Daily Comment

Confluence Investment Management

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[Posted: November 14, 2025 — 9:30 AM ET] Global equity markets are lower this morning. In Europe, the Euro Stoxx 50 is down 1.7% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 2.1%. Chinese markets were lower, with the Shanghai Composite down 1.0% and the Shenzhen Composite down 1.4%. US equity index futures are signaling a lower open.

With 461 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, 81.6% have exceeded expectations, while 14.8% 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
"Meet Sanae Takaichi" (11/10/25)	"When the Financial System Finds a Cockroach" (11/3/25) + podcast	Q4 2025 Report Q4 2025 Rebalance Presentation	Confluence Mailbag podcast **Value Equities Quarterly Video Update**

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* begins by analyzing the market sell-off on Thursday, which was driven by uncertainty surrounding US monetary policy. We then pivot to the political arena and examine the White House's coordinated push to mollify anxious voters. On the global stage, we detail the US's hawkish military stance in the Western Hemisphere, break down the impact of the recent Chilean election, and explore the surprise rise in UK bonds after a major reversal in tax policy. Finally, we include an essential roundup of key international and domestic data releases.

Fed Rate Cut Doubts: A sharp market sell-off ensued on Thursday as Federal Reserve officials cast significant doubt on the timeline for interest rate cuts. The dovish outlook was challenged by several Fed presidents, who voiced a resolute reluctance to ease monetary policy, warning that such a move could compromise the bank's price stability mandate. This repricing of expectations was immediately reflected in interest rate futures, with the CME FedWatch Tool indicating that the implied probability of a December cut nosedived from 63% to 50%.

- The market sell-off was broad-based across asset classes as investors aggressively deleveraged their portfolios and liquidated overweighted positions. Technology stocks bore the brunt of the decline, with the NASDAQ Composite dropping 2.29%. Crucially, traditional safe-haven assets, such as gold and the US 10-year Treasury bond, also saw simultaneous selling pressure. This counterintuitive move signals that investors were prioritizing liquidity and profit-taking over a classic "flight-to-safety" strategy.
- The unwinding of trades vividly reflects the market's overconfidence in an imminent rate cut. This optimism was largely rooted in evidence of a cooling labor market, particularly the high-frequency data from the ADP weekly tracker. This tracker showed that in the four weeks ending October 25, private employers were, on average, shedding 11,250 jobs per week, suggesting a notable deceleration in employment growth.
- The Federal Reserve's renewed commitment to price stability is also tempering economic growth outlooks. A prolonged period of high interest rates would keep borrowing costs elevated, potentially straining household finances and raising the cost of corporate investments. This is particularly relevant for AI expansion, as many firms funding these initiatives have done so through increased debt.
- The Federal Reserve's recent rhetoric signals a clear prioritization of price stability over maximum employment, dramatically dimming the prospects for a December rate cut. The central bank is now positioning for a pause in its easing cycle, potentially as soon as next month. Nonetheless, any definitive signal that the Fed will resume aggressive easing would serve as a powerful catalyst for a major risk-asset rally.

Affordability Push: The White House is urgently evaluating new proposals to tackle affordability, recognizing this issue as a crucial hurdle ahead of the midterm elections. This intense focus is driven by recent off-cycle elections, which served as a clear bellwether of voter frustration. Analysis of those contests showed a significant portion of the electorate is struggling with stubbornly high inflation and stagnant job growth. As a result, the administration is now compelled to prioritize visible economic relief measures.

- To combat food inflation, which has accelerated in recent months, White House officials are actively engaging with their South American trading partners to negotiate tariff reductions and boost food imports. This initiative is specifically expected to ease price pressures on key commodities such as beef, beans, and fruits, directly supporting the administration's goal of reducing overall consumer grocery costs.
- The White House is considering several measures to improve housing affordability, including 50-year mortgages and "portable mortgages." The latter would allow homeowners to transfer their existing loan terms to a new property. Although details are not yet finalized, the initiative signals a proactive effort to provide household relief and is expected to offer some support for the broader economy.

- This flurry of activity signals a strategic pivot toward populist economic measures to bolster public support. Looking further ahead to the 2026 election cycle, the administration is likely to continue this approach, with a new wave of growth-oriented policies already taking shape. The prospect of direct stimulus checks remains a credible tool, and any significant fiscal injection of this kind could serve as a powerful catalyst, igniting a fresh rally in equity markets.

New Monroe Doctrine? Defense Secretary Pete Hegseth has announced the launch of Operation "Southern Spear," a new initiative to counter alleged drug traffickers in the Caribbean Sea and Pacific Ocean. The operation appears to be part of a broader administration effort to project power in adjacent waterways. In a social media post, Hegseth asserted that "the Western Hemisphere is America's neighborhood," a statement that underscores the United States' ambition to exert stronger influence and secure its interests throughout South America.

Chilean Elections: The South American country will hold a pivotal election dominated by three candidates from political extremes. The frontrunner is Communist candidate Jeannette Jara, who is trailed by far-right leader José Antonio Kast and Libertarian candidate Johannes Kaiser. While Jara is favored to secure the largest share of votes in the first round, she is projected to fall short of an outright majority and is widely expected to lose to the unified right-wing candidate in the subsequent runoff election.

Nvidia Surrounded? While the White House has consistently urged chipmakers to reduce their exposure to China, Microsoft and Amazon have now endorsed this position. The tech giants are prepared to back legislation that would restrict Nvidia's ability to sell advanced semiconductors to China while ensuring that they receive priority access. This move exemplifies a broader shift in US policy away from traditional laissez-faire principles toward more centralized economic planning, justified on national security grounds.

UK Bonds: A sharp sell-off in UK government bonds occurred after the government abruptly abandoned plans for income tax hikes. Although the decision was officially attributed to improved growth forecasts from the budget watchdog, investors viewed the policy reversal as a signal that the administration was prioritizing political expediency over fiscal responsibility. This erosion of confidence is contributing to negative global sentiment on sovereign debt in developed nations that continue to face challenges in stabilizing their finances post-pandemic.

US Economic Releases

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						
EST	Indicator			Expected	Prior	Rating
10:00	Business Inventories	m/m	Oct	0.2%		*
Federal Reserve						
EST	Speaker or Event	District or Position				
10:05	Jeffrey Schmid Speaks at Energy Conference	President of the Federal Reserve Bank of Kansas City				
14:30	Lorie Logan Speaks in Fireside Chat	President of the Federal Reserve Bank of Dallas				
15:20	Raphael Bostic To Participate in Moderated Conversation	President of the Federal Reserve Bank of Atlanta				

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	Tertiary Industry Index	m/m	Sep	0.3%	0.1%	0.3%	***	Equity and bond neutral
New Zealand	BusinessNZ Manufacturing PMI	m/m	Oct	51.4	50.1		***	Equity and bond neutral
South Korea	Export Price Index	y/y	Oct	4.8%	2.1%		*	Equity and bond neutral
	Import Price Index	y/y	Oct	0.5%	0.7%		*	Equity and bond neutral
China	Retail Sales	y/y	Oct	2.9%	3.0%	2.8%	**	Equity and bond neutral
	Industrial Production	y/y	Oct	4.9%	6.5%	5.5%	***	Equity bearish, bond bullish
India	Wholesale Prices	m/m	Oct	-1.21%	0.13%	-0.76%	*	Equity and bond neutral
EUROPE								
Eurozone	GDP	y/y	Q3 S	1.4%	1.3%	1.3%	***	Equity and bond neutral
	Trade Balance SA	m/m	Sep	18.7b	10.6b		**	Equity and bond neutral
France	CPI	y/y	Oct F	0.9%	1.0%	1.0%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Oct F	0.8%	0.9%	0.9%	**	Equity and bond neutral
	CPI Ex-Tobacco Index	q/q	Oct	119.89	119.81	119.90	*	Equity and bond neutral
Russia	Money Supply, Narrow Definition	w/w	7-Nov	19.04t	14.31t		*	Equity and bond neutral
	Current Account Balance	q/q	3Q P	8200m	4013m	1000m	**	Equity and bond neutral
	Trade Balance	m/m	Sep	13.6b	7.4b		**	Equity and bond neutral
	Exports	m/m	Sep	38.6b	31.5b		*	Equity and bond neutral
	Imports	m/m	Sep	25.0b	24.1b	25.6b	*	Equity and bond neutral
AMERICAS								
Brazil	FGV Inflation IGP-10	m/m	Nov	0.34%	1.60%		**	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)	378	380	-2	Down
U.S. Sibor/OIS spread (bps)	387	388	-1	Down
U.S. Libor/OIS spread (bps)	377	378	-1	Down
10-yr T-note (%)	4.08	4.12	-0.04	Down
Euribor/OIS spread (bps)	206	205	1	Up
Currencies	**Direction**			
Dollar	Flat			Up
Euro	Flat			Flat
Yen	Down			Down
Pound	Down			Down
Franc	Down			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	$63.85	$63.01	1.33%	
WTI	$59.60	$58.69	1.55%	
Natural Gas	$4.49	$4.65	-3.29%	Supply Optimism
Crack Spread	$30.95	$30.77	0.57%	
12-mo strip crack	$28.16	$28.02	0.52%	
Ethanol rack	$2.01	$2.01	0.08%	
Metals				
Gold	$4,115.23	$4,171.52	-1.35%	
Silver	$51.70	$52.30	-1.15%	
Copper contract	$505.95	$510.20	-0.83%	
Grains				
Corn contract	$455.75	$455.50	0.05%	
Wheat contract	$556.00	$552.25	0.68%	
Soybeans contract	$1,150.25	$1,147.00	0.28%	
Shipping				
Baltic Dry Freight	2,077	2,030	47	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	6.41	1.50	4.91	
Gasoline (mb)	-0.95	-2.46	1.51	
Distillates (mb)	-0.64	-1.39	0.75	
Refinery run rates (%)	0.3%	0.3%	0.1%	
Natural gas (bcf)		34		

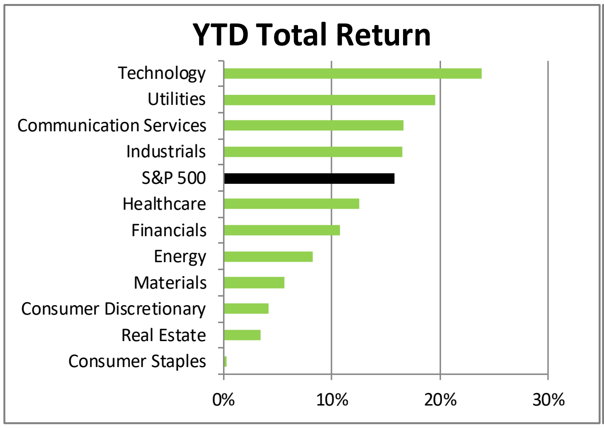
Weather

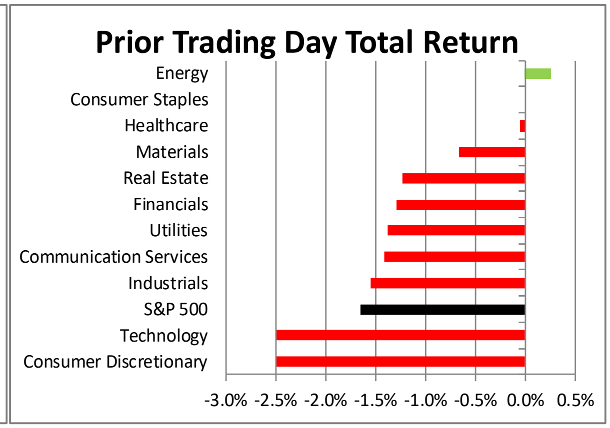
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures from the Great Plains eastward, with cooler-than-normal temperatures across the Far West. The outlook calls for wetter-than-normal conditions everywhere except the coastal areas of Washington, Oregon, California, and Florida, where conditions will be near normal.

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

Data Section

US Equity Markets – (as of 11/13/2025 close)

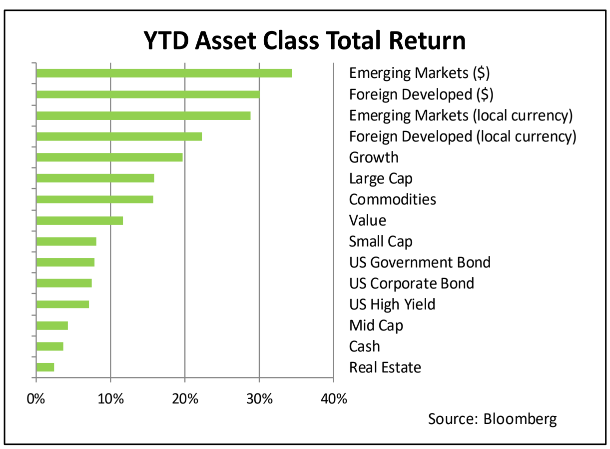




(Source: Bloomberg)

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 11/13/2025 close)

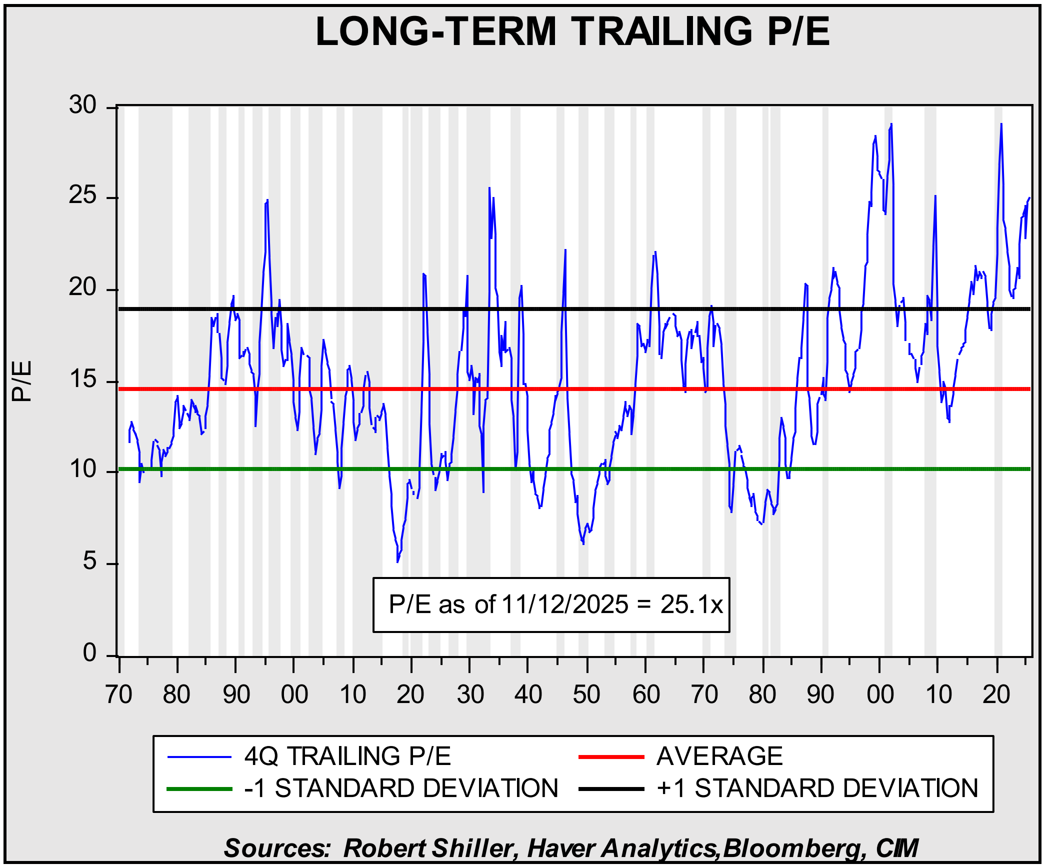


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 13, 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.