Daily Comment

Confluence INVESTMENT MANAGEMENT

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[Posted: November 4, 2026 — 9:30 AM ET] Global equity markets are mostly higher this morning. In Europe, the Euro Stoxx 50 is up 1.7% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.3%. Chinese markets were higher, with the Shanghai Composite up 2.2% and the Shenzhen Composite up 3.7%. US equity index futures are signaling a higher open.

With 355 companies having reported so far, S&P 500 earnings for Q3 are running at $93.60 per share, compared to estimates of $94.17, which is up 29.6% from Q3 2025. Of the companies that have reported thus far, 83.3% exceeded expectations while 12.4% 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 our assessment of the midterm election results and their potential implications for markets. We then turn to AI, examining how growing scrutiny of debt and cash flow could shape the sustainability of the AI trade. Next, we briefly cover a shift in US foreign aid policy, US tech firms' cooling ties with China, and a cyberattack on a French bank. As always, we conclude with a review of recent domestic and international economic data.

Democrats Sweep: Following the midterm elections, Democrats have regained control of both chambers of Congress. Although several races remain uncalled, the party is on track for roughly 225 to 232 seats in the House of Representatives and a 54-seat majority in the Senate. This

decisive victory will likely prompt a reevaluation of key national priorities, including foreign policy, federal investment in AI, and deficit-reduction strategies. That said, while markets prepare for political friction, we think common ground is possible.

- The election results confirm that the Democrats have won, though the scale of their victory remains unsettled. Several seats are still up for grabs as of this writing. Two Senate races, in Mississippi and Alaska, are too close to call, with the former leaning Democratic and the latter leaning Republican. With Democrats favored to gain more seats, they are likely to have greater sway over policy.
- The Republicans' loss represents a major setback for the president's agenda, as the Democratic victory is likely to slow legislative momentum. Calling for swift oversight, some lawmakers have already urged investigations into the White House. While these inquiries are unlikely to result in formal convictions or removals, they will create significant political gridlock and effectively block the passage of major, controversial legislation.
- The change in the composition of Congress is likely to shape several policy initiatives with implications for markets. In the run-up to the election, debate intensified over data centers and their energy demands, tariffs, and limits on the president's authority to engage in foreign conflicts, all of which are likely to be addressed over the next two years. With the debt ceiling expected to be reached in 2027, lawmakers will also likely need to confront the growing deficit.
- Following the results, the White House may be more willing to work across the aisle than expected. President Trump has previously demonstrated a willingness to forge bipartisan deals when feasible, most notably with COVID-19 relief legislation and criminal justice reform, and we anticipate a similar approach moving forward. Nevertheless, investors should prepare for potential volatility stemming from fiscal deficit debates and the threat of a government shutdown.

AI Rally: AI hardware suppliers remain at the heart of the AI buildout. On Tuesday, two major AI suppliers issued strong outlooks, signaling that demand for specialized equipment remains high. This upbeat forecasts come as investor confidence in the broader AI rally has faltered amid fears that rising, debt-fueled spending could trigger a slowdown. Nevertheless, attention is increasingly shifting away from long-term sustainability doubts and back toward the robust, ongoing sales of core suppliers.

- AMD, a major chipmaker, and Super Micro Computer, a leading provider of AI server infrastructure, both delivered stronger-than-expected revenue guidance. AMD projected fourth-quarter revenue of approximately $17 billion, topping analyst estimates of $16.3 billion. Meanwhile, Super Micro raised its quarterly revenue forecast to $19.5 billion, significantly outpacing expectations. These impressive outlooks have reassured investors and helped ease fears of a potential AI spending slowdown.
- The performance of AI equipment makers has been viewed as a gauge of the AI rally's overall sustainability, especially as weak results from cloud companies fuel skepticism. Over the past two weeks, Alphabet, Amazon, and Meta all saw their shares sink after earnings amid concerns that heavy spending, rising debt, and, in some cases, weaker

results could hurt future profitability. Microsoft was the exception, with its shares initially rising after earnings on the back of solid revenue and positive cash flow.

- Debt and cash flow continue to be major themes for the AI trade. In recent months, cloud providers' reliance on debt, particularly among hyperscalers, has helped drive cash flow higher for many AI suppliers. To keep its own revenue growing, Nvidia has started financing some of its sales to smaller cloud companies that lack the same ability to borrow. As a result, a slowdown in credit markets that prevents these firms from borrowing large sums to fund the buildout could weigh on the AI rally.
- The strong performance from AI equipment makers should help sustain the rally, but investors should not be complacent. Recent earnings show that markets are growing more skeptical about how much momentum the AI rally has left, which explains the volatility in recent weeks. Still, investors should not panic. As the saying often attributed to John Maynard Keynes goes, markets can remain irrational longer than you can remain solvent. Diversifying now is a prudent way to build in some protection in case sentiment shifts.

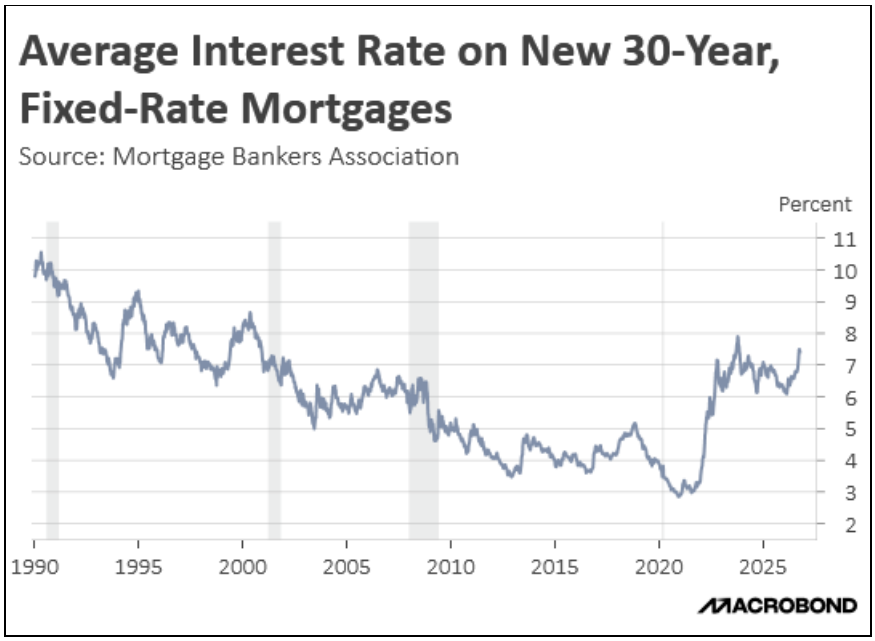
Foreign Aid: President Trump announced that the US plans to terminate military aid to Israel by the end of 2026. Although both nations had previously discussed a gradual phase-out of financial assistance, the sudden timeline came as a surprise to Israeli officials. The decision appears driven by political calculations ahead of the 2028 elections, as the president seeks to reshape his party's platform and preserve Republican control of the White House.

China Crackdown: US tech companies appear to be scaling back their commercial ties with China. According to a report, Nvidia will fulfill just 1% of the RTX chip orders placed by its Chinese customers. While the company attributed the shortfall to strong demand, the move may also reflect a broader US push to prioritize American hyperscalers' access to computing resources. Separately, Oracle reportedly faced White House pressure to cancel a $7 billion deal with Tencent for similar reasons.

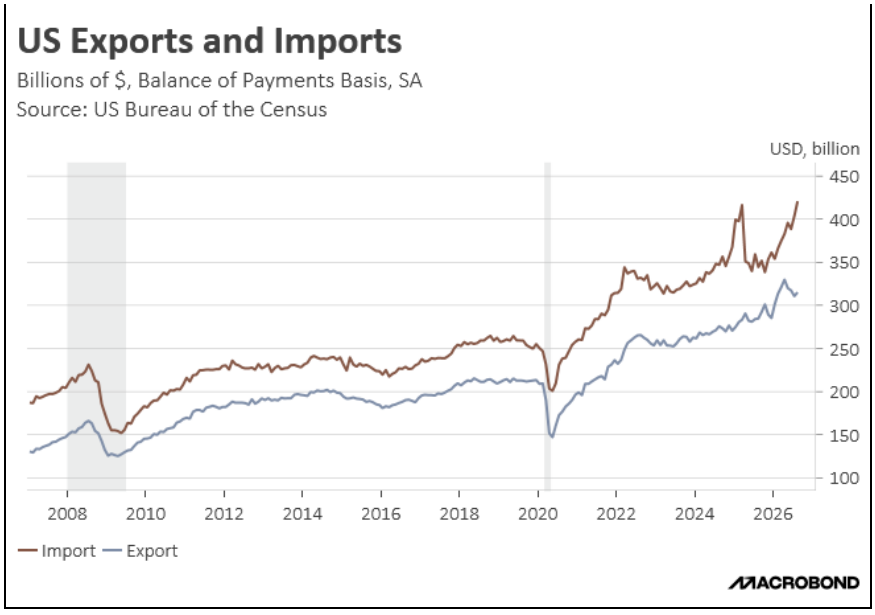
New Cyberattacks: French bank Crédit Mutuel Arkéa recently confirmed a cyberattack in which hackers breached its systems to carry out unauthorized transactions. While the bank stated that the breach was under control and customers would suffer no financial losses, the incident highlights the growing frequency and severity of cyber threats facing financial institutions. The attack comes days after a massive breach at Binance that saw the crypto exchange lose over $6 billion in digital assets.

US Economic Releases

The Mortgage Bankers Association said ***mortgage applications*** in the week ended October 30 fell 1.2%, reversing part of their 3.4% gain in the previous week. Applications for home purchase mortgages rose 2.0%, compared with a rise of 3.8% in the prior week. Applications for refinancing mortgages fell 0.1%, versus an increase of 2.7% the week before. The average interest rate on a 30-year, fixed-rate mortgage fell 7 basis points to 7.30%. The chart below shows how mortgage rates have changed over time.



The September ***trade balance*** showed a seasonally adjusted deficit of $105.0 billion, narrower than the expected shortfall of $108.0 billion and the revised August deficit of $105.7 billion. Total ***exports*** rose 1.9% during the month and ***imports*** rose 1.2%. Compared with the same month one year earlier, exports in September were up 10.0%, while imports were up 21.2%. The chart below shows the monthly value of US exports and imports since just before the previous recession.



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 Services PMI	m/m	Oct F	57.9	57.9	***
09:45	S&P Global US Composite PMI	m/m	Oct F	57.3	57.6	***
10:00	ISM Services Index	m/m	Oct	54.8	54.9	***
10:00	ISM Services Prices Paid	m/m	Oct	74.6	74.0	*
10:00	ISM Services New Orders	m/m	Oct	58.5	59.8	*
10:00	ISM Services Employment	m/m	Oct	50.0	50.1	*
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								
Japan	Monetary Base, End of Period (Trillion	m/m	Oct	537.2	535.42		*	Equity and bond neutral
	Monetary Base	y/y	Oct	-13.6%	-15.2%		**	Equity and bond neutral
Australia	S&P Global Australia Composite PMI	m/m	Oct F	48.248.5	47.7		*	Equity and bond neutral
	S&P Global Australia Services PMI	m/m	Oct F	6.8	47..8		*	Equity and bond neutral
	Household Spending	y/y	Sep	0.6%	-0.1%	0.2%	**	Equity and bond neutral
New Zealand	Unemployment Rate	q/q	3Q	5.7%	5.6%	5.5%	***	Equity and bond neutral
	Employment Change	q/q	3Q	0.7%	0.9%	1.6%	**	Equity bearish, bond bullish
	ANZ Commodity Price	m/m	Oct	6.0%	0.6%		**	Equity and bond neutral
South Korea	Foreign Reserves (Billions)	m/m	Oct	$433.16	$440.56		**	Equity and bond neutral
China	RatingDog China PMI Composite	m/m	Oct	52.0	52.4		**	Equity and bond neutral
	RatingDog China PMI Services	m/m	Oct	50.8	51.6	51.7	**	Equity bearish, bond bullish
India	HSBC India PMI Composite	m/m	Oct F	56.2	56.7		**	Equity and bond neutral
	HSBC India PMI Services	m/m	Oct F	55.8	56.2		**	Equity and bond neutral
EUROPE								
Eurozone	S&P Global Eurozone Services PMI	m/m	Oct F	51.4	51.7	51.7	**	Equity and bond neutral
	S&P Global Eurozone Composite PMI	m/m	Oct F	51.7	51.9	51.9	*	Equity and bond neutral
	CPI	y/y	Oct P	4.0%	3.8%	4.0%	***	Equity and bond neutral
	Core CPI	y/y	Oct P	2.5%	2.5%	2.5%	**	Equity and bond neutral
Germany	S&P Global Germany Services PMI	m/m	Oct F	52.5	51.7	51.7	**	Equity and bond neutral
	S&P Global Germany Composite PMI	m/m	Oct F	53.4	52.8	52.8	**	Equity and bond neutral
France	S&P Global France Services PMI	m/m	Oct F	46.2	48.4	48.4	**	Equity and bond neutral
	S&P Global France Composite PMI	m/m	Oct F	46.6	48.4	48.4	**	Equity and bond neutral
Italy	S&P Global Italy Services PMI	m/m	Oct	52.0	51.7	51.5	**	Equity and bond neutral
	S&P Global Italy Composite PMI	m/m	Oct	50.8	51.0	50.8	**	Equity and bond neutral
UK	S&P Global UK Services PMI	m/m	Oct F	52.8	53.1	53.1	**	Equity and bond neutral
	S&P Global UK Composite PMI	m/m	Oct F	52.9	53.1	53.1	**	Equity and bond neutral
	Official Reserves Changes (Millions)	m/m	Oct	-$2,231.00	-$6,010.00		*	Equity and bond neutral
AMERICAS								
Mexico	IMEF Manufacturing Index SA	m/m	Oct	49.8	49.7	50.2	*	Equity and bond neutral
	IMEF Non-Manufacturing Index SA	m/m	Oct	50.6	49.7	50.1	*	Equity and bond neutral
	Remittances Total (Millions)	m/m	Sep	5362.2	$ 5,452	5375	*	Equity and bond neutral
	S&P Global Mexico Manufacturing PMI	m/m	Oct	49.5	50.3		***	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)	406	405	1	Up
U.S. Libor/OIS spread (bps)	404	403	1	Up
10-yr T-note (%)	4.92	4.97	-0.05	Down
Euribor/OIS spread (bps)	277	271	6	Up
Currencies	**Direction**			
Dollar	Up	US		Up
Euro	Down	Euro		Down
Yen	Up	Japan		Down
Pound	Down	UK		Up
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.

			Change	Explanation
Energy Markets	**Today**	**Prior**		
Brent	$101.67	$103.60	-1.86%	
WTI	$94.68	$96.09	-1.47%	
Natural Gas	$2.90	$2.90	0.31%	
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)		-1.70		
Gasoline (mb)		1.00		
Distillates (mb)		-1.50		
Refinery run rates (%)		-0.07%		
Natural gas (bcf)		81		

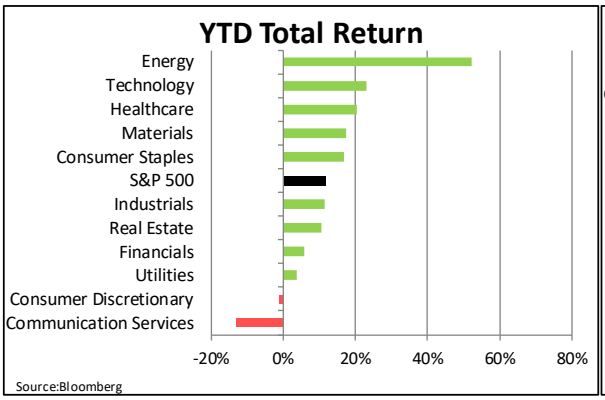
Weather

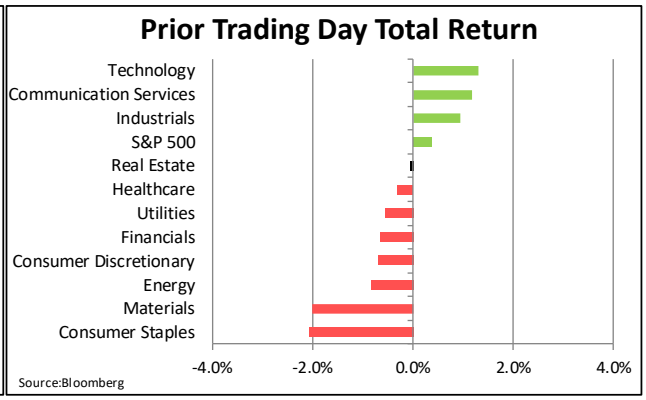
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for most of the country. Meanwhile, the precipitation outlook calls for wetter-than-normal conditions for most states west of the Mississippi River, with dry conditions expected for the rest of the country.

There is one atmospheric disturbance in the Atlantic Ocean area. It has a 50% chance of cyclone formation within the next seven days.

Data Section

US Equity Markets – (as of 11/3/2026 close)

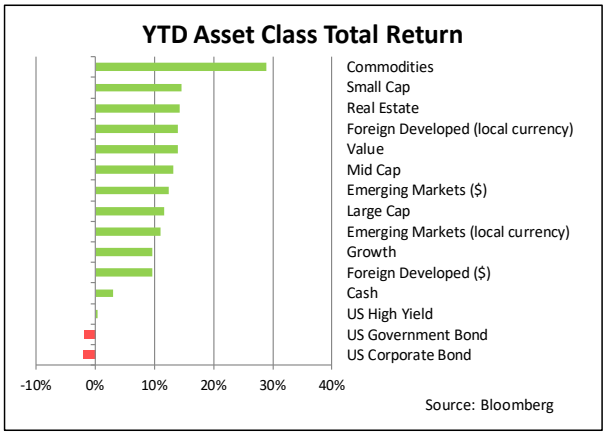




(Source: Bloomberg)

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 11/3/2026 close)

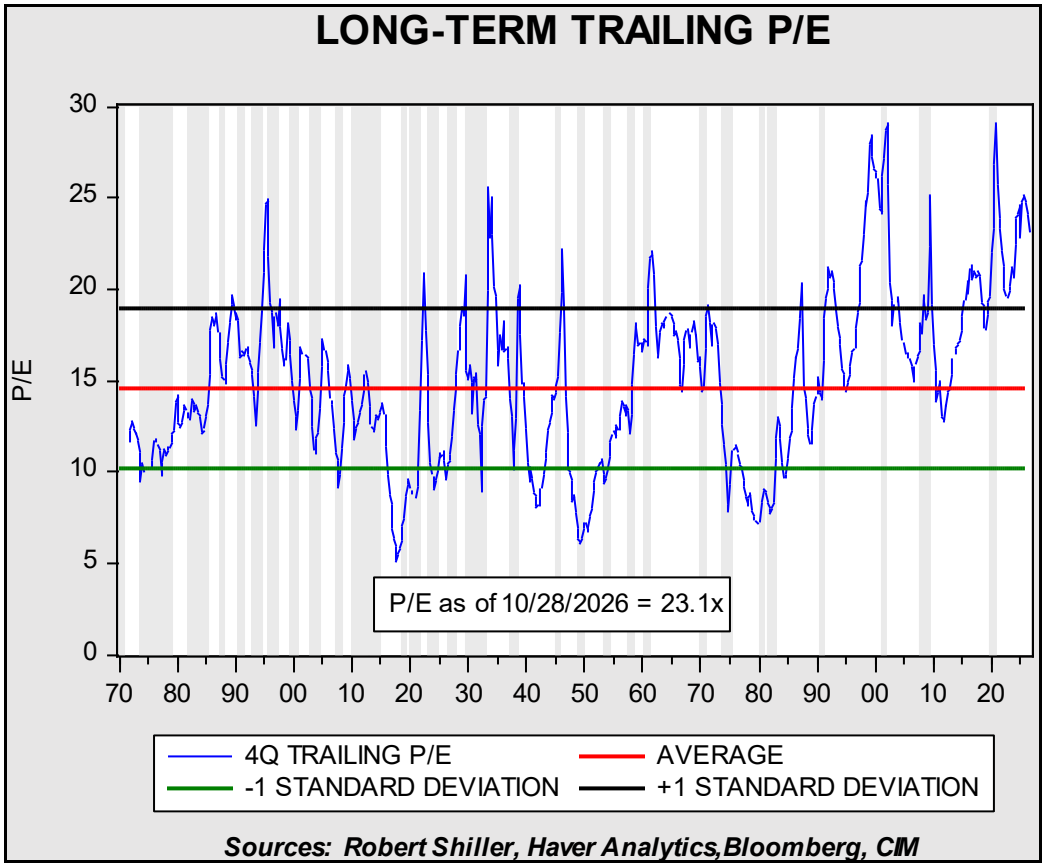


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.