Daily Comment

Confluence INVESTMENT MANAGEMENT

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[Posted: November 18, 2026 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is essentially unchanged from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.7%. Chinese markets were mixed, with the Shanghai Composite up 0.1% and the Shenzhen Composite down 0.3%. US equity index futures are signaling a higher open.

With 458 companies having reported so far, S&P 500 earnings for Q3 are running at $95.00 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) + podcast	"The Inflation Adjustment for Social Security Benefits in 2027" (11/16/26) + podcast	Q4 2026 Rebalance Presentation (video) Confluence of Ideas Podcast	Value Equity Quarterly Update (video) Business Cycle Report

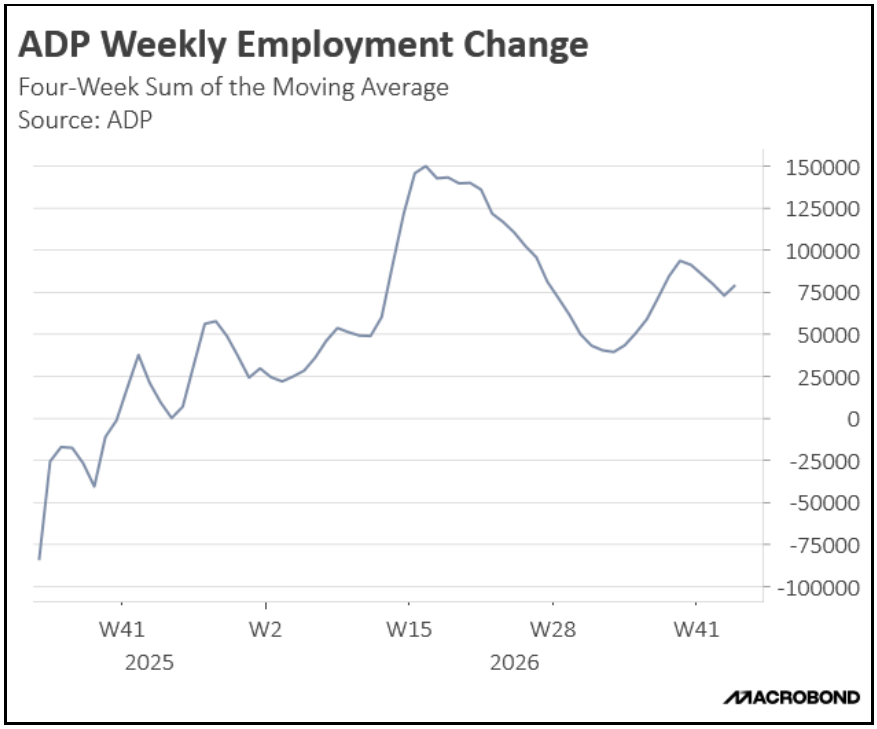
Have a question on the economy, markets, geopolitics, or other important topics? You can submit your queries to our monthly podcast, *Confluence Mailbag*! Submit your question to mailbag@confluenceim.com.

Our *Comment* opens with a discussion of shifting expectations around monetary policy. We then turn to cybersecurity, examining how recent outages may be linked to security vulnerabilities exposed by AI. Next, we briefly cover Nvidia's earnings, the first day of the APEC summit, and the latest developments in the Middle East conflict. As always, we conclude with a review of recent domestic and international economic data.

Rate Expectations: Markets are pricing in the reality that the Fed's fight against inflation is far from over. Over the past few weeks, several committee members have signaled that multiple rate hikes may still be needed to bring price growth under control. With the labor market continuing

to strengthen, policymakers have room to focus squarely on their price-stability mandate. The hawkish shift comes amid disagreement over how to respond to the AI boom, at a time of rising economic growth and uncertainty over whether that growth is sustainable.

- St. Louis Fed President Alberto Musalem became the latest central bank official to throw his support behind further policy tightening. Speaking in Argentina, he argued that interest rates are not yet restrictive enough to return inflation to the Fed's target, making additional increases necessary. He added that the real policy rate (the federal funds target rate minus inflation) needs to reach 2% to 2.5%, a benchmark he estimates will require at least four more rate hikes.
- Musalem — along with other Fed officials, including Cleveland Fed President Beth Hammack and Fed Governor Chris Waller — has pointed to the need for hawkish policy to address these concerns. Their comments come as worries about labor-market weakness have eased. Instead, growing signs indicate that the core of the economy (consumer spending and business investment, excluding inventories) remains resilient and is accelerating, fueling concerns over demand-driven inflation.



- Expectations of tighter monetary policy have already begun rippling through financial markets. In recent weeks, 10-year yields have climbed while gold prices have retreated in anticipation of the shift, as investors shorten duration to limit interest-rate risk. Meanwhile, the US dollar has strengthened, though its gains have been capped by mounting anxiety surrounding the tech rally following Nvidia's recent pullback.
- While there is strong support within the committee for tightening policy more aggressively next year, fears of a potential unwinding of the AI trade have prompted a more patient approach from other members. Fed Chair Kevin Warsh and Fed Governor

Michelle Bowman have both flagged the risk of an economic slowdown. Consequently, while overall sentiment has shifted, the trajectory of the AI sector is expected to play a decisive role in shaping monetary policy in 2027.

Cybersecurity Fears: Over the past few weeks, widespread outages across multiple industries and countries have called the reliability of our technological infrastructure into question. These disruptions come at a time when advances in AI have made cyberattacks easier to execute, prompting warnings that a major breach could even spark a bank run. While financial markets have remained largely unfazed so far, growing security concerns could ultimately slow the pace of AI infrastructure development.

- Earlier this week, two major outages struck the US banking system and the National Security Agency (NSA). Bank of America, JPMorgan Chase, and Wells Fargo all suffered website disruptions that forced them to suspend online services and halt transaction processing. Separately, the NSA's classified network, which the agency acknowledged has struggled for months, went offline. While services were eventually restored, the incidents have sparked widespread fears of a potential cyberattack.
- The latest wave of technology failures comes just weeks after AI agents uncovered critical vulnerabilities in PHP-based systems and, more recently, in sites linked to Java. In late October, researchers found that PHP, a widely used open-source scripting language, contained two severe flaws that allowed hackers to remotely execute malicious code on affected servers. The risk of potential exploitation led cybersecurity officials to issue a global warning urging vulnerable organizations to patch their systems immediately.
- It remains unclear whether the outages and vulnerabilities are connected, but together they have exposed the fragility of digital infrastructure, a problem that grows sharper as AI introduces new and less predictable risks. Earlier this month, Federal Reserve Governor Michael Barr warned that autonomous AI agents could accelerate bank runs to the point where they unfold in minutes. Public unease is already visible beyond financial markets, with reports of panic buying of nonperishable goods at Costco.
- These outages could revive debate over AI guardrails, particularly if any of them are traced to autonomous agents. The hacking capabilities of Mythos and the Hugging Face breach have already prompted discussion, but neither has led to meaningful change in AI law or regulation. However, as security incidents become more widespread, pressure for greater government oversight could build. As a result, we think these events raise regulatory risk that could weigh on the AI trade.

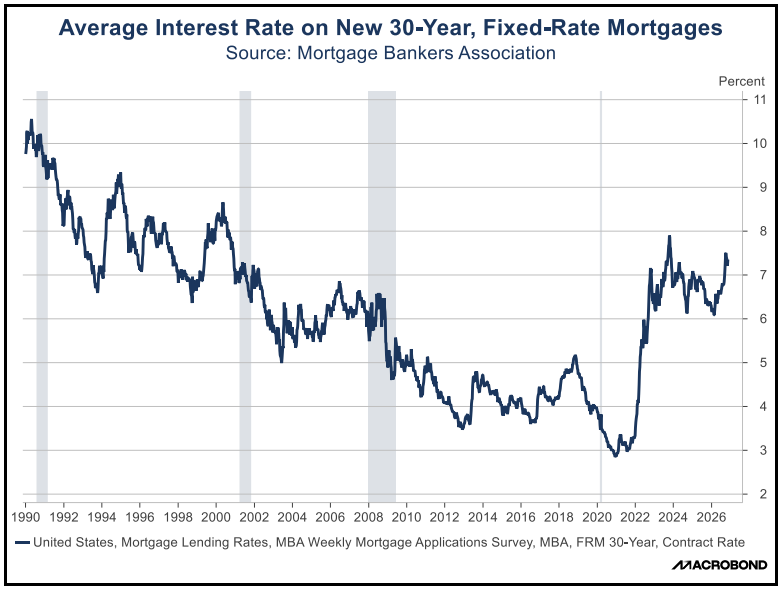
Nvidia Earnings: The world's largest chipmaker added to renewed optimism about the AI sector's prospects with its latest results and outlook. Third-quarter revenue rose 103% from a year earlier to $115.8 billion, ahead of estimates of $109.15 billion. The company also raised its guidance, signaling confidence in its future. It also dismissed speculation of a return of its former CEO Jensen Huang. Overall, the strong results should help ease concerns about an unwind of the AI trade.

APEC Summit: During the initial phase of the APEC summit in Shenzhen, both China and the US struck a diplomatic tone ahead of their scheduled Thursday meeting, with warm greetings between their leaders. Nevertheless, an address delivered by Chinese President Xi Jinping warned that Western nations are employing economic measures to impede emerging global powers. These statements emerge just as bilateral discussions regarding sanctions and tariffs are set to take place between the US and China.

Iran Update: US-Iran tensions escalated Wednesday after a series of tit-for-tat strikes. Following an Iranian attack on a US radar system in Bahrain, the US launched targeted strikes on Qeshm Island on Tuesday, pushing global oil prices higher. Amid growing fears of a prolonged conflict, Vice President JD Vance pushed, vowing to avoid a "two-year commitment" while maintaining that the White House remains focused on containing Iran's nuclear program.

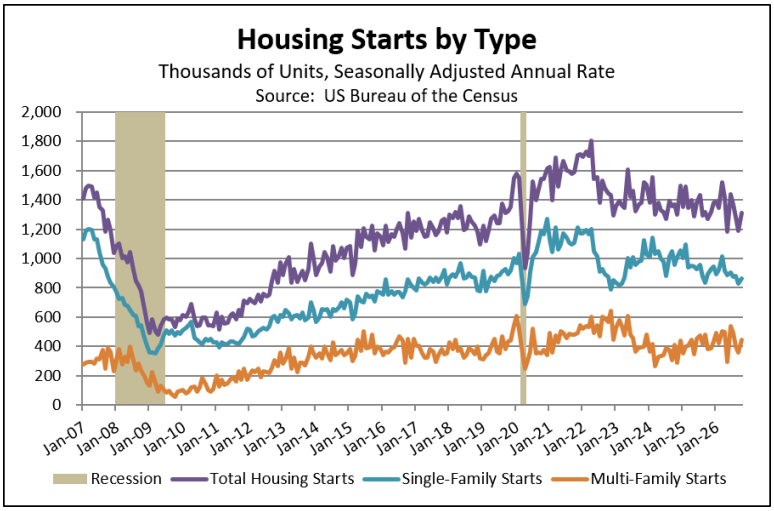
US Economic Releases

The Mortgage Bankers Association said ***mortgage applications*** in the week ended November 13 fell 2.3%, partly reversing their 6.2% increase in the prior week. Applications for home purchase mortgages fell 2.5%, after rising 7.5% in the previous week. Applications for refinancing mortgages fell 1.5%, after rising 4.5% the week before. The average interest rate on a 30-year, fixed-rate mortgage jumped 14 basis points to 7.35%. The chart below shows how mortgage rates have changed over time.



Separately, October ***housing starts*** rose to a seasonally adjusted, annualized rate of 1.309 million units, beating the expected rate of 1.250 million units and the revised rate of 1.191 million units in September. The rate of housing starts in October was up 9.9% from the rate in the previous month. In contrast, October ***housing permits*** fell to a rate of 1.295 million units, short of both their anticipated rate of 1.375 million units and the September rate of 1.398 million units. Permits issued for new housing units in October were down 7.4% from the previous month.

Compared with the same month one year earlier, housing starts in October were up 2.0%, while permits were down 14.8%. The chart below shows the change in new home starts by type of property since just before the Great Financial Crisis.



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	Pending Home Sales	m/m	Oct	-2.0%	-7.3%	***
10:00	Pending Home Sales NSA	y/y	Oct	-14.5%	-12.6%	**
16:00	Total Net TIC Flows (Billion)	m/m	Sep		$199.8	**
16:00	Net Long-Term TIC Flows (Billion)	m/m	Sep		$279.2	**
Federal Reserve						
EST	**Speaker or Event**	**District or Position**				
12:15	Fed's Daly Speaks in Keynote Conversation	President of the Federal Reserve Bank of San Francisco				
13:35	Fed's Barr Speaks on Capital Development Investments	Members of the Board of Governors				
14:00	FOMC Meeting Minutes	Federal Reserve Board				
14:30	Fed's Williams Delivers Remarks	President of the Federal Reserve Bank of New York				
16:15	Fed's Kashkari Speaks at an AI Conference	President of the Federal Reserve Bank of Minneapolis				

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		Period	Current	Prior	Expected	Rating	Market Impact
ASIA-PACIFIC								
Japan	Trade Balance (JPY Bilion)	y/y	Oct	-476.5	-536.6	-1078.4	**	Equity and bond neutral
	Exports	y/y	Oct	20.5%	16.7%	20.4%	**	Equity and bond neutral
	Imports	y/y	Oct	21.6%	18.9%	25.9%	**	Equity bearish, bond bullish
Australia	Westpac Leading Index	m/m	Oct	-0.03%	-0.04%		***	Equity and bond neutral
	Wage Price Index	m/m	3Q	3.50%	3.20%	3.40%	**	Equity and bond neutral
New Zealand	PPI Input	q/q	3Q	0.70%	2.90%		**	Equity and bond neutral
	PPI Output	q/q	3Q	0.80%	1.60%		**	Equity and bond neutral
EUROPE								
Eurozone	CPI	y/y	Oct F	4.0%	4.0%	4.0%	***	Equity and bond neutral
	Core CPI	y/y	Oct F	2.6%	2.5%	2.5%	***	Equity and bond neutral
UK	CPI	y/y	Oct	3.60%	3.50%	3.60%	***	Equity and bond neutral
	CPI Core	y/y	Oct	2.80%	2.80%	2.80%	***	Equity and bond neutral
	CPI Services	y/y	Oct	3.70%	3.70%	3.80%	*	Equity and bond neutral
	Retail Price Index	m/m	Oct	424.5	422.1	424.0	**	Equity and bond neutral
	RPI	y/y	Oct	4.20%	3.90%	4.10%	***	Equity and bond neutral
	RPI Ex Mort Int.Payments	y/y	Oct	4.10%	3.90%		**	Equity and bond neutral
AMERICAS								
Canada	Housing Starts (Thousand)	m/m	Oct	244.6	250.1	240.0	***	Equity and bond neutral
	Int'l Securities Transactions (Billion)	m/m	Sep	19.46	-16.53		**	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)	414	414	0	Up
U.S. Sibor/OIS spread (bps)	419	418	1	Up
U.S. Libor/OIS spread (bps)	416	414	2	Up
10-yr T-note (%)	5.10	5.11	-0.01	Down
Euribor/OIS spread (bps)	278	278	0	Up
Currencies	**Direction**			
Dollar	Up	US		Up
Euro	Down	Euro		Down
Yen	Up	Japan		Up
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	$92.93	$93.14	-0.23%	
WTI	$85.33	$86.01	-0.79%	
Natural Gas	$3.24	$3.21	1.12%	
Crack Spread	$41.35	$41.98	-1.50%	
12-mo strip crack	$42.90	$43.29	-0.91%	
Ethanol rack	$2.13	$2.14	-0.08%	
Metals				
Gold	$3,764.48	$3,849.63	-2.21%	
Silver	$45.70	$47.41	-3.60%	
Copper Contract	$586.45	$607.90	-3.53%	
Grains				
Corn contract	$457.25	$459.25	-0.44%	
Wheat contract	$602.50	$610.25	-1.27%	
Soybeans contract	$1,223.75	$1,225.50	-0.14%	
Shipping				
Baltic Dry Freight	2,893	2,921	-28	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		-0.02		
Gasoline (mb)		0.92		
Distillates (mb)		0.55		
Refinery run rates (%)		0.17%		
Natural gas (bcf)		25		

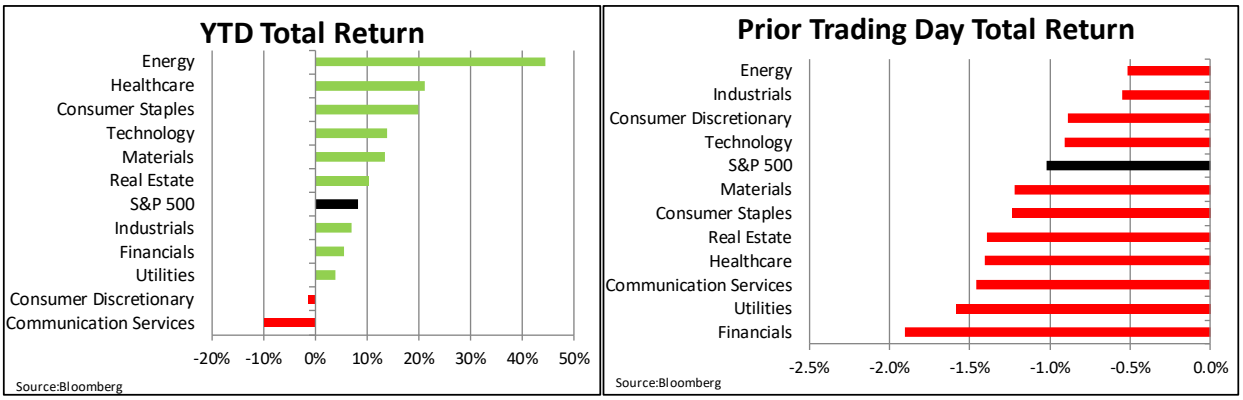
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures everywhere except Texas, where temperatures will be near normal. The outlook also calls for wetter-than-normal conditions along the West Coast and the Gulf Coast, as well as in the central Rocky Mountains and the mid-Atlantic states, with near normal conditions everywhere else.

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

Data Section

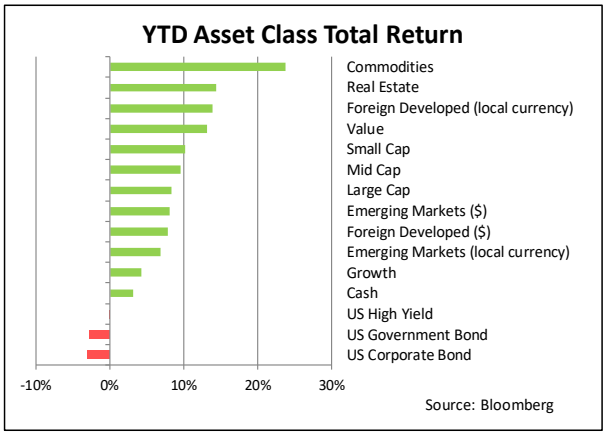
US Equity Markets – (as of 11/17/2026 close)



(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 11/17/2026 close)

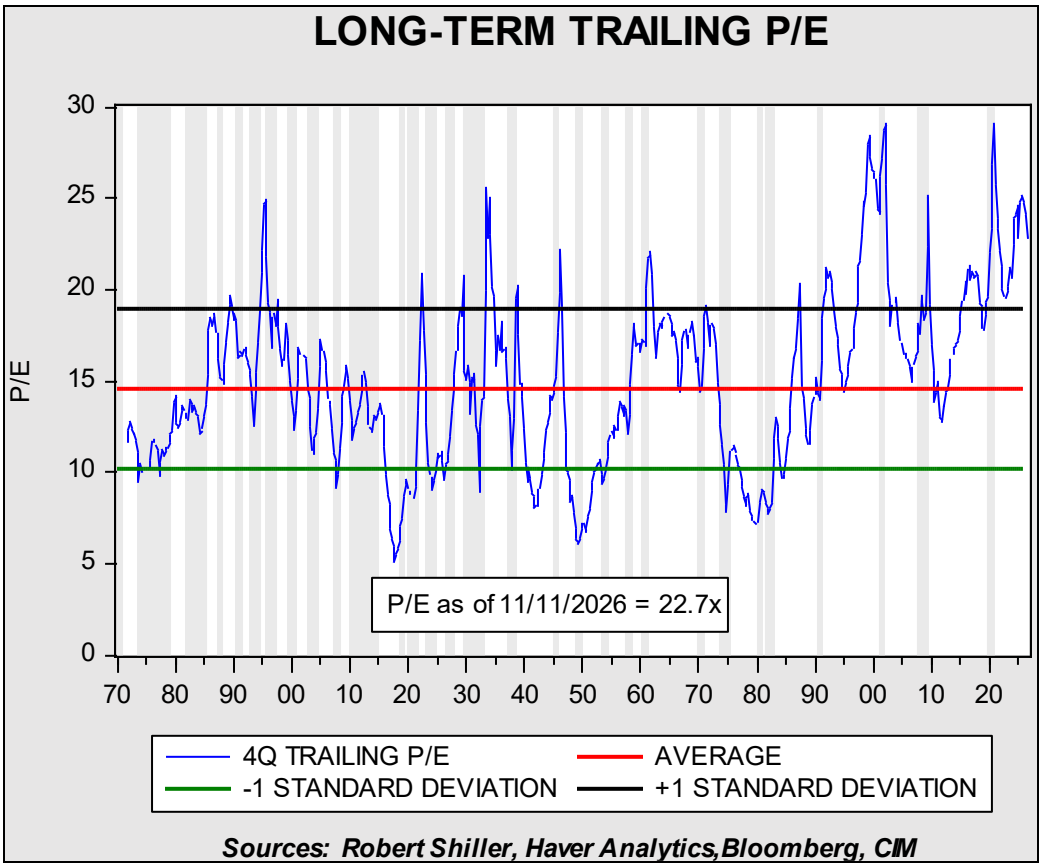


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 12, 2026



Based on our methodology,[1] the current P/E ratio is 22.7x, 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.