Daily Comment

Confluence INVESTMENT MANAGEMENT

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[Posted: November 2, 2026 — 9:30 AM ET] Global equity markets are generally higher this morning. In Europe, the Euro Stoxx 50 is down 0.1% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.4%. Chinese markets were higher, with the Shanghai Composite up 1.1% and the Shenzhen Composite up 1.9%. US equity index futures are signaling a higher open.

With 300 companies having reported so far, S&P 500 earnings for Q3 are running at $93.00 per share, compared to estimates of $94.17, which is up 29.6% from Q3 2025. Of the companies that have reported thus far, 82.7% exceeded expectations while 12.7% 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
"The US, China, and Constructive Strategic Stability" (10/26/26) + **podcast**	**"The Third Year Charm: Why Gridlock Sets the Stage for Market Growth" (11/2/26)**	Q4 2026 Report	Keller Quarterly VE Insights: A Moving Yardstick VE Insights: Quality and Value

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* today opens with a few words on the apparent stabilization of global stock markets this morning after Friday's selloff. We specifically address whether the selloff might have represented the end of the artificial intelligence frenzy. We next review several other international and US developments that could affect the financial markets today, including more signs that the war in Iran is set to continue and a planned lobbying and public relations push by AI firm OpenAI to begin after tomorrow's midterm elections.

Global Stock Markets: Shortly before market open, US stock futures prices suggest both the broad-based S&P 500 index and the tech-heavy Nasdaq 100 index are set to recover modestly

from their rout on Friday. However, some of the recovery may simply reflect that oil prices are down so far this morning on optimism over back-channel peace talks in the Middle East (we are less optimistic, as shown in the following paragraph). Still, the selloff on Friday has raised questions about whether the long-expected end of the AI investment boom may be nigh.

- In our view, it's too soon to know for sure whether the AI boom is going into reverse. Frenzies or bubbles can continue longer than investors expect, even if they suffer short-term pullbacks.
- All the same, we continue to see many possible factors that could trip up the AI frenzy at some point, including the competitive threat from Chinese AI models, popular pushback against data centers, concern about rogue AI agents, and the threat of onerous regulation.
- Given that these factors will probably call into question the prospects and valuations of today's AI assets over time, we think it's a fine time for investors to ensure that their portfolios are well diversified and positioned to take advantage of the eventual rotation toward recently lagging market segments, such as stable, well-run, dividend-paying value stocks.

United States-Israel-Iran: As signs increasingly point to the US and Israel launching a major attack on Iran after the midterm elections tomorrow, Iranian Supreme Leader Mojtaba Khamenei publicly told the country's top three military commanders that any such attack "must be met with an immediate and effective response, without geographical limitation" in order to achieve "maximum deterrence." While the statement could be mostly posturing, it does suggest that Iran is prepared to keep fighting back hard and that global energy supplies remain at risk.

European Union-Canada: Wrapping up the EU-Canada summit in Montreal on Friday, Prime Minister Carney said Canada would accept the EU's offer of an "associate membership," aiming to achieve "the deepest possible partnership short of accession." The two sides hope to flesh out the relationship — including how much Canada will contribute to the EU's budget — by next June, despite lingering disagreements in areas such as the EU's deforestation policies and whether Canada will be able to participate in EU public procurement.

- The arrangement shows how the EU and Canada want to strengthen their non-US relationships to better insulate themselves from Washington's more antagonistic, less cooperative policies.
- However, it isn't clear how much the new relationship will help the EU or Canada diversify their trade away from the US. Canada still sends approximately three-quarters of its exports to the US, even with Washington's new tariffs and other trade barriers since early 2025, which illustrates how hard it will be for Canada to replace much of its US trade with exports and imports involving other economies.

China-Taiwan-United States: The Chinese coast guard on Saturday announced that it has stepped up patrols around Taiwan, including in the waters east of the island. According to the Chinese, the increased presence is aimed at "strengthening control over the relevant waters to effectively ensure orderly navigation and activities." However, the expanded patrols fit a pattern

suggesting Beijing is taking advantage of the new "Comprehensive Strategic Stability" (CSS) policy, which the US and China adopted to reduce tensions.

- We examined the détente-like CSS policy in our latest *Bi-Weekly Geopolitical Report*, published on October 26, 2026.
- In the months since the CSS policy was put into place earlier this year, we have noted several instances in which the Chinese military has become more aggressive again in the South China Sea and elsewhere, suggesting it thinks it can now assert itself without fear of major US reprisals.
- Of course, the risk is that the Chinese could miscalculate and spark a confrontation with a US ally that would require Washington to act. Any such event could rekindle US-China tensions and would likely unsettle the global financial markets.

United States-China: The Federal Communications Commission late last week banned all Chinese laboratories from testing electronic devices destined for the US market starting in 2028. The ban will apply to devices including smartphones and computers. Since Chinese labs currently test and certify about 80% of such devices for the US market, the move has generated strong pushback from Beijing — another example of lower-level US agencies taking steps that could antagonize China and undermine the détente-like CSS policy.

China: Citing the latest satellite imagery, the Center for Strategic and International Studies said in an updated assessment last week that China's latest aircraft carrier could be launched as soon as 2027. The new "Type 004" carrier would be the country's fourth and is expected to be China's first nuclear-powered carrier. Nuclear propulsion would give the ship much more power and range than current Chinese carriers.

- If the Type 004 carrier is launched in 2027, it will still have to undergo a long period of outfitting, operational testing, and training before being commissioned around 2030.
- China would still have far fewer carriers than the US, but it continues to shift its navy toward something more like the US's "blue water" force. Over time, that will likely give China more geopolitical and military power to challenge US interests around the globe.

US Defense Policy: While the media this fall focused on the long, 321-day deployment of the carrier USS Abraham Lincoln before it finally returned home to San Diego on October 9, recent reports say the destroyer USS Spruance has now been deployed for a post-World War II record of more than 345 days, well above the US Navy's standard of seven months. In our view, the long deployments suggest the US cut its defense budget too far after the Cold War and downsized its armed forces too much to defend its global security interests efficiently.

- US military assets — from troops, sailors, and airmen to ships and bombers — are therefore often being run too hard or for too long, creating morale, maintenance, and safety problems.
- A key question is whether Congress will keep increasing the defense budget. Even if it does, another question is how much it will pressure major defense firms to cut their prices or use more of their resources for investment in defense production.

US Artificial Intelligence Industry: In a scoop yesterday, *Axios* said AI modeler OpenAI plans to launch a major lobbying and public-relations effort right after tomorrow's midterm elections, with the goal of favorably shaping any regulations from the new Congress and easing the public backlash against AI. Among other things, the program will push for mandatory brakes on cutting-edge models and try to rebrand "data centers" as "AI compute campuses." If it affects the regulatory and popular environment for AI firms, the program could have an impact on AI-related assets.

Global Cybersecurity Industry: Just weeks after a flurry of suspected cyberattacks caused supermarket refrigerators and freezers to malfunction across France, a series of similar attacks has apparently been launched today in multiple other European countries, ruining food worth millions of euros. We have also seen reports that at least one freezer at a US military base has been hit. The attacks not only serve as a reminder that cyberattacks remain a threat, especially with the rise of AI, but also that cybersecurity firms are likely to see increased demand.

US Economic Releases

There were no economic releases prior to the publication of this report. The table below lists the economic releases and Fed events scheduled for the rest of the day.

Economic Releases						
EST	**Indicator**			**Expected**	**Prior**	**Rating**
09:45	S&P Global US Manufacturing PMI	m/m	Oct F	56.0	56.0	***
10:00	ISM Manufacturing	m/m	Oct	54.5	54.5	**
10:00	ISM Prices Paid	m/m	Oct	77.2	77.9	**
10:00	ISM New Orders	m/m	Oct	55.0	55.3	**
10:00	ISM Employment	m/m	Oct	52.0	52.7	*
10:00	Construction Spending MoM	m/m	Sep	0.3	0.9	***
Federal Reserve						
EST	**Speaker or Event**	**District or Position**				
11:15	Austan Goolsbee Moderates Discussion	President of the Federal Reserve Bank of Chicago				

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	S&P Global Japan Manufacturing PMI	m/m	Oct F	53.3	53.3		***	Equity and bond neutral
Australia	S&P Global Australia Manufacturing PMI	m/m	Oct F	49.6	49.7		***	Equity and bond neutral
	Melbourne Institute Inflation	y/y	Oct	4.9%	4.8%		***	Equity and bond neutral
	Building Approvals	m/m	Sep	5.1%	-5.2%	2.0%	***	Equity bullish, bond bearish
South Korea	S&P Global South Korea PMI Manufacturing	m/m	Oct	51.3	53.9		***	Equity and bond neutral
	Trade Balance (Millions)	m/m	Oct	$42,500	$49,972	$38,091	*	Equity and bond neutral
	Exports	y/y	Oct	93.7%	83.7%	89.3%	***	Equity bullish, bond bearish
	Imports	y/y	Oct	36.0%	26.0%	39.9%	**	Equity and bond neutral
China	Official Manufacturing PMI	m/m	Oct	49.3	50.1	49.9	***	Equity and bond neutral
	Official Services PMI	m/m	Oct	49.7	50.2	50.0	**	Equity and bond neutral
	Official Composite PMI	m/m	Oct	49.7	50.7		*	Equity and bond neutral
	RatingDog China PMI Mfg	m/m	Oct	52.0	52.1	52.0	***	Equity and bond neutral
India	HSBC India PMI Mfg	m/m	Oct F	54.7	54.9		***	Equity and bond neutral
EUROPE								
Eurozone	S&P Global Eurozone Manufacturing PMI	m/m	Oct F	52.7	52.4	52.4	***	Equity and bond neutral
Germany	Retail Sales	y/y	Sep	-2.3%	-0.3%	-0.2%	*	Equity and bond neutral
	S&P Global/BME Germany Manufacturing PMI	m/m	Oct F	54.2	54.2	54.2	***	Equity and bond neutral
France	S&P Global France Manufacturing PMI	m/m	Oct F	49.5	49.3	49.3	***	Equity and bond neutral
Italy	S&P Global Italy Manufacturing PMI	m/m	Oct	49.4	50.4	49.9	***	Equity and bond neutral
UK	S&P Global UK Manufacturing PMI	m/m	Oct F	52.8	52.8	52.8	***	Equity and bond neutral
Switzerland	Real Retail Sales	y/y	Sep	1.6%	3.9%		**	Equity and bond neutral
	PMI Manufacturing	m/m	Oct	56.7	55.3	55.4	***	Equity bullish, bond bearish
	PMI Services	m/m	Oct	59.9	59.8		*	Equity and bond neutral
	Domestic Sight Deposits CHF (Billions)	w/w	30-Oct	436.9	434.7		*	Equity and bond neutral
	Total Sight Deposits CHF (Billions)	w/w	30-Oct	460.2	455.8		*	Equity and bond neutral
Russia	S&P Global Russia Manufacturing PMI	m/m	Oct	49.9	48.6		***	Equity and bond neutral
AMERICAS								
Canada	GDP	y/y	Aug	1.5%	1.4%	1.7%	**	Equity and bond neutral
Mexico	Net Outstanding Loans (Billions)	m/m	Sep	7768	7620		*	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)	399	399	0	Up
U.S. Sibor/OIS spread (bps)	404	404	0	Up
U.S. Libor/OIS spread (bps)	402	402	0	Up
10-yr T-note (%)	4.92	4.93	-0.01	Down
Euribor/OIS spread (bps)	268	264	4	Up
Currencies	**Direction**			
Dollar	Up	US		Up
Euro	Down	Euro		Down
Yen	Up	Japan		Down
Pound	Down	UK		Flat
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.

	Price	Prior	Change	Explanation
Energy Markets				
Brent	$109.03	$113.43	-3.88%	
WTI	$99.81	$104.12	-4.14%	Weak demand, ample supply, recession fears.
Natural Gas	$2.93	$2.90	1.17%	
Crack Spread	$47.16	$49.50	-4.75%	Weak demand, ample supply, recession fears.
12-mo strip crack	$48.19	$49.94	-3.51%	
Ethanol rack	$2.13	$2.13	0.00%	
Metals				
Gold	$3,900.62	$3,874.62	0.67%	
Silver	$50.09	$49.10	2.01%	
Copper Contract	$652.65	$648.20	0.69%	
Grains				
Corn contract	$450.75	$447.75	0.67%	
Wheat contract	$606.50	$603.50	0.50%	
Soybeans contract	$1,233.00	$1,234.25	-0.10%	
Shipping				
Baltic Dry Freight	2,714	2,712	2	

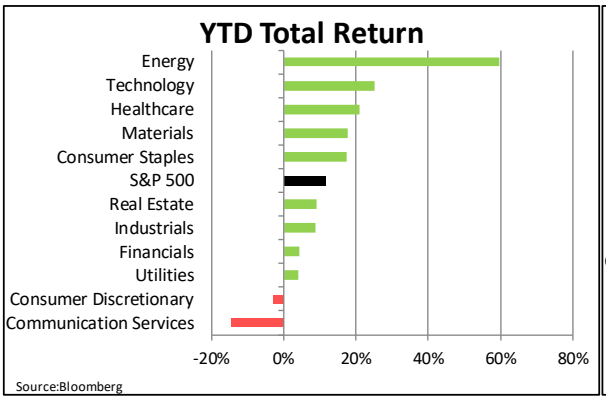
Weather

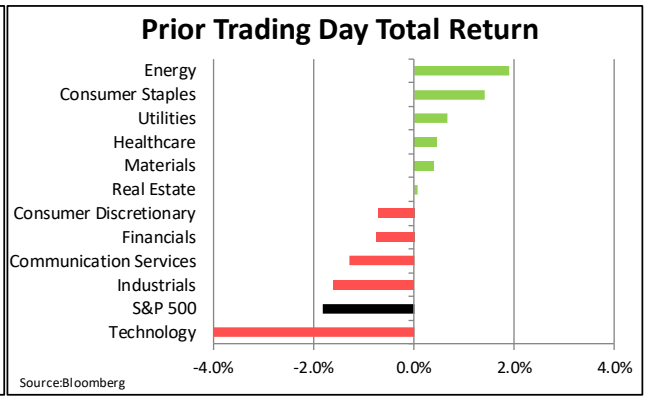
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for most of the country. Meanwhile, the precipitation outlook calls for wetter-than-normal conditions along the West and East Coasts, with dry conditions expected in the Rocky Mountains and in the northern Great Plains region.

There is one atmospheric disturbance in the Atlantic Ocean area. It has a 20% chance of cyclone formation within the next seven days.

Data Section

US Equity Markets – (as of 10/30/2026 close)

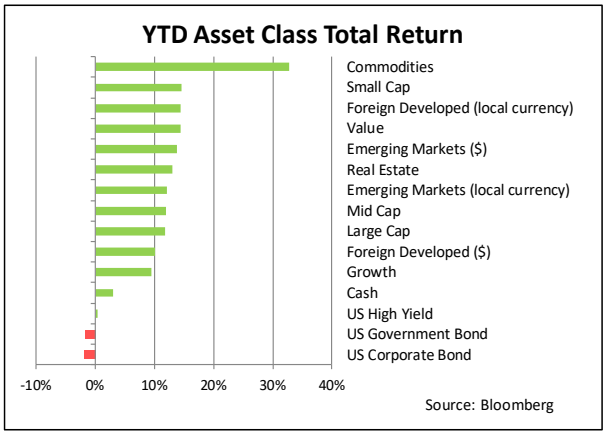




(Source: Bloomberg)

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 10/30/2026 close)

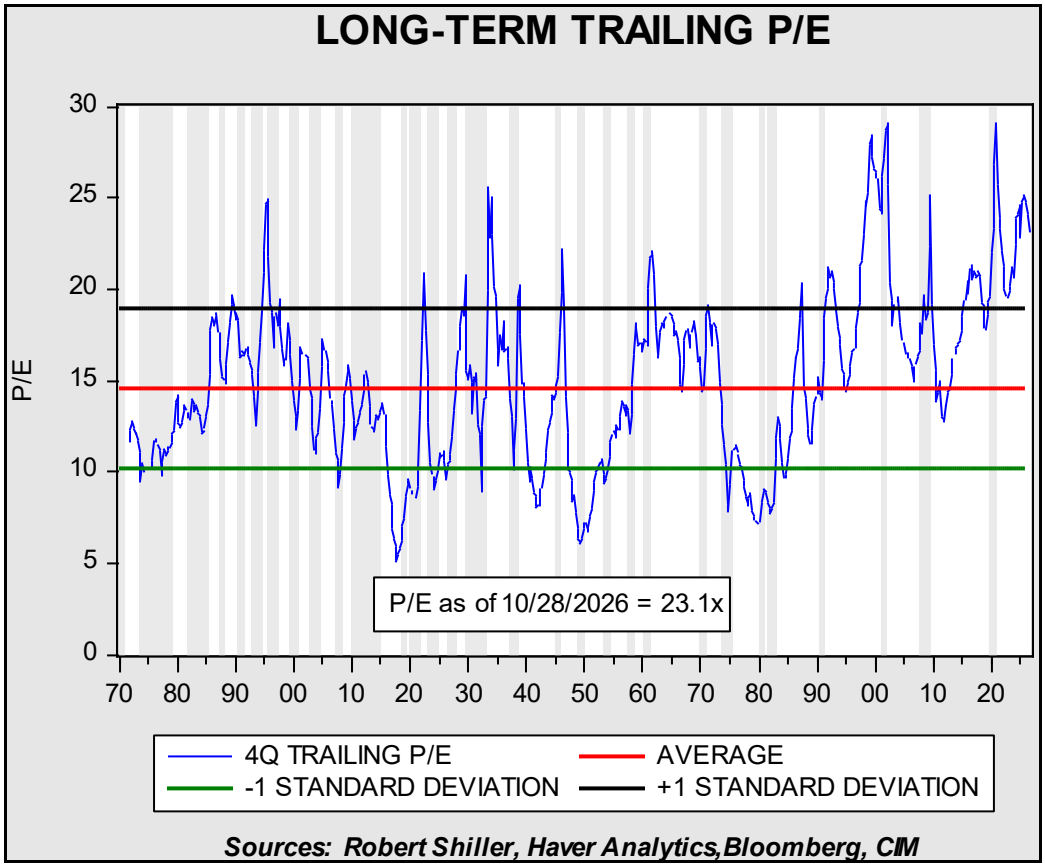


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

October 29, 2026



Based on our methodology,[1] the current P/E ratio is 23.1x, remaining unchanged from the previous report. The multiple held flat as both the stock price index and earnings showed little change week-over-week.

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.