



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: May 7, 2026 — 9:30 AM ET] Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 is up 0.1% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 2.4%. Chinese markets were higher, with the Shanghai Composite up 0.5% and the Shenzhen Composite up 1.2%. US equity index futures are signaling a higher open.

With 411 companies having reported so far, S&P 500 earnings for Q1 are running at \$79.90 per share compared to estimates of \$72.32, which is up 12.6% from Q1 2025. Of the companies that have reported thus far, 83.5% exceeded expectations, while 10.9% 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
“Europe’s Push to Close the AI Gap” (5/4/26)	“The Consensus Builder” (4/27/26) + podcast	Q2 2026 Report	Keller Quarterly April 2026 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 the latest US proposal to Iran. We then turn our attention to signs that the Fed is growing increasingly divided. After that, we briefly address the rising trade tensions between the EU and US, China's decision to uphold US sanctions, and the EU's progress in developing its own weapons. As always, we include an overview of recent domestic and international economic data.

Iran Deal Nearing: The United States and [Iran appear to be moving closer to a deal that could end the standoff in the Strait of Hormuz](#). On Wednesday, reports indicated that Iran is reviewing a one-page memorandum outlining a framework for the gradual reopening of the waterway. The proposal is intended to break the current impasse, as both sides seek to ease mounting economic

pressures while continuing negotiations over a broader nuclear agreement. Ongoing progress in talks is supporting market sentiment, with signs of escalation continuing to recede.

- While Iran has not yet made a final decision, internal divisions appear to be slowing progress. Moderate factions worry that a prolonged conflict and continued blockade will intensify domestic political pressure. In contrast, hardliners argue that the White House may also be under pressure to secure a deal, potentially strengthening Iran's negotiating position. For now, it remains unclear which side holds the upper hand.
- Washington, however, appears ready to pivot as it looks to refocus on negotiations with China. The White House had postponed talks due to the conflict but is now expected to resume discussions later this month, likely covering trade, investment, and broader foreign policy issues. The shift comes as both countries continue to position themselves to gain leverage in the negotiations.
- Progress in talks with Iran, alongside a renewed push toward negotiations with China, should help reduce overall market uncertainty. If the White House is able to reach agreements with both counterparts, it would likely support risk sentiment and could pave the way for a gradual rise in asset prices over the coming months. However, we could see a return of volatility if there are setbacks in either case.
- While the outlook is improving, there are still signs the market may be underpricing near-term risks. In particular, food and energy prices are likely to remain affected by the conflict for longer than currently anticipated, which could weigh on earnings in the current quarter. That said, we view these pressures as largely transitory and not sufficient to push the economy into recession. In this environment, increasing exposure to value-oriented assets may help provide a buffer within portfolios.

Fed Becoming Divided: Just a week after Fed Chair Jerome Powell held his final press conference at the Federal Reserve, several Fed officials have begun voicing concerns over rising inflation. This week, [St. Louis Fed President Alberto Musalem](#) and [Chicago Fed President Austan Goolsbee](#) both signaled unease about increasing price levels. Their worries have, in turn, fueled concerns that Fed officials may not be ready to cut interest rates this summer, even as incoming Fed Chair Kevin Warsh is set to take office later this month.

- The Chicago Fed president's primary concern centers on a potential timing mismatch. He has argued that the AI-driven investment boom, alongside stronger consumption, could elevate demand before productivity gains are sufficient to offset it. In such a scenario, he suggested the Fed may need to consider future rate hikes rather than easing policy.
- While Musalem struck a more measured tone on the rate outlook — emphasizing that policy could move in either direction — he also flagged potential inflationary risks stemming from AI. In remarks to the Mississippi Bankers Association, he noted that the AI-driven expansion, alongside factors such as fiscal policy, monetary policy, and elevated equity markets, appears to be contributing more to current inflationary pressures than traditional drivers like geopolitical developments and trade shocks.
- Comments from Musalem and Goolsbee likely reflect a widening divide within the FOMC as it prepares for a transition to presumptive Fed Chair Kevin Warsh. [Warsh has](#)

[previously argued that the Fed should be more willing to adjust rates](#) to support the supply-side benefits of AI. However, that stance may prove difficult to sustain if policymakers conclude that rate cuts risk amplifying inflationary pressures, particularly if productivity gains lag behind demand-driven effects.

- Given the divergence in views on the inflation outlook and monetary policy, we continue to expect elevated volatility in longer-duration securities. The 10-year Treasury yield is currently hovering near the upper end of its roughly 4.2%–4.5% range from the past 18 months, suggesting some near-term scope for a bond rally. However, a sustained bull market in bonds will likely require greater clarity on the policy path and increased confidence that inflationary pressures are easing.

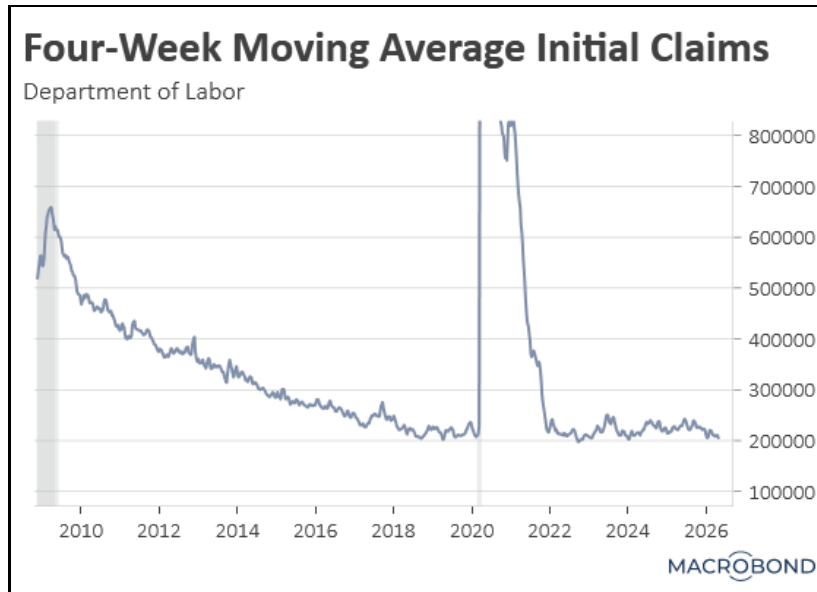
EU Not Aligned: The EU [has struggled to secure consensus among member states on implementing the framework outlined in President Trump’s trade deal](#). The dispute stems from the bloc’s failure to follow through on proposed legislation to eliminate tariffs on US industrial goods in exchange for a US commitment to cap tariffs at 15%. In response, Washington has threatened to impose tariffs of up to 25% on EU auto imports. While tensions appear contained for now, underlying trade frictions continue to build.

China Complies: Beijing has [reportedly instructed its banks to halt lending to refiners that violate US trade sanctions](#), reversing guidance issued just a day earlier. This abrupt shift may signal an effort by Chinese authorities to de-escalate tensions ahead of scheduled talks with the US later this month. If sustained, the move suggests Beijing could be positioning itself to take a more constructive role in easing trade frictions during upcoming negotiations.

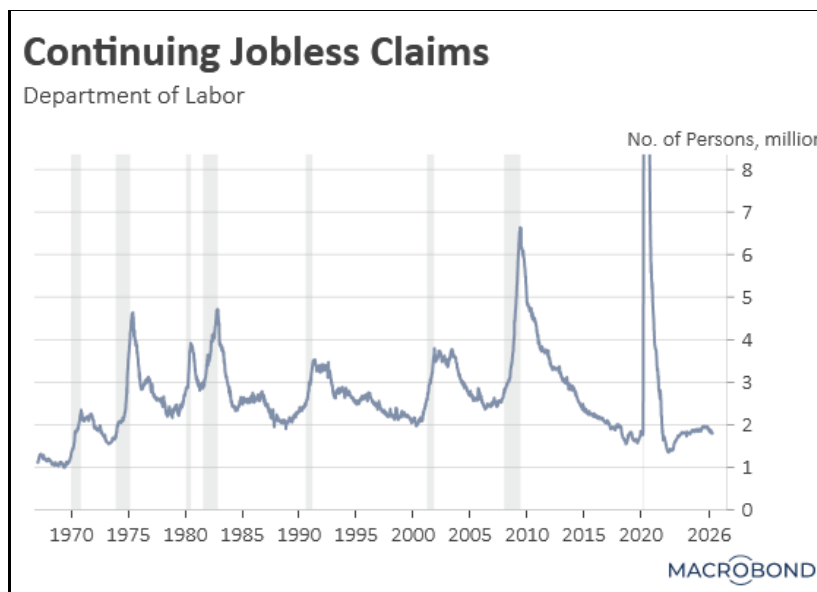
EU Defense Missiles: The German defense group Rheinmetall has [announced progress in developing deep-strike weapons](#). The company states that it can develop cruise missiles as well as rocket artillery and expects to begin development later this year or early next. This rise in weapons manufacturing comes as European nations accept that they must build up their own defense capabilities to fill the void left by the United States taking a less hands-on role within NATO. We continue to believe that this shift should benefit European defense companies.

US Economic Releases

In the week ended May 2, *initial claims for unemployment benefits* rose to a seasonally adjusted 200,000, below the expected level of 205,000 but above the revised level of 190,000 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 a low 203,250. 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.

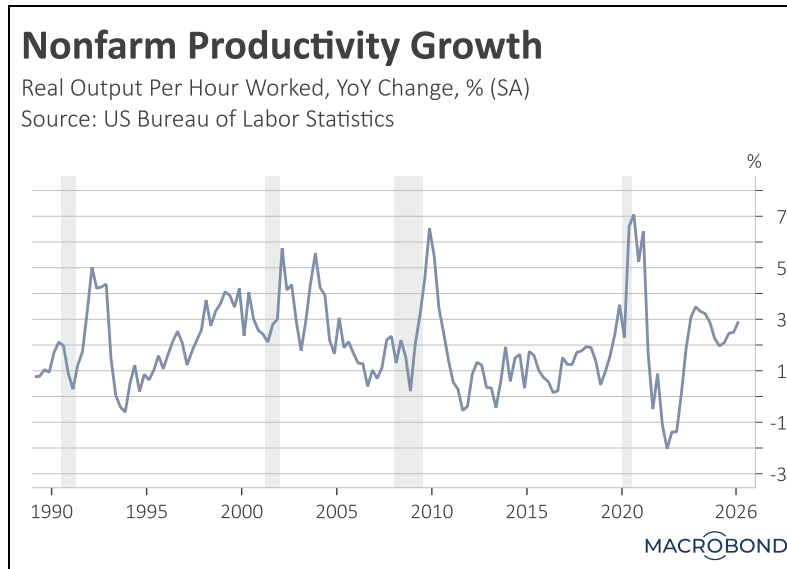


In the week ended April 25, the number of *continuing claims for unemployment benefits* (people continuing to draw benefits) fell to a seasonally adjusted 1.766 million, below both the anticipated reading of 1.800 million and the revised reading of 1.776 in the prior week. The four-week moving average of continuing claims fell to a nearly two-year low of 1,789,800. 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.

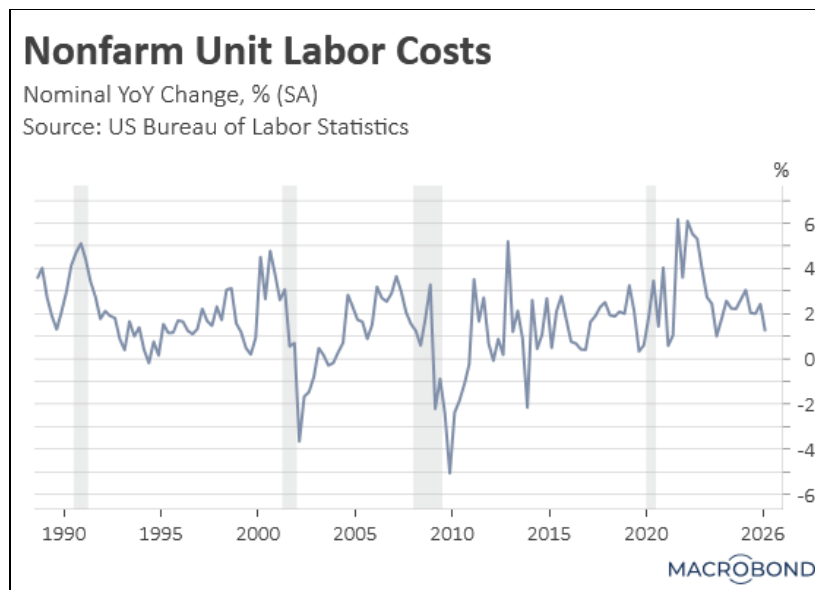


A preliminary report today focused on the productivity of US workers, defined as the average value of output per hour worked. After stripping out price changes and seasonal fluctuations, first quarter *nonfarm productivity* rose at a strong annualized rate of 0.8%, slightly above expectations of anticipated growth rate of 0.6% but still much more modest than the revised

1.6% rate in the fourth quarter of 2025. Taking into account the fluctuations in each of the last four quarters, productivity in the first quarter was up 2.9% from the same period one year earlier. The next chart shows the year-over-year growth in real productivity over the last quarter-century or so.



Additionally, first quarter **unit labor costs** rose at an annualized rate of 2.3%, below expectations that they would rise at a rate of 2.5% and well below the previous quarter’s revised increase of 4.6%. Unit labor costs in the fourth quarter were up 1.2% year-over-year, far below the 4.0% increase that has often been associated with the start of a recession. The chart below shows the year-over-year growth in unit labor costs since 1996.



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	Construction Spending	m/m	Mar	0.2%		***
15:00	Consumer Credit	m/m	Mar	\$13.720b	\$9.484b	*
Federal Reserve						
EST	Speaker or Event	District or Position				
10:00	Beth Hammack Appears on WOSU Public Radio	President of the Federal Reserve Bank of Cleveland				
11:00	NY Fed Releases Survey of Consumer Expectations	Federal Reserve Bank of New York				
19:00	Mary Daly on Bloomberg Television	President of the Federal Reserve Bank of San Francisco				
13:00	Neel Kashkari Participates in Fireside Chat	President of the Federal Reserve Bank of Minneapolis				
14:05	Beth Hammack Speaks in Fireside Chat	President of the Federal Reserve Bank of Cleveland				
15:30	John Williams in Moderated Discussion	President of the Federal Reserve Bank of New York				

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	Monetary Base	y/y	Apr	-11.3%	-11.6%		**	Equity and bond neutral
	Monetary Base, End of Period	m/m	Apr	¥590.9t	¥580.7t		*	Equity and bond neutral
Australia	Trade Balance	m/m	Mar	-A\$1841m	A\$5026m	A\$4400m	***	Equity and bond neutral
	Exports	m/m	Mar	-2.7%	4.2%		*	Equity and bond neutral
	Imports	m/m	Mar	14.1%	-2.7%		*	Equity and bond neutral
	Foreign Reserves	m/m	Mar	A\$1062.9b	A\$106.8b		**	Equity and bond neutral
South Korea	Foreign Reserves	m/m	Apr	\$427.88b	\$423.66b		**	Equity and bond neutral
China	Foreign Reserves	m/m	Apr	\$3410.55b	\$3342.12b	\$3366.00b	**	Equity and bond neutral
EUROPE								
Eurozone	Retail Sales	y/y	Mar	1.2%	1.7%	1.3%	*	Equity and bond neutral
Germany	Factory Orders WDA	y/y	Mar	6.3%	3.5%	1.7%	***	Equity and bond neutral
	S&P Global Germany Construction PMI	m/m	Apr	42.1	48.0		*	Equity and bond neutral
France	Trade Balance	m/m	Mar	-6864m	-5506m		*	Equity and bond neutral
	Current Account Balance	m/m	Mar	-1.2b	-1.5b		*	Equity and bond neutral
UK	S&P Global UK Construction PMI	m/m	Apr	39.7	45.6	46.0	**	Equity bearish, bond bullish
Switzerland	Foreign Currency Reserves	m/m	Apr	715.7b	721.2b		***	Equity and bond neutral
	Unemployment Rate	m/m	Apr	3.0%	3.1%	3.1%	**	Equity and bond neutral
AMERICAS								
Mexico	CPI	y/y	Apr	4.59%	4.59%	4.51%	***	Equity and bond neutral
	Core CPI	y/y	Apr	4.45%	4.45%	4.26%	**	Equity and bond neutral
Brazil	S&P Global Brazil Composite PMI	m/m	Apr	52.4	49.9		***	Equity and bond neutral
	S&P Global Brazil Services PMI	m/m	Apr	52.3	50.1		***	Equity and bond neutral
	Industrial Production	y/y	Mar	4.3%	-0.7%	3.7%	***	Equity bullish, bond bearish

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)	359	360	-1	Up
U.S. Sibor/OIS spread (bps)	365	365	0	Up
U.S. Libor/OIS spread (bps)	364	365	-1	Up
10-yr T-note (%)	4.33	4.35	-0.02	Down
Euribor/OIS spread (bps)	224	222	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.

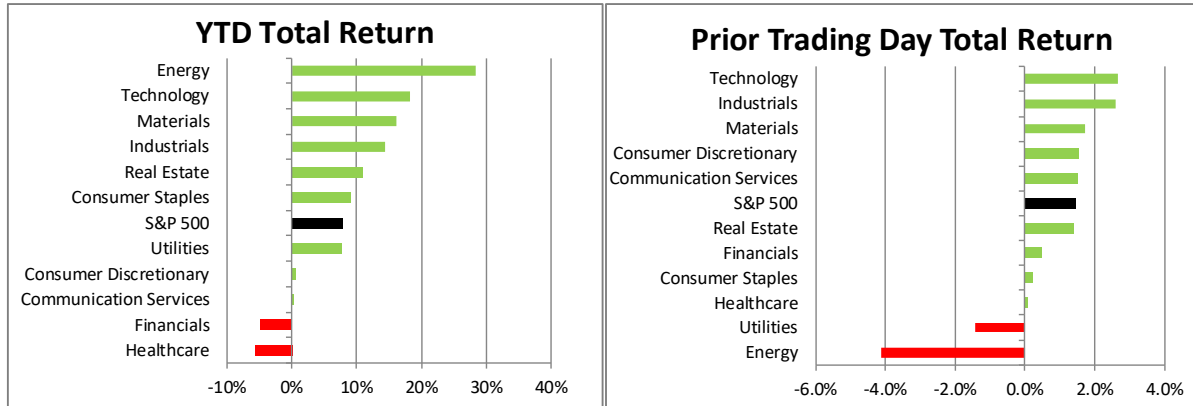
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$98.07	\$101.27	-3.16%	
WTI	\$91.88	\$95.08	-3.37%	
Natural Gas	\$2.71	\$2.73	-0.84%	
Crack Spread	\$54.45	\$53.74	1.33%	
12-mo strip crack	\$41.55	\$41.69	-0.34%	
Ethanol rack	\$2.19	\$2.20	-0.61%	
Metals				
Gold	\$4,736.29	\$4,691.36	0.96%	
Silver	\$80.90	\$77.37	4.56%	
Copper Contract	\$621.55	\$618.65	0.47%	
Grains				
Corn contract	\$465.25	\$468.50	-0.69%	
Wheat contract	\$612.25	\$617.25	-0.81%	
Soybeans contract	\$1,190.25	\$1,194.75	-0.38%	
Shipping				
Baltic Dry Freight	2,991	2,832	159	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)	-2.31	-3.42	1.11	
Gasoline (mb)	-2.50	-2.61	0.10	
Distillates (mb)	-1.29	-2.26	0.97	
Refinery run rates (%)	0.05%	1.11%	-1.06%	
Natural gas (bcf)		72		

Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for most of the country, with cooler-than-normal temperatures in the New England region. The precipitation outlook calls for wetter-than-normal conditions spreading throughout most of Midwest, South Central, and New England regions, with drier conditions expected in the Pacific Northwest and the Northern Rockies.

Data Section

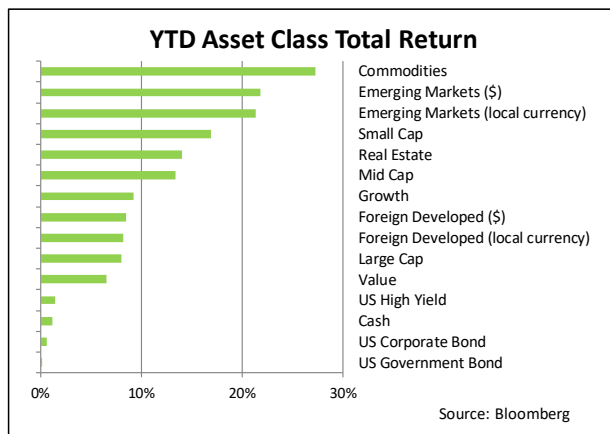
US Equity Markets – (as of 5/6/2026 close)



(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 5/6/2026 close)

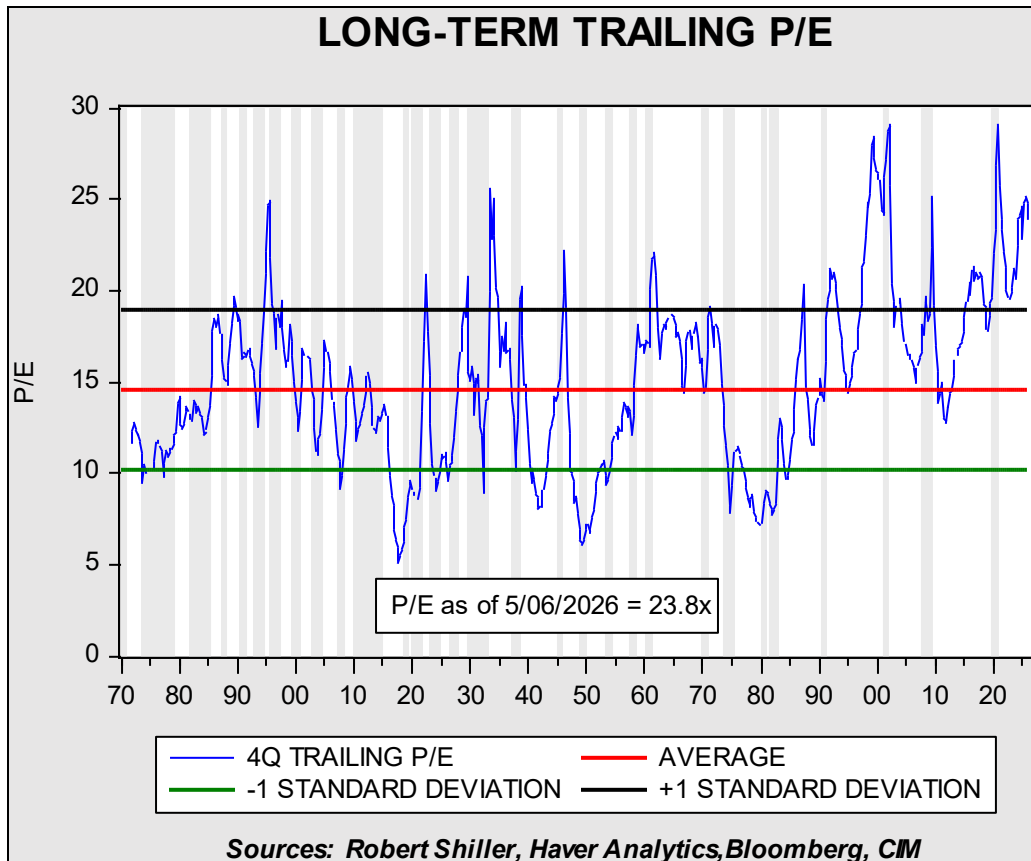


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 7, 2026



Based on our methodology,¹ the current P/E is 23.8x, down 0.6 from the previous report. Last week, the increase in earnings outpaced the rise in the stock price index.

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.