Daily Comment

Confluence INVESTMENT MANAGEMENT

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: February 12, 2026 — 9:30 AM ET] Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 is up 0.7% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.5%. Chinese markets were higher, with the Shanghai Composite up 0.1% and the Shenzhen Composite up 0.5%. US equity index futures are signaling a higher open.

With 346 companies having reported so far, S&P 500 earnings for Q4 are running at $73.60 per share compared to estimates of $71.07, which is up 8.3% from Q4 2024. Of the companies that have reported thus far, 76.6% have exceeded expectations, while 18.8% 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.

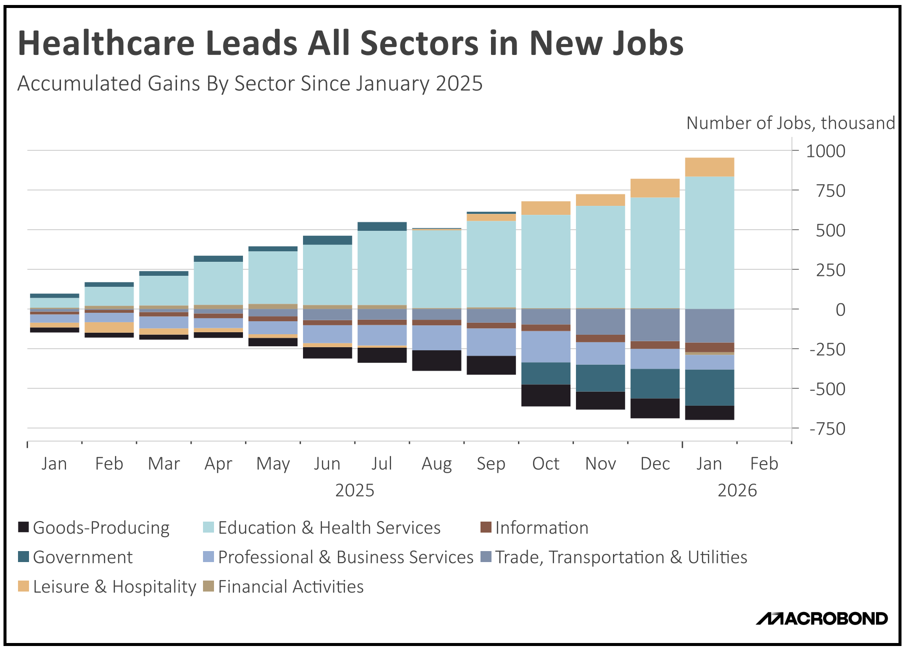
Bi-Weekly Geopolitical Report	Asset Allocation Bi-Weekly	Asset Allocation Quarterly	Of Note
"US Foreign Policy: Comparing the New vs. Old" (2/9/26) + podcast	"The Erosion of Exorbitant Privilege" (2/2/26) + podcast	Q1 2026 Report	Confluence Mailbag The Case for Hard Assets

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* begins with our take on the latest jobs report, then turns to US trade policy and why we believe further tariff restrictions are unlikely. We next discuss the CBO's updated fiscal deficit estimate, upcoming talks aimed at ending the conflict in Ukraine, and the first projects launched under the new Japan–US investment fund. We also include a summary of key economic data from the US and global markets.

Labor Market Story: US employment data is sending mixed signals on the labor market. The BLS reported 130,000 jobs were added in January, a sharp rebound from December's revised 48,000 gain. However, benchmark revisions revealed a far weaker labor market in 2025 as total job growth was slashed by 69% to just 181,000, while 2024 was revised down by 24%. The disconnect between the strong monthly print and the dramatic downgrades shows that while the labor market may be stabilizing, it remains on shakier ground than previously thought.

- The January report shows that job gains remain heavily concentrated in health-related fields, with construction also beginning to rebound. Total private payrolls increased by 172,000, driven by a combined 124,000 new positions in health care and social assistance, while construction added 33,000 jobs, accounting for the bulk of new goods-producing employment. By contrast, most other major sectors were little changed for the month, with notable job losses in the federal government and financial services.
- While most of the recent commentary has focused on the Tech sector's role in the economy, far less attention has gone to the steady support coming from Health Care. In 2025, Health Care and social assistance accounted for the vast majority of net job gains. This reflects the sector's relatively noncyclical demand profile, with resilient consumption and pockets of pricing power pointing to an industry that continues to expand even as more cyclical parts of the economy softened.



- A sharper pickup in construction hiring also points to firmer investment in the broader economy, supported by a mix of reshoring efforts and generous tax and industrial-policy incentives that are driving factory, infrastructure, and data center projects. These gains could signal the early stages of more broad-based job growth in the months ahead, even if the evidence is still tentative.
- Looking ahead, we believe the sluggish job growth of last year is giving way to a more resilient 2026. Confidence is returning, and businesses are moving forward with investment plans that were previously on hold. We are also seeing the early stages of a major "sector rotation." As the AI hype stabilizes, investors are seeking value in overlooked areas of the market. This shift suggests that 2026 will be the year the market rally finally broadens from the tech giants to the overall economy.

Trade Tensions: The White House is facing increasing pressure at home and abroad to soften its trade policy approach. In the US, lawmakers are pushing back against the president's efforts to impose tariffs without congressional approval. At the same time, foreign leaders are expressing growing concern that a trade agreement is becoming politically risky in their own countries. Although these challenges have introduced some uncertainty, we remain confident that trade policy is unlikely to turn materially more restrictive in the coming months.

- The White House suffered two significant legislative setbacks this week regarding its trade strategy. On Wednesday, the House passed a bipartisan resolution to terminate the national emergency that was used to justify a 25% tariff on Canadian goods. This followed a Tuesday night defeat for GOP leadership, where three Republicans joined Democrats to block a procedural rule that would have prevented Congress from calling "snap votes" to repeal the president's tariff powers until August.
- Additionally, questions are mounting over the implementation of recently announced trade deals. The White House has already eased its India fact sheet under pressure from New Delhi, shifting "commits" to "intends" on planned US purchases and removing references to agricultural pulses and digital tax changes. Meanwhile, the Indonesia framework appears to be back on track after coming under strain when Jakarta pushed for wording changes to make the deal more politically palatable.
- While these setbacks could still lead to marginal adjustments, we do not believe they signal a reversal of the broader shift toward a less restrictive trade stance. In our view, the White House appears to be moving away from escalating tariffs as its primary policy tool and is instead gravitating toward stabilizing rates at more moderate levels to ease pressure on consumers and businesses. As a result, although some countries may see their relative standing shift, we do not expect a return to the scale of disruption seen last year.
- As noted in our previous reports, an easing trade environment is likely to support a broader sector rotation. Last year, markets flocked to areas best positioned to navigate trade-related challenges; this year, we expect the focus to shift toward firms poised to benefit from the relaxation of those policies. Accordingly, we continue to see merit in adding exposure to non-AI-related sectors, which may finally receive a boost given their relatively attractive valuations.

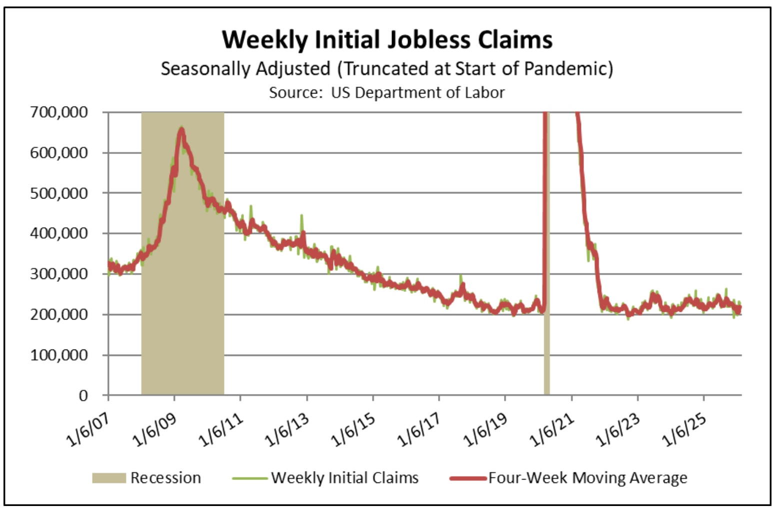
Deficit Expectations: The Congressional Budget Office (CBO) has raised its fiscal deficit projections, underscoring the growing urgency for policymakers to address the long-term debt trajectory. The nonpartisan agency now expects cumulative deficits from 2026 to 2035 to be roughly $1.4 trillion higher than forecast in January 2025, a revision driven largely by last year's One Big Beautiful Bill Act and tighter immigration policies. Over time, larger deficits could potentially put upward pressure on longer-dated US government bond yields.

Ukraine Update: Ukraine is preparing for another round of discussions on a possible settlement to its conflict with Russia. Ukrainian President Volodymyr Zelensky has indicated that negotiations have moved to the sensitive question of territory, including proposals related to a special economic zone in the eastern Donbas region, though both sides remain far apart and reluctant to make binding concessions. At this time, we continue to remain confident that the conflict between the sides appears to be coming to an end.

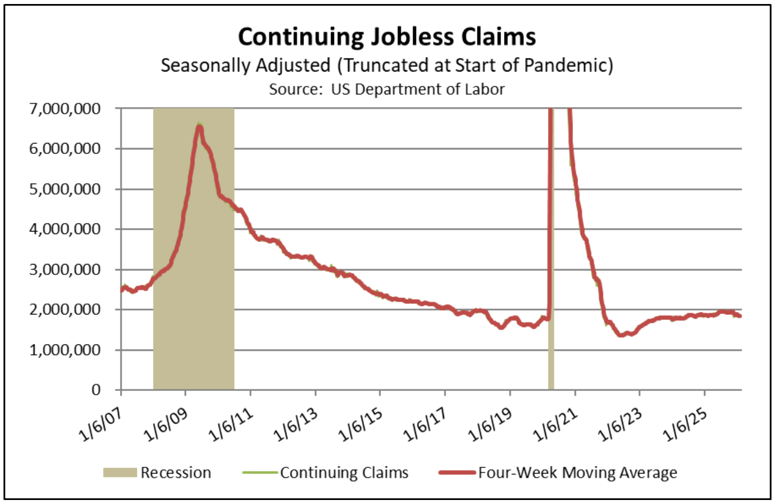
Japan and US Fund: Washington and Tokyo [are working to operationalize a joint investment fund aimed at developing strategic sectors] in the US. Current discussions reportedly include three flagship projects: large-scale data center infrastructure, a deep-sea energy terminal in the US Southwest, and synthetic diamond production for semiconductor applications. The initiative illustrates how tariff and industrial policies are being used to attract foreign direct investment into strategically important industries and could provide an additional tailwind for markets.

US Economic Releases

In the week ended February 7, ***initial claims for unemployment benefits*** fell to a seasonally adjusted 227,000, above the expected level of 223,000 but down from a revised 232,000 in the previous week. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, rose to 219,500. 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 January 31, the number of ***continuing claims for unemployment benefits*** (people continuing to draw benefits) rose to a seasonally adjusted 1.862 million, above both the anticipated reading of 1.850 million and the prior week's revised reading of 1.841 billion. Nevertheless, the four-week moving average of continuing claims fell to 1,846,750. That marked the data's lowest level since October 2024, helping to confirm that labor demand has strengthened somewhat as indicated in the January employment report released yesterday. 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.



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	Existing Home Sales	m/m	Jan	4.15	4.35m	***
10:00	Existing Home Sales MoM	m/m	Jan	-4.6%	5.1%	*
Federal Reserve						
EST	**Speaker or Event**	**District or Position**				
19:00	Lorie Logan Gives Opening Remarks	President of the Federal Reserve Bank of Dallas				
19:05	Stephen Miran Speaks in Moderated Discussion	Members of the Board of Governors				
19:05	Stephen Miran in Moderated Conversation	Members of the Board of Governors				

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	PPI	y/y	Jan	2.3%	2.4%	2.3%	***	Equity and bond neutral
EUROPE								
UK	Nationwide House Price Index	y/y	Jan	-10.0%	-13.0%	-11.0%	***	Equity bullish, bond bearish
	GDP	y/y	4Q P	1.0%	1.2%	1.2%	***	Equity and bond neutral
	Private Consumption	q/q	4Q P	0.2%	0.4%	0.2%	*	Equity and bond neutral
	Government Sepnding	q/q	4Q P	0.4%	0.3%	0.5%	*	Equity and bond neutral
	Industrial Production	y/y	4Q P	2.0%	2.5%		***	Equity and bond neutral
	Manufacturing Production	y/y	Dec	0.5%	2.3%	1.4%	**	Equity bearish, bond bullish
	Index of Services 3M/3M	m/m	Dec	0.5%	1.3%	1.7%	**	Equity bearish, bond bullish
	Construction Output	y/y	Dec	-0.3%	-0.3%	-0.1%	*	Equity and bond neutral
	Visible Trade Balance GBP/Mn	m/m	Dec	-£22724m	-£23582m	-£22288m	**	Equity and bond neutral
	Trade Balance GBP/Mn	m/m	Dec	-£4340m	-£5564m	-£4799m	**	Equity and bond neutral
AMERICAS								
Canada	Building Permits	m/m	Dec	6.8%	-13.2%	5.0%	**	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	361	-2	Down
U.S. Sibor/OIS spread (bps)	366	366	0	Down
U.S. Libor/OIS spread (bps)	364	364	0	Down
10-yr T-note (%)	4.16	4.18	-0.02	Down
Euribor/OIS spread (bps)	199	198	1	Down
Currencies	3 Mo			
Dollar	Down	US		Down
Euro	Up	Euro		Up
Yen	Up	Japan		Up
Pound	Up	UK		Up
Franc	Up	Switzerland		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.

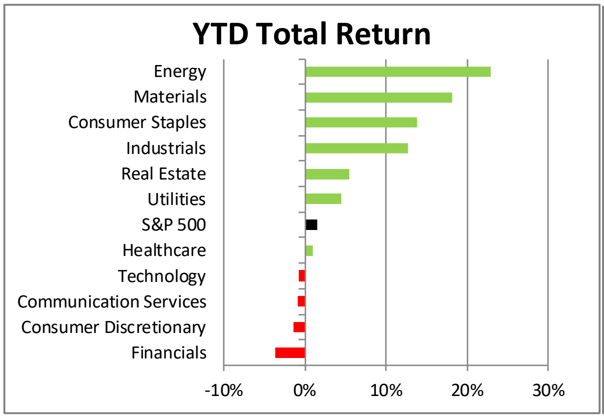
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$69.07	$69.40	-0.48%	
WTI	$64.41	$64.63	-0.34%	
Natural Gas	$3.25	$3.16	2.98%	
Crack Spread	$24.18	$24.67	-2.00%	
12-mo strip crack	$25.57	$25.87	-1.18%	
Ethanol rack	$1.80	$1.80	0.11%	
Metals				
Gold	$5,054.64	$5,084.39	-0.59%	
Silver	$82.81	$84.28	-1.75%	
Copper Contract	$598.10	$596.55	0.26%	
Grains				
Corn contract	$428.25	$427.50	0.18%	
Wheat contract	$539.75	$537.25	0.47%	
Soybeans contract	$1,151.00	$1,139.50	1.01%	
Shipping				
Baltic Dry Freight	1,958	1,882	76	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	8.53	-0.02	8.55	
Gasoline (mb)	1.16	0.84	0.32	
Distillates (mb)	-2.70	-1.73	-0.97	
Refinery run rates (%)	-0.11%	-0.50%	0.39%	
Natural gas (bcf)		-258		

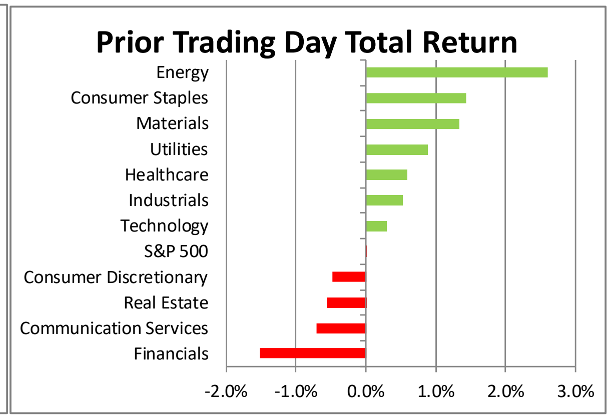
Weather

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

Data Section

US Equity Markets – (as of 2/11/2026 close)

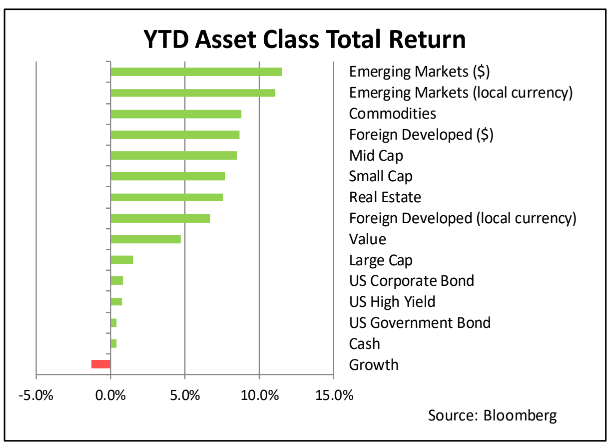




(Source: Bloomberg)

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 2/11/2026 close)

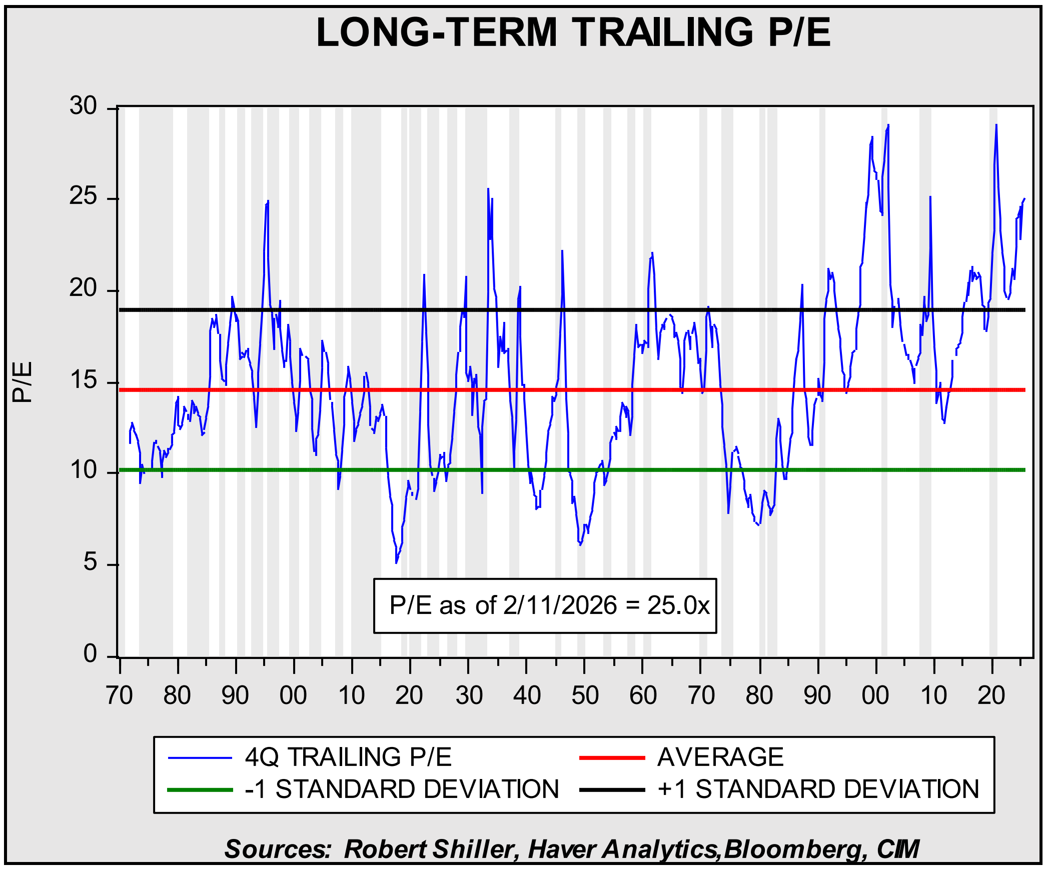


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 12, 2026



Based on our methodology,[1] the current P/E is 25.0x and is unchanged from the previous report. Last week, the stock price index and earnings were relatively unchanged.

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.

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[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.