



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

**[Posted: May 29, 2026 — 9:30 AM ET]** Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 0.4% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 2.1%. Chinese markets were lower, with the Shanghai Composite down 0.7% and the Shenzhen Composite down 1.9%. US equity index futures are signaling a higher open.

With 485 companies having reported so far, S&P 500 earnings for Q1 are running at \$81.00 per share compared to estimates of \$72.32, up 12.6% from Q1 2025. Of the companies that have reported to date, 83.5% exceeded expectations, while 11.1% fell short of expectations.

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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
<a href="#">“The Trade Trilemma Revisited”</a> (5/18/26) + <a href="#">podcast</a> (5-21/26)	<a href="#">“The Power of Gold”</a> (5/11/26) + <a href="#">podcast</a> (5/20/26)	<a href="#">Q2 2026 Report</a>  <a href="#">Q2 2026 Rebalance Presentation</a>	<a href="#">Confluence of Ideas podcast</a>  <a href="#">Confluence Mailbag</a>

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Our *Comment* opens with our take on the latest progress in US-Iran negotiations. We then turn to AI, focusing on rising compute costs and what they mean for the pace of adoption. Next, we briefly discuss the EU’s push for greater control over critical supply chains and France’s unexpected economic contraction. We also include, as always, a review of recent domestic and international economic data.

**New Deal?** The [United States and Iran have agreed to extend their ceasefire by 60 days](#), following Treasury Secretary Scott Bessent’s announcement that both sides have reached a preliminary framework for a deal that could reopen the Strait of Hormuz. While the agreement still requires approval from President Trump, it represents the clearest signal to date that the two

parties are nearing a broader resolution. Markets have responded quickly to the development, with oil prices easing and Treasury yields falling.

- The White House appears increasingly confident that a deal is close. While details remain limited, [Bessent has emphasized that any agreement must meet three core conditions](#): the reopening of the Strait of Hormuz, Iran relinquishing its enriched uranium, and a full cessation of its nuclear program. In addition, the US is insisting that all transit through the strait remain free of tolls.
- [Iran has thus far negotiated in good faith](#), pressing for the release of approximately \$24 billion in frozen assets as part of any agreement. It is also seeking an end to Israeli strikes in Lebanon and some degree of influence over maritime traffic through the strait. On the nuclear front, Iran would prefer to retain its enrichment program but has signaled a willingness to transfer enriched material to China or Russia as a potential compromise.
- The interim deal now awaits President Trump’s final approval, with reports suggesting he intends to take several days to review the terms despite markets already largely pricing in a green light. Following Bessent’s announcement, WTI crude fell below \$90 per barrel for the first time in over a month, while the 10-year Treasury yield declined nearly 10 basis points to 4.43%. These moves reflect growing market confidence that a resolution to the conflict could alleviate the supply chain disruptions triggered by the escalation.
- While markets appear confident that a deal will be reached, we remain more cautious. Although the president typically welcomes market reassurance, he has also shown a preference for securing a clear, tangible win — something this framework may not fully deliver. We are cautiously optimistic that cooler heads will prevail. However, a rejection of the deal would likely trigger a sharp market reaction and could raise the risk of renewed escalation.

**AI Costs:** More firms are beginning to rein in AI spending as usage costs increasingly pressure budgets. On Thursday, [Amazon announced plans to dismantle its internal AI leadership board](#) in an effort to discourage the use of AI for its own sake rather than for clear productivity gains. The move follows internal findings that some employees were deploying AI for low-value or unnecessary tasks — a trend increasingly referred to as “tokenmaxxing.” This shift toward tighter controls suggests that the pace of AI adoption may be slowing as firms look to rein in costs.

- As AI adoption has accelerated, providers have periodically struggled to keep up with demand given finite computing capacity, leading to the use of quotas and rate limits to manage usage. [Anthropic, for example, initially tightened Claude Code limits in response to “unprecedented demand,”](#) but more recently has been able to raise those limits significantly after securing additional compute capacity through a new partnership with SpaceX and other cloud providers.
- Another sign that AI costs are mounting is the trend of companies moving toward public markets. This shift will likely force these firms to prioritize profitability over aggressive market share expansion. [Anticipated IPOs from industry leaders like OpenAI, Anthropic, and SpaceX could provide a necessary capital influx;](#) however, these moves will also

subject the companies to intense public scrutiny regarding revenue targets and fiscal discipline.

- Despite the hype around AI, questions remain about its ability to generate robust returns on investment. A widely cited MIT study released in August 2025 found that more than [95% of surveyed firms had yet to demonstrate a positive ROI](#) from their AI initiatives. A follow-up report from [PwC in January indicated that 56% of CEOs saw neither higher revenues nor lower costs from AI](#) over the prior 12 months, and only about 12% reported achieving both outcomes.
- AI still appears poised to be a positive force for the economy and markets over time, but we are increasingly focused on the buildup of related risks. Rising implementation and infrastructure costs, in particular, could slow future adoption and make it harder for AI providers to deliver on today's lofty expectations. In this environment, it remains sensible to maintain broader tech exposure, while continuing to monitor concentration and valuation risks.

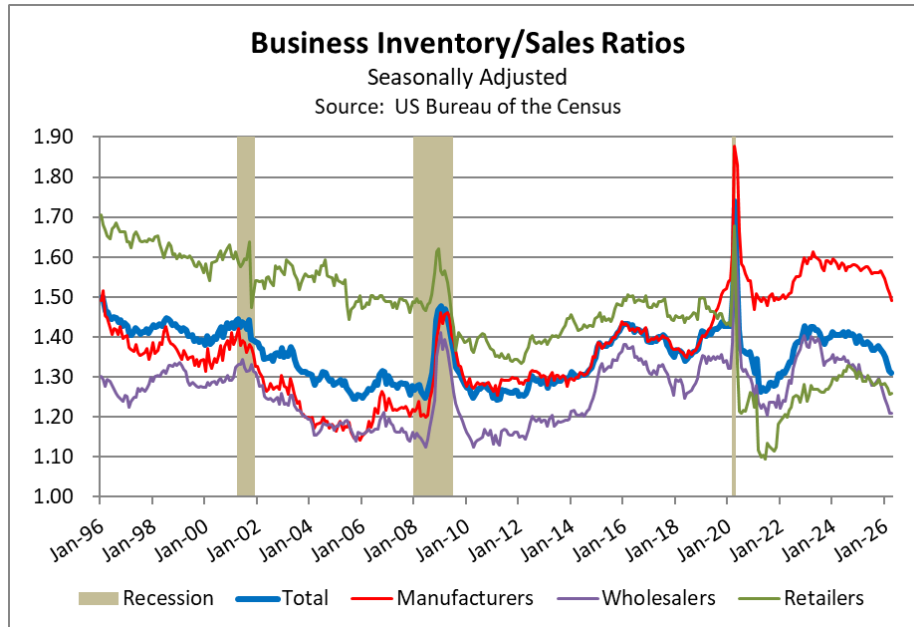
**EU Chip Takeover:** The EU is [weighing emergency powers that would allow it to compel chipmakers to override existing contracts](#) in times of crisis. The proposal is intended to reduce the bloc's vulnerability to economic coercion from the US and China, given Europe's heavy reliance on imported semiconductors. It also follows the Dutch government's controversial intervention involving chipmaker Nexperia and underscores how, in a less globalized world, governments are likely to take a more active role in strategic sectors of the economy.

**France Contraction:** The French [economy unexpectedly contracted in the first quarter](#). According to the national statistics office Insee, GDP fell 0.1% quarter-on-quarter, weighed down by weaker exports and soft domestic demand. While some observers view the decline as a one-off that could be reversed in the second quarter, concerns persist that France's rising debt burden, new US trade restrictions, and the energy shock linked to the conflict in Iran could pose additional headwinds to growth.

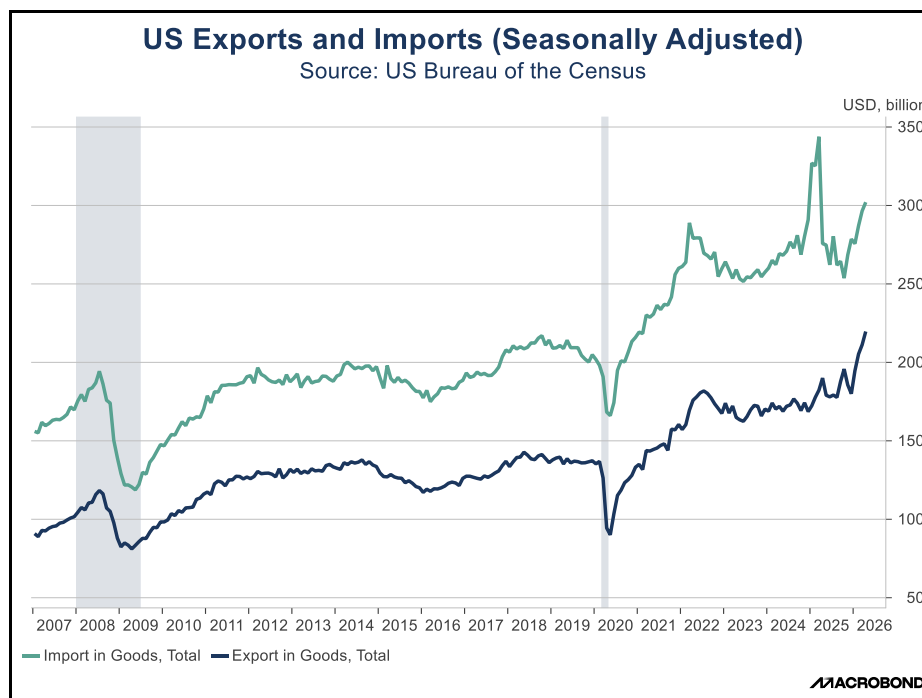
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## US Economic Releases

April *wholesale inventories* rose by a seasonally adjusted 0.5%, short of both the expected increase of 0.8% and the revised March gain of 1.5%. Since distributors are in a unique position to understand both production activities and final demand, we think wholesale inventories provide an important perspective on where the economy is heading. While inventories are rising, they aren't rising enough to keep up with sales. The chart below shows the monthly inventory-to-sales ratio across commercial sectors since just before the Great Financial Crisis.



Separately, the US *merchandise trade balance* in April showed a seasonally adjusted deficit of \$82.4 billion, narrower than both the anticipated shortfall of \$87.0 billion and the revised March deficit of \$85.3 billion. According to the data, total merchandise exports rose 4.0%, while imports rose 1.9%. The chart below shows the monthly value of US exports and imports since just before the GFC.



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	MNI Chicago PMI	m/m	May	50.3	49.2	***
Federal Reserve						
EST	Speaker or Event	District or Position				
6:50	Jeffrey Schmid Speech in Reykjavik	President of the Federal Reserve Bank of Kansas City				
7:15	Mary Daly Speaks in Fix Business interview	President of the Federal Reserve Bank of San Francisco				
9:10	Michelle Bowman Speaks in Reykjavik	Member of the Board of Governors				
9:15	Anna Paulson Speaks on Economic Outlook	President of the Federal Reserve Bank of Philadelphia				
12:40	Mary Daly Speaks at Reagan National Economic Forum	President of the Federal Reserve Bank of San Francisco				

### 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
<b>ASIA-PACIFIC</b>								
<b>Japan</b>	Tokyo CPI	y/y	May	1.4%	1.5%	1.6%	**	Equity and bond neutral
	Tokyo CPI Ex-Fresh Food	y/y	May	1.3%	1.5%	1.5%	***	Equity and bond neutral
	Tokyo CPI Ex-Fresh Food & Energy	y/y	May	1.6%	1.9%	1.8%	*	Equity and bond neutral
	Jobless Rate	m/m	Apr	2.5%	2.7%	2.7%	***	Equity and bond neutral
	Job-To-Applicant Ratio	m/m	Apr	2.00%	1.18%	1.18%	***	Equity and bond neutral
	Retail Sales	y/y	Apr	2.1%	1.7%	1.3%	**	Equity and bond neutral
	Industrial Production	y/y	Apr P	2.3%	2.4%	0.7%	***	Equity bullish, bond bearish
	Depart. Store & Supermarket Sales	y/y	Apr	2.0%	1.1%		*	Equity and bond neutral
<b>New Zealand</b>	ANZ Consumer Confidence Index	m/m	May	86.5	80.3		*	Equity and bond neutral
	ANZ Activity Outlook	m/m	May	25.6	19.6		*	Equity and bond neutral
	ANZ Business Confidence	m/m	May	10.0	-10.6		**	Equity and bond neutral
<b>South Korea</b>	Industrial Production	y/y	Apr	1.5%	3.9%	2.5%	***	Equity bearish, bond bullish
<b>EUROPE</b>								
<b>Germany</b>	Import Price Index	y/y	Apr	5.3%	2.3%	5.3%	**	Equity and bond neutral
	Unemployment Change	m/m	May	-12.0k	19.0k	10.0k	***	Equity and bond neutral
	Unemployment Claims Rate	m/m	May	6.3%	6.4%	6.4%	**	Equity and bond neutral
	CPI	y/y	May P	2.6%	2.9%	3.0%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	May P	2.7%	2.9%	2.9%	**	Equity and bond neutral
<b>France</b>	Consumer Spending	m/m	Apr	-0.4%	0.3%	-0.3%	*	Equity and bond neutral
	CPI	y/y	May P	2.4%	2.2%	2.5%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Apr F	2.8%	2.9%	2.5%	**	Equity and bond neutral
	GDP	y/y	Q1 F	0.9%	1.1%	1.1%	**	Equity and bond neutral
<b>Italy</b>	Unemployment Rate	m/m	May P	5.1%	5.2%	5.3%	**	Equity and bond neutral
	CPI, EU Harmonized	y/y	May P	3.3%	2.8%	3.3%	***	Equity and bond neutral
	CPI NIC Including Tobacco	y/y	May P	3.2%	2.7%	3.1%	**	Equity and bond neutral
	GDP WDA	y/y	Q1 F	0.8%	0.7%	0.7%	**	Equity and bond neutral
<b>Switzerland</b>	KOF Leading Indicator	m/m	May	98	97.8	98.0	**	Equity and bond neutral
<b>Russia</b>	Gold and Forex Reserves	m/m	22-May	\$758.8b	\$768.9b		***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	22-May	21.02t	20.98t		*	Equity and bond neutral
<b>AMERICAS</b>								
<b>Canada</b>	Current Account Balance	m/m	1Q	-\$7.18b	-\$1.01b	-\$4.27b	**	Equity and bond neutral
<b>Brazil</b>	Central Govt Budget Balance	m/m	Apr	25.2b	-73.4b	24.7b	*	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
<b>3-mo T-bill yield (bps)</b>	358	359	-1	Up
<b>U.S. Sibor/OIS spread (bps)</b>	366	366	0	Down
<b>U.S. Libor/OIS spread (bps)</b>	365	365	0	Up
<b>10-yr T-note (%)</b>	4.44	4.45	-0.01	Down
<b>Euribor/OIS spread (bps)</b>	223	223	0	Up
<b>Currencies</b>				
	<b>3 Mo</b>			
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.

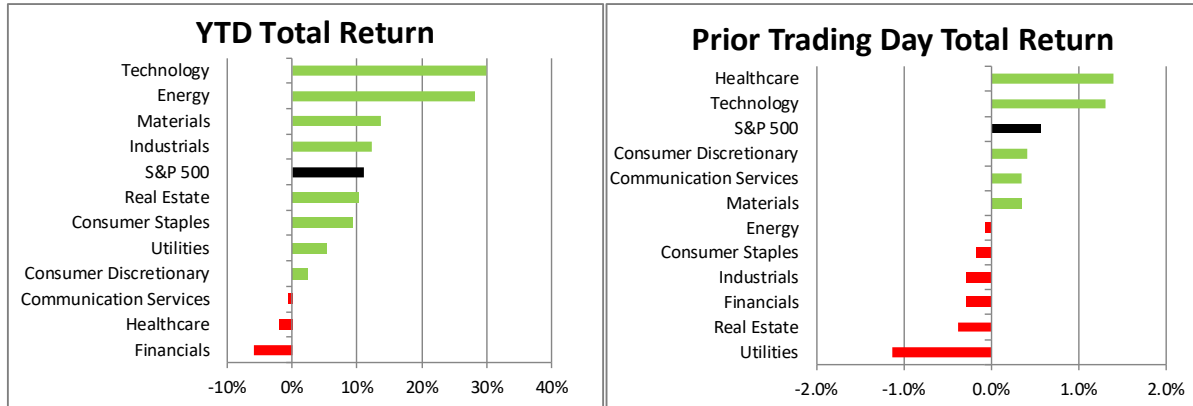
	Price	Prior	Change	Explanation
<b>Energy Markets</b>				
Brent	\$91.98	\$93.71	-1.85%	
WTI	\$87.24	\$88.90	-1.87%	
Natural Gas	\$3.34	\$3.29	1.70%	
Crack Spread	\$47.48	\$47.85	-0.78%	
12-mo strip crack	\$39.34	\$39.72	-0.95%	
Ethanol rack	\$2.21	\$2.21	0.02%	
<b>Metals</b>				
Gold	\$4,527.95	\$4,495.29	0.73%	
Silver	\$75.62	\$75.63	-0.01%	
Copper Contract	\$640.45	\$642.60	-0.33%	
<b>Grains</b>				
Corn contract	\$454.00	\$455.75	-0.38%	
Wheat contract	\$623.50	\$624.00	-0.08%	
Soybeans contract	\$1,199.50	\$1,194.50	0.42%	
<b>Shipping</b>				
Baltic Dry Freight	3,226	3,124	102	
<b>DOE Inventory Report</b>				
	<b>Actual</b>	<b>Expected</b>	<b>Difference</b>	
Crude (mb)	-3.33	-3.00	-0.33	
Gasoline (mb)	-2.57	-2.29	-0.29	
Distillates (mb)	-2.11	-1.43	-0.68	
Refinery run rates (%)	0.29%	0.80%	-0.51%	
Natural gas (bcf)	92	93	-1	

## Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures throughout the Far West, the northern and central Great Plains, the Midwest, the Northeast, and Florida, with cooler-than-normal temperatures in southwestern 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 Oregon, Idaho, Nevada, and northern California.

## Data Section

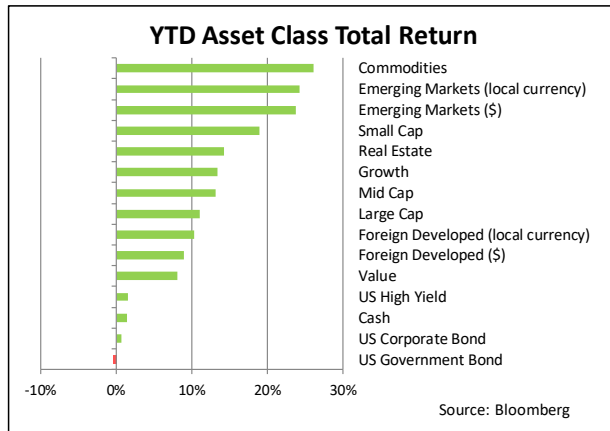
### US Equity Markets – (as of 5/28/2026 close)



(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 5/28/2026 close)

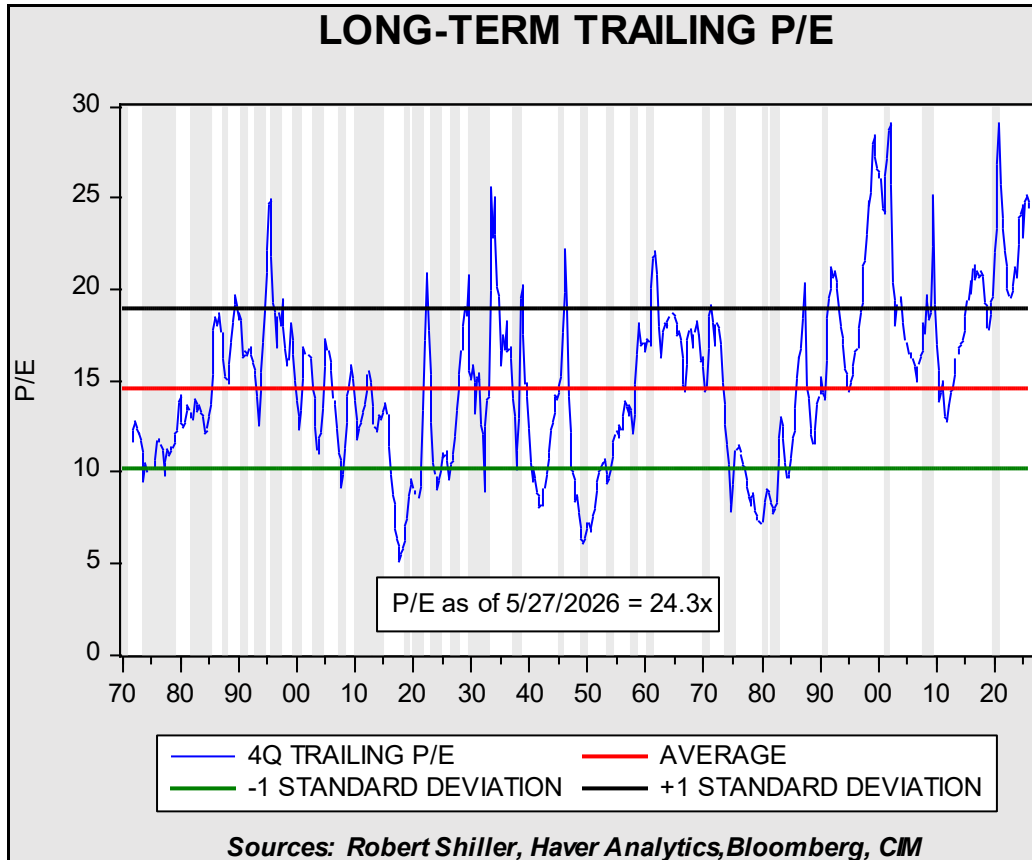


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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,<sup>1</sup> 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.*

<sup>1</sup> 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.