Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: February 3, 2026 — 9:30 AM ET] Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 is up 0.3% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 2.6%. Chinese markets were higher, with the Shanghai Composite up 1.3% and the Shenzhen Composite up 2.4%. US equity index futures are signaling a higher open.

With 178 companies having reported so far, S&P 500 earnings for Q4 are running at $72.50 per share compared to estimates of $71.07, which is up 8.3% from Q4 2024. Of the companies that have reported thus far, 79.2% have exceeded expectations, while 15.7% 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* today opens with the surprise announcement of a new US-India trade deal, which has given a big boost to Indian stocks and the rupee today. We next review several other international and US developments with the potential to affect the financial markets today, including polls showing that Japan's ruling party could win next week's parliamentary elections in a landslide, providing welcome political stability, and a new European Union probe into illegal Chinese trade practices, which will likely worsen EU-China relations.

United States-India: President Trump and Prime Minister Modi yesterday said they have struck a new trade deal under which the US will cut its tariff on Indian imports to just 18% from a total

of 50% previously, while India pledges to end all imports and trade barriers against US imports, stops buying Russian oil, and commits to purchasing $500 billion of US goods.

- As with other administration trade deals, few details have been released, and it isn't clear how enforceable the deal is.

- All the same, the deal will likely stabilize US-India relations and probably allow trade flows to rebound in the near term. Coupled with last week's US-European Union trade deal, that could further boost the Indian economy and stock market.

- Indeed, Indian stock prices are up about 2.5% so far today. The rupee today has jumped about 1.4% against the dollar, marking its strongest daily appreciation in seven years.

Japan: New opinion polls suggest the ruling Liberal Democratic Party and its coalition partner, the Japan Innovation Party, are set to win the February 8 parliamentary elections in a landslide. Not only are the parties expected to win a comfortable majority in the lower house, but they could win a two-thirds supermajority that would allow them to push through legislation even if the opposition-controlled upper house rejected it. The promise of a strong, stable government under Prime Minister Takaichi should be positive for Japanese stocks going forward.

European Union-China: The European Union today said it is probing whether China provided unfair subsidies to Goldwind, the world's largest turbine manufacturer, for its activities in the production and sale of wind turbines in the EU. The probe is only the latest EU investigation into unfair trade practices by Beijing and will likely boost EU-China trade tensions even as some other countries try to improve ties with China to hedge their bets against changing US policies.

China: Several major Chinese electric-vehicle makers saw their share prices plummet yesterday after releasing weak January sales figures. The group, including BYD, Xpeng, and Nio, all reported domestic sales declines after the government ended a popular sales tax exemption and other subsidies for EVs. The results suggest the Chinese EV industry could face a difficult year at home and have even more incentive to push foreign sales of its products, threatening auto manufacturers around the world.

Australia: The Reserve Bank of Australia has hiked its benchmark short-term interest rate by 25 basis points to 3.85%, marking its first rate hike since 2023. According to RBA Governor Michele Bullock, the rate hike was aimed at addressing excessively high consumer price inflation and may be followed by further hikes. In response, the Australian dollar has appreciated about 0.8% today to $0.7007. Australian stocks are up approximately 0.9% so far today.

France-United States: In a major escalation, cybercrime prosecutors today raided the Paris office of X and summoned Elon Musk for a "voluntary interview" regarding the firm's operations. The ongoing probe has recently focused on X's Grok chatbot and its role in generating sexualized deepfake images. The probe is also looking into charges of political interference and other violations of French and European media law. The new raid is sure to worsen US-French political tensions again and could invite new tariff threats from the US.

France: The center-right government of Prime Minister Lecornu survived a no-confidence vote in the National Assembly yesterday, allowing Lecornu to push through a deficit-cutting budget for 2026. The budget, which includes extending special tax hikes, is expected to cut the government's deficit to about 5.0% of gross domestic product, versus an estimated 5.4% of GDP in 2025. Just as important, passage of the budget should ease domestic political tensions until campaigning starts for the presidential election in 2027.

Global Artificial Intelligence Investment: German industrial equipment giant Siemens today said it will invest $1 billion in new US manufacturing facilities to boost its output of the power-generation equipment needed to handle surging US electricity demand associated with the boom in AI investment. The investment will include steps to re-start the production of gas turbines, which are in very short supply. The news illustrates how the boom in AI investment is giving a boost to related industries, which is one reason we are currently positive on industrial stocks.

Bolivia: In an interview with the *Financial Times*, newly installed President Rodrigo Paz said his team is developing a package of laws to boost foreign investment in natural resources. The new laws would include a standard 50/50 risk sharing deal for developing the country's natural resources. The business-friendly reforms may help unlock Bolivia's large reserves of critical minerals, such as lithium, which are essential to many new electronic industries.

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**
10:00	Wards Total Vehicle Sales	m/m	Jan		15.21m	16.02m	*
Federal Reserve							
EST	**Speaker or Event**	**District or Position**					
8:00	Thomas Barkin Speaks on US Economy	President of the Federal Reserve Bank of Richmond					
9:40	Michelle Bowman in Moderated Conversation	Member 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	Monetary Base	y/y	Jan	-9.5%	-9.8%		**	Equity and bond neutral
Australia	Building Approvals	m/m	Dec	-14.9%	13.1%	-6.4%	***	Equity bearish, bond bullish
New Zealand	Building Permits	m/m	Dec	-4.6%	2.7%		**	Equity and bond neutral
South Korea	CPI	m/m	Jan	2.0%	2.3%	2.0%	***	Equity and bond neutral
EUROPE								
France	CPI	y/y	Jan p	0.3%	0.8%	0.6%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Jan p	0.4%	0.7%	0.6%	**	Equity and bond neutral
	Budget Balance YTD	y/y	Dec	-124.7b	-155.4b		***	Equity and bond neutral
Italy	New Car Registrations	y/y	Jan	6.18%	2.22%		*	Equity and bond neutral
	Budget Balance	m/m	Jan	-9.8b	11.7b		*	Equity and bond neutral
AMERICAS								
Canada	S&P Global Canada Manufacturing PMI	m/m	Jan	50.4	48.6		***	Equity and bond neutral
Brazil	Industrial Production	y/y	Dec	-0.4%	-1.4%	0.5%	***	Equity bearish, bond bullish

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)	367	367	0	Down
U.S. Libor/OIS spread (bps)	364	364	0	Down
10-yr T-note (%)	4.28	4.28	0.00	Up
Euribor/OIS spread (bps)	202	203	-1	Down
Currencies	**Direction**			
Dollar	Flat			Down
Euro	Flat			Up
Yen	Up			Down
Pound	Flat			Up
Franc	Down			Up
Central Bank Action	**Actual**	**Prior**	**Expected**	
RBA Cash Rate Target	3.85%	3.60%	3.85%	On Forecast

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.
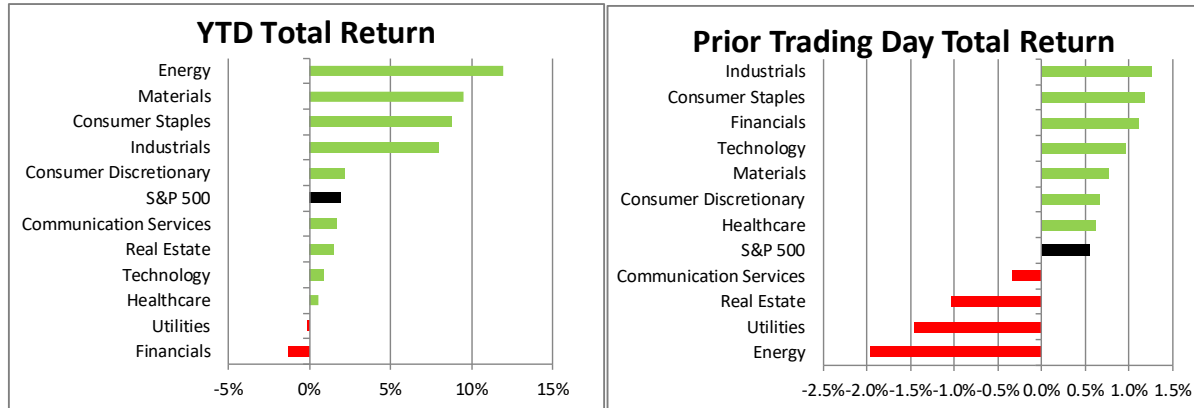
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$66.47	$66.30	0.26%	
WTI	$62.39	$62.14	0.40%	
Natural Gas	$3.24	$3.24	-0.06%	
Crack Spread	$22.99	$22.55	1.97%	
12-mo strip crack	$24.79	$24.52	1.07%	
Ethanol rack	$1.75	$1.75	0.00%	
Metals				
Gold	$4,914.78	$4,661.38	5.44%	Global uncertainty; political volatility
Silver	$86.74	$79.27	9.43%	Rebound from selloff; political & economic uncerainty
Copper Contract	$604.55	$582.55	3.78%	
Grains				
Corn contract	$426.75	$425.75	0.23%	
Wheat contract	$529.00	$527.75	0.24%	
Soybeans contract	$1,068.50	$1,060.25	0.78%	
Shipping				
Baltic Dry Freight	2,124	2,148	-24	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		1.95		
Gasoline (mb)		2.55		
Distillates (mb)		-0.25		
Refinery run rates (%)		-0.65%		
Natural gas (bcf)		-238		

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 in California. The precipitation outlook calls for wetter-than-normal conditions for the entire country.
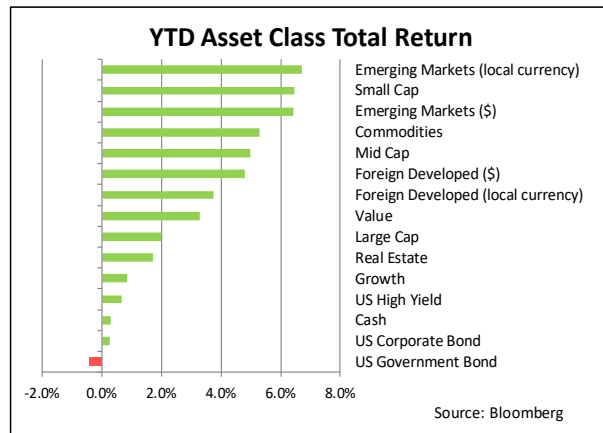
Data Section

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

YTD Total Return

Sector	Return
Energy	~12%
Materials	~9.5%
Consumer Staples	~9%
Industrials	~8%
Consumer Discretionary	~2%
S&P 500	~2% (black)
Communication Services	~1.5%
Real Estate	~1.5%
Technology	~1%
Healthcare	~0.5%
Utilities	~0%
Financials	~-1.5%

Prior Trading Day Total Return

Sector	Return
Industrials	~1.2%
Consumer Staples	~1.2%
Financials	~1.1%
Technology	~1.0%
Materials	~0.8%
Consumer Discretionary	~0.6%
Healthcare	~0.6%
S&P 500	~0.5% (black)
Communication Services	~-0.4%
Real Estate	~-1.0%
Utilities	~-1.5%
Energy	~-2.0%

(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 2/2/2026 close)

YTD Asset Class Total Return

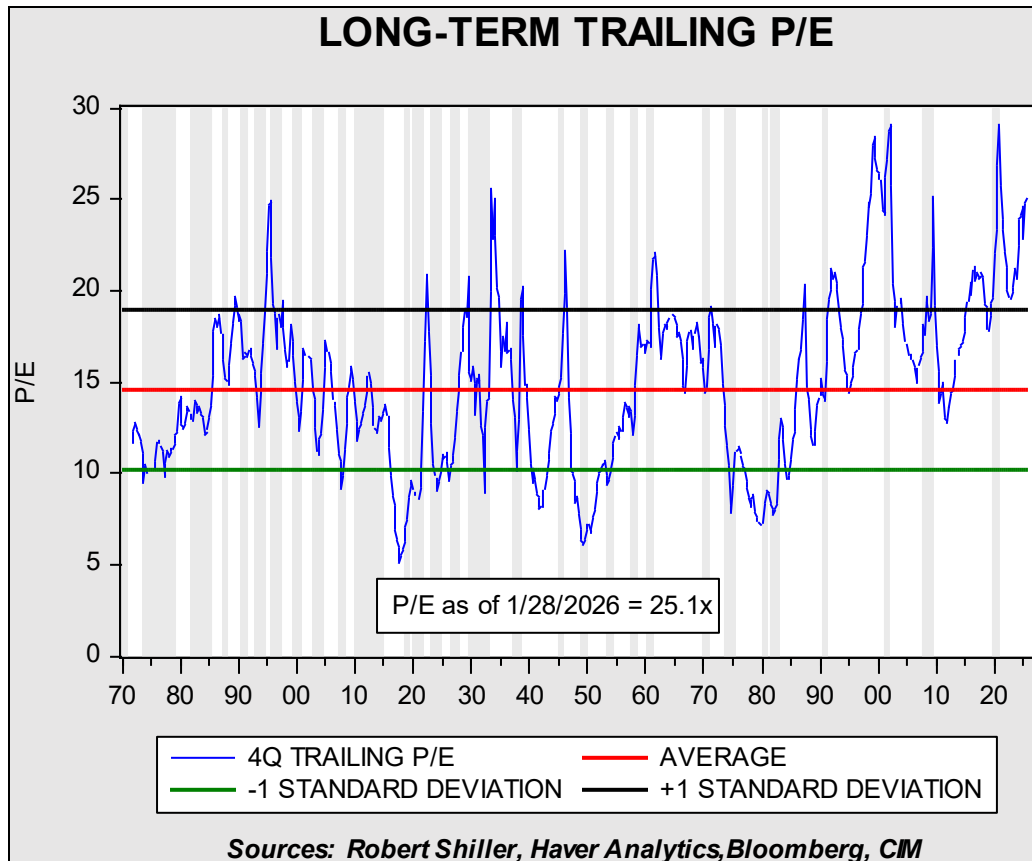| Asset Class	Return
Emerging Markets (local currency)	~6.8%
Small Cap	~6.3%
Emerging Markets ($)	~6.2%
Commodities	~5.3%
Mid Cap	~5.0%
Foreign Developed ($)	~4.8%
Foreign Developed (local currency)	~3.8%
Value	~3.3%
Large Cap	~2.0%
Real Estate	~1.8%
Growth	~0.9%
US High Yield	~0.8%
Cash	~0.3%
US Corporate Bond	~0.2%
US Government Bond	~-0.3%

Source: Bloomberg

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

LONG-TERM TRAILING P/E

P/E as of 1/28/2026 = 25.1x

Legend:
- 4Q TRAILING P/E
- AVERAGE
- -1 STANDARD DEVIATION
- +1 STANDARD DEVIATION

Sources: Robert Shiller, Haver Analytics, Bloomberg, CIM

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.