Daily Comment

Confluence INVESTMENT MANAGEMENT

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: January 23, 2026 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is down 0.3% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.7%. Chinese markets were higher, with the Shanghai Composite up 0.03% and the Shenzhen Composite up 1.2%. US equity index futures are signaling a lower open.

With 63 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, 77.8% have exceeded expectations, while 14.3% 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)	New report to be released next week	**The Keller Quarterly** **VE Insight: Understanding the R1000 Value Index**

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 the recent shift in US foreign policy toward increased interventionism, with a focus on Cuba. We also examine the finalization of the TikTok deal, the cooling of trade tensions between the EU and US, and the progress of the ongoing Ukraine-Russia peace talks. As always, we include a comprehensive roundup of essential economic data from the US and global markets.

Regime Intervention: Recent indicators suggest that the US government is poised to deepen its involvement in the Western Hemisphere over the coming months. A recent *Wall Street Journal* article highlights that the Trump administration is specifically targeting the Cuban government for removal before year's end, as it has been emboldened by recent regional shifts. This policy is part of a larger effort to dismantle China's growing presence in the Americas, marking a decisive pivot from traditional diplomatic engagement to a more transactional and assertive foreign policy.

- According to the report, Cuba's political and economic situation has reached its most fragile point since Maduro was taken to the US. It has been speculated that the economy may be on the brink of collapse and is struggling to provide basic goods and medicine amid constant blackouts. Analysts believe this crisis could force the government into a political deal that would require moving away from its communist system toward a more democratic model.
- The initiative to dismantle the Cuban government appears to be the cornerstone of a long-term strategy to reshape the Western Hemisphere. The White House views the recent ouster of Nicolás Maduro as a solid proof of concept, demonstrating that the US can effectively engineer the transition of adversarial foreign governments. The objective is to force a new government to distance itself from Chinese influence while opening the island's markets to American investors for the first time in decades.
- The White House's new approach marks a definitive end to the era of the "benevolent hegemon." In its place is a more assertive and transaction-based foreign policy. The US appears to be moving away from the soft-power goals of collaboration and regional stability, signaling to the world that future alliances will primarily be quid pro quo, with diplomatic moves measured by their direct benefit to US interests.
- This trend is exemplified by the recent establishment of the Board of Peace (BoP), a US-led international organization that serves as an alternative to the United Nations. Under its draft charter, countries can secure a permanent seat by contributing $1 billion to fund the charter. The board is structured with an Executive Board of US officials and is chaired for life by Donald Trump, granting him sweeping authority over its agenda and membership even after his presidency concludes.
- Market volatility has so far remained relatively low, as US actions have provoked more rhetoric than concrete retaliation. The absence of military confrontation and only a few isolated economic challenges have allowed markets to largely look past geopolitical tensions. The critical risk for investors is a change in this status quo. The formation of a coalition capable of mounting a serious economic or strategic challenge could trigger a sharp and prolonged rise in market instability.
- This environment is likely to favor commodities, as escalating tensions prompt nations to accelerate resource accumulation and stockpile precious metals like gold. Furthermore, the outlook for the aerospace and defense sectors remains highly favorable; global powers are expected to ramp up military expenditures significantly to safeguard their interests and deter emerging foreign threats.

TikTok Deal Done: The White House has finalized a deal to transfer key parts of TikTok's US operations to a consortium of American investors. The agreement concludes a protracted saga that began with a proposed ban of the app over national security concerns. While its Chinese parent company, ByteDance, will retain ownership, the deal leases TikTok's core content algorithm to the US entity, allowing it to be retrained and managed domestically. This arrangement signals a de-escalation in tensions between the US and China over tech concerns.

Bank of Japan: The Japanese central bank held its key rate steady at 0.75% in its latest meeting as it takes its time with tightening monetary policy. The bank's outlook showed that policymakers expect growth and inflation to pick up over the coming months, suggesting it still plans to normalize policy after years of an accommodative stance. However, central bank officials indicated that next moves will be dependent on changes in the global economy, with the possibility of a slowdown leading the bank to moderate its pace of tightening.

EU-US Trade Resumes: EU lawmakers are expected to continue ratifying the US trade deal after having put it on hold following tensions over Greenland. The decision comes after the bloc expressed satisfaction with the White House's reversal on its tariff threats. As a result, the European Parliament is expected to vote on the agreement in the coming days. This suggests that tensions between the two sides are starting to de-escalate as they look to finalize the arrangement.

Intel Slips: Concerns about a potential wafer supply crunch led to a sharp sell-off in Intel stock. While the company reported strong earnings, its outlook was bleak as the chipmaker claimed it may be unable to secure the memory chips needed to complete its orders. These concerns mirror those of Samsung, which noted weeks ago that competition for chips has led to an increase in costs that are being passed on to consumers. We are now seeing signs that AI-driven demand is beginning to drive up the prices of consumer discretionary goods.

Ukraine-Russia Deal: The White House is meeting with Russian and Ukrainian negotiators to help work out the final details of a peace deal. The focus appears on the Donbas region, where Russia controls about 90% of the territory, as Ukraine remains unwilling to cede land that Russia does not yet have in its control. These final talks suggest an agreement is within reach, potentially setting the stage for a post-war recovery. This deal could mean that these resource-rich regions will begin to boost exports, which would place downward pressure on grain and oil prices.

US Economic Releases

No major 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						
No economic releases for the rest of today						
EST	**Indicator**			**Expected**	**Prior**	**Rating**
9:45	S&P Global US Manufacturing PMI	m/m	Jan P	52	51.8	***
9:45	S&P Global US Services PMI	m/m	Jan p	52.9	52.5	***
9:45	S&P Global US Composite PMI	m/m	Jan p	53.0	52.7	***
10:00	Leading Economic Index	m/m	Nov	-0.2%	-0.3%	***
10:00	U. of Michigan Consumer Sentiment	m/m	Jan F	54.0	54.0	***
10:00	U. of Michigan Current Conditions	m/m	Jan F	52.0	52.4	**
10:00	U. of Michigan Future Expectations	m/m	Jan F	52.9	55.0	**
10:00	U. of Michigan 1-Year Inflation Expectation	m/m	Jan F	4.2%	4.2%	*
10:00	U. of Michigan 5-10 Year Inflation Expectation	m/m	Jan F	3.4%	3.4%	*
11:00	Kansas City Fed Services Index	m/m	Jan	3	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								
Japan	National CPI	y/y	Dec	2.1%	2.9%	2.2%	***	Equity and bond neutral
	National CPI Ex-Fresh Food	y/y	Dec	2.4%	3.0%	2.4%	**	Equity and bond neutral
	National CPI Ex-Fresh Food & Energy	y/y	Dec	2.9%	3.0%	2.8%	*	Equity and bond neutral
	S&P Global Japan Composite PMI	m/m	Jan P	52.8	51.1		*	Equity and bond neutral
	S&P Global Japan Manufacturing PMI	m/m	Jan P	51.5	50.0		***	Equity and bond neutral
	S&P Global Japan Services PMI	m/m	Jan P	53.4	51.6		*	Equity and bond neutral
	Nationwide Dept Sales	y/y	Dec	-1.10%	0.90%		***	Equity and bond neutral
Australia	S&P Global Australia Composite PMI	m/m	Jan P	55.5	51.0		*	Equity and bond neutral
	S&P Global Australia Manufacturing	m/m	Jan P	52.4	51.6		***	Equity and bond neutral
	S&P Global Australia Services PMI	m/m	Jan P	56.0	51.1		*	Equity and bond neutral
New Zealand	CPI	y/y	4Q	3.1%	3.0%	3.0%	**	Equity and bond neutral
South Korea	Consumer Confidence	m/m	Jan	110.8	109.8		*	Equity and bond neutral
India	HSBC India PMI Composite	m/m	Jan P	59.5	57.8		**	Equity and bond neutral
	HSBC India PMI Mfg	m/m	Jan P	56.8	55.0		***	Equity and bond neutral
	HSBC India PMI Services	m/m	Jan P	59.3	58.0		**	Equity and bond neutral
EUROPE								
Eurozone	Consumer Confidence	m/m	Jan P	-12.4	-13.2	-13.0	**	Equity and bond neutral
	HCOB Eurozone Manufacturing PMI	m/m	Jan P	49.4	48.8	49.2	***	Equity and bond neutral
	HCOB Eurozone Services PMI	m/m	Jan P	51.9	52.4	52.6	**	Equity and bond neutral
	HCOB Eurozone Composite PMI	m/m	Jan P	51.5	51.5	51.9	*	Equity and bond neutral
Germany	HCOB Germany Services PMI	m/m	Jan P	53.3	52.7	52.5	**	Equity bullish, bond bearish
	HCOB Germany Composite PMI	m/m	Jan P	52.5	51.3	51.7	**	Equity bullish, bond bearish
	HCOB Germany Manufacturing PMI	m/m	Jan P	48.7	47.0	47.8	***	Equity bullish, bond bearish
France	Business Confidence	m/m	Jan	99	99	99	**	Equity and bond neutral
	Manufacturing Confidence	m/m	Jan	105	102	101	*	Equity bullish, bond bearish
	HCOB France Manufacturing PMI	m/m	Jan P	51.0	50.7	50.5	***	Equity bullish, bond bearish
	HCOB France Services PMI	m/m	Jan P	47.9	50.1	50.3	**	Equity and bond neutral
	HCOB France Composite PMI	m/m	Jan P	48.6	50.0	50.0	**	Equity and bond neutral
UK	GfK Consumer Confidence	m/m	Jan	-16	-17	-16	***	Equity and bond neutral
	Retail Sales	y/y	Dec	2.5%	1.8%	1.1%	***	Equity bullish, bond bearish
	Retail Sales Ex-Auto Fuel	y/y	Dec	3.1%	2.6%	1.7%	**	Equity bullish, bond bearish
	S&P Global UK Services PMI	m/m	Jan P	54.3	51.4	51.7	**	Equity bullish, bond bearish
	S&P Global UK Manufacturing PMI	m/m	Jan P	51.6	50.6	50.6	***	Equity bullish, bond bearish
	S&P Global UK Composite PMI	m/m	Jan P	53.9	51.4	51.5	**	Equity bullish, bond bearish
Russia	Gold and Forex Reserves	m/m	16-Jan	$769.1b	$752.5b		***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	16-Jan	19.65y	19.83t		*	Equity and bond neutral
	Trade Balance	m/m	Nov	6.8b	10.8b		**	Equity and bond neutral
	Exports	m/m	Nov	32.9b	36.6b		*	Equity and bond neutral
	Imports	m/m	Nov	26.1b	25.7b		*	Equity and bond neutral
AMERICAS								
Mexico	Economic Activity IGAE	y/y	Nov	-0.08%	1.75%	1.15%	**	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)	358	359	-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 (%)	4.23	4.25	-0.02	Up
Euribor/OIS spread (bps)	203	203	0	Down
Currencies	**Direction**			
Dollar	Flat			Down
Euro	Flat			Up
Yen	Down			Down
Pound	Up			Up
Franc	Up			Up
Central Bank Action	**Actual**	**Prior**	**Expected**	
BOJ Target Rate	0.75%	0.75%	0.75%	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.

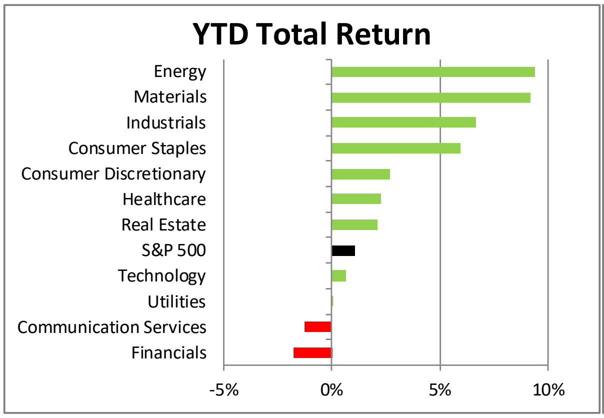
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$65.24	$64.06	1.84%	
WTI	$60.49	$59.36	1.90%	
Natural Gas	$5.07	$5.05	0.42%	
Crack Spread	$23.91	$23.97	-0.26%	
12-mo strip crack	$24.80	$24.72	0.31%	
Ethanol rack	$1.76	$1.75	0.25%	
Metals				
Gold	$4,938.25	$4,936.02	0.05%	
Silver	$99.22	$96.24	3.09%	
Copper contract	$587.35	$577.90	1.64%	
Grains				
Corn contract	$424.25	$424.00	0.06%	
Wheat contract	$519.50	$515.50	0.78%	
Soybeans contract	$1,067.25	$1,064.00	0.31%	
Shipping				
Baltic Dry Freight	1,761	1,803	-42	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	3.60	-0.11	3.71	
Gasoline (mb)	5.98	1.47	4.51	
Distillates (mb)	3.35	0.00	3.35	
Refinery run rates (%)	-0.20%	-0.65%	0.45%	
Natural gas (bcf)	-120	-98	97	

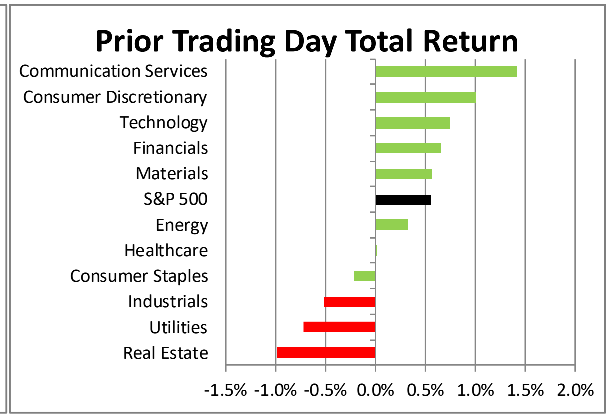
Weather

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 along the West Coast, in southern Texas, and in southern Florida, with dry conditions in the central Rocky Mountains, the Great Plains, the Midwest, and the Northeast.

Data Section

US Equity Markets – (as of 1/22/2026 close)

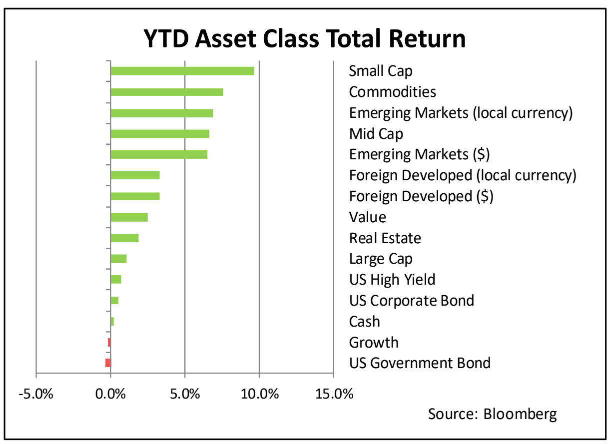




(Source: Bloomberg)

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 1/22/2026 close)

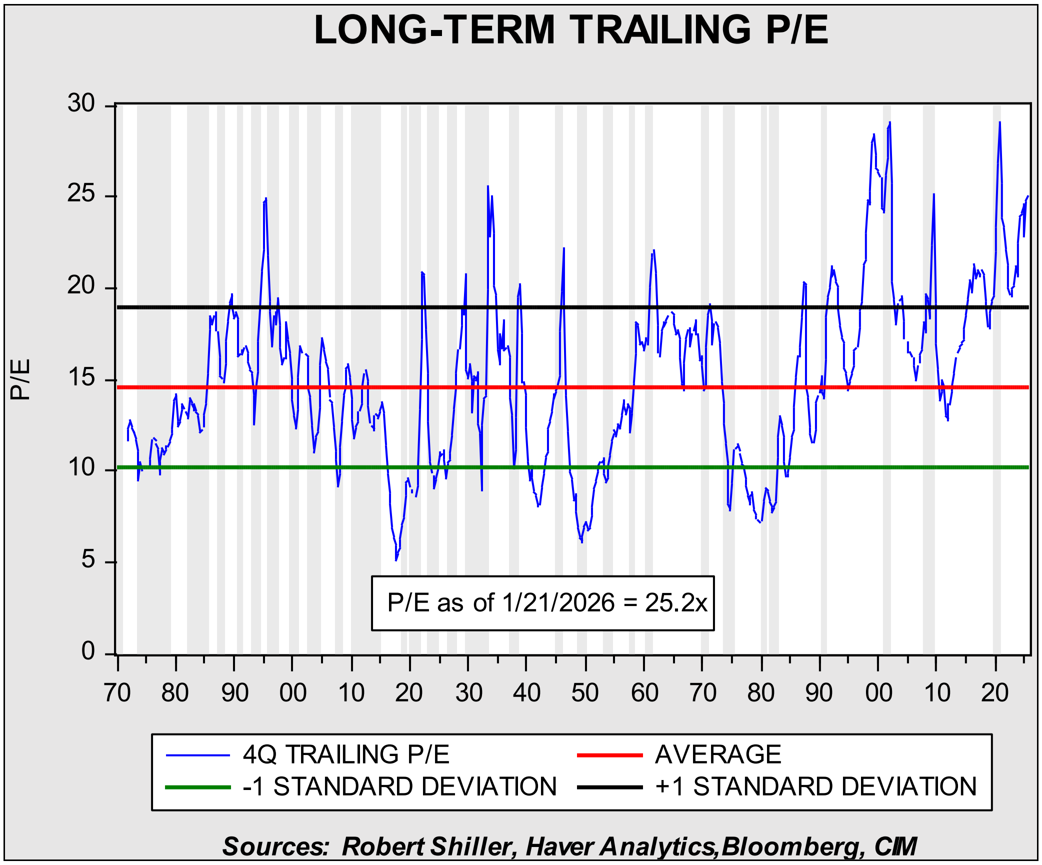


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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,[1] 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.

---

[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.