Daily Comment

Confluence INVESTMENT MANAGEMENT

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[Posted: February 2, 2026 — 9:30 AM ET] Global equity markets are mostly lower this morning. In Europe, the Euro Stoxx 50 is up 0.5% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 2.7%. Chinese markets were lower, with the Shanghai Composite down 2.5% and the Shenzhen Composite also down 2.5%. US equity index futures are signaling a lower open.

With 167 companies having reported so far, S&P 500 earnings for Q4 are running at $73.10 per share compared to estimates of $71.07, which is up 8.3% from Q4 2024. Of the companies that have reported thus far, 78.4% have exceeded expectations, while 16.2% 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
"Blocs, Spheres, Empires, and Colonies" (1/26/26) + podcast	**"The Erosion of Exorbitant Privilege" (2/2/26) + podcast**	Q1 2026 Report	The Keller Quarterly VE Insight: Understanding the R1000 Value Index

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 update on today's markets where some asset values are rebounding from their sell-offs late last week, while others have remained weak. We next review several other international and US developments with the potential to affect the financial markets, including a positive statement about Iran from President Trump, which has weighed on global oil prices so far today, and the latest on what is likely to be a very short federal government shutdown over continued budget squabbles.

Global Financial Markets: So far this morning, prices for precious metals and other safe haven assets appear to be stabilizing or even rebounding from their sharp declines late last week, even as prices for risk assets including equities and industrial metals continue to weaken. As of this writing, prices for gold, silver, platinum, and palladium are all at least 0.7% higher, while bitcoin prices are up 1.2%. However, major US stock indexes are down as much as 1.5%.

- We see two main catalysts for last week's sell-offs: President Trump's appointment of Kevin Warsh, who has a hawkish reputation, to be the new head of the Federal Reserve, and concerning data in the latest earnings reports of two key technology companies.
- The differentiated market action today suggests that investors remain concerned about volatility and economic challenges if US monetary policy ends up being less dovish than previously expected and if companies misallocate capital amid the boom in artificial intelligence. The rebound suggests they may now be regaining their interest in traditional safe-haven assets despite the risk of relatively high interest rates going forward.

United States-Iran: In an interview Saturday night, President Trump said he thinks the Iranian government is negotiating "seriously" about its nuclear program as the US continues to build up its military assets in the Middle East for a potential strike against Tehran. The president's statement has raised hopes that a strike won't be carried out and that US sanctions against Iran's oil could eventually be lifted. That prospect has pushed global oil prices down some 4.8% so far this morning, with Brent currently trading at about $66.08 per barrel.

- Separately, the *Financial Times* today carries a story saying that several major European oil companies — including Shell, BP, TotalEnergies, Eni, and Equinor — are expected to slow their stock buybacks by 10% to 25% when they release their 2025 earnings reports later this month.
- The expected action reportedly reflects the firms' continued struggle to deal with excess oil supplies and low oil prices. Naturally, reduced stock buybacks will likely be a headwind for the companies' stock values going forward.

US Fiscal Policy: Senators on Friday passed a deal stripping the funds for the Department of Homeland Security from a broader bill financing the rest of the federal government through the end of the fiscal year on September 30. Under the deal, DHS will be funded at last year's level for two weeks to allow more negotiations for its budget. The bill still needs to be passed by the House early this week, so technically, we're in a partial government shutdown. However, it is likely to be resolved soon, with little if any impact on the economy or financial markets.

China: The official purchasing managers' index for manufacturing fell to 49.3 in January, short of expectations and down from 50.1 in December. The non-manufacturing PMI fell to 49.4 from 50.2. Like most major PMIs, China's is designed so that readings over 50.0 point to expanding activity. The data therefore suggests the Chinese economy is contracting again, largely due to weak demand among domestic consumers and businesses.

- Weak domestic demand will likely give firms even more incentive to boost exports, potentially creating new trade frictions with the US and European countries.
- In any case, China's weak domestic demand is probably weighing on current economic activity in many countries and could become more of a headwind for Chinese stocks.

India: Announcing the government's proposed budget for the 2026-2027 fiscal year at the weekend, Finance Minister Nirmala Sitharaman said India will boost its capital investment in cutting-edge manufacturing by 9% to shield the country from increased protectionism in global trade flows. The proposal illustrates how the US's new, protectionist trade policies and changed approach to foreign affairs have prompted many countries to adopt more stimulative economic policies — policies that could further boost the prospects for foreign stocks going forward.

Japan: According to new data from the Health Ministry, there were 2.57 million foreigners working in Japan at the end of October, up 11.7% from the previous year and enough to mark the 13th straight record high. While the surge in foreign workers has helped firms deal with Japan's shrinking domestic workforce, it also helps explain the electoral success of conservative, anti-immigrant politicians and growing demands for new restrictions.

South Korea: In an initial estimate, January exports totaled $65.85 billion, up 34% from the same month one year earlier. That marks a significant acceleration from the annual growth of just 13% in the year to December. The strong increase in January represented both a higher number of working days and surging semiconductors exports. South Korean exports are seen as a bellwether for global and US economic activity. The data therefore suggests the economy has entered 2026 with plenty of momentum, which probably bodes well for global stock markets.

European Union: In a speech today, former European Central Bank President Mario Draghi again urged EU countries to form a federation with deeper integration in areas such as defense, industrial policy, and foreign relations. According to Draghi, such a federation may be needed to keep the EU from disintegrating under pressure from the US and China.

- While there is little prospect of such a major change in the near term, we think Draghi's statement does reflect the Europeans' growing realization that they need to make major economic and political changes to regain competitiveness and influence.
- To the extent that those changes are implemented, they could prompt better economic growth or otherwise be positive for investors.

US Economic Releases

There were no domestic releases prior to the publication of this report. 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	S&P Global US Manufacturing PMI	m/m	Jan F	52.0	51.9	***
10:00	ISM New Orders	m/m	Jan		47.7	**
10:00	ISM Employment	m/m	Jan	46.0	44.9	*
10:00	ISM Manufacturing	m/m	Jan	48.5	47.9	**
10:00	ISM Prices Paid	m/m	Jan	59.3	58.5	**
Federal Reserve						
EST	**Speaker or Event**	**District or Position**				
12:30	Raphael Bostic Speaks at the Atlanta Rotary Club	President of the Federal Reserve Bank of Atlanta				

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.

Japan	S&P Global Japan Manufacturing PMI	m/m	Jan F	51.5	51.5		***	Equity and bond neutral
Australia	S&P Global Australia Manufacturing PMI	m/m	Jan F	52.3	52.4		***	Equity and bond neutral
	Melbourne Institute Inflation	y/y	Jan	3.6%	3.5%		***	Equity and bond neutral
	ANZ-Indeed Job Advertisements	m/m	Jan	4.4	-0.5		*	Equity and bond neutral
South Korea	S&P Global South Korea PMI Manufacturing	m/m	Jan	51.2	50.1		***	Equity and bond neutral
	Trade Balance	m/m	Jan	$8740m	$12179m	$5607m	*	Equity and bond neutral
	Exports	y/y	Jan	33.9%	13.4%	30.1%	***	Equity and bond neutral
	Imports	y/y	Jan	11.7%	4.6%	15.0%	**	Equity and bond neutral
China	Official Manufacturing PMI	m/m	Jan	49.3	50.1	50.1	***	Equity and bond neutral
	Official Services PMI	m/m	Jan	49.4	50.2	50.3	**	Equity and bond neutral
	Official Composite PMI	m/m	Jan	49.8	50.7		*	Equity and bond neutral
	RatingDog China PMI Mfg	m/m	Jan	50.3	50.1	50.0	***	Equity and bond neutral
India	HSBC India PMI Mfg	m/m	Jan F	55.4	56.8		***	Equity and bond neutral
EUROPE								
Eurozone	HCOB Eurozone Manufacturing PMI	m/m	Jan F	49.5	49.4	49.4	***	Equity and bond neutral
Germany	Retail Sales	y/y	Dec	3.2%	-1.6%	2.0%	*	Equity bullish, bond bearish
	HCOB Germany Manufacturing PMI	m/m	Jan F	49.1	48.7	48.7	***	Equity and bond neutral
France	HCOB France Manufacturing PMI	m/m	Jan F	51.2	51.0	51.0	***	Equity and bond neutral
Italy	HCOB Italy Manufacturing PMI	m/m	Jan	48.1	47.9	48.5	***	Equity and bond neutral
UK	Nationwide House Price Index	y/y	Jan	1.0%	0.6%	0.7%	***	Equity and bond neutral
	S&P Global UK Manufacturing PMI	m/m	Jan F	51.8	51.6	51.6	***	Equity and bond neutral
Switzerland	Real Retail Sales	y/y	Dec	2.9%	1.7%		**	Equity and bond neutral
	PMI Manufacturing	m/m	Jan	48.8	46.4	47.1	***	Equity bullish, bond bearish
	PMI Services	m/m	Jan	53.8	51.4		*	Equity and bond neutral
	Domestic Sight Deposits CHF	w/w	30-Jan	436.6b	433.6b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	30-Jan	452.7b	449.3b		*	Equity and bond neutral
Russia	S&P Global Russia Manufacturing PMI	m/m	Jan	49.4	48.1		***	Equity and bond neutral
AMERICAS								
Canada	GDP	y/y	Nov	0.6%	0.4%	0.7%	**	Equity and bond neutral
Brazil	S&P Global Brazil Manufacturing PMI	m/m	Jan	47.0	47.6		***	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)	357	358	-1	Down
U.S. Sibor/OIS spread (bps)	366	366	0	Down
U.S. Libor/OIS spread (bps)	363	363	0	Down
10-yr T-note (%)	4.23	4.24	-0.01	Up
Euribor/OIS spread (bps)	203	202	1	Down
Currencies	**Direction**			
Dollar	Up			Down
Euro	Flat			Up
Yen	Up			Down
Pound	Flat			Up
Franc	Up			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.

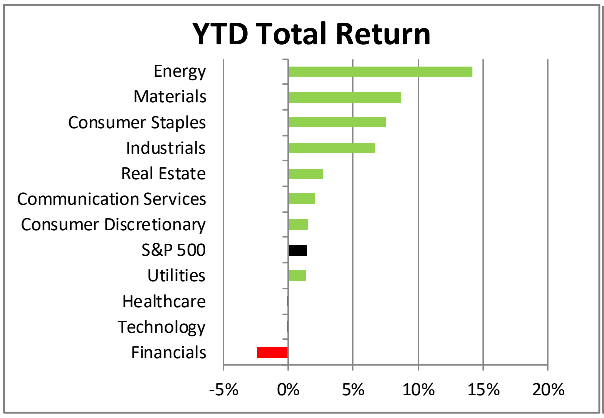
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$66.12	$69.32	-4.62%	Supply Optimism
WTI	$62.02	$65.21	-4.89%	Supply Optimism
Natural Gas	$3.65	$4.35	-16.28%	Supply Optimism
Crack Spread	$23.77	$24.44	-2.73%	
12-mo strip crack	$24.88	$25.42	-2.12%	
Ethanol rack	$1.76	$1.76	-0.39%	
Metals				
Gold	$4,782.51	$4,894.23	-2.28%	
Silver	$83.84	$85.20	-1.59%	
Copper Contract	$587.20	$592.40	-0.88%	
Grains				
Corn contract	$426.25	$428.25	-0.47%	
Wheat contract	$534.00	$538.00	-0.74%	
Soybeans contract	$1,059.50	$1,064.25	-0.45%	
Shipping				
Baltic Dry Freight	2,148	2,002	146	

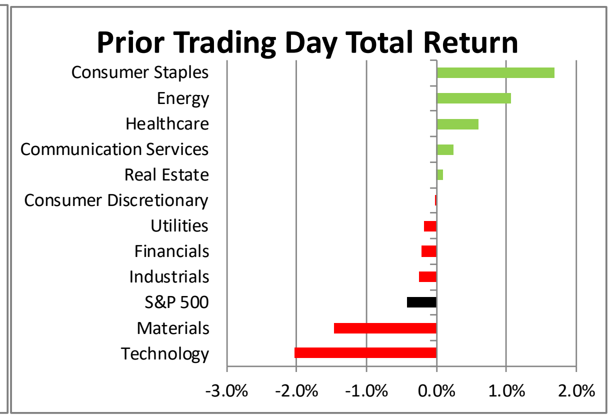
Weather

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 temperatures expected on the East Coast. The precipitation outlook calls for wetter-than-normal conditions for most states west of the Mississippi River, with dry conditions in the New England region and Florida.

Data Section

US Equity Markets – (as of 1/30/2026 close)

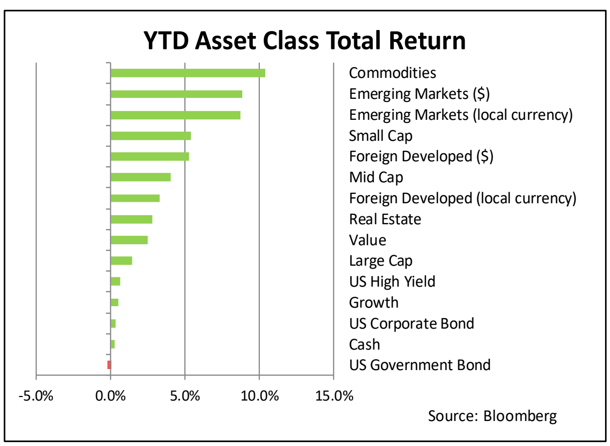




(Source: Bloomberg)

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 1/30/2026 close)

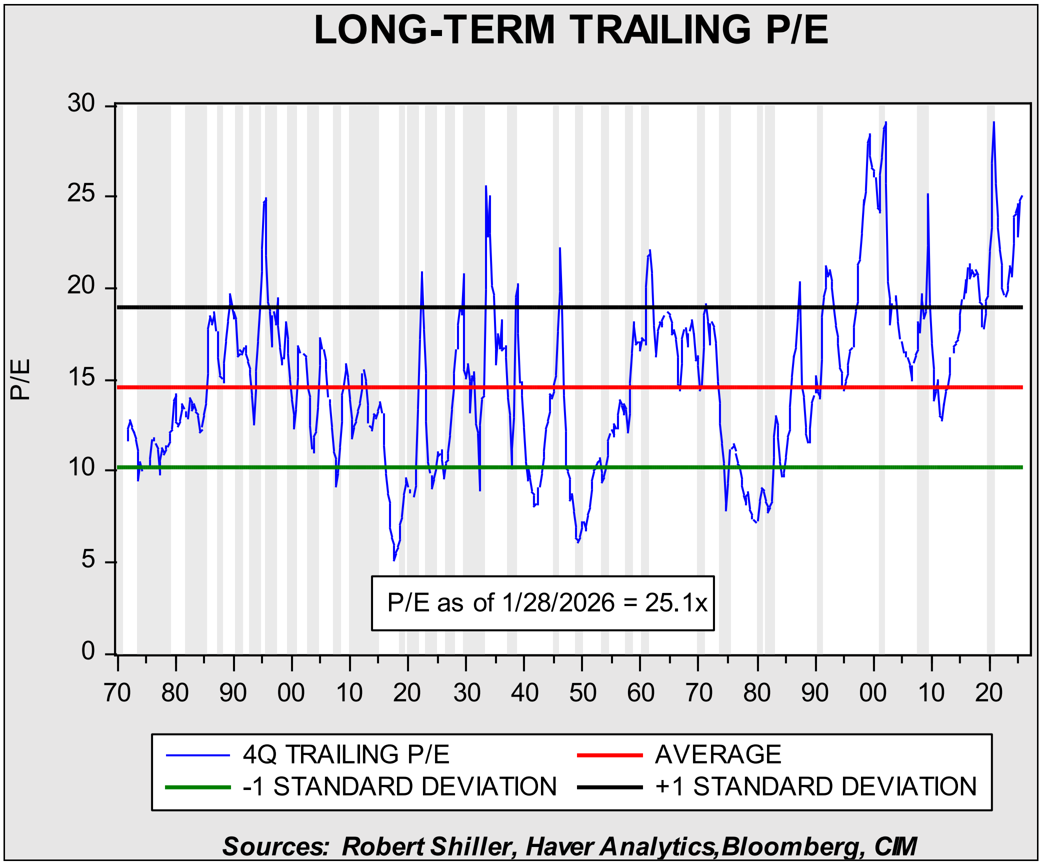


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

January 29, 2026



Based on our methodology,[1] the current P/E is 25.1x, down 0.1 from the previous report. Last week, the stock price index fell slightly while earnings edged 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.

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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.