Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: January 13, 2026 — 9:30 AM ET] Global equity markets are mixed 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 0.6%. Chinese markets were lower, with the Shanghai Composite down 0.6% and the Shenzhen Composite down 1.4%. 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
"The New National Security Strategy" (1/12/26) + **podcast**	"America's AI Buildout and Its Market Risks" (1/5/26) + podcast	Q4 2025 Report Q4 2025 Rebalance Presentation	The 2026 Outlook Confluence of Ideas Podcast

Have a question on the economy, markets, geopolitics, or other important topics? You can submit your queries to our new monthly podcast, *Confluence Mailbag*! Submit your question to mailbag@confluenceim.com.

Our Comment today first discusses one way to understand the US's new foreign policy now that we've had a year to observe it in practice, taking into account the administration's new national security strategy and analysis of peak events such as the seizure of Venezuelan President Maduro. We next review several other international and US developments that could affect the financial markets today, including rising pushback to the Justice Department's probe of Federal Reserve Chair Powell and a presidential social media post that may signal new federal regulation of electricity prices.

US Foreign Policy: More than a week has passed since the US seizure of Venezuelan President Maduro, and it may be useful to say some words about the US's evolving new foreign policy. Coupled with the administration's national security strategy and its other initiatives over the last year, the action in Venezuela suggests to us that the "spheres of influence" goal so many analysts are discussing may not be the most accurate. Rather, we wonder if "neo-colonialism" may be a better way of thinking about President Trump's foreign policy and where it's heading.

- First, it's helpful to understand the terminology. We see ***colonialism*** as an economic and political relationship in which the mother country has some degree of control over foreign lands to use them as guaranteed markets and/or sources of raw materials and industrial inputs. People typically see ***spheres of influence*** as more tenuous control over a particular geographical area. Finally, ***imperialism*** is an even broader, stronger control over foreign countries through military, diplomatic, and economic power.
- Many observers, especially in weaker countries or former colonies, use "colonialism" as a pejorative term, but we don't. We use the term only descriptively — to better understand the evolving system's political, economic, and investment implications. Indeed, one could argue that foreign policy should be judged by whether it advances the interests of the country's people, including its working class. Past colonial systems, such as that of the British, may well have been quite positive for their own people and working classes.
- Given the administration's focus on economic and commercial interests, it's possible to argue that it is seeking to build a new, US-centered, neo-colonial system established and maintained by hard power. In this system, more industrial production would happen within the US, but Washington would have some degree of explicit or implicit control over other countries to ensure they serve as valuable markets or as sources of raw materials or industrial and technological components.
- If this is true, administration officials seem to want the new US neo-colonial system to be centered on the Western Hemisphere, mostly because they prefer short, easily defensible supply lines. The problem is that there are many key minerals and industrial or technological inputs outside the Western Hemisphere. For example, many critical minerals are most available in Africa or the Asia-Pacific region. The most advanced computer chips are currently produced almost exclusively in Taiwan.
- The administration may hope to eventually source all key minerals and industrial inputs from the Americas, but for the time being, any evolving US neo-colonial system would have to be broader than that, extending out in the Pacific Ocean to places like Japan, South Korea, Taiwan, and the Philippines, and across the Atlantic to at least some countries in Europe, the Middle East, and Africa.
- How would this evolving system affect the global "bloc" system that we at Confluence have discussed so much in recent years? At first, the new US system may largely overlap the current US-led geopolitical and economic bloc. However, while the bloc system implies a certain static, stable grouping of countries, the evolving neo-colonial system could be more fluid. In fact, a new tension-filled "Great Game" may emerge, where China and other countries tussle with the US to bring key countries into their system.
- As the US works to draw these countries close as a source of demand and supply, Washington will likely push to ensure that their economic policies are aligned with those of the US. If this includes pressure for improved policies such as deregulation and fiscal stability, Washington's embrace may signal improved growth and better stock market performance.

- Over time, however, the US embrace of countries further afield, with long supply lines to the US, may be abandoned. For instance, while the US currently may want to defend Taiwan to ensure access to its semiconductor supplies, Washington is trying to develop the US's indigenous capacity for those goods. When and if that eventually happens, the US would have much less interest in supporting Taiwan. Similar logic could apply to countries such as Japan, South Korea, and much of Europe in the long term.
- We would caution that this is still not a definitive analysis. We continue to watch the administration's approach and try to better understand where it is going. And importantly, we are still wrapping our head around the associated investment implications. Many of our current themes are likely to continue, such as our positive view on European defense stocks and precious metals. All the same, we suspect that our analysis will reveal some additional opportunities and risks going forward.

United States-Taiwan: The *Wall Street Journal* today reports that Washington and Taipei are nearing a trade deal in which the current 20% import tariff against Taiwan would be cut in return for Taiwan committing to more than $300 billion in investment and other spending in the US. That sum includes and expands on last year's $165-billion investment commitment from Taiwan Semiconductor Manufacturing Company. Importantly, the expanded investment commitment would have TSMC building as many as a dozen new cutting-edge chip plants in Arizona.

- The new Arizona fabs would produce both logic chips, which are used for artificial intelligence, and packaging chips, which provide supporting functions.
- The deal underscores the US administration's focus on building up domestic technology manufacturing. Tech now is clearly a favored sector in the US, which will likely support the prospects for tech stocks going forward. However, its favored status could make it more susceptible to government interference over time.
- By increasing and expanding the range of advanced semiconductor manufacturing in the US, the deal also would be consistent with the administration's goal of shortening and securing key supply chains. Consistent with the discussion above, however, it could eventually reduce the US's reliance on Taiwanese production and reduce the US's security interests in Taiwan.

United States-Iran: To pressure Tehran to stop its violent repression against anti-government protestors, President Trump yesterday said he would immediately impose an additional 25% import tariff on any country doing business with Iran. Based on data from the first half of 2025, some 100 countries could be at risk of the added tariffs. However, the most exposed would likely be China, Turkey, Pakistan, and India, all of which could face a new round of trade disruptions and financial market volatility.

US Monetary Policy: Several top Republicans in Congress have criticized the administration's criminal investigation of Fed Chair Powell, with at least two Republicans in the Senate signaling that they would hold up the president's next nominations to the central bank over the probe. The sudden pushback may force the administration to shelve its probe and simply wait until Powell's term runs out in mid-May. Even then, however, we think the White House would continue to push the Fed to slash interest rates when a new chair is in place.

- JPMorgan Chase CEO Jamie Dimon this morning added his opinion, saying that "anything that chips away" at the central bank's independence "is not a good idea."
- Dimon also warned that political interference with the Fed would cause inflation and interest rates to rise, contrary to President Trump's goal of lowering rates.

US Critical Minerals Industry: Louisiana-based gallium producer Atlantic Alumina yesterday said the Pentagon has bought $150 million of preferred equity in the firm and will make further investments in the near future. The deal is the latest in a string of US government investments in firms producing minerals that are critical to advanced technology and defense goods. The aim is to break China's near monopoly on producing many of the minerals — an aim that has boosted investor interest in critical minerals firms and other miners and processors.

US Housing Industry: New York Gov. Kathy Hochul today will reportedly propose exempting most new housing projects from the New York State Environmental Quality Review Act. If the reform is approved by state legislators, it would mark the latest state or local effort to make it faster and cheaper to build new housing supply by cutting regulations. If such state and local efforts hit critical mass, they could be positive for national homebuilders.

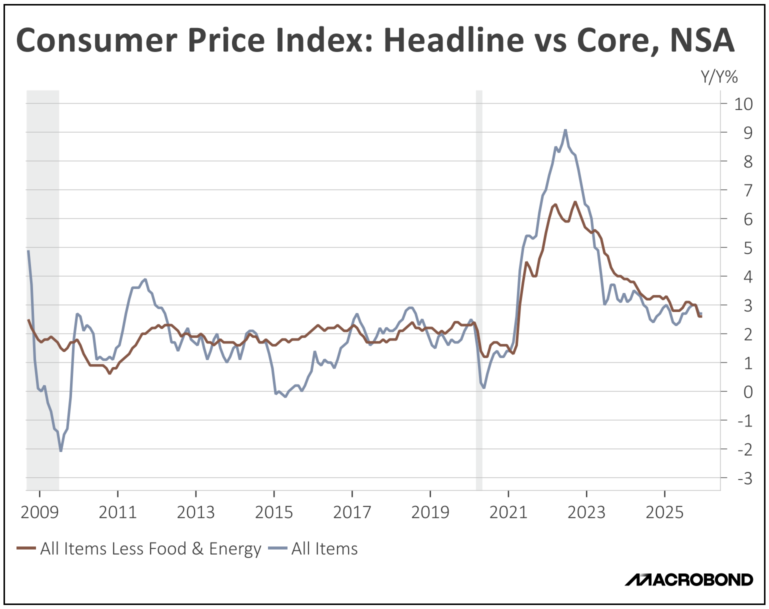
US Electricity Market: In a social media post last night, President Trump said he never wants "Americans to pay higher Electricity bills because of Data Centers." Rather, he insisted that big tech companies building data centers "must 'pay their own way.'" Given the president's other proposed market interventions to address "affordability," the statements may raise concerns that he will intervene in the electricity market to push down consumer bills ahead of the mid-term elections in November — a move that could roil technology and utility stocks.

European Union: New data from European trade body CLEPA shows auto parts manufacturers on the Continent eliminated over 100,000 jobs over 2024 and 2025, twice the total loss during the coronavirus pandemic. According to the organization, the losses reflect weak European auto demand and ultracompetitive pricing by Chinese auto exporters. The figures illustrate the dire straits faced by Europe's auto sector and point to the possibility of further trade tensions between the EU and China.

United Kingdom: Air Chief Marshal Sir Richard Knighton, chief of the defense staff, told a parliamentary committee yesterday that the British armed forces are underfunded and that "We are not as ready as we need to be for the kind of full-scale conflict that we might face." The statement shows how European countries probably will not be able to defend themselves against Russian threats in the near term, even if they want to rearm quickly. That suggests European defense firms will continue to see growing revenues, profits, and stock prices for years to come.

US Economic Releases

The December ***consumer price index (CPI)*** rose by a seasonally adjusted 0.3%, in line with market expectations. Excluding the volatile food and energy components, the ***"core" CPI*** rose a mild 0.2%, slightly below expectations of 0.3%. On a year-over-year basis, the overall CPI rose 2.7%, while the core CPI rose 2.6%. The chart below shows the year-over-year change in the CPI and the core CPI since just before the Great Financial Crisis.



The ***NFIB Small Business Optimism Index*** rose slightly in December, climbing from 99.0 to 99.5, slightly exceeding expectations of 99.3. The uptick reflects growing confidence among business owners, driven by expectations of better business conditions due to waning cost pressures and improved labor conditions. That said, there was an increase in concerns regarding taxes.

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	New Home Sales	m/m	Oct	715k		***
10:00	New Home Sales MoM	m/m	Oct	-10.6%		**
	Building Permits	m/m	Oct F		1412k	**
	Building Permits MoM	m/m	Oct F		-0.2%	*
14:00	Federal Budget Balance	m/m	Dec	-$152.5b	-$173.3b	**
Federal Reserve						
EST	**Speaker or Event**	**District or Position**				
10:00	Alberto Musalem Speaks on MNI Webcast	President of the Federal Reserve Bank of St. Louis				
16:00	Thomas Barkin in Moderated Conversation	President of the Federal Reserve Bank of Richmond				

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	BoP Current Account Balance	m/m	Nov	¥3674.1b	¥2833.5b	¥3608.7b	***	Equity and bond neutral
	BoP Trade Balance	m/m	Nov	¥625.3b	¥98.3b	¥508.3b	**	Equity and bond neutral
Australia	Westpac Consumer Conf Index	m/m	Jan	92.9	94.5		**	Equity and bond neutral
	Westpac Consumer Conf SA	m/m	Jan	-1.7%	-9.0%		**	Equity and bond neutral
EUROPE								
France	Budget Balance YTD	y/y	Nov	-155.4b	136.2b		***	Equity and bond neutral
Russia	Gold and Forex Reserves	m/m	26-Dec	$763.9b	$752.6b		***	Equity and bond neutral
AMERICAS								
Brazil	IBGE Services Volume	y/y	Nov	2.5%	2.1%	2.9%	*	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)	353	355	-2	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	4.18	0.02	Up
Euribor/OIS spread (bps)	202	202	0	Up
Currencies	**Direction**			
Dollar	Up			Down
Euro	Flat			Up
Yen	Up			Down
Pound	Flat			Up
Franc	Up			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.

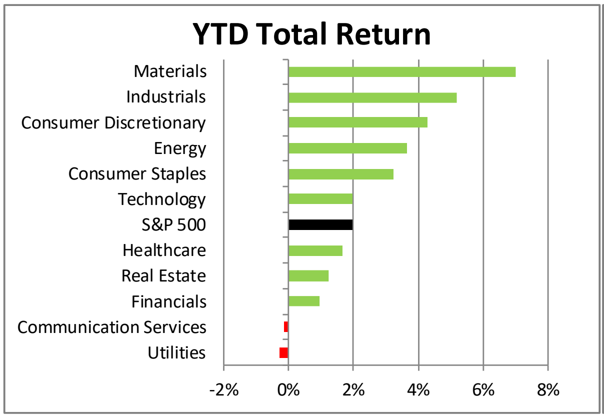
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$64.87	$63.87	1.57%	
WTI	$60.50	$59.50	1.68%	
Natural Gas	$3.47	$3.41	1.67%	
Crack Spread	$20.91	$20.63	1.34%	
12-mo strip crack	$23.86	$23.61	1.08%	
Ethanol rack	$1.75	$1.76	-0.34%	
Metals				
Gold	$4,583.10	$4,597.51	-0.31%	
Silver	$85.55	$85.10	0.52%	
Copper contract	$605.60	$603.15	0.41%	
Grains				
Corn contract	$419.25	$421.50	-0.53%	
Wheat contract	$509.25	$511.25	-0.39%	
Soybeans contract	$1,042.50	$1,049.00	-0.62%	
Shipping				
Baltic Dry Freight	1,659	1,688	-29	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		-1.00		
Gasoline (mb)		2.00		
Distillates (mb)		1.10		
Refinery run rates (%)		0.00%		
Natural gas (bcf)		-113		

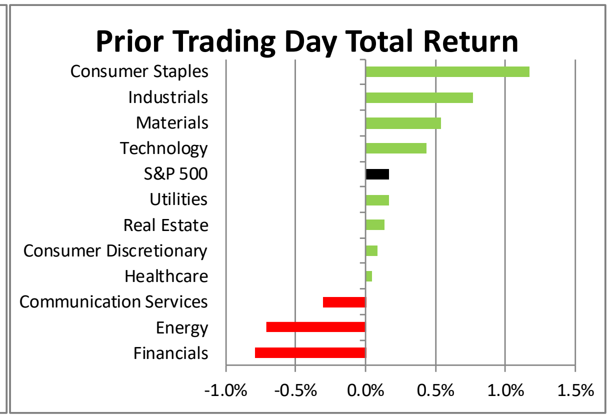
Weather

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 Great Lakes, New England, and Midwest regions. While much of the country will start the forecast period drier than normal, wetter conditions are expected to expand across the Northern Rockies, Great Plains, Midwest, and Southeast during the latter half.

Data Section

US Equity Markets – (as of 1/12/2026 close)

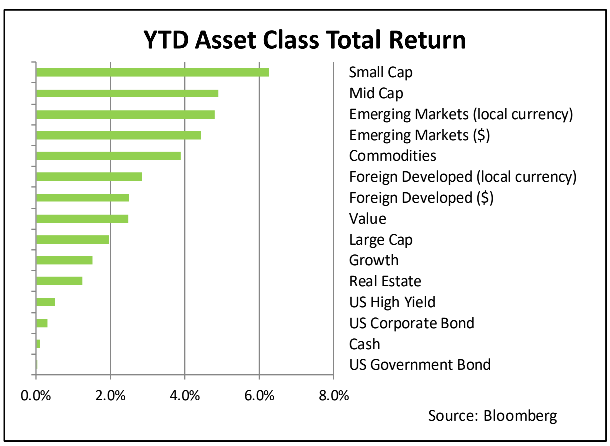




(Source: Bloomberg)

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 1/12/2026 close)

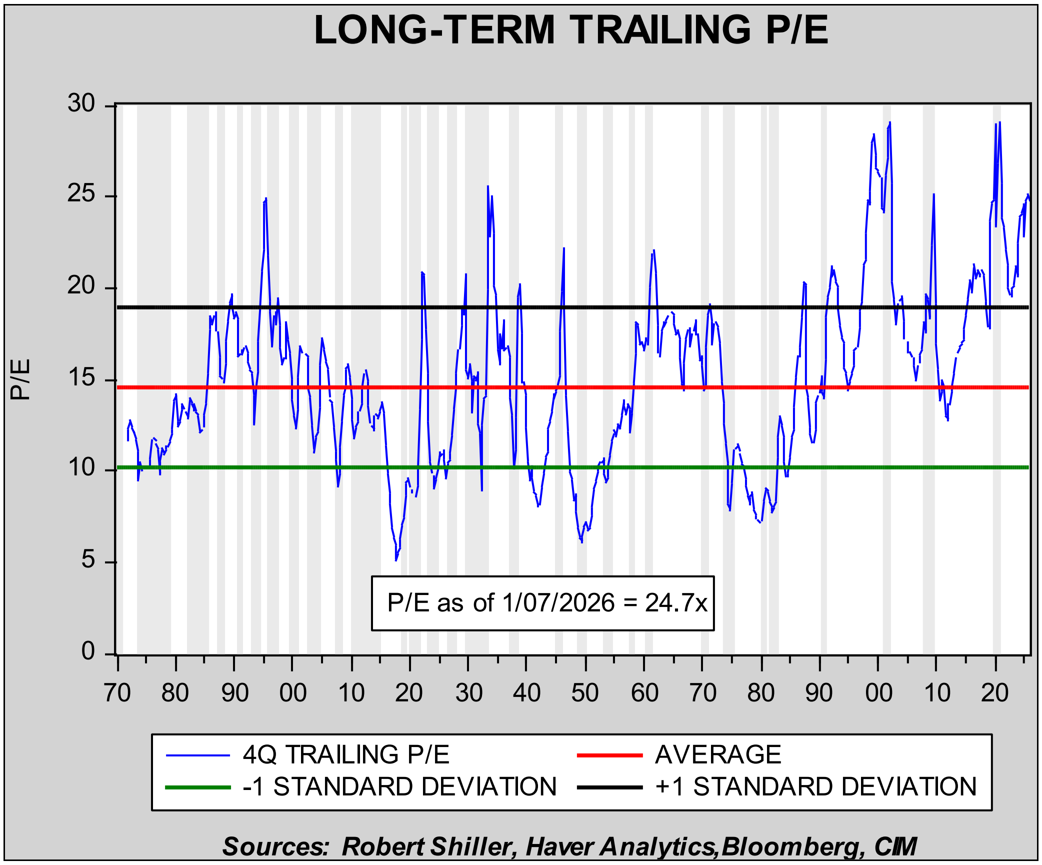


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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,[1] 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.

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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.