Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: January 21, 2026 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is down 0.8% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.1%. Chinese markets were higher, with the Shanghai Composite up 0.01% and the Shenzhen Composite up 0.6%. US equity index futures are signaling a lower open.

With 42 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, 88.1% have exceeded expectations, while 9.5% 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* begins with a deep dive into the volatility hitting the Japanese bond market. We then provide an update on the US-EU standoff over Greenland and the potential for a new round of US trade talks with China. Further analysis covers concerns regarding US tech leadership and today's pivotal Supreme Court hearing on Federal Reserve independence. As usual, the report includes a roundup of essential economic data from the US and abroad.

Japan Bond Yields: Rising supply in the Japanese debt market is acting as a catalyst for a wider retreat from sovereign bonds. The market's weakness stems from Prime Minister Sanae Takaichi's decision to dissolve parliament for a February 8 election; a strong mandate would likely clear the path for a massive fiscal expansion. Since she took office in October, fears of

uncurbed spending have weighed on investor appetite for long-dated Japanese Government Bonds (JGBs), a sentiment that is now beginning to infect the perceived credibility of other sovereign issuers.

- JGBs found some reprieve amid speculation of coordinated intervention by the government and the Bank of Japan. On Wednesday, the BoJ executed its scheduled bond-buying operations, providing much-needed liquidity. Meanwhile, pressure is mounting on the Ministry of Finance to alleviate supply concerns by either increasing purchases of long-dated bonds or reducing the issuance of 40-year securities.

- The spillover from surging Japanese bond yields has impacted both international markets and the domestic currency. US Treasury Secretary Scott Bessent noted that he is monitoring the fallout closely, as the situation has exerted upward pressure on US Treasury yields. Following high-level talks between the two nations, Japanese Finance Minister Satsuki Katayama announced that the US had signaled its support for currency intervention to stabilize the yen, which recently hit the critical threshold of 160 per dollar.

- The simultaneous occurrence of currency depreciation and rising government bond yields is generally viewed as a signal of deteriorating financial conditions. This "twin-track" weakness suggests that Japan must now rebuild market confidence through one of three difficult paths: achieving significantly stronger economic growth, implementing fiscal austerity, or shortening the duration of its bond issuance.

10-Year Government Bond Yields Surge Amid Rising Issuance

Legend: Germany — Japan — France — United Kingdom — United States

MACROBOND
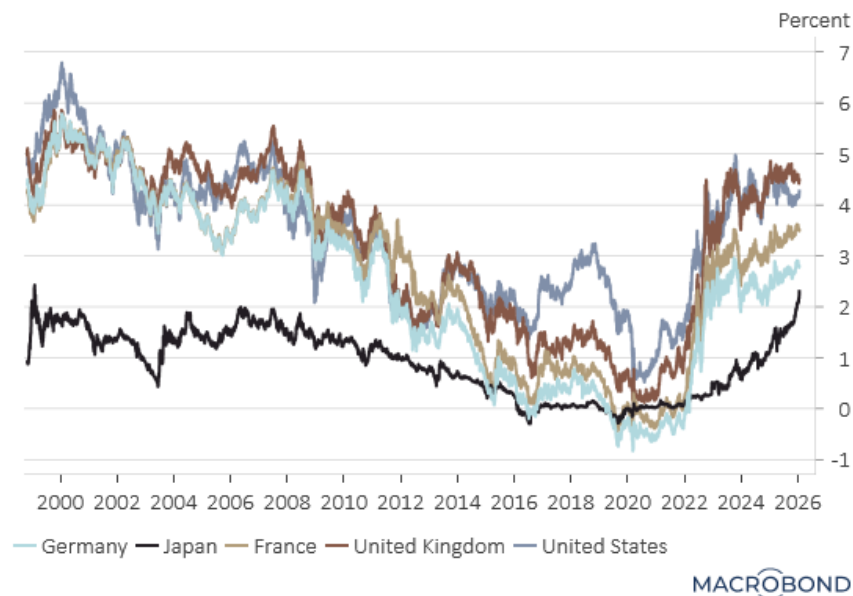
- Japan, like other major economies, may rely on reducing the average maturity of its government bonds to alleviate pressure on long-term yields. This strategy could appeal to investors wary of duration risk given the scale of anticipated debt issuance. However, it

would also increase rollover risks for the government and potentially constrain the central bank's ability to raise interest rates in the future, thereby opening the door to financial repression via higher inflation.

- The current environment of elevated government spending and political uncertainty continues to support precious metals as a portfolio hedge. We expect this dynamic to persist in the near term. However, once these macro concerns begin to recede, we anticipate a phase of price consolidation in metals, followed by a probable rotation of capital back into equities as investors seek renewed exposure to risk assets.

Europe Reaction: On Tuesday, markets sold off as escalating transatlantic tensions fueled concerns over trade friction between the US and the EU. During the Davos summit, several European leaders spoke candidly about shifting relationship dynamics. French President Emmanuel Macron accused the US of attempting to "subordinate" Europe, while EU Chief Ursula von der Leyen warned that the relationship would not return to its former state. Despite this rhetoric, there are strong indications that cooler heads will prevail.

- Market participants are increasingly concerned that the ongoing dispute over Greenland could jeopardize the EU-US trade agreement established last July. In response, the White House has announced a meeting with European counterparts to further discuss the matter. US officials expressed a commitment to reaching a "reasonable resolution" and cautioned the EU to weigh its options carefully, warning that premature retaliation could escalate the conflict and further destabilize trade relations.

- Meanwhile, a consensus on a retaliation plan has yet to emerge within Europe. While French President Emmanuel Macron suggested the possible activation of the EU's anti-coercion tool, German Chancellor Friedrich Merz tempered those remarks, stating a clear preference for avoiding escalation with the US. Simultaneously, Italian Prime Minister Giorgia Meloni advocated for open dialogue, attributing the friction to what she described as poor communication from her American counterparts.

- Although a full-scale trade war isn't a certainty, the White House is clearly using its economic weight to force a resolution on Greenland. President Trump has signaled that his strategy may expand beyond tariffs to secure the territory, a move that has met fierce resistance in Europe. President Macron has already pushed back, stating flatly that France will not permit the region to be bullied.

- While uncertainty remains high, we recommend staying the course in the markets. History shows that equities are resilient during trade negotiations, especially given the administration's tendency to pivot when markets show signs of strain. We favor a diversified approach, gaining exposure to value stocks as a way to mitigate volatility. This strategy should limit some of the downside risks.

US-China Trade Talks: Trade tensions between the world's two largest economies are showing signs of easing. On Tuesday, US Trade Representative Jamieson Greer hinted at a potential new round of negotiations with China, focused initially on expanding trade in non-sensitive goods. This development follows a Monday meeting between US Treasury Secretary Scott Bessent and
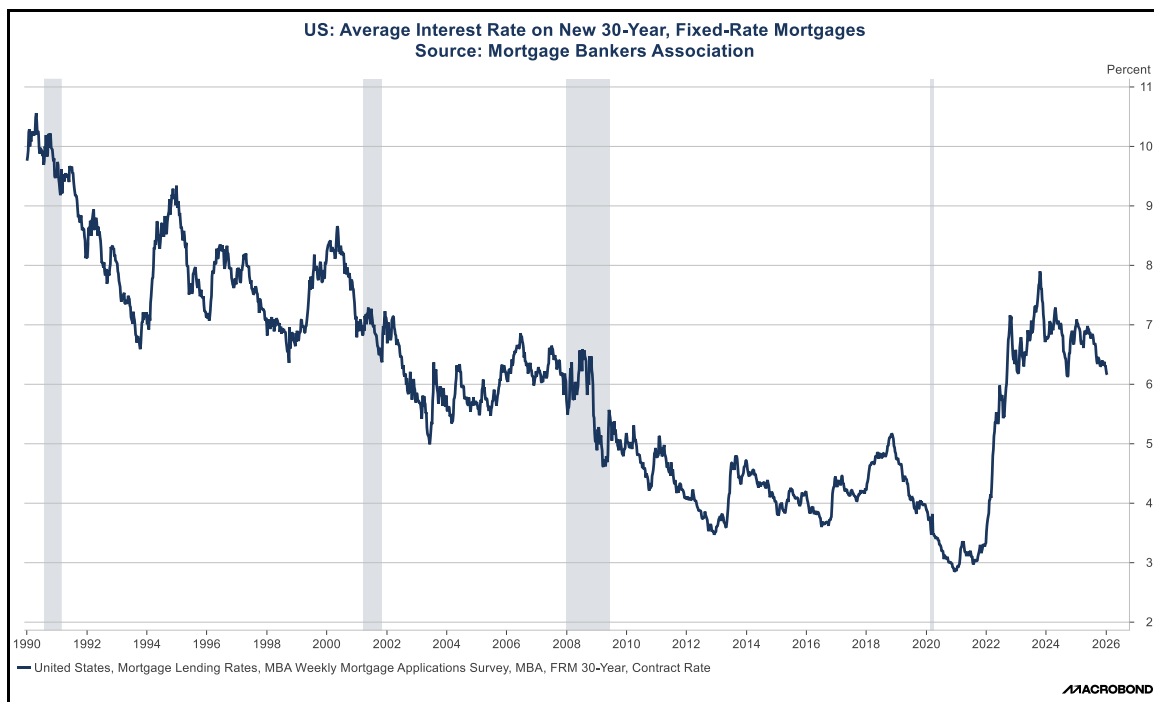
Chinese Vice Premier He Lifeng. A positive trade agreement would likely provide a significant boost to global risk assets.

US Tech Gap Closing: The CEO of Google DeepMind has noted that China's top AI firms currently trail leading Western labs by about six months. This gap persists despite China developing unconventional methods to advance its models after US trade restrictions cut off access to key Western technologies. The intensifying competition is expected to drive greater investment in the AI sector as the United States works to maintain its technological lead.

Supreme Court Hearings: The US Supreme Court is set to hear a landmark case regarding the president's authority to dismiss Federal Reserve Governor Lisa Cook. The ruling will determine whether the president can remove a Federal Reserve Board member based on allegations alone, or if the "for cause" protections within the Federal Reserve Act prevail. The case stems from accusations made by FHFA Head Bill Pulte, who alleged that Cook falsified documents to secure favorable loans — a claim Cook has denied while presenting evidence to the contrary.

US Economic Releases

The Mortgage Bankers Association said *mortgage applications* in the week ended January 16 rose 14.1%, following their 28.5% jump in the previous week. Applications for home purchase mortgages rose 5.1%, after increasing 15.9% in the prior week. Applications for refinancing mortgages jumped 20.4%, after surging 40.1% the week before. The average interest rate on a 30-year, fixed-rate mortgage fell by 2 basis points to 6.16%. The chart below shows how mortgage rates have changed over time.

US: Average Interest Rate on New 30-Year, Fixed-Rate Mortgages
Source: Mortgage Bankers Association

United States, Mortgage Lending Rates, MBA Weekly Mortgage Applications Survey, MBA, FRM 30-Year, Contract Rate

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	Construction Spending	m/m	Oct	0.1%		**
10:00	Pending Home Sales	m/m	Dec	-0.3%	3.3%	**
10:00	Pending Home Sales NSA	y/y	Dec		-0.3%	**
Federal Reserve						
No Fed speakers or events for the rest of today						

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								
Australia	Westpac Leading Index	m/m	Dec	0.80%	-0.20%		**	Equity and bond neutral
New Zealand	Non Resident Bond Holdings	m/m	Dec	59.0%	59.5%		*	Equity and bond neutral
EUROPE								
UK	CPI	y/y	Dec	3.4%	3.2%	3.3%	***	Equity and bond neutral
	CPI Core	y/y	Dec	3.2%	3.2%	3.3%	***	Equity and bond neutral
	Retail Price Index	m/m	Dec	408.5	405.6	408.1	**	Equity and bond neutral
	RPI	y/y	Dec	4.2%	3.8%	4.1%	**	Equity and bond neutral
	House Price Index	y/y	Nov	2.5%	1.6%		***	Equity and bond neutral
Switzerland	M3 Money Supply	y/y	Dec	4.6%	4.8%		**	Equity and bond neutral
AMERICAS								
Mexico	International Reserves Weekly	w/w	16-Jan	$253224m	$252564m		*	Equity and bond neutral
	Retail Sales	y/y	nov	4.4%	3.4%	2.8%	***	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)	357	358	-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 (%)	4.29	4.29	0.00	Up
Euribor/OIS spread (bps)	203	203	0	Up
Currencies	Direction			
Dollar	Flat			Down
Euro	Flat			Up
Yen	Down			Down
Pound	Down			Up
Franc	Flat			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	$65.10	$64.92	0.28%	
WTI	$60.52	$60.36	0.27%	
Natural Gas	$4.65	$3.91	18.97%	Increasing Demand, Supply Pessimism
Crack Spread	$24.44	$24.32	0.50%	
12-mo strip crack	$25.31	$25.41	-0.38%	
Ethanol rack	$1.76	$1.75	0.71%	
Metals				
Gold	$4,860.29	$4,763.43	2.03%	
Silver	$94.29	$94.59	-0.32%	
Copper contract	$585.55	$581.25	0.74%	
Grains				
Corn contract	$426.25	$423.75	0.59%	
Wheat contract	$514.25	$510.25	0.78%	
Soybeans contract	$1,064.25	$1,053.00	1.07%	
Shipping				
Baltic Dry Freight	1,729	1,650	79	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		1.39		
Gasoline (mb)		0.93		
Distillates (mb)		-1.00		
Refinery run rates (%)		-0.80%		
Natural gas (bcf)		-91		

Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for cooler-than-normal temperatures from the Great Plains eastward, with warmer-than-normal temperatures in the Far West. The outlook calls for wetter-than-normal conditions in Montana, southern Texas, and southern Florida, with dry conditions in the Southwest, the central Great Plains, the Midwest, and the Northeast.

Data Section

US Equity Markets – (as of 1/20/2026 close)
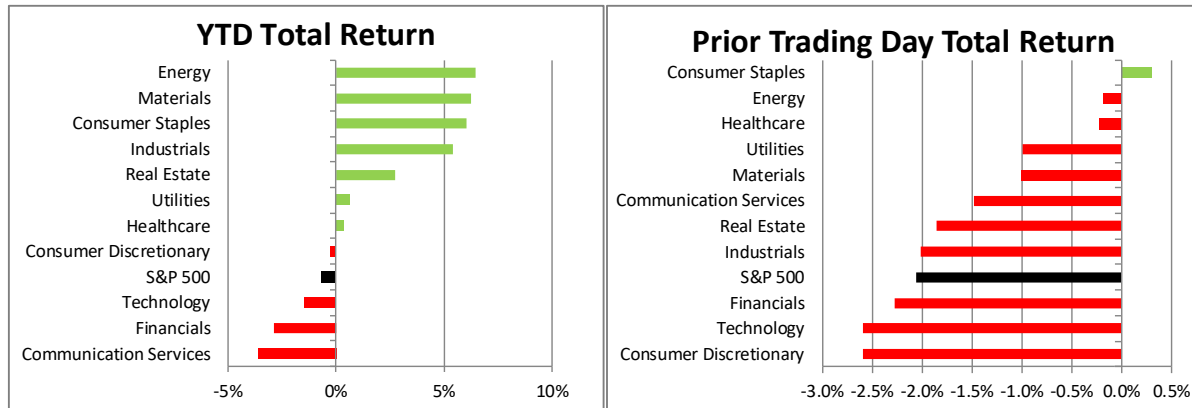
(Source: Bloomberg)

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.

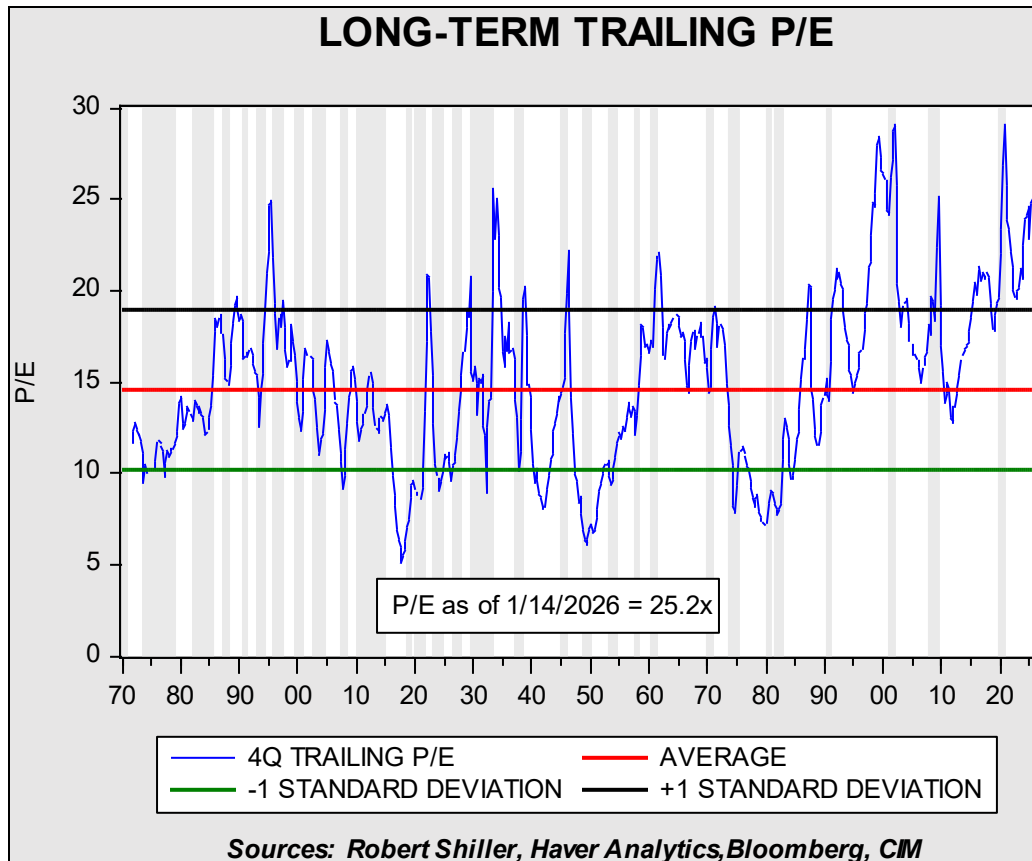**Asset Class Performance** – (as of 1/20/2026 close)
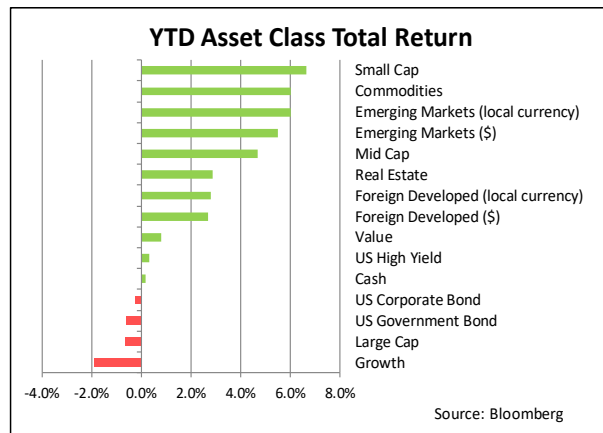
This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

LONG-TERM TRAILING P/E

P/E as of 1/14/2026 = 25.2x

| —— 4Q TRAILING P/E | —— AVERAGE |
| —— -1 STANDARD DEVIATION | —— +1 STANDARD DEVIATION |

Sources: Robert Shiller, Haver Analytics, Bloomberg, CIM

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.

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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.