Daily Comment

Confluence INVESTMENT MANAGEMENT

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: November 11, 2026 — 9:30 AM ET] Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 is up 0.6% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 2.6%. Chinese markets were higher, with the Shanghai Composite up 0.5% and the Shenzhen Composite up 1.2%. US equity index futures are signaling a higher open.

With 450 companies having reported so far, S&P 500 earnings for Q3 are running at $94.40 per share compared to estimates of $94.17, which is up 29.6% from Q3 2025. Of the companies that have reported thus far, 84.2% exceeded expectations, while 11.8% fell short.

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
"Right-Wing Governments in Germany, France, and Italy" (11/9/26)	"The Third-Year Charm: Gridlock and Market Growth" (11/2/26) + podcast	**Q4 2026 Rebalance Presentation (video)** Confluence of Ideas Podcast	**Value Equity Quarterly Update (video)** Business Cycle Report

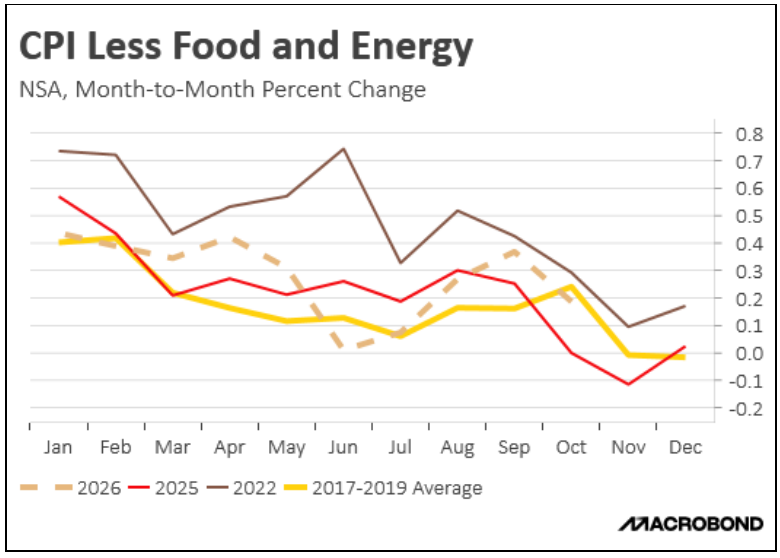
Have a question on the economy, markets, geopolitics, or other important topics? You can submit your queries to our monthly podcast, *Confluence Mailbag*! Submit your question to mailbag@confluenceim.com.

Today's *Comment* opens with our perspective on how the recent inflation report could influence the upcoming December FOMC meeting. We then turn to AI, outlining why its momentum is far from over. Next, we briefly cover resistance to the bipartisan permitting bill, Brazil's new budget proposal to Congress, and the shifting dynamics of the House minority. As always, we conclude with a round-up of key domestic and international economic data.

December Hike? Federal Reserve hawks just gained more ammunition to raise rates in December. October's hotter-than-expected CPI print further cements market sentiment that a final rate hike for the year is almost guaranteed. This shift follows a wave of hawkish remarks from Fed officials determined to bring inflation under control. While tighter policy will likely

drive yields higher in the short term, it could set the stage for an upside in bond prices further down the road.

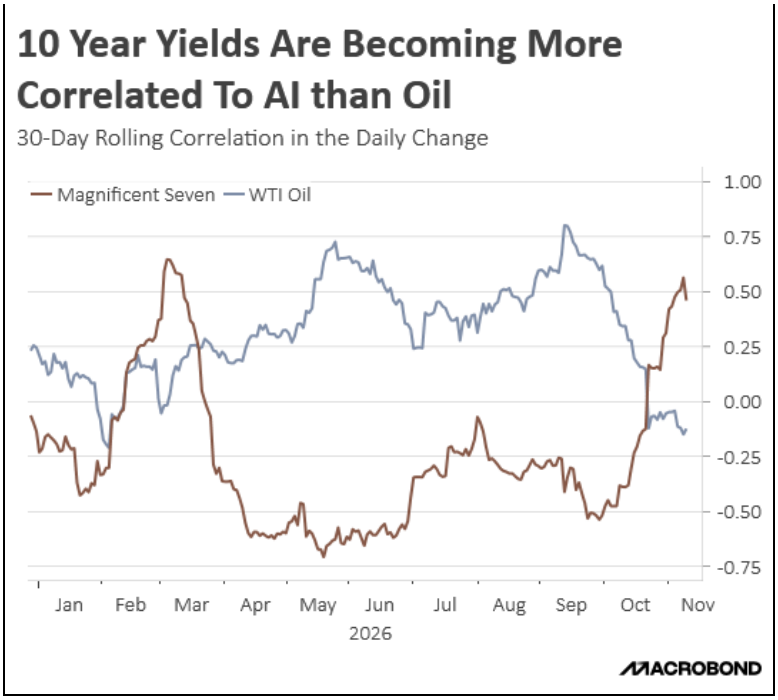
- In October, headline CPI rose 0.4% month-over-month, while core CPI increased 0.3%. Although both figures topped consensus estimates of 0.3% and 0.2%, respectively, they were not significantly worse than September's prints (which showed a 0.6% rise in headline and 0.3% in core). Official annual figures were not published due to last year's government shutdown; however, estimates suggest year-over-year headline inflation accelerated from 3.7% to 3.9%, with core advancing from 2.6% to 2.8%.
- Accelerating inflation has amplified market fears that the Federal Reserve could raise interest rates next month. On Tuesday, two Fed officials hinted at a potentially larger hike to tame inflation. Dallas Fed President Lorie Logan suggested the central bank may need at least two more 25-basis-point increases to regain control over price pressures, while Fed Governor Christopher Waller signaled he could push for a 50-basis-point hike at the upcoming meeting.
- Rising market anxiety could lead to a hawkish shift in policy, but it is unlikely to trigger the aggressive tightening seen in 2022–2023. The primary difference this time around is that inflationary pressures are not building at the same pace. As the chart below shows, the recent momentum of inflation remains well below 2022 levels. Even the latest reading appears modest compared to the average three-year pre-pandemic increases, with the year-over-year figure primarily driven by an unusually low reading last October.



- The recent CPI report paves the way for further rate hikes, though the magnitude will likely remain limited if upcoming reports show modest gains. These hikes should help anchor inflation expectations, which are currently heightened due, in part, to transitory pressures from the conflict in Iran. While the 10-year yield may experience brief upward pressure, it is expected to normalize over time, provided that AI-driven demand pressures ease in the coming months.

AI Trade Returns? In the run-up to Anthropic's expected IPO, market optimism around artificial intelligence has surged once again. CoreWeave's latest quarterly earnings beat expectations, delivering strong operational results that helped alleviate growing investor anxiety over its heavy debt load. Financial durability and leverage are likely to remain central themes as markets evaluate how much momentum remains in the multi-year AI trade that has driven broad equity gains and supported economic growth.

- CoreWeave delivered stronger-than-expected third quarter results and raised its full-year guidance. Revenue reached $3.66 billion, ahead of the $3.56 billion consensus, while full-year revenue guidance of $13.0-13.3 billion comfortably topped expectations of $12.9 billion. A quarter-end backlog of $132.5 billion underscored sustained structural demand. Crucially, the strong operating performance helped ease investor concerns over CoreWeave's reliance on debt markets to fund its capital commitments.
- The focus on CoreWeave comes as the market has grown increasingly concerned about cloud providers' heavy reliance on debt financing. With interest rates beginning to rise and some projects called into question following the midterm election results, lenders are expected to become more selective in how they allocate capital. Over the past few weeks, many cloud providers have also seen rising costs to insure their debt.



- AI continues to be a major driver of financial markets and the broader economy. The Magnificent 7, widely seen as a barometer of AI, still account for roughly a third of the S&P 500. Meanwhile, the correlation between changes in big tech's market capitalization and the 10-year Treasury yield has risen over recent weeks and now matters more than oil. At the same time, AI-related spending has been the largest contributor to investment growth and imports.

- Going into next year, the AI trade is likely to remain a major theme for markets. Much of the focus will be on its sustainability, given rising headwinds from interest rates and growing political pushback. While the AI trade may still have some momentum in 2027, sentiment is likely to become increasingly fragile. Given these risks, investors might look to broaden their exposure to avoid being caught off guard if the trade reverses.

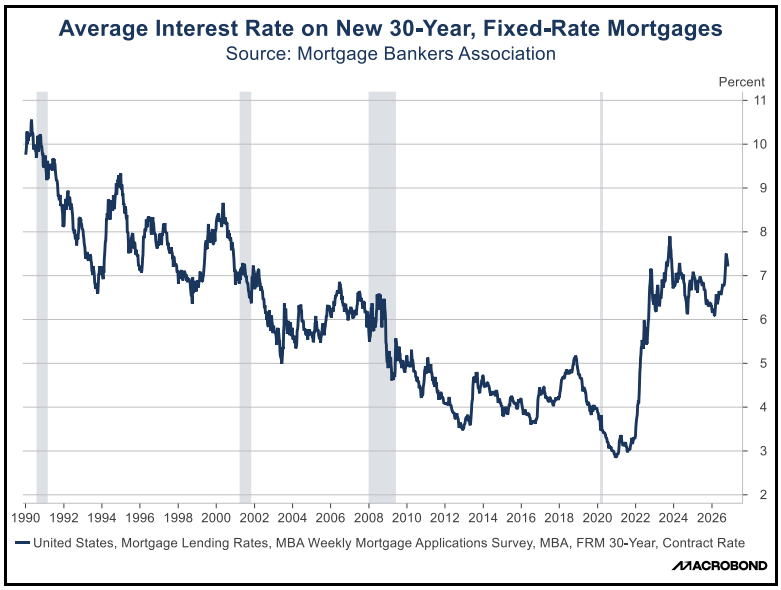
Permitting Pause: Bipartisan efforts to trim red tape for data center construction face new friction after President Trump opposed clean energy provisions in the proposed legislation. His pushback against language favoring wind farm development is likely to erode Democratic votes, threatening to push final passage of the bill into 2027. Even with legislative delays, the broader momentum toward deregulation offers potential relief to investors worried about a slowdown in the AI buildout.

Brazil Fiscal Agenda: President Luiz Inácio Lula da Silva will attempt to calm markets with a new budget to be submitted to Congress. Markets have grown increasingly concerned about Brazil's debt situation following Lula's reelection last month. The budget is expected to include spending restraints that would kick in if fiscal targets are missed and would also strengthen a provision preventing increased spending on social programs in the event of a revenue windfall. A credible push to address the country's debt should improve the appeal of Brazilian assets.

New Minority Leader: House Republicans have selected Jim Jordan (R-OH) as their new leader following the resignation of Mike Johnson (R-LA) in the wake of disappointing midterm election results. Jordan's selection marks a strategic effort by the party to reposition itself, counter Democratic gains in the House, and advance the president's legislative agenda. Viewed as a major victory for the party's populist wing, his leadership signals a firm alignment with the president's "Make America Great Again" (MAGA) platform.

US Economic Releases

The Mortgage Bankers Association said ***mortgage applications*** in the week ended November 6 rose 6.2%, erasing their 1.2% decline in the previous week. Applications for home purchase mortgages rose 7.5%, also erasing their 2.0% drop in the prior week. Applications for refinancing mortgages rose 4.5%, after edging up 0.1% the week before. According to the report, the average interest rate on a 30-year, fixed-rate mortgage fell 9 basis points to 7.21%, marking their fourth straight weekly decline. The chart below shows how mortgage rates have changed over time.



There are no economic releases or Fed events scheduled for the rest of the day.

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	Money Stock M2	y/y	Oct	1.7%	1.9%		**	Equity and bond neutral
	Money Stock M3	y/y	Oct	0.9%	1.1%		**	Equity and bond neutral
	Machine tool orders	y/y	Oct P	42.5%	60.4%		**	Equity and bond neutral
South Korea	Unemployment Rate	m/m	Oct	2.5%	2.6%	2.6%	***	Equity and bond neutral
EUROPE								
Germany	CPI	y/y	Oct F	2.8%	2.8%	2.8%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Oct F	2.8%	2.8%	2.8%	**	Equity and bond neutral
	Industrial Production WDA	y/y	Sep	-0.1%	0.2%	-0.8%	***	Equity bullish, bond bearish
Russia	Trade Balance (Billion)	m/m	Sep	$12.1	$117.0		**	Equity and bond neutral
	Exports (Billion)	m/m	Sep	$42.6	$40.9		*	Equity and bond neutral
	Imports (Billion)	m/m	Sep	$30.5	$29.2		*	Equity and bond neutral
AMERICAS								
Mexico	International Reserves Weekly (Million)	w/w	6-Nov	$257,905	$257,016		*	Equity and bond neutral
	Industrial Production	y/y	Sep	-1.4%	0.2%	-0.2%	***	Equity bearish, bond bullish
	Manufacturing Production	y/y	Sep	0.6%	3.2%	2.8%	*	Equity bearish, bond bullish

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)	411	412	-1	Up
U.S. Sibor/OIS spread (bps)	415	415	0	Up
U.S. Libor/OIS spread (bps)	413	413	0	Up
10-yr T-note (%)	5.00	5.00	0.00	Down
Euribor/OIS spread (bps)	274	277	-3	Up
Currencies	**Direction**	**Country**		
Dollar	Up	US		Up
Euro	Down	Euro		Down
Yen	Up	Japan		Flat
Pound	Down	UK		Down
Franc	Down	Switzerland		Down

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.

Energy Markets	Today	Prior	Change	Explanation
Brent	$93.24	$91.49	1.91%	
WTI	$87.28	$86.04	1.44%	
Natural Gas	$3.33	$3.30	0.88%	
Crack Spread	$45.25	$44.74	1.13%	
12-mo strip crack	$45.40	$44.97	0.95%	
Ethanol rack	$2.13	$2.14	-0.30%	
Metals				
Gold	$4,043.54	$4,032.83	0.27%	
Silver	$52.86	$51.53	2.57%	
Copper Contract	$629.30	$623.45	0.94%	
Grains				
Corn contract	$446.75	$449.00	-0.50%	
Wheat contract	$592.25	$592.75	-0.08%	
Soybeans contract	$1,222.75	$1,228.00	-0.43%	
Shipping				
Baltic Dry Freight	2,862	2,854	8	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		-0.49		
Gasoline (mb)		-0.43		
Distillates (mb)		-1.44		
Refinery run rates (%)		0.41%		
Natural gas (bcf)		65		

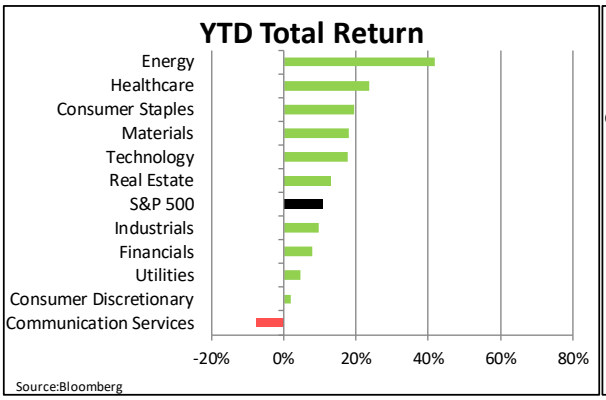
Weather

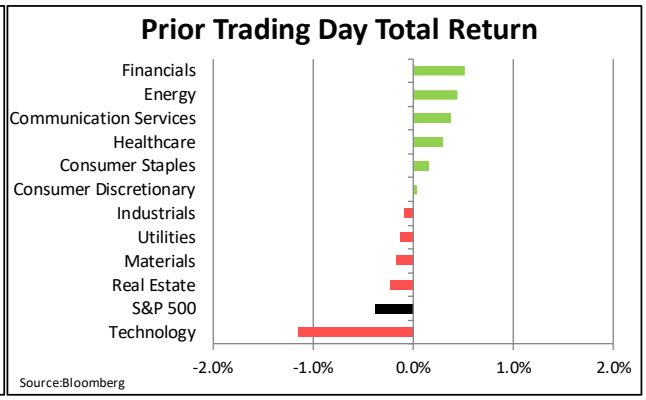
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures from the Rocky Mountains to the Mississippi River, along the entire border with Canada, and in the Midwest, with cooler-than-normal temperatures in northern California. The outlook calls for wetter-than-normal conditions in all areas from the West Coast to the Mississippi River except for the Pacific Northwest, with dry conditions in the Northeast.

No atmospheric disturbances are expected in the Atlantic Ocean area in the next seven days.

Data Section

US Equity Markets – (as of 11/10/2026 close)

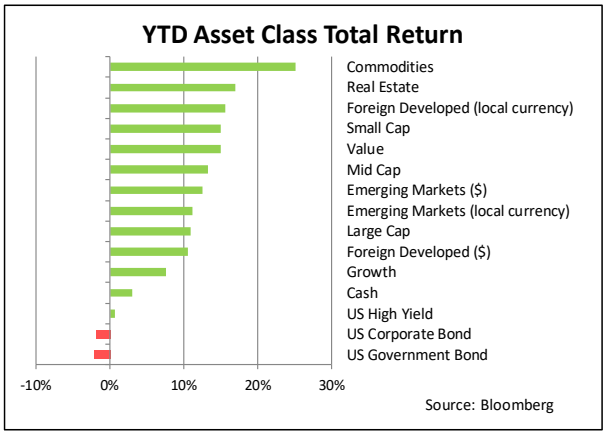




(Source: Bloomberg)

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 11/10/2026 close)

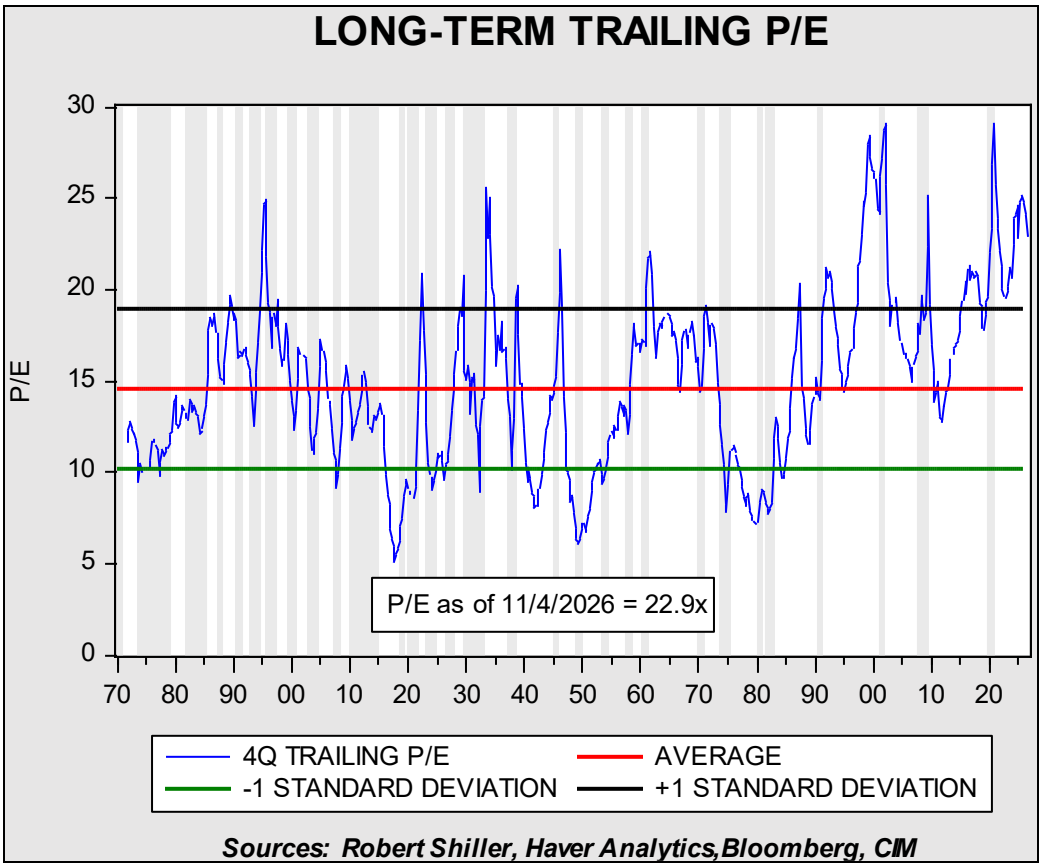


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

November 5, 2026



Based on our methodology,[1] the current P/E ratio is 22.9x, which fell 0.2 from the previous report. The multiple contraction was due to an increase in earnings and a decrease in the stock price index.

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.

[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 (Q3, Q4, Q1) and one estimate (Q2). 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.