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[Posted: May 8, 2026 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is down 0.9% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.5%. Chinese markets were mixed, with the Shanghai Composite unchanged and the Shenzhen Composite up 0.1%. US equity index futures are signaling a higher open.

With 425 companies having reported so far, S&P 500 earnings for Q1 are running at \$80.20 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 10.8% 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 views on rising concerns about AI-related cybersecurity risks. We then turn to the UK elections, followed by brief discussions on the escalating tensions between the US and Iran, recent court rulings against universal tariffs, developments around the hantavirus, and the pickup in consumer credit. As always, we include an overview of recent domestic and international economic data.

AI Oversight: AI advancement is accelerating faster than the government can control. The [White House is currently weighing the development of a formal oversight process](#) to monitor the latest generation of new AI models. This new initiative comes after the government was caught flat-footed by the development of Mythos, an AI model with cyber-hacking capabilities that

could potentially threaten the nation's digital infrastructure. The move also comes as the world is still trying to figure out how to contain the safety risks posed by such models.

- The decision to put some oversight in place comes as the power of AI has caught many government officials off guard. The major threat of these AI tools is their ability to find vulnerabilities independently, which has raised concerns that they could be used to disrupt the financial system, healthcare, and other vital sectors of the economy. As a result, there is fear that these models could potentially pose a systemic risk.
- The implementation of an oversight system highlights the severity of the risks, as the administration had initially been hesitant to impose restrictions on AI due to concerns that doing so could cost the US the AI race with China. The reversal is the latest indication that the White House may be looking to put in more guardrails to help regulators catch up and find the best way to contain some of these risks, while still promoting growth in the industry.
- Although it appears unlikely that the White House will pursue policies aimed at curtailing AI investment, the issue of regulation is likely to become increasingly prominent in the years ahead. A gradual expansion of guardrails could slow the pace of AI development and invite broader scrutiny, particularly around energy consumption and labor displacement. If this view proves correct, it may ultimately temper some of the upside growth potential currently embedded in large-cap technology valuations.
- While we continue to see strong AI-driven momentum supporting gains in technology and related equities, we expect volatility to increase over time. As the cycle matures, these stocks may become more sensitive to shifts in sentiment, leading to more frequent price swings. Against this backdrop, we believe investors should consider diversifying into value-oriented equities, which can serve as a buffer during periods of AI-related uncertainty.

Outsiders Rise: UK local elections underscored the rise of fringe parties as voters continue to drift away from the traditional political establishment. On Thursday, [voters overwhelmingly backed the Reform Party](#), which gained 311 seats and pushed a once marginal force into the political mainstream. The Labour Party, by contrast, suffered an embarrassing setback, losing 270 seats, the largest decline of any party. The rise of Reform and the weakness of Labour highlight a broader global trend of growing dissatisfaction with establishment parties.

- While the Labour Party avoided a worst-case outcome, its seat losses underscore broad dissatisfaction with traditional parties. The Conservatives recorded the second-largest setback, while the Liberal Democrats and the Green Party joined Reform in making gains on the political fringes. A recent [YouGov poll suggests that this pushback is being driven by mounting socioeconomic concerns](#) over underinvestment in public infrastructure, the rising cost of living, cuts to healthcare services, and immigration.
- The rise of fringe parties is not unique to the UK, as countries such as Germany and France have experienced similar political shifts. The move away from traditional parties could weigh on long-term bond prices and the euro. While we believe fringe parties often have a louder bark than bite in terms of actual policy delivery, upcoming European

elections could nevertheless create bouts of volatility in foreign developed financial markets.

Iran-US: The ceasefire between the [United States and Iran came under strain on Thursday after the two sides exchanged fire](#). The latest clashes began when Iran was accused of launching missiles and drones at a US destroyer transiting the Strait of Hormuz, an action Tehran said was in response to an earlier US strike on an Iranian tanker. Despite the escalation, the president has insisted that the ceasefire remains in effect as both parties continue to negotiate the terms of a potential peace agreement.

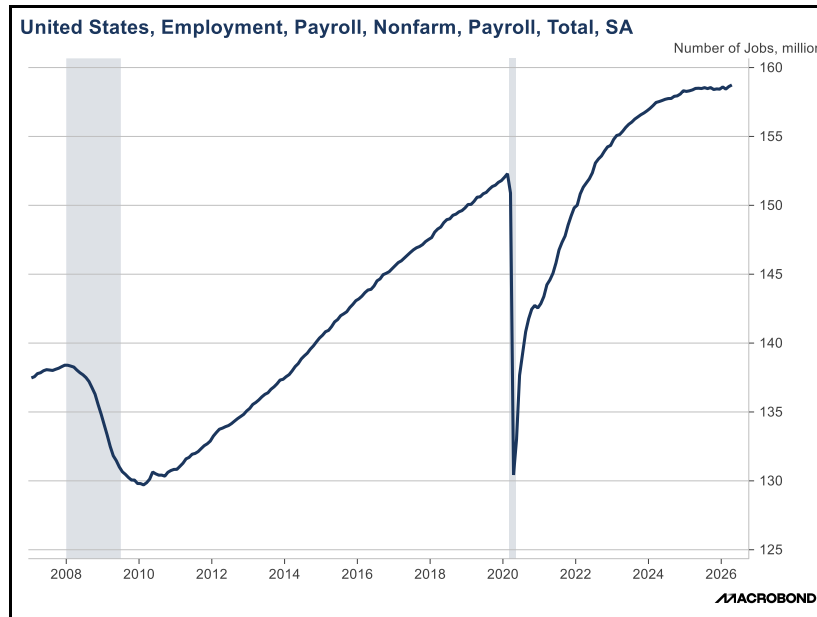
Court Rules Against Tariffs: The [Court of International Trade ruled that the president's latest effort to allow for universal 10% tariffs was illegal](#). This ruling marks the latest blow to White House efforts to keep tariff rates in place to ensure that countries meet their obligations. However, the court did allow for the collection of tariffs to continue while the administration appeals the decision. The ongoing fight over tariffs is likely to lead to more uncertainty on trade, although the effects are likely to be more modest when compared to 2025.

Hantavirus: The spread of [a virus on a cruise ship has sparked concerns of a potential pandemic](#), although early indications suggest it will not resemble COVID-19. The White House has been briefed on the situation, especially given that several Americans were aboard the affected ship. To date, the virus remains well contained, though authorities are taking steps to track travelers from that cruise ship as a precautionary measure.

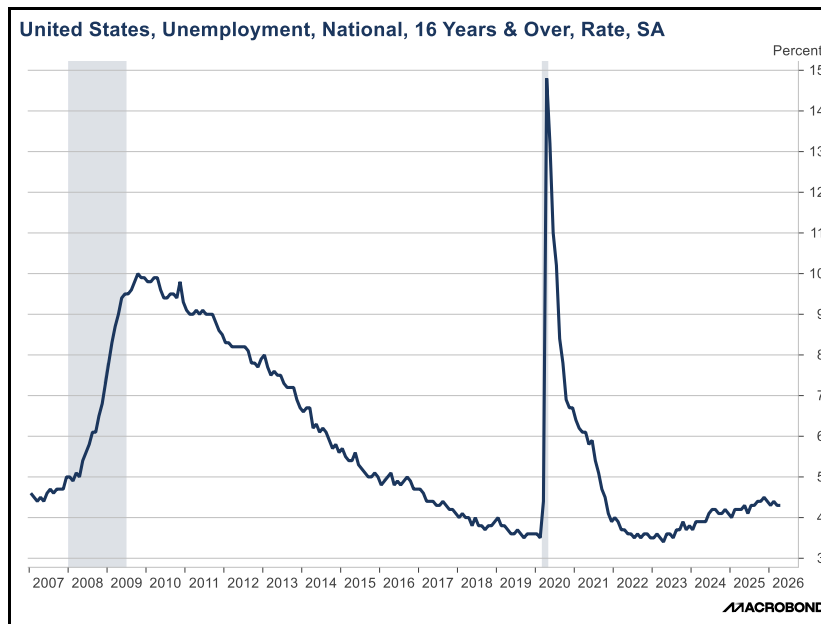
Consumer Credit: [In March, consumer credit rose at its fastest pace since 2022](#), as more households relied on debt to cope with the unexpected rise in gasoline prices. The sharp increase has led to concerns that Americans could start to pull back on spending, as their incomes are not rising as fast as their consumption. As we have mentioned in previous reports, credit remains a key support for the economy — as long as it is available, we believe the economy can continue to expand.

US Economic Releases

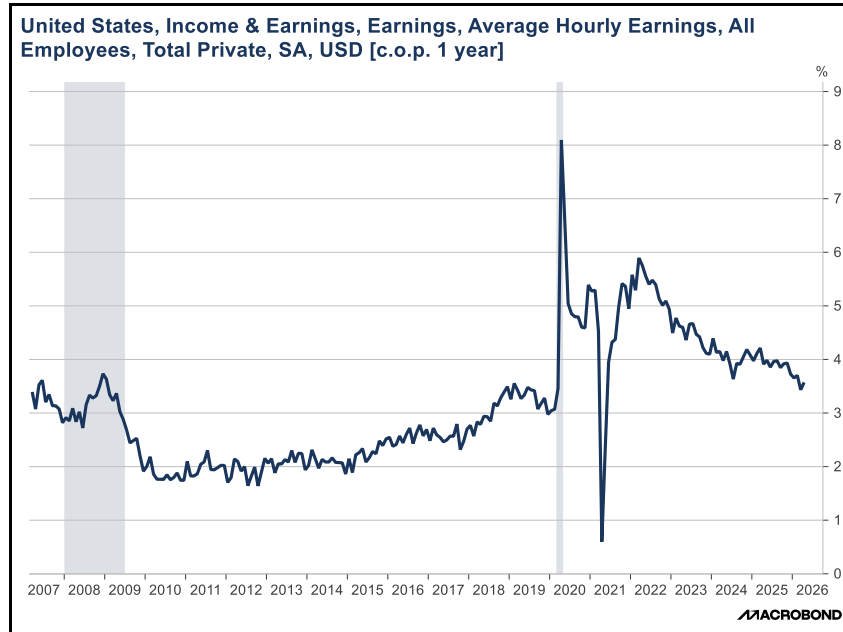
April *nonfarm payrolls* rose by a seasonally adjusted 115,000, beating their expected increase of 65,000 but still falling short of their revised March gain of 185,000. The chart below shows the change in nonfarm payrolls since shortly before the Great Financial Crisis.



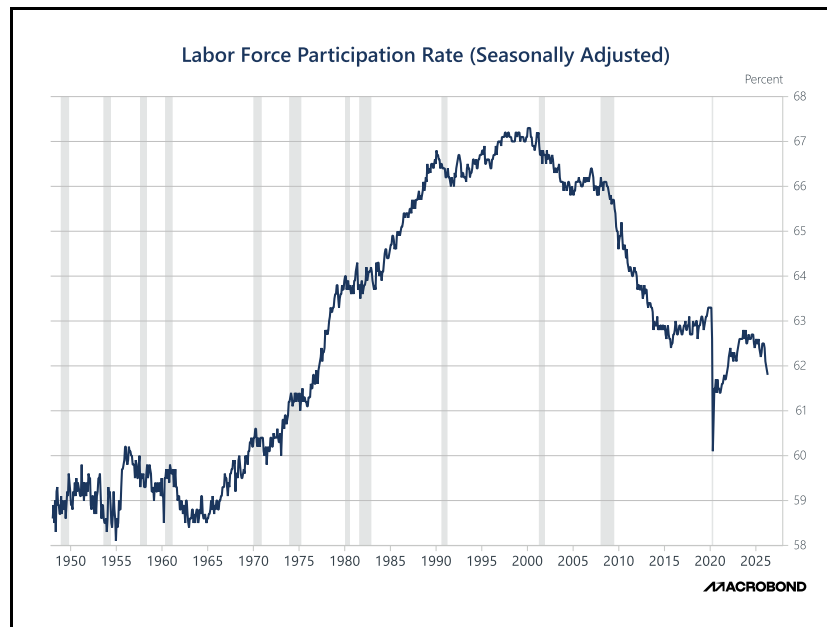
The April *unemployment rate* was unchanged at a seasonally adjusted 4.3%, as anticipated. The chart below shows how the unemployment rate has evolved since just before the GFC.



In April, *average hourly earnings* on a seasonally adjusted basis were up 3.6% from the same month one year earlier, a bit short of expectations. The chart below shows the year-over-year growth in average hourly earnings since just before the GFC.



A final key indicator in the monthly employment report focuses on the share of the adult, civilian, noninstitutionalized population that is either working or looking for work. The April **labor force participation rate (LFPR)** fell to a seasonally adjusted 61.8%. Excluding the pandemic period, the LFPR is now at its lowest level since the mid-1970s, at least in part reflecting legions of baby boomers retiring or otherwise falling out of the labor market. The chart below shows how the LFPR has changed 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	U. of Michigan Consumer Sentiment	m/m	May P	49.5	49.8	***
10:00	U. of Michigan Current Conditions	m/m	May P	52.0	52.5	**
10:00	U. of Michigan Future Expectations	m/m	May P	48.2	48.1	**
10:00	U. of Michigan 1-Year Inflation Expectation	m/m	May P	4.8%	4.7%	*
10:00	U. of Michigan 5-10 Year Inflation Expectation	m/m	May P	3.5%	3.5%	*
10:00	Wholesale Inventories	m/m	Mar F	1.4%	1.4%	**
10:00	Wholesale Trade Sales	m/m	Mar	1.6%	2.7%	*
Federal Reserve						
EST	Speaker or Event	District or Position				
5:45	Lisa Cook Speaks on Asset Tokenization	Members of the Board of Governors				
7:00	Stephen Miran Appears on Fox Business	Members of the Board of Governors				
11:05	Austan Goolsbee Appears on CNBC	President of the Federal Reserve Bank of Chicago				
19:30	Fed's Waller, Bowman, Daly, and Goolsbee Speak on Panel	Federal Reserve Board				

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	Labor Cash Earnings	y/y	Mar	2.7%	3.4%	3.2%	**	Equity bearish, bond bullish
	Real Cash Earnings	m/m	Mar	1.0%	2.0%	1.8%	*	Equity bearish, bond bullish
South Korea	BoP Current Account Balance	m/m	Mar	\$37327.1m	\$23192.7m		**	Equity bullish, bond bearish
	BoP Goods Balance	m/m	Mar	\$35074.8m	\$23363.6m		*	Equity bullish, bond bearish
India	Foreign Exchange Reserves	m/m	1-May	\$690.7b	\$698.5b		*	Equity and bond neutral
EUROPE								
Germany	Trade Balance	m/m	Mar	14.3b	19.6b	17.8b	*	Equity bearish, bond bullish
	Exports	m/m	Mar	0.5%	3.6%	-1.5%	*	Equity and bond neutral
	Imports	m/m	Mar	5.1%	4.9%	0.5%	*	Equity bearish, bond bullish
	Industrial Production WDA	y/y	Mar	-2.8%	-0.2%	-1.9%	**	Equity bearish, bond bullish
Russia	Money Supply, Narrow	w/w	1-May	20.65t	20.55t		*	Equity and bond neutral
AMERICAS								
Mexico	Consumer Confidence	m/m	Apr	44.4	44.1		*	Equity and bond neutral
Brazil	Trade Balance	m/m	Apr	\$10537m	\$6500m	\$10800m	**	Equity and bond neutral
	Exports	m/m	Apr	\$34148m	\$31705m	\$34519m	*	Equity and bond neutral
	Imports	m/m	Apr	\$23611m	\$25205m	\$23321m	*	Equity and bond neutral
	FGV Inflation IGP-DI	y/y	Apr	0.78%	-1.30%	0.75%	**	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)	360	360	0	Up
U.S. Sibor/OIS spread (bps)	365	365	0	Up
U.S. Libor/OIS spread (bps)	364	364	0	Up
10-yr T-note (%)	4.38	4.39	-0.01	Up
Euribor/OIS spread (bps)	225	224	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

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.

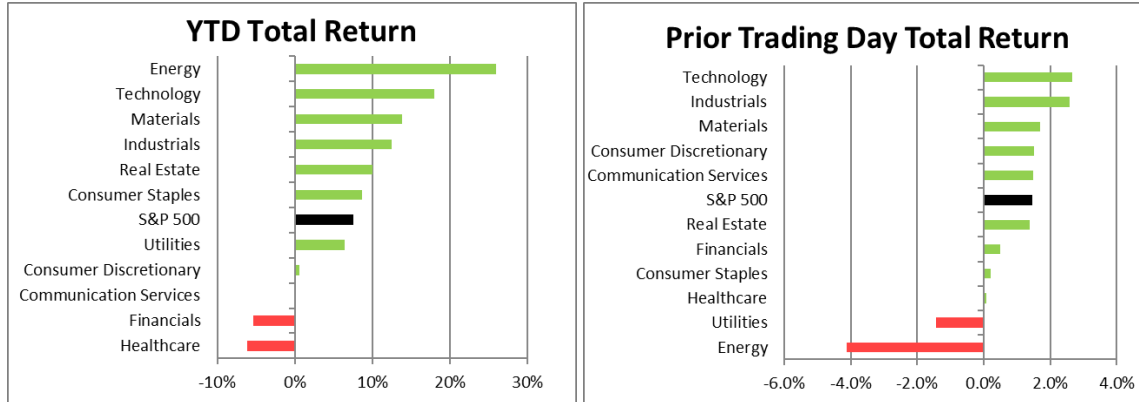
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$100.37	\$100.06	0.31%	
WTI	\$95.10	\$94.81	0.31%	
Natural Gas	\$2.77	\$2.77	0.00%	
Crack Spread	\$54.92	\$53.93	1.83%	
12-mo strip crack	\$41.79	\$41.04	1.82%	
Ethanol rack	\$2.16	\$2.17	-0.36%	
Metals				
Gold	\$4,710.23	\$4,685.80	0.52%	
Silver	\$80.58	\$78.46	2.70%	
Copper Contract	\$627.95	\$617.60	1.68%	
Grains				
Corn contract	\$465.75	\$467.50	-0.37%	
Wheat contract	\$613.00	\$612.25	0.12%	
Soybeans contract	\$1,195.00	\$1,192.25	0.23%	
Shipping				
Baltic Dry Freight	3,034	2,991	43	
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)	63	72	-9	

Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures from the West Coast to the Mississippi River, with near-normal conditions elsewhere. The outlook calls for wetter-than-normal conditions in New Mexico, Texas, Oklahoma, Louisiana, and Florida, with dry conditions in the mid-Atlantic states.

Data Section

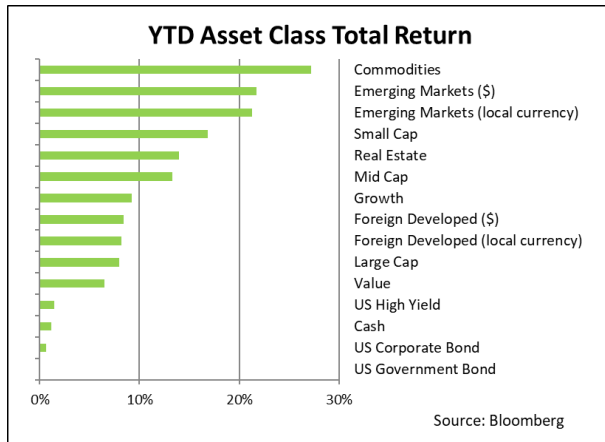
US Equity Markets – (as of 5/7/2026 close)



(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 5/7/2026 close)

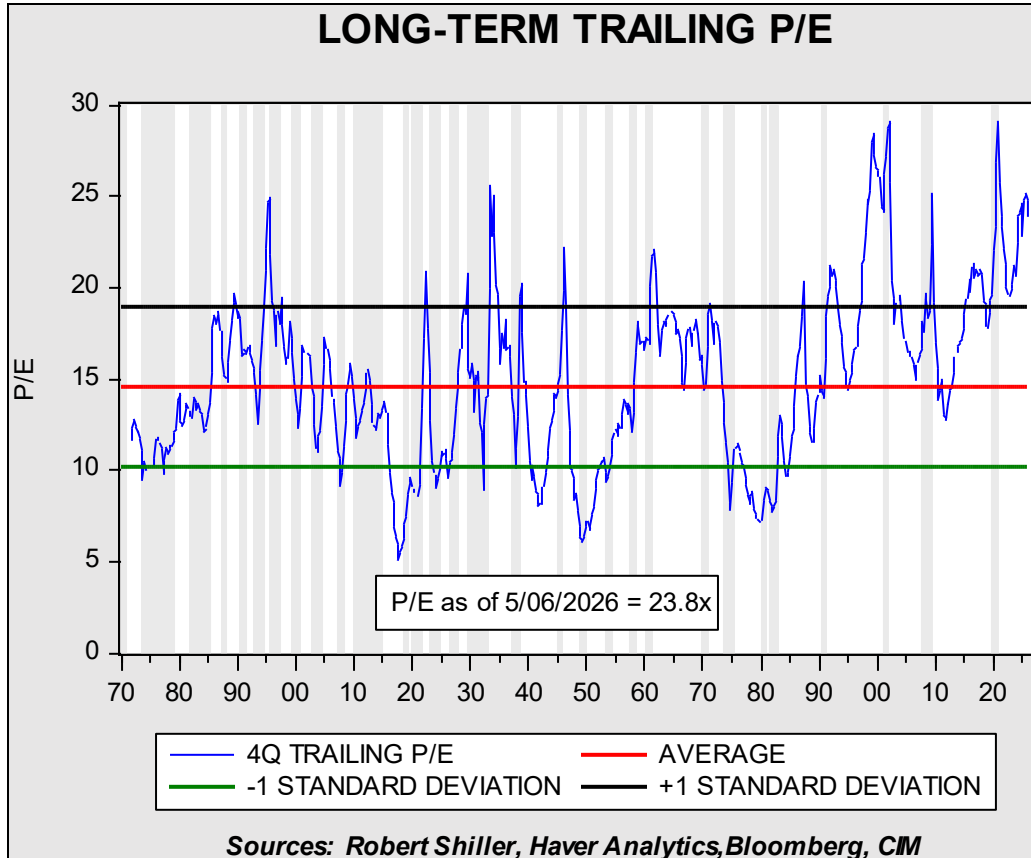


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.