

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: February 11, 2026 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is down 0.1% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 1.1%. Chinese markets were mixed, with the Shanghai Composite up 0.1% and the Shenzhen Composite down 0.2%. US equity index futures are signaling a higher open.

With 326 companies having reported so far, S&P 500 earnings for Q4 are running at \$73.50 per share compared to estimates of \$71.07, which is up 8.3% from Q4 2024. Of the companies that have reported thus far, 78.2% have exceeded expectations, while 17.2% have fallen 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
“US Foreign Policy: Comparing the New vs. Old” (2/9/26) + podcast	“The Erosion of Exorbitant Privilege” (2/2/26) + podcast	Q1 2026 Report	Confluence Mailbag The Case for Hard Assets

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 an analysis of why markets remain resilient despite ongoing economic headwinds. We then turn to developments in the status of the nuclear program negotiations with Iran, followed by a discussion of the potential US withdrawal from the USMCA and rising tensions between the White House and the EU. We also include a summary of key economic data from the US and global markets.

Consumer Credit: [Delinquency rates reached their highest level in nearly a decade](#) during the fourth quarter, according to the latest Household Debt and Credit Report from the New York Fed. The overall delinquency rate rose to 4.8% of all outstanding debt. While student loans and mortgage delinquencies were the main contributors, credit card and auto loan delinquencies also

saw notable increases. This rise in missed payments underscores how equity markets can continue climbing even amid growing signs of financial strain in the broader economy.

- The disconnect between the stock market and the real economy is primarily a result of sector composition. Throughout much of 2025, market enthusiasm was concentrated in AI-related firms. These companies largely bypassed the inflationary pressure of trade policy due to preferential tariff exemptions and utilized tax incentives to fuel the AI momentum carried over from the previous year.
- However, this momentum did not lift all boats. Cyclical sectors and consumer-facing firms have struggled as lower-income households, which are facing stagnant real wages and job insecurity, pulled back on discretionary spending. This sentiment was echoed in the Conference Board's Consumer Confidence Index [that recently plummeted to 84.5, its lowest reading since 2014.](#)
- We suspect this divergence stems from pervasive uncertainty. Shifting tariff policies made long-term corporate planning difficult, leading to a wait-and-see approach in the labor market. While mass layoffs were avoided, hiring slowed, disproportionately impacting younger and lower-income workers. This labor stagnation likely exacerbated the repayment struggles identified by the New York Fed.
- Despite these headwinds, we believe the tide is turning for the overall economy. As the "tariff fog" begins to lift, small business surveys are showing a sharp uptick in real sales volume expectations, suggesting a renewed willingness to commit capital. We are already seeing this transition reflected in the markets: the Consumer Staples sector has significantly outpaced the NASDAQ year-to-date by rising 12.5%. This rotation suggests that the market rally may finally broaden beyond Tech and into the bedrock of the domestic economy.

Iran Target Change: [Israeli Prime Minister Benjamin Netanyahu is set to meet President Trump in Washington today](#) to discuss the escalating tensions with Iran. The meeting follows the president's recent statement that he is considering deploying a second aircraft carrier to the region to reinforce the "armada" already on standby, should diplomatic talks regarding Iran's nuclear and weapons programs fail. Netanyahu is expected to urge the US to adopt a red-line policy that includes the demilitarization of Iran's ballistic missile program as a condition for any deal.

- Growing US pressure to curb Iran's missile program is likely to raise tensions in negotiations between Washington and Tehran. Iran has consistently insisted that talks be restricted to its nuclear program, maintaining that it has the right to enrich uranium for civilian use and to develop ballistic missiles for its defense.
- Israel has pushed to ensure that Iran cannot pose a major military threat, particularly through its nuclear and missile programs. Although Israeli officials describe last year's US and Israeli strikes on Iran's facilities as operationally successful, they have repeatedly warned that Iran remains highly dangerous and that it is working to rapidly rebuild key parts of its arsenal.

- Still, there is hope that talks can deliver a strong outcome and stave off escalation. Iran indicated Tuesday it [is open to widening negotiations beyond its nuclear program, though it offered no specifics](#). If uranium enrichment and ballistic missiles are off limits, this could point to potential curbs on Iran's proxy networks, another major sticking point in the process.
- While we remain confident that current tensions will not escalate into direct military conflict, the risk profile is undeniably elevated. In the event of an exchange, we anticipate a swift rotation out of risk assets and into established safe havens. Despite recent volatility in gold and silver, we expect that asset class to see increased crowding as investors seek a reliable hedge against heightening geopolitical uncertainty.

No More UMSCA: The president [is said to be leaning in favor of withdrawing from the US-Mexico-Canada trade agreement](#), which he himself brokered. He has reportedly tasked his aides with presenting arguments against such a withdrawal. This development comes amid persistent friction between the White House and its North American partners, with Mexico over cartel-related security concerns and with Canada over its accommodation of Chinese economic interests. A US exit from the pact would likely exacerbate market uncertainty.

Alphabet Bond Sales: Google's parent company [has entered the bond market to strengthen its liquidity position](#) amid significant investments in artificial intelligence. The firm is raising capital across multiple currencies and varying maturities, with plans that include a sterling-denominated 100-year bond. On Monday, Alphabet announced it had secured more than \$32 billion within 24 hours. The magnitude of the offering, coupled with robust demand for Tech sector debt, points to a possible crowding out of other corporate borrowers.

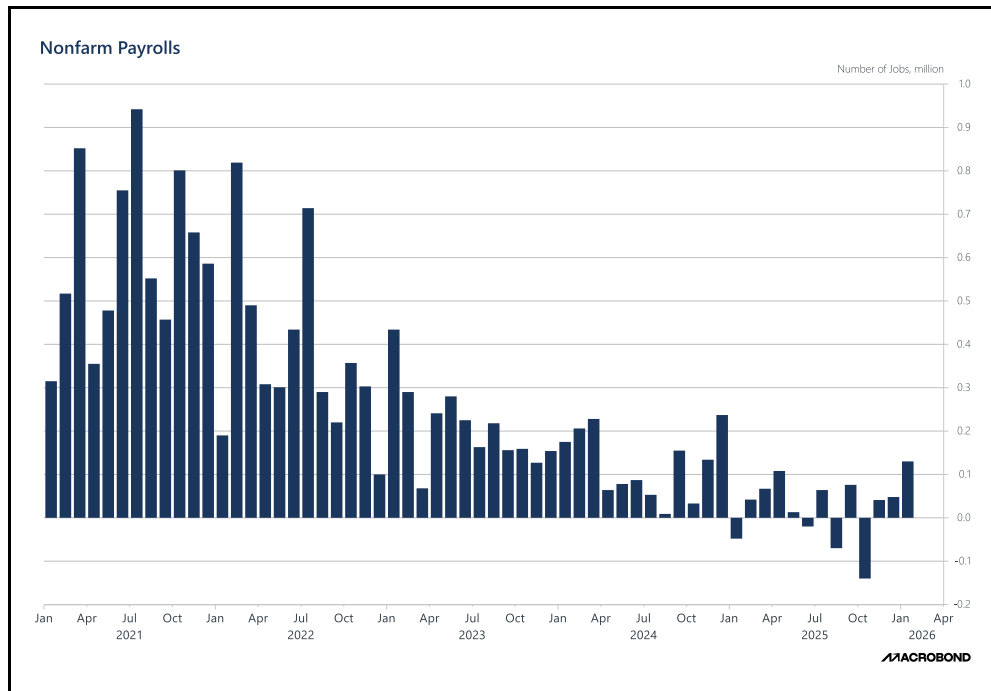
Trump Buys Coal: The White House is [preparing to expand federal support for coal-fired power](#), including using government funds and long-term power purchase agreements to keep selected plants running that might otherwise retire. This direct intervention comes as the US seeks to shield parts of the domestic coal sector from competitive pressure, even as market forces increasingly favor cheaper natural gas and renewable energy. The proposal is another reminder of the government's increasingly active role in the economy.

EU Pivot: French President Emmanuel Macron [has accused the United States of pursuing an anti-EU agenda](#) by asserting in a recent speech that the White House's broader objective is to dismantle the European bloc. His remarks underscore mounting tensions between the transatlantic allies. In response, the EU is expected to pursue greater strategic autonomy, aiming to reduce its reliance on the US in both trade and defense.

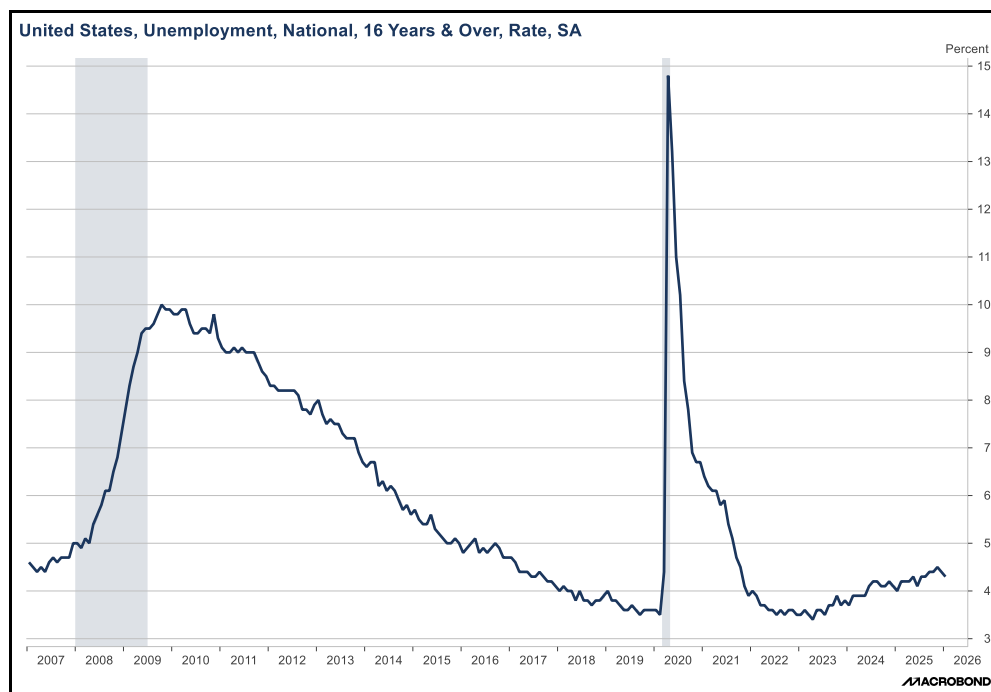
US Economic Releases

January **nonfarm payrolls** rose by a seasonally adjusted 130,000, twice the expected increase of 65,000 and nearly three times the revised December increase of 48,000. All the expansion in payrolls during January came in the private sector, as government jobs across all levels fell by 42,000. The other significant fly in the ointment was that benchmark revisions to past reports

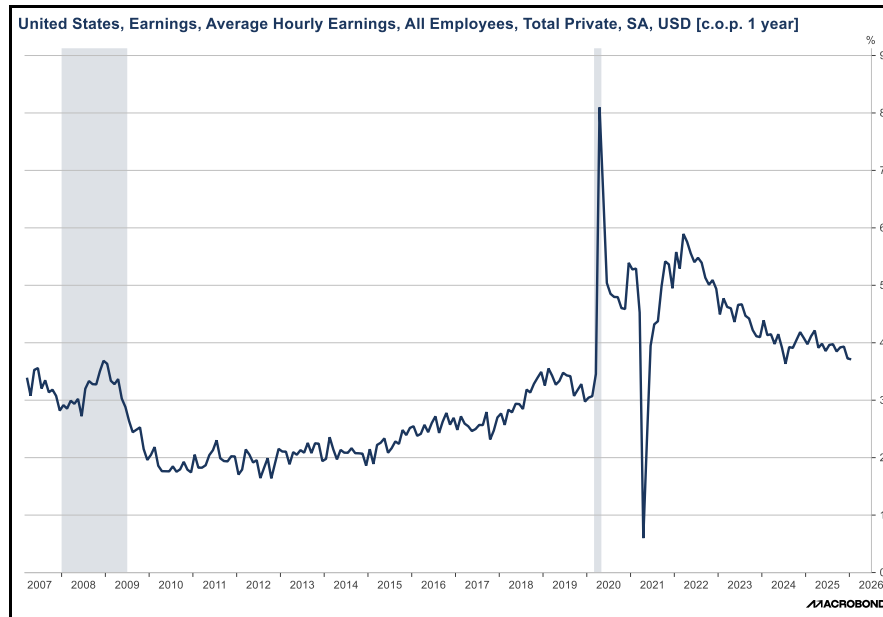
showed hiring was weaker than previously known over the last year. The chart below shows the monthly change in nonfarm payrolls over the last five years.



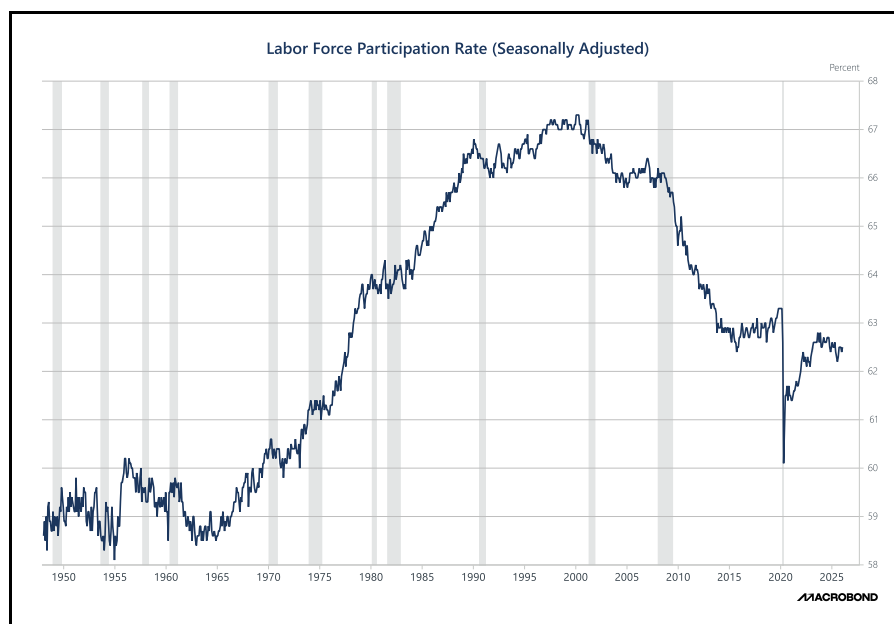
The January **unemployment rate** fell to a seasonally adjusted 4.3%, versus expectations that it would be unchanged at the 4.4% level registered in December. The chart below shows how the unemployment rate has evolved since just before the Great Financial Crisis.



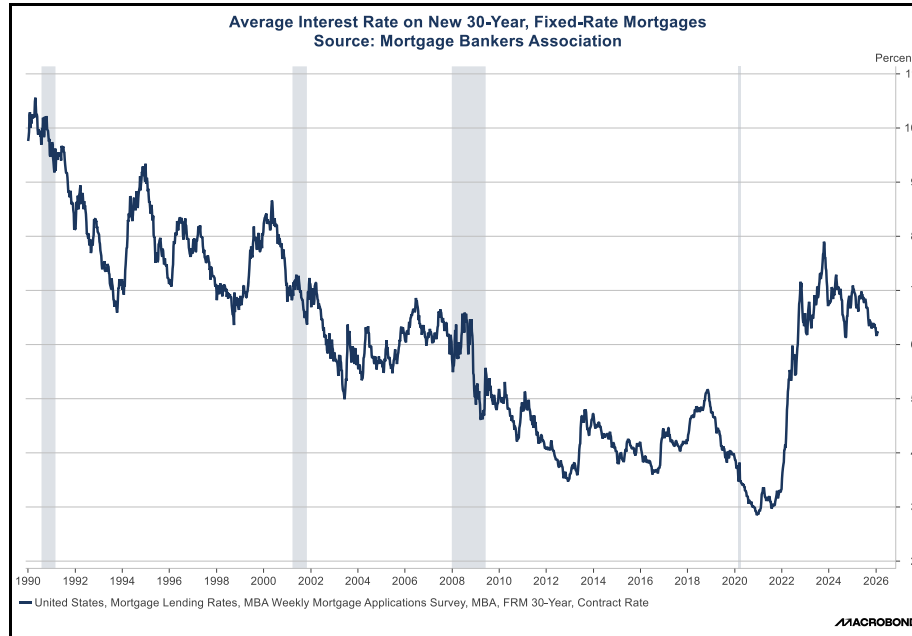
Also in the report, *average hourly earnings* in January rose to a seasonally adjusted \$37.20, up 3.7% from the same month one year earlier. The chart below shows the year-over-year growth in average hourly earnings since just before the GFC.



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 January *labor force participation rate (LFPR)* rose to a seasonally adjusted 62.5%, versus expectations that it would remain at the 62.4% level seen in December. The chart below shows how the LFPR has changed over the last several decades.



Separately, the Mortgage Bankers Association said *mortgage applications* in the week ended February 6 declined by 0.3%, after falling 8.9% in the prior week and 8.5% the week before that. Applications for home purchase mortgages fell 2.4%, after dropping 14.4% in the prior week. Applications for refinancing mortgages rose 1.2%, after falling 4.7% the week before. The average interest rate on a 30-year, fixed-rate mortgage was unchanged at 6.21%. 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
14:00	Federal Budget Balance	m/m	Jan	-\$94.4b	-\$144.7b	**
Federal Reserve						
EST	Speaker or Event	District or Position				
10:00	Jeffrey Schmid Speaks at Economic Forum	President of the Federal Reserve Bank of Kansas City				
10:15	Michelle Bowman in Moderated Conversation	Member of the Board of Governors				
16:00	Beth Hammack Speaks on Leadership at Ohio State University	President of the Federal Reserve Bank of Cleveland				

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								
South Korea	Unemployment Rate	m/m	Jan	3.0%	3.3%	3.1%	***	Equity and bond neutral
EUROPE								
Italy	Industrial Production WDA	y/y	Dec	3.2%	1.4%	2.8%	***	Equity and bond neutral
Russia	Trade Balance	m/m	Dec	10.0b	6.8b		**	Equity and bond neutral
	Exports	m/m	Dec	43.5b	32.9b		*	Equity and bond neutral
	Imports	m/m	Dec	33.5b	26.1b		*	Equity and bond neutral
AMERICAS								
Mexico	International Reserves Weekly	w/w	6-Feb	\$255429m	\$255605m		*	Equity and bond neutral
	Industrial Production	y/y	Dec	2.4%	-0.7%	1.9%	***	Equity bullish, bond bearish
	Manufacturing Production	y/y	Dec	1.3%	-2.1%	1.8%	*	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)	359	359	0	Down
U.S. Sibor/OIS spread (bps)	363	363	0	Down
U.S. Libor/OIS spread (bps)	361	361	0	Down
10-yr T-note (%)	4.13	4.14	-0.01	Down
Euribor/OIS spread (bps)	198	198	0	Down
Currencies	Direction			
Dollar	Flat			Down
Euro	Flat			Up
Yen	Down			Up
Pound	Up			Up
Franc	Flat			Up

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.

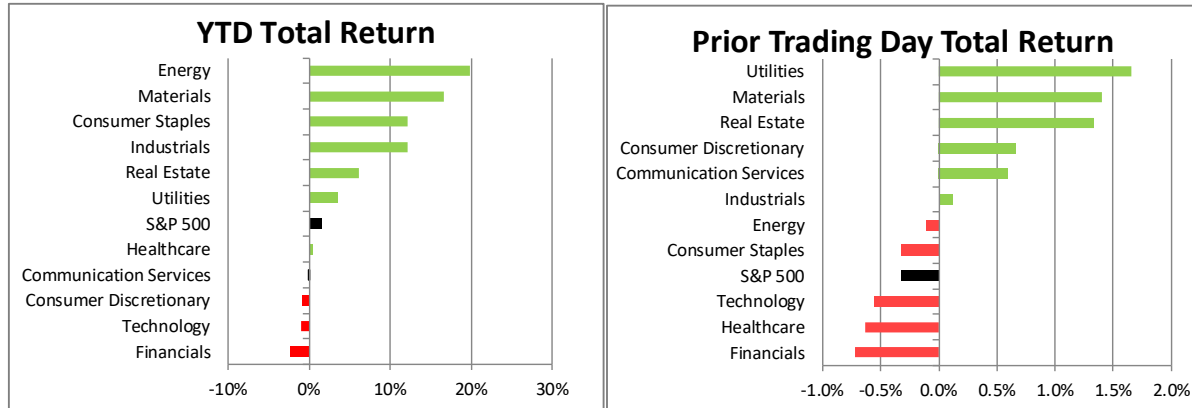
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$68.26	\$68.05	0.31%	
WTI	\$63.74	\$63.55	0.30%	
Natural Gas	\$3.20	\$3.42	-6.58%	Demand Pessimism, Supply Optimism
Crack Spread	\$25.16	\$24.91	1.01%	
12-mo strip crack	\$25.81	\$25.75	0.22%	
Ethanol rack	\$1.78	\$1.77	0.17%	
Metals				
Gold	\$5,017.33	\$4,964.36	1.07%	
Silver	\$80.44	\$77.84	3.35%	
Copper Contract	\$588.80	\$588.20	0.10%	
Grains				
Corn contract	\$429.00	\$430.25	-0.29%	
Wheat contract	\$528.25	\$529.75	-0.28%	
Soybeans contract	\$1,113.50	\$1,115.25	-0.16%	
Shipping				
Baltic Dry Freight	1,923	1,936	-13	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-0.02		
Gasoline (mb)		0.84		
Distillates (mb)		-1.73		
Refinery run rates (%)		-0.50%		
Natural gas (bcf)		-257		

Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures from the Rocky Mountains to the East Coast, with cooler-than-normal temperatures in all the West Coast states. The outlook calls for wetter-than-normal conditions in the Far West, the northern Great Plains, the Upper Midwest, and the Northeast, with dry conditions in the Deep South.

Data Section

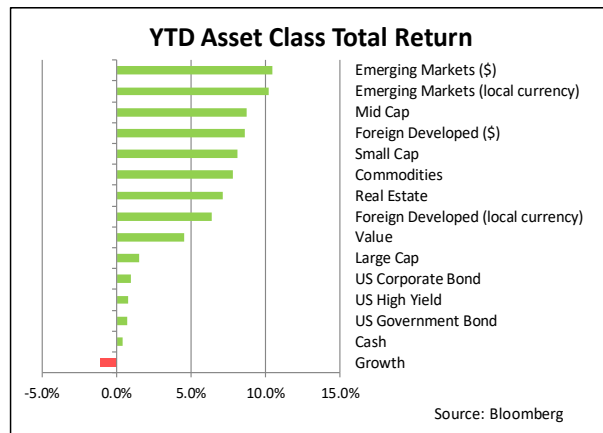
US Equity Markets – (as of 2/10/2026 close)



(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 2/10/2026 close)

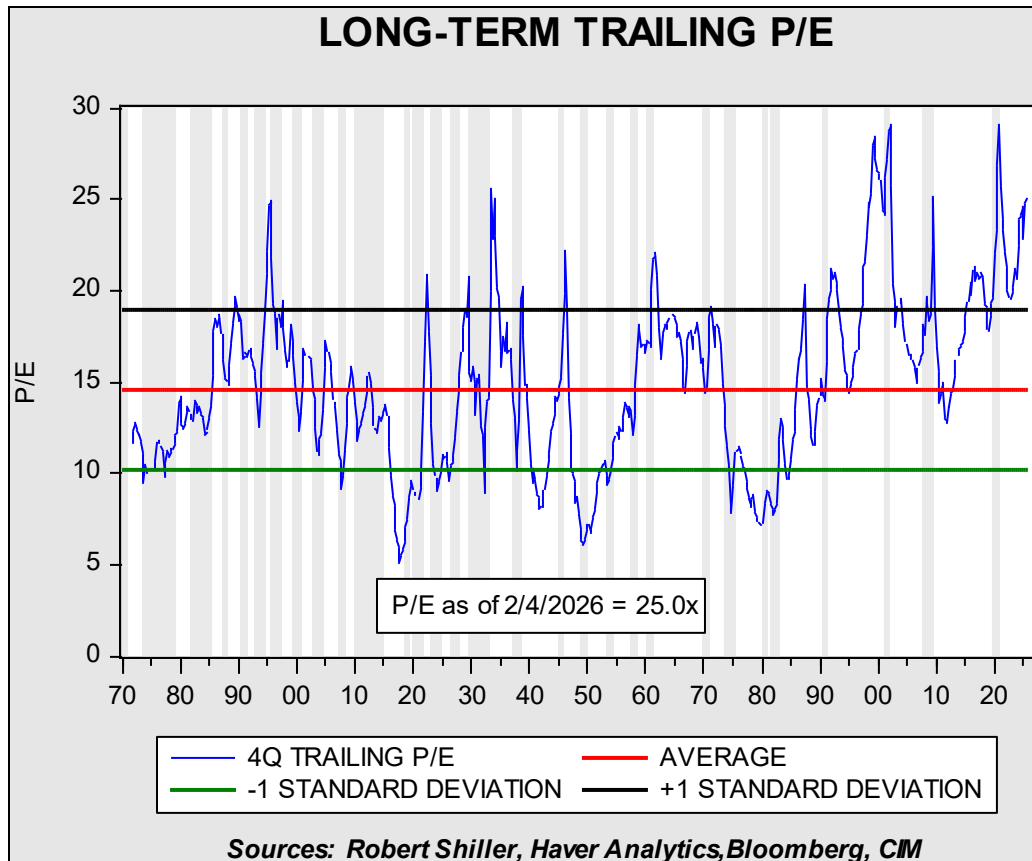


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

February 5, 2026



Based on our methodology,¹ the current P/E is 25.0x, down 0.1 from the previous report. Last week, the stock price index was relatively slightly while earnings were revised upward.

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.