University of Michigan survey, the Conference Board’s measure — typically more sensitive to labor market conditions than inflation — has shown a more moderate deterioration. Even so, the data indicates that household economic expectations remain notably less optimistic than prevailing market sentiment.

US Economic Releases

The Mortgage Bankers Association said *mortgage applications* in the week ended May 22 fell 8.5%, following their 2.3% decline in the previous week. Applications for home purchase mortgages edged down 0.4%, after falling 4.1% in the prior week. Applications for refinancing mortgages plunged 18.1%, after falling just 0.1% the week before. Consistent with the recent jump in mortgage interest rates, applications for refinancing mortgages have now declined for five straight weeks. In the latest week, the average interest rate on a 30-year, fixed-rate mortgage rose 9 basis points to 6.65%. The chart below shows how mortgage rates have changed over time.



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	Richmond Fed Manufact. Index	m/m	May	4	3	**
Federal Reserve						
EST	Speaker or Event	District or Position				
4:00	Lorie Logan Speaks in Panel Discussion	President of the Federal Reserve Bank of Dallas				
15:55	Lisa Cook Speaks on AI, the Economy and Financial System	Members of the Board of Governors				
20:00	Philip Jefferson Speaks on Panel	Vice-Chair of the Board of Governors				
22:25	Austan Goolsbee Participates in Panel	President of the Federal Reserve Bank of Chicago				

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	3.0%	3.3%	3.3%	***	Equity and bond neutral
Australia	CPI	y/y	Apr	4.2%	4.6%	4.4%	**	Equity and bond neutral
South Korea	Retail Sales	y/y	Apr	7.2%	--		**	Equity and bond neutral
	Depart. Store Sales	y/y	Apr	21.7%	--		*	Equity and bond neutral
	Discount Store Sales	y/y	Apr	-6.6%	--		*	Equity and bond neutral
China	Industrial Profits	y/y	Apr	24.7%	15.8%		*	Equity and bond neutral
EUROPE								
Eurozone	ECB Current Account SA	m/m	Apr	5.1%	12.5%		*	Equity and bond neutral
France	Consumer Confidence	m/m	Apr	82.0	84.0	83.0	***	Equity and bond neutral
Italy	Industrial Sales WDA	y/y	Mar	4.4%	0.5%		*	Equity and bond neutral
AMERICAS								
Mexico	International Reserves Weekly	w/w	22-May	\$255816m	\$255758m		*	Equity and bond neutral
Brazil	IBGE Inflation IPCA-15	m/m	May	4.64%	4.37%	4.60%	***	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	358	0	Up
U.S. Sibor/OIS spread (bps)	366	366	0	Up
U.S. Libor/OIS spread (bps)	365	365	0	Up
10-yr T-note (%)	4.48	4.49	-0.01	Down
Euribor/OIS spread (bps)	219	220	-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
Central Bank Action	Actual	Prior	Expected	
RBNZ Official Cash Rate	2.25%	2.25%	2.25%	On Forecast

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.

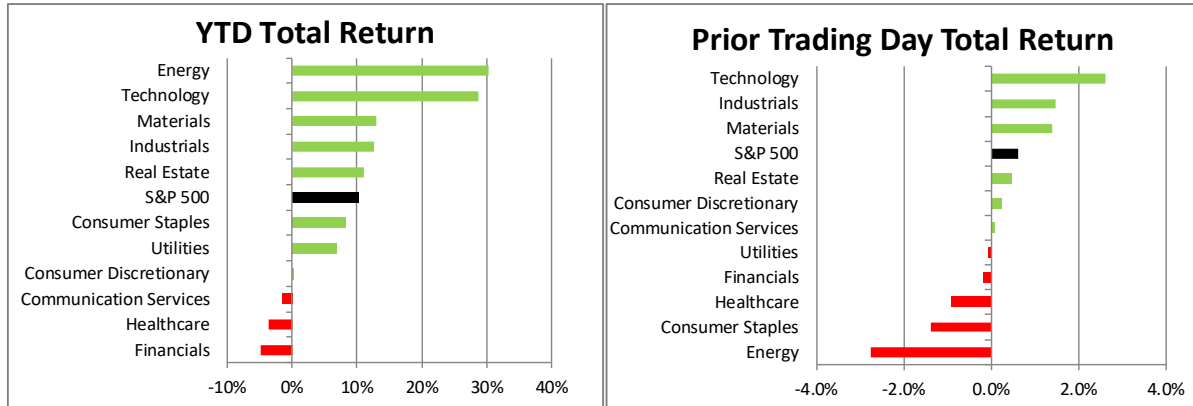
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$96.89	\$99.58	-2.70%	
WTI	\$90.32	\$93.89	-3.80%	
Natural Gas	\$2.92	\$2.89	0.93%	
Crack Spread	\$44.94	\$45.21	-0.59%	
12-mo strip crack	\$38.67	\$39.52	-2.15%	
Ethanol rack	\$2.21	\$2.21	-0.01%	
Metals				
Gold	\$4,433.18	\$4,507.88	-1.66%	
Silver	\$73.66	\$76.91	-4.22%	
Copper Contract	\$636.70	\$639.70	-0.47%	
Grains				
Corn contract	\$455.75	\$457.50	-0.38%	
Wheat contract	\$625.75	\$635.50	-1.53%	
Soybeans contract	\$1,184.75	\$1,186.00	-0.11%	
Shipping				
Baltic Dry Freight	3,085	2,991	94	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-2.50		
Gasoline (mb)		-2.16		
Distillates (mb)		-1.65		
Refinery run rates (%)		0.90%		
Natural gas (bcf)		96		

Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in the Far West, the northern and central Great Plains, the Midwest, the Northeast, and Florida, with cooler-than-normal temperatures in the southern Great Plains and the Southeast excluding Florida. 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 Great Lakes and Northeast regions.

Data Section

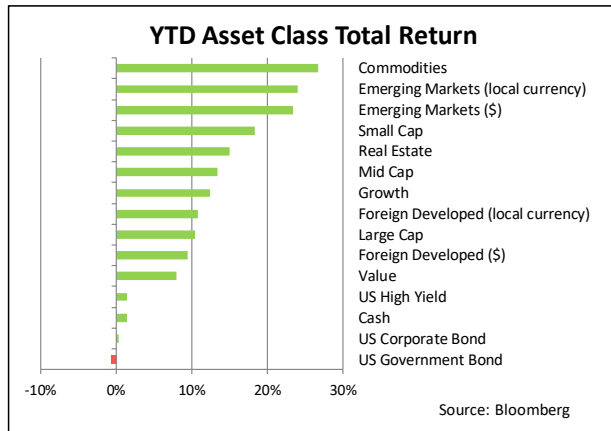
US Equity Markets – (as of 5/26/2026 close)



(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 5/26/2026 close)

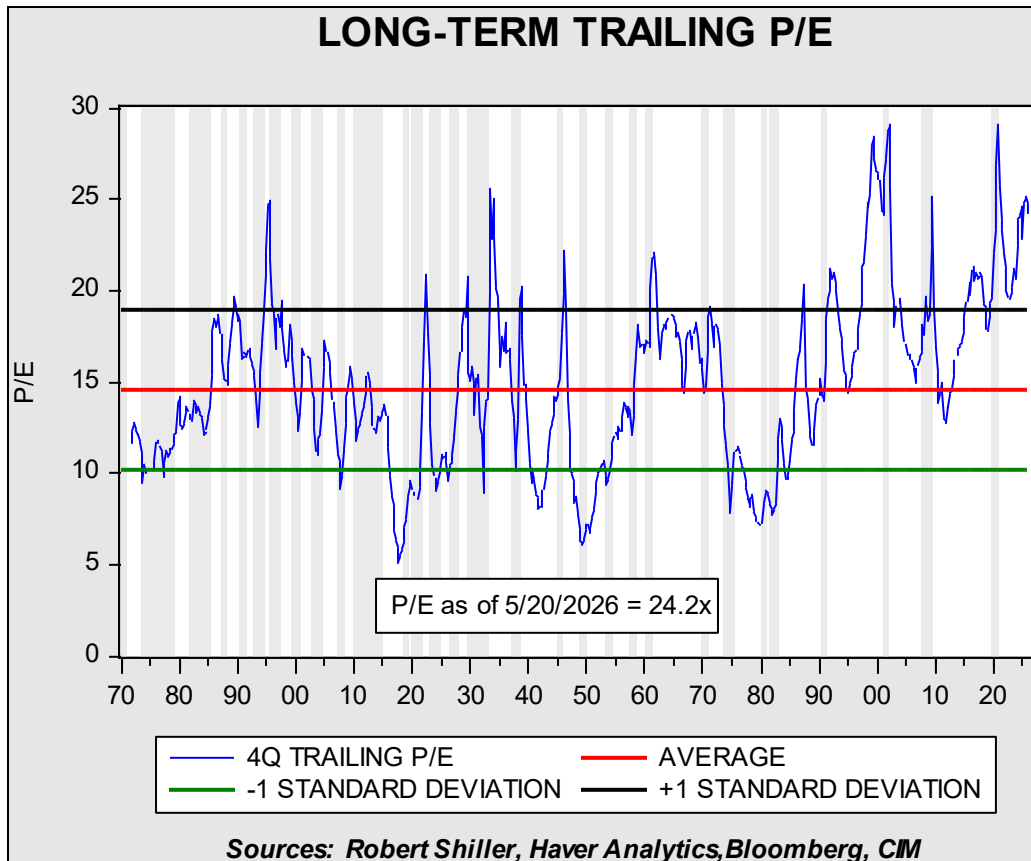


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.