Daily Comment

Confluence INVESTMENT MANAGEMENT

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[Posted: November 5, 2026 — 9:30 AM ET] Global equity markets are generally higher this morning. In Europe, the Euro Stoxx 50 is up 0.5% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 1.8%. Chinese markets were higher, with the Shanghai Composite up 0.1% and the Shenzhen Composite up 1.6%. US equity index futures are signaling a higher open.

With 372 companies having reported so far, S&P 500 earnings for Q3 are running at $93.70 per share, compared to estimates of $94.17, which is up 29.6% from Q3 2025. Of the companies that have reported thus far, 83.6% exceeded expectations while 12.1% 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 **Confluence of Idea Podcast**	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 thoughts on the role that state governors could play in curbing the AI buildout. We then turn to national security, examining why the president might shift more attention abroad now that the midterms are over. Next, we briefly cover Moscow's deepening ties with Iran, as well as the two Senate races that remain unresolved. As always, we conclude with a review of recent domestic and international economic data.

Governors and Data Centers: While financial markets have focused heavily on shifting power in Congress, changes in state governorships could prove just as consequential. Following the midterm elections, Democrats picked up five additional gubernatorial seats, bringing their total

to 28. This shift comes at a time when local communities are pressing state governments to regulate data centers over concerns about their strain on public utilities. The change in party control has raised worries that stricter regulations may follow.

- While two gubernatorial races remain unresolved, Democrats are set to hold a majority of governorships for the first time in 16 years. The two contests up for grabs are in Kansas and Alaska, with the former leaning toward a Democratic victory and the latter heading toward a ranked-choice tabulation. Much of the party's strong performance was driven by promises to address the rapid construction of data centers, a key issue that fueled Democratic wins in Texas, Ohio, and Georgia.
- Data centers had become a major issue in the months leading up to the midterms. Earlier this year, Maine's legislature passed the first statewide moratorium on new large data centers, but the governor vetoed it, leaving New York as the first state to impose one. These pauses are designed to allow time to study the facilities' impacts. Several other states, including Texas, which has one of the largest concentrations of data centers, have pursued similar measures.
- Even with the gains for Democrats in several gubernatorial races, the implications for data centers remain unclear, as moratoriums vary in scope from state to state. For example, Maine's proposed moratorium would have had limited exceptions, while New York's targets only new large data center construction, excluding projects already in the works. This variance suggests that while some construction may be paused, a moratorium does not necessarily mean an outright end to projects.
- Time will tell how Democrats will approach data centers, especially since the facilities have been a major engine of economic growth. Additional restrictions or moratoriums would likely act as a headwind to investment spending, at least in the near term. However, they are unlikely to end the spending spree altogether. That could change if restrictions raise project costs to the point where data centers become unprofitable, although there is currently no evidence that this is the case.

National Security Pivot: With the midterm elections concluded and opposition majorities set to control both houses of Congress, the president is expected to shift focus toward international affairs. Constrained domestically, his administration is likely to prioritize high-stakes foreign policy objectives: resolving conflicts in Ukraine and Iran and finalizing a trade deal with China. While such second-term pivots are common, the geopolitical stakes make this transition unusually high-impact.

- Following the midterm results, the White House will likely face tighter constraints on its authority. Having campaigned on rolling back key initiatives from the president's first two years, Democrats are expected to target immigration enforcement policies and social benefit cuts. The administration's judicial appointments could encounter fierce resistance as opposition lawmakers move to block further court stackings. Congressional investigations into several White House officials are also widely expected.
- Although Democrats may attempt to check executive power abroad, foreign policy remains a key arena where the Trump administration retains broad latitude. Presidents hold significant constitutional and statutory authority over national security, including

limited military actions, trade negotiations, and tariff enforcement. These unilateral powers afford the president a critical avenue to define his foreign policy legacy despite legislative gridlock at home.

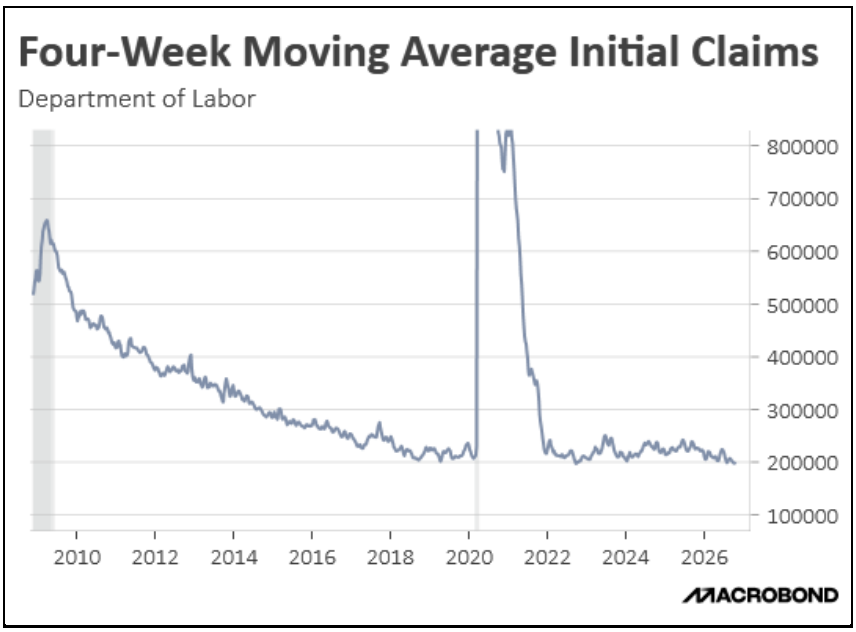
- Despite the president's authority, the next two years of his foreign policy may be less disruptive to markets than the previous two. With the exception of his stance toward Europe, he is likely to take a lighter touch than before as he seeks to secure lasting deals. He has already signaled that he wants diplomacy to work regarding a deal with Iran, made strides to soften the US stance toward Moscow to help resolve the conflict in Ukraine, and appears set to establish a framework for a trade deal with China.
- The Democratic takeover of Congress may shift political volatility away from foreign policy and toward domestic issues as lawmakers gear up for the next election cycle. With a divided government, the White House could ramp up battles over the national deficit while dialing back more extreme foreign policy moves to win back moderate voters. If so, the next year should see more stable energy markets, providing a favorable backdrop for risk assets.

Moscow Deepens Ties: Over the last few years, Russia has provided continuous military support to Iran. A new report states that Moscow has agreed to supply Tehran with 90 missile launchers, despite facing ongoing setbacks in its war with Ukraine. While the delivery is not expected to be a game changer on the battlefield, the move suggests that the two conflicts are becoming increasingly intertwined. Russia and China's involvement in Iran is expected to be a key topic of discussion when the parties meet at the ASEAN conference later this month.

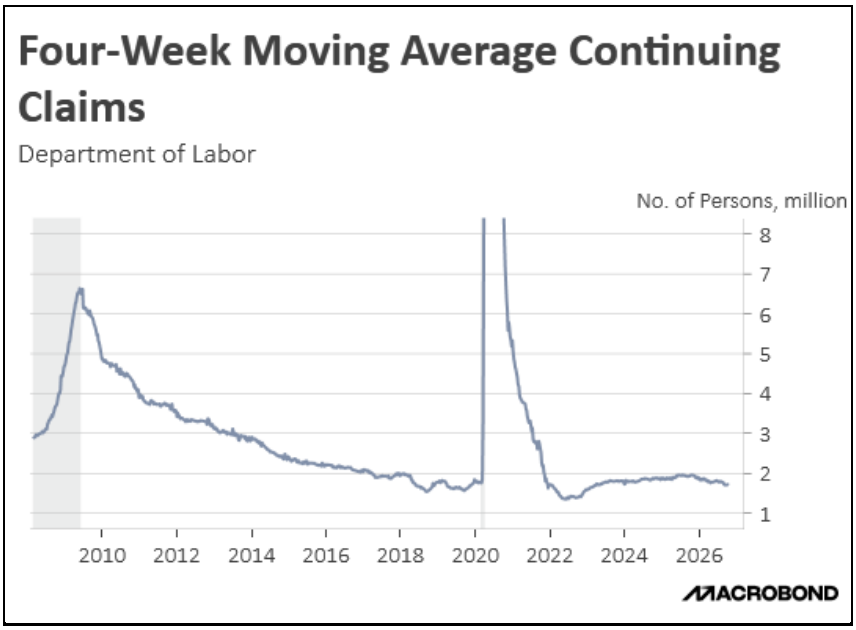
Senate Races: Two US Senate races remain too close to call, with Democrats holding narrow leads in both Mississippi and Alaska. The Alaska contest, where the margin is roughly 700 votes, faces intense scrutiny following allegations that the race was influenced by an independent candidate who shares a name with Republican incumbent Dan Sullivan.

US Economic Releases

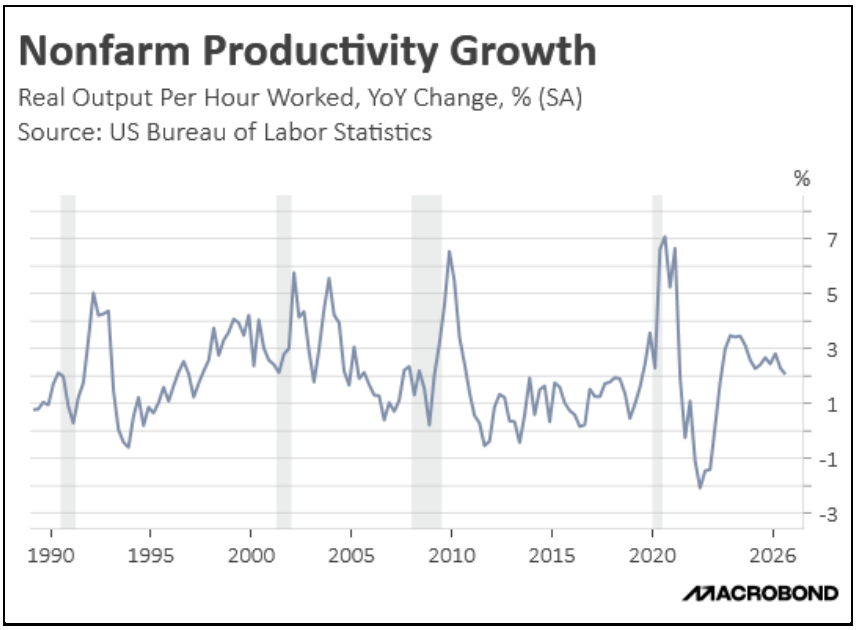
In the week ended October 31, ***initial claims for unemployment benefits*** came in at a seasonally adjusted 189,000, well below both the expected level of 196,000 and the prior week's revised level of 195,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, rose to 194,750. The chart below shows how initial jobless claims have fluctuated since just before the Great Financial Crisis. The chart is truncated through much of the pandemic period because of the extremely high level of claims at that time.



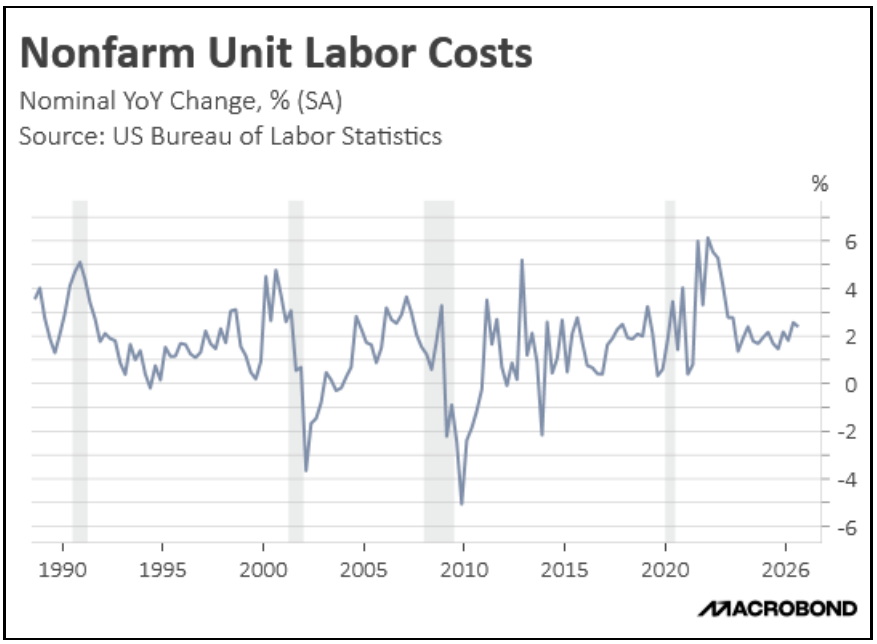
In the week ended October 24, the number of ***continuing claims for unemployment benefits*** (people continuing to draw benefits) rose to a seasonally adjusted 1.718 million, slightly above the anticipated reading of 1.710 million and still modestly above the previous week's revised reading of 1.695 million. The four-week moving average of continuing claims came in at 1,710,000. The chart below shows how continuing claims have fluctuated since the GFC. It is also truncated during the pandemic period because of the high level of claims at the time.



Yet another report today focused on the productivity of US workers, defined as the average value of output per hour worked. After stripping out price changes and normal seasonal fluctuations, final second-quarter ***nonfarm productivity*** rose at an annualized rate of 3.6%, well above the preliminary estimate of 2.8% and sharp acceleration from the 2.1% rate of increase in the second quarter. Taking into account the fluctuations in each of the last four quarters, productivity in the third quarter was up 2.1% from the same period one year earlier. Productivity growth is key to boosting living standards and supporting higher wages, so the stronger-than-average growth over the last year is encouraging. The chart below shows the year-over-year growth in real productivity over the last several decades.



Third-quarter ***unit labor costs*** fell at an annualized rate of 0.7%, versus expectations that they would rise at the same 0.6% rate estimated initially. Unit labor costs in the third quarter were up just 2.4% year-over-year, well below the 4.0% increase that has often been associated with recessions in the past. The chart below shows the year-over-year growth in unit labor costs since 1996.



The table below lists the economic releases and Fed events scheduled for the rest of the day.

Economic Releases		
No economic releases for the rest of today		
Federal Reserve		
EST	**Speaker or Event**	**District or Position**
08:50	Beth Hammack Speaks on Panel in Zurich	President of the Federal Reserve Bank of Cleveland
09:10	Thomas Barkin in Moderated Conversation	President of the Federal Reserve Bank of Richmond
19:00	Lorie Logan Moderates Discussion	President of the Federal Reserve Bank of Dallas

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 Composite PMI	m/m	Oct F	52.1	52.3		*	Equity and bond neutral
	S&P Global Japan Services PMI	m/m	Oct F	51.7	52.0		*	Equity and bond neutral
Australia	Trade Balance (Million Australian Dollars)	m/m	Sep	$2,826	$184	$1,000	***	Equity and bond neutral
	Exports	m/m	Sep	2.3%	3.1%		*	Equity and bond neutral
	Imports	m/m	Sep	-3.3%	6.2%		*	Equity and bond neutral
South Korea	BoP Current Account Balance (Millions)	m/m	Sep	$61,457.5	$46,113.0		**	Equity and bond neutral
	BoP Goods Balance (Millions)	m/m	Sep	$62,750.0	$46,812.1		*	Equity and bond neutral
EUROPE								
Eurozone	PPI	y/y	Sep	11.1%	8.3%	10.6%	**	Equity and bond neutral
Germany	Factory Orders WDA	y/y	Sep	3.3%	3.2%	3.3%	***	Equity and bond neutral
	S&P Global Germany Construction PMI	m/m	Oct	41.6	43.5		*	Equity and bond neutral
France	Industrial Production	y/y	Sep	-1.3%	0.2%	-0.3%	***	Equity bearish, bond bullish
	Manufacturing Production	y/y	Sep	-0.7%	-0.2%		**	Equity and bond neutral
Italy	Retail Sales	y/y	Sep	1.6%	0.5%		**	Equity and bond neutral
UK	New Car Registrations	y/y	Oct F	5.4%	12.0%		*	Equity and bond neutral
	S&P Global UK Construction PMI	m/m	Oct F	43.6	16.1	46.5	**	Equity and bond neutral
Switzerland	Unemployment Rate	m/m	Oct	3.0%	3.0%	3.0%	**	Equity and bond neutral
Russia	S&P Global Russia Composite PMI	m/m	Oct	50.0	50.8		**	Equity and bond neutral
	S&P Global Russia Services PMI	m/m	Oct	50.1	51.3		**	Equity and bond neutral
AMERICAS								
Canada	International Merchandise Trade (Billions)	m/m	Sep	5.35	4.95	5.00	*	Equity and bond neutral
	S&P Global Canada Services PMI	m/m	Oct	48.1	48.3		*	Equity and bond neutral
	S&P Global Canada Composite PMI	m/m	Oct	48.1	48.7		*	Equity and bond neutral
Mexico	Vehicle Domestic Sales	y/y	Oct	13738	129676		***	Equity and bond neutral
	Leading Indicators	y/y	Sep	0.01	0.02		**	Equity and bond neutral
	International Reserves Weekly (Millions)	w/w	30-Oct	257166	$257,016		*	Equity and bond neutral
Brazil	Formal Job Creation Total	m/m	Sep	121305	161062	183500	*	Equity and bond neutral
	Industrial Production	y/y	Sep	-2.5%	-1.2%	-2.0%	***	Equity and bond neutral
	S&P Global Brazil Composite PMI	m/m	Oct	44.4	47.4		***	Equity and bond neutral
	S&P Global Brazil Services PMI	m/m	Oct	44.5	49.2		***	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	403	-1	Up
U.S. Sibor/OIS spread (bps)	407	406	1	Up
U.S. Libor/OIS spread (bps)	405	404	1	Up
10-yr T-note (%)	4.89	4.89	0.00	Down
Euribor/OIS spread (bps)	276	277	-1	Up
Currencies	**Direction**			
Dollar	Up	US		Up
Euro	Down	Euro		Down
Yen	Up	Japan		Down
Pound	Down	UK		Flat
Franc	Down	Switzerland		Down
Central Bank Action	**Current**	**Prior**	**Expected**	
Bank of England Bank Rate	4.00%	3.75%	4.00%	On Forecast
Brazil Selic Rate	13.75%	13.75%	13.75%	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.

			Change	Explanation
Energy Markets	**Today**	**Prior**		
Brent	$96.83	$94.62	2.34%	
WTI	$89.42	$88.12	1.48%	
Natural Gas	$2.95	$2.96	-0.47%	
Crack Spread	$48.32	$47.16	2.47%	
12-mo strip crack	$46.94	$46.01	2.01%	
Ethanol rack	$2.12	$2.12	-0.02%	
Metals				
Gold	$4,120.63	$4,060.70	1.48%	
Silver	$52.53	$52.22	0.58%	
Copper Contract	$639.80	$642.90	-0.48%	
Grains				
Corn contract	$446.50	$444.25	0.51%	
Wheat contract	$603.00	$598.50	0.75%	
Soybeans contract	$1,205.75	$1,202.25	0.29%	
Shipping				
Baltic Dry Freight	2,694	2,590	104	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	-0.87	-1.70	0.84	
Gasoline (mb)	-0.22	1.00	-1.22	
Distillates (mb)	-3.57	-1.50	-2.07	
Refinery run rates (%)	0.00	-0.07%	0.00	
Natural gas (bcf)		78		

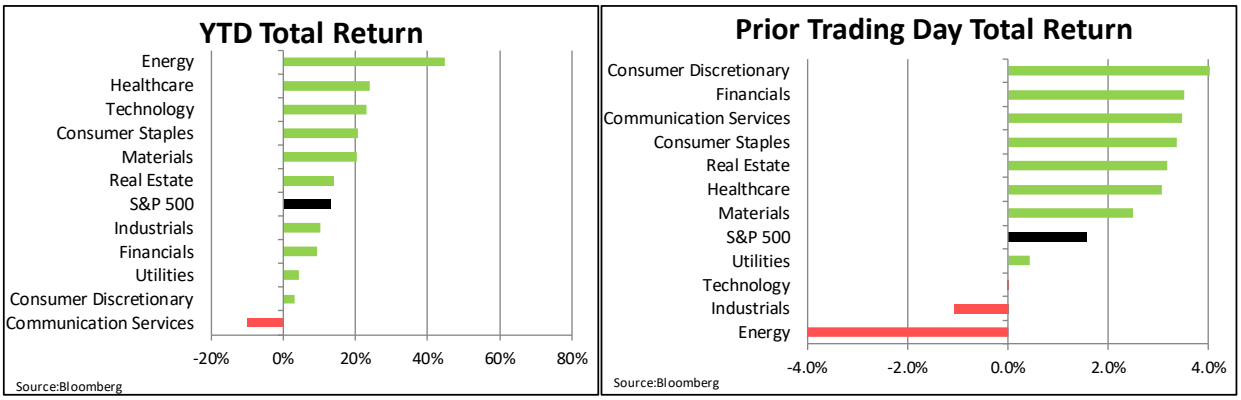
Weather

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 to spread into the Rocky Mountain region in the latter half of the forecast period.

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

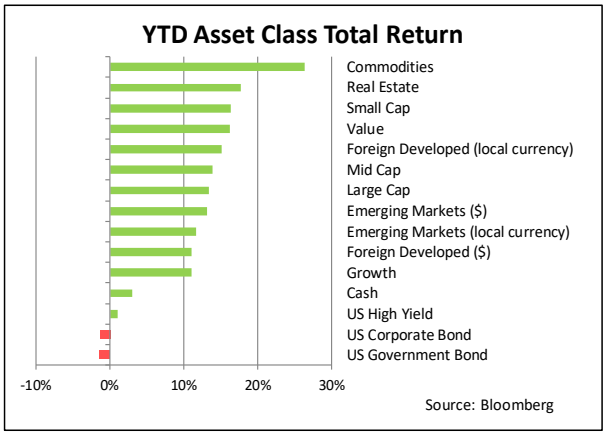
US Equity Markets – (as of 11/4/2026 close)



(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 11/4/2026 close)

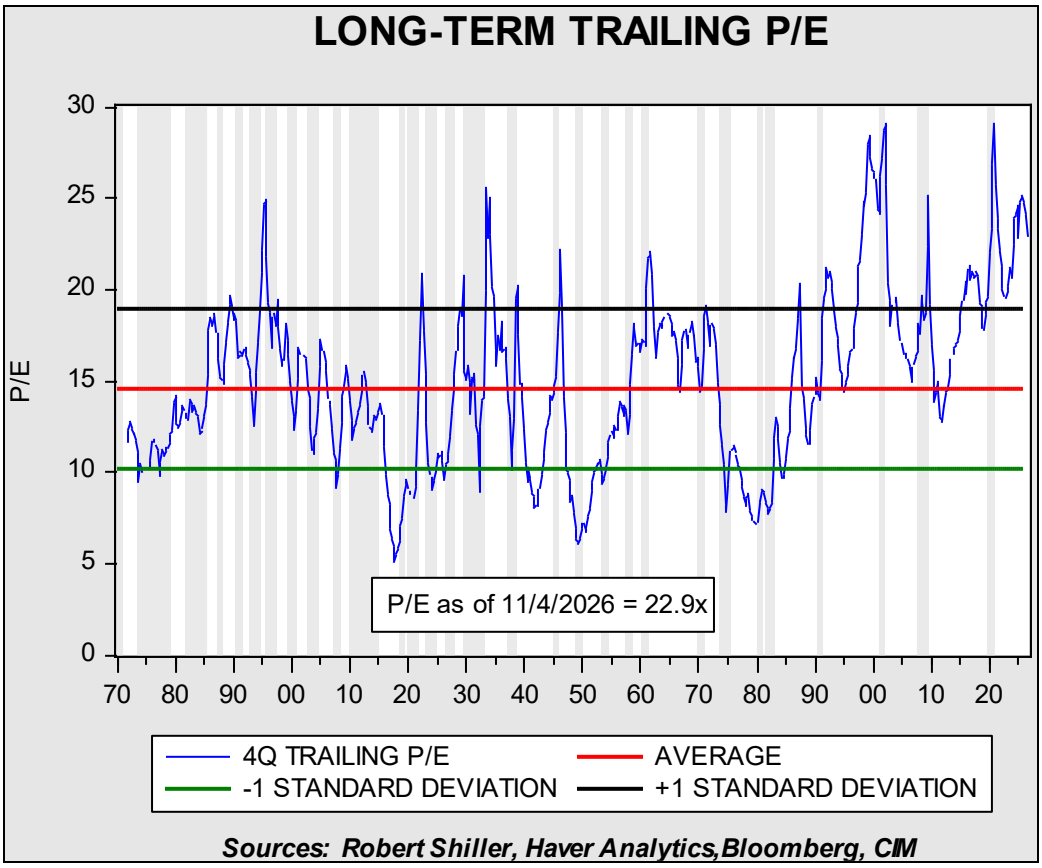


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 5, 2026



Based on our methodology,[1] the current P/E ratio is 22.9x, 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.