Daily Comment

Confluence INVESTMENT MANAGEMENT

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[Posted: November 18, 2025 — 9:30 AM ET] Global equity markets are lower this morning. In Europe, the Euro Stoxx 50 is down 1.4% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 2.2%. Chinese markets were lower, with the Shanghai Composite down 0.8% and the Shenzhen Composite down 1.0%. 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) + podcast	"The COLA for Social Security Benefits in 2026" (11/17/25) + 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* today opens with the latest sign of disagreement among Federal Reserve policymakers on the direction of interest rates. In the latest statement, Fed board member Waller argues for cutting rates again in December. We next review several other international and US developments that could affect the financial markets today, including the first US government economic reports since the end of the shutdown and signs that the new US import tariffs are weighing on economic growth in Asia and Europe.

US Monetary Policy: Fed board member Christopher Waller yesterday said his reading of the available data suggests the central bank should cut its benchmark short-term interest rate at its next policy meeting in December "as a matter of risk management." According to Waller, his stance was based on a sense that the US labor market is "still weak and near stall speed," while the US's new import tariffs have put little upward pressure on consumer prices.

- Despite Waller's comments, which may be aimed at bolstering his chance of being appointed as the Fed's next chair, other monetary policymakers continue to call for slower, more cautious rate cuts.
- The conflicting opinions from the Federal Open Market Committee members suggest it is now essentially a coin toss whether the Fed will cut rates again in December. If it doesn't, the risk is that the recent sell-off in stocks could continue, pushing prices even lower.
- Separately, a lawyer for Fed board member Lisa Cook yesterday provided the first detailed defense of her mortgage applications, which administration officials have claimed are fraudulent and justify her removal. If the report sways the courts, government officials, and the public, it would deny the administration an opportunity to replace Cook with a more dovish policymaker.

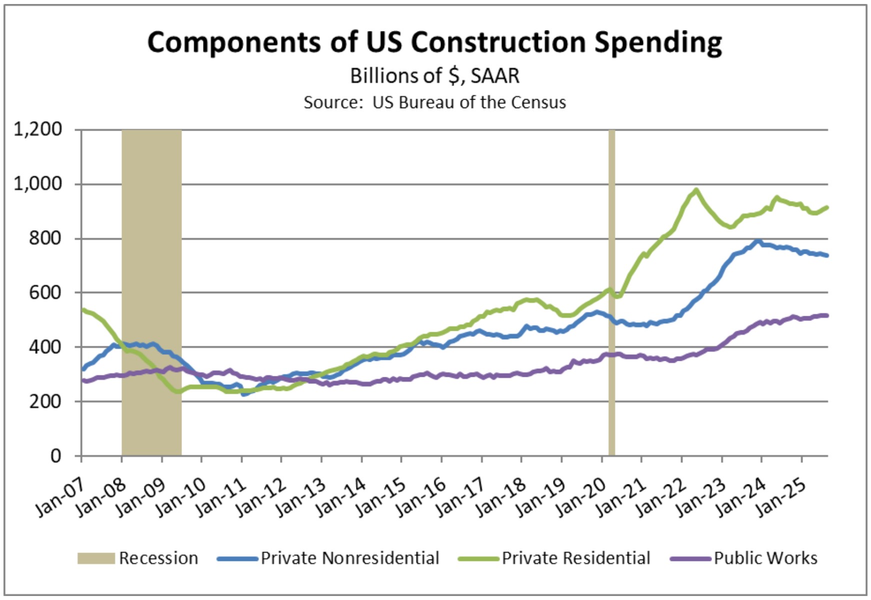
US Stock Market: Even though the increased volatility in the US stock market this month has only resulted in a 3.0% decline in the S&P 500 price index, including a 0.9% drop yesterday, there is growing concern about excess investment in artificial intelligence and the Fed's continued reluctance to cut interest rates quickly. This suggests that investors should consider what technical analysis is saying about the near-term prospects for the market. On that score:

- As of yesterday's close, the S&P 500 stands at 6,672.41, its lowest level since late October. We would put the next significant support levels at about 6,555 and 6,350.
- Last year at this time, we had projected in our *Outlook for 2025* that the S&P 500 would end 2025 between 6,500 and 6,800. We continue to believe that such a range is a reasonable expectation for the index's level at the end of the year.
- As of yesterday's close, the index sits just below its 50-day moving average. It remains far above its 200-day moving average of 6,151.63.
- Reflecting today's narrow market, only 53.8% of the stocks in the S&P 500 are now trading above their 200-day moving average, far below the 70% or so that traders often consider indicative of a market with strong upward momentum.

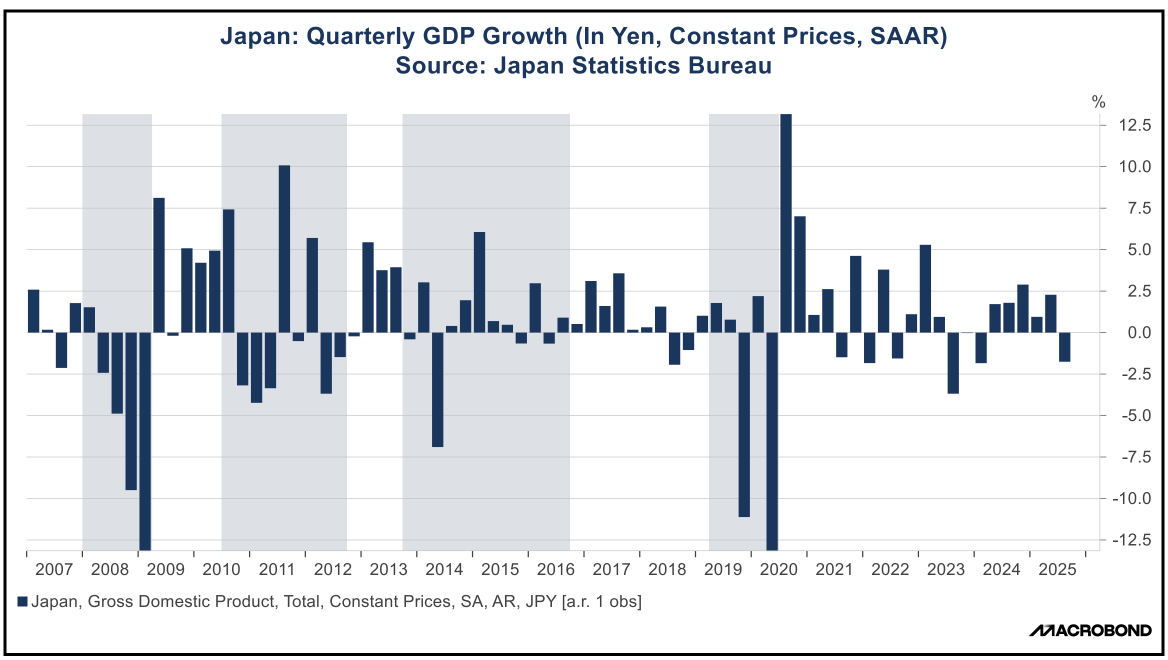
US Economy: The federal government finally began to release major economic data series yesterday, including a report on construction activity that came out after our *Comment* was published. The catch-up report showed construction spending rose by a seasonally adjusted 0.2% in both July and August, mostly driven by private housing construction. Still, construction spending in August was down 1.6% from the same month one year earlier, mostly on weakness in commercial construction. (Data so far today is in our Economics Releases section below.)

- August construction spending on public works was up 1.8% year-over-year, while spending on private residential construction was down 1.5%. August construction spending on private commercial construction was down a sharp 4.3% on the year.
- The weakness in private commercial construction may seem odd against the backdrop of massive spending on data centers and other artificial-intelligence infrastructure. We think

the year-over-year decline in total commercial construction reflects significant weakness in corporate building outside the AI space.



United States-Japan-Switzerland: Data yesterday showed Japanese gross domestic product declined at an annualized rate of 1.8% in the third quarter, reversing most of the growth in the first and second quarters of the year. Separately, Swiss GDP fell at a rate of 0.8% in the same period. In both cases, the main culprit for the declines was reduced exports to the US. The data illustrates how the US's new, higher import tariffs are dragging on economic growth in key countries, which will likely be a headwind on their companies' sales, profits, and stock prices.



US Agriculture Market: Soybean futures prices surged 3.2% yesterday on reports that China has finally started ramping up its purchases of US crops as promised in the recent US-China trade truce. According to broker AgResource Co., importers in China have bought seven to 10 cargoes from the US, some for shipping in January and others set for June or later. Beans are trading slightly higher today, with near futures currently trading at 1157.5, a 17-month high.

Japan-China: Bilateral tensions continue to spiral in response to Japanese Prime Minister Takaichi's recent statement about Japan intervening militarily against a potential Chinese blockade of Taiwan. A meeting between mid-level diplomats yesterday seemingly made no progress, and Japan has been warning its citizens about their safety when traveling in China. We remain concerned that the tensions could lead to Chinese economic sanctions or other punishments against Japan, which could be a negative for Japanese stocks.

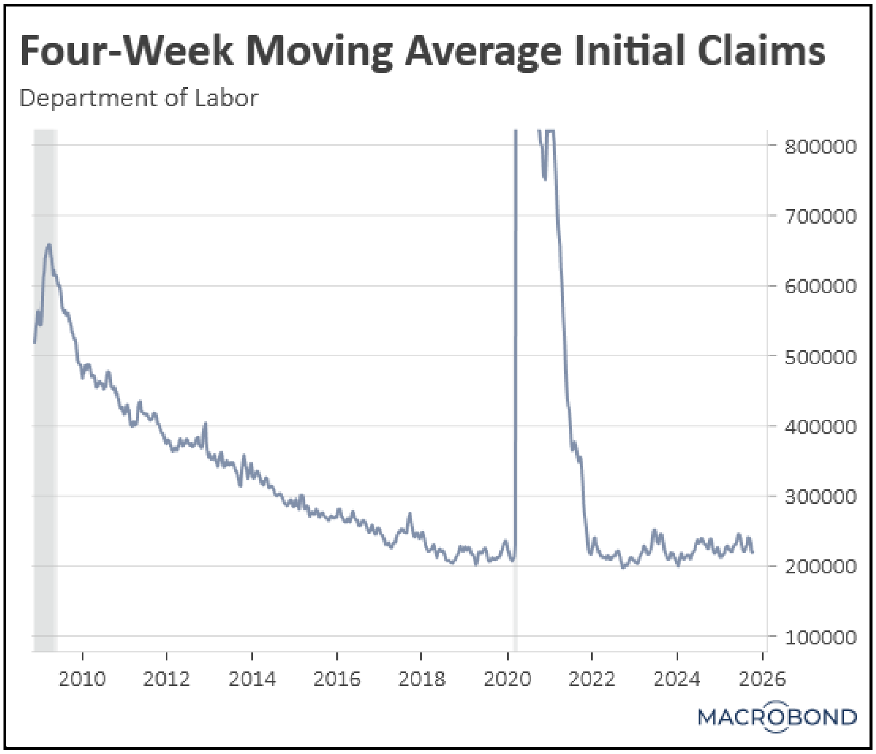
European Defense Sector: According to the *Financial Times*, several small defense contractors across Europe are considering initial public offerings to capitalize on today's intense investor interest in the sector. The firms include British metal engineer Doncaster Group, Franco-German tank maker KNDS, and Czech defense firm Czechoslovak Group. The new listings would follow a plethora of European defense IPOs since 2024. Given the geopolitical threat from Russia, US policy changes, and the weaker dollar, we remain very optimistic about Europe's defense stocks.

Ecuador: Official data from Sunday's referendum show voters overwhelmingly rejected conservative President Noboa's plan to allow a US military base, re-write the constitution, and cut state funding for political parties. The results may force Noboa to give up on some of his conservative, pro-business program, potentially crimping Ecuador's economic prospects going forward.

Investment Strategy: CALPERS, the giant public pension fund for California, officially adopted a new strategic asset allocation policy yesterday. Starting July 1, the fund will use a "Total Portfolio Approach" that measures its performance against a single benchmark consisting of 75% global stocks and 25% US Treasurys, rather than individual benchmarks for each of its 11 asset classes. The change will immediately boost the fund's exposure to stocks and allow greater flexibility in letting exposure to individual asset classes drift from target.

US Economic Releases

In the week ended October 18, ***initial claims for unemployment benefits*** came in at a seasonally adjusted 232,000, while ***continuing claims for unemployment benefits*** for the same period rose from 1,947,000 to 1,957,000. 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.



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	NAHB Housing Market Index	m/m	Nov	37	37	*
10:00	Factory Orders	m/m	Aug	1.4%	-1.3%	***
10:00	Factory Orders Ex Transportation	m/m	Aug	0.3%	0.6%	**
10:00	Durable Goods Orders	m/m	Aug F	2.9%	2.9%	***
10:00	Durable Goods Orders ex Transportation	m/m	Aug F	0.4%	0.4%	**
10:00	Cap Goods Orders Nondef Ex Air	m/m	Aug F	0.6%	0.6%	*
10:00	Cap Goods Ship Nondef Ex Air	m/m	Aug F		-0.3%	*
Federal Reserve						
EST	Speaker or Event	District or Position				
10:30	Michael Barr Speaks on Bank Supervision at American University	Members of the Board of Governors				
11:00	Thomas Barkin Speaks on the Economic Outlook	President of the Federal Reserve Bank of Richmond				
19:55	Lorie Logan Delivers Closing Remarks at Conference	President of the Federal Reserve Bank of Dallas				

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								
New Zealand	Non Resident Bond Holdings	m/m	Oct	60.3%	59.6%		*	Equity and bond neutral
EUROPE								
AMERICAS								
Canada	Int'l Securities Transactions	m/m	Sep	31.32b	23.61b		**	Equity and bond neutral
Canada	CPI	y/y	Oct	2.2%	2.4%	2.1%	***	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	379	-1	Down
U.S. Sibor/OIS spread (bps)	388	388	0	Down
U.S. Libor/OIS spread (bps)	379	379	0	Down
10-yr T-note (%)	4.12	4.15	-0.03	Down
Euribor/OIS spread (bps)	207	206	1	Up
Currencies	**Direction**			
Dollar	Flat			Up
Euro	Flat			Down
Yen	Flat			Down
Pound	Flat			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.

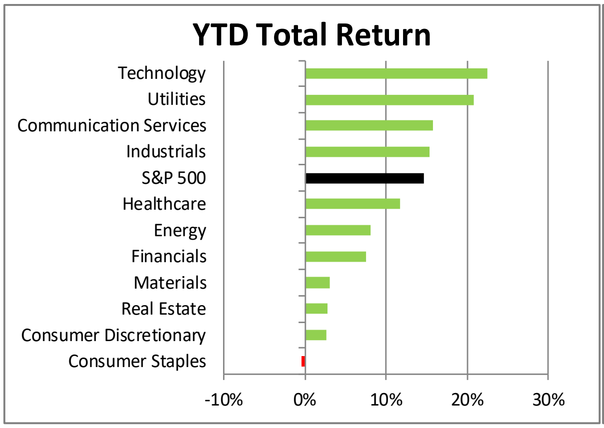
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$64.11	$64.20	-0.14%	
WTI	$59.86	$59.91	-0.08%	
Natural Gas	$4.33	$4.36	-0.71%	
Crack Spread	$32.04	$31.68	1.14%	
12-mo strip crack	$28.25	$28.18	0.26%	
Ethanol rack	$1.99	$1.99	-0.28%	
Metals				
Gold	$4,034.56	$4,044.96	-0.26%	
Silver	$50.07	$50.22	-0.31%	
Copper contract	$506.00	$508.65	-0.52%	
Grains				
Corn contract	$449.75	$448.00	0.39%	
Wheat contract	$560.50	$558.50	0.36%	
Soybeans contract	$1,160.50	$1,157.25	0.28%	
Shipping				
Baltic Dry Freight	2,153	2,125	28	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		1.50		
Gasoline (mb)		-2.46		
Distillates (mb)		-1.39		
Refinery run rates (%)		0.3%		
Natural gas (bcf)		34		

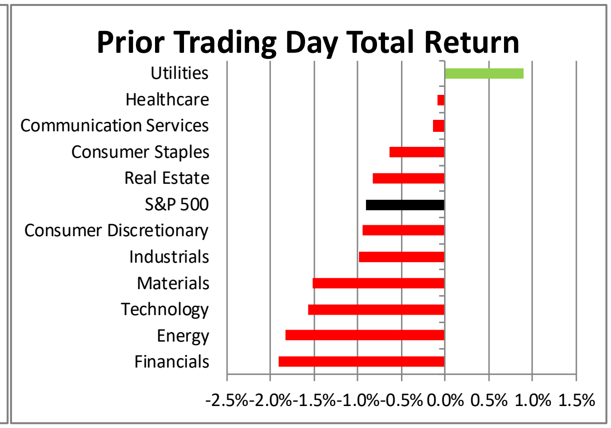
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures from the Great Plains receding eastward to the Midwest and the coastline, with cooler temperatures expected for the Pacific region. The precipitation outlook calls for wetter-than-normal conditions everywhere except for the West Coast, where conditions will be near normal.

Data Section

US Equity Markets – (as of 11/17/2025 close)

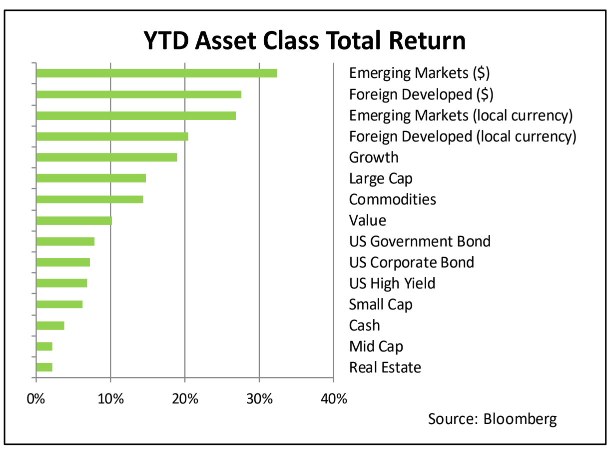




(Source: Bloomberg)

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 11/17/2025 close)

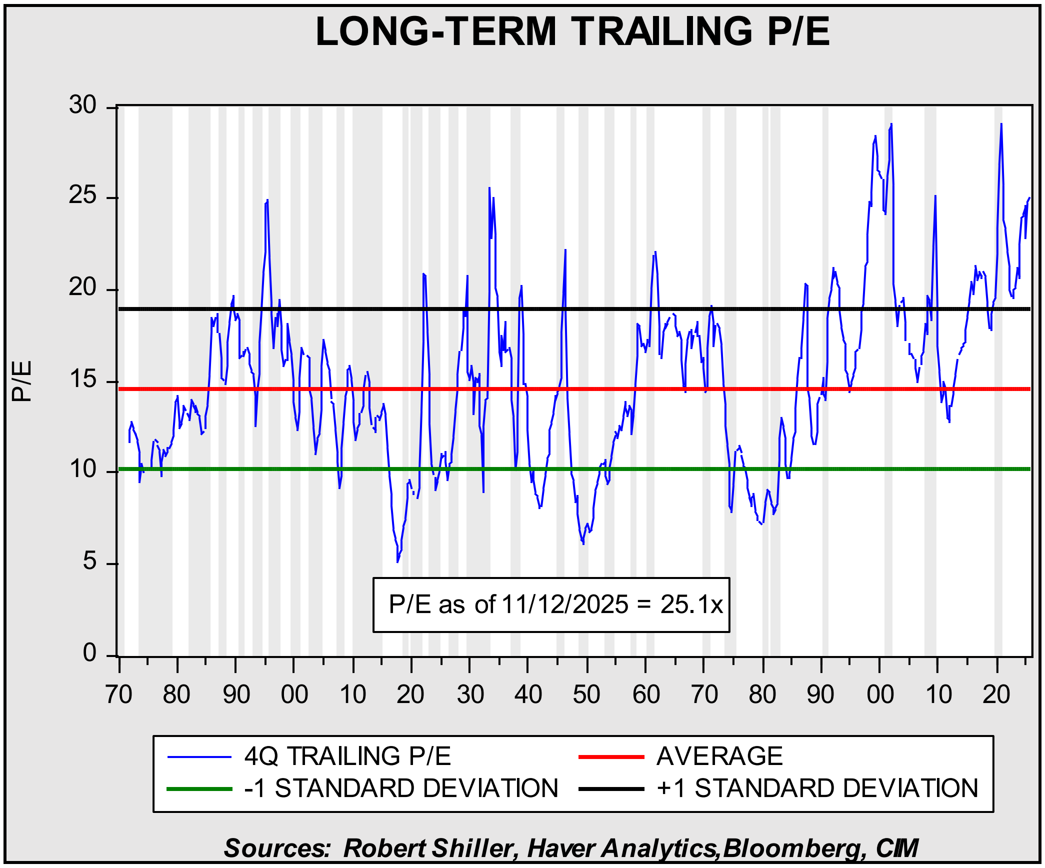


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.

[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.