Daily Comment

Confluence Investment Management

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[Posted: January 14, 2026 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is down 0.2% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.7%. Chinese markets were mixed, with the Shanghai Composite down 0.3% and the Shenzhen Composite up 0.7%. US equity index futures are signaling a lower open.

With 22 companies having reported so far, S&P 500 earnings for Q4 are running at $70.90 per share compared to estimates of $71.07, which is up 8.3% from Q4 2024. Of the companies that have reported thus far, 86.4% have exceeded expectations, while 13.6% 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
"Investment Implications of 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* opens with an analysis of the president's pressure campaign on Iran, highlighting its significance for US foreign policy. We then examine key domestic initiatives, including the White House's push to cap credit card interest rates and improve home affordability, as well as the notable geopolitical effort to acquire Greenland. We also address the global implications of China's record trade surplus. Lastly, the report includes a roundup of essential domestic and international data.

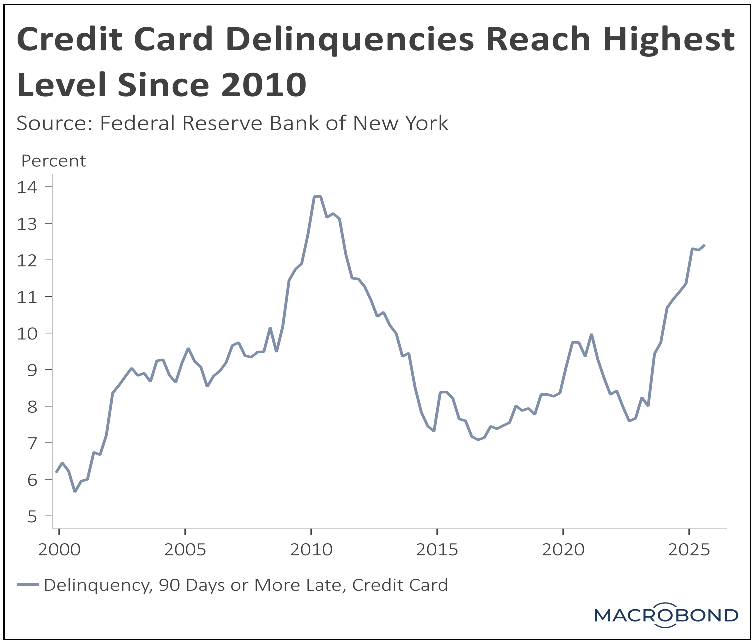
Trouble for Iran? As protests in Iran continue, the United States appears to be positioning itself as a potential enforcer should the government's crackdown become extreme. On Tuesday, the White House encouraged protesters to maintain pressure on the current regime and to occupy key institutions. Additionally, it offered assurances of US backing, suggesting possible intervention if Ayatollah Khamenei does not curb the violence. These comments signal another step in the president's pivot toward a more assertive foreign policy.

- By challenging the internal stability of Tehran, President Trump is accelerating the erosion of China and Russia's strategic reach. The recent capture of Nicolás Maduro served as the catalyst, throwing the stability of anti-US regimes into doubt. As Iran struggles to contain a brutal wave of domestic protests, Cuba stands as the next likely domino to fall, leaving the Sino-Russian alliance with fewer reliable footholds in the Western Hemisphere and the Middle East.
- Washington's effort to flip key regional allies of China and Russia is gaining momentum. Following the ouster of Maduro, the president is balancing relations with the interim Venezuelan leadership and the Machado-led opposition to ensure a pro-US transition. These diplomatic inroads are mirrored in the Caucasus, where a new 49-year security corridor has been established, and in the Middle East, where the administration is directly engaging with the exiled former crown prince of Iran amid nationwide unrest.
- While the US has achieved recent strategic successes, these gains are not without risks. Russia, for example, has intensified its campaign in Ukraine in response to these advances and may feel emboldened to challenge NATO more directly after the conflict concludes. Meanwhile, China appears to be leveraging its influence by pressuring countries, such as Australia and Brazil, into aligning more closely with its geopolitical orbit.
- Recent US foreign policy moves, including its pointed comments on Iran, highlight a broader strategy of countering Russian and Chinese influence through expanded power projection. In our view, such actions risk provoking retaliatory measures from Moscow and Beijing, both of which are intent on solidifying their international standing. While we do not consider direct war likely, we recognize a clear pathway for miscalculation that could escalate into conflict.

Wall Street Responds: On Tuesday, the White House escalated its pressure on banks, using social media to demand they impose a one-year, 10% cap on credit card interest rates. He warned that institutions failing to comply by January 20 could face punishment, without citing a legal basis for the threat. This aggressive directive represents the latest in a series of populist economic interventions, including recent moves in housing policy, designed to deliver immediate consumer relief and improve the party's electoral prospects ahead of the 2026 midterms.

- The president's timing targets major banks just as they prepare to release their earnings reports. Revenue from credit card swipe fees has become a cornerstone of bank profits, driven by the widespread extension of household credit. While these fees have boosted profit margins, they have also fueled rising consumer debt and a surge in delinquencies — a trend that has now sparked calls for government intervention.
- While industry leaders have signaled their intent to contest the cap through aggressive lobbying and judicial challenges, emerging reports suggest the sector is already exploring strategic concessions. Potential compromises include a voluntary expansion of the 36%

Military Lending Act (MLA) cap to all consumers and the introduction of a temporary one-year promotional rates to satisfy the White House.



- To further pressure the banks, the president has signaled his support for the Credit Card Competition Act. This legislation would require banks, specifically those with assets over $100 billion, to ensure that every credit card offers a payment network option beyond just Visa and Mastercard. This would grant merchants a choice of competing networks for processing transactions.
- Though the president's formal power to act against financial institutions is limited, his public intimidation campaign is effectively testing the limits of unilateral executive action. If successful, it would likely embolden the White House to issue further directives, fueling an interventionist populist agenda that bypasses institutional norms and permanently expands the scope of presidential authority.
- The White House's growing assertiveness is creating significant uncertainty for firms. This environment may compel companies to reconsider future plans as they work to ensure compliance and avoid regulatory entanglements. Consequently, equity market risks are becoming more elevated, underscoring the value of maintaining a well-diversified portfolio with exposure to both value and quality factors.

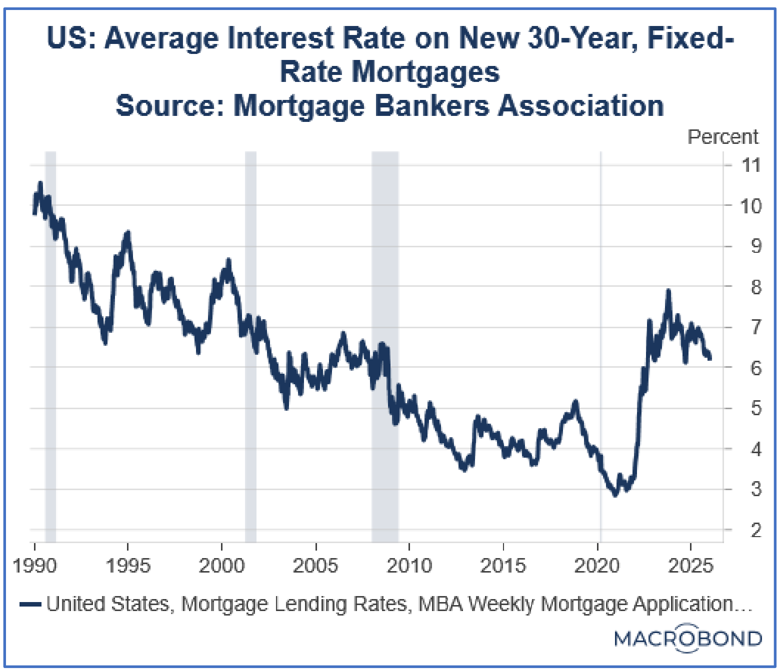
Homebuilders Under Fire: The White House has publicly criticized homebuilders for failing to sufficiently lower housing costs. The Federal Housing Finance Agency has specifically accused these companies of intentionally keeping prices elevated at the expense of potential buyers, citing their use of stock buybacks as evidence of their capacity to reduce home prices. This coordinated criticism signals to the industry that they are expected to prioritize affordability over excessive profits.

Greenland Talks: The United States [continues to advocate within NATO for its ambition to annex Greenland.] While the territory is already part of the alliance through Denmark, the White House has suggested that control by the US would enhance its strategic protection. These comments follow statements from [Greenland's leaders reaffirming their preference to remain under Danish sovereignty] and are likely to raise questions about Washington's commitment to NATO's foundational principles.

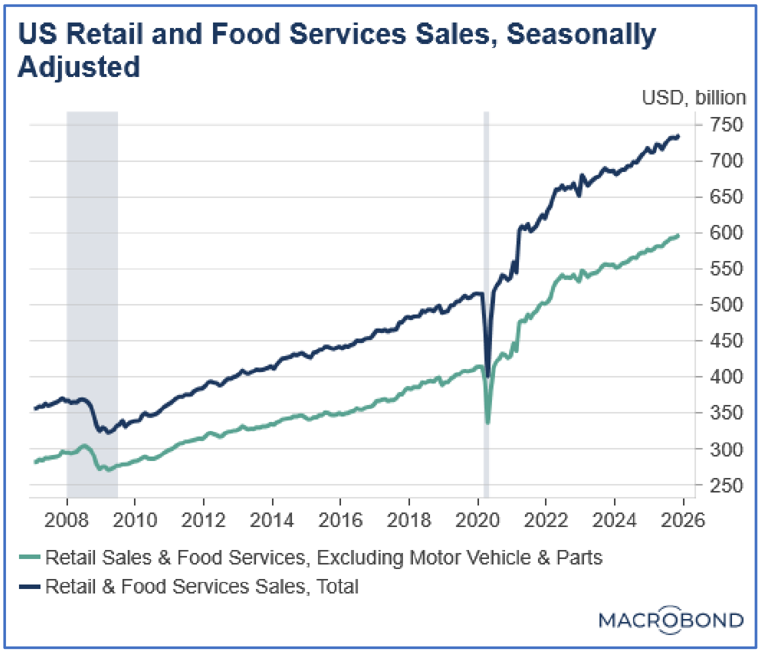
China Surplus Rises: China's trade surplus shattered records in 2025, [punching through the $1 trillion ceiling for the first time to reach $1.19 trillion]. This milestone confirms that manufacturers have successfully bypassed the 20% slump in US trade by pivoting toward the EU and ASEAN regions. While this shift highlights China's increasing independence from US consumer demand, the massive global imbalance is fueling international concerns over industrial overcapacity, likely leading to a new wave of reciprocal tariffs from non-US nations in 2026.

US Economic Releases

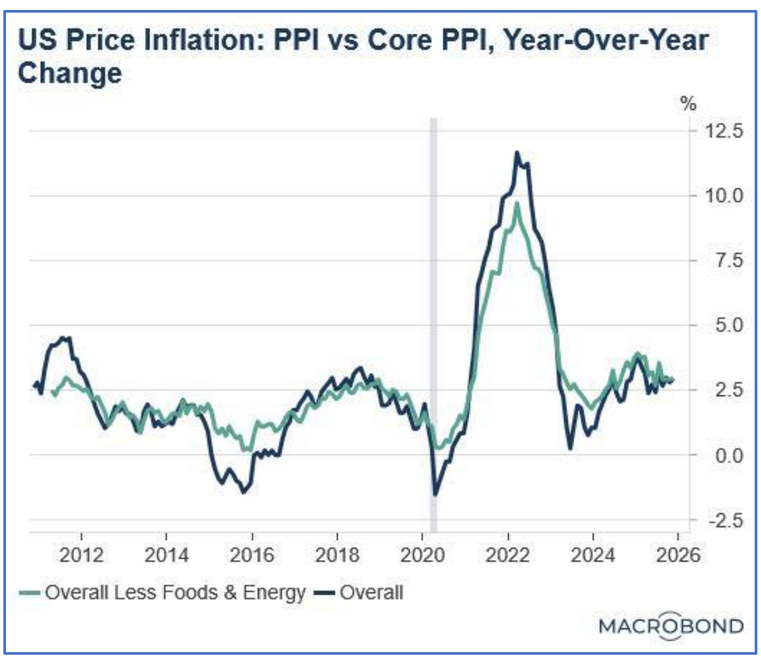
The Mortgage Bankers Association said ***mortgage applications*** in the week ended January 10 surged 28.5%, after edging up just 0.3% in the previous week. Applications for home purchase mortgages rose 15.9%, easily erasing their 6.2% decline in the prior week. Applications for refinancing mortgages skyrocketed 40.1%, after rising 7.4% the week before. According to the report, the average interest rate on a 30-year, fixed-rate mortgage fell by 7 basis points to 6.18%. The chart below shows how mortgage rates have changed over time.



Separately, November ***retail sales*** rose by a seasonally adjusted 0.6%, beating the expected gain of 0.5% and erasing their revised October decline of 0.1%. Of course, overall retail sales are often driven by the volatile auto and auto parts sector, which makes up almost one-fifth of the total. November ***retail sales excluding autos and auto parts*** were up 0.5%, beating their expected rise of 0.4% and accelerating from their October rise of 0.2%. The chart below shows how retail sales have changed since just before the Great Financial Crisis.



Finally, the November ***producer price index (PPI)*** rose by a seasonally adjusted 0.2%, matching expectations and accelerating from its 0.1% rise in October. Excluding the volatile food and energy components, the November ***"core" PPI*** was unchanged, compared with an anticipated rise of 0.2% and the October increase of 0.3%. The chart below shows the year-over-year change in the PPI and the core PPI over the last decade or so.



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	Business Inventories	m/m	Oct	0.1%	0.2%	*
10:00	Existing Home Sales	m/m	Dec	4.22m	4.13m	***
10:00	Existing Home Sales MoM	m/m	Dec	2.2%	0.5%	*

Federal Reserve		
EST	Speaker or Event	District or Position
9:50	Anna Paulson speaks on Economic Outlook	President of the Federal Reserve Bank of Philadelphia
10:00	Stephen Miran Speaks on Regulation and Monetary Policy	Members of the Board of Governors
12:00	Neel Kashkari Speaks in Virtual Town Hall	President of the Federal Reserve Bank of Minneapolis
12:00	Raphael Bostic Participates in Moderated Discussion	President of the Federal Reserve Bank of Atlanta
14:10	John Williams Delivers Opening 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
ASIA-PACIFIC								
Japan	Money Stock M2	y/y	Dec	1.7%	1.7%		**	Equity and bond neutral
	Money Stock M3	y/y	Dec	1.1%	1.2%		**	Equity and bond neutral
	Machine Tool Orders	y/y	Dec P	10.6%	14.8%		**	Equity and bond neutral
Australia	Job Vacancies	q/q	Nov	-0.2%	-2.7%		*	Equity and bond neutral
New Zealand	Building Permits	m/m	Nov	2.8%	-0.7%		**	Equity and bond neutral
	ANZ Commodity Price	m/m	Dec	-2.1%	-1.6%		**	Equity and bond neutral
South Korea	Export Price Index	y/y	Dec	5.5%	6.8%		*	Equity and bond neutral
	Import Price Index	y/y	Dec	0.3%	1.9%		*	Equity and bond neutral
	Unemployment Rate	m/m	Dec	4.0%	2.7%	2.7%	***	Equity bearish, bond bullish
China	Exports	y/y	Dec	6.6%	5.9%	3.1%	**	Equity bullish, bond bearish
	Imports	y/y	Dec	5.7%	1.9%	0.9%	**	Equity bullish, bond bearish
	Trade Balance	m/m	Dec	$114.14b	$111.68b	$114.35b	***	Equity and bond neutral
India	Wholesale Prices	m/m	Dec	0.83%	-0.32%	0.36%	*	Equity and bond neutral
AMERICAS								
Canada	Building Permits	m/m	Nov	-13.1%	15.7%	-5.50	**	Equity bearish, bond bullish
Mexico	International Reserves Weekly	w/w	9-Jan	$252564m	$251828m		*	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)	355	356	-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 (%)	4.15	4.18	-0.03	Flat
Euribor/OIS spread (bps)	202	202	0	Down
Currencies	**Direction**			
Dollar	Flat			Flat
Euro	Flat			Up
Yen	Down			Down
Pound	Up			Up
Franc	Flat			Flat

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.

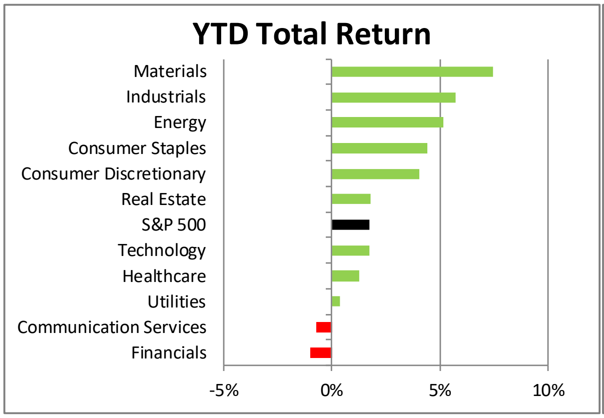
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$66.07	$65.47	0.92%	
WTI	$61.70	$61.15	0.90%	
Natural Gas	$3.29	$3.42	-3.74%	
Crack Spread	$21.11	$21.23	-0.59%	
12-mo strip crack	$24.14	$24.15	-0.05%	
Ethanol rack	$1.74	$1.75	-0.30%	
Metals				
Gold	$4,635.75	$4,586.52	1.07%	
Silver	$91.67	$86.95	5.43%	Geopolitical tensions, easing monetary policy, concerns of Fed independence, US debt burden
Copper contract	$607.15	$601.60	0.92%	
Grains				
Corn contract	$423.50	$419.75	0.89%	
Wheat contract	$512.00	$510.50	0.29%	
Soybeans contract	$1,045.00	$1,038.75	0.60%	
Shipping				
Baltic Dry Freight	1,608	1,659	-51	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		-1.68		
Gasoline (mb)		2.00		
Distillates (mb)		-0.66		
Refinery run rates (%)		-0.50%		
Natural gas (bcf)		-88		

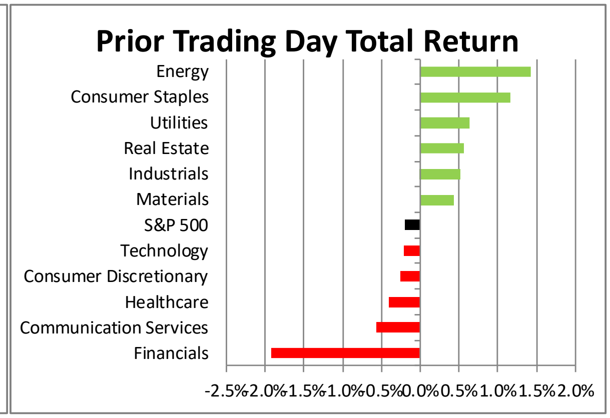
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for cooler-than-normal temperatures in the northern half of the country, with warmer-than-normal temperatures in the southern third. The forecasts initially call for wetter-than-normal conditions everywhere except the West and East Coasts, western Texas, and southern Florida, where dry conditions will prevail.

Data Section

US Equity Markets – (as of 1/13/2026 close)

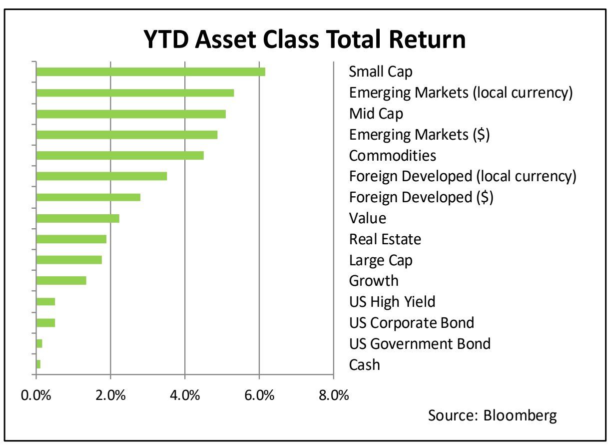




(Source: Bloomberg)

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 1/13/2026 close)

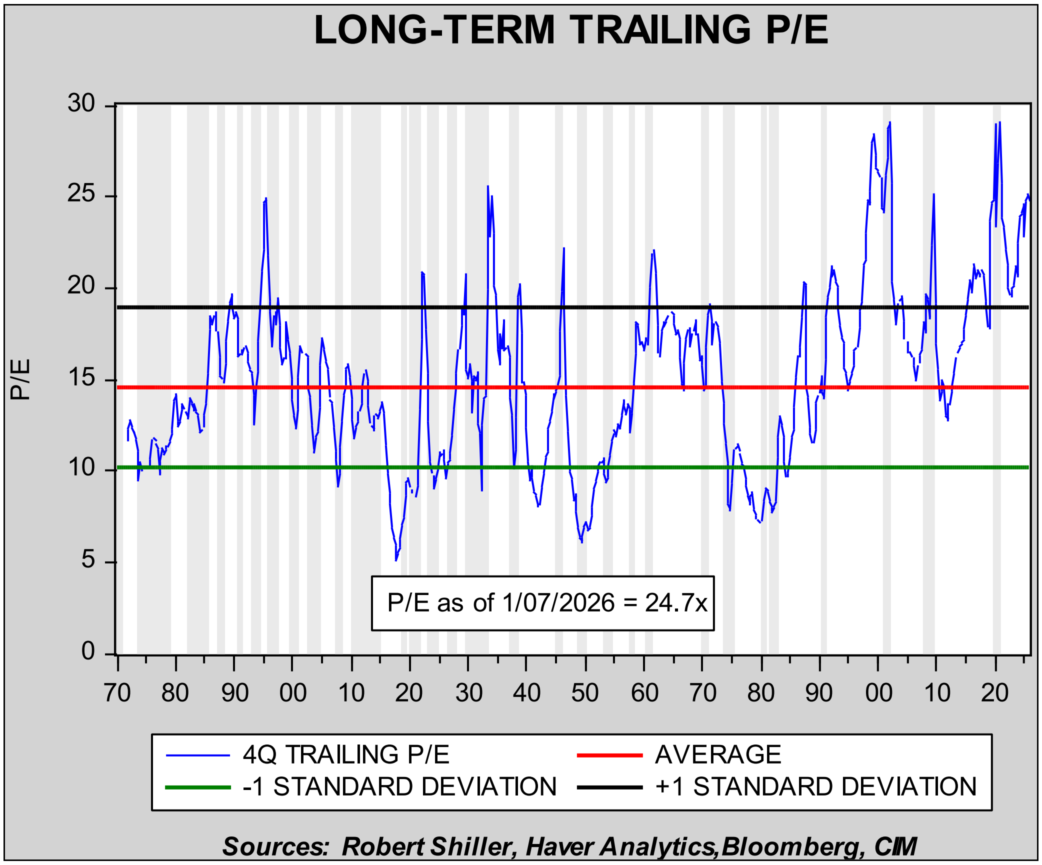


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.

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.