Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: January 28, 2026 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is down 0.1% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 2.2%. Chinese markets were mixed, with the Shanghai Composite up 0.3% and the Shenzhen Composite relatively unchanged. US equity index futures are signaling a higher open.

With 89 companies having reported so far, S&P 500 earnings for Q4 are running at $71.30 per share compared to estimates of $71.07, which is up 8.3% from Q4 2024. Of the companies that have reported thus far, 77.5% have exceeded expectations, while 14.6% 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
"Blocs, Spheres, Empires and Colonies" (1/26/26) + podcast	"The Great Silver Short Squeeze" (1/20/26)	Q1 2026 Report	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* opens with an analysis of why the US dollar continues its slide against major global currencies. We then provide a briefing on the leading contenders to head the Federal Reserve as the transition from Chair Powell nears. From there, we pivot to the surge in silver prices across Chinese markets, growing apprehension among Middle Eastern nations regarding potential US strikes on Iran, and North Korea's latest efforts to bolster its nuclear deterrent. We also include a roundup of economic data from the US and international markets.

Dollar Drop Continues: The US dollar slid against major currencies amid growing concerns that the White House may not be fully committed to a strong-dollar policy. On Wednesday, the

greenback fell to its lowest level since 2022, extending a four-day decline. The sell-off accelerated following comments from the president that he was unconcerned by the currency's recent weakness. This shift in tone has fueled speculation that the administration may be tolerating, or even encouraging, a weaker dollar as it looks to protect the US bond market.

- The US dollar's decline appears to have been driven by potential currency intervention from the New York Federal Reserve. On Friday, officials reportedly conducted a "rate check," surveying the market to gauge liquidity and pricing for a potential intervention. This move follows rising speculation that the US might coordinate currency actions with Japan for the first time in 15 years.

- Rising Japanese bond yields and a weakening yen are creating a potential ripple effect for the US financial system. Speculation is mounting that [Japanese pension funds and financial institutions may begin repatriating capital](#) by offloading foreign bond holdings in favor of domestic assets. This large-scale reallocation would likely put upward pressure on US Treasury yields, prompting the US to seek alternative policy remedies to maintain market stability.

- The US support for intervention likely reflects the White House's growing anxiety regarding long-term Treasury yields. Since taking office, the current administration has signaled its desire for lower rates, as they serve as the primary benchmark for domestic lending. Consequently, the prospect of Japan, the world's largest foreign holder of US Treasurys, liquidating holdings to fund yen stabilization presents a systemic risk.

- While recent White House comments have been interpreted as a departure from the "Strong Dollar" policy, they actually signal a strategic move toward selective intervention. Its readiness to intervene, including adding potential support for the yen, proves that it is following a pragmatic, outcome-oriented approach. The key insight is that the administration now ranks Treasury yields above dollar dominance, which is why it is not concerned about the dollar's decline.

- The administration's apparent preference for a weaker dollar reinforces our conviction in broad portfolio diversification. While precious metals such as gold and silver have rallied significantly over the past few months, they continue to offer essential protection against currency debasement. Furthermore, we see a compelling case for increasing international equity exposure. A softer dollar has historically acted as a tailwind for foreign markets and has enhanced total returns for US-based investors.

New Fed Frontrunner: The race for the next Federal Reserve chair has been upended, with [BlackRock's Rick Rieder now the clear market favorite](#). Prediction markets like Polymarket now price Rieder's probability near 50%, a surge propelled by endorsements from former frontrunner Kevin Hassett and the apparent favor of the president. With a final decision imminent, Rieder's reputation as a pragmatic "bond king" is triumphing over the academic pedigrees of more traditional candidates.

- The momentum behind Rieder's candidacy stems directly from the president's deep-seated desire to reform the Federal Reserve. The president has persistently argued that the central bank lacks credibility due to perceived failures in fulfilling its dual mandate. To realign its priorities, he has championed a doctrine of closer policy coordination with the

executive branch, with the overarching aim of prioritizing lower interest rates to drive economic expansion.

- The president's search for a new Fed chair highlights the difficult balance between appointing a trusted agent of his agenda and a candidate deemed credible by the markets. For instance, the White House backed away from Kevin Hassett amid tepid Wall Street support and Senate confirmation risks. Concurrently, former Fed Governor Kevin Warsh's prospects have faded as his history of hawkish policy positions undermines the credibility of any shift toward the president's growth-focused, dovish priorities.

- While current Fed Governor Christopher Waller is still a leading contender for chair, his staunch loyalty to Fed orthodoxy may be his biggest liability. Waller has demonstrated intellectual independence following his advocacy of using JOLTS to guide rate decisions, which has paved the way for more accommodative policy. However, his refusal to join fellow governor and current CEA Chair Stephen Miran in pushing aggressive cuts may have signaled to the White House that he is too loyal to the "Fed system."

- As a relative unknown, Rick Rieder's lack of a defined policy record may be his greatest asset, making him difficult to pigeonhole. In a recent interview, he aligned himself with the current FOMC consensus, signaling support for two rate cuts this year. However, he also introduced a distinct policy nuance, arguing the Fed should take more active measures to support the housing market, which he views as a key constraint on affordability.
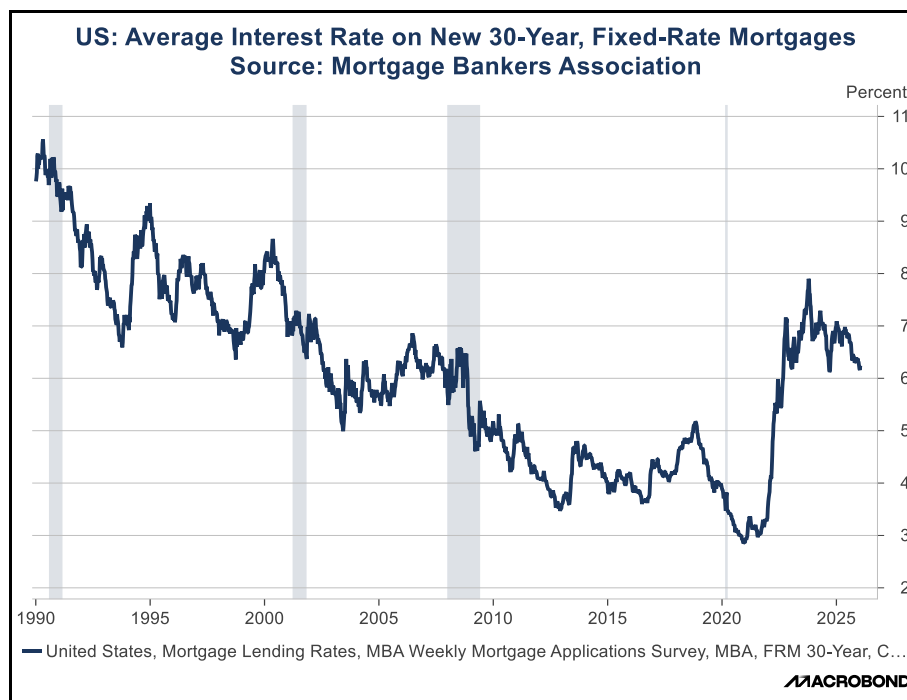
Silver Boom: A Chinese silver fund has suspended trading after its share premium soared beyond the value of its underlying assets. This halt coincides with a domestic frenzy for the metal, fueled by rising global prices and exacerbated by Chinese export restrictions that have pushed local prices above the global average. While the frenzy signals acute market stress, it does not yet point to broader systemic risk.

Gulf Allies Resist: Saudi Arabia has declined a US request to utilize its airspace for potential military action against Iran. The decision aligns with a similar recent refusal from the United Arab Emirates, underscoring a collective regional reluctance to support an offensive operation. This reluctance stems from profound concerns about the regional fallout of a destabilized Iran and from a clear desire to avoid being implicated in a strike, which substantially hinders US planning for military intervention.

North Korean Deterrent: North Korea has signaled its intent to expand its nuclear arsenal, a move widely interpreted as a defensive posture against potential US intervention. Following the removal of Maduro in Venezuela, Kim Jong Un appears to be prioritizing deterrence to secure his leadership. The escalation highlights a deepening deficit of trust, which could lead to a further destabilization of the global landscape.

US Economic Releases

The Mortgage Bankers Association said ***mortgage applications*** in the week ended January 23 fell 8.5%, erasing more than half of their 14.1% jump in the previous week. Applications for home purchase mortgages fell just 0.4%, after rising 5.1% in the prior week. However, applications for refinancing mortgages slumped 15.7%, erasing most of their 20.4% increase the week before. The likely culprit for the fall in applications last week was a bump up in interest rates. The average interest rate on a 30-year, fixed-rate mortgage rose by 8 basis points to 6.24%. 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, C…

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
14:00	FOMC Rate Decision (Lower Bound)	w/w	28-Jan	3.50%	3.50%	***
14:00	FOMC Rate Decision (Upper Bound)	w/w	28-Jan	3.75%	3.75%	***
14:00	Interest on Reserve Balances Rate	w/w	28-Jan	3.65%	3.35%	**
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	CPI	y/y	Dec	3.8%	3.4%	3.6%	**	Equity and bond neutral
South Korea	Retail Sales	y/y	Dec	4.4%	4.2%		**	Equity and bond neutral
	Depart. Store Sales	y/y	Dec	9.3%	12.3%		*	Equity and bond neutral
	Discount Store Sales	y/y	Dec	-9.0%	-8.3%		*	Equity and bond neutral
India	Industrial Production	y/y	Dec	7.8%	7.5%	5.9%	***	Equity bullish, bond bearish
EUROPE								
Germany	GfK Consumer Confidence	m/m	Feb	-24.1	-26.9	-25.5	**	Equity bullish, bond bearish
Italy	Consumer Confidence	m/m	Jan	96.8	96.8	96.9	***	Equity and bond neutral
	Economic Sentiment	m/m	Jan	97.6	96.6		**	Equity and bond neutral
	Manufacturing Confidence	m/m	Jan	89.2	88.5	89.0	***	Equity and bond neutral
AMERICAS								
Mexico	International Reserves Weekly	w/w	23-Jan	$254983m	$253224m		*	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	357	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	4.25	-0.01	Flat
Euribor/OIS spread (bps)	204	204	0	Down
Currencies	**Direction**			
Dollar	Flat			Down
Euro	Down			Up
Yen	Up			Down
Pound	Down			Up
Franc	Up			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.
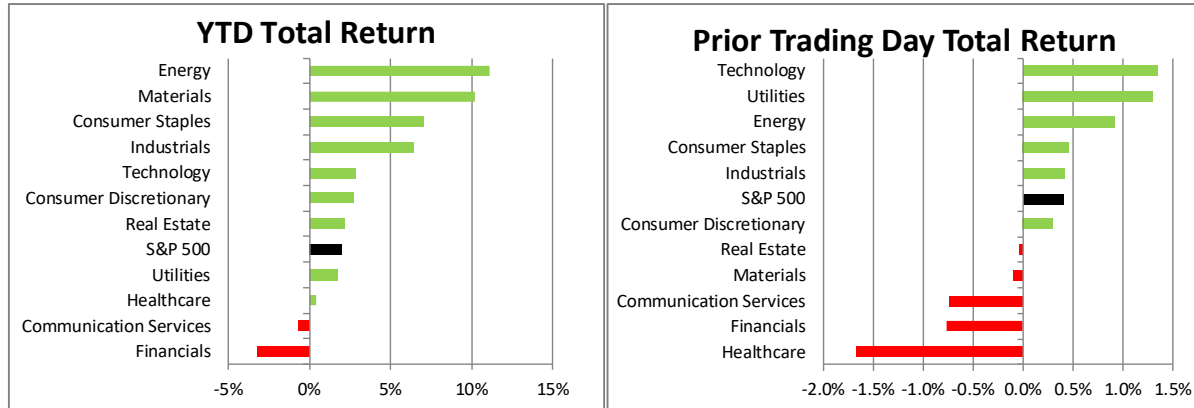
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$67.86	$67.57	0.43%	
WTI	$62.76	$62.39	0.59%	
Natural Gas	$6.45	$6.95	-7.25%	Supply Optimism
Crack Spread	$24.39	$24.24	0.61%	
12-mo strip crack	$25.13	$25.10	0.12%	
Ethanol rack	$1.79	$1.79	-0.12%	
Metals				
Gold	$5,264.82	$5,180.16	1.63%	
Silver	$112.33	$112.08	0.22%	
Copper contract	$592.00	$586.15	1.00%	
Grains				
Corn contract	$429.75	$426.50	0.76%	
Wheat contract	$530.50	$523.25	1.39%	
Soybeans contract	$1,077.25	$1,067.25	0.94%	
Shipping				
Baltic Dry Freight	1,999	1,780	219	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		1.95		
Gasoline (mb)		2.55		
Distillates (mb)		-0.25		
Refinery run rates (%)		-0.65%		
Natural gas (bcf)		-240		

Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for cooler-than-normal temperatures from the Mississippi River eastward, with warmer-than-normal temperatures from the West Coast to the Great Plains. The outlook calls for wetter-than-normal conditions in Texas and in northern Minnesota and Wisconsin, with dry conditions in the Far West, the central Great Plains, and in the entire region from the Mississippi River to the East Coast.
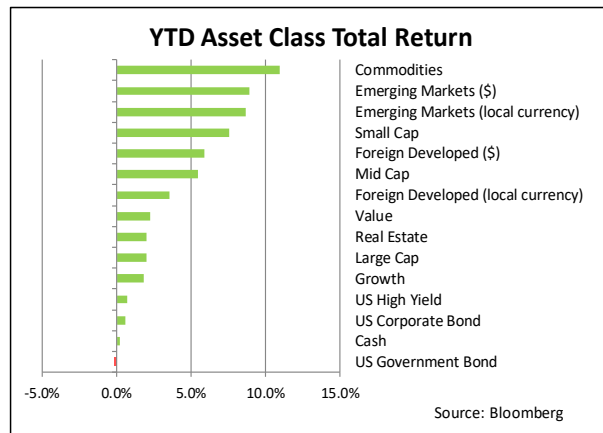
Data Section

US Equity Markets – (as of 1/27/2026 close)

YTD Total Return

Sector	
Energy	~11%
Materials	~10%
Consumer Staples	~7%
Industrials	~6.5%
Technology	~3%
Consumer Discretionary	~2.5%
Real Estate	~2%
S&P 500	~2%
Utilities	~2%
Healthcare	~0.5%
Communication Services	~-0.5%
Financials	~-3%

Prior Trading Day Total Return

Sector	
Technology	~1.3%
Utilities	~1.3%
Energy	~0.9%
Consumer Staples	~0.4%
Industrials	~0.4%
S&P 500	~0.4%
Consumer Discretionary	~0.3%
Real Estate	~0%
Materials	~-0.1%
Communication Services	~-0.7%
Financials	~-0.8%
Healthcare	~-1.5%

(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 1/27/2026 close)

YTD Asset Class Total Return

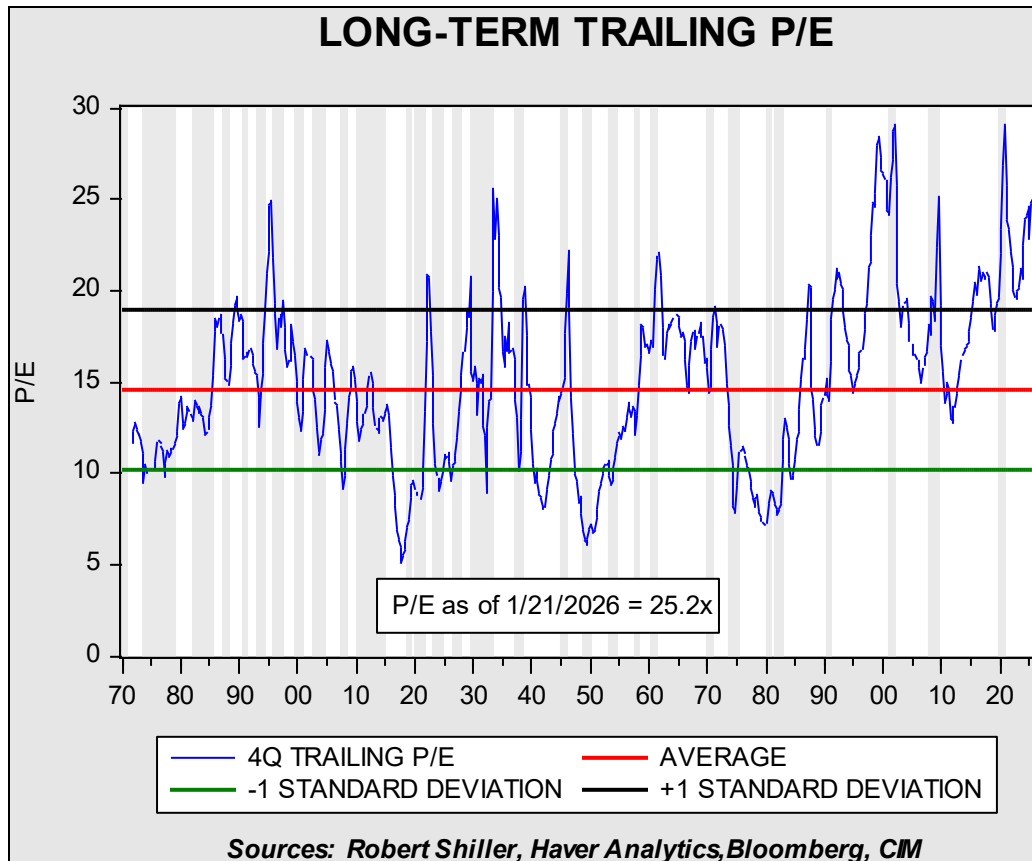| Asset Class	
Commodities	~11%
Emerging Markets ($)	~9%
Emerging Markets (local currency)	~8.5%
Small Cap	~7%
Foreign Developed ($)	~6%
Mid Cap	~5.5%
Foreign Developed (local currency)	~4%
Value	~2%
Real Estate	~2%
Large Cap	~2%
Growth	~1.5%
US High Yield	~0.5%
US Corporate Bond	~0.3%
Cash	~0.1%
US Government Bond	~0%

Source: Bloomberg

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

LONG-TERM TRAILING P/E

P/E as of 1/21/2026 = 25.2x

Legend: 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, 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.

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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.