

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: November 4, 2025 — 9:30 AM ET] Global equity markets are lower this morning. In Europe, the Euro Stoxx 50 is down 1.2% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 1.4%. Chinese markets were lower, with the Shanghai Composite down 0.4% and the Shenzhen Composite down 1.3%. US equity index futures are signaling a lower open.

With 336 companies having reported so far, S&P 500 earnings for Q3 are running at \$71.50 per share compared to estimates of \$68.15, which is up 8.0% from Q3 2024. Of the companies that have reported thus far, 82.1% have exceeded expectations, while 13.7% 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. ***Note: Due to the federal government shutdown, we were unable to update the Business Cycle Report this month. The report will return as soon as we are able to once again access government data.***

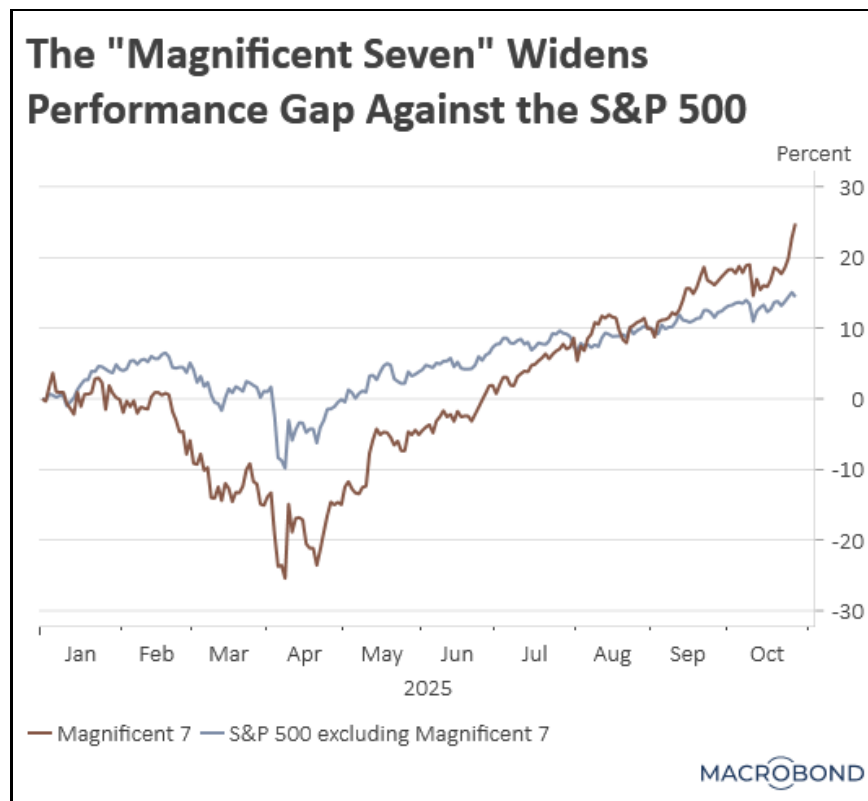
Bi-Weekly Geopolitical Report	Asset Allocation Bi-Weekly	Asset Allocation Quarterly	Of Note
“China’s Rising Power and the Implications for US Hegemony” (10/27/25) + podcast	“When the Financial System Finds a Cockroach” (11/3/25) + podcast	Q4 2025 Report	Keller Quarterly Confluence of Ideas podcast

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* opens with an analysis of mounting concerns over a potential market pullback. We then examine how a wave of new AI partnerships continues to provide crucial market momentum. Our coverage further extends to government initiatives in the energy and commodities sector, conflicting signals from Fed officials on December rate cuts, and a notable shift in sentiment among UK youth regarding welfare benefits. We also include a summary of key international and domestic data releases.

Pullback Concerns: [Wall Street leaders, such as David Solomon and Ted Pick, foresee a “healthy” market correction](#) within the next 12-24 months, citing a dangerous divergence between valuation and fundamentals. While corporate earnings are robust, they are being vastly outpaced by exuberant price appreciation. This has created a clear schism where, on one side, there is analytical caution dictated by financial models, while on the other, there is a market psychology driven by unwavering faith in tech's secular growth.

- [Palantir appears to be driving today's market narrative](#) by serving as a prime example of the current tension in tech. Despite reporting robust earnings and providing strong forward guidance, its stock has declined. This counterintuitive sell-off highlights investor apprehension that a 175% year-to-date rally — and the resulting P/E ratio of 688.49 — has created a valuation that its underlying business performance cannot support, leading to renewed concerns of a sector-wide bubble.



- Historical precedent suggests this weakness is temporary. The Magnificent 7 have a track record of weathering periods of skepticism and early-year underperformance, consistently rallying to fuel broader market gains. In our view, the current negative sentiment mirrors these past episodes and is unlikely to derail the sector's near-term trajectory.
- The case for sustained equity strength is compelling and rooted in a US economy that is demonstrating solid growth. Key data indicates twin engines of growth including unwavering household demand and a landmark acceleration in AI capital expenditure. Meanwhile, a labor market that is normalizing rather than weakening provides crucial stability. Given this combination of persistent demand and transformative investment, we

anticipate further market appreciation, albeit at a potentially more selective and moderate pace.

AI Partnerships: The market is paying a lot of attention to the growing interconnectedness of tech companies. On Monday, [Amazon Web Services \(AWS\) announced a multi-year](#), \$38 billion agreement with OpenAI to provide it with massive cloud computing resources. The landmark deal is expected to significantly bolster confidence in AWS's cloud computing infrastructure as it competes aggressively against rivals like Microsoft, Alphabet (Google), Oracle, and CoreWeave, all of whom are securing similar contracts to power the AI boom.

- Following the announcement, Amazon's stock surged, a trend mirrored across the broader Magnificent 7 as investors continue to pour money into AI. The primary source of investor confidence is the robust and growing supply chains these firms are building, coupled with significant revenue diversification. This reassures the market that these companies have multiple avenues to justify their lofty valuations.
- Specifically, this move signifies that OpenAI is diversifying its cloud infrastructure beyond Microsoft, a strategic shift as it operates more like a for-profit company rather than a non-profit. Simultaneously, Amazon has solidified its status as a major AI player by securing OpenAI as a client, adding to AWS's existing partnership with OpenAI's rival, Anthropic.
- We anticipate a continued flow of strategic deals over the next few months as major tech companies aim to diversify both their revenue streams and supply chains. This proactive diversification is crucial for building resilient AI infrastructure and significantly reducing reliance on any single vendor. While we acknowledge that current tech valuations are elevated, we maintain that companies with strong balance sheets should see sustained momentum.

Government Investments: The White House has announced a series of new funding initiatives aimed at boosting US competitiveness in the commodities and energy sectors. On Monday, [President Trump unveiled \\$100 million in funding for coal-related initiatives](#), although the specific source of the funds was not clarified. Additionally, the administration has [committed \\$750 million to rare earth startups](#), a move that will involve the government taking equity stakes in the companies. These actions underscore the government's growing role in the economy.

Rate Cut Doubt? Signals from Federal Reserve officials have cast doubt on the likelihood of a rate cut in December, revealing a split in their policy priorities. Chicago Fed President Austan Goolsbee [emphasized that his dominant worry is persistent inflation](#), overshadowing labor market considerations. Meanwhile, Fed Governor Lisa Cook [suggested her unease is more focused on the labor market's health](#). This divergence creates a lack of clear guidance, which is expected to temper enthusiasm for risk assets as investors prefer the certainty of a dovish pivot.

US-China Trade Relations: In a sign of easing trade tensions, the US and China are moving toward normalizing relations. Chinese officials are [expected to resume sales of rare earth metals to the US](#), while the White House has signaled a [greater openness to allowing chip exports to China](#). These reciprocal gestures are likely to bolster confidence that the trade relationship will

not be abruptly severed, even as the risk of future disputes remains. This should offer some support to the broader market.

EU Restraint: The European Union [is considering measures to tighten its membership process](#), aiming to prevent the admission of what it might see as "Trojan horses." The proposed plan would place new entrants on a probationary period before granting full membership, ensuring they do not backslide on democratic principles after joining. This measure is designed to prevent a repeat of situations like that of Hungary, which, after joining the bloc, subsequently cracked down on free speech.

UK Sentiment Shift: As the UK's ruling Labour Party prepares to push through more tax hikes, polls show a growing number of young voters are expressing [support for a crackdown on crime and benefits](#). This sentiment highlights the public's growing dissatisfaction with the government as it struggles to manage the nation's rising debt. The discontent appears to be fueling a rise in popularity for the Reform UK and Green parties, a sign that the traditional political duopoly is starting to lose favor.

US Economic Releases

Due to the federal government shutdown, 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						
EST	Indicator			Expected	Prior	Rating
10:00	JOLTS Job Openings	m/m	Sep	7130k	7227k	*
10:00	Factory Orders	m/m	Sep			***
10:00	Factory Orders Ex Transportation	m/m	Sep			**
10:00	Durable Goods Orders	m/m	Sep F			***
10:00	Durable Goods Orders ex Transportation	m/m	Sep F			**
10:00	Cap Goods Orders Nondef Ex Air	m/m	Sep F			*
10:00	Cap Goods Ship Nondef Ex Air	m/m	Sep F			*
Federal Reserve						
EST	Speaker or Event	District or Position				
6:35	Michelle Bowman Speaks on Supervision and Monetary Policy	Member of the Board of Governors				

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	S&P Global Japan Manufacturing PMI	m/m	Oct F	48.2	48.3		***	Equity and bond neutral
South Korea	CPI	m/m	Oct	2.4%	2.1%	2.2%	***	Equity and bond neutral
EUROPE								
Italy	New Car Registrations	y/y	Oct	-0.57%	4.07%		*	Equity and bond neutral
	Budget Balance	m/m	Oct	-19.7b	-25.3b		*	Equity and bond neutral
AMERICAS								
Canada	S&P Global Canada Manufacturing PMI	m/m	Oct	49.6	47.7		***	Equity and bond neutral
Mexico	S&P Global Mexico Manufacturing PMI	m/m	Oct	49.5	49.6		***	Equity and bond neutral
	Remittances Total	m/m	Sep	\$5214.2m	\$5578.2m	\$5373.0m	*	Equity and bond neutral
	IMEF Manufacturing Index SA	m/m	Oct	47.2	46.5		*	Equity and bond neutral
	IMEF Non-Manufacturing Index SA	m/m	Oct	50.4	48.8		*	Equity and bond neutral
	Vehicle Domestic Sales	y/y	Oct	129736	117181		***	Equity and bond neutral
	Leading Indicators	y/y	Sep	0.2	0.21		**	Equity and bond neutral
	Consumer Confidence	m/m	Oct	46.1	46.4	46.1	*	Equity and bond neutral
Brazil	Industrial Production	y/y	Sep	2.0%	-0.7%	1.9%	***	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)	379	380	-1	Down
U.S. Sibor/OIS spread (bps)	388	389	-1	Down
U.S. Libor/OIS spread (bps)	378	379	-1	Down
10-yr T-note (%)	4.09	4.11	-0.02	Up
Euribor/OIS spread (bps)	202	204	-2	Up
Currencies	Direction			
Dollar	Up			Up
Euro	Down			Down
Yen	Down			Down
Pound	Down			Down
Franc	Up			Down
Central Bank Action	Actual	Prior	Expected	
RBA Cash Rate Target	3.60%	3.60%	3.60%	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	\$64.09	\$64.89	-1.23%	
WTI	\$60.18	\$61.05	-1.43%	
Natural Gas	\$4.21	\$4.27	-1.34%	
Crack Spread	\$26.38	\$26.35	0.10%	
12-mo strip crack	\$25.97	\$26.04	-0.28%	
Ethanol rack	\$1.92	\$1.92	-0.13%	
Metals				
Gold	\$3,988.76	\$4,001.42	-0.32%	
Silver	\$47.81	\$48.08	-0.55%	
Copper contract	\$493.35	\$506.90	-2.67%	
Grains				
Corn contract	\$430.75	\$434.25	-0.81%	
Wheat contract	\$544.75	\$543.50	0.23%	
Soybeans contract	\$1,123.50	\$1,134.25	-0.95%	
Shipping				
Baltic Dry Freight	1,945	1,966	-21	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		1.20		
Gasoline (mb)		-1.92		
Distillates (mb)		-1.90		
Refinery run rates (%)		-0.6%		
Natural gas (bcf)		74		

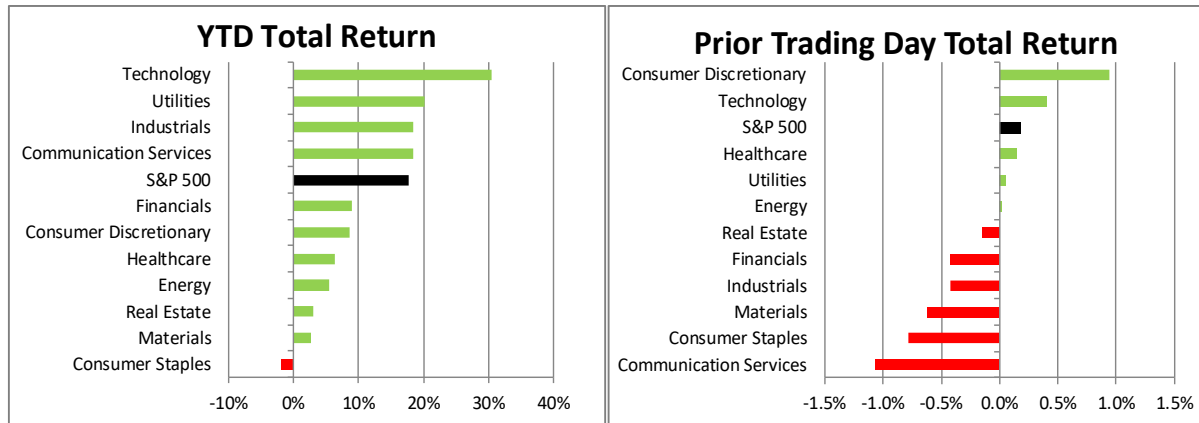
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures from the West Coast to the Mississippi River, with cooler-than-normal temperatures only in the mid-Atlantic states and New England. The outlook calls for wetter-than-normal conditions along the West Coast and in the Rocky Mountains, with dry conditions in the southern Great Plains and the Southeast.

There is no tropical cyclone activity expected within the next seven days.

Data Section

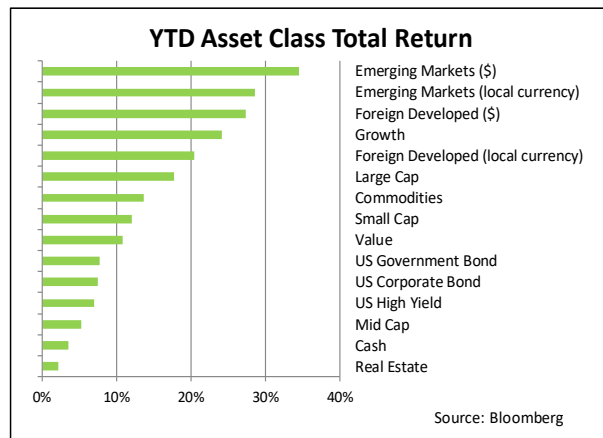
US Equity Markets – (as of 11/3/2025 close)



(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 11/3/2025 close)

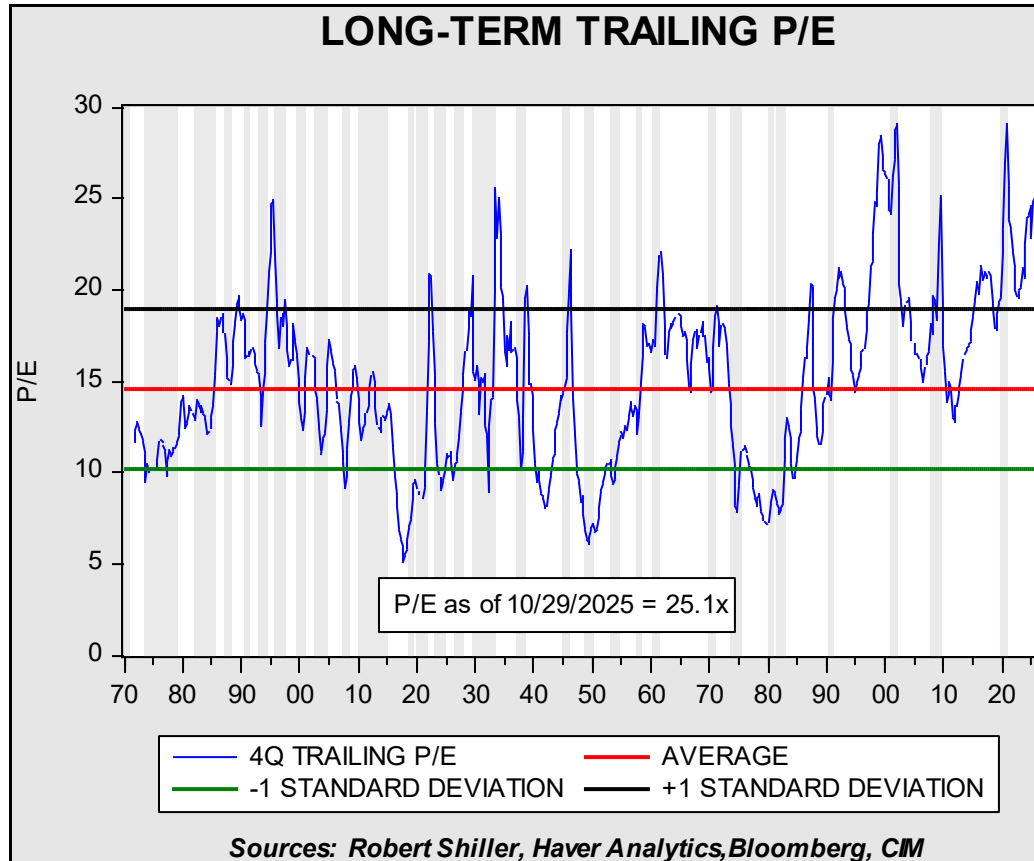


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

October 30, 2025



Based on our methodology,¹ the current P/E is 25.1x, which is down 0.1 from the previous report. This slight decline was due to the rise in the price index being offset by a bigger increase 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.