Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: February 4, 2026 — 9:30 AM ET] Global equity markets are generally higher this morning. In Europe, the Euro Stoxx 50 is up 0.2% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.7%. Chinese markets were higher, with the Shanghai Composite up 0.9% and the Shenzhen Composite up 0.3%. US equity index futures are signaling a higher open.

With 214 companies having reported so far, S&P 500 earnings for Q4 are running at $72.70 per share compared to estimates of $71.07, which is up 8.3% from Q4 2024. Of the companies that have reported thus far, 79.9% have exceeded expectations, while 15.4% 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 our perspective on the recent sell-off in tech stocks. We then examine rising tensions between the US and Iran. Next, we address the proposed solutions by homebuilders to improve housing affordability, Texas's renewed scrutiny of data center projects, and reports of Russian efforts to intercept allied satellites. We round out the report with a summary of key economic data from the US and global markets.

AI Disruption: On Tuesday, tech stocks sold off following the release of new AI software that could threaten the core businesses of several major firms. Anthropic, the creator of the Claude chatbot, unveiled an AI-powered automation tool capable of handling routine legal tasks such as

contract reviews, NDA triage, compliance workflows, legal briefings, and template responses. The company also introduced a similar tool for customer service and sales. The announcement has intensified concerns that traditional business models may soon be disrupted by AI.

- The sell-off in tech shares reflects growing concerns that recent AI breakthroughs could eventually impact the hyperscalers. Companies like Microsoft, Amazon, and Alphabet provide the computing infrastructure that is powering many of the firms now at risk. Investors worry that if these clients become obsolete, their demand for cloud computing could decline, ultimately hurting the hyperscalers themselves.

- While the risk to hyperscalers may not pose an immediate threat, it could deepen valuation concerns among investors. In recent quarters, these companies have significantly increased spending on data center expansion, with some even taking on debt to meet anticipated future demand. If their client base begins to shrink due to AI-driven disruption, it could further fuel worries about a potential AI bubble.

- Heightened concerns over potential disruptions are narrowing investor focus toward immediate bottom-line earnings. This represents a stark pivot from last year's tolerance for aggressive expansion and infrastructure scaling. As the market's patience for "growth-at-any-cost" wears thin, we anticipate significant volatility if industry leaders fail to deliver on these sharpened expectations.

- At this time, we believe the AI rally still has momentum, though some signs of fatigue have begun to emerge. We continue to recommend diversification as the best course of action to hedge against concentrated exposure to the tech sector. In our view, expanding investments across other industries as well as countries can provide valuable protection during periods of market volatility, particularly if AI-related expectations are eventually revised lower.

Iran Escalation: Tensions between the United States and Iran have intensified ahead of upcoming nuclear talks. On Tuesday, a US Navy ship reportedly shot down an Iranian drone that approached the USS *Abraham Lincoln* in the Arabian Sea. The incident coincided with another confrontation in which Islamic Revolutionary Guard Corps vessels allegedly harassed US-flagged ships in the Strait of Hormuz. Together, these events underscore the escalating hostilities between the two nations as they prepare for high-stakes negotiations.

- As nuclear talks approach, the White House appears intent on pressing Iran to accept a set of reported concessions aimed at preventing further escalation. Washington's three principal demands are: a permanent end to uranium enrichment on Iranian soil and the disposal or removal of existing enriched uranium stockpiles, strict limits on the range and number of Iran's ballistic missiles, and a halt to Tehran's support for regional proxy groups such as the Houthis, Hezbollah, and Hamas.

- While Iran has stated that it does not seek a conflict with the US, it has already signaled a willingness to push back in the negotiations. In the run-up to the talks, Tehran has reportedly demanded changes to both the venue and the format, pressing for the meetings to be moved from Istanbul to Oman and for direct, bilateral discussions with the United States focused on nuclear issues rather than a broader, regionally framed dialogue involving other Middle Eastern states.

- As of now, tensions may be starting to ease. Iran's demands do not appear to have met significant resistance from the White House, which has agreed to move the venue to Oman and is still determining whether other Middle Eastern leaders will participate in the talks. However, it is still unclear what concessions Tehran is willing to make in order satisfy the US wishes to end Iran's nuclear program.

- Rising tensions between Iran and the United States reflect the broader geopolitical risks that continue to affect financial markets. We believe the most effective protection against these rising risks is to invest in precious metals, which have historically served as safe-haven assets. That said, we remain cautiously optimistic that the two countries will ultimately reach an agreement that prevents further military escalation.

Trump Homes: Several national homebuilders are reportedly in early-stage discussions on a potentially significant "Trump Homes" initiative. The proposal aims to develop up to one million entry-level homes via a rent-to-own model. While the White House has not formally endorsed the plan, it signals a broader, active dialogue between the administration and industry on innovative ownership pathways. We believe firms that pivot toward these national objectives will likely secure a competitive advantage through increased federal support.
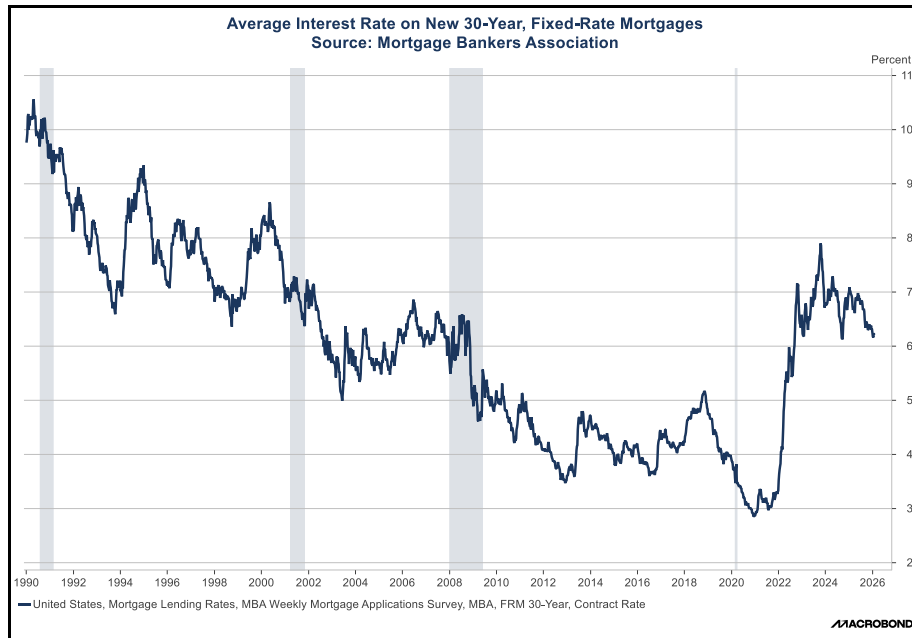
Data Center Resistance: Growing concerns over grid reliability have prompted Texas regulators to scrutinize the rapid expansion of data centers. The Electric Reliability Council of Texas (ERCOT) plans to revisit 8.2 gigawatts' worth of approved projects to verify that they won't jeopardize the state's power supply. This move is designed to ensure that these high-capacity sites can operate without threatening the stability of the grid or being forced offline during energy spikes.

Russian Spies: European security officials have accused Moscow of intercepting at least a dozen Western satellites using its own space-based assets. The interceptions are seen as a serious national security risk, raising concerns that hostile actors could not only access sensitive communications but also disrupt satellite operations, potentially altering trajectories or causing crashes. The incident is widely viewed as an example of hybrid warfare extending into space, and it is likely to reinforce expectations of higher defense spending by governments.

US Economic Releases

The Mortgage Bankers Association said ***mortgage applications*** in the week ended January 30 fell 8.9%, even worse than their 8.5% decrease in the previous week. Applications for home purchase mortgages fell 14.4%, compared with a fall of 0.4% in the prior week. Applications for refinancing mortgages declined 4.7%, after dropping 15.7% the week before. According to the report, the average interest rate on a 30-year, fixed-rate mortgage fell 3 basis points to 6.21%. The chart below shows how mortgage rates have changed over time.

Average Interest Rate on New 30-Year, Fixed-Rate Mortgages
Source: Mortgage Bankers Association

Separately, the ADP Research Institute estimated that *private payroll employment* rose in January by a seasonally adjusted 22,000, much less than both the expected increase of 45,000 and the revised December gain of 37,000. ADP's estimate is widely seen as an indicator of what to expect when the Labor Department releases its measure of nonfarm payrolls for the month (because of the latest partial shutdown of the federal government, that release will not come as scheduled on Friday). The chart below shows the Labor Department's figure for total nonfarm payrolls and ADP's estimate of private payrolls since 2010.

Total Nonfarm Payrolls & ADP Private Employment (SA)
Sources: Bureau of Labor Statistics and ADP

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 Services PMI	m/m	Jan F	52.5	52.5	***
9:45	S&P Global US Composite PMI	m/m	Jan F	52.9	52.8	***
10:00	ISM Services Index	m/m	Jan	53.5	54.4	***
10:00	ISM Services Employment	m/m	Jan	51.8	52.0	*
10:00	ISM Services Prices Paid	m/m	Jan	65.0	64.3	*
10:00	ISM Services New Orders	m/m	Jan	55.0	57.9	*
Federal Reserve						
EST	**Speaker or Event**	**District or Position**				
18:30	Lisa Cook Speaks on Monetary Policy and Economy	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	S&P Global Japan Composite PMI	m/m	Jan F	53.1	52.8	--	*	Equity and bond neutral
	S&P Global Japan Services PMI	m/m	Jan F	53.7	53.4	--	*	Equity and bond neutral
Australia	S&P Global Australia Services PMI	m/m	Jan F	55.7	55.5		*	Equity and bond neutral
	S&P Global Australia Composite PMI	m/m	Jan F	56.3	56.0		*	Equity and bond neutral
New Zealand	Unemployment Rate	q/q	4Q	5.4%	5.3%	5.3%	***	Equity and bond neutral
	Employment Change	q/q	4Q	0.2	-0.7	-0.1	**	Equity and bond neutral
	Participation Rate	y/y	4Q	70.5%	70.3%	70.3%	*	Equity and bond neutral
	ANZ Commodity Price	m/m	Jan	2.0%	-2.1%		**	Equity and bond neutral
South Korea	Foreign Reserves	m/m	Jan	$425.91b	$428.05b		**	Equity and bond neutral
China	RatingDog China PMI Composite	m/m	Jan	51.6	51.3	--	**	Equity and bond neutral
	RatingDog China PMI Services	m/m	Jan	52.3	52.0	52.0	**	Equity and bond neutral
India	HSBC India PMI Composite	m/m	Jan F	58.4	59.5		**	Equity and bond neutral
	HSBC India PMI Services	m/m	Jan F	58.5	59.3		**	Equity and bond neutral
EUROPE								
Eurozone	HCOB Eurozone Services PMI	m/m	Jan F	51.6	51.9	51.9	**	Equity and bond neutral
	HCOB Eurozone Composite PMI	m/m	Jan F	51.3	51.5	51.5	*	Equity and bond neutral
	PPI	y/y	Dec	-2.1%	-1.4%	-2.1%	**	Equity and bond neutral
	CPI	y/y	Jan P	1.7%	2.0%	1.7%	***	Equity and bond neutral
	Core CPI	y/y	Jan P	2.2%	2.3%	2.3%	**	Equity and bond neutral
Germany	HCOB Germany Services PMI	m/m	Jan F	52.4	53.3	53.3	**	Equity bearish, bond bullish
	HCOB Germany Composite PMI	m/m	Jan F	52.1	52.5	52.5	**	Equity and bond neutral
France	HCOB France Services PMI	m/m	Jan F	48.4	47.9	47.9	**	Equity bullish, bond bearish
	HCOB France Composite PMI	m/m	Jan F	49.1	48.6	48.6	**	Equity bullish, bond bearish
Italy	HCOB Italy Services PMI	m/m	Jan	52.9	51.5	51.3	**	Equity bullish, bond bearish
	HCOB Italy Composite PMI	m/m	Jan	51.4	50.3	50.1	**	Equity and bond neutral
	CPI, EU Harmonized	y/y	Jan P	1.0%	1.2%	0.8%	***	Equity and bond neutral
	CPI NIC Including Tobacco	y/y	Jan P	0.4%	1.2%	0.9%	**	Equity and bond neutral
UK	S&P Global UK Services PMI	m/m	Jan F	54.0	54.3	54.3	**	Equity and bond neutral
	S&P Global UK Composite PMI	m/m	Jan F	53.7	53.9	53.9	**	Equity and bond neutral
	Official Reserves Changes	m/m	Jan	$7472m	$1515m		*	Equity and bond neutral
Russia	S&P Global Russia Composite PMI	m/m	Jan	52.1	50.0		**	Equity and bond neutral
	S&P Global Russia Services PMI	m/m	Jan	53.1	52.3		**	Equity and bond neutral
AMERICAS								
Mexico	IMEF Manufacturing Index SA	m/m	Jan	46.4	46.5	46.6	*	Equity and bond neutral
	IMEF Non-Manufacturing Index SA	m/m	Jan	49.2	49.5	50	*	Equity and bond neutral
Brazil	S&P Global Brazil Composite PMI	m/m	Jan	49.9	52.1		***	Equity and bond neutral
	S&P Global Brazil Services PMI	m/m	Jan	52.1	53.7		***	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)	366	367	-1	Down
U.S. Libor/OIS spread (bps)	364	364	0	Down
10-yr T-note (%)	4.27	4.27	0.00	Up
Euribor/OIS spread (bps)	203	202	1	Up
Currencies	**Direction**			
Dollar	Flat			Down
Euro	Flat			Up
Yen	Up			Down
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.

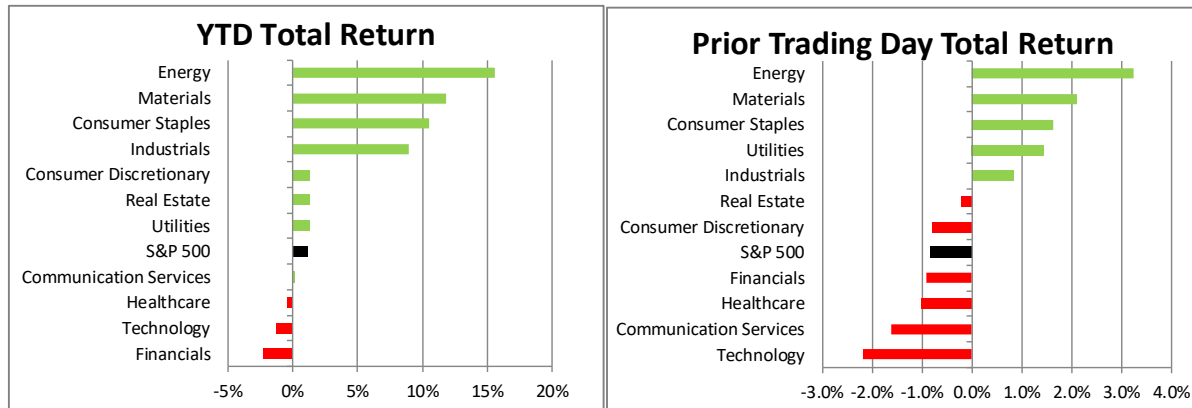|	Price	Prior	Change	Explanation
Energy Markets				
Brent	$67.51	$67.33	0.27%	
WTI	$63.47	$63.21	0.41%	
Natural Gas	$3.34	$3.31	0.79%	
Crack Spread	$23.97	$23.25	3.10%	
12-mo strip crack	$25.42	$25.12	1.17%	
Ethanol rack	$1.76	$1.76	0.05%	
Metals				
Gold	$5,049.04	$4,946.76	2.07%	
Silver	$90.09	$85.16	5.78%	Geopolitical tensions
Copper Contract	$601.90	$608.65	-1.11%	
Grains				
Corn contract	$426.50	$428.50	-0.47%	
Wheat contract	$525.75	$528.75	-0.57%	
Soybeans contract	$1,062.50	$1,065.75	-0.30%	
Shipping				
Baltic Dry Freight	2,028	2,124	-96	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		-0.64		
Gasoline (mb)		0.76		
Distillates (mb)		-1.08		
Refinery run rates (%)		-0.55%		
Natural gas (bcf)		-379		

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 Mississippi Valley, with cooler-than-normal temperatures along the West and East Coasts. The outlook calls for wetter-than-normal conditions throughout the Far West, the Great Plains, and the Mississippi Valley, with dry conditions only in southern Texas and southern Florida.
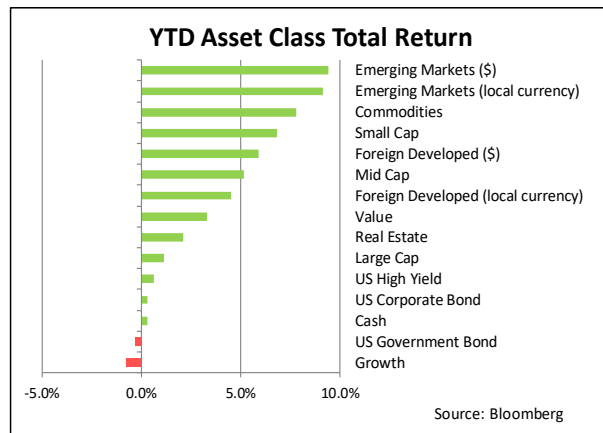
Data Section

US Equity Markets – (as of 2/3/2026 close)

YTD Total Return

Sector	
Energy	
Materials	
Consumer Staples	
Industrials	
Consumer Discretionary	
Real Estate	
Utilities	
S&P 500	
Communication Services	
Healthcare	
Technology	
Financials	

Prior Trading Day Total Return

Sector	
Energy	
Materials	
Consumer Staples	
Utilities	
Industrials	
Real Estate	
Consumer Discretionary	
S&P 500	
Financials	
Healthcare	
Communication Services	
Technology	

(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 2/3/2026 close)

YTD Asset Class Total Return

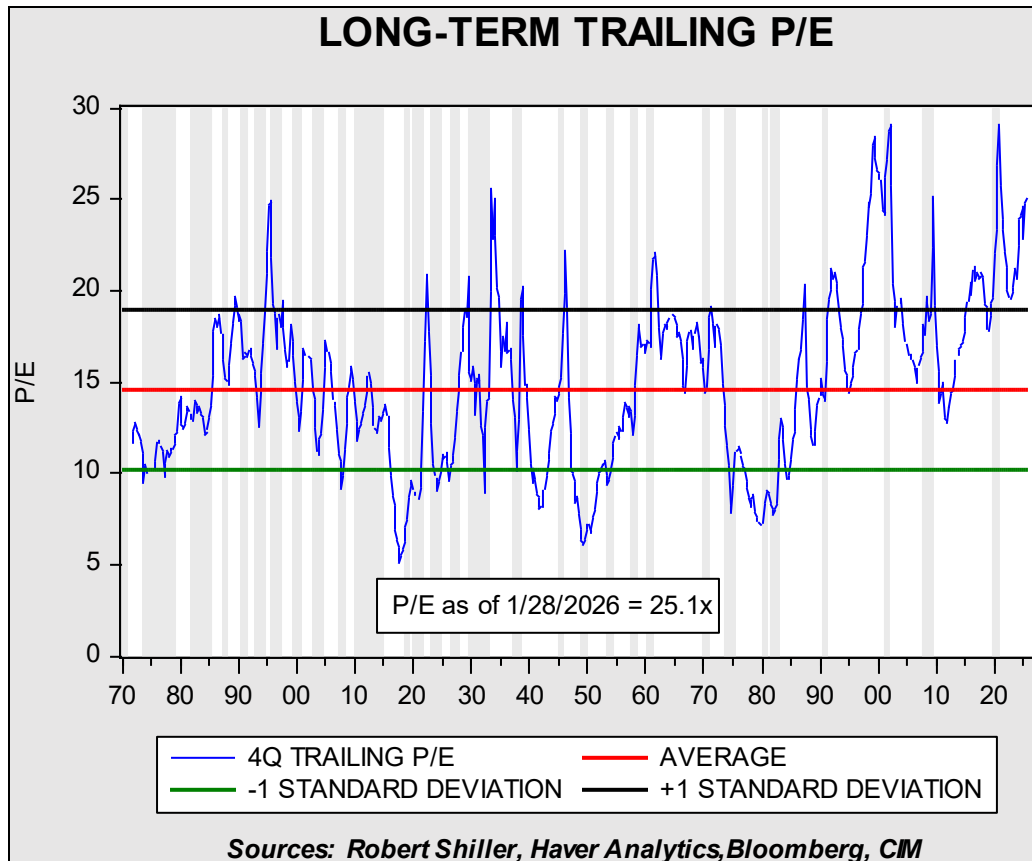| Asset Class |
|---|
| Emerging Markets ($) |
| Emerging Markets (local currency) |
| Commodities |
| Small Cap |
| Foreign Developed ($) |
| Mid Cap |
| Foreign Developed (local currency) |
| Value |
| Real Estate |
| Large Cap |
| US High Yield |
| US Corporate Bond |
| Cash |
| US Government Bond |
| Growth |

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.