



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: January 20, 2026 — 9:30 AM ET] Global equity markets are lower this morning. In Europe, the Euro Stoxx 50 is down 1.3% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.6%. Chinese markets were lower, with the Shanghai Composite down 0.01% and the Shenzhen Composite down 0.8%. US equity index futures are signaling a lower open.

With 33 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, 87.9% have exceeded expectations, while 12.1% 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	“The Great Silver Short Squeeze” (1/20/26)	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 opens with the latest on the Greenland purchase dispute, which has driven down asset values around the globe. We next review several other international and US developments with the potential to affect the financial markets today, including more evidence that re-armament is likely to boost the broader European economy and signs of weakening economic growth in China.

United States-Europe: President Trump said on Saturday that he [will impose an additional 10% import tariff on all goods from Denmark, Norway, Sweden, France, Germany, the Netherlands, the United Kingdom, and Finland](#), effective February 1, to punish them for opposing his plan for

the US to purchase Greenland. He also vowed to hike the tariffs further to 25% on June 1, which he stated would remain in place until a deal is reached.

- Trump's anger at the Europeans [was apparently sparked by a tiny deployment of Danish, German, French, British, and Finnish troops to Greenland](#) last week to prep for military exercises designed to demonstrate to Trump that Europe can, indeed, help defend the island as he has demanded. Press reports suggest Trump misinterpreted the deployment as the Europeans thumbing their noses at him. The president later linked his tariff threat to his anger at not being awarded the Nobel Peace Prize.
- In response, legislators in the European Parliament [have announced that they will delay approving the US-European Union trade deal reached last summer](#), which would cut tariffs on US goods flowing to the EU and EU goods going to the US.
- Earlier today, President Trump [said he has agreed to discuss the crisis with various European leaders this week in Davos, Switzerland](#), where he is attending the annual conference of the World Economic Forum.
- The rekindling of trade tensions and the risk of further disruptions — potentially including military conflict — rattled global financial markets yesterday even as the US was closed for the Martin Luther King Day holiday. So far this morning, US stock index future prices are down more than 1.5%, European stock prices are down almost as much, the yield on 10-year Treasury notes has jumped to 4.2870%, and the dollar is down 0.3%.

United Kingdom: In parliamentary testimony today, Bank of England Governor Bailey warned that the US leadership's threat to annex Greenland and end the Federal Reserve's independence [could pose substantial threats to Britain's financial stability](#). Bailey appeared to be saying that dramatic moves in asset prices or changes in trade and investment flows have the potential to disrupt credit and payment flows in the UK, which could weigh on British stock values.

France-Ukraine: French automaker Renault today [confirmed that it has teamed up with defense firm Turgis Gaillard to produce drones for Ukraine at two of its manufacturing sites](#). The report follows previous news that some civilian manufacturers in Germany have also taken on defense work recently. In our view, these developments illustrate how Europe's sudden re-armament effort is likely to benefit the broader economy, including by making use of excess civilian production capacity.

Portugal: In Sunday's first-round presidential election, António José Seguro of the center-left Socialist Party [came in first with just over 31% of the vote](#). The result marked an upset for the expected winner, André Ventura of the far-right Chega party, who came in second with about 25% of the vote. Some observers are taking the result as a sign that support for the far right in Europe may be hitting a ceiling. Seguro and Ventura will now face each other in a runoff election on February 8, with Seguro expected to win.

Japan: Prime Minister Takaichi yesterday [confirmed she will call parliamentary elections](#) for February 8 to capitalize on her high support in opinion polls and boost her coalition's control of

the Diet. A strong win by the coalition could embolden Takaichi to push through tax cuts and spending hikes aimed at boosting economic growth. Since that would likely expand the budget deficit and boost debt issuance, Japanese government bond yields are surging today, with the yield on 10-year JGBs touching 2.330% — the highest since February 1999.

Chinese Economic Growth: The National Bureau of Statistics yesterday [said China's gross domestic product for the full-year 2025 was up 5.0% from the previous year](#), after stripping out price changes. That met the government's target for the year, but GDP in the fourth quarter was up just 4.5% year-over-year, suggesting the economy was losing momentum in late 2025. The data also showed that the economy remains unbalanced, with strong growth in net exports partially offset by weak growth in domestic consumption and investment.



Chinese Population Growth: The National Bureau of Statistics also [said yesterday that births in China totaled just 7.92 million, down 17.0% from the 9.54 million in 2024](#). That marked the lowest birth total since records began in 1949 and broke the previous record low set in 2023. Coupled with a rising death rate as the population ages, that meant that China's total population fell by 3.39 million in 2025 to 1.4049 billion. As we have argued before, China's poor demographics have become a key structural headwind for its economy and financial markets.

Chinese Gold Demand: With average rates on one-year deposits now down to just 0.95%, major domestic and foreign banks operating in China [are reportedly expanding their offerings of gold-linked structured products with expected annual returns of 1% to 5%](#). The development suggests rising Chinese demand could now be contributing more significantly to the current upswing in global gold prices. If Chinese demand continues to rise, it would help boost prices for the yellow metal even further.

Indonesia: According to press reports based on confidential sources, President Prabowo [has nominated his nephew to join Bank Indonesia's board of governors, raising concerns about the central bank's independence](#). As in other countries in which leaders are working to seize control over monetary policy, the risk for investors is that the central bank will cut interest rates sharply to boost economic growth and generate support for the country's leaders, despite the risk of igniting consumer price inflation and undermining the value of the currency.

US Economic Releases

No major US economic reports have been released so far today.

There are no economic releases or Fed events scheduled for the rest of the day.

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	Core Machine Orders	y/y	Nov	-6.4%	12.5%	4.2%	**	Equity bearish, bond bullish
	Industrial Production	y/y	Nov F	-2.2%	-2.1%		***	Equity and bond neutral
	Capacity Utilization	y/y	Nov	-5.3%	3.3%		**	Equity and bond neutral
	Tertiary Industry Index	m/m	Nov	-0.2%	0.9%	0.0%	***	Equity and bond neutral
Australia	Melbourne Institute Inflation	y/y	Dec	3.5%	3.2%		***	Equity and bond neutral
South Korea	PPI	y/y	Dec	1.9%	1.9%		**	Equity and bond neutral
China	GDP	y/y	4Q	4.5%	4.8%	4.5%	***	Equity and bond neutral
	Retail Sales	y/y	Dec	0.9%	1.3%	1.0%	**	Equity and bond neutral
	Industrial Production	y/y	Dec	5.2%	4.8%	5.0%	***	Equity and bond neutral
	Fixed Assets Ex Rural YTD	y/y	Dec	-3.8%	-2.6%	-3.1%	**	Equity and bond neutral
EUROPE								
Eurozone	CPI	y/y	Dec F	1.9%	2.0%	2.0%	***	Equity and bond neutral
	Core CPI	y/y	Dec F	2.3%	2.3%	2.3%	**	Equity and bond neutral
	ECB Current Account SA	m/m	Dec F	€8.6b	€26.7b		*	Equity and bond neutral
	ZEW Survey Expectations	m/m	Jan	408.0	33.7		**	Equity and bond neutral
	Construction Output	y/y	Nov	-0.8%	1.9%		*	Equity and bond neutral
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
	PPI	y/y	Dec	-2.5%	-2.3%	-2.4%	**	Equity and bond neutral
	ZEW Survey Expectations	m/m	Jan	59.6	45.8	50.0	**	Equity and bond neutral
	ZEW Survey Current Situation	m/m	Jan	-72.7	-81.0	-76.0	**	Equity and bond neutral
Italy	Current Account Balance	m/m	Nov	1333m	3401m		*	Equity and bond neutral
UK	Rightmove House Prices	y/y	Jan	0.50%	-0.60%		**	Equity and bond neutral
	Average Weekly Earnings 3M/YoY	m/m	Nov	4.70%	4.80%	4.60%	**	Equity and bond neutral
	ILO Unemployment Rate 3Mths	m/m	Nov	5.10%	5.10%	5.10%	**	Equity and bond neutral
	Claimant Count Rate	m/m	Dec	4.40%	4.30%		**	Equity and bond neutral
	Jobless Claims Change	m/m	Dec	17.9k	-3.3k		**	Equity and bond neutral
Switzerland	Domestic Sight Deposits CHF	w/w	16-Jan	439.9b	435.8b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	16-Jan	456.2b	459.8b		*	Equity and bond neutral
	Producer & Import Prices	y/y	Dec	-1.8%	-1.6%		**	Equity and bond neutral
Russia	CPI	y/y	Dec	5.6%	6.6%	5.8%	***	Equity and bond neutral
	Core CPI	y/y	Dec	5.4%	6.1%		**	Equity and bond neutral
Russia	Gold and Forex Reserves	m/m	9-Jan	\$752.5b	\$752.5b		***	Equity and bond neutral
AMERICAS								
Canada	Housing Starts	m/m	Dec	282.4k	254.6k	260.0k	**	Equity and bond neutral
	Int'l Securities Transactions	m/m	Nov	16.33b	46.62b		**	Equity and bond neutral
	CPI	y/y	Dec	2.4%	2.2%	2.2%	***	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)	354	356	-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 (%)	4.29	4.22	0.07	Up
Euribor/OIS spread (bps)	203	203	0	Up
Currencies	Direction			
Dollar	Down			Down
Euro	Up			Up
Yen	Down			Down
Pound	Up			Up
Franc	Down			Up
Central Bank Action	Actual	Prior	Expected	
PBOC 1-Year Loan Prime Rate	3.00%	3.00%	3.00%	On Forecast
PBOC 5-Year Loan Prime Rate	3.50%	3.50%	3.50%	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.

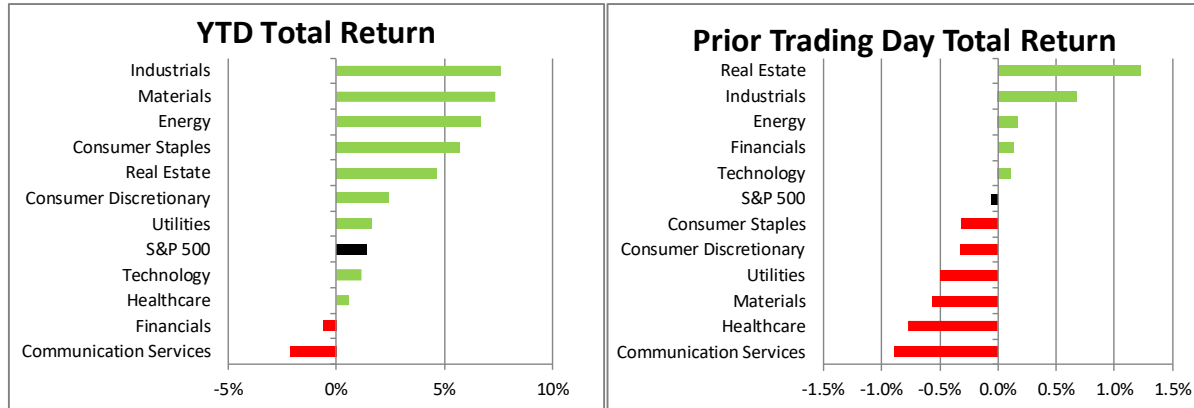
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$64.49	\$63.94	0.86%	
WTI	\$60.06	\$59.44	1.04%	
Natural Gas	\$3.76	\$3.10	21.01%	Increasing Demand, Supply Pessimism
Crack Spread	\$22.85	\$22.64	0.90%	
12-mo strip crack	\$24.99	\$24.81	0.73%	
Ethanol rack	\$1.72	\$1.72	-0.02%	
Metals				
Gold	\$4,728.17	\$4,670.89	1.23%	
Silver	\$95.48	\$94.39	1.16%	
Copper contract	\$587.75	\$583.10	0.80%	
Grains				
Corn contract	\$422.75	\$424.75	-0.47%	
Wheat contract	\$514.50	\$518.00	-0.68%	
Soybeans contract	\$1,056.25	\$1,057.75	-0.14%	
Shipping				
Baltic Dry Freight	1,650	1,567	83	

Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for cooler-than-normal temperatures in most states east of the Rocky Mountains, with warmer-than-normal temperatures in the Western third of the country. The precipitation outlook calls for drier-than-normal conditions for most of the central states, with wetter conditions in the northern Pacific region.

Data Section

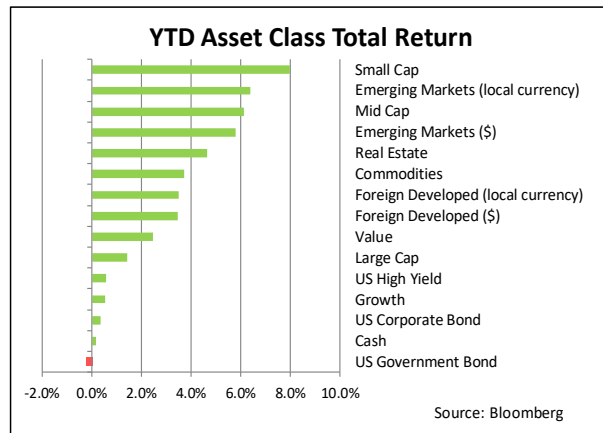
US Equity Markets – (as of 1/16/2026 close)



(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 1/16/2026 close)

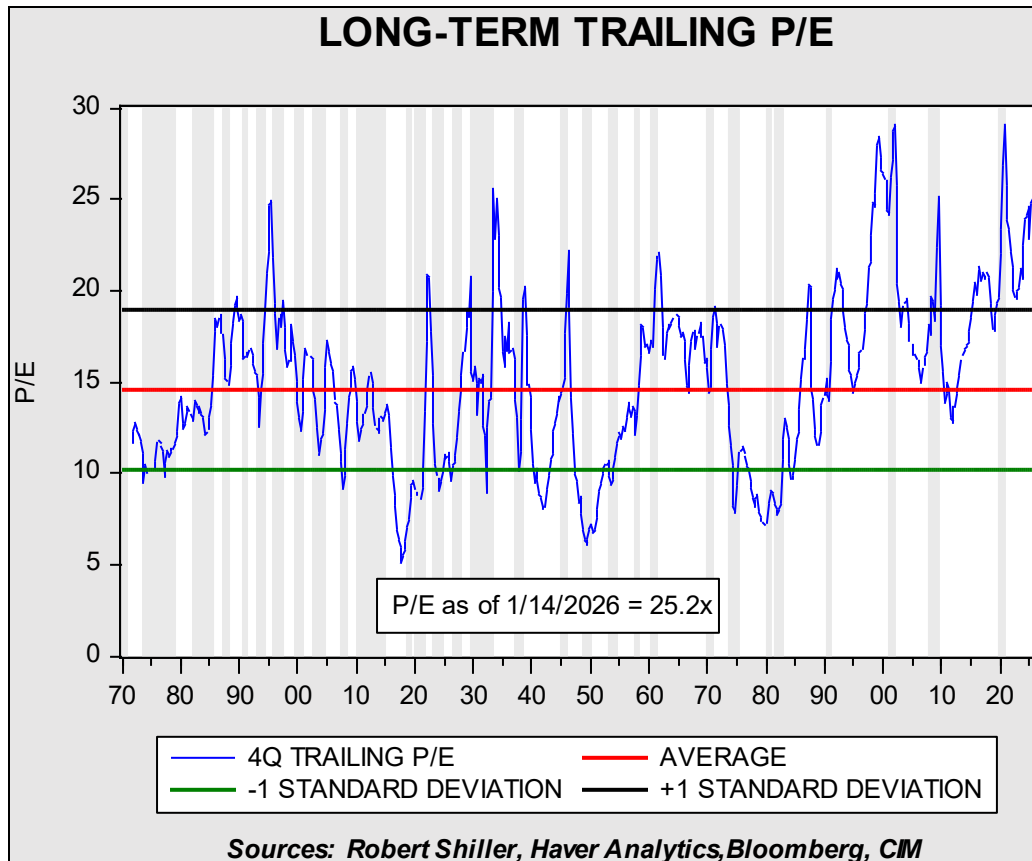


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.