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[Posted: January 29, 2026 – 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 0.4% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.3%. Chinese markets were mixed, with the Shanghai Composite up 0.2% and the Shenzhen Composite down 0.5%. US equity index futures are signaling a higher open.

With 119 companies having reported so far, S&P 500 earnings for Q4 are running at \$71.70 per share compared to estimates of \$71.07, which is up 8.3% from Q4 2024. Of the companies that have reported thus far, 76.5% have exceeded expectations, while 16.0% 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* begins with an analysis of how the US, in its effort to maintain global influence, continues to pressure China’s allies. We then share our insights on the latest FOMC meeting and its potential implications for monetary policy. Next, we discuss the renewed emphasis on strong-dollar policy, recent reports of White House officials engaging with Canadian separatists, and Germany’s attempts to strengthen its energy infrastructure for wartime preparedness. We also include a roundup of economic data from the US and international markets.

US Interventionism: Tensions between the US and Iran intensified on Wednesday after [President Trump warned that "time is running out"](#) for an agreement. The president declared that he was sending a naval armada to the region to pressure Iranian leaders into returning to the

negotiating table and accepting limits on their nuclear program. This escalation reflects the administration's increasingly interventionist foreign policy, which seeks to undermine China by exerting pressure on its allies.

- Although the president has not detailed the terms of his desired deal, the US has presented [Iran with three core demands for negotiations](#): a permanent halt to uranium enrichment and the disposal of its current stockpile; strict limits on the range and number of its ballistic missiles; and an end to all support for proxy groups in the Middle East, including the Houthis, Hezbollah, and Hamas.
- At present, there is [no indication that Iranian leadership is ready to accept these terms](#). A primary obstacle remains Tehran's refusal to dismantle its uranium enrichment program, which it maintains is for civilian use. In direct response to President Trump's "armada" warning, Iranian Foreign Minister Abbas Araghchi stated on Wednesday that, while Iran remains open to a ["fair and equitable" nuclear deal](#), its armed forces are prepared with "fingers on the trigger."
- The White House is increasingly drawing on a "Venezuelan blueprint" to counter Chinese influence on its closest allies. Although the United States has already removed Maduro from power, it has warned that further action remains on the table if Caracas continues to defy Washington. At the same time, the administration appears to be pursuing a less militant but [still high-pressure approach toward Cuba](#), restricting access to much-needed oil in an effort to force Havana back to the negotiating table with the US.
- While the US's more interventionist foreign policies have shown some success in Iran and South America, their potential effectiveness against North Korea remains an open question. Pyongyang stands apart as the one adversary with a proven capacity to retaliate directly against a US attack. Notably, as Washington has ramped up pressure on Venezuela and Iran, there have been signs [that Kim Jong Un has redoubled his efforts to build a credible nuclear deterrent](#).
- The recent pivot in US foreign policy, prioritizing military leverage alongside traditional diplomacy, is expected to provide sustained tailwinds for domestic defense contractors throughout the year. Consequently, allocating capital to defense equities, complemented by strategic positions in precious metals, offers investors a dual hedge against the financial volatility stemming from escalating geopolitical tensions and a fragmenting global order.

FOMC Pause: The [Federal Reserve left its benchmark interest rate unchanged at 3.5–3.75%](#) following its two-day policy meeting. The decision seems to signal a clear improvement in overall economic conditions, a trend that policymakers expect to continue through at least the first half of the year as new tax cuts take effect. While markets likely viewed the move as a show of confidence, we believe the Fed is also creating space for the incoming chair to set policy according to his own view of the economy.

- The Fed statement showed several notable changes from the previous release. The language now characterizes economic activity as growing at a solid rather than a moderate pace, job gains were described as low rather than having slowed, and the unemployment rate appeared to be stabilizing while inflation remained elevated but not

rising. The committee also removed references to downside risks to both inflation and employment outcomes.

- While the statement reflected a more positive outlook, they also suggested that the Fed does not feel compelled to adjust policy at this time. In the press conference, Chair Powell noted broad support for holding rate steady, despite two dissents on the committee. He also did not indicate any concern that current labor market conditions or inflation required additional policy action.
- The neutral tone of the Fed statement and the press conference suggests a committee comfortable maintaining the status quo through the next several meetings. This “steady-hand” approach appears strategic. By holding rates firm, Chair Powell provides his eventual successor, set to take over this summer, the maximum possible flexibility to steer monetary policy. This transition period will allow the incoming chair a clean slate to implement their own vision without being immediately boxed in by inherited momentum.
- Consequently, we anticipate that the Federal Reserve will maintain current interest rates until a new chair takes over. This period of stability should bolster the US dollar, as sustained yield differentials continue to attract foreign capital. Furthermore, this “higher-for-longer” environment is likely to drive a flight to quality, with investors favoring large-cap, established corporations with proven track records of navigating volatility and strong earnings.

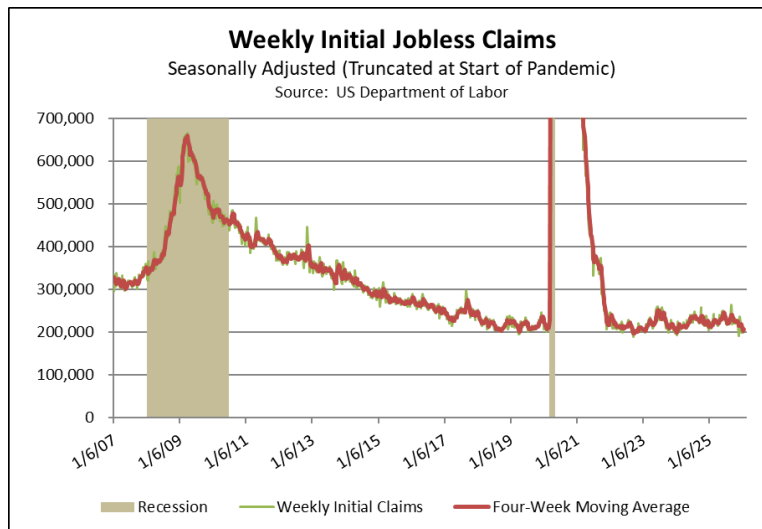
Strong-Dollar Policy: Treasury Secretary Scott Bessent [dismissed speculation that the US plans to intervene in currency markets](#) to support the yen, saying such action is “not under consideration.” His comments followed a New York Fed “rate check,” a move often seen as a precursor to formal intervention, which had fueled market rumors. Following his remarks, the dollar strengthened while the yen retreated. The episode comes as Japan adopts a strategy of [tactical silence in its efforts to stabilize its currency](#).

Canada Separatists: [White House officials have reportedly met with members of the Canadian separatist movement](#) as tensions between the United States and China continue to rise. The Alberta Prosperity Party, which advocates for the province’s independence, has held three meetings with US officials since April and is seeking a \$500 billion credit swap line should a future referendum succeed — though none has yet been scheduled. The White House maintains that no formal cooperation exists.

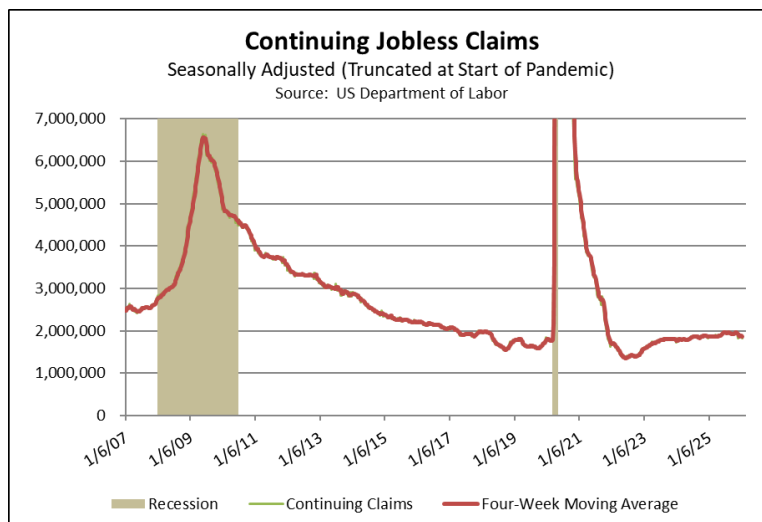
Defense Spending Spillover: Germany [is exploring ways to utilize its defense budget to bolster energy infrastructure](#). By leveraging a defense-related debt brake exemption, the government aims to establish a \$2.4 billion resilience fund designed to “war-proof” the national energy grid. This initiative highlights how the current European defense buildup is generating significant spillover effects, driving investment into adjacent industrial sectors like energy and civil protection.

US Economic Releases

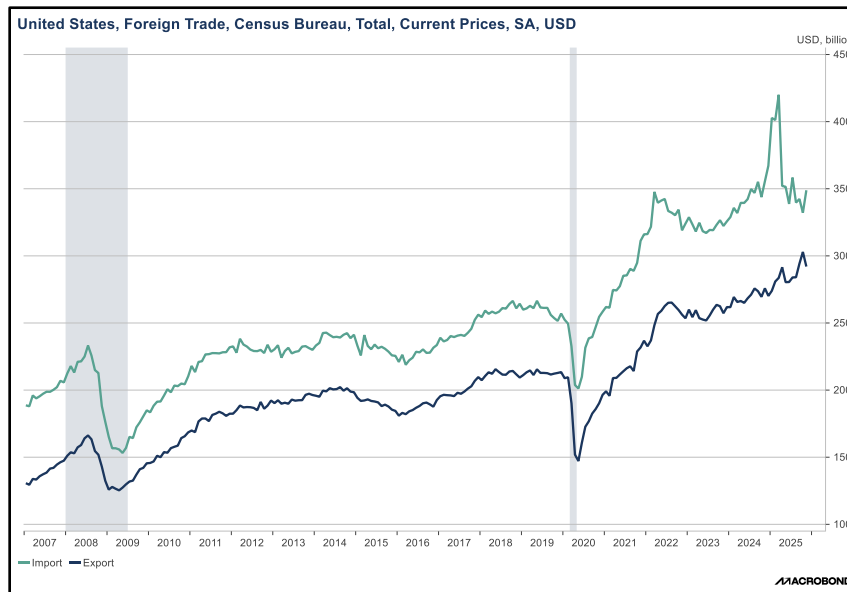
In the week ended January 24, *initial claims for unemployment benefits* fell to a seasonally adjusted 209,000, above the expected level of 205,000 but still slightly lower than the previous week's revised level of 210,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, rose to 206,250. 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.



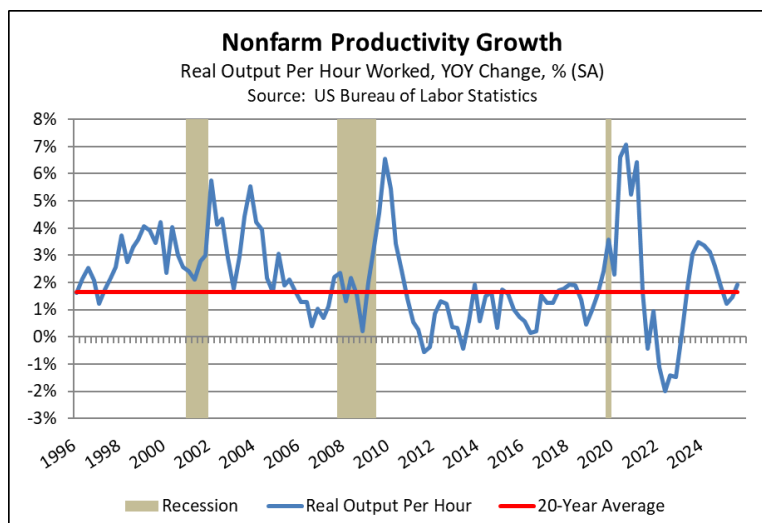
In the week ended January 17, the number of *continuing claims for unemployment benefits* (people continuing to draw benefits) fell to a seasonally adjusted 1.827 million, below both the anticipated reading of 1.850 million and the prior week's revised reading of 1.865 million. The four-week moving average of continuing claims fell to 1,867,500, 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.



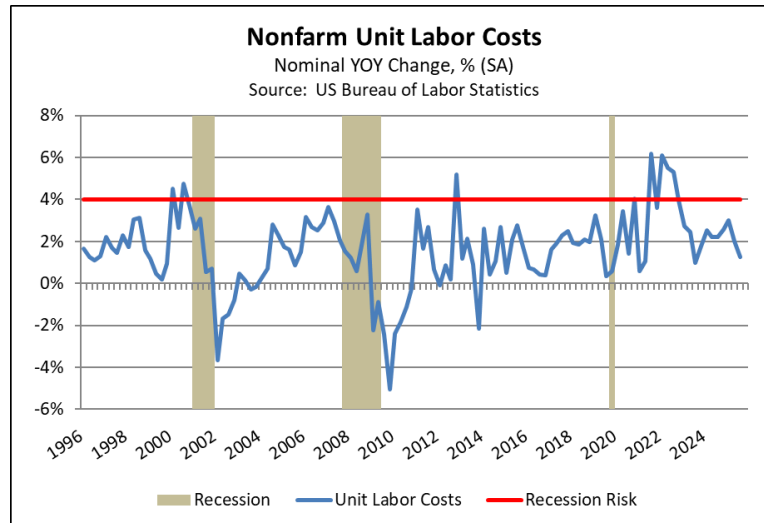
In a separate report today, the November **trade balance** showed a seasonally adjusted deficit of \$56.8 billion, much worse than both the expected shortfall of \$44.0 billion and the revised October deficit of \$29.2 billion. According to the data, total **exports** fell 3.6%, while **imports** jumped 5.0%. The chart below shows the monthly value of US exports and imports since just before the GFC.



A final major report this morning focused on the productivity of US workers, defined as the average value of output per hour worked. After stripping out price changes and normal seasonal fluctuations, final third-quarter **nonfarm productivity** rose at an annualized rate of 4.9%, matching the previous estimate and accelerating further from the strong second-quarter growth rate of 4.1%. However, taking into account the fluctuations in each of the last four quarters, productivity in the third quarter was up just 1.9% from the same period one year earlier, not much above the average growth rate of 1.7% over the last two decades. The chart below shows the year-over-year growth in real productivity over the last quarter-century or so.



Reflecting the strong productivity growth, third-quarter **unit labor costs** fell at an annualized rate of 1.9%, in line with the previous estimate and moderating a bit from the 2.9% rate of decline in the second quarter. Unit labor costs in the third quarter were up 1.3% year-over-year. The chart below shows the year-over-year growth in unit labor costs since 1996.



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	Factory Orders	m/m	Nov	1.6%	-1.3%	***
10:00	Factory Orders Ex Transportation	m/m	Nov		-0.2%	**
10:00	Durable Goods Orders	m/m	Nov F		5.3%	***
10:00	Durable Goods Orders ex Transportation	m/m	Nov F		0.5%	**
10:00	Cap Goods Orders Nondef Ex Air	m/m	Nov F		0.7%	*
10:00	Cap Goods Ship Nondef Ex Air	m/m	Nov F		0.4%	*
10:00	Wholesale Inventories	m/m	Nov F	0.2%	0.2%	**
10:00	Wholesale Trade Sales	m/m	Nov	-0.1%	-0.4%	*
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.

ASIA-PACIFIC								
Japan	Japan Buying Foreign Bonds	w/w	23-Jan	¥177.6b	-¥361.1b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	23-Jan	-¥156.0b	¥272.6b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	23-Jan	¥375.1b	¥1466.7b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	23-Jan	¥328.1b	¥878.9b		*	Equity and bond neutral
	Consumer Confidence Index	m/m	Jan	37.9	37.2	37.1	*	Equity and bond neutral
New Zealand	Exports NZD	m/m	Dec	7.65b	6.81b		**	Equity and bond neutral
	Imports NZD	m/m	Dec	7.60b	7.15b		**	Equity and bond neutral
	Trade Balance NZD	m/m	Dec	52m	-335m		**	Equity and bond neutral
	ANZ Activity Outlook	m/m	Jan	51.6	60.9		*	Equity and bond neutral
EUROPE								
Eurozone	M3 Money Supply	y/y	Dec	2.8%	3.0%	3.0%	***	Equity bearish, bond bullish
	Economic Confidence	m/m	Jan	99.4	97.2	97.1	***	Equity bullish, bond bearish
	Industrial Confidence	m/m	Jan	-6.8	-8.5	-8.2	***	Equity bullish, bond bearish
	Services Confidence	m/m	Jan	7.2	5.8	6.0	**	Equity bullish, bond bearish
	Consumer Confidence	m/m	Jan F	-12.4	-12.4		**	Equity and bond neutral
Italy	Industrial Sales WDA	y/y	Nov	0.0%	1.7%		*	Equity and bond neutral
Switzerland	Real Exports	m/m	Dec	-0.7%	5.0%		*	Equity and bond neutral
	Real Imports	m/m	Dec	-1.3%	1.7%		*	Equity and bond neutral
Russia	PPI	y/y	Dec	-3.3%	-1.1%		*	Equity and bond neutral
AMERICAS								
Brazil	FGV Inflation IGPM	y/y	Dec	-0.91%	-1.05%	-0.92%	***	Equity and bond neutral
	Total Outstanding Loans	m/m	Dec	7123b	6995b		**	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)	366	367	-1	Down
U.S. Libor/OIS spread (bps)	363	364	-1	Down
10-yr T-note (%)	4.25	4.24	0.01	Flat
Euribor/OIS spread (bps)	203	204	-1	Down
Currencies	Direction			
Dollar	Flat			Down
Euro	Flat			Up
Yen	Flat			Down
Pound	Flat			Up
Franc	Flat			Up
Central Bank Action	Actual	Prior	Expected	
FOMC Rate Decision (Upper Bo	3.75%	3.75%	3.75%	On Forecast
FOMC Rate Decision (Lower Bo	3.50%	3.50%	3.50%	On Forecast
FOMC Rate on Reserve Balan	3.65%	3.65%	3.65%	On Forecast
Bank of Canada Rate Decisio	2.25%	2.25%	2.25%	On Forecast
Brazil Selic Rate	15.00%	15.00%	15.00%	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.

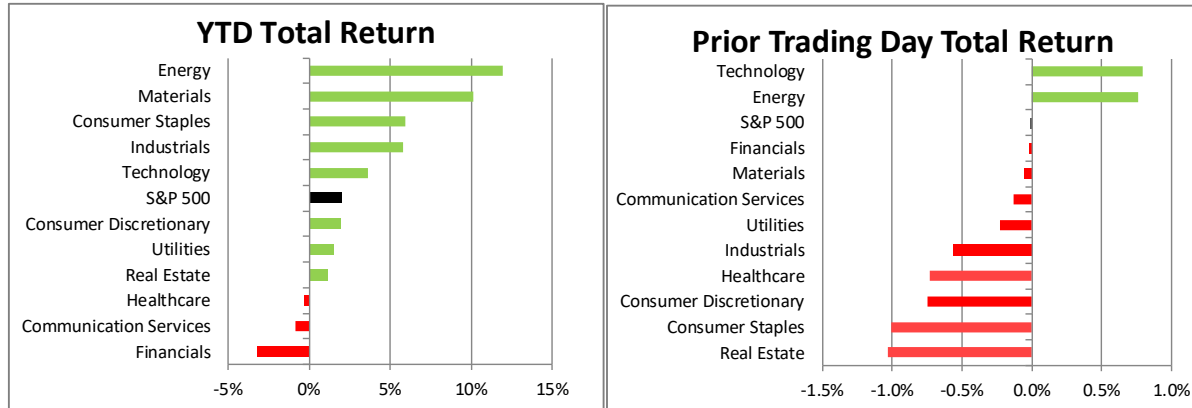
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$69.92	\$68.40	2.22%	
WTI	\$64.72	\$63.21	2.39%	
Natural Gas	\$3.82	\$3.73	2.44%	
Crack Spread	\$23.63	\$23.94	-1.32%	
12-mo strip crack	\$25.06	\$25.22	-0.64%	
Ethanol rack	\$1.78	\$1.78	0.04%	
Metals				
Gold	\$5,533.00	\$5,417.21	2.14%	
Silver	\$119.30	\$116.70	2.23%	
Copper Contract	\$632.65	\$592.50	6.78%	Supply Pessimism
Grains				
Corn contract	\$432.25	\$430.00	0.52%	
Wheat contract	\$541.25	\$536.00	0.98%	
Soybeans contract	\$1,080.50	\$1,075.00	0.51%	
Shipping				
Baltic Dry Freight	2,016	1,999	17	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)	-2.30	1.95	-4.25	
Gasoline (mb)	0.22	2.55	-2.33	
Distillates (mb)	0.33	-0.25	0.58	
Refinery run rates (%)	-0.24%	-0.65%	0.41%	
Natural gas (bcf)		-238		

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 New Mexico, Texas, North Dakota, and northern Minnesota, 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

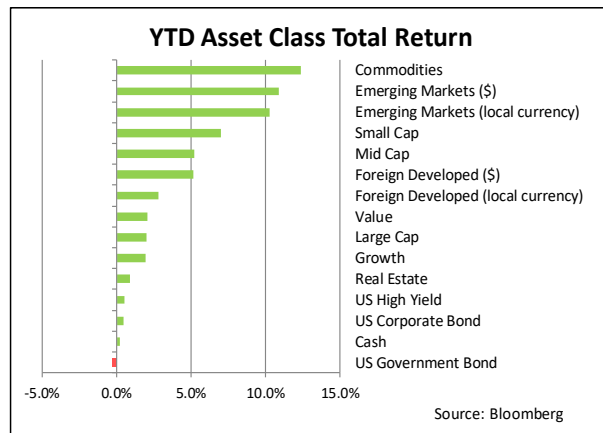
US Equity Markets – (as of 1/28/2026 close)



(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 1/28/2026 close)

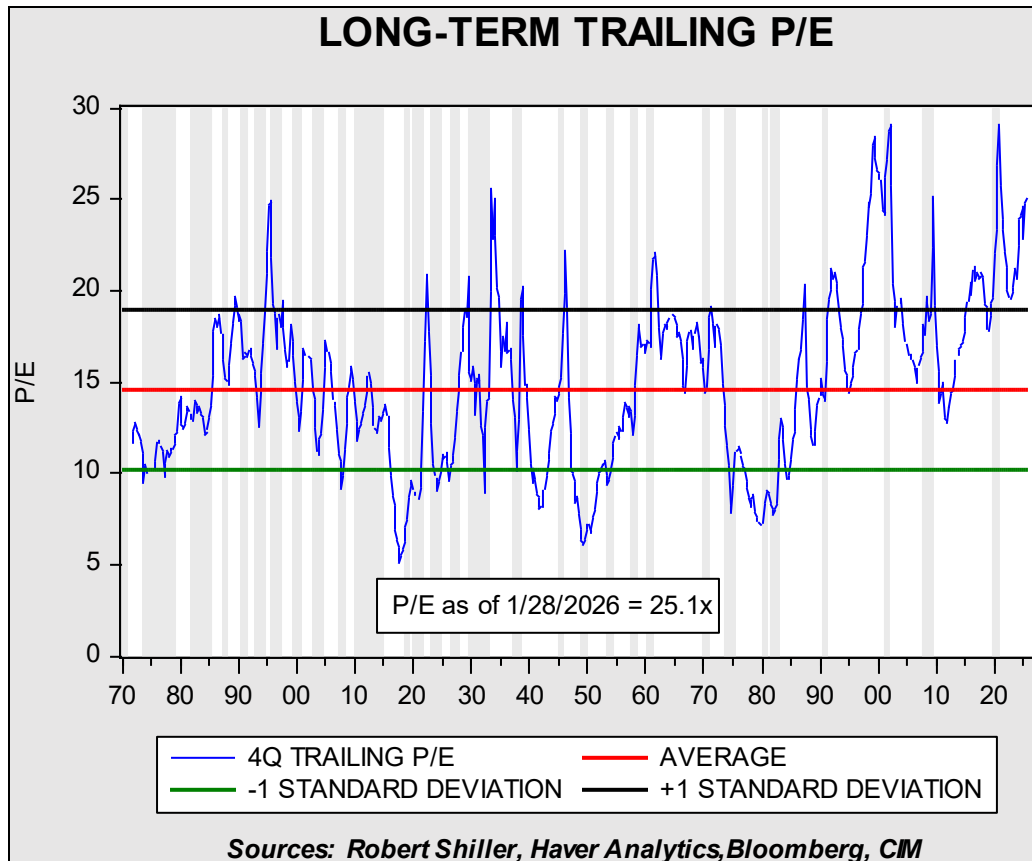


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 29, 2026



Based on our methodology,¹ the current P/E is 25.1x, down 0.1 from the previous report. Last week, the stock price index fell slightly while earnings edged upward.

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.