Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: January 16, 2026 — 9:30 AM ET] Global equity markets are mixed 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 up 1.1%. Chinese markets were lower, with the Shanghai Composite down 0.3% and the Shenzhen Composite down 0.1%. US equity index futures are signaling a higher open.

With 28 companies having reported so far, S&P 500 earnings for Q4 are running at $71.10 per share compared to estimates of $71.07, which is up 8.3% from Q4 2024. Of the companies that have reported thus far, 89.3% have exceeded expectations, while 10.7% 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* begins by examining the resurgence of enthusiasm around artificial intelligence. We then analyze key domestic and international developments, including new signals from Federal Reserve officials on potential interest rate cuts, efforts by Canada and the European Union to diversify trade partnerships, and a proposal to advance Ukraine's EU membership. We also explore a potential tax policy change that could affect sovereign wealth funds. The report concludes with a roundup of essential economic data from the US and abroad.

Chip Demand: AI stocks found fresh momentum following a stellar performance from TSMC. As the world's leading foundry, TSMC's ability to "drastically beat" expectations serves as a validation of the ongoing AI buildout. The company's upgraded 2026 revenue outlook of 30%

and its massive $52–$56 billion capital expenditure budget suggest that the hardware cycle is far from over. This guidance has bolstered confidence in the sector, proving that demand remains robust despite broader macroeconomic uncertainty.

- The robust results have helped soothe investor concerns regarding AI fatigue, which had begun to weigh on the market after two years of exponential growth. The company's increased spending guidance serves as a powerful vote of confidence, suggesting that the infrastructure cycle is still in its expansionary phase rather than nearing a peak.
- Additionally, the capital expenditure from TSMC and other technology heavyweights is expected to provide a significant tailwind for the broader economy. As noted in our latest Asset Allocation Bi-Weekly Report, economic growth has become increasingly reliant on AI investment, which served as a crucial stabilizer during the uncertainties of 2025. This sustained spending provides strong evidence that the current expansion could accelerate throughout the year.
- Nevertheless, significant headwinds remain that could dampen this momentum, particularly as AI infrastructure becomes an increasingly sensitive political issue. Developers are struggling with data center buildouts due to acute shortages of power and critical components. Simultaneously, firms are facing growing a political push to pay a premium for energy usage, as regulators seek to mitigate the upward pressure that industrial demand is placing on household utility costs.
- The AI-driven bull market still shows strength, yet the need for portfolio balance is increasing. We have noted a recent shift toward broader market participation, which helps alleviate concerns regarding extreme sector concentration. This rotation is uncovering opportunities in quality companies that were previously overshadowed by AI. As such, we suggest investors look toward these "undervalued" segments to build a more resilient, diversified portfolio.

Fed Talk: Despite positive economic signals, key Fed officials are tempering expectations for near-term rate cuts. On Thursday, Atlanta's Raphael Bostic and Kansas City's Jeffrey Schmid stressed the need for ongoing restrictive policy amid lingering inflation. Conversely, Chicago's Austan Goolsbee reiterated the 2% inflation goal but indicated potential future easing if the cooling trends continue. The comments precede a standard pre-meeting media blackout before the FOMC convenes on January 26.

- The latest data suggests a shift in the Federal Reserve's priorities. With inflation showing signs of stabilizing, the focus is turning toward the maximum employment side of their mandate. Recent reports underscore this resilience: Initial jobless claims fell to a low of 199,000 last week, while the Chicago and Philadelphia Fed surveys both pointed to accelerating economic activity. These figures suggest the economy may be heating up again, complicating the need for future rate cuts
- At the same time, concerns are mounting over the reliability of the latest inflation figures. Although the CPI has shown improvement, critics argue the data may be skewed. Because of the government shutdown, some categories, such as shelter costs, were simply carried over from the prior month rather than updated with new data. This "downward bias" suggests that inflation might actually be higher than the current reports indicate.

- Market focus has shifted squarely onto the Fed as fears mount over AI-related spending and political overreach. Any suggestion that the White House is successfully pressuring the Fed to prioritize lower rates over price stability has provided a floor for benchmark yields. This market-led pushback has forced the administration to reaffirm Chair Powell's position, yet the broader question of the Fed's long-term independence continues to drive volatility.
- Due to an improving economic outlook and persistent uncertainty regarding inflation, Fed officials are likely to remain hesitant to lower the federal funds target at their next meeting. While we anticipate multiple rate cuts this year, we expect the timing to shift toward the second half of 2026, potentially following the appointment of a new Fed chair. However, this outlook remains contingent on the labor market as any significant signs of deterioration could accelerate the timeline for easing.

Canada Pivots to China: Canadian Prime Minister Mark Carney met with President Xi Jinping in Beijing this week, signaling a strategic effort to reduce Canada's economic dependence on the United States. During the visit, the two leaders pledged to establish a high-level dialogue encompassing trade in oil and gas, as well as investments in nuclear and clean technology. Carney's decision to pivot toward China underscores a growing trend of middle powers seeking greater autonomy by balancing their relationships between Washington and Beijing.

EU-Lite: The EU is drafting a proposal to streamline Ukraine's accession process by bypassing certain stringent criteria. This framework, dubbed "enlargement lite," would establish a two-tier system allowing smaller or conflict-affected nations to join the bloc with modified requirements. While designed to facilitate a peace settlement by satisfying President Zelenskyy's domestic mandate, the move has rattled markets. Investors are concerned that a multi-speed Europe could dilute the bloc's institutional integrity and complicate future fiscal integration.

Mercosur Outrage: The US has criticized a pending trade agreement between the European Union and South American nations as unfair. The deal is expected to be signed this weekend and would reduce tariffs while significantly boosting trade, particularly in meats and cheese. US officials argue that the agreement would grant the EU a monopoly over certain products, harming American farmers. This development is likely to heighten transatlantic tensions, especially at a time when the US has been seeking to strengthen its own influence in South America.

Foreign Taxes: The United States is considering changes to its tax code that would increase the tax liability of the US investments in sovereign wealth funds and certain public pension funds. This measure represents a further effort by the administration to deter countries from devaluing their currencies by limiting their ability to recycle dollar surpluses back into the United States as investments. Such a policy could place downward pressure on the dollar's value and potentially reduce overall foreign holdings of US assets.

US Economic Releases

No major US economic reports 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	NAHB Housing Market Index	m/m	Jan	40	39	*
Federal Reserve						
EST	Speaker or Event	District or Position				
10:50	Susan Collins Delivers Welcoming Remarks	President of the Federal Reserve Bank of Boston				
11:00	Michelle Bowman Speaks on Economy and Moneary Policy	Member of the Board of Governors				
15:30	Philip Jefferson Speaks on Economy and Monetary Policy	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	Japan Buying Foreign Bonds	w/w	9-Jan	¥101.1b	-¥223.6b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	9-Jan	¥27.5b	¥236.6b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	9-Jan	¥1007.8b	¥273.5b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	9-Jan	¥1141.4b	¥124.9b		*	Equity and bond neutral
New Zealand	BusinessNZ Manufacturing PMI	m/m	Dec	56.1	51.4	51.7	***	Equity bullish, bond bearish
	Food Prices	m/m	Dec	-0.3%	-0.4%		***	Equity and bond neutral
India	Trade Balance	m/m	Dec	-$25046m	-$24532m	-$25000m	**	Equity and bond neutral
	Exports	y/y	Dec	1.9%	19.4%		**	Equity and bond neutral
	Imports	y/y	Dec	8.8%	-1.9%		**	Equity and bond neutral
	Unemployment Rate	y/y	Dec	4.8%	4.7%		***	Equity and bond neutral
EUROPE								
Germany	CPI	y/y	Dec F	1.8%	1.8%	1.8%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Dec F	2.0%	2.0%	2.0%	**	Equity and bond neutral
Italy	CPI, EU Harmonized	y/y	Dec F	1.2%	1.2%	1.2%	***	Equity and bond neutral
	CPI NIC Including Tobacco	y/y	Dec F	1.2%	1.2%	1.2%	**	Equity and bond neutral
Russia	Money Supply, Narrow Definition	w/w	26-Dec	19.83t	19.53t		*	Equity and bond neutral
	Gold and Forex Reserves	m/m	2-Jan	$752.5b			***	Equity and bond neutral
	Official Reserve Assets	m/m	Dec	754.9b	734.6b		*	Equity and bond neutral
AMERICAS								
Canada	Manufacturing Sales	m/m	Nov	-1.2%	-1.0%	-1.1%	**	Equity and bond neutral
	Wholesale Sales ex Petroleum	m/m	Nov	-1.8%	0.4%	0.10	**	Equity bearish, bond bullish
Brazil	FGV Inflation IGP-10	y/y	Jan	-0.99%	-0.76%		**	Equity and bond neutral
	Econimic Activity	y/y	Nov	1.3%	0.7%	0.4%	**	Equity bullish, bond bearish

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	357	-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 (%)	4.18	4.17	0.01	Up
Euribor/OIS spread (bps)	203	202	1	Up
Currencies	**Direction**			
Dollar	Flat			Up
Euro	Flat			Down
Yen	Down			Down
Pound	Up			Down
Franc	Down			Down

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.

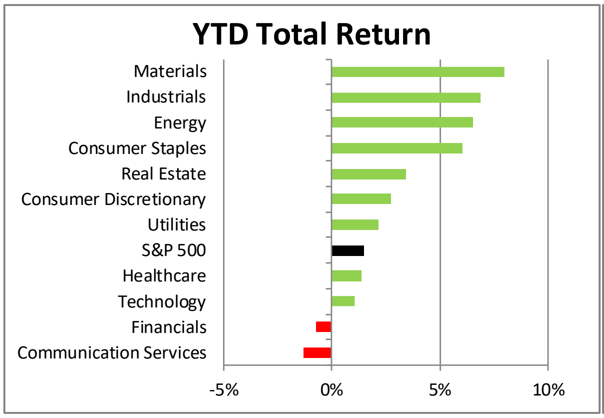
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$64.72	$63.76	1.51%	
WTI	$60.15	$59.19	1.62%	
Natural Gas	$3.20	$3.13	2.21%	
Crack Spread	$21.64	$21.67	-0.14%	
12-mo strip crack	$24.31	$24.27	0.20%	
Ethanol rack	$1.72	$1.72	-0.12%	
Metals				
Gold	$4,603.25	$4,616.15	-0.28%	
Silver	$90.50	$92.42	-2.08%	
Copper contract	$590.10	$599.15	-1.51%	
Grains				
Corn contract	$422.00	$420.25	0.42%	
Wheat contract	$515.25	$510.50	0.93%	
Soybeans contract	$1,056.25	$1,053.00	0.31%	
Shipping				
Baltic Dry Freight	1,532	1,566	-34	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	3.39	-1.68	5.07	
Gasoline (mb)	8.98	2.00	6.98	
Distillates (mb)	-0.03	-0.66	0.63	
Refinery run rates (%)	0.06%	-0.50%	0.56%	
Natural gas (bcf)	-71	-91	20	

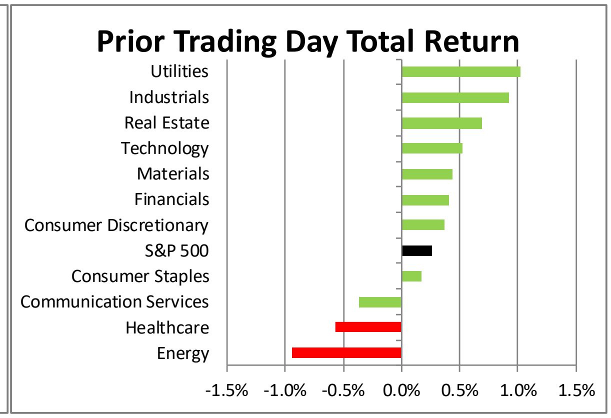
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for cooler-than-normal temperatures in the Northern Tier states, the Midwest, and the Northeast, with warmer-than-normal temperatures in California, the central and southern Rocky Mountains, Texas, and the Gulf Coast. The forecasts initially call for wetter-than-normal conditions in all areas except California and southern Florida, where conditions will be near normal.

Data Section

US Equity Markets – (as of 1/15/2026 close)

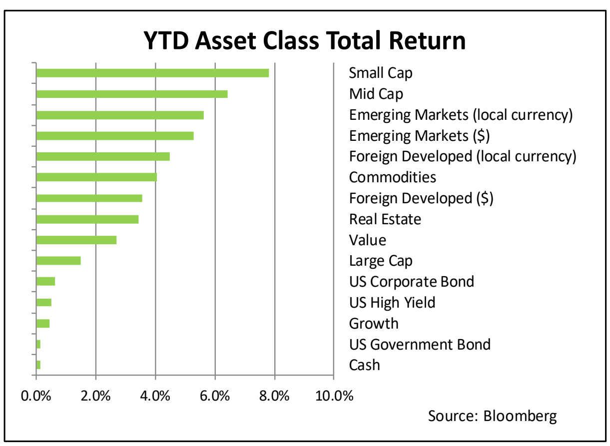




(Source: Bloomberg)

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 1/15/2026 close)

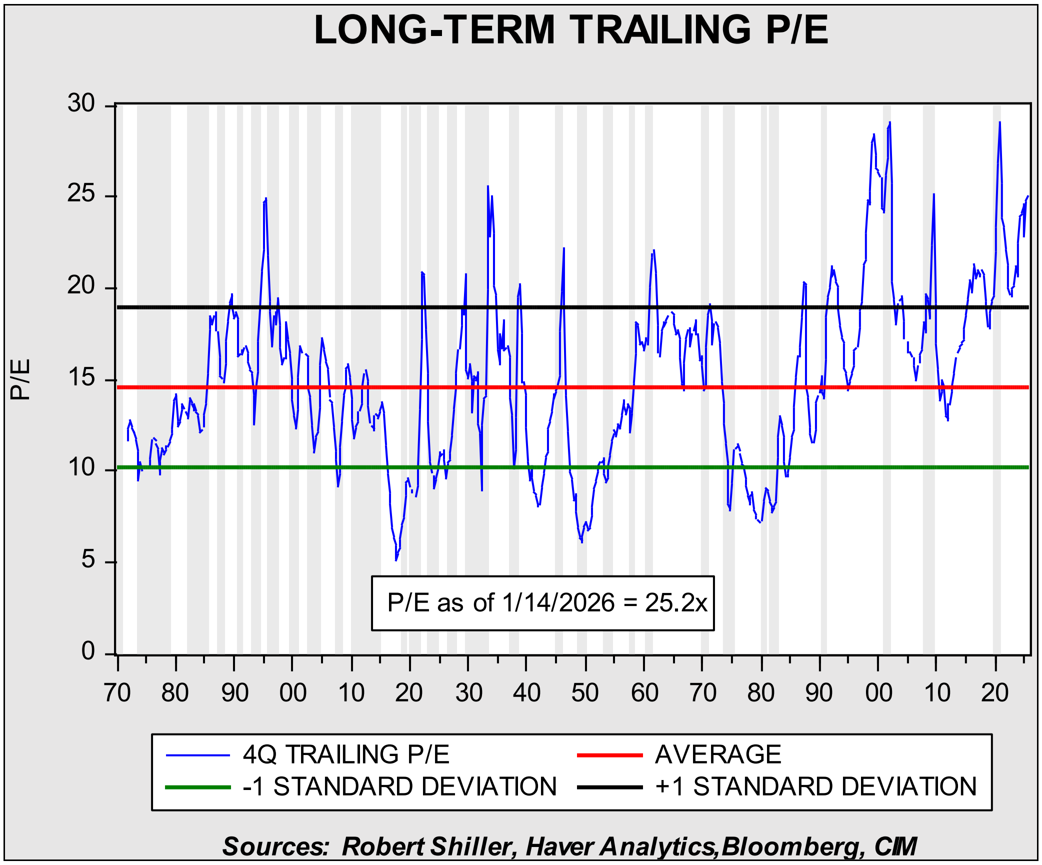


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 15, 2026



Based on our methodology,[1] the current P/E is 25.2x, up 0.5 from the previous report. This expansion was driven by a higher numerator, resulting from a methodological correction that now accounts exclusively for the stock price index of the most recent quarter.

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.