

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

**[Posted: January 22, 2026 – 9:30 AM ET]** Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 is up 1.3% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.9%. Chinese markets were higher, with the Shanghai Composite up 0.01% and the Shenzhen Composite up 0.7%. US equity index futures are signaling a higher open.

With 52 companies having reported so far, S&P 500 earnings for Q4 are running at \$71.00 per share compared to estimates of \$71.07, which is up 8.3% from Q4 2024. Of the companies that have reported thus far, 82.7% have exceeded expectations, while 11.5% 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
<a href="#">“Investment Implications of the New National Security Strategy”</a> (1/12/26) + <a href="#">podcast</a>	<a href="#">“The Great Silver Short Squeeze”</a> (1/20/26)	<a href="#">Q4 2025 Report</a> <a href="#">Q4 2025 Rebalance Presentation</a>	<a href="#">The 2026 Outlook</a> <a href="#">Confluence of Ideas Podcast</a>

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](mailto:mailbag@confluenceim.com).

Our *Comment* begins with a look at the White House's intensifying efforts to reshape the Federal Reserve. We also analyze why the de-escalation over Greenland has not improved US-EU relations. Further analysis explores why investors are discounting corporate earnings beats, the IRGC's consolidation of power amid Iran's internal unrest, and the growing trade friction between the US and South Korea. As always, we conclude with a comprehensive roundup of essential economic data from the US and global markets.

**The Fed's Future:** The future of the Federal Reserve took center stage on Wednesday as the administration moved to reshape the FOMC. The Supreme Court [began hearing arguments on whether the president holds the authority to dismiss Fed Governor Lisa Cook](#) following

allegations of mortgage fraud. Simultaneously, the president reaffirmed his search for a successor to current Chair Jerome Powell. These developments are critical, as both outcomes will likely redefine the executive branch's influence over independent monetary policy.

- The Supreme Court appeared skeptical of the White House's claim that it has the authority to fire Governor Cook. Several conservative justices questioned whether such a dismissal could occur without providing Cook proper due process. The most prominent critic was Justice Kavanaugh, who suggested that the government's argument would essentially allow a president [to “dig up” accusations of wrongdoing as a pretext for removing any Federal Reserve official.](#)
- Although the president's power to remove members of the Federal Reserve Board remains a subject of debate, his search for a new Fed chair continues. Earlier this month, the [president indicated that he is leaning against nominating Kevin Hassett.](#) Now, it appears former Fed Governor Kevin Warsh may also be losing favor. Warsh's advocacy for the Fed [to maintain a small balance sheet places him in direct opposition to the president,](#) who is seeking ways for the Fed to implement more accommodative monetary policy.
- The appointment of a new Fed chair won't necessarily end Jerome Powell's influence, as his separate term as a governor continues through 2028. While the [president is expected to push for a full resignation,](#) Powell has remained non-committal. Tensions reached a boiling point this week when Powell accused the administration of weaponizing a DOJ probe into Fed renovations as a legal pretext to force him out of the central bank.
- Despite the administration's aggressive attempt to remake the Board of Governors, judicial skepticism suggests that the president's influence will remain bounded by law. This check on executive power is critical for restoring trust in the Fed's mandate. Provided that the central bank preserves its decision-making independence, the resulting policy certainty should support the greenback and temper recent spikes in market volatility.

**Greenland Tensions Ease:** President Trump [has rescinded his threat to impose sweeping tariffs on European goods,](#) effectively de-escalating a tense transatlantic standoff. The announcement followed a high-stakes meeting with NATO Secretary General Mark Rutte, during which the two established a strategic “framework” for bolstered US influence in Greenland and the Arctic in which the [US would gain mining rights and station missiles in the region.](#) While this agreement suggests that the immediate crisis has peaked, the underlying diplomatic friction remains.

- Following his meeting with President Trump, Secretary General Rutte clarified that the new framework focuses on regional security rather than Greenland's sovereignty. He noted that the arrangement largely mirrors the terms established with White House officials prior to the president's arrival. Rutte further elaborated that the agreement grants the US greater latitude to defend the semi-autonomous territory than was originally provided for [under the 1951 Defense of Greenland treaty.](#)
- While the agreement has assuaged fears of a US attempt to acquire territory from a NATO ally, it has simultaneously raised concerns about the international order breaking down. On Thursday, [German Chancellor Friedrich Merz warned that Europe must](#)

[prepare to become more independent and competitive](#) as it positions itself to compete with the US. He emphasized the removal of bureaucratic hurdles to help companies operate and the establishment of a Capital Markets Union to draw more foreign investment.

- Modernizing EU operations is essential for competitiveness but faces a notoriously slow timeline. The bloc’s tendency to stall on trade deals was highlighted this week when the European Parliament referred the [hard-won Mercosur agreement with South American nations to the ECJ. By seeking a judicial opinion before ratification](#), the EU risks a multi-year delay, underscoring how domestic pressures and legal cautiousness continue to hamper its ability to act quickly to address threats.
- The removal of the “Greenland risk” is a clear win for European stocks in the near term. However, the path toward true European independence from the US is fraught with structural challenges. We continue to see value in the region, especially if leaders move forward with a Capital Markets Union to unlock domestic investment. Although the implementation of such reforms will likely take longer than anticipated, the risk-adjusted returns for long-term holders appear favorable.

**High Investor Expectations:** Geopolitical uncertainty is overshadowing corporate fundamentals, leading to [the worst stock reactions to earnings beats in nearly a decade](#). Bloomberg reports that the relative performance of firms surpassing expectations is at a low not seen since 2017. Investors are clearly looking past current profits to focus on forward-looking risks, suggesting that the momentum for traditional market leaders is fading. In this environment, we recommend increasing exposure to more value stocks.

**Iranians Military Rise:** The [Islamic Revolutionary Guard Corps \(IRGC\) appears to be consolidating its power](#) within the country. Its rising influence coincides with a surge of political unrest during which military forces have killed protesters. This consolidation has raised concerns that the IRGC's leadership could effectively take control of the government, potentially heralding a new regime. So far, it is unclear how the US will react, but it has shown a willingness to confront any regime that might restart the country's controversial nuclear program.

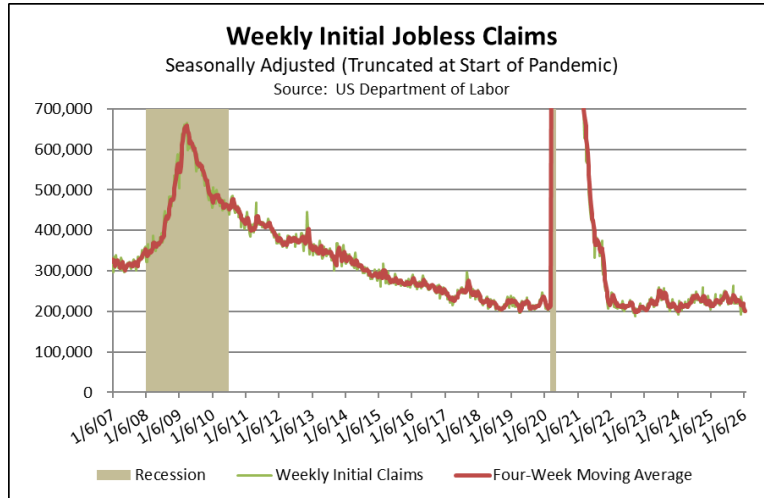
**Silicon Valley Takes on Seoul:** Silicon Valley [investment firms are reportedly calling for diplomatic intervention to protect Coupang](#) from an escalating regulatory crackdown in South Korea. Although headquartered in Seattle, the e-commerce giant faces intense scrutiny from Korean authorities following a massive data breach disclosed in November, which compromised the personal information of 33 million customers. Investors are concerned that the investigation is due to the government’s outsized response and is rooted in protectionism.

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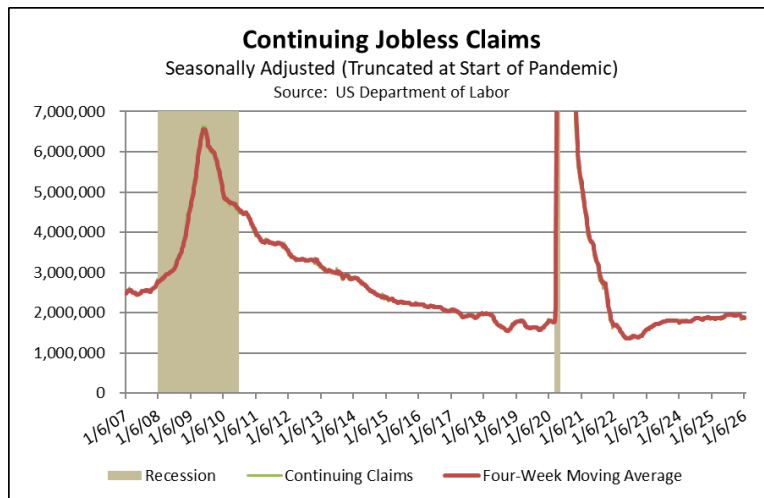
## US Economic Releases

In the week ended January 17, *initial claims for unemployment benefits* edged up to a seasonally adjusted 200,000, below the expected level of 209,000 and only slightly above the prior week’s revised level of 199,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, fell to a two-year low of 201,500. The chart

below shows how initial jobless claims have fluctuated since just before the Great Financial Crisis. The chart is truncated through much of the pandemic period because of the extremely high level of claims at that time.

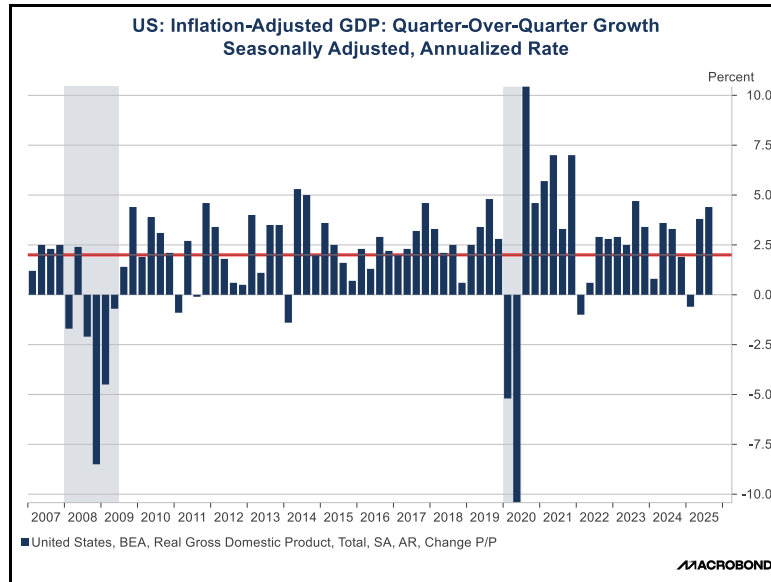


In the week ended January 10, the number of *continuing claims for unemployment benefits* (people continuing to draw benefits) fell to a seasonally adjusted 1.849 million, below both the anticipated reading of 1.890 million and the prior week’s revised reading of 1.875 million. The four-week moving average of continuing claims fell to 1,870,750, reaching its lowest level since last April. The chart below shows how continuing claims have fluctuated since the GFC. It is also truncated during the pandemic period because of the high level of claims at the time.

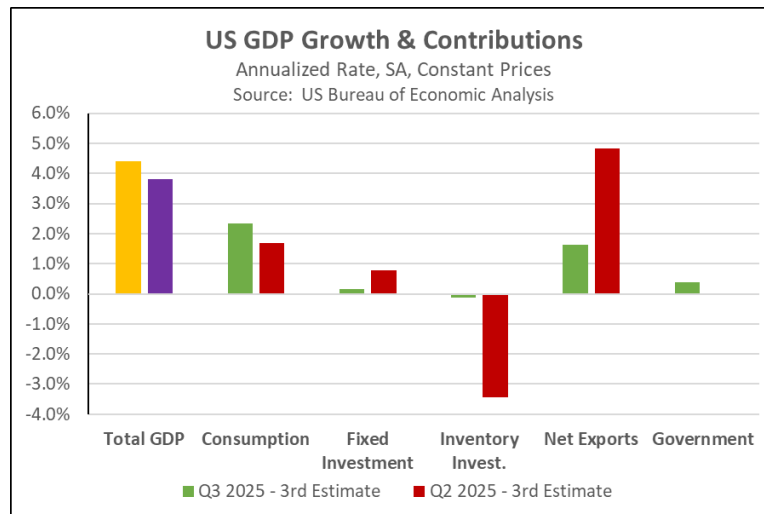


Separately, the Commerce Department released its third and final estimate of economic activity in the third quarter of 2025. After stripping out seasonal factors and price changes, third-quarter *gross domestic product (GDP)* rose at an annualized rate of 4.4%, beating expectations that the growth rate would be unrevised from the previous estimate of 4.3%. The chart below shows the

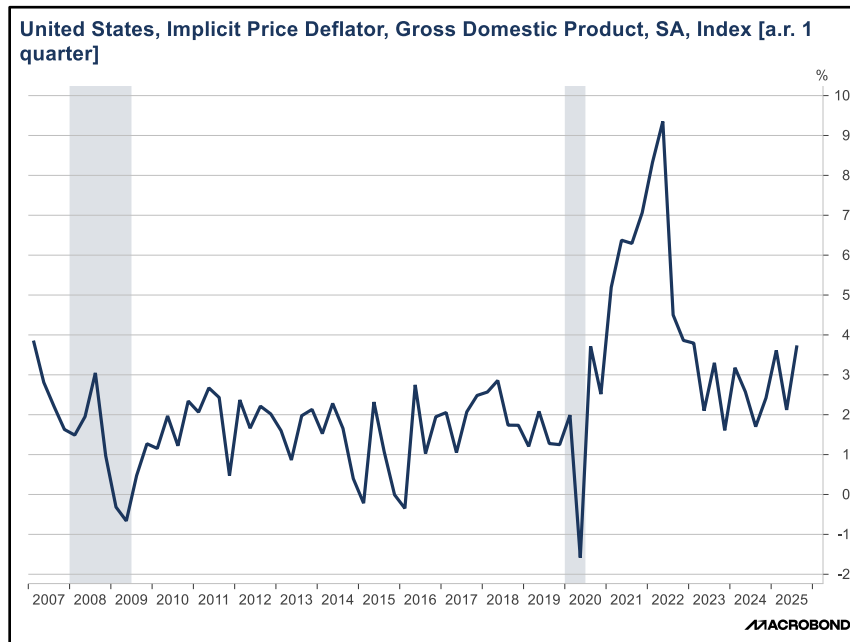
annualized growth rate of US GDP since just before the Great Financial Crisis; the horizontal red line indicates the average growth rate of 2.0% over the last two decades.



A close look at the details in the report shows that the main source of growth in the quarter was personal consumption spending, followed by net exports, only slightly offset by inventory reductions. The chart below shows the contributions to the annualized growth rate in the third quarter.



The GDP report also includes the broadest measure of US price inflation. According to the report, the third-quarter **GDP Price Index** rose at annualized rate of 3.8%, matching the previous estimate. The chart below shows the annualized growth in the GDP Price Index since just before the GFC.



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	Personal Income	m/m	Nov	0.4		***
10:00	Personal Spending	m/m	Nov	0.5		***
10:00	Real Personal Spending	m/m	Nov	0.3		***
10:00	PCE Price index	y/y	Nov	2.8		**
10:00	Core PCE Price Index	y/y	Nov	2.8		**
11:00	Kansas City Fed Manufacturing Activity	m/m	Jan	4	1	*
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
<b>ASIA-PACIFIC</b>								
Japan	Trade Balance	y/y	Dec	¥105.7b	¥322.3b	¥365.0b	**	Equity and bond neutral
	Exports	y/y	Dec	5.1%	6.1%	6.1%	*	Equity bearish, bond bullish
	Imports	y/y	Dec	5.3%	1.3%	3.6%	*	Equity bullish, bond bearish
	Japan Buying Foreign Bonds	w/w	16-Jan	-¥361.4b	¥91.2b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	16-Jan	¥272.5b	¥27.5b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	16-Jan	¥1467.4b	¥1010.7b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	16-Jan	¥874.0b	¥1141.6b		*	Equity and bond neutral
Australia	Employment Change	m/m	Dec	65.2k	-28.7k	27k	***	Equity and bond neutral
	Unemployment Rate	m/m	Dec	4.1%	4.3%	4.3%	***	Equity and bond neutral
	Participation Rate	m/m	Dec	66.7%	66.6%	66.8%	**	Equity and bond neutral
South Korea	GDP	q/q	4Q A	1.5%	1.8%	1.8%	**	Equity and bond neutral
<b>EUROPE</b>								
UK	Public Finances (PSNCR)	m/m	Dec	16.9b	9.5b		*	Equity and bond neutral
	Public Sector Net Borrowing	m/m	Dec	11.6b	10.9b	13.0b	*	Equity and bond neutral
	PSNB ex Banking Groups	m/m	Dec	11.6b	10.9b		**	Equity and bond neutral
<b>AMERICAS</b>								
Canada	Industrial Product Price	m/m	Dec	-0.6%	1.1%	0.3%	**	Equity bearish, bond bullish
	Raw Material Prices	m/m	Dec	0.5%	0.6%	-0.6%	*	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)	359	359	0	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 (%)	4.24	4.24	0.00	Up
Euribor/OIS spread (bps)	203	203	0	Down
Currencies	Direction			
Dollar	Down			Down
Euro	Up			Up
Yen	Up			Down
Pound	Flat			Up
Franc	Down			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
<b>Energy Markets</b>				
Brent	\$64.31	\$65.24	-1.43%	
WTI	\$59.69	\$60.62	-1.53%	
Natural Gas	\$5.42	\$4.88	11.16%	Increasing Demand, Supply Pessimism
Crack Spread	\$24.85	\$24.78	0.27%	
12-mo strip crack	\$25.39	\$25.48	-0.38%	
Ethanol rack	\$1.75	\$1.75	0.06%	
<b>Metals</b>				
Gold	\$4,831.37	\$4,831.73	-0.01%	
Silver	\$93.73	\$93.06	0.73%	
Copper contract	\$573.00	\$576.80	-0.66%	
<b>Grains</b>				
Corn contract	\$423.25	\$421.75	0.36%	
Wheat contract	\$511.50	\$507.75	0.74%	
Soybeans contract	\$1,069.75	\$1,064.50	0.49%	
<b>Shipping</b>				
Baltic Dry Freight	1,803	1,729	74	
<b>DOE Inventory Report</b>				
	<b>Actual</b>	<b>Expected</b>	<b>Difference</b>	
Crude (mb)		-0.11		
Gasoline (mb)		1.47		
Distillates (mb)		0.00		
Refinery run rates (%)		-0.65%		
Natural gas (bcf)		-95		

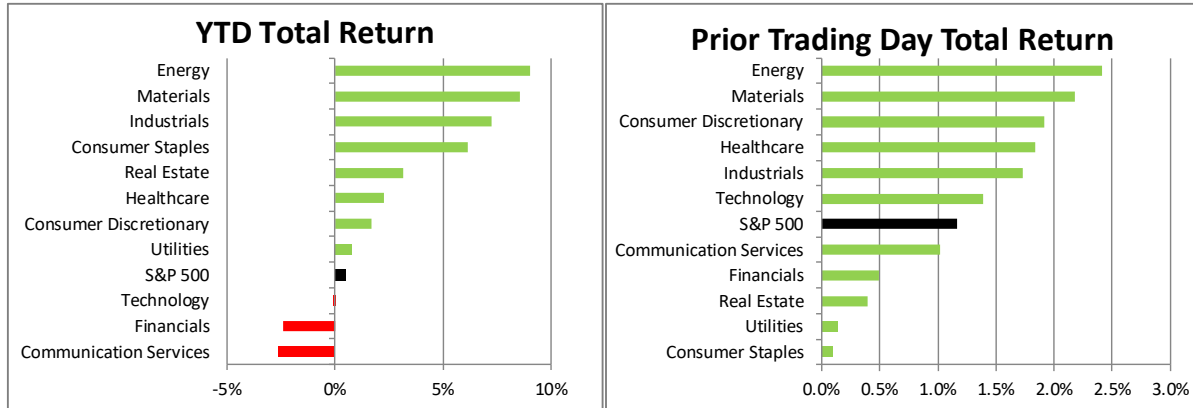
## Weather

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

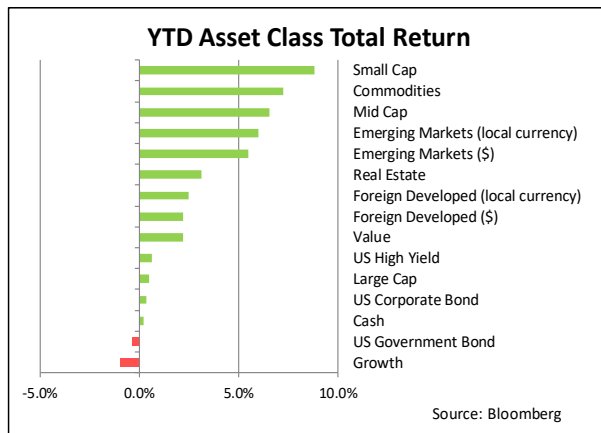
### US Equity Markets – (as of 1/21/2026 close)



(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 1/21/2026 close)

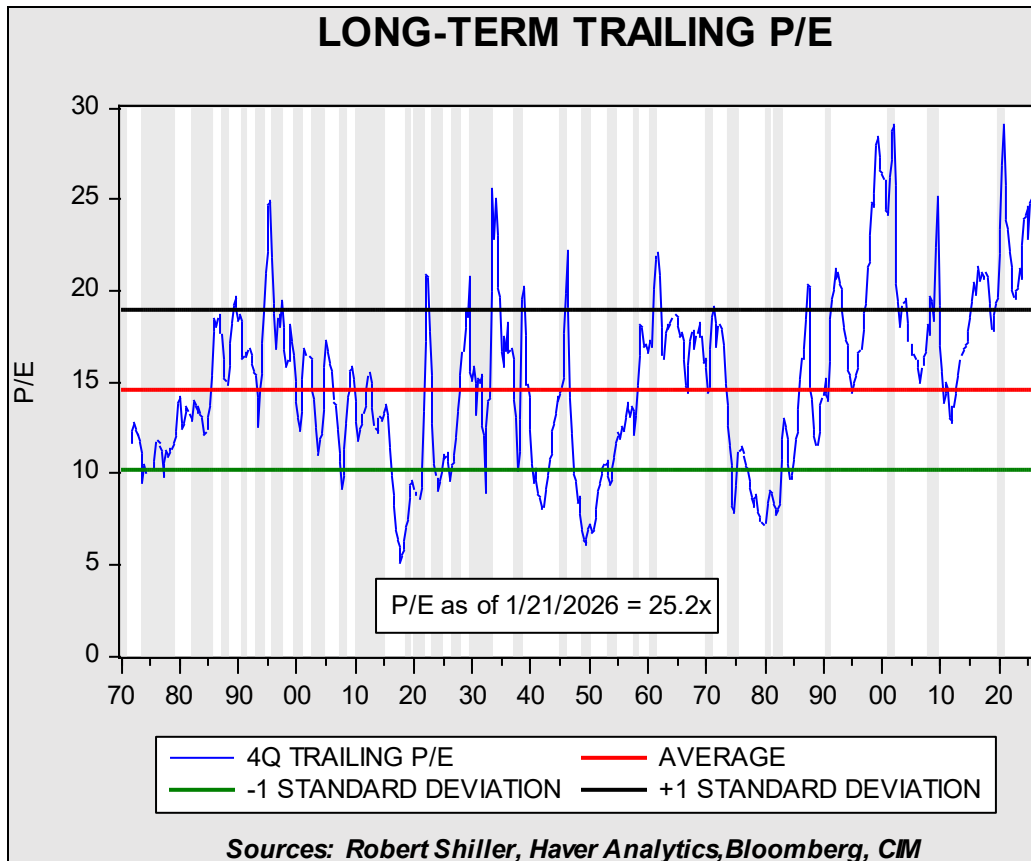


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 22, 2026



Based on our methodology,<sup>1</sup> the current P/E is 25.2x, unchanged from the previous report. The stock price index and earnings were little changed from the previous week.

*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.*

<sup>1</sup> 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.