Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: January 7, 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 down 0.6%. Chinese markets were higher, with the Shanghai Composite up 0.1% and the Shenzhen Composite also up 0.1%. US equity index futures are signaling a lower open.

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
"Geopolitical Outlook for 2026" (12/15/25) + podcast	"America's AI Buildout and Its Market Risks" (1/5/26)	Q4 2025 Report Q4 2025 Rebalance Presentation	The 2026 Outlook Confluence of Ideas Podcast

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 the evolving US policy toward Venezuela, following its recent action against the Maduro government. We then examine the growing US strategic interest in Greenland, assess signs of shifting housing affordability, and analyze rising tensions between Japan and China. The report also includes a roundup of key domestic and international data releases for the coming period.

The Transition: The White House has announced its latest measures to exert influence over the situation in Venezuela. On social media, President Trump stated that the country would export up to 50 million barrels of sanctioned oil to the US, a move that could generate approximately $2.8 billion at current market prices. Meanwhile, administration officials have sought to downplay the possibility of military boots on the ground in the region. These actions provide a clear template for how the White House intends to project influence and manage regime transitions abroad.

- The decision to facilitate these oil sales comes as Washington seeks to decouple Venezuela from the US's traditional rivals, specifically China, Iran, Cuba, and Russia.

President Trump has urged the interim government to not only sever economic ties and expel suspected foreign intelligence agents but also to align closely with US energy interests.

- While there has been extensive discussion regarding the structure of the next administration, there appears to be no appetite for a military occupation due to the high political risks involved. Instead, the focus has shifted to internal leadership, where significant friction remains. The White House currently favors acting President Delcy Rodríguez as a stabilizing figure, though a vocal contingent of policymakers continues to advocate for opposition leader María Corina Machado.
- Managing the political transition in Venezuela represents a critical test of the White House's capacity to navigate complex foreign regime changes. The outcome will establish a significant precedent, as the administration increasingly frames foreign policy through a lens of national security ahead of the 2026 agenda. Success or failure here will directly inform potential strategies for other adversarial or unstable governments, such as Cuba, and ultimately, a post-war Ukraine.
- The administration's expansive foreign policy may be strategically aimed at consolidating access to global mineral resources. While its approach will likely differ from the more confrontational posture adopted toward Venezuela, the underlying objective appears to be reshaping the international order to secure cheaper and more reliable resource supply chains. This, in turn, directly supports the overarching ambition of expanding domestic manufacturing capacity and securing economic sovereignty.

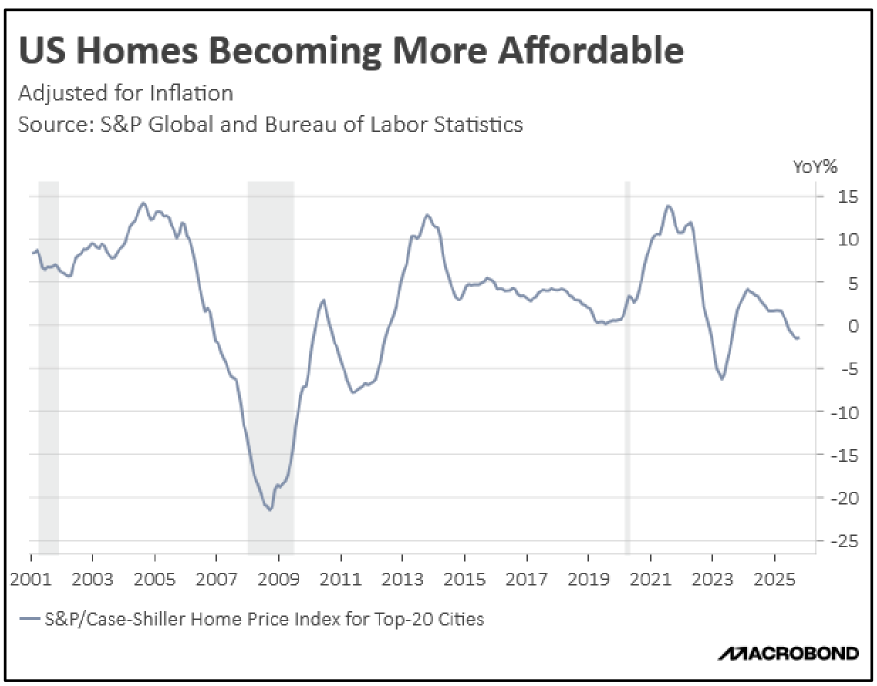
Greenland, Next? Following the recent military capture of Nicolás Maduro in Venezuela, international attention has shifted to the White House's renewed interest in Greenland. (For a deeper dive into why the US is so interested in Greenland, see our previous Bi-Weekly Geopolitical Report on the topic) On Tuesday, US Press Secretary Karoline Leavitt confirmed that the president is exploring ways to acquire the territory, explicitly stating that military options remain available. While it is debated whether this is simply high-stakes bravado, the rhetoric signals a clear shift from a soft, diplomatic approach to foreign policy to a harder, more assertive approach.

- The controversy intensified as Secretary of State Marco Rubio and Senior Aide Stephen Miller confirmed the White House's sights are set on Greenland. Rubio maintained the administration's interest in a formal purchase, but Miller went further, questioning the legitimacy of Danish claims to the territory by calling it a colony and suggesting that Europe lacks the resolve to fight for the island.
- By threatening a sovereign ally like Denmark, the White House is signaling a break from the transatlantic relationship. This shift follows a pattern of 2025 policies where the US excluded European leaders from Ukraine peace talks and moved to dismantle EU-led digital and trade frameworks. The push for Greenland is the latest evidence that the US now prioritizes its own strategic interests over long-standing diplomatic ties with the EU.
- The administration's recent maneuvers suggest that the EU must accelerate its path toward strategic autonomy to reduce its security dependence on the United States. This

pivot will likely manifest in significantly increased defense spending and could eventually force a European-led restructuring of NATO — or even a total US exit from the alliance.

- Regarding the Western Hemisphere, the aggressive push to exert control over sovereign territories suggests that the "Modern Monroe Doctrine" we previously identified in our geopolitical outlook may be far more expansive than we initially predicted. That said, our conclusion remains the same: Those who fall within the US sphere of influence will likely receive preferential economic treatment in exchange for cooperation.
- The administration's recent moves indicate that the 2025 surge in international equities has room to run in 2026. Specifically, we see significant upside for the European defense sector as military budgets expand in response to US unilateralism. Additionally, this modern Monroe Doctrine creates a clear path for countries within the Western Hemisphere to receive preferential trade and investment treatment — provided they align with US interests.

Home Affordability: US mortgage rates [have retreated to their lowest levels since September 2024], signaling a meaningful easing of borrowing costs. This decline coincides with a sustained slowdown in home price appreciation, which has recently fallen below the rate of inflation for the first time since 2023. These improved conditions are expected to bolster the economy as households leverage lower rates to refinance existing debt and consolidate high-interest obligations.



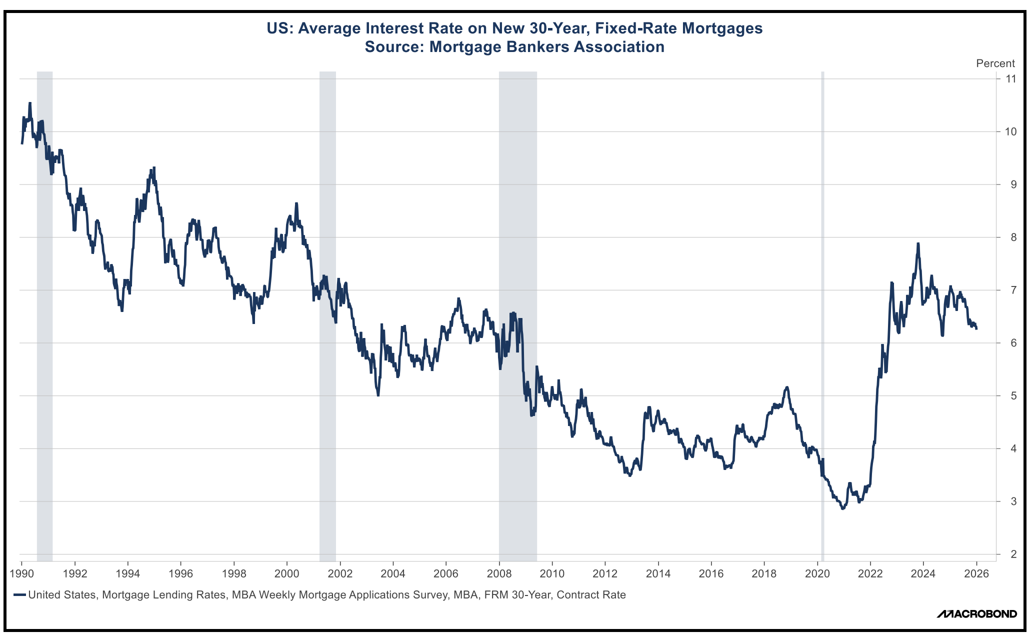
Samsung Price Hikes: Surging demand for AI is beginning to drive up costs across multiple sectors. On Tuesday, [Samsung reported that intense competition for chip procurement has increased production costs] for its latest Galaxy smartphones, a trend now extending to televisions and home appliances. This escalation serves as a prime example of how the AI boom is creating spillover effects and is increasingly acting as a catalyst for goods-related inflation.

Iran Protests: The Iranian president has instructed security forces to avoid targeting peaceful protesters as the government moves to prevent further civil unrest. This directive follows nationwide demonstrations sparked by a sharp devaluation of the country's currency, which has deepened public distrust. Now in their second week, the protests have resulted in at least 36 deaths. The US is monitoring the situation closely as it considers its policy response and the possibility of intervention.

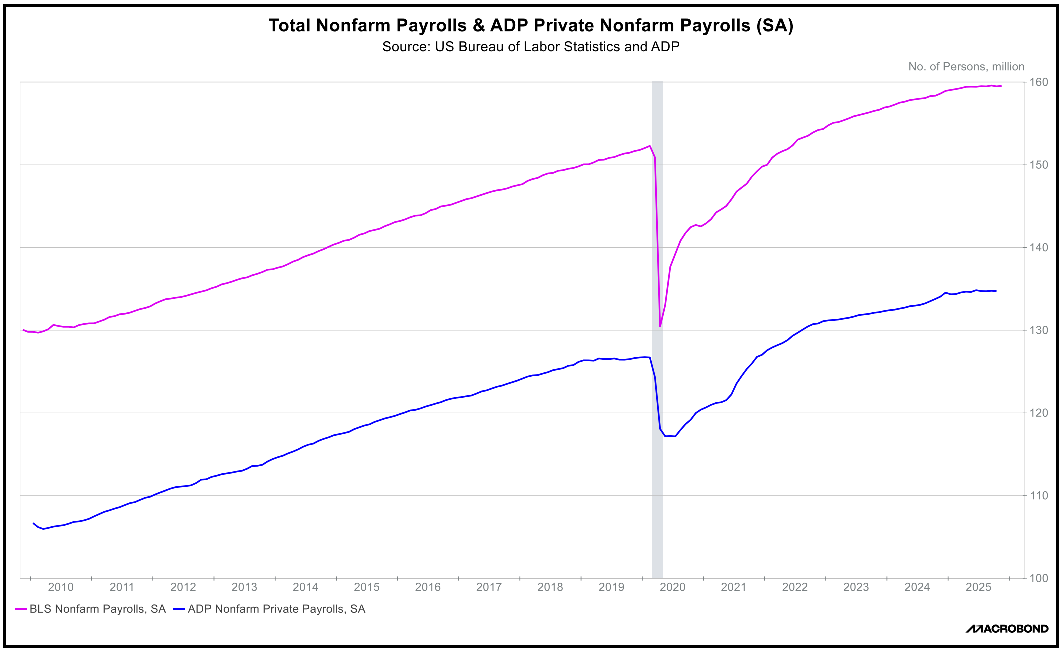
Japan and China Ties: Tokyo is weighing a response to Beijing's recent ban on dual-use exports and potential curbs on rare earth elements. Japan's strongest countermove lies in its near-monopoly on high-end photoresists and chip-packaging materials, where it controls 90% of the global market. However, it may be reluctant to use it due to its export dependence on China. The dispute highlights the deepening security ties between the US and Japan at a time when analysts are increasingly wary of a potential conflict over Taiwan in the coming years.

US Economic Releases

The Mortgage Bankers Association said ***mortgage applications*** in the week ended January 3 rose 0.3%, erasing a small part of their 10.0% decline in the previous week. Applications for home purchase mortgages fell 6.2%, after declining 0.1% in the previous week. However, applications for refinancing mortgages rose 7.4%, following their 19.6% plunge the week before. The average interest rate on a 30-year, fixed-rate mortgage fell 7 basis points to 6.25%. The chart below shows how mortgage rates have changed over time.



Separately, the ADP Research Institute estimated that ***private payroll employment*** rose in December by a seasonally adjusted 41,000, short of the expected gain of 50,000 but still more than enough to erase the revised decline of 29,000 in November. ADP's estimate is widely seen as an indicator of what to expect when the Labor Department releases its measure of nonfarm payrolls on Friday. The chart below shows the Labor Department's figure for total nonfarm payrolls and ADP's estimate of private payrolls since 2010.



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	ISM Services Index	m/m	Dec	52.2	52.6	***
10:00	ISM Services Prices Paid	m/m	Dec	64.9	65.4	*
10:00	ISM ServicesNew Orders	m/m	Dec	52.6	52.9	*
10:00	ISM Services Employment	m/m	Dec	49	48.9	*
10:00	JOLTS Job Openings	m/m	Nov	7648k	7670k	*
10:00	Factory Orders	m/m	Oct	-1.2%	0.2%	***
10:00	Factory Orders Ex Transportation	m/m	Oct		0.2%	**
10:00	Durable Goods Orders	m/m	Oct F	-2.2%	-2.2%	***
10:00	Durable Goods Orders ex Transportation	m/m	Oct F	-0.2%	0.2%	**
10:00	Cap Goods Orders Nondef Ex Air	m/m	Oct F		0.5%	*
10:00	Cap Goods Ship Nondef Ex Air	m/m	Oct F		0.7%	*
Federal Reserve						
EST	**Speaker or Event**	**District or Position**				
16:10	Michelle Bowman Speaks on Banking Supervision and Regulation	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	S&P Global Japan Composite PMI	m/m	Dec F	51.1	51.5		*	Equity and bond neutral
	S&P Global Japan Services PMI	m/m	Dec F	51.6	52.5		*	Equity and bond neutral
Australia	CPI	y/y	Nov	3.4%	3.8%	3.6%	**	Equity and bond neutral
	Building Approvals	m/m	Nov	15.2%	-6.1%	2.0%	***	Equity bullish, bond bearish
China	Foreign Reserves	m/m	Dec	$3357.87b	$3346.37b	$3360.00b	**	Equity and bond neutral
EUROPE								
Eurozone	CPI	y/y	Dec P	2.0%	2.1%	2.0%	***	Equity and bond neutral
	Core CPI	y/y	Dec P	22.3%	2.4%	2.4%	**	Equity and bond neutral
Germany	Unemployment Change	m/m	Dec	3.0k	1.0k	5.0k	***	Equity and bond neutral
	Unemployment Claims Rate	m/m	Dec	6.3%	6.3%	6.3%	**	Equity and bond neutral
	Retail Sales	y/y	Nov	-1.8%	2.1%	0.1%	*	Equity bearish, bond bullish
	CPI	y/y	Dec P	2.1%	2.3%	2.1%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Dec P	2.2%	2.6%	2.2%	**	Equity and bond neutral
	HCOB Germany Construction PMI	m/m	Dec	50.3	45.2		*	Equity and bond neutral
France	Consumer Confidence	m/m	Dec	90.0	89.0	90.0	***	Equity and bond neutral
Italy	CPI, EU Harmonized	y/y	Dec P	1.2%	1.1%	1.2%	***	Equity and bond neutral
	CPI NIC Including Tobacco	y/y	Dec P	1.2%	1.1%	1.2%	**	Equity and bond neutral
UK	S&P Global UK Construction PMI	m/m	Dec	40.1	39.4	42.3	**	Equity and bond neutral
AMERICAS								
Canada	S&P Global Canada Services PMI	m/m	Dec	46.5	44.3		*	Equity and bond neutral
	S&P Global Canada Composite PMI	m/m	Dec	46.7	44.9		*	Equity and bond neutral
Mexico	International Reserves Weekly	w/w	2-Jan	$251828m	$252130m		*	Equity and bond neutral
	Vehicle Domestic Sales	y/y	Dec	154395	148361		***	Equity and bond neutral
	Consumer Confidence	m/m	Dec	44.7	44.1		*	Equity and bond neutral
Brazil	Trade Balance	m/m	Dec	$9633m	$5820m	$7111m	**	Equity and bond neutral
	Exports	m/m	Dec	$31038m	$28250m	$30600m	*	Equity and bond neutral
	Imports	m/m	Dec	$21405m	$22430m	$23600m	*	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)	351	351	0	Down
U.S. Sibor/OIS spread (bps)	365	365	0	Down
U.S. Libor/OIS spread (bps)	360	361	-1	Down
10-yr T-note (%)	4.14	4.17	-0.03	Down
Euribor/OIS spread (bps)	203	203	0	Flat
Currencies	**Direction**			
Dollar	Flat			Flat
Euro	Flat			Up
Yen	Flat			Down
Pound	Flat			Up
Franc	Flat			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.

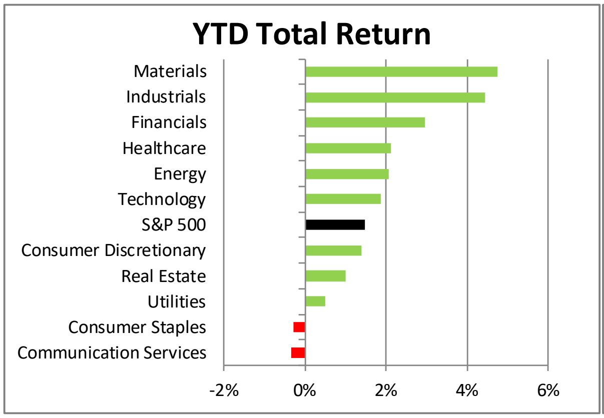
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$60.52	$60.70	-0.30%	
WTI	$56.79	$57.13	-0.60%	
Natural Gas	$3.49	$3.35	4.09%	Increased Demand, Supply pessimisn
Crack Spread	$20.17	$19.77	1.99%	
12-mo strip crack	$22.94	$22.75	0.84%	
Ethanol rack	$1.79	$1.80	-0.24%	
Metals				
Gold	$4,452.68	$4,494.83	-0.94%	
Silver	$78.79	$81.27	-3.05%	
Copper contract	$598.00	$606.25	-1.36%	
Grains				
Corn contract	$445.50	$444.00	0.34%	
Wheat contract	$513.75	$510.50	0.64%	
Soybeans contract	$1,064.75	$1,056.25	0.80%	
Shipping				
Baltic Dry Freight	1,830	1,851	-21	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		-1.00		
Gasoline (mb)		2.00		
Distillates (mb)		1.10		
Refinery run rates (%)		0.00%		
Natural gas (bcf)		-107		

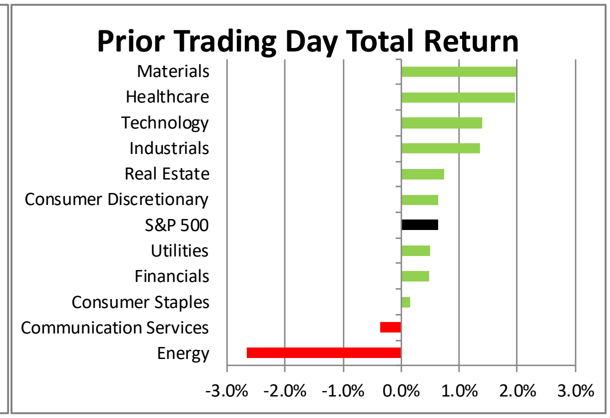
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures from the West Coast to the Mississippi River and in the Northeast, with cooler-than-normal temperatures along the Gulf Coast. The outlook calls for wetter-than-normal conditions in the Upper Midwest, southern Texas, and southern Florida, with dry conditions in the Far West and Mississippi Valley regions.

Data Section

US Equity Markets – (as of 1/6/2026 close)

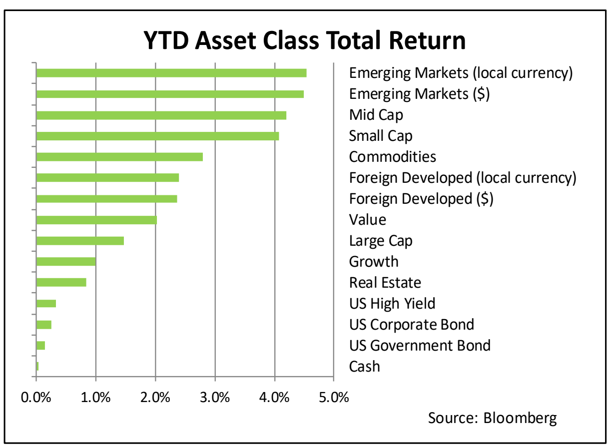




(Source: Bloomberg)

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 1/6/2026 close)

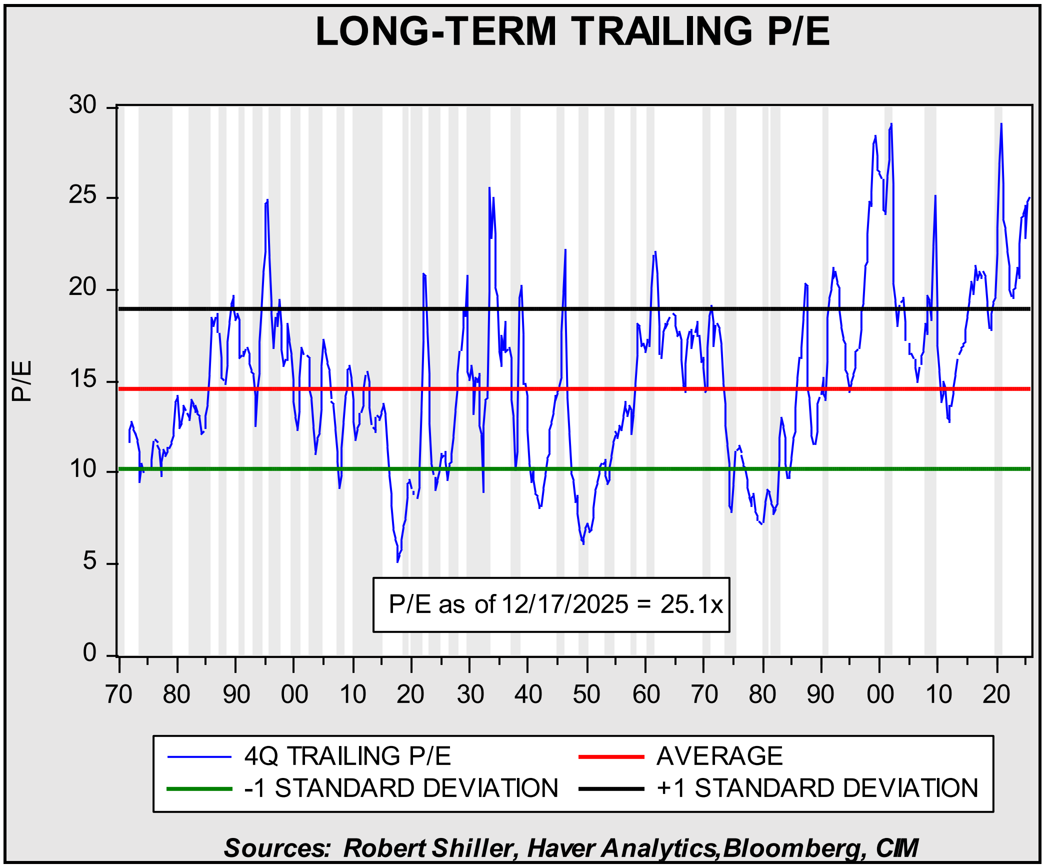


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

December 18, 2025



Based on our methodology,[1] the current P/E is 25.1x, unchanged from the previous report. The stock price index and earnings were little changed from the previous month.

[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.