



Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: February 5, 2026 – 9:30 AM ET] Global equity markets are lower this morning. In Europe, the Euro Stoxx 50 is down 0.4% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 2.0%. Chinese markets were lower, with the Shanghai Composite down 0.6% and the Shenzhen Composite down 1.3%. US equity index futures are signaling a lower open.

With 254 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, 78.7% have exceeded expectations, while 16.9% 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.

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|--|---|---|---|
| Bi-Weekly Geopolitical Report “Bloc, Spheres, Empires, and Colonies” (1/26/26) + podcast | Asset Allocation Bi-Weekly “The Erosion of Exorbitant Privilege” (2/2/26) + podcast | Asset Allocation Quarterly Q1 2026 Report | Of Note The Keller Quarterly VE Insight: Understanding the R1000 Value Index |
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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 market unwind and the key factors driving it. We then review Treasury Secretary Scott Bessent's testimony before Congress and the implications for policy and markets. Next, we discuss Vice President JD Vance's push to establish a floor on strategic mineral reserves and President Macron's advocacy for a stronger euro. We round out the piece with a summary of key economic data from the US and global markets.

The Market Unwind: Several asset classes that saw sharp run-ups recently have begun pulling back as investors reassess global risk sentiment. Over the past two weeks, volatility has spiked in precious metals. Silver, which had recently surged past \$100 per ounce, has now retreated

toward \$70. Domestic equities have similarly cooled amid a broad sell-off in major tech names. This shift reflects a “reality check” on AI hype, evolving expectations for central bank policy, and lingering geopolitical tensions.

The AI Factor This sharp sell-off in tech stocks reflects growing investor “capex fatigue,” with many questioning whether the massive build-out will deliver high-margin returns. On Wednesday, despite Alphabet’s strong Q4 earnings, shares fell after management [stated that 2026 capital expenditures will nearly double 2025 levels](#). The reaction underscores investor impatience for tangible results over further spending.

The Warsh Factor The nomination of Kevin Warsh to take over as Federal Reserve chair has triggered a sharp unwinding of the currency-debasement trade, fueled by renewed confidence in the Fed’s independence. Although President Trump emphasized that [he would not have chosen Warsh if rate hikes were on the table](#), markets have interpreted the pick as a [shift toward a more disciplined balance sheet policy](#). Investors now anticipate a less accommodative Fed under Warsh than previously expected.

Geopolitics Factor The easing of geopolitical tensions abroad has also fueled the retreat from safe-haven assets. [US and Chinese leaders spoke ahead of scheduled negotiations](#) on Wednesday, discussing trade and the war in Ukraine, which sparked optimism for constructive talks. Additionally, after recent signs of escalation, the [US and Iran appear set to meet on Friday for nuclear discussions](#).

The recent unwinding of some positions may prove temporary, as we believe key underlying themes such as the expanding influence of AI, sustained central bank purchases of precious metals, and ongoing global fragmentation into regional blocs will remain intact despite recent volatility. Nevertheless, we maintain that the most prudent defense against these shifts is to ensure broad diversification across sectors (reducing overexposure to technology) and geographies, which should contribute to a more resilient and balanced portfolio.

Bessent Testifies: On Thursday, Treasury Secretary Scott Bessent met with lawmakers to discuss the state of the economy and the White House agenda. Over the three hours of testimony, remarks covered the role of the Federal Reserve, the impact of tariffs, US crypto policy, as well as other topics. While the testimony was at times very testy, particularly with Democratic lawmakers, it had no material impact on the markets. That said, his remarks provided key insights into the administration’s economic agenda.

Fed Independence Bessent’s comments suggest that while the White House publicly supports Federal Reserve independence, it may simultaneously seek to rein it in. He specifically targeted the Fed’s credibility, [arguing for increased accountability after the central bank allowed inflation to exceed its targets and faced scrutiny over renovation funding](#). His critique appears to signal a push for greater executive oversight of the central bank.

Tariffs Additionally, Bessent’s testimony signaled that the White House is doubling down on its trade agenda rather than retreating. When challenged on a 2024 note where he previously characterized tariffs as inflationary, he pivoted, citing a [San Francisco Federal Reserve study that suggests tariffs do not drive broad-based inflation](#). By

reframing tariffs as a tool for economic resilience, his comments suggest the administration remains open to further trade duties if it deems it necessary.

Cryptocurrency Lastly, Bessent suggested that the administration may not prioritize the protection of crypto investors. When asked if he would intervene to support bitcoin, he clarified that the Treasury would not influence markets to artificially boost prices, noting [that it lacks the authority to use public funds for such a bailout](#). These comments likely reflect the administration's narrow focus on stablecoins — a preference largely driven by their utility in absorbing short-duration government debt.

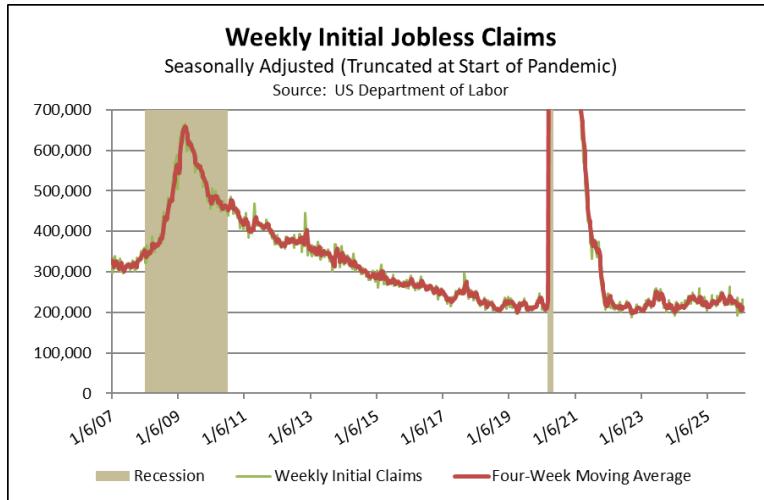
Based on the Treasury secretary's comments, it appears that the White House intends to remain actively engaged in managing the economy. This is likely to include using targeted trade restrictions to support reshoring, keeping the Federal Reserve operating within defined limits, and narrowing the administration's crypto agenda toward stablecoins rather than the broader digital asset class. As a result, we continue to believe that firms broadly aligned with the White House's policy priorities could perform well in this environment.

Vance Price Floor: At a ministerial meeting on critical minerals, [the vice president endorsed the creation of a preferential trade zone](#). This proposal includes a price floor designed to insulate domestic markets from predatory practices, specifically “dumping” by nations like China, which often price out local competitors. This initiative underscores a growing global trend toward economic blocs as a primary defense against foreign industrial competition.

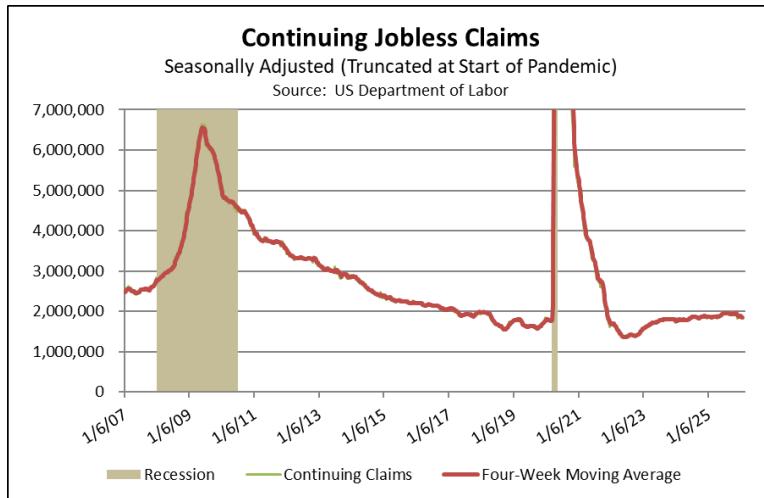
Strong Euro Policy: French President Emmanuel Macron [is expected to advocate for euro appreciation against the dollar at next week's EU summit](#), arguing it would enhance economic resilience and the currency's global standing. While his specific policy proposals remain unclear, his position echoes the White House's long-held view that the euro is undervalued, potentially opening the door to coordinated efforts to bolster it. If Macron secures support for this initiative, it should prove favorable for European equities.

US Economic Releases

In the week ended January 31, **initial claims for unemployment benefits** rose to a seasonally adjusted 231,000, well above both the expected level of 212,000 and the prior week's level of 209,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, rose to 212,250. 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 24, the number of *continuing claims for unemployment benefits* (people continuing to draw benefits) rose to a seasonally adjusted 1.844 million, below the anticipated reading of 1.850 million but significantly higher than the previous week's revised reading of 1.819 million. The four-week moving average of continuing claims fell to 1,850,750, its lowest level since October 2024. 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 | JOLTS Job Openings | | m/m | Dec | 7250k | 7146k | ** |
| Federal Reserve | | | | | | | |
| EST | Speaker or Event | District or Position | | | | | |
| 10:50 | Raphael Bostic Speaks with Dean of Clark Atlanta University | 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.

| Country | Indicator | | | Current | Prior | Expected | Rating | Market Impact |
|---------------------|---------------------------------|-----|--------|-----------|-----------|----------|--------|------------------------------|
| ASIA-PACIFIC | | | | | | | | |
| Japan | Japan Buying Foreign Bonds | w/w | 30-Jan | ¥713.7b | ¥190.4b | -- | * | Equity and bond neutral |
| | Japan Buying Foreign Stocks | w/w | 30-Jan | -¥454.6b | -¥156.0b | -- | * | Equity and bond neutral |
| | Foreign Buying Japan Bonds | w/w | 30-Jan | ¥2081.1b | ¥377.9b | -- | * | Equity and bond neutral |
| | Foreign Buying Japan Stocks | w/w | 30-Jan | ¥494.6b | ¥329.5b | -- | * | Equity and bond neutral |
| Australia | Trade Balance | m/m | Dec | A\$3373m | A\$2597m | A\$3500m | *** | Equity and bond neutral |
| | Exports | m/m | Dec | 1.0% | -4.0% | | * | Equity and bond neutral |
| | Imports | m/m | Dec | -0.8% | -0.2% | | * | Equity and bond neutral |
| EUROPE | | | | | | | | |
| Eurozone | Retail Sales | y/y | Dec | 1.3% | 2.3% | 1.7% | * | Equity and bond neutral |
| Germany | Factory Orders WDA | y/y | Dec | 13.0% | 10.6% | 1.2% | *** | Equity bullish, bond bearish |
| | HCOB Germany Construction PMI | m/m | Jan | 44.7 | 50.3 | | * | Equity and bond neutral |
| France | Industrial Production | y/y | Dec | 1.7% | 2.0% | 2.3% | *** | Equity and bond neutral |
| | Manufacturing Production | y/y | Dec | 2.1% | 2.2% | | ** | Equity and bond neutral |
| Italy | Retail Sales | y/y | Dec | 0.9% | 1.3% | | ** | Equity and bond neutral |
| UK | New Car Registrations | y/y | Jan | 3.4% | 3.9% | | * | Equity and bond neutral |
| | S&P Global UK Construction PMI | m/m | Jan | 46.4 | 40.1 | 42.0 | ** | Equity bullish, bond bearish |
| AMERICAS | | | | | | | | |
| Canada | S&P Global Canada Services PMI | m/m | Jan | 45.8 | 46.5 | | * | Equity and bond neutral |
| | S&P Global Canada Composite PMI | m/m | Jan | 46.4 | 46.7 | | * | Equity and bond neutral |
| Mexico | International Reserves Weekly | w/w | 30-Jan | \$255605m | \$254983m | | * | Equity and bond neutral |
| | Gross Fixed Investment NSA | y/y | Nov | -6.4% | -5.5% | -5.9% | ** | Equity and bond neutral |
| | Vehicle Domestic Sales | y/y | Jan | 131472 | 155448 | | *** | Equity and bond neutral |
| | Leading Indicators | y/y | Dec | 0.09 | 0.10 | | ** | 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 | 360 | -1 | Down |
| U.S. Sibor/OIS spread (bps) | 365 | 366 | -1 | Down |
| U.S. Libor/OIS spread (bps) | 363 | 364 | -1 | Down |
| 10-yr T-note (%) | 4.26 | 4.28 | -0.02 | Up |
| Euribor/OIS spread (bps) | 204 | 203 | 1 | Up |
| Currencies | Direction | | | |
| Dollar | Up | | | Down |
| Euro | Down | | | Up |
| Yen | Up | | | Down |
| Pound | Down | | | Up |
| Franc | Down | | | Up |
| Central Bank Action | Actual | Prior | Expected | |
| Bank of England Bank Rate | 3.75% | 3.75% | 3.75% | On Forecast |
| ECB Deposit Facility Rate | 2.00% | 2.00% | 2.00% | On Forecast |
| ECB Main Refinancing Rate | 2.15% | 2.15% | 2.15% | On Forecast |
| ECB Marginal Lending Facility | 2.40% | 2.40% | 2.40% | 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 | \$68.24 | \$69.46 | -1.76% | |
| WTI | \$63.95 | \$65.14 | -1.83% | |
| Natural Gas | \$3.54 | \$3.47 | 2.16% | |
| Crack Spread | \$24.44 | \$24.46 | -0.09% | |
| 12-mo strip crack | \$25.72 | \$25.59 | 0.50% | |
| Ethanol rack | \$1.76 | \$1.76 | 0.11% | |
| Metals | | | | |
| Gold | \$4,849.40 | \$4,964.93 | -2.33% | |
| Silver | \$76.24 | \$88.18 | -13.53% | Profit taking, increasing margin requirements, shifting int rates |
| Copper Contract | \$580.30 | \$585.00 | -0.80% | |
| Grains | | | | |
| Corn contract | \$429.50 | \$429.50 | 0.00% | |
| Wheat contract | \$527.25 | \$526.75 | 0.09% | |
| Soybeans contract | \$1,100.25 | \$1,092.25 | 0.73% | |
| Shipping | | | | |
| Baltic Dry Freight | 1,955 | 2,028 | -73 | |
| DOE Inventory Report | | | | |
| | Actual | Expected | Difference | |
| Crude (mb) | -3.46 | -0.64 | -2.82 | |
| Gasoline (mb) | 0.69 | 0.76 | -0.07 | |
| Distillates (mb) | -5.55 | -1.08 | -4.47 | |
| Refinery run rates (%) | -0.04% | -0.55% | 0.51% | |
| Natural gas (bcf) | | -378 | | |

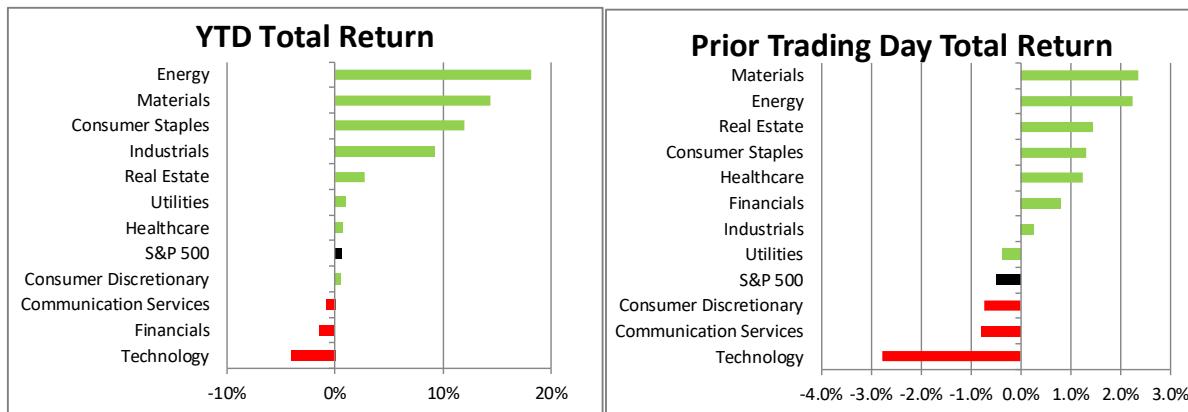


Weather

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 along the West Coast. The outlook calls for wetter-than-normal conditions everywhere cut the Gulf Coast, with dry conditions in southern Texas and Florida.

Data Section

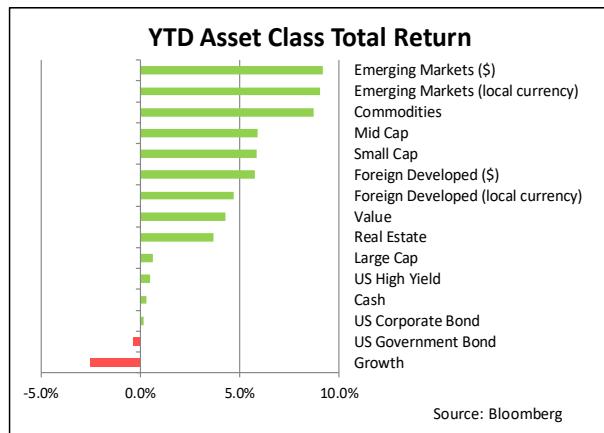
US Equity Markets – (as of 2/4/2026 close)



(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 2/4/2026 close)

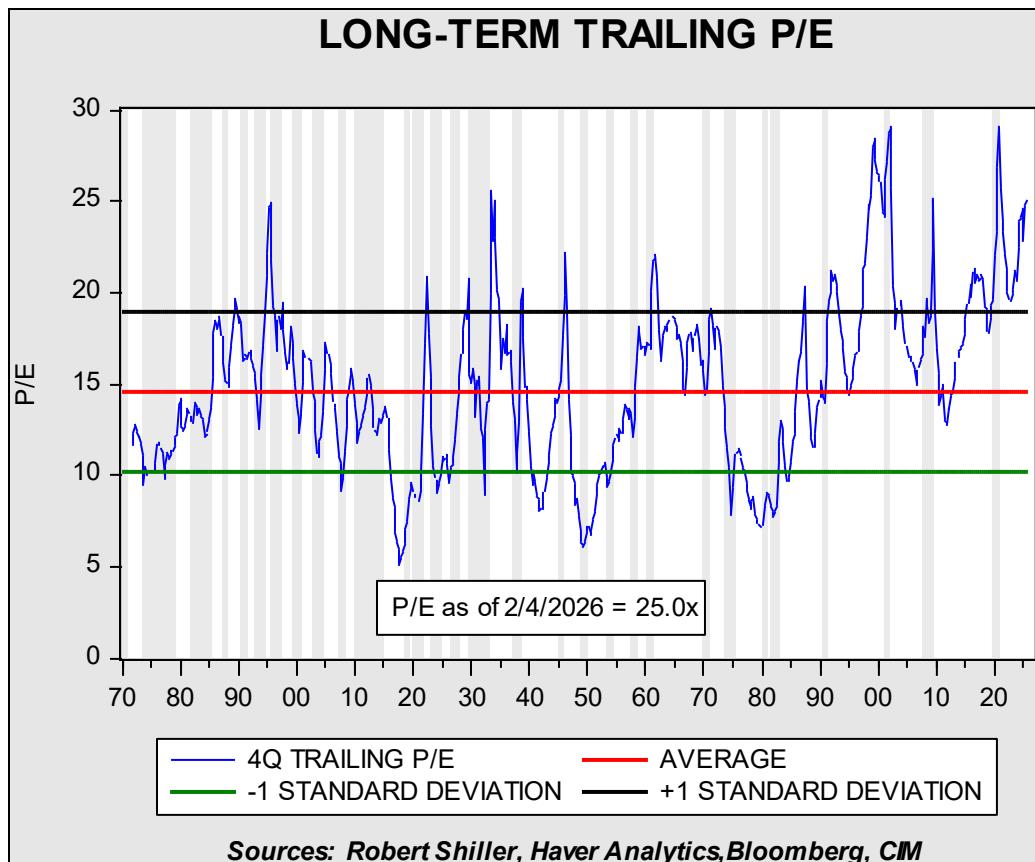


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.