Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: January 30, 2026 — 9:30 AM ET] Global equity markets are mostly lower this morning. In Europe, the Euro Stoxx 50 is up 1.0% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 1.6%. Chinese markets were lower, with the Shanghai Composite down 1.0% and the Shenzhen Composite down 0.8%. US equity index futures are signaling a lower open.

With 155 companies having reported so far, S&P 500 earnings for Q4 are running at $73.00 per share compared to estimates of $71.07, which is up 8.3% from Q4 2024. Of the companies that have reported thus far, 78.1% have exceeded expectations, while 16.1% 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 our perspective on the president's nominee to lead the Federal Reserve. We then outline our views on AI in light of the recent tech sell-off. Next, we cover the eurozone's economic resilience, the openness of US allies to investment from China, and the conclusion of the civil war in Syria. We round out the piece with a summary of key economic data from the US and global markets.

Next Fed Chair? The president announced on Friday his intention to nominate Kevin Warsh, a former Fed governor, as the next chair of the central bank. This move follows months of speculation during which several other figures were also viewed as leading candidates for the

role. Financial markets have responded cautiously as Warsh's traditionally hawkish stance on inflation appears to conflict with the president's push for more accommodative policy, leaving investors unsure which impulse will ultimately shape Fed decisions under his leadership.

- The president's choice follows a period in which he also weighed the appointing of Director of the National Economic Council Kevin Hassett, current Fed Governor Christopher Waller, and BlackRock Chief Investment Officer Rick Rieder. Each was, at various points over the past year, viewed as a leading contender in betting markets, with Rieder considered the frontrunner as recently as yesterday.

- While there was some concern that Warsh's past hawkish statements could hurt his chances of leading the Fed, they may ultimately have been what won the president over. President Trump's initial preference for Kevin Hassett reportedly backfired after pushback from Wall Street, where investors worried he might prove overly loyal, but Warsh, who has also advised the president, has been viewed as a safer choice given his support for a smaller Fed balance sheet and a lower inflation target range of 1–2% rather than 2%.

- The market's initial reaction has included a firmer dollar and softer equity prices, as investors interpret his likely appointment as a sign that policy rates could remain elevated for now. That sentiment could shift if Warsh signals a greater willingness to lower interest rates or to take a more flexible approach to the balance sheet — perhaps by slowing the runoff of mortgage-backed securities — which would align more closely with the president's push to ease borrowing costs and support housing affordability.

- Warsh's arrival could directly challenge the Fed's current communication strategy. He has publicly called for a "regime change," arguing that the present system suffers from a credibility gap. This stance is pivotal because the existing approach has, in our view, provided markets with valuable insight into policy debates and supported Powell's efforts to build consensus. Altering this balance could carry substantial implications for forward guidance and could pave the way for more dissent.

- We suspect that Warsh's appointment will likely lead to a less accommodative Fed policy compared with the other candidates under consideration. Ultimately, much will depend on how closely he intends to coordinate with the White House on policy decisions. For now, we believe the market's expectation of two rate cuts for the year appears reasonable, though the outlook remains uncertain.

Tech Concerns: A sell-off in risk assets on Thursday was driven by investor concerns that AI infrastructure investments may take longer than expected to deliver profits. The catalyst was earnings reports from two of the sector's biggest spenders, Microsoft and Meta. While one surpassed expectations, the other fueled skepticism about the broader payoff from the AI investment surge among mega-cap tech firms. The reaction underscores a decisive market shift toward a results-focused mindset, as scrutiny of escalating capital expenditures intensifies.

- Microsoft's earnings report served as a reality check for the AI boom, with guidance coming in weaker than expected. The company disclosed higher-than-anticipated capital expenditure and a slowdown in cloud revenue growth, signaling potential pressure on near-term profitability. The downbeat results weighed on the broader tech sector,

prompting investors to reassess their exposure to companies with significant AI-related spending.

- On a brighter note, Meta demonstrated how AI can be deployed effectively. The company reported an acceleration in revenue, showcasing its success in leveraging AI to boost ad growth and user engagement. Its strong performance underscores how eager investors are to reward companies that translate AI investments into tangible profitability across their platforms.

- The sharp reactions to both Microsoft and Meta highlight a shifting investor sentiment toward AI-focused companies. Early in the AI boom, investors showed little concern over heavy infrastructure spending, as many firms financed growth with ample cash reserves. Now, with companies increasingly turning to debt to fund these investments, worries are mounting that they may be expanding capacity too quickly to justify their current valuations.

- We don't believe the AI rally is close to being over. Thursday's market reaction likely reflects not a loss of faith in AI itself, but rather growing investor pressure for companies to demonstrate tangible returns on their substantial AI investments. As a result, earnings performance is becoming a progressively important driver of valuations compared with previous periods. That said, we suspect the skepticism is likely to be short-lived as we still believe the sector will be able to generate strong earnings overall.

- While "pure-play" AI stocks tend to dominate the headlines, the companies enabling the physical build-out — such as miners, materials suppliers, and energy providers — stand to benefit from the significant power and infrastructure demands of AI data centers. These businesses often trade at more reasonable valuations than high-profile AI names and should remain relevant given ongoing needs for energy and critical materials, even if the pace of AI expansion moderates.

Eurozone Growth: The eurozone economy expanded by 0.3% in the fourth quarter, surpassing expectations of 0.2%. The stronger-than-expected growth reflects continued economic resilience following the relaxation of tariffs introduced in 2025. Germany was among the biggest surprises, recording its first annual expansion since 2022. Momentum across the bloc is expected to strengthen this year as member nations ramp up stimulus spending on key sectors, including infrastructure and defense.

Chinese Openness: UK Prime Minister Keir Starmer is seeking to strengthen investment ties abroad, signaling a broader shift as countries look to diversify away from reliance on the United States. The move has drawn criticism from the White House, which has warned that such partnerships could carry consequences. For many leaders, the renewed interest in engaging with China appears to be a strategic effort to gain leverage in negotiations with Washington, particularly as the US presses for greater concessions.

Syria Stabilizing? The Kurdish-led Syrian Democratic Forces (SDF) have signed a comprehensive agreement to integrate their military and civilian institutions into the Syrian state, effectively bringing an end to years of self-rule. This historic move, following nearly 14 years of

civil war, signals a path toward a unified government in Damascus. This integration is widely seen as a major milestone that could lead to greater long-term stability across the Middle East.

US Economic Releases

The December **_producer price index (PPI)_** jumped by a seasonally adjusted 0.5%, much worse than expectations that it would rise the same 0.2% as in November. Excluding the volatile food and energy components, the December **_"core" PPI_** surged 0.7%, also much worse than its expected rise of 0.2% and its flat performance in November. The overall PPI in December was up 3.0% from the same month one year earlier, while the core PPI was up 3.3%. The chart below shows the year-over-year change in the PPI and the core PPI since the start of the index's current format in 2011.

Producer Price Index (PPI) & Core PPI: Year-Over-Year Change, %
Source: US Bureau of Labor Statistics

The table below lists the economic releases and Fed events scheduled for the rest of the day.

Economic Releases					Expected	Prior	Rating
EST	**Indicator**				**Expected**	**Prior**	**Rating**
9:45	MNI Chicago PMI	m/m	Jan		43.7	43.5	***
Federal Reserve							
EST	**Speaker or Event**	**District or Position**					
11:10	Stephen Miran Speaks on CNBC	Members of the Board of Governors					
13:30	Alberto Musalem Speaks on Economy and Policy	President of the Federal Reserve Bank of St. Louis					
15:00	Stephen Miran on Bloomberg TV	Members of the Board of Governors					
17:00	Michelle Bowman Speaks on Monetary and Regulatory Policy	Member of the Board of Governors					

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	Tokyo CPI	y/y	Jan	1.5%	2.0%	1.7%	**	Equity and bond neutral
	Tokyo CPI Ex-Fresh Food	y/y	Jan	2.0%	2.3%	2.2%	***	Equity and bond neutral
	Tokyo CPI Ex-Fresh Food & Energy	y/y	Jan	2.4%	2.6%	2.6%	*	Equity and bond neutral
	Jobless Rate	m/m	Dec	2.6%	2.6%	2.6%	***	Equity and bond neutral
	Job-To-Applicant Ratio	m/m	Dec	1.19%	1.18%	1.18%	***	Equity and bond neutral
	Retail Sales	y/y	Dec	-0.9%	1.0%	0.7%	**	Equity bearish, bond bullish
	Industrial Production	y/y	Dec P	2.6%	-2.2%	2.1%	***	Equity and bond neutral
	Depart. Store & Supermarket Sales	y/y	Dec	-0.1%	3.2%		*	Equity and bond neutral
	Housing Starts	y/y	Dec	-1.3%	-8.5%	-4.6%	**	Equity bullish, bond bearish
	Annualized Housing Starts	y/y	Dec	0.771m	0.718m	0.736m	*	Equity and bond neutral
Australia	Private Sector Credit	y/y	Dec	7.7%	7.4%		**	Equity and bond neutral
	PPI	y/y	Dec	3.5%	-1.3%		**	Equity and bond neutral
New Zealand	ANZ Business Confidence	m/m	Jan	5.6	3.2		**	Equity and bond neutral
	ANZ Consumer Confidence Index	m/m	Jan	107.2	101.5		*	Equity and bond neutral
South Korea	Industrial Production	y/y	Dec	-0.3%	-1.2%	-2.0%	***	Equity bullish, bond bearish
EUROPE								
Eurozone	GDP	y/y	Q4 A	1.3%	1.4%	1.3%	***	Equity and bond neutral
	Unemployment Rate	m/m	Feb	6.2%	6.3%	6.3%	**	Equity and bond neutral
Germany	Import Price Index	y/y	Dec	-2.3%	-1.9%	-2.6%	**	Equity and bond neutral
	Unemployment Change	m/m	Jan	0.0k	3.0k	3.0k	***	Equity and bond neutral
	Unemployment Claims Rate	m/m	Jan	6.3%	6.3%	6.3%	**	Equity and bond neutral
	GDP NSA	y/y	Q4 P	0.6%	0.3%	0.4%	**	Equity and bond neutral
	GDP WDA	y/y	Q4 P	0.4%	0.3%	0.3%	**	Equity and bond neutral
	CPI	y/y	Jan P	2.1%	1.8%	1.9%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Jan P	2.1%	2.0%	2.0%	**	Equity and bond neutral
France	Consumer Spending	m/m	Dec	-1.0%	0.1%	-0.6%	*	Equity and bond neutral
	GDP	y/y	Q4 P	1.1%	0.9%	1.2%	***	Equity and bond neutral
	PPI	y/y	Dec	-2.0%	-1.5%		*	Equity and bond neutral
Italy	GDP WDA	y/y	Q4 P	0.8%	0.6%	0.5%	**	Equity and bond neutral
	Unemployment Rate	m/m	Dec	5.6%	5.7%	5.8%	**	Equity and bond neutral
	PPI	y/y	Dec	-2.0%	-0.3%		*	Equity and bond neutral
UK	Consumer Credit	y/y	Dec	8.20%	8.1%	8.2%	*	Equity and bond neutral
	Net Lending Sec. on Dwellings	m/m	Dec	4.6b	4.6b	4.4b	*	Equity and bond neutral
	Mortgage Approvals	m/m	Dec	61.0k	64.1k	64.9k	***	Equity and bond neutral
	M4 Money Supply	y/y	Dec	4.7%	4.3%		*	Equity and bond neutral
Switzerland	KOF Leading Indicator	m/m	Mar	102.5	103.6	103.0	**	Equity and bond neutral
Russia	Gold and Forex Reserves	m/m	22-Jan	$786.9b	$769.1b		***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	23-Jan	19.51t	19.65t		*	Equity and bond neutral
AMERICAS								
Canada	International Merchandise Trade	m/m	Nov	-2.20b	-0.58b	-0.69b	*	Equity and bond neutral
Mexico	GDP NSA	y/y	Q4 P	1.6%	-0.2%	1.3%	***	Equity and bond neutral
Brazil	Formal Job Creation Total	m/m	Dec	-618164	84109	-467850	*	Equity and bond neutral
	Central Govt Budget Balance	m/m	Dec	22.1b	-20.2b	14.4b	*	Equity and bond neutral
	Primary Budget Balance	y/y	Dec	6.3b	-14.4b	4.0b	*	Equity and bond neutral
	Net Debt % GDP	m/m	Dec	65.30%	65.2%	65.4%	**	Equity and bond neutral
	National Unemployment Rate	m/m	Dec	5.1%	5.2%	5.1%	*	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)	366	366	0	Down
U.S. Libor/OIS spread (bps)	363	363	0	Down
10-yr T-note (%)	4.25	4.23	0.02	Up
Euribor/OIS spread (bps)	202	203	-1	Down
Currencies	**Direction**			
Dollar	Up			Down
Euro	Down			Up
Yen	Up			Flat
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.
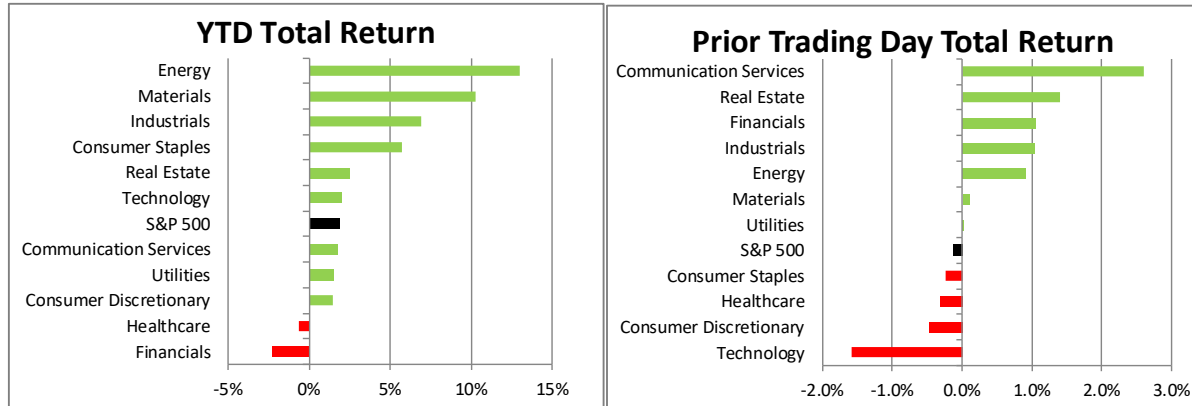
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$70.40	$70.71	-0.44%	
WTI	$65.07	$65.42	-0.54%	
Natural Gas	$3.86	$3.92	-1.53%	
Crack Spread	$23.85	$23.74	0.44%	
12-mo strip crack	$25.29	$25.27	0.07%	
Ethanol rack	$1.77	$1.78	-0.20%	
Metals				
Gold	$5,068.71	$5,375.24	-5.70%	Hawkish Fed expectations
Silver	$98.94	$115.70	-14.49%	Hawkish Fed fears triggered profit-taking
Copper Contract	$607.30	$620.35	-2.10%	
Grains				
Corn contract	$429.00	$430.75	-0.41%	
Wheat contract	$544.50	$541.50	0.55%	
Soybeans contract	$1,066.75	$1,072.25	-0.51%	
Shipping				
Baltic Dry Freight	2,002	2,016	-14	
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)	-242	-238	-4	

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 southern Texas, North Dakota, and northern Minnesota, with dry conditions in the Far West and the entire region from the Mississippi River to the East Coast.
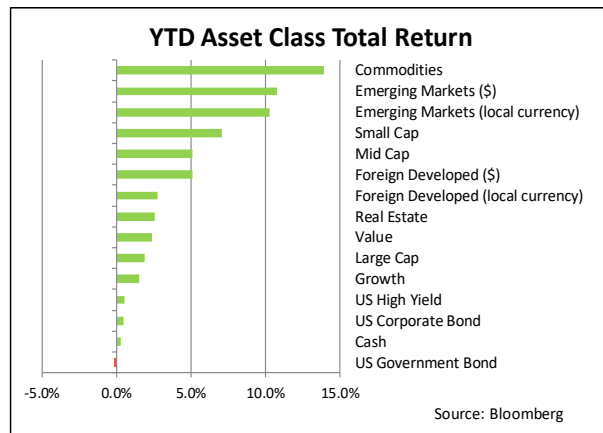
Data Section

US Equity Markets – (as of 1/29/2026 close)

YTD Total Return

Sector	
Energy	~13%
Materials	~10%
Industrials	~7%
Consumer Staples	~6%
Real Estate	~2.5%
Technology	~2%
S&P 500	~1.5%
Communication Services	~1.5%
Utilities	~1.5%
Consumer Discretionary	~1.5%
Healthcare	~-1%
Financials	~-2.5%

Prior Trading Day Total Return

Sector	
Communication Services	~2.6%
Real Estate	~1.3%
Financials	~1%
Industrials	~1%
Energy	~0.9%
Materials	~0.1%
Utilities	~0%
S&P 500	~-0.1%
Consumer Staples	~-0.3%
Healthcare	~-0.4%
Consumer Discretionary	~-0.5%
Technology	~-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 1/29/2026 close)

YTD Asset Class Total Return

Commodities
Emerging Markets ($)
Emerging Markets (local currency)
Small Cap
Mid Cap
Foreign Developed ($)
Foreign Developed (local currency)
Real Estate
Value
Large Cap
Growth
US High Yield
US Corporate Bond
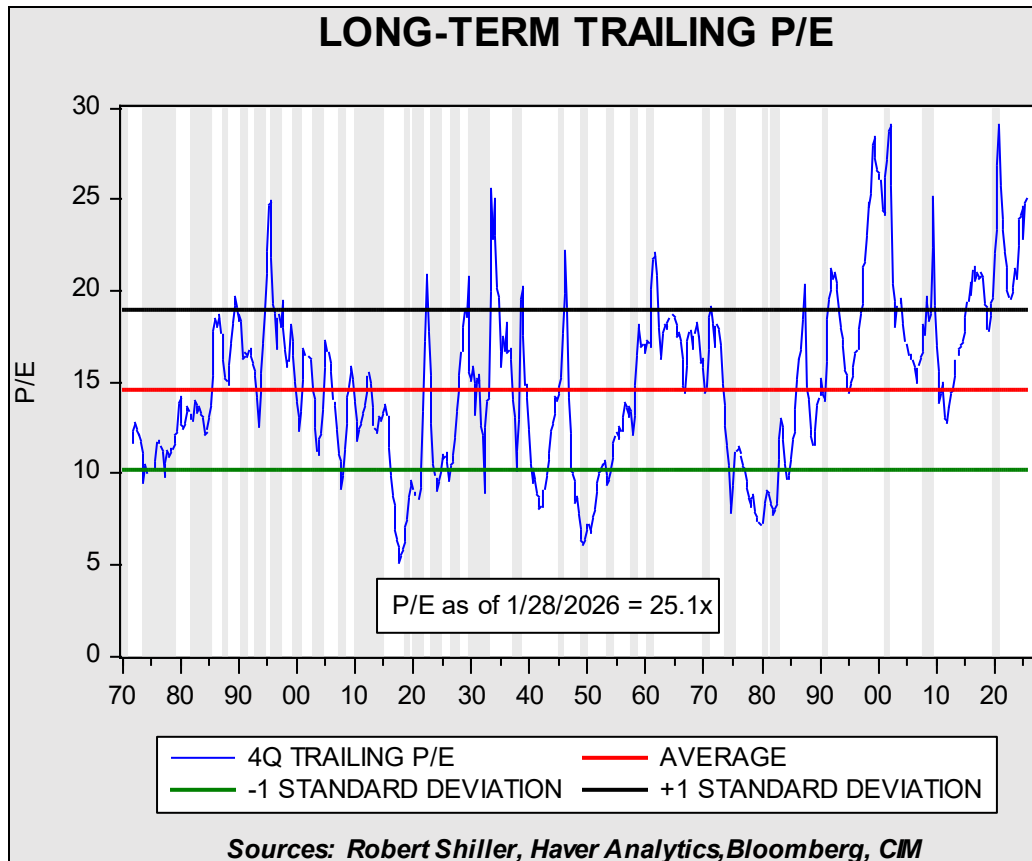Cash
US Government Bond

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 29, 2026

LONG-TERM TRAILING P/E

P/E as of 1/28/2026 = 25.1x

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 25.1x, 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.

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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.