Confluence INVESTMENT MANAGEMENT

Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: January 8, 2026 — 9:30 AM ET] Global equity markets are generally lower 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 0.9%. Chinese markets were mixed, with the Shanghai Composite down 0.1% and the Shenzhen Composite up 0.2%. 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 conflicting economic data before examining the president's shift toward populist objectives. We also assess the stabilizing diplomatic relations between the US and Latin America, rising momentum for the extension of ACA subsidies, and new restrictions on Chinese imports of Nvidia chips. Lastly, the report includes a roundup of key domestic and international data releases for the coming period.

Mixed Signals: Economic uncertainty remains high as recent data releases provide contradictory signals. The December ISM Services PMI showed the sector expanded more than expected, reaching a 2025 high of 54.4%. Conversely, the JOLTS report revealed that job openings fell to 7.1 million in November — the lowest level in over a year. This divergence complicates the economic outlook, particularly as investors try to gauge what its overall direction will be over the next few months.

- The latest ISM Services PMI offered significant reassurance, showing a robust increase in sector activity to finish 2025. The report highlighted a sharp pickup in both new orders

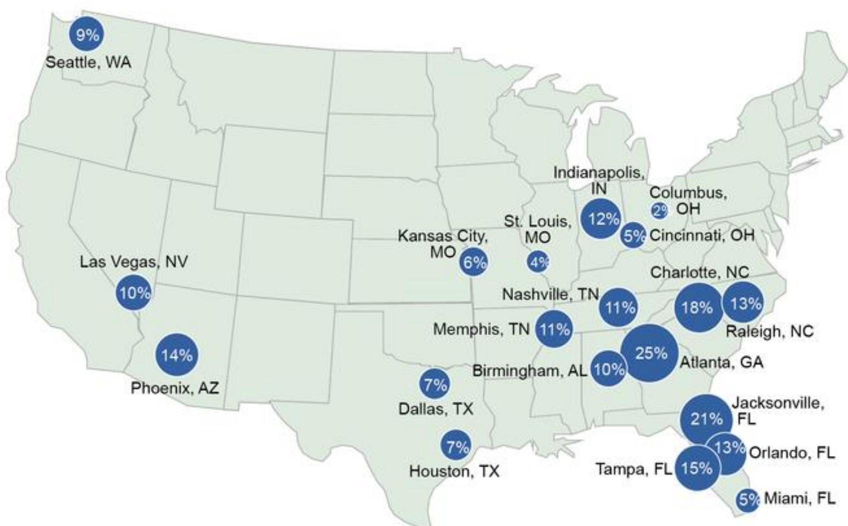
(57.9%) and business activity (56.0%), alongside a welcomed easing of price pressures. This data suggests that the policy uncertainty that weighed on non-tech investment spending throughout 2025 may finally be dissipating as we enter the new year.

- The decline in job openings presents a starkly different narrative. Although the data reflects labor conditions from November, it confirms that labor demand remains subdued. Not only did job openings retreat during the month, but there was also a notable slowdown in US hiring. This suggests that while business optimism may be rising, firms remain cautious about the future and are hesitant to expand their headcounts.
- Over the past year, a noticeable divergence has emerged between resilient economic activity and a softening labor market. This decoupling likely reflects an economy still adjusting to the rapid implementation of trade tariffs and the escalating integration of generative AI. Consequently, we are entering a period that reaffirms the "two-speed" market narrative, where the record-breaking performance of Wall Street stands in sharp contrast to the cooling conditions on Main Street.
- Over the coming months, a convergence in data will likely settle the debate between economic optimists and skeptics. That said, subdued layoff activity bodes well for the bullish outlook, suggesting the economy can withstand current pressures. With market valuations stretched to historic levels, a "risk-off" approach is prudent. We recommend a tactical shift toward higher-quality, less volatile assets.

Populist Pivot: As the country approaches the midterms, President Trump has begun pushing less market-friendly initiatives to placate his populist base. On Wednesday, he announced plans to prevent institutional investors from purchasing single-family homes and signaled a push for defense firms to suspend dividends and stock buybacks. These moves likely serve as the first signs of a rebranding effort as the president seeks to energize his supporters ahead of the upcoming elections.

- These actions have caught the market largely off guard. Although the president (famed for the "put" that bears his name) has a reputation for driving equities higher, his recent maneuvers suggest a pivot toward corporate accountability. This shift indicates a willingness to curb specific business practices and prioritize national objectives over investor returns.
- Advocates for affordable housing have spent years pushing for a ban on corporate home buying, a movement sparked by the fallout of the Great Financial Crisis. Following the 2008 collapse, institutional investors moved in to purchase distressed homes in massive quantities. A 2024 GAO study highlights the scale of this shift. Before 2010, no investor held a portfolio exceeding 1,000 single-family homes. Since 2015, that figure has exploded, particularly in the Sun Belt states as shown in the figure below.

Estimated Share of the Single-Family Rental Market Held by Investors with over 1,000 Homes in Selected Areas, as of 2022



Source: GAO analysis of Urban Institute data. | GAO-24-106643

- Furthermore, the president's push to curb dividends and stock buybacks among defense contractors comes as he proposes a record $1.5 trillion in military spending. These restrictions appear designed to prevent market speculators from profiting from increased government outlays. This is a move that directly addresses a long-standing populist critique regarding corporate war profiteering.
- While there are compelling reasons for optimism in the equity markets — driven largely by expectations of continued monetary and fiscal stimulus — we have observed a notable underpricing of political risk ahead of the 2026 midterm elections. Consequently, we recommend that investors prioritize diversification into value-oriented sectors. This rotation serves as a strategic hedge against a potential shift in market sentiment, especially as both domestic and foreign policy agendas evolve rapidly.

Colombian Crisis Avoided? Tensions between Washington and Bogotá are cooling after a constructive call between the two leaders. Just days ago, markets were rattled by threats of military action against Colombia; however, President Trump's new conciliatory tone and invitation for a White House meeting have provided much-needed relief. This diplomatic pivot is a tailwind for both US and Latin American equities, as it reduces the immediate risk of geopolitical conflict.

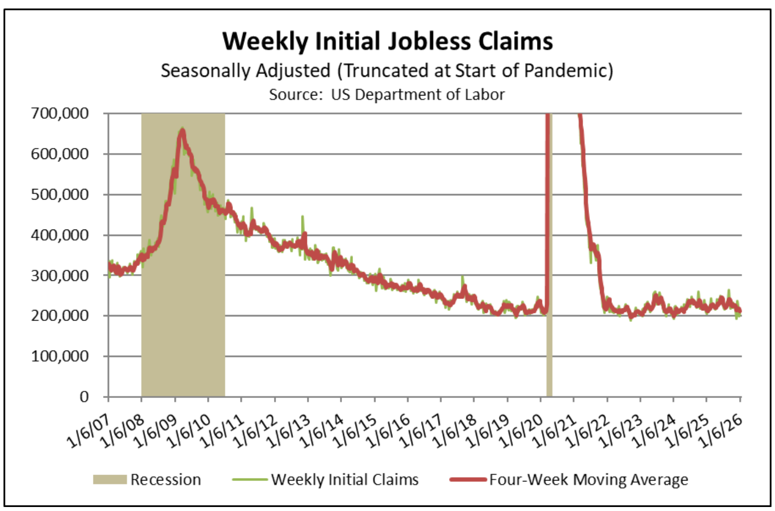
ACA Extension: The House is moving toward a vote to reinstate ACA tax credits for the next three years. Despite a partisan deadlock over abortion funding, nine Republicans voted with Democrats on Wednesday to advance the legislation. The White House has taken an active role in negotiations, with the president pressuring his party to compromise on Hyde Amendment protections to avoid further political fallout from rising healthcare premiums ahead of the midterms.

No Climate Agreement: The White House announced its intention to withdraw from the UN global climate agreement and to reduce funding for climate research agencies. The president justified the decision by stating the agreement no longer served US interests. This move marks a significant shift toward unilateralism, prioritizing national interests over international alliances. Consequently, progress in clean energy research and development is likely to be adversely affected.

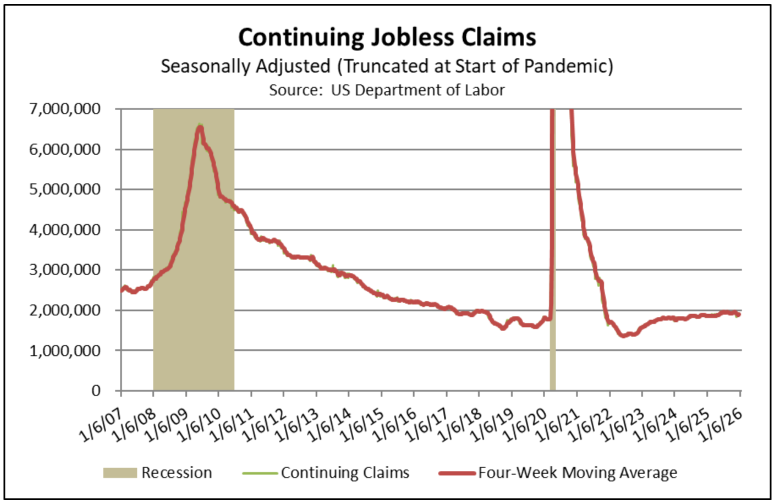
China Limits Nvidia Chips: China's access to advanced semiconductors is becoming increasingly constrained by both its own government and foreign suppliers. In a limited concession, Beijing has authorized the commercial import of certain Nvidia H200 chips, prohibiting their use in state or military applications. However, Nvidia has stipulated that Chinese buyers must pay upfront without the possibility of refunds. This dynamic reinforces a critical trend: Chinese companies are being pushed toward greater technological self-reliance.

US Economic Releases

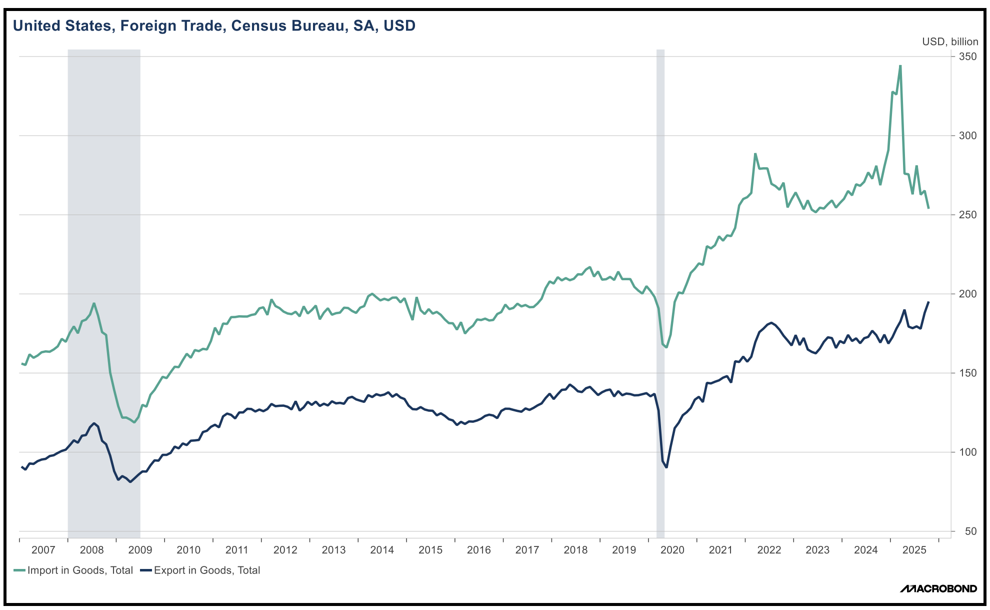
In the week ended January 3, ***initial claims for unemployment benefits*** rose to a seasonally adjusted 208,000, slightly below the expected level of 212,000 but up from a revised 200,000 in the previous week. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, fell to a very low 211,750. 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.



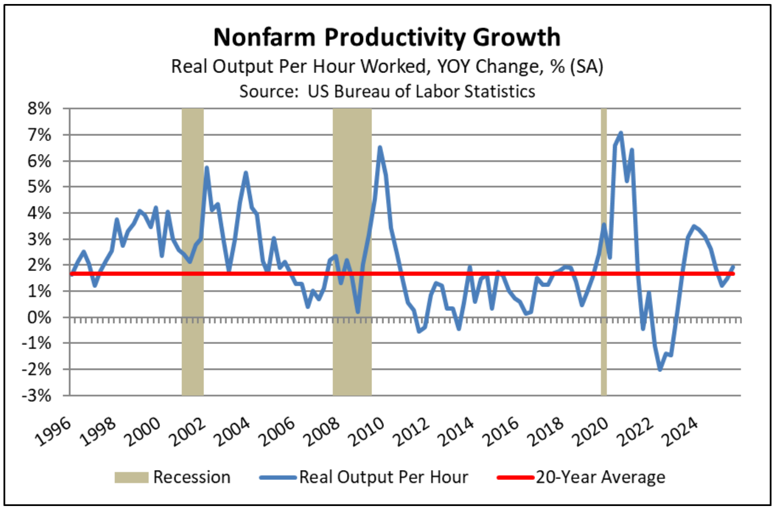
In the week ended December 27, the number of ***continuing claims for unemployment benefits*** (people continuing to draw benefits) rose to a seasonally adjusted 1.914 million, above both the anticipated reading of 1.900 million and the prior week's revised reading of 1.858 million. The four-week moving average of continuing claims rose to 1,892,750. 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.



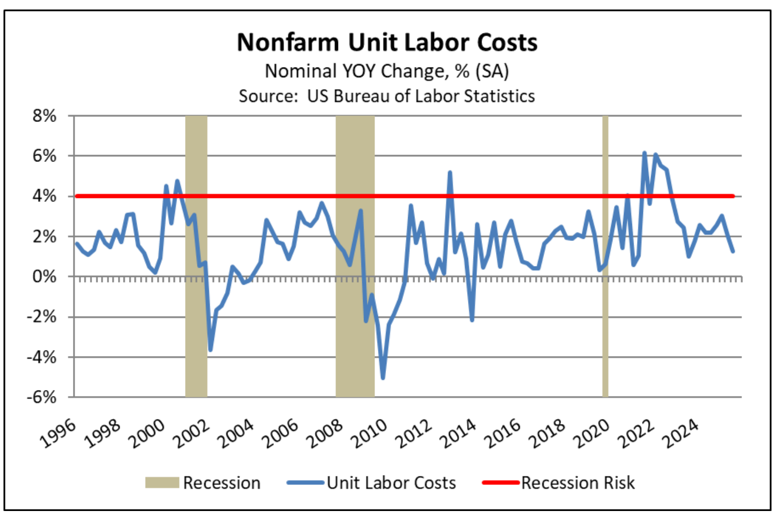
In a separate report, the US ***merchandise trade balance*** in October came in at a seasonally adjusted deficit of $29.4 billion, much narrower than both the expected shortfall of $58.7 billion and the revised September shortfall of $48.1 billion. According to the data, total merchandise exports rose 2.6%, while imports fell 3.2%. The chart below shows the monthly value of US exports and imports since just before the GFC.



Another report today 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, third-quarter ***nonfarm productivity*** rose at an annualized rate of 4.9%, slightly short of the anticipated growth rate of 5.0%, but still well above the 4.1% rate in the second quarter. Taking into account the fluctuations in each of the last four quarters, productivity in the third quarter was up 1.9% from the same period one year earlier. Productivity growth is the key to boosting living standards and supporting higher wages, so the slightly above-average productivity growth over the last year is a good sign for US workers. The chart below shows the year-over-year growth in real productivity over the last several decades.



Reflecting the good productivity growth, third-quarter ***unit labor costs*** fell at an annualized rate of 1.9%, even better than the expected rate of decline of 0.1% but not as good as the revised rate of decline of 2.9% in the prior period. Unit labor costs in the third quarter were up a very modest 1.2% from the same period one year earlier, well below the 4.0% increase that has often been associated with recessions in the past. 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	Wholesale Inventories	m/m	Oct F	0.2%	0.5%	**
10:00	Wholesale Trade Sales	m/m	Oct	1.0%	-0.2%	*
11:00	NY Fed 1-Yr Inflation Expectations	m/m	Dec	35	3.2	*
14:00	Consumer Credit	m/m	Nov	$10.082b	$9.178b	*
Federal Reserve						
EST	**Speaker or Event**	**District or Position**				
8:00	Stephen Miran on Bloomberg TV	Members of the Board of Governors				
10:00	Stephen Miran Speaks in Athens	Members 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	Real Cash Earnings	m/m	Nov	-2.8%	-0.7%	-1.2%	*	Equity bearish, bond bullish
	Labor Cash Earnings	y/y	Nov	0.5%	2.6%	2.3%	**	Equity bearish, bond bullish
	Japan Buying Foreign Bonds	w/w	2-Jan	-¥2223.6b	-¥1049.6b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	2-Jan	¥236.6b	-¥221.5b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	2-Jan	¥273.5b	-¥544.7b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	2-Jan	¥124.9b	¥342.2b		*	Equity and bond neutral
	Consumer Confidence Index	m/m	Dec	37.2	37.5	37.8	*	Equity and bond neutral
Australia	Trade Balance	m/m	Nov	A$2936m	A$4353m	A$5000m	***	Equity and bond neutral
	Exports	m/m	Nov	-2.9%	4.3%		*	Equity and bond neutral
	Imports	m/m	Nov	0.2%	2.0%		*	Equity and bond neutral
	Foreign Reserves	m/m	Dec	A$112.5b	A$110.5b		**	Equity and bond neutral
EUROPE								
Eurozone	Consumer Confidence	m/m	Dec F	-13.1	-14.6		**	Equity and bond neutral
	Economic Confidence	m/m	Dec	96.7	97.1	97.1	***	Equity and bond neutral
	Industrial Confidence	m/m	Dec	-9.0	-9.3	-9.1	***	Equity and bond neutral
	Services Confidence	m/m	Dec	5.6	5.8	6.0	**	Equity and bond neutral
	PPI	y/y	Nov	-1.7%	-0.5%	-1.7%	**	Equity and bond neutral
	Unemployment Rate	m/m	Nov	6.3%	6.4%	6.4%	**	Equity and bond neutral
Germany	Factory Orders WDA	y/y	Nov	10.5%	-0.7%	2.9%	***	Equity bullish, bond bearish
France	Trade Balance	m/m	Nov	-4167m	-3483m		*	Equity and bond neutral
Italy	Unemployment Rate	m/m	Nov	5.7%	5.8%	6.0%	**	Equity and bond neutral
Switzerland	CPI	y/y	Dec	0.1%	0.0%	0.1%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Dec	0.2%	0.0%		*	Equity and bond neutral
	Core CPI	y/y	Dec	0.5%	0.4%	0.4%	*	Equity and bond neutral
AMERICAS								
Mexico	CPI	y/y	Dec	3.69%	3.80%	3.75%	***	Equity and bond neutral
	Core CPI	y/y	Dec	4.33%	4.43%	4.33%	**	Equity and bond neutral
	Leading Indicators	y/y	Nov	0.11	0.13		**	Equity and bond neutral
Brazil	FGV Inflation IGP-DI	y/y	Dec	-1.20%	-0.44%	-1.15%	**	Equity and bond neutral
	Industrial Production	y/y	Nov	-1.2%	-0.5%	-1.0%	***	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	366	-1	Down
U.S. Libor/OIS spread (bps)	361	361	0	Down
10-yr T-note (%)	4.16	4.15	0.01	Down
Euribor/OIS spread (bps)	203	203	0	Up
Currencies	**Direction**			
Dollar	Up			Down
Euro	Flat			Up
Yen	Flat			Down
Pound	Down			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.

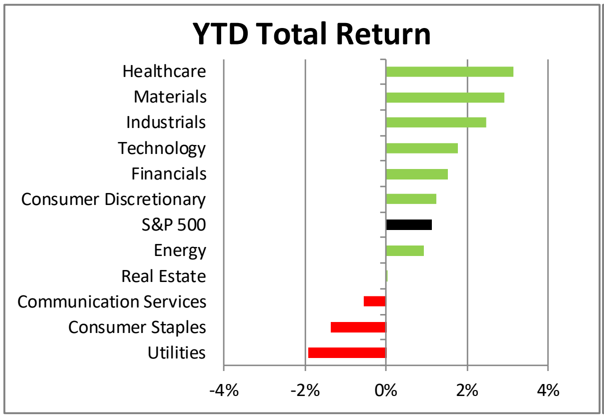
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$60.78	$59.96	1.37%	
WTI	$56.81	$55.99	1.46%	
Natural Gas	$3.49	$3.53	-1.05%	
Crack Spread	$20.74	$20.21	2.64%	
12-mo strip crack	$23.33	$22.98	1.53%	
Ethanol rack	$1.79	$1.79	-0.16%	
Metals				
Gold	$4,426.33	$4,456.47	-0.68%	
Silver	$74.85	$78.19	-4.27%	
Copper contract	$585.00	$586.05	-0.18%	
Grains				
Corn contract	$446.25	$446.75	-0.11%	
Wheat contract	$519.75	$518.00	0.34%	
Soybeans contract	$1,066.00	$1,067.00	-0.09%	
Shipping				
Baltic Dry Freight	1,776	1,830	-54	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	-3.83	-1.00	-2.83	
Gasoline (mb)	7.70	2.00	5.70	
Distillates (mb)	5.59	1.10	4.49	
Refinery run rates (%)	0.00%	0.00%	0.00%	
Natural gas (bcf)		-113		

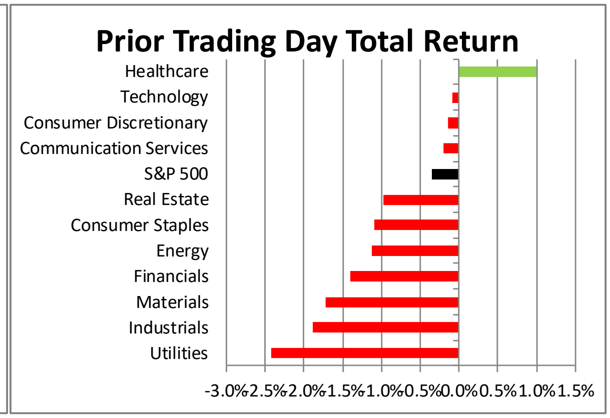
Weather

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 Dakotas, Minnesota, northern Wisconsin, southern Texas, and southern Florida, with dry conditions in the Far West and Mississippi Valley regions.

Data Section

US Equity Markets – (as of 1/7/2026 close)

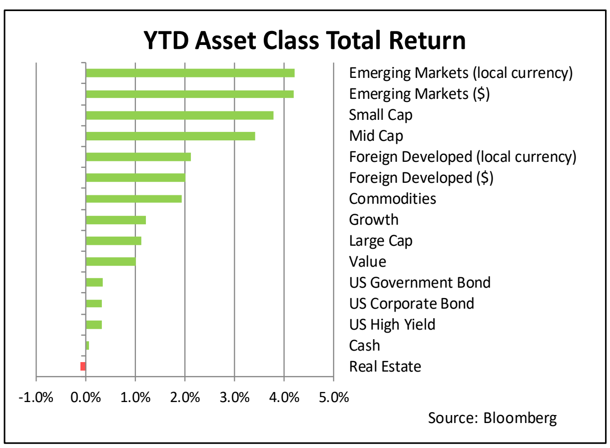




(Source: Bloomberg)

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 1/7/2026 close)

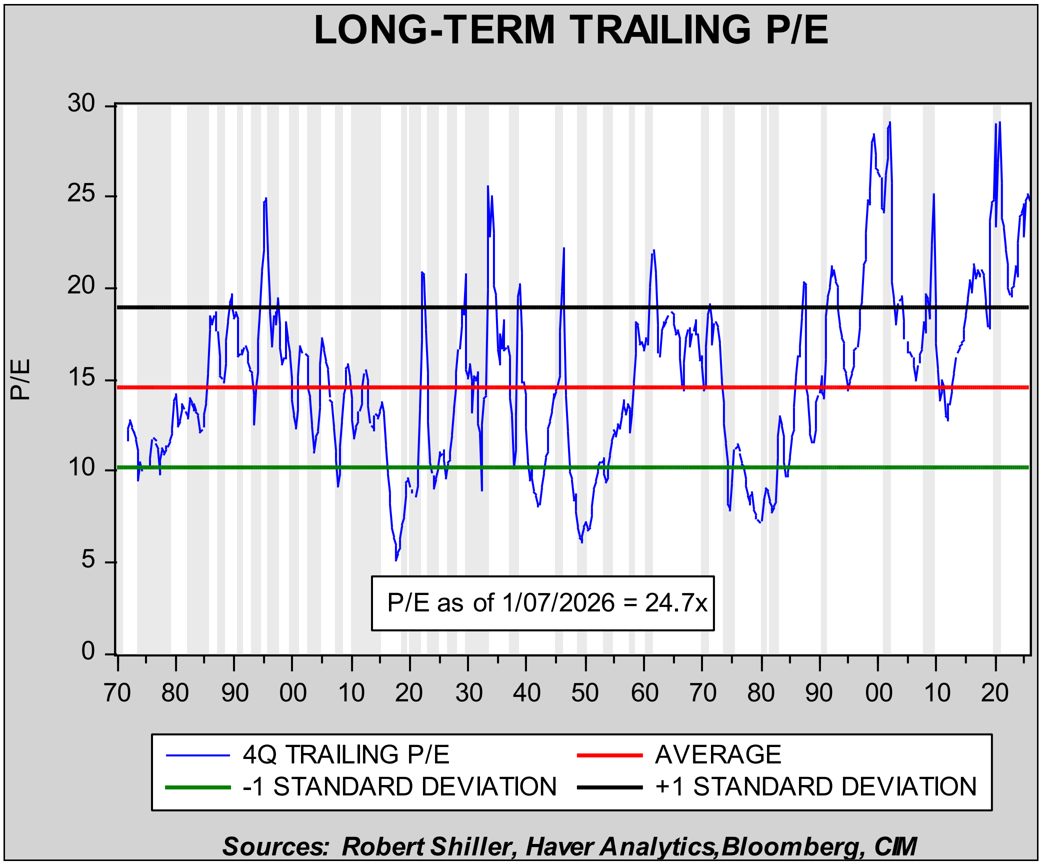


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 8, 2026



Based on our methodology,[1] the current P/E is 24.7x, down 0.4 from the previous report. This contraction was driven by a calendar roll-forward into the next fiscal quarter; the inclusion of higher projected quarterly earnings increased the denominator, resulting in a lower valuation multiple despite stable price levels.

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.