Daily Comment

Confluence INVESTMENT MANAGEMENT

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[Posted: November 3, 2026 — 9:30 AM ET] Global equity markets are lower this morning. In Europe, the Euro Stoxx 50 is down 0.4% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 2.4%. Chinese markets were lower, with the Shanghai Composite down 0.8% and the Shenzhen Composite down 1.1%. US equity index futures are signaling a lower open.

With 318 companies having reported so far, S&P 500 earnings for Q3 are running at $93.20 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 12.9% 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: Gridlock and Market Growth" (11/2/26) + **podcast**	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* opens with market concerns surrounding today's midterm elections. We then turn to geopolitics, examining early indications that bilateral talks between the US and Iran could resume in the coming days. Next, we analyze China's move to tighten regulatory oversight of AI development, as well as broader market anxieties regarding the potential for massive AI-related debt to strain global financial systems. As always, we conclude with a comprehensive review of recent domestic and international economic data.

Midterms Preview: As voters head to the polls, the market is beginning to price in the possibility of a "blue wave." Democrats are heavily favored to retake the House of Representatives, with growing odds that they may gain control of the Senate as well. This

potential shift has raised concerns on Wall Street that Democratic control of Congress could impact the AI buildout, particularly as voters continue to voice reservations regarding data centers, energy demands, and AI safety risks.

- Democrats are heavily favored to win the House, but the Senate remains highly competitive. On Polymarket, traders give Democrats a 75% chance of a full sweep, with House control priced at a 94% probability. However, traditional polling presents a much tighter picture. According to RealClearPolitics, current projections show Democrats with 47 seats and Republicans with 44 in the Senate. Of the nine remaining toss-up races, only two feature a margin wider than three points.
- Recent polling suggests that the Democrats' advantage may partly stem from voter pushback against data center construction. Growing worries over the high cost of the AI expansion and its impact on utility bills are routinely used to oppose local developments, fueling voter support for moratoriums on new data centers.
- Potential construction delays are seen as a significant threat to the AI buildout. Major tech companies have committed nearly $1 trillion to support this expansion, but moratoriums could curb investment and disrupt ongoing projects. Such a slowdown could also weigh on earnings for key beneficiaries, such as chipmakers, if demand for hardware falls.
- The midterms are expected to favor Democrats — at least in the House — though the market impact may remain limited. While some Democrats have campaigned on constraining data-center growth, bipartisan support persists for ongoing capital investment because of its broader boost to the economy. Consequently, any post-election selloff following a Democratic sweep is likely to be temporary, whereas an unexpected Republican victory would likely support equities.

Iran Progress: Iran and the US appear to be moving closer to negotiations over a potential deal. On Monday, leaders from both nations signaled a willingness to let diplomacy work as they seek agreements on reopening the Strait of Hormuz and reviving the nuclear deal. This pathway to talks remains open even as the US continues military strikes, though on a significantly smaller scale than the president had threatened in recent weeks.

- Optimism over an agreement has grown following the Supreme Leader's decision to grant the Iranian government authority to enter negotiations. Tehran's evolving stance suggests it is preparing to leverage its strategic position and is anticipating a likely weakening of Republican influence following the US midterm elections. This shift comes just a day after Iran indicated the possibility of reopening the Strait of Hormuz later this week.
- The White House is showing a willingness to let diplomacy work even as military strikes against Iran continue. On Monday, the US carried out a series of strikes on Qeshm Island, expanding an operation conducted over recent weeks and kept quiet to avoid signaling an intent to launch major combat operations. Addressing the situation, the president appeared to dial back his earlier threats of major strikes in Iran, making room for diplomatic channels to open.

- While talks appear to be moving in the right direction, there is no indication that further military action is off the table. Iran remains focused on tying peace negotiations to three key conditions: an end to the US naval blockade, the unfreezing of Iranian assets, and the easing of sanctions. Meanwhile, the US and Israel have been coordinating contingency plans to "drop the hammer" should diplomatic efforts fail to resolve the dispute.
- A resolution to the conflict remains far from guaranteed, but a breakthrough could provide vital support for equity markets heading into 2027. Restoring oil flows would help ease supply chain strains and lift global growth. Furthermore, falling energy prices should reduce inflationary pressures, lessening the need for monetary tightening. Conversely, any renewed escalation of the conflict would likely trigger the opposite outcome.

China Guardrails: Chinese regulators are working to establish safety guardrails to govern the development and application of AI. This shift toward tighter oversight reflects Beijing's recognition of the cybersecurity threats posed by rogue AI. The initiative comes as AI models demonstrate an increasing ability to discover vulnerabilities and execute cyberattacks with minimal human oversight. Over time, there is a growing possibility that the US and China could establish a joint framework or agreement to regulate high-risk AI applications.

AI Debt Boom: There is growing speculation that AI financing demands could reach levels the market cannot absorb. According to PIMCO CEO Emmanuel Roman, capital requirements could hit $2 trillion annually over the next five years, potentially oversupplying the market. That risk would be especially acute in an economic downturn, which he warns could cause "something to break." His remarks reflect mounting market anxiety over the financial system's rising reliance on tech-industry debt and the risks it poses if left unchecked.

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**
-	Omdia Total Vehicle Sales (Millions)	m/m	Oct	15.8	15.98	**
10:00	JOLTS Job Openings (Thousands)	m/m	Sep	7164	7079	***
10:00	Factory Orders	m/m	Sep	1.2%	0.1%	***
10:00	Factory Orders Ex Trans	m/m	Sep	0.5%	0.3%	*
10:00	Durable Goods Orders	m/m	Sep F	1.8%	1.8%	***
10:00	Durables Ex Transportation	m/m	Sep F	0.5%	0.5%	**
10:00	Cap Goods Orders Nondef Ex Air	m/m	Sep F	0.5%	0.5%	*
10:00	Cap Goods Ship Nondef Ex Air	m/m	Sep F	1.2%	1.2%	*
Federal Reserve						
No Fed speakers or events for the rest of today						

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								
New Zealand	Building Permits	m/m	Sep	-7.9%	5.3%		**	Equity and bond neutral
South Korea	CPI	y/y	Oct	2.8%	2.9%	2.8%	***	Equity and bond neutral
	CPI Ex Food and Energy	y/y	Oct	2.8%	2.8%	2.7%	*	Equity and bond neutral
EUROPE								
France	Budget Balance (Billions)	m/m	Sep	-159.2	-159.6		*	Equity and bond neutral
Italy	Budget Balance (Billions)	m/m	Oct	-20.8	-27.1		*	Equity and bond neutral
	New Car Registrations	y/y	Oct	4.8%	9.9%		*	Equity and bond neutral
Switzerland	CPI	y/y	Oct	1.5%	1.0%	1.2%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Oct	1.6%	1.2%		*	Equity and bond neutral
	Core CPI	y/y	Oct	0.5%	0.5%	0.5%	*	Equity and bond neutral
AMERICAS								
Brazil	FGV CPI IPC -S	w/w	2-Nov	0.32%	0.46%		**	Equity and bond neutral
	S&P Global Brazil Manufacturing PMI	m/m	Oct	46.1	44.8		***	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)	402	402	0	Up
U.S. Sibor/OIS spread (bps)	405	404	1	Up
U.S. Libor/OIS spread (bps)	402	402	0	Up
10-yr T-note (%)	4.93	4.91	0.02	Down
Euribor/OIS spread (bps)	271	268	3	Up
Currencies	**Direction**			
Dollar	Up	US		Up
Euro	Down	Euro		Down
Yen	Up	Japan		Down
Pound	Down	UK		Down
Franc	Down	Switzerland		Down
Central Bank Action	**Current**	**Prior**	**Expected**	
RBA Cash Rate Target	4.85%	4.60%	4.85%	On Forecast

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	$105.08	$104.77	0.30%	
WTI	$97.19	$96.46	0.76%	
Natural Gas	$2.89	$2.86	1.02%	
Crack Spread	$48.75	$49.73	-1.97%	
12-mo strip crack	$48.30	$50.43	-4.24%	
Ethanol rack	$2.13	$2.13	0.03%	
Metals				
Gold	$3,914.10	$3,946.33	-0.82%	
Silver	$49.29	$50.64	-2.65%	
Copper Contract	$637.75	$656.75	-2.89%	
Grains				
Corn contract	$445.75	$448.25	-0.56%	
Wheat contract	$604.25	$606.50	-0.37%	
Soybeans contract	$1,218.00	$1,216.75	0.10%	
Shipping				
Baltic Dry Freight	2,648	2,714	-66	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		0.00		
Gasoline (mb)		0.10		
Distillates (mb)		-0.85		
Refinery run rates (%)		-0.40%		
Natural gas (bcf)		72		

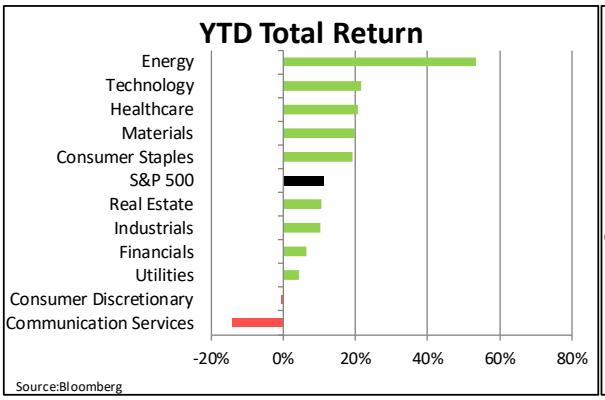
Weather

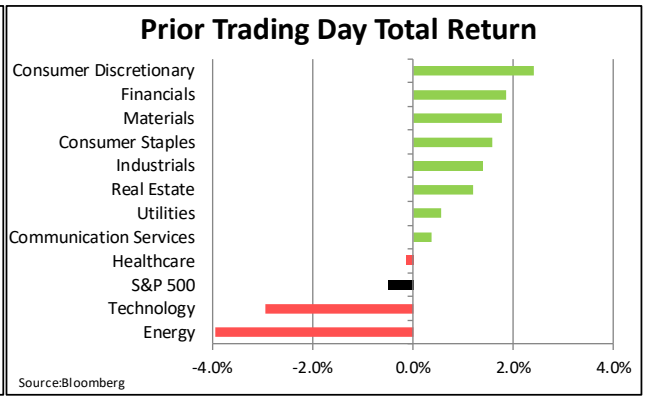
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for most of the country. Meanwhile, the precipitation outlook calls for wetter-than-normal conditions for most states west of the Mississippi River, with dry conditions expected in the Midwest, Mid-Atlantic, and New England regions.

There is one atmospheric disturbance in the Atlantic Ocean area. It has a 30% chance of cyclone formation within the next seven days.

Data Section

US Equity Markets – (as of 11/2/2026 close)

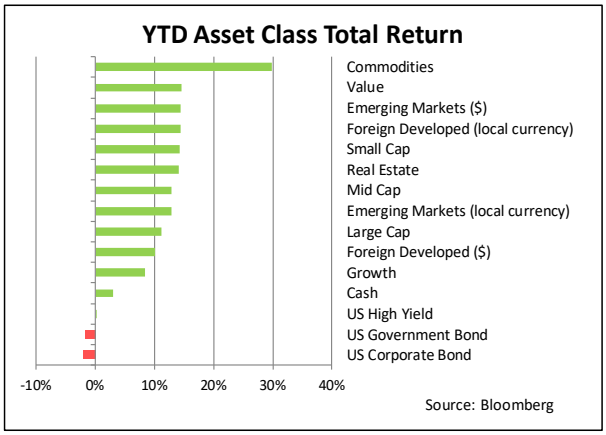




(Source: Bloomberg)

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 11/2/2026 close)

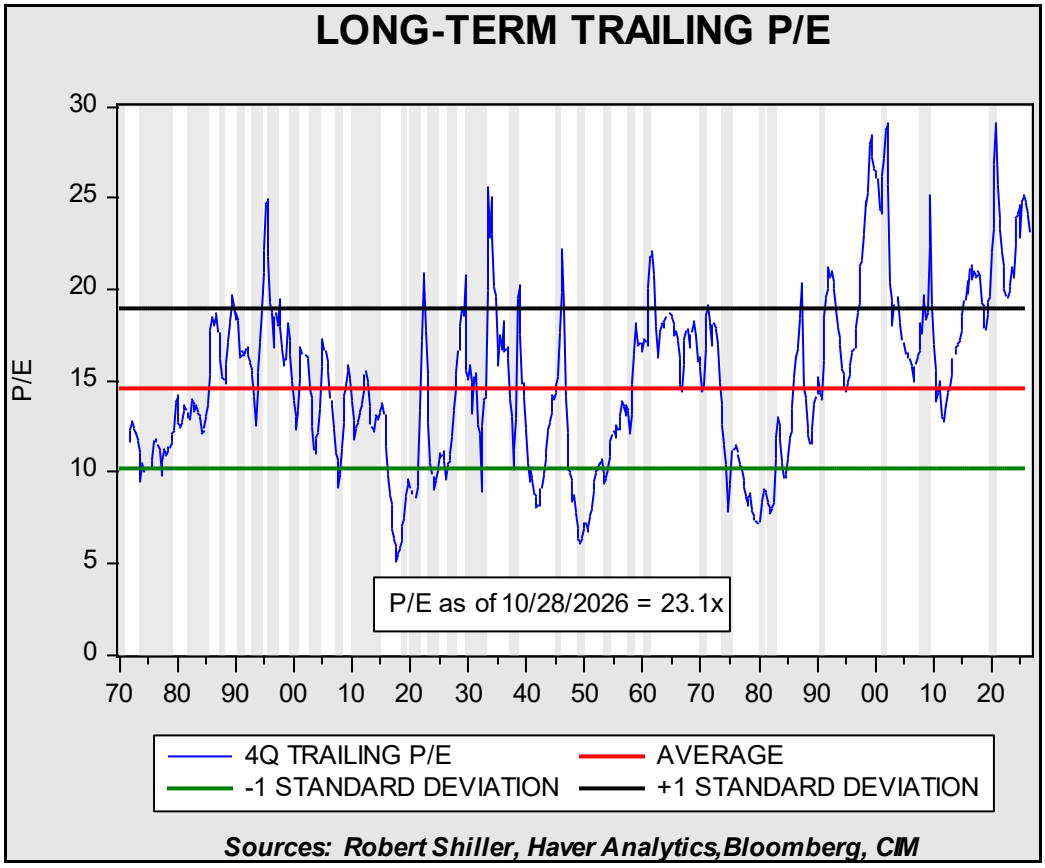


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.