Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: February 6, 2026 — 9:30 AM ET] Global equity markets are mixed 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 down 0.5%. Chinese markets were lower, with the Shanghai Composite down 0.3% and the Shenzhen Composite down 0.04%. US equity index futures are signaling a higher open.

With 289 companies having reported so far, S&P 500 earnings for Q4 are running at $73.30 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.

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	**Confluence Mailbag** 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* begins with an analysis of TrumpRx and its potential implications for future government involvement in the economy. We then examine why Cuba is prepared to reopen talks with the United States, how rising tech spending is unsettling investors, and what's behind Washington's quiet efforts to ease tensions with North Korea. We round out the piece with a summary of key economic data from the US and global markets.

Fed Intervention: The White House has launched its first official online pharmacy, TrumpRx.gov, in a direct bid to lower prescription drug costs for Americans. The platform allows consumers to purchase medications at discounted rates, marking the administration's most high-profile effort to tackle healthcare affordability through direct negotiations with

pharmaceutical companies. While the initiative represents a tangible win for household budgets, it also highlights the federal government's expanding influence within private markets and the broader economy.

- The TrumpRx initiative illustrates the effectiveness of governmental pressure in extracting concessions from drug manufacturers. Through the "most favored nation" executive order, the administration pushed companies — including Eli Lilly, Novo Nordisk, and Pfizer — to align US drug prices with the lower rates offered abroad. A central strategy was [the threat of imposing tariffs of up to 100% on pharmaceutical imports](), which prompted companies to agree to the price discounts.

- Furthermore, TrumpRx challenges pharmacy benefit managers, which often act as costly middlemen by capturing rebates and spreads while passing limited savings to patients. The government's direct-to-consumer platform provides a transparent alternative, bypassing PBMs and insuring delivery of manufacturer discounts directly to households. This launch is just one day after Congress passed and President Trump signed a [bipartisan spending bill with reforms to curb PBM power]().

- The TrumpRx launch signals a broader strategy of using tariff threats as high-stakes leverage to restructure key US industries. This carrot-and-stick approach has already [compelled automakers like Ford and GM](), plus tech giants such as Apple, to accelerate reshoring of manufacturing and supply chains. Now it's rippling into housing, where [major builders are pitching a one-million-unit "Trump Homes"]() program to secure tariff relief on critical imported materials like lumber and steel.

- The government's expanding economic footprint presents a dual-edged reality. On one hand, it offers market stability and shields strategically vital sectors, such as pharmaceuticals, semiconductors, and energy, from global volatility. On the other hand, it creates a "compliance-first" environment where industries that do not align with federal mandates face significant punitive measures.

- In the long run, this shift presents a fundamental challenge to the doctrine of shareholder primacy. For decades, corporate strategy prioritized short-term stock valuations above all else. Today, however, survival increasingly depends on national alignment and domestic investment more than on growth potential alone. We maintain a strong view that this new paradigm favors assets like precious metals, which are inherently harder to regulate and control within such a constrained environment.

Cuba's Breaking Point: The head of the [Cuban government has expressed readiness to hold talks with the United States](). While making clear that Cuba does not intend to alter its political system, the government is prepared to engage in dialogue to improve bilateral relations. This push for dialogue coincides with an acute energy crisis in Cuba, triggered by a US-led oil embargo following its recent intervention in Venezuela. Talks between the two sides appear to be part of a larger US trend of forcing neighboring countries into its sphere of influence.

US-Russia New START: The [United States and Russia are negotiating an agreement to extend the New START nuclear arms control treaty.]() Although the treaty was set to expire this week, both sides are actively seeking an extension, as neither appears willing to let it lapse. These talks

are occurring amidst heightened tensions between Russia and the West over the war in Ukraine, a conflict during which Russia has issued threats of nuclear weapons use. An extension would help reduce the risk of a nuclear exchange between the world's two largest nuclear powers.

Amazon Sell-off: The world's largest online retailer saw its shares sell off after announcing a major ramp-up in capital expenditure. On Thursday, the company revealed plans to invest $200 billion in AI, data centers, satellites, and other large-scale projects. The move faced immediate investor pushback, driven by concerns that the massive spending may not translate into future profitability. The sell-off highlights the market's growing sensitivity toward "build at all costs" models in the tech sector.

Japan Elections: The Asian nation is set to hold snap elections this weekend that will determine whether Prime Minister Sanae Takaichi retains her position and secures a mandate to advance her policy agenda. She remains highly popular, with recent polls indicating her party could capture more than 60% of the vote. A decisive victory could renew downward pressure on the yen as investors grow increasingly concerned about inflationary risks tied to expanding government debt.

Calming North Korea: The US plans to restore humanitarian aid to North Korea, a move intended to de-escalate recent tensions and maintain diplomatic relations. This outreach comes as Pyongyang accelerates its weapons program, which it frames as a deterrent against potential regime change. Washington also aims to prevent North Korea from deepening its strategic reliance on Russia and China. Despite these maneuvers, we assess that North Korea remains an underpriced geopolitical risk in global markets.

US Economic Releases

No major US economic data have been released so far today. 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	U. of Michigan Consumer Sentiment	m/m	Feb P	55.0	56.4	***
10:00	U. of Michigan Current Conditions	m/m	Feb P	53.7	55.4	**
10:00	U. of Michigan Future Expectations	m/m	Feb P	55.1	57.0	**
10:00	U. of Michigan 1-Year Inflation Expectation	m/m	Feb P	4.0%	4.0%	*
10:00	U. of Michigan 5-10 Year Inflation Expectation	m/m	Feb P	3.3%	3.3%	*
14:00	Consumer Credit	m/m	Dec	$8.000b	$4.229b	*
Federal Reserve						
EST	**Speaker or Event**	**District or Position**				
15:00	Philip Jefferson Speaks on the Economy	Vice-Chair 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	Household Spending	y/y	Dec	-2.6%	2.9%	-0.3%	**	Equity bearish, bond bullish
	Leading Economic Index	m/m	Dec P	110.2	109.9	109.8	**	Equity and bond neutral
	Coincident Index	y/y	Dec P	114.5	114.9	114.4	**	Equity and bond neutral
Australia	Foreign Reserves	m/m	Jan	A$104.7b	A$112.5b		**	Equity and bond neutral
South Korea	BoP Current Account Balance	m/m	Dec	$18853.1m	$12898.0m		**	Equity and bond neutral
	BoP Goods Balance	m/m	Dec	$13309.2m	$14697.1m		*	Equity and bond neutral
EUROPE								
Germany	Industrial Production WDA	y/y	Dec	-0.6%	0.5%	1.9%	**	Equity bearish, bond bullish
	Trade Balance	m/m	Dec	17.1b%	13.6b%	14.1b%	*	Equity and bond neutral
	Exports	m/m	Dec	4.0%	-2.5%	1.1%	*	Equity bullish, bond bearish
	Imports	m/m	Dec	1.4%	0.7%	0.2%	*	Equity bullish, bond bearish
France	Trade Balance	m/m	Dec	-4843m	-4036m		*	Equity and bond neutral
	Current Account Balance	m/m	Dec	-0.6b	-0.3b		*	Equity and bond neutral
Switzerland	Foreign Currency Reserves	m/m	Jan	712.0b	725.4b		***	Equity and bond neutral
	Unemployment Rate	m/m	Jan	3.2%	3.1%	3.3%	**	Equity and bond neutral
Russia	Gold and Forex Reserves	m/m	30-Jan	$826.8b	$786.9b		***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	30-Jan	19.40t	19.51t		*	Equity and bond neutral
	Official Reserve Assets	m/m	Jan	833.6b	754.9b		*	Equity and bond neutral
AMERICAS								
Brazil	Trade Balance	m/m	Jan	$4343m	$9325b	$5200m	**	Equity and bond neutral
	Exports	m/m	Jan	$25153m	$30710m	$26200m	*	Equity and bond neutral
	Imports	m/m	Jan	$20810m	$21385m	$21200m	*	Equity and bond neutral
	FGV Inflation IGP-DI	y/y	Jan	-1.11%	-1.20%	-1.16%	**	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)	364	363	1	Down
U.S. Libor/OIS spread (bps)	362	361	1	Down
10-yr T-note (%)	4.20	4.18	0.02	Down
Euribor/OIS spread (bps)	202	204	-2	Up
Currencies	Direction			
Dollar	Flat			Down
Euro	Up			Up
Yen	Flat			Down
Pound	Up			Up
Franc	Flat			Up
Central Bank Action	Actual	Prior	Expected	
Bank of Mexico Overnight Rate	7.00%	7.00%	7.00%	On Forecast
RBI Repurchase Rate	5.25%	5.25%	5.25%	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.
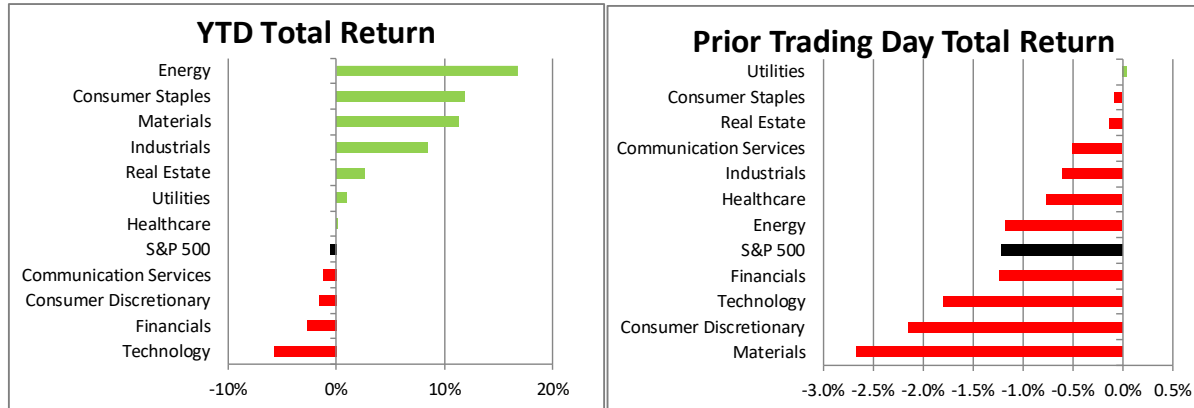
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$67.48	$67.55	-0.10%	
WTI	$63.14	$63.29	-0.24%	
Natural Gas	$3.65	$3.51	4.08%	
Crack Spread	$24.41	$24.33	0.32%	
12-mo strip crack	$25.63	$25.60	0.10%	
Ethanol rack	$1.77	$1.77	0.10%	
Metals				
Gold	$4,893.89	$4,779.05	2.40%	
Silver	$74.42	$70.92	4.94%	
Copper Contract	$580.85	$582.10	-0.21%	
Grains				
Corn contract	$434.50	$435.00	-0.11%	
Wheat contract	$537.25	$535.25	0.37%	
Soybeans contract	$1,116.25	$1,112.25	0.36%	
Shipping				
Baltic Dry Freight	1,936	1,955	-19	
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)	-360	-378	18	

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 but the southernmost reaches of Texas and Florida where conditions will be normal-to-dry.
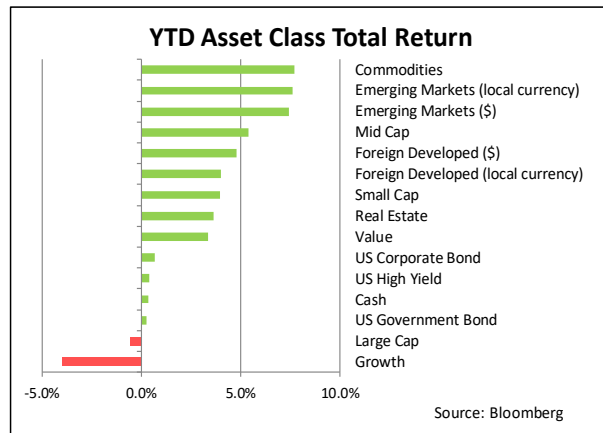
Data Section

US Equity Markets – (as of 2/5/2026 close)

YTD Total Return

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

(axis: -10%, 0%, 10%, 20%)

Prior Trading Day Total Return

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

(axis: -3.0%, -2.5%, -2.0%, -1.5%, -1.0%, -0.5%, 0.0%, 0.5%)

(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 2/5/2026 close)

YTD Asset Class Total Return

Commodities, Emerging Markets (local currency), Emerging Markets ($), Mid Cap, Foreign Developed ($), Foreign Developed (local currency), Small Cap, Real Estate, Value, US Corporate Bond, US High Yield, Cash, US Government Bond, Large Cap, Growth
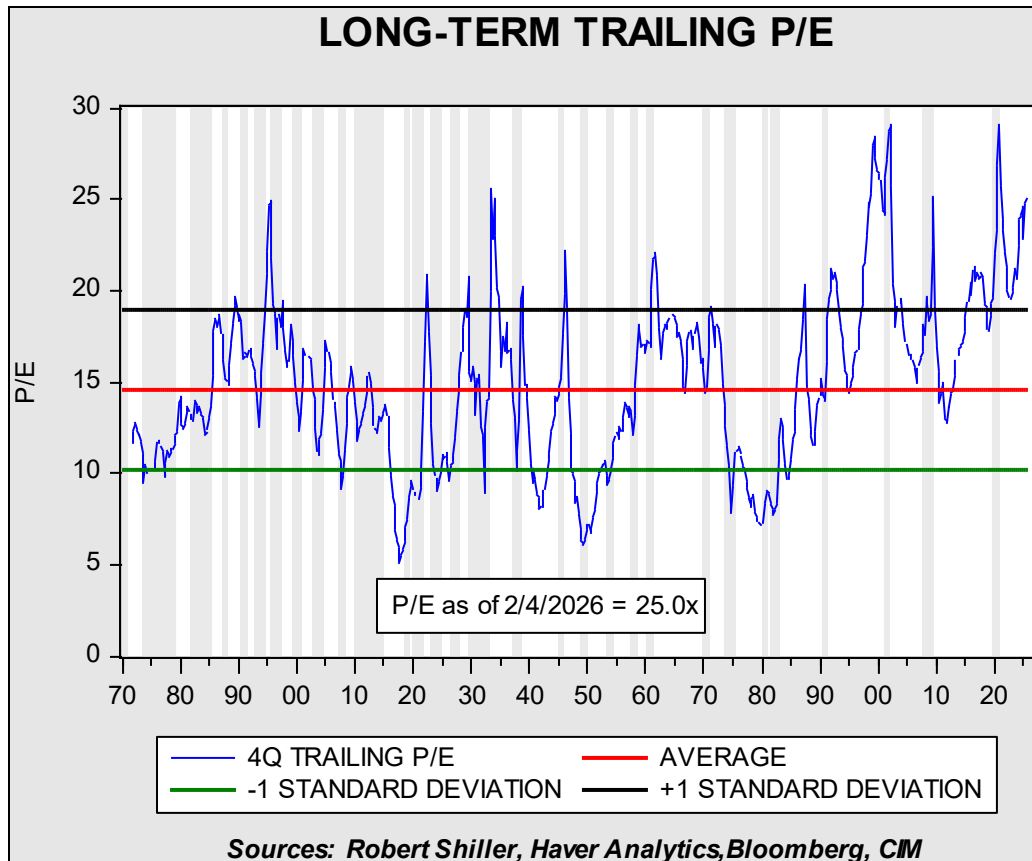
(axis: -5.0%, 0.0%, 5.0%, 10.0%)

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

February 5, 2026

LONG-TERM TRAILING P/E

P/E as of 2/4/2026 = 25.0x

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 25.0x, 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.

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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.