Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: November 10, 2025 — 9:30 AM ET] Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 is up 1.8% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 1.7%. Chinese markets were higher, with the Shanghai Composite up 0.5% and the Shenzhen Composite up 0.4%. US equity index futures are signaling a higher open.

With 453 companies having reported so far, S&P 500 earnings for Q3 are running at $72.30 per share compared to estimates of $68.15, which is up 8.0% from Q3 2024. Of the companies that have reported thus far, 81.7% have exceeded expectations, while 14.6% 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
"China's Rising Power and the Implications for US Hegemony" (10/27/25) + podcast	"When the Financial System Finds a Cockroach" (11/3/25) + podcast	Q4 2025 Report	Confluence Mailbag podcast 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* today opens with news of a deal between Republicans and Democrats in the Senate that will likely end the federal government shutdown in the coming days. We next review several other international and US developments that could affect the financial markets today, including analysis showing artificial intelligence firms are increasingly using exotic debt instruments to fund their AI infrastructure investments and data showing China has at least temporarily moved out of its recent deflation.

US Fiscal Policy: Eight Democrats in the Senate yesterday struck a deal with Republican leaders and started pushing through a bill that would end the federal government shutdown. Under the deal, the eight Democrats would provide the votes needed for a temporary funding measure lasting until the end of January. In return, the deal would reverse all the layoffs initiated by the White House during the shutdown and guarantee furloughed workers back-pay. However, it only ensures a vote on the Affordable Care Act (ACA) health subsidies that Democrats were holding out for.

- Democrats originally sought to guarantee an extension of the COVID-era ACA subsidies to prevent premiums from surging, but it now looks like they could only get a promise to hold a Senate vote on the matter.
- If the compromise bill passes the Senate, it would go to the House for its approval, which seems likely. Of course, one key risk is that the funding measure only lasts until the end of January, so another shutdown could loom in just two months if legislators can't come to a long-term agreement on funding the government.
- In any case, the apparent progress toward ending the government shutdown and avoiding more economic damage is giving a boost to US risk assets so far this morning.

US Artificial Intelligence Industry: An important article in the *New York Times* over the weekend indicates that AI-related companies are increasingly turning to exotic debt instruments to pay for their massive investments in AI infrastructure. The article indicates that while many big, well-known hyperscalers and other firms initially relied largely on their own cash flow to build data centers, they are increasingly issuing asset-backed securities that can be relatively risky and harder for investors to track or analyze.

- As the AI boom proceeds, driving up stock prices for AI-related companies and spurring massive investment in new data centers, models, and other assets, we've seen that investors are increasingly asking whether this is a bubble that's ready to pop.
- One likely indicator of heightened risk would be if today's capital investment was creating excess capacity and was being financed largely by debt. At the moment, it still appears that the new data centers are being fully utilized, and the use of debt is still not especially high. Nevertheless, we think risks will increase more substantially when and if the boom starts to create unused capacity and starts to rely on large amounts of debt.

US Stock Market: New data from Charles Schwab's STAX index of customer trading activity shows younger investors, such as those in Gen Z, have become less likely than those in older generations to "buy the dip" when stock prices pull back. The data suggests Gen Z investors have put more of their assets into bitcoin products that are now down for the year, possibly making them more skittish. Where Gen Z investors have been net buyers, they've focused on tech firms with solid balance sheets and positive current earnings.

- On Friday, bitcoin prices fell below the psychologically important $100,000 level.
- That means bitcoin has now given up virtually all its gains for the year-to-date.

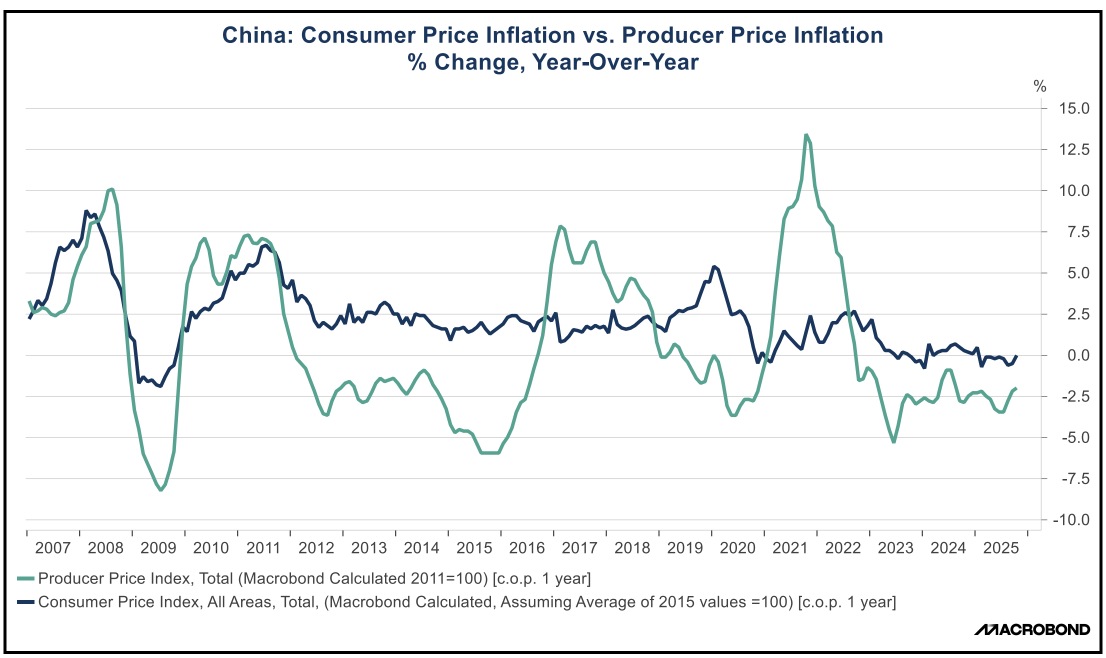
US Defense Industry: On Friday, Defense Secretary Hegseth laid out several reforms to the Pentagon's acquisition policies aimed at increasing competition, lowering costs, and speeding weapons development. Importantly, Hegseth said the five main defense contractors would be expected to invest more of their own capital into productive capacity and quicken the pace of innovation. The new policies, which we had been monitoring, help explain why we think foreign defense stocks are likely to outperform their US counterparts going forward.

US Meatpacking Industry: Following a social media post in which President Trump accused big meatpackers of artificially hiking prices, the Justice Department on Saturday said it has opened an investigation into collusion and price fixing among firms including JBS, Cargill, Tyson Foods, and National Beef. The "Big Four" meatpackers collectively slaughter 85% of the country's cattle and most of its hogs, so the administration's effort to break up their power and bring down prices could potentially lead to major changes in the industry.

United States-Hungary-Russia: After meeting with Hungarian Prime Minister Orbán at the White House on Friday, President Trump has granted Hungary a one-year extension on his sanctions targeting countries that buy Russian oil. Orbán also agreed to have Hungary buy about $600 million of liquified natural gas from the US. In any case, the sanctions exemption provides a bit of relief for Russia and somewhat reduces the impact of the new sanctions on the global oil market.

Chinese Economy: The October consumer price index (CPI) was unexpectedly up 0.2% from the same month one year earlier, just bringing the country out of deflation. Excluding the volatile food and energy components, the October core CPI was up 1.2%. The exit from deflation has given a boost to Chinese stocks today, although it's still not clear if prices will continue to rise going forward.

- Other data today showed Chinese producer prices are still under pressure from the country's housing glut, weak consumer demand, and excess industrial capacity.
- The October producer price index was down 2.1% year-over-year, for its 37th straight month of contraction.



Chinese Military: In a ceremony on Friday, the Chinese military [commissioned the *Fujian*, the country's third aircraft carrier overall and its second domestically produced carrier]. The vessel incorporates several advanced technologies, such as electromagnetic catapults that allow it to launch a greater variety of aircraft at a quicker pace. That should boost China's ability to keep the US Navy at bay in case of a conflict in the Western Pacific Ocean. However, the ship doesn't have nuclear propulsion like US carriers do, so its ability to project power is somewhat limited.

Japan-Taiwan-China: In a parliamentary debate on how Japan should respond to a potential Chinese effort to seize control of Taiwan by force, Japanese Prime Minister Takaichi on Friday said, "If battleships are used and a naval blockade involves the use of force, I believe that would, by any measure, constitute a situation that could be deemed a threat to Japan's survival," implying she would order the Japanese military to get involved.

- Takaichi today tried to soften the controversial statement, saying she hasn't changed Japan's defense policy.
- Nevertheless, the statement has sparked controversy in Japan, underlining Takaichi's reputation as an anti-China hawk.

US Economic Releases

Due to the federal government shutdown, no economic reports have been released so far today. The table below lists the economic releases and Fed events scheduled for the rest of the day.

Economic Releases		
	No economic releases for the rest of today	
Federal Reserve		
EST	**Speaker or Event**	**District or Position**
8:30	Mary Daly Speaks ion Bloomberg TV	President of the Federal Reserve Bank of San Francisco
9:30	Alberto Musalem on Bloomberg TV	President of the Federal Reserve Bank of St. Louis

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 change 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	Leading Economic Index	m/m	Sep P	108.0	107.0	107.9	**	Equity and bond neutral
	Coincident Index	y/y	Sep P	114.6	112.8	114.5	**	Equity and bond neutral
China	PPI	y/y	Oct	-2.1%	-2.3%	-2.2%	**	Equity and bond neutral
	CPI	y/y	Oct	0.2%	-0.3%	-0.1%	**	Equity and bond neutral
EUROPE								
Switzerland	Domestic Sight Deposits CHF	w/w	7-Nov	436.3b	446.9b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	7-Nov	460.0b	470.5b		*	Equity and bond neutral
Russia	Official Reserve Assets	m/m	Oct	725.8b	713.3b		*	Equity and bond neutral
AMERICAS								
Canada	Net Change in Employment	m/m	Oct	66.6k	60.4k	-5.0k	***	Equity bullish, bond bearish
	Unemployment Rate	m/m	Oct	6.9%	7.1%	7.1%	***	Equity and bond neutral
	Participation Rate	m/m	Oct	65.3%	65.2%	65.2%	*	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)	377	376	1	Down
U.S. Sibor/OIS spread (bps)	386	385	1	Down
U.S. Libor/OIS spread (bps)	376	376	0	Down
10-yr T-note (%)	4.13	4.10	0.03	Up
Euribor/OIS spread (bps)	201	200	1	Up
Currencies	**Direction**			
Dollar	Flat			Up
Euro	Flat			Down
Yen	Up			Down
Pound	Up			Down
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	$63.88	$63.63	0.39%	
WTI	$59.99	$59.75	0.40%	
Natural Gas	$4.45	$4.32	3.11%	
Crack Spread	$29.49	$29.37	0.38%	
12-mo strip crack	$27.42	$27.30	0.44%	
Ethanol rack	$1.97	$1.97	0.03%	
Metals				
Gold	$4,095.33	$4,001.26	2.35%	
Silver	$50.10	$48.32	3.67%	
Copper contract	$504.10	$495.70	1.69%	
Grains				
Corn contract	$429.50	$427.25	0.53%	
Wheat contract	$534.25	$527.75	1.23%	
Soybeans contract	$1,124.00	$1,117.00	0.63%	
Shipping				
Baltic Dry Freight	2,104	2,063	41	

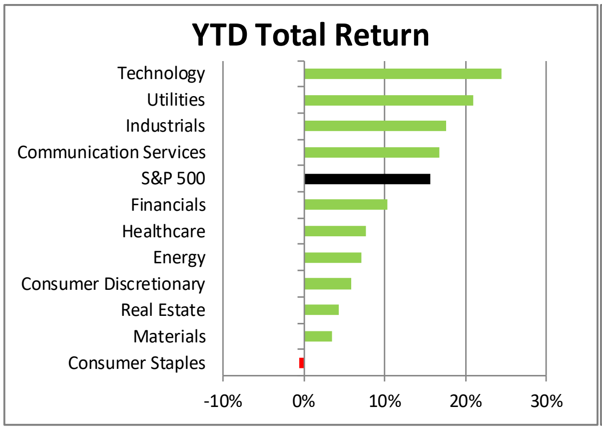
Weather

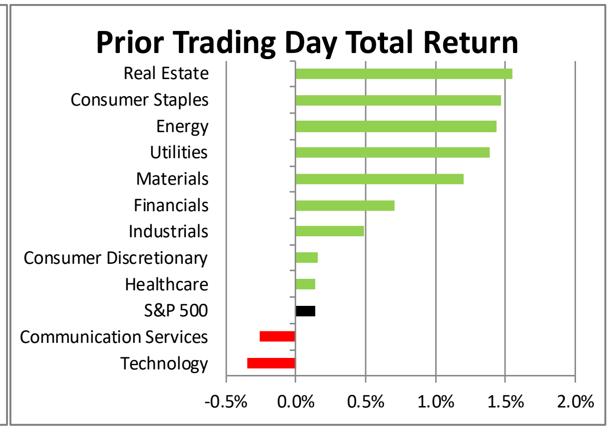
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures from states east of the Rocky Mountains, with cooler temperatures expected for the rest of the country. The precipitation outlook calls for wetter-than-normal conditions for the entire country excluding the East Coast.

No tropical cyclone activity is expected in the Atlantic Ocean area within the next seven days.

Data Section

US Equity Markets – (as of 11/7/2025 close)

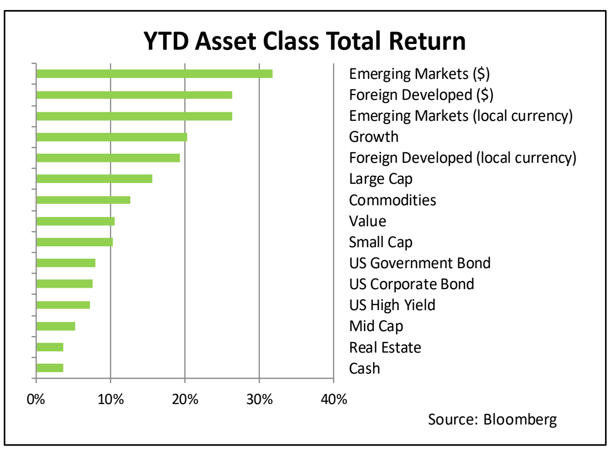




(Source: Bloomberg)

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 11/7/2025 close)

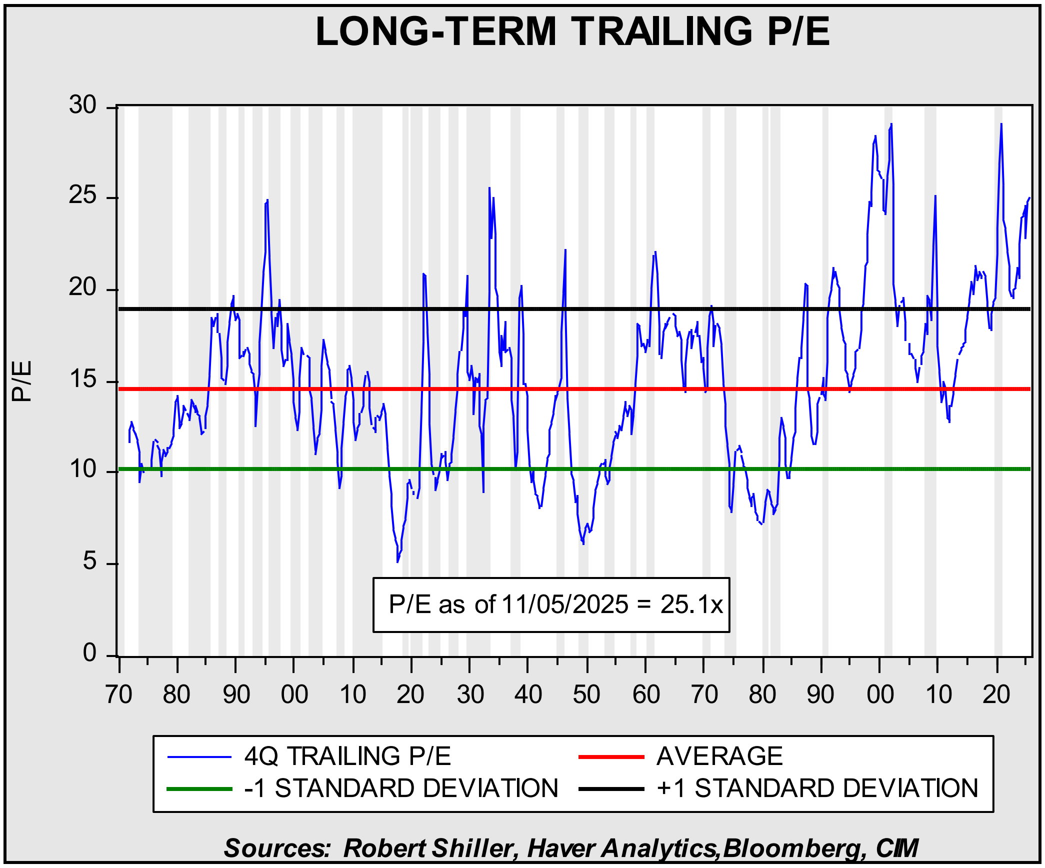


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

November 6, 2025



Based on our methodology,[1] the current P/E is 25.1x, which is unchanged from the previous report. The slight rise in the stock price index was offset by a rise in earnings.

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.