Daily Comment

Confluence Investment Management

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[Posted: January 9, 2026 — 9:30 AM ET] Global equity markets are mostly higher this morning. In Europe, the Euro Stoxx 50 is up 1.1% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.2%. Chinese markets were higher, with the Shanghai Composite up 0.9% and the Shenzhen Composite up 1.3%. US equity index futures are signaling a higher 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 president's latest home affordability initiatives. We also examine the escalating political infighting over presidential powers, today's critical tariff ruling, and Meta's strategic decision to invest in nuclear energy. Additionally, we address the implications of Russia's recent use of hypersonic missiles in Ukraine. The report also includes a comprehensive roundup of key domestic and international data releases.

Housing Affordability: President Trump has directed Fannie Mae and Freddie Mac to purchase $200 billion in mortgage-backed securities (MBS) in an aggressive bid to lower mortgage rates and improve home affordability. This directive follows his Wednesday announcement of a proposed ban on large institutional investors purchasing single-family homes, a move aimed at reducing corporate competition for prospective homebuyers. Collectively, these actions represent a dual-track strategy to build populist support ahead of the 2026 midterm elections.

- This move is expected to stimulate lending activity, providing a timely boost to a housing market that has recently shown signs of softening. Following the announcement, mortgage-backed securities rallied sharply, while lenders saw their outlook improve on expectations of higher origination volume. The spread between mortgage-backed securities and 10-year Treasury yields also tightened, reflecting anticipated growth in demand.

- That said, the impact of this change on the housing market is more nuanced than it appears. Prior to the president's announcement, Fannie Mae and Freddie Mac had already begun increasing their purchases of MBS. While this successfully narrowed the spread between mortgage rates and the benchmark 10-year Treasury yield, it has yet to spark significant demand. Consequently, nominal home prices are continuing to rise at their slowest pace since 2015.
- The current disconnect in the housing market stems from the fact that recent interest rate declines have yet to reach a critical "tipping point." As living costs rise and home prices continue to set new records, buyers have grown less sensitive to modest improvements in borrowing costs. To genuinely reinvigorate housing demand, a more substantial correction may be required, whether through a meaningful decrease in property values or a targeted stimulus to help buyers manage steep entry barriers.
- This context helps explain why the president's proposed restrictions on institutional home buying could carry significant weight in addressing affordability. Although institutional investors represent a small segment of the national market, their influence has been concentrated in Sun Belt states. By focusing on these high-impact regions, the policy seeks to stabilize housing costs for residents in key swing states and core supporter areas, where home prices remain out of reach for many prospective buyers.
- Forcing these investors to sell their holdings could exert downward pressure on home prices. If coordinated with increased MBS purchases by Fannie Mae and Freddie Mac, this two-part approach could meaningfully improve housing affordability for many voters. While we anticipate that an order to ban institutional investors from the housing market would likely face legal challenges, we believe the administration may still prioritize it.

Presidential Pushback: As the midterms approach, the president is encountering significantly greater resistance from within his own party than he has in the past. This tension was on clear display Thursday when several Republican senators joined with Democrats to pass legislation curtailing the president's authority to escalate military action in Venezuela. This growing rift is likely to fuel greater political uncertainty, particularly on foreign policy, as the president adopts an increasingly assertive stance toward Latin America and the broader Western Hemisphere.

- In a 52-47 vote on Thursday, the Senate passed an act to restrict the president's ability to escalate military action in Venezuela without congressional approval. While unlikely to become law (it would need to pass the Republican-controlled House and survive a near-certain veto), the vote represents a direct rebuke from within his own party. In response, the president attacked the senators involved and suggested they should be voted out of office.
- This congressional pushback complicates the president's efforts to pursue an expansive foreign policy agenda. In addition to Venezuela, administration rhetoric has suggested a

willingness to use force in other nations — particularly those linked to drug trafficking — and possibly as a means to acquire Greenland. A public vote that questions his authority could now turn the scope of presidential power into a contentious political issue ahead of the midterms, a scenario the White House would prefer to avoid.

- Furthermore, the Senate's vote threatens to undermine the administration's primary source of leverage as it seeks to project greater authority across Latin America. Without the credible threat of continued US military intervention, acting Venezuelan officials may find the space to push back against American demands. This shift could weaken the president's ability to influence neighboring countries and consolidate regional support for his broader agenda.
- This growing resistance from the president's own party provides a moderating influence on his foreign policy. By asserting its role in war-making decisions, Congress is effectively lowering the ceiling for military escalation in Latin America. This move toward greater oversight is likely to soothe commodity markets, reducing the uncertainty and volatility that often accompany unilateral military actions.

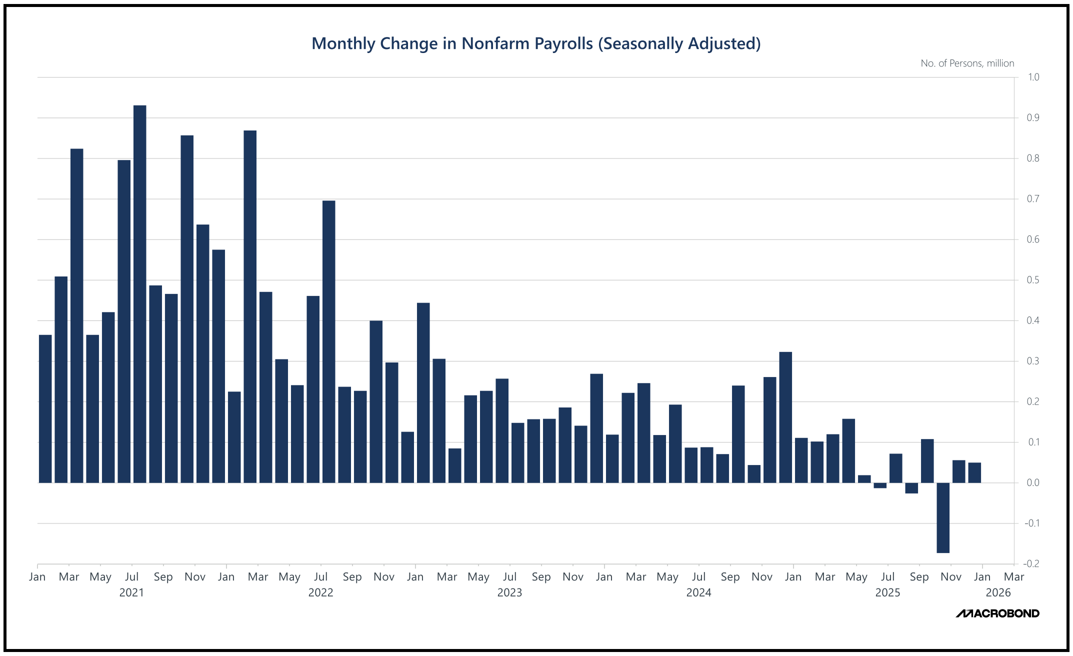
Tariff Ruling: The Supreme Court is set to rule on the scope of President Trump's authority to unilaterally implement tariffs. The decision, due today, is likely to clarify the extent of presidential power to impose tariffs without congressional approval and could raise questions about how to handle revenue already collected from these duties. While market expectations suggest the justices will place some limits on this executive authority, we suspect the president may seek alternative legal pathways to maintain the tariffs if constrained by the ruling.

Meta Goes Nuclear: Facebook's parent company is aggressively securing nuclear power to fuel its AI ambitions, as it has recently announced a major partnerships with Vistra and SMR innovators like Oklo. These agreements underscore the critical role of energy infrastructure in the AI race. As data center density increases, the demand for 24/7 power will benefit a wide array of energy sources, positioning nuclear and natural gas as indispensable partners to solar and wind in meeting the tech industry's soaring electricity needs.

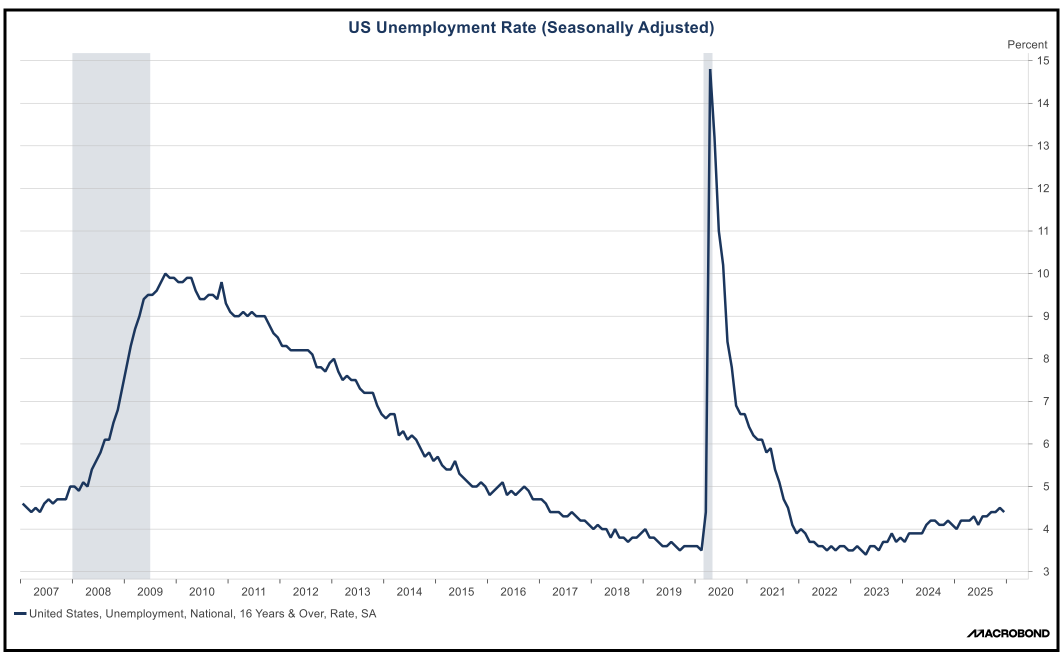
Russia Ramps Up: Thursday's Russian strike involving the Oreshnik hypersonic missile represents a dangerous new phase in the war. Impacting a strategic facility near Poland, the attack highlights Vladimir Putin's willingness to leverage nuclear-capable hardware to influence ongoing peace talks. Although the conflict appears to be moving toward a resolution, Russia's reliance on high-end weaponry suggests it fully intends to dictate the terms of regional security long after the fighting stops.

US Economic Releases

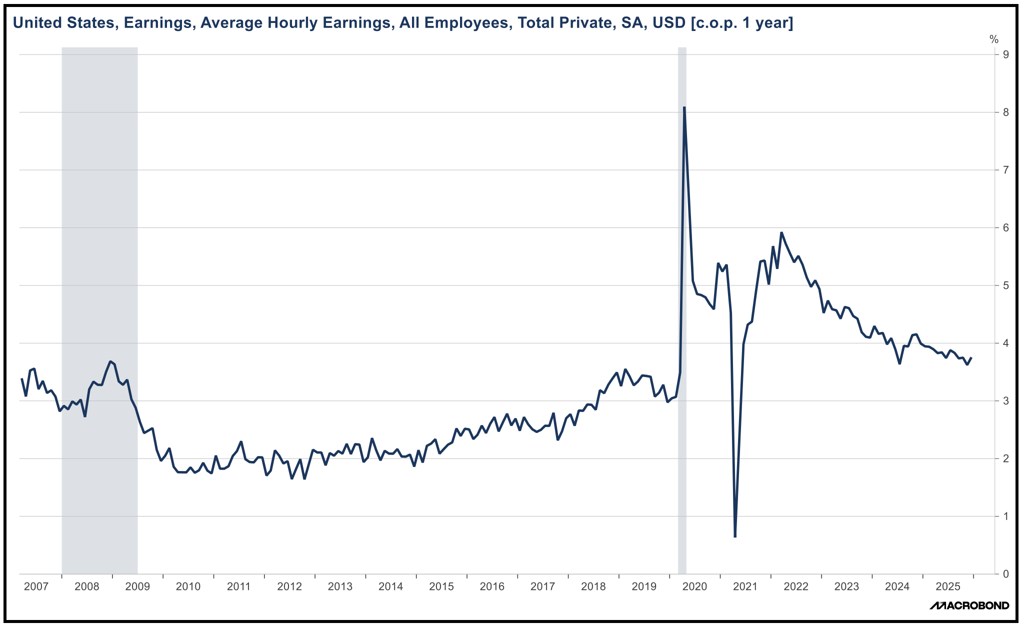
December ***nonfarm payrolls*** rose by a seasonally adjusted 50,000, short of the expected increase of 70,000 and weaker than the revised gain of 56,000 in November. Private payrolls increased by only 37,000, versus 50,000 in the previous month. The chart below shows the monthly change in nonfarm payrolls over the last five years.



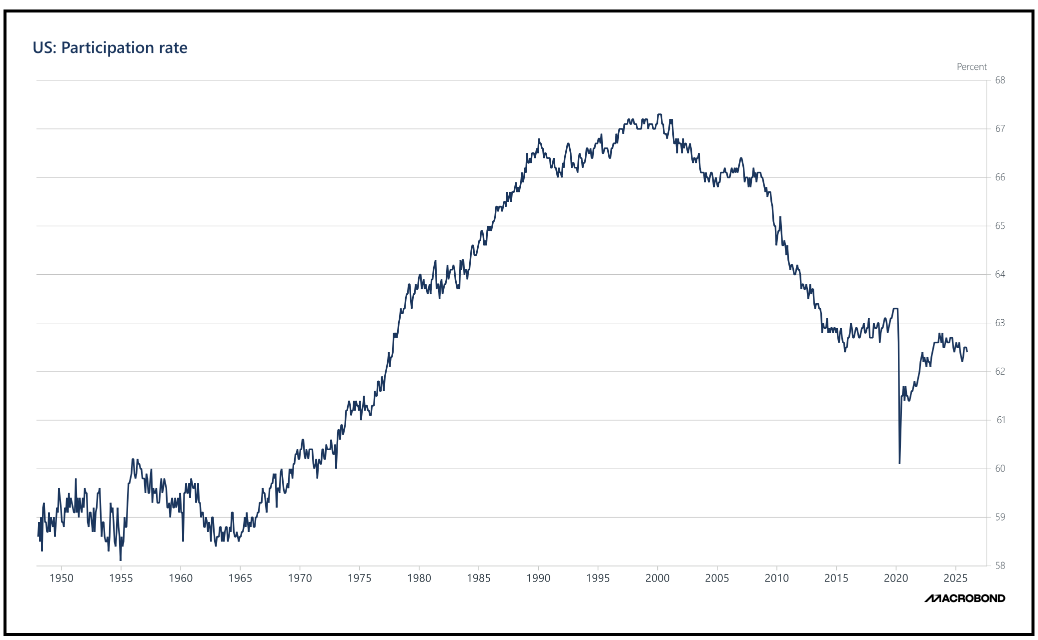
The December ***unemployment rate*** fell to a seasonally adjusted 4.4%, versus expectations that it would be unchanged at 4.5%. The chart below shows how the unemployment rate has evolved since just before the Great Financial Crisis.



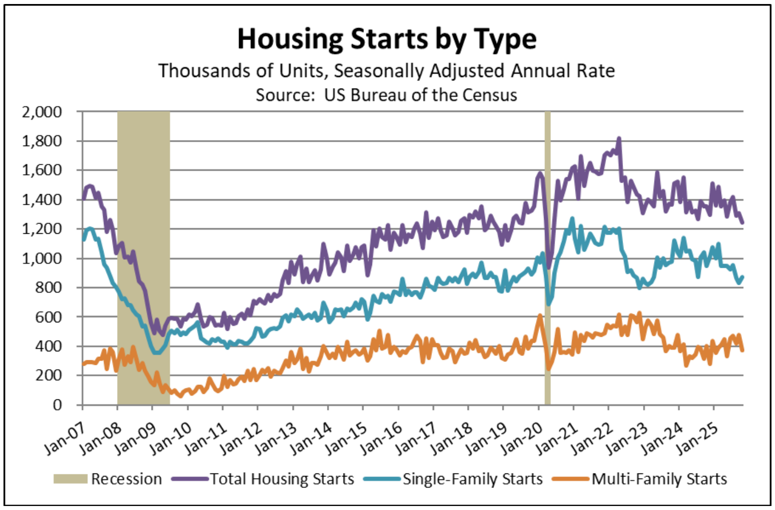
With the demand for labor high and the "inventory" of unemployed workers low, it should be no surprise that wage rates remain high. ***Average hourly earnings*** in December rose to a seasonally adjusted $37.02, up 3.8% from the same month one year earlier. The chart below shows the year-over-year growth in average hourly earnings since just before the GFC.



A final key indicator in the monthly employment report focuses on the share of the adult, civilian, non-institutionalized population that is either working or looking for work. The December ***labor force participation rate (LFPR)*** fell to a seasonally adjusted 62.4%. The chart below shows how the LFPR has changed over the last several decades.



October ***housing starts*** fell to a seasonally adjusted, annualized rate of 1.246 million units, below the expected rate of 1.330 million units and the September rate of 1.306 million units. The rate of housing starts in October was down 4.6% from the rate in the previous month. Also in the report, October ***housing permits*** fell to a rate of 1.412 million units, well above the anticipated rate of 1.350 million units but short of the September rate of 1.415 million units. Permits issued for new housing units in October were down 0.2% from the previous month. Compared with the same month one year earlier, housing starts in October were down 7.8%, while permits were down 0.1%. The chart below shows the growth in new home starts by type of property since just before the GFC.



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	U. of Michigan Consumer Sentiment	m/m	Jan P	53.5	522.9	***
10:00	U. of Michigan Current Conditions	m/m	Jan P	52.0	50.4	**
10:00	U. of Michigan Future Expectations	m/m	Jan P	55.0	54.6	**
10:00	U. of Michigan 1-Year Inflation Expectation	m/m	Jan P	4.1%	4.2%	*
10:00	U. of Michigan 5-10 Year Inflation Expectation	m/m	Jan P	3.3%	3.2%	*
12:00	Household Change in net Worth	q/q	3Q		$7086b	*

Federal Reserve		
EST	**Speaker or Event**	**District or Position**
10:00	Neel Kashkari Gives Opening Remarks	President of the Federal Reserve Bank of Minneapolis
12:00	Raphael Bostic Interviewed on WLRN Public Media	President of the Federal Reserve Bank of Atlanta
13:35	Thomas Barkin Repeats Outlook Speech	President of the Federal Reserve Bank of Richmond

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	Household Spending	y/y	Nov	2.9%	-3.0%	-1.0%	**	Equity bearish, bond bullish
	Leading Economic Index	m/m	Nov P	110.5	109.8	110.5	**	Equity and bond neutral
	Coincident Index	y/y	Nov p	115.2	115.9	115.1	**	Equity and bond neutral
South Korea	BoP Current Account Balance	m/m	Nov	$12236.7m	$6813.8m		**	Equity and bond neutral
	BoP Goods Balance	m/m	Nov	$13309.2m	$7817.3m		*	Equity and bond neutral
China	PPI	y/y	Dec	-1.9%	-2.2%	-2.0%	**	Equity and bond neutral
	CPI	y/y	Dec	0.8%	0.7%	0.8%	**	Equity and bond neutral
EUROPE								
Eurozone	Retail Sales	y/y	Nov	2.3%	1.9%	1.6%	*	Equity bullish, bond bearish
Germany	Industrial Production WDA	y/y	Nov	0.8%	1.0%	-1.0%	**	Equity and bond neutral
	Trade Balance	m/m	Nov	16.9b	16.9b	16.4b	*	Equity and bond neutral
	Exports	m/m	Nov	0.1%	0.1%	-0.2%	*	Equity and bond neutral
	Imports	m/m	Nov	-1.2%	-1.2%	0.3%	*	Equity bearish, bond bullish
France	Industrial Production	y/y	Nov	2.1%	1.8%	1.6%	***	Equity bullish, bond bearish
	Manufacturing Production	y/y	Nov	2.2%	1.6%		**	Equity and bond neutral
	Consumer Spending	y/y	Nov	0.0%	60.0%	0.2%	*	Equity and bond neutral
Italy	Retail Sales	y/y	Nov	1.3%	1.3%		**	Equity and bond neutral
Switzerland	Foreign Currency Reserves	m/m	Dec	725.4b	727.4b		***	Equity and bond neutral
	Unemployment Rate	m/m	Apr	3.1%	2.9%	3.1%	**	Equity and bond neutral
AMERICAS								
Canada	International Merchandise Trade	m/m	Oct	-.58b	0.24b	-1.50b	*	Equity and bond neutral
Mexico	Industrial Production	y/y	Nov	-0.8%	-0.3%	-1.2%	***	Equity and bond neutral
	Manufacturing Production	y/y	Nov	-2.2%	-1.2%	-1.8%	*	Equity and bond neutral
	Vehicle Production	y/y	Dec	243961	322205		*	Equity and bond neutral
Brazil	IBGE Inflation IPCA	y/y	Dec	4.26%	4.46%	4.26%	***	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)	361	361	0	Down
10-yr T-note (%)	4.19	4.17	0.02	Flat
Euribor/OIS spread (bps)	203	203	0	Up
Currencies	Direction			
Dollar	Up			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.

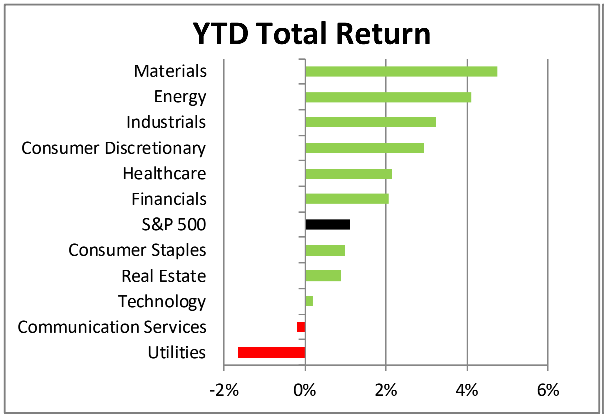
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$62.51	$61.99	0.84%	
WTI	$58.25	$57.76	0.85%	
Natural Gas	$3.46	$3.41	1.44%	
Crack Spread	$21.55	$20.83	3.44%	
12-mo strip crack	$23.77	$23.23	2.31%	
Ethanol rack	$1.77	$1.78	-0.33%	
Metals				
Gold	$4,470.82	$4,477.65	-0.15%	
Silver	$78.10	$77.00	1.42%	
Copper contract	$591.35	$579.65	2.02%	
Grains				
Corn contract	$446.25	$446.00	0.06%	
Wheat contract	$517.25	$518.00	-0.14%	
Soybeans contract	$1,066.75	$1,061.25	0.52%	
Shipping				
Baltic Dry Freight	1,718	1,776	-58	
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)	-119	-113	-6	

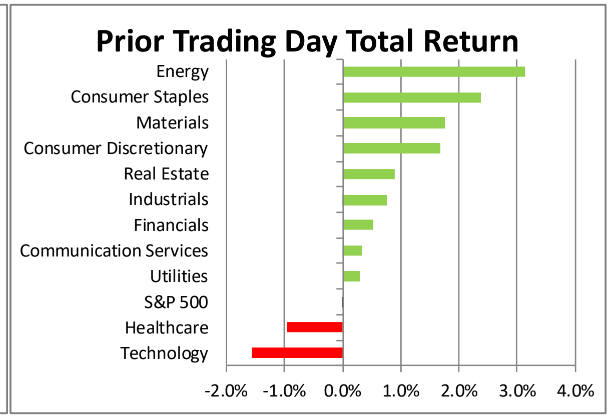
Weather

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 along the East Coast from North Carolina northward, with cooler-than-normal temperatures in the Upper Midwest. The outlook calls for wetter-than-normal conditions in the Rocky Mountains, the northern Great Plains, and the Deep South, with dry conditions in the Far West.

Data Section

US Equity Markets – (as of 1/8/2026 close)

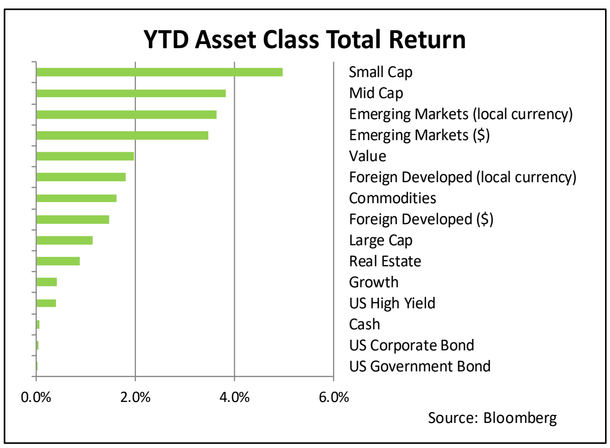




(Source: Bloomberg)

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 1/8/2026 close)

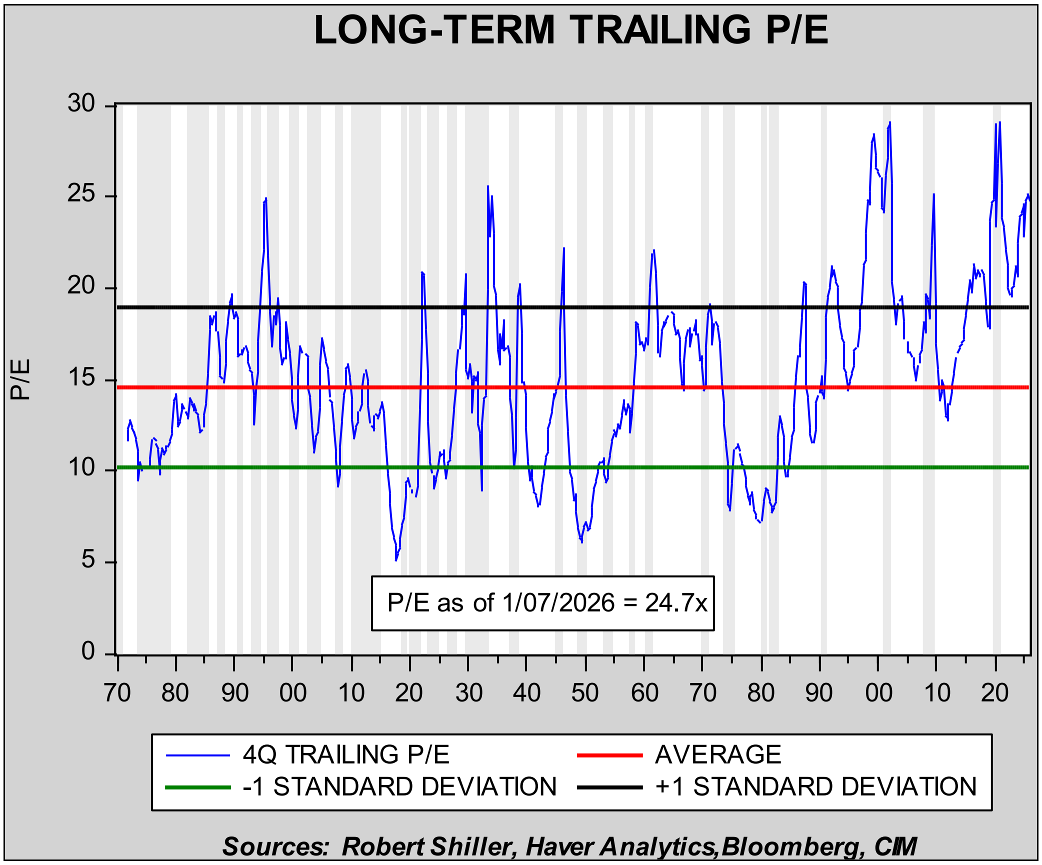


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.