



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

**[Posted: January 12, 2026 — 9:30 AM ET]** Global equity markets are mostly higher this morning. In Europe, the Euro Stoxx 50 is up 0.1% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 1.0%. Chinese markets were higher, with the Shanghai Composite up 1.1% and the Shenzhen Composite up 2.1%. Conversely, US equity index futures are signaling a lower open.

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   |
|--|---|--|---|
| <a href="#">“Geopolitical Outlook for 2026”</a><br>(12/15/25)<br>+ <a href="#">podcast</a> | <a href="#">“America’s AI Buildout and Its Market Risks”</a><br>(1/5/26)<br>+ <a href="#">podcast</a> | <a href="#">Q4 2025 Report</a><br><a href="#">Q4 2025 Rebalance Presentation</a> | <a href="#">The 2026 Outlook</a><br><a href="#">Confluence of Ideas Podcast</a> |

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Our *Comment* today opens with yesterday’s extraordinary news that the Justice Department has launched a criminal investigation against Federal Reserve Chair Powell. We next review several other international and US developments with the potential to affect the financial markets today, including the latest on President Trump’s effort to cajole US energy firms to invest in Venezuela’s oil sector and the president’s desire to temporarily cap credit card interest rates.

**US Monetary Policy:** Fed Chair Powell last night [said he is being investigated by the Justice Department for crimes related to his testimony last summer](#) about the reconstruction of the central bank’s headquarters. Powell insisted the probe is intimidation aimed at forcing him to slash interest rates to serve President Trump’s political purposes. As we noted last summer, our personal observation of the project suggests it is much bigger than the “renovation” most media describe. In a project that big, it should be easy for prosecutors to find some malfeasance.

- The move against Powell comes even though his term ends in May. Unleashing such an attack on him with so little time left in his term underscores how focused the White House has become on the mid-term elections this fall.
- In any case, our quantitative analysis does not suggest that short-term interest rates need to be slashed. We have long predicted that political pressure will force the Fed to cut interest rates more in 2026 than in 2025, but with the cuts coming mostly in the second half. Now, if Powell is forced to resign early, dramatic rate-cutting could come even earlier, despite the risk of boosting consumer price inflation.
- Most observers of the situation have focused on the Fed losing its independence to set interest rates, but the White House may also be hoping to influence the Fed's purchase of assets. For example, administration officials would probably like to be able to direct the Fed to buy particular assets for their own political purposes.
- The potential change in the Fed chair has rekindled concerns about excessively low interest rates and currency debasement, prompting new weakness in the dollar and a jump in [gold](#) prices. So far this morning, the greenback has depreciated about 0.4%. Gold prices have jumped 2.8% to a new record high of about \$4,628 per ounce.

**US Bond Market:** In 55 investment grade deals, US corporations [issued \\$95 billion of bonds last week, marking the highest weekly volume since May 2020 and the busiest start to a year on record](#). The surge reportedly reflects firms trying to lock in rates before a mountain of issuance related to artificial intelligence in 2026. With the new threats to Fed independence, even more firms may be tempted to issue bonds and lock in rates in the coming weeks.

**United States-Venezuela:** At a meeting on Friday afternoon, President Trump [urged the executives of top US oil companies to invest \\$100 billion into rebuilding Venezuela's oil industry](#). However, the officials generally pushed back, largely on grounds that there is still too much risk of their assets being seized. Of course, today's relatively low oil prices are probably also a concern.

- Meanwhile, Treasury Secretary Bessent [said the administration could ease some sanctions on the Venezuelan oil industry as soon as this week](#).
- Bessent also said the US would press the International Monetary Fund, the World Bank, and other international institutions to ease their measures against Venezuela to get the country's oil flowing faster.
- All the same, as we have noted before, even if the US seizure of President Maduro and reduced sanctions lead to revived Venezuelan oil output, significant amounts of new supply may not become available for years.

**United States-Greenland-Denmark:** The *Financial Times* yesterday quoted several Nordic diplomats and officials as [saying the North Atlantic Treaty Organization has no intelligence that Greenland is often surrounded by Chinese and Russian warships](#). The statements contradict recent assertions by President Trump. Nevertheless, separate press reports today say Trump has ordered the US special forces to develop plans for a military seizure of the island from Denmark.

- Some US officials have recently insisted that the president's threats of military action to seize Greenland merely constitute pressure tactics to convince Denmark to sell the territory at a low price.
- Nevertheless, actions such as the seizure of Venezuelan President Maduro and the formal investigation into Fed Chair Powell suggest a similarly aggressive move to take Greenland cannot be ruled out. In such an event, the security situation between the US and Europe would change immediately, likely sparking significant market volatility.

**United States-China:** With little notice, the US late last week [dropped its proposed ban on Chinese and some other foreign-made drones](#). The U-turn may reflect domestic resistance to crimping the supply of the products, but press reports suggest the key reason was to avoid antagonizing Beijing ahead of President Trump's summit with General Secretary Xi this spring. If so, the development helps confirm our view that the administration's evolving foreign policy will include lowering tensions with China, which is likely bullish for US and Chinese stocks.

**United States-Iran:** Anti-government protests continued throughout Iran over the weekend, with the death toll rising to at least 500. Meanwhile, press reports say the White House [is mulling multiple strategies, including military strikes, if Tehran kills more of the protestors](#). The sources say most of the strategies being considered are non-kinetic, but given the president's willingness to use force in places like Venezuela, investors probably should consider the risk of a US strike against Iran, a potential Iranian retaliation, and the market volatility that would likely follow.

**Japan:** Prime Minister Takaichi [is reportedly mulling dissolving the lower house of parliament for a snap election early next month](#). Takaichi's goal would be to capitalize on her 70% approval rating and boost the narrow majority now held by her Liberal Democratic Party and its coalition partner, the Japan Innovation Party. The risk is that Takaichi's coattails may not be as strong as she thinks, and the LDP and JIP could lose seats. Nevertheless, the prospect of a more stable majority for the pro-business Takaichi may be a positive for Japanese stocks.

**US Regulatory Policy:** President Trump, in a social media post on Friday, [called for capping credit card interest rates at 10% for one year, reviving a promise he made during his reelection campaign](#) in late 2024. It isn't yet clear how far the president would go to implement the cap, but it would be consistent with the administration's willingness to intervene in the markets and the president's new focus on affordability. Any such cap could be negative for financial assets.

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## US Economic Releases

There were no economic 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                          |   |   |
|--|---|---|
| No economic releases for the rest of today |   |   |
| Federal Reserve                            |   |   |
| EST  | Speaker or Event  | District or Position                              |
| 12:30                                      | Raphael Bostic Moderates Discussion with CEO of Intercontinental Exchange | President of the Federal Reserve Bank of Atlanta  |
| 12:45                                      | Thomas Barkin Participates in Fireside Chat                               | President of the Federal Reserve Bank of Richmond |
| 18:00                                      | John Williams Delivers Keynote Remarks                                    | President of the Federal Reserve Bank of New York |

## 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                |
|---------------------|-------------------------------|-----|-------|---------|--------|----------|--------|------------------------------|
| <b>ASIA-PACIFIC</b> |                               |     |       |         |        |          |        |                              |
| Australia           | ANZ-Indeed Job Advertisements | m/m | Dec   | -0.5    | -1.5   |          | *      | Equity and bond neutral      |
|                     | Household Spending            | y/y | Nov   | 6.30%   | 5.70%  | 5.50%    | *      | Equity bullish, bond bearish |
| India               | CPI                           | y/y | Dec   | 1.33%   | 0.71%  | 1.56%    | ***    | Equity and bond neutral      |
| <b>EUROPE</b>       |                               |     |       |         |        |          |        |                              |
| Switzerland         | Domestic Sight Deposits CHF   | w/w | 9-Jan | 435.8b  | 426.4b |          | *      | Equity and bond neutral      |
|                     | Total Sight Deposits CHF      | w/w | 9-Jan | 459.8b  | 452.4b |          | *      | Equity and bond neutral      |
| <b>AMERICAS</b>     |                               |     |       |         |        |          |        |                              |
| Canada              | Net Change in Employment      | m/m | Dec   | 8.2k    | 53.6k  | -2.5k    | ***    | Equity and bond neutral      |
|                     | Unemployment Rate             | m/m | Dec   | 6.8%    | 6.5%   | 6.7%     | ***    | Equity and bond neutral      |
|                     | Participation Rate            | m/m | Dec   | 65.4%   | 65.1%  | 65.2%    | *      | 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)     | 351              | 352   | -1     | Down  |
| U.S. Sibor/OIS spread (bps) | 367              | 367   | 0      | Down  |
| U.S. Libor/OIS spread (bps) | 363              | 363   | 0      | Down  |
| 10-yr T-note (%)            | 4.20             | 4.17  | 0.03   | Up    |
| Euribor/OIS spread (bps)    | 202              | 203   | -1     | Down  |
| <b>Currencies</b>           | <b>Direction</b> |       |        |       |
| Dollar                      | Down             |       |        | Down  |
| Euro                        | Up               |       |        | Up    |
| Yen                         | Flat             |       |        | Down  |
| Pound                       | Up               |       |        | Up    |
| Franc                       | Down             |       |        | 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.

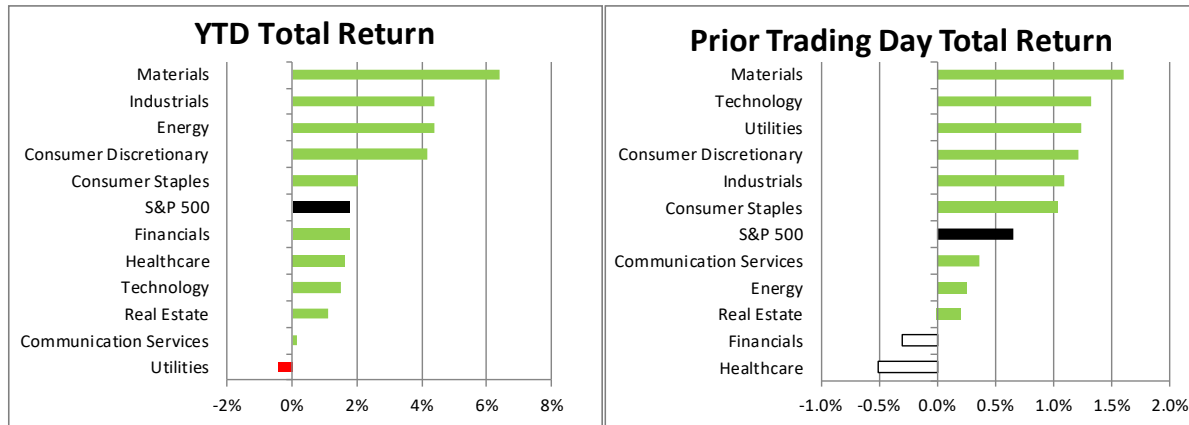
|                       | Price      | Prior      | Change | Explanation |
|-----------------------|------------|------------|--------|-------------|
| <b>Energy Markets</b> |            |            |        |             |
| Brent                 | \$62.88    | \$63.34    | -0.73% |             |
| WTI                   | \$58.57    | \$59.12    | -0.93% |             |
| Natural Gas           | \$3.26     | \$3.17     | 2.90%  |             |
| Crack Spread          | \$20.92    | \$20.69    | 1.12%  |             |
| 12-mo strip crack     | \$23.64    | \$23.47    | 0.72%  |             |
| Ethanol rack          | \$1.77     | \$1.77     | -0.09% |             |
| <b>Metals</b>         |            |            |        |             |
| Gold                  | \$4,579.26 | \$4,509.50 | 1.55%  |             |
| Silver                | \$83.76    | \$79.86    | 4.89%  |             |
| Copper contract       | \$603.35   | \$590.25   | 2.22%  |             |
| <b>Grains</b>         |            |            |        |             |
| Corn contract         | \$447.75   | \$445.75   | 0.45%  |             |
| Wheat contract        | \$523.25   | \$517.25   | 1.16%  |             |
| Soybeans contract     | \$1,066.00 | \$1,062.50 | 0.33%  |             |
| <b>Shipping</b>       |            |            |        |             |
| Baltic Dry Freight    | 1,688      | 1,718      | -30    |             |

## 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-than-normal temperatures in the northern Great Lakes and New England regions. While the first half of the period is expected to be drier-than-normal for much of the country, conditions should stabilize by the second half. Additionally, the second half of the forecast shows wetter-than-normal conditions in the Northern Rockies.

## Data Section

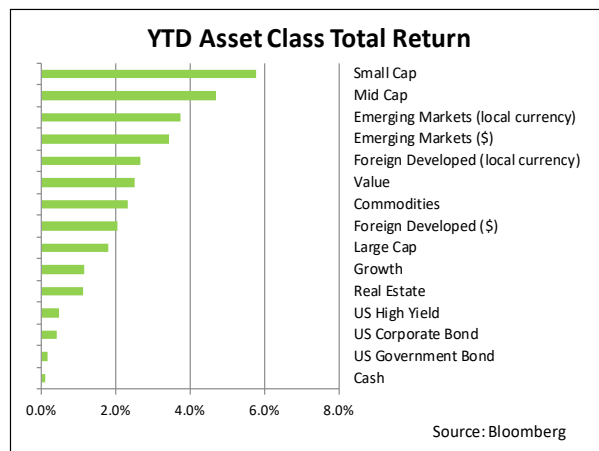
### US Equity Markets – (as of 1/9/2026 close)



(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 1/9/2026 close)



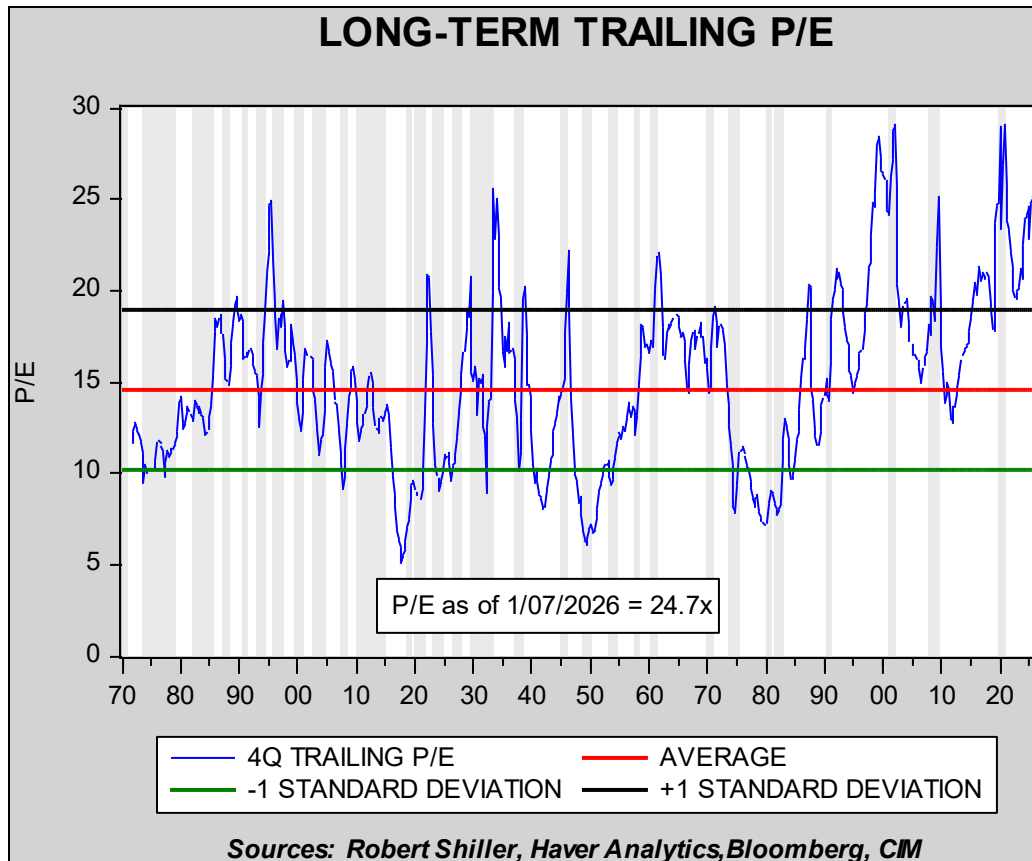
This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 8, 2026



Based on our methodology,<sup>1</sup> the current P/E is 24.7x, down 0.4 from the previous report. This contraction was driven by a calendar roll-forward into the next fiscal quarter; the inclusion of higher projected quarterly earnings increased the denominator, resulting in a lower valuation multiple despite stable price levels.

*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.*

<sup>1</sup> 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.