Daily Comment

Confluence INVESTMENT MANAGEMENT

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: May 28, 2026 — 9:30 AM ET] Global equity markets are mixed 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 down 1.1%. Chinese markets were higher, with the Shanghai Composite up 0.1% and the Shenzhen Composite up 0.9%. US equity index futures are signaling a lower open.

With 479 companies having reported so far, S&P 500 earnings for Q1 are running at $80.90 per share compared to estimates of $72.32, up 12.6% from Q1 2025. Of the companies that have reported thus far, 83.3% exceeded expectations, while 11.3% 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.

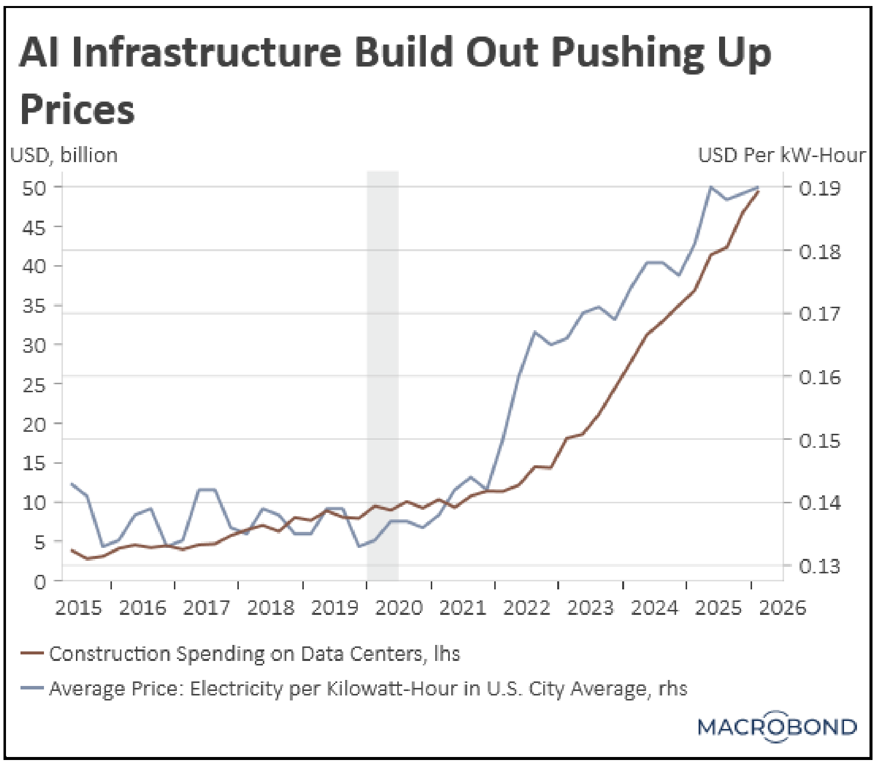
Bi-Weekly Geopolitical Report	Asset Allocation Bi-Weekly	Asset Allocation Quarterly	Of Note
"The Trade Trilemma *Revisited*" (5/18/26) + podcast (5-21/26)	"The Power of Gold" (5/11/26) + podcast (5/20/26)	Q2 2026 Report	Confluence of Ideas podcast Confluence Mailbag

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 thoughts on a potential AI tax. We then turn to Federal Reserve policy and the possibility of a rate hike. Next, we provide brief updates on the US-Iran conflict and the rise in semiconductor stocks. As always, we include a review of recent domestic and international economic data.

Taxing AI: In a recent *Time* op-ed, Senator Elizabeth Warren (D-MA) called for changes to the tax code that would channel a portion of AI-related gains into federal revenue and ensure the benefits are shared more broadly with everyday Americans. Her proposal comes as lawmakers search for ways to make rapid advances in AI more politically and socially acceptable to voters. It also lands at a moment when AI is playing a growing role in the economy while facing mounting public backlash over its pace of adoption, perceived equity implications, and the extent to which its expansion is seen as being facilitated by government support.

- Most of her tax proposals are familiar, including a wealth tax and higher capital gains taxes, and do not target AI specifically. However, she is also floating a more novel idea: an excise tax on data centers' energy usage, which has received limited mainstream attention so far. In her view, such a levy would help large tech firms compensate local communities for higher utility costs tied to surging data-center demand, and support the competitiveness of US companies in the global AI race.
- The idea of taxing data centers is not new as there has also been a recent push to tax computer processing. The key distinction between taxing energy and taxing computation is that an energy tax applies to the electricity consumed, while a compute tax applies to the volume of computational work itself. An electricity tax mainly nudges firms toward cheaper or cleaner power sources, whereas a compute-based tax would more directly incentivize reducing or optimizing workloads.

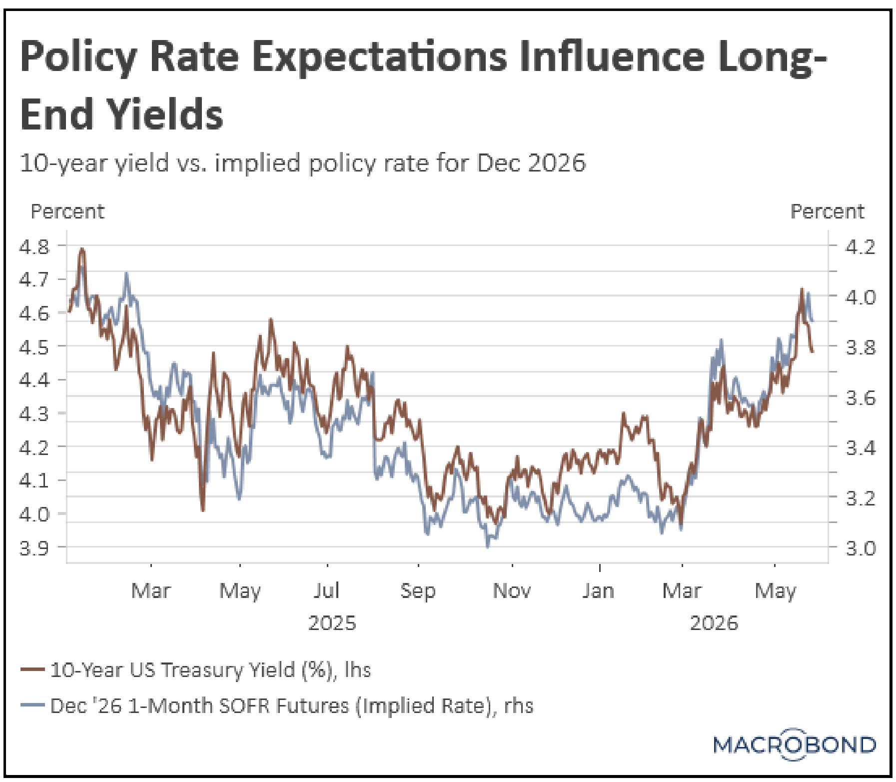


- The renewed push to tax AI comes as major tech companies sharply increase capital spending to keep up with surging demand for the technology. In 2025, Nvidia CEO Jensen Huang argued that computing capacity will need to scale by orders of magnitude — potentially up to 1,000x — to support more advanced, agentic forms of AI. If AI capacity growth continues on this trajectory, an AI-linked tax on energy use or consumption could become a meaningful revenue source for governments over time.
- While the idea of an AI tax remains purely speculative for now, it could gain momentum heading into the 2028 election. If enacted, such a tax would likely create a headwind for

tech companies that rely heavily on data centers, as it would increase their operating costs. However, if AI continues to grow as fast as projected, the tax could also help raise government revenue and reduce the national debt, which might ultimately bring down longer-term bond yields.

Hikes Possible? Nearly a month after the last FOMC meeting, Fed officials appear to be shifting away from an easing bias toward a more tightening-oriented stance. Following Governor Christopher Waller's call to abandon the easing bias, several policymakers have begun signaling openness to a rate hike later this year. This shift in sentiment will likely place upward pressure on bond yields, as markets begin to reprice the policy path to reflect a higher probability of further tightening.

- On Wednesday, Fed Governor Lisa Cook highlighted a range of risks to the Fed's price stability mandate, including artificial intelligence related disruptions, tariffs, and escalating tensions with Iran. She indicated a willingness to raise interest rates if inflation remains elevated. In contrast, Fed Governor Philip Jefferson struck a more optimistic tone suggesting that current policy remains well positioned, noting that inflation appears to be cooling, while emphasizing that upside risks to inflation persist.
- Inflation risks are rising as the Federal Reserve confronts a series of overlapping supply shocks. The AI build-out is lifting household utility costs and memory chip prices, while tariffs are increasing import prices. At the same time, the war in Iran is pushing up energy and food costs. These pressures are already feeding into goods prices — historically the more responsive component — but may increasingly spill over into services, where disinflation has proven far more persistent.



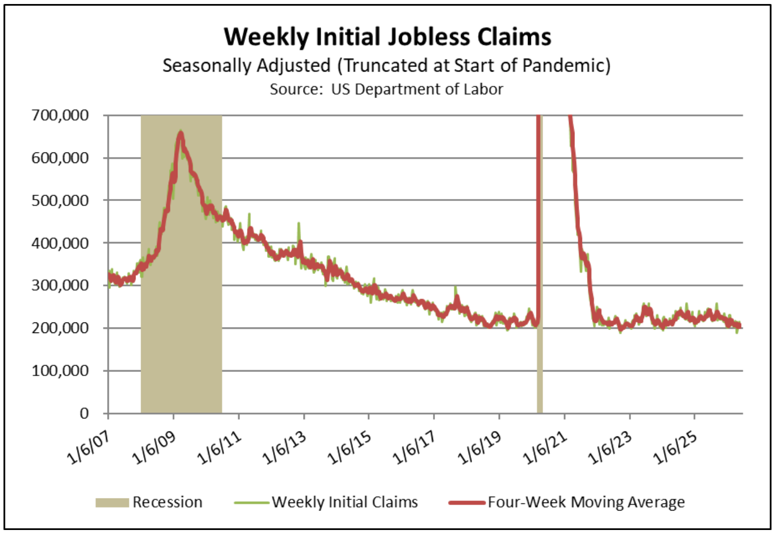
- The recent shift in risk sentiment has started to push the 10-year Treasury yield higher. Market pricing indicates that the 10-year yield remains highly sensitive to year-end fed funds expectations. That tight relationship reflects the fact that long-term yields are largely driven by the expected path of short-term rates plus the term premium investors demand for bearing inflation, and bond supply risk over time. However, we think geopolitical risks may also be impacting term premia.
- The Fed's pivot marks the start of a new regime during which the central bank must navigate recurring, supply-driven geopolitical shocks — something it has not faced at this scale before. This backdrop is likely to complicate monetary-policy calibration over the next several years, particularly as the global economy continues to deglobalize. In our view, that combination argues for elevated volatility in long-term rates as the Fed adapts its reaction function to an evolving geopolitical landscape.

Iran Setback: The US on Thursday carried out multiple strikes on Iranian targets in the Strait of Hormuz, underscoring its commitment to keeping the waterway open. Ahead of the strikes, the US president vowed not to allow any actor to control the strait and warned Oman, a US ally, against supporting any Iranian effort to impose a toll in the region. Although the current truce still appears to be holding, developments on the ground suggest the ceasefire remains fragile.

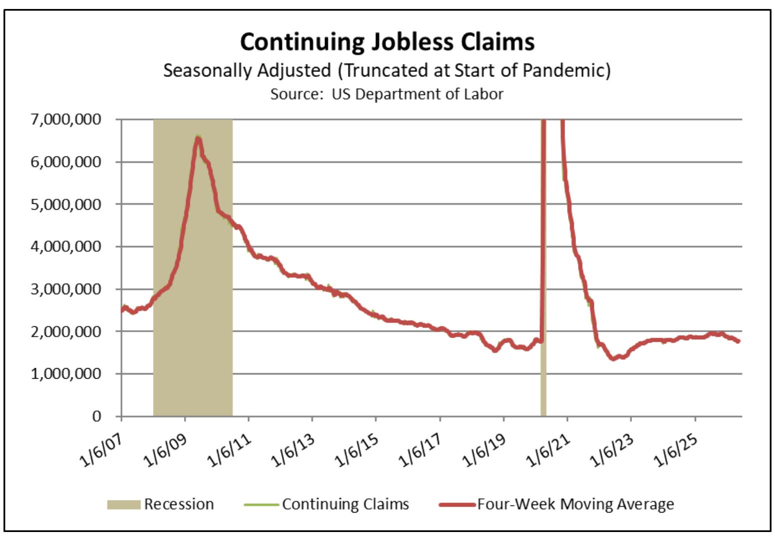
Chipmakers Rise: AI enthusiasm has propelled chipmakers to their strongest run since the dot-com era. The PHLX Semiconductor Index is up roughly 75% year-to-date, marking its best start to a year since 1999. The move has been driven largely by surging AI-related capex and earnings expectations, even as macro and geopolitical uncertainty remain elevated. While we see scope for further upside in the near term, we continue to advocate adding value exposure as a way to mitigate concentration risk in AI-heavy growth names.

US Economic Releases

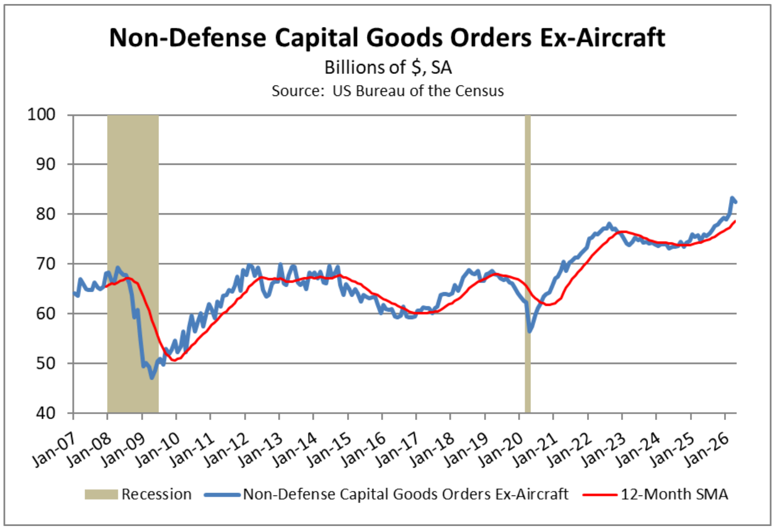
In the week ended May 23, ***initial claims for unemployment benefits*** rose to a seasonally adjusted 215,000, higher than both the expected level of 211,000 and the prior week's revised level of 210,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, rose to 209,000. 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.



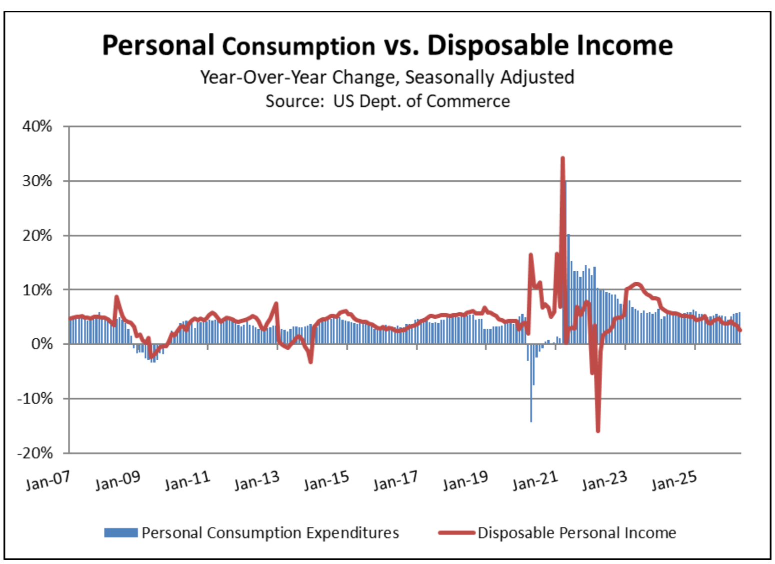
In the week ended May 16, the number of ***continuing claims for unemployment benefits*** (people continuing to draw benefits) rose to a seasonally adjusted 1.786 million, above both the anticipated reading of 1.784 million and the revised reading of 1.771 million the week before. The four-week moving average of continuing claims rose to 1,772,750. 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, April ***durable goods orders*** jumped by a seasonally adjusted 7.9%, beating the expected rise of 4.0% and accelerating from their revised 1.3% gain in March. Durable goods orders are often driven by transportation equipment, where just a few airliner orders can have a big impact. April ***durable goods orders excluding transportation*** rose just 1.1%, beating their expected rise of 0.5% but merely matching their rise in the previous month. The durable goods report also includes a key proxy for corporate capital investment. In April, nondefense capital goods orders ex-aircraft fell 1.1%, coming in far worse than their expected increase of 0.4%, but that merely reversed part of their extraordinarily strong rise of 3.9% in March. Compared with the same month one year earlier, overall durable goods orders in April were up 19.1%, while durable orders ex-transport were up 9.6%. Nondefense capital goods orders ex-aircraft were up 10.8%. The chart below shows the progression of nondefense capital goods orders ex-aircraft since just before the GFC.

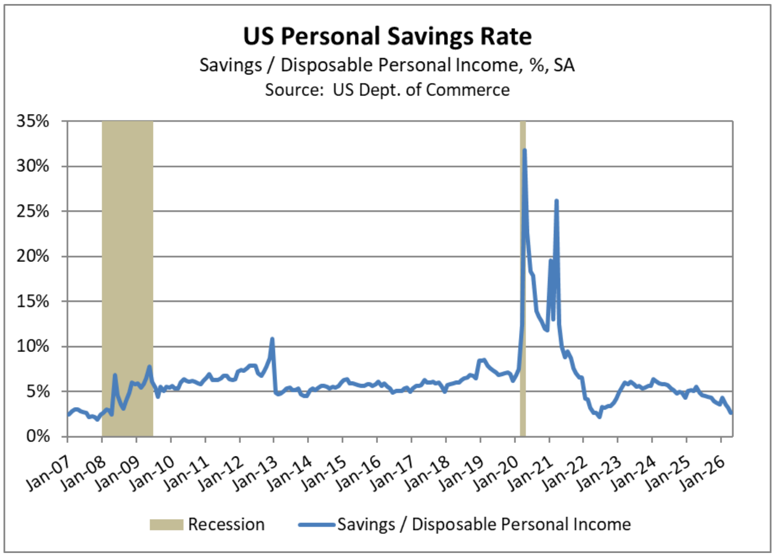


In yet another series of reports this morning, April ***personal income*** was flat on a seasonally adjusted basis, short of the expected rise of 0.4% and the revised March gain of 0.5%. April ***personal consumption expenditures (PCE)*** rose 0.5%, matching expectations but still decelerating from their revised 1.0% increase in March. Personal income in April was up 2.3% from the same month one year earlier, while PCE was up 5.9%. The chart below shows the year-over-year change in personal income and PCE since just before the GFC.

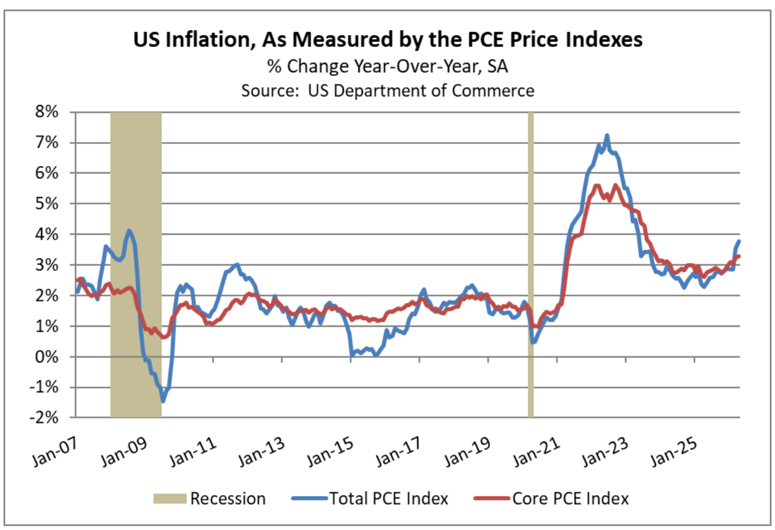


The personal income and spending report also includes a measure of personal saving, defined as disposable (after tax) income less consumption spending on goods and services. The April

personal savings rate plunged to a seasonally adjusted 2.6%, reflecting high price inflation. The chart below shows how the personal savings rate has fluctuated since just before the GFC.



Of course, the income and spending report also includes the Federal Reserve's preferred measure of consumer price inflation. After stripping out the volatile food and energy components, the ***Core PCE Deflator*** for April was up 3.3% from the same month one year earlier, matching expectations but still up from 3.2% in the year to March and well above the Fed's target of 2.0%. The chart below shows the year-over-year change in the Core PCE Deflator since just before the GFC.



Finally, the Commerce Department released its second regular estimate of economic activity in the first quarter. After stripping out seasonal factors and price changes, the report said first-quarter ***gross domestic product (GDP)*** rose at an annualized rate of just 1.6%, short of expectations that the growth rate would be unchanged at the initial estimate of 2.0%. The chart below shows the annualized growth rate of US GDP since just before the GFC; the horizontal red line indicates the average growth rate of 2.0% over the last two 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	New Home Sales	m/m	Apr	660k	682k	***
10:00	New Home Sales MoM	m/m	Apr	-3.2%	7.4%	**
10:00	Building Permits	m/m	Apr F	1442k	1442k	**
Federal Reserve						
EST	Speaker or Event	District or Position				
8:55	John Williams Speaks at Reykjavik Economic Conference	President of the Federal Reserve Bank of New York				
10:15	Alberto Musalem Speaks in Reykjavik	President of the Federal Reserve Bank of St. Louis				
13:10	Alberto Musalem Apprears on Bloomberg TV	President of the Federal Reserve Bank of St. Louis				
15:00	Thomas Barkin Speaks in Moderated Discussion	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	Japan Buying Foreign Bonds	w/w	22-May	¥10.3b	¥762.1b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	22-May	-¥358.7b	¥41.4b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	22-May	¥1346.0b	-¥1033.2b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	22-May	¥1080.4b	¥948.4b		*	Equity and bond neutral
Australia	Private Capital Expenditure	q/q	1Q	6.5%	0.7%	1.0%	**	Equity bullish, bond bearish
	Household Spending	y/y	Apr	4.9%	6.2%	5.8%	**	Equity bearish, bond bullish
EUROPE								
Eurozone	Economic Confidence	m/m	May	93.5	93.2	93.0	***	Equity and bond neutral
	Industrial Confidence	m/m	May	-8.0	-7.7	-8.0	***	Equity and bond neutral
	Services Confidence	m/m	May	2.2	1.4	0.3	**	Equity bullish, bond bearish
	Consumer Confidence	m/m	May F	-19.0	-19.0		**	Equity and bond neutral
France	PPI	y/y	Apr	2.1%	0.0%		*	Equity and bond neutral
Italy	Consumer Confidence	m/m	May	93.4	90.8	90.0	***	Equity and bond neutral
	Economic Sentiment	m/m	May	94.1	95.1		**	Equity and bond neutral
	Manufacturing Confidence	m/m	May	87.9	87.9	87.6	***	Equity and bond neutral
	PPI	y/y	Apr	8.8%	5.4%		**	Equity and bond neutral
Russia	Industrial Production	y/y	Apr	1.9%	2.3%	1.5%	***	Equity and bond neutral
AMERICAS								
Mexico	Unemployment Rate NSA	m/m	Apr	2.46%	2.42%	2.69%	***	Equity and bond neutral
Brazil	FGV Inflation IGPM	y/y	Apr	1.95%	0.61%	1.91%	***	Equity and bond neutral
	Total Outstanding Loans	m/m	Feb	7245b	7222b		**	Equity and bond neutral
	National Unemployment Rate	m/m	Apr	5.8%	6.1%	5.9%	*	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	Down
U.S. Libor/OIS spread (bps)	365	365	0	Up
10-yr T-note (%)	4.50	4.48	0.02	Down
Euribor/OIS spread (bps)	223	219	4	Up
Currencies	**3 Mo**			
Dollar	Down	US		Up
Euro	Up	Euro		Down
Yen	Up	Japan		Down
Pound	Up	UK		Flat
Franc	Up	Switzerland		Down
Central Bank Action	**Actual**	**Prior**	**Expected**	
Bank of Korea Base Rate	2.50%	2.50%	2.50%	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.

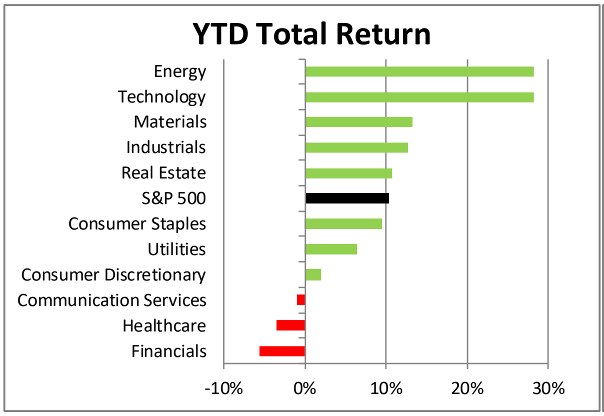
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$96.96	$94.29	2.83%	
WTI	$91.25	$88.68	2.90%	
Natural Gas	$3.09	$3.10	-0.23%	
Crack Spread	$46.91	$46.47	0.93%	
12-mo strip crack	$40.02	$39.83	0.48%	
Ethanol rack	$2.20	$2.20	-0.01%	
Metals				
Gold	$4,390.04	$4,453.98	-1.44%	
Silver	$73.03	$74.63	-2.15%	
Copper Contract	$632.25	$634.00	-0.28%	
Grains				
Corn contract	$457.25	$452.50	1.05%	
Wheat contract	$626.00	$622.50	0.56%	
Soybeans contract	$1,194.50	$1,185.25	0.78%	
Shipping				
Baltic Dry Freight	3,124	3,085	39	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		-3.00		
Gasoline (mb)		-2.29		
Distillates (mb)		-1.43		
Refinery run rates (%)		0.80%		
Natural gas (bcf)		95		

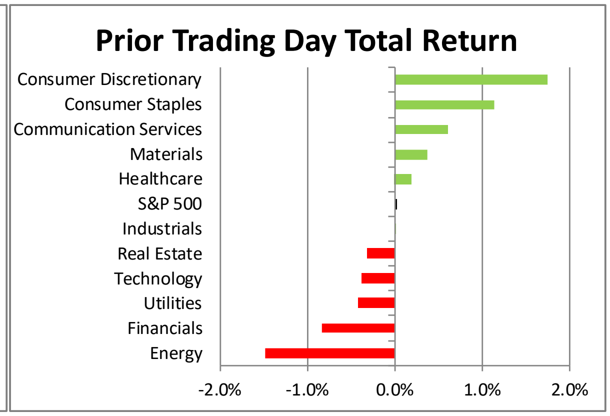
Weather

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 southern Texas. 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 5/27/2026 close)

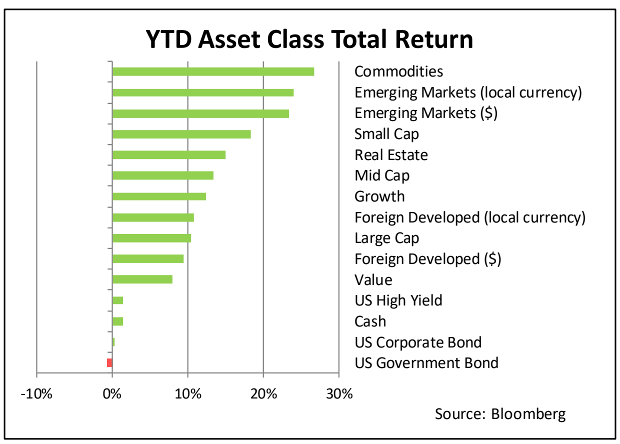




(Source: Bloomberg)

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 5/27/2026 close)

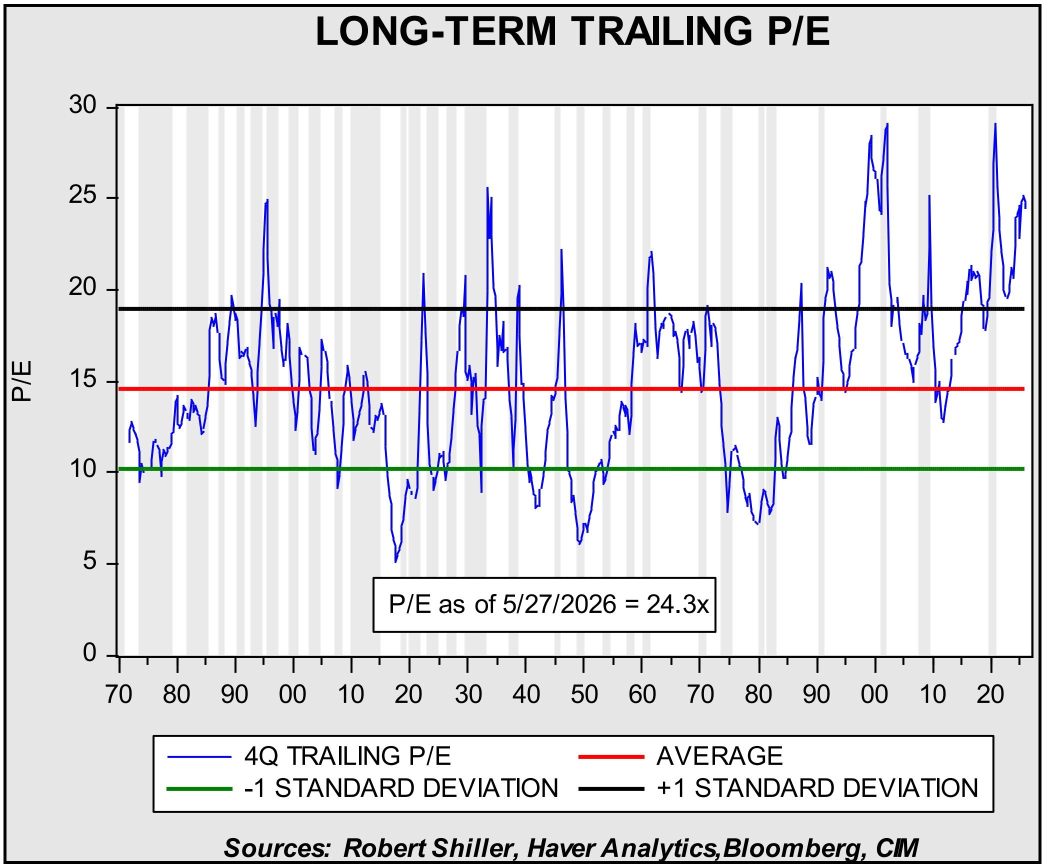


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 28, 2026



Based on our methodology,[1] the current P/E is 24.3x, 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.