Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: November 6, 2025 — 9:30 AM ET] Global equity markets are generally higher this morning. In Europe, the Euro Stoxx 50 is down 0.2% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 1.5%. Chinese markets were higher, with the Shanghai Composite up 1.0% and the Shenzhen Composite up 1.2%. US equity index futures are signaling a higher open.

With 413 companies having reported so far, S&P 500 earnings for Q3 are running at $72.10 per share compared to estimates of $68.15, which is up 8.0% from Q3 2024. Of the companies that have reported thus far, 81.8% have exceeded expectations, while 14.3% 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.

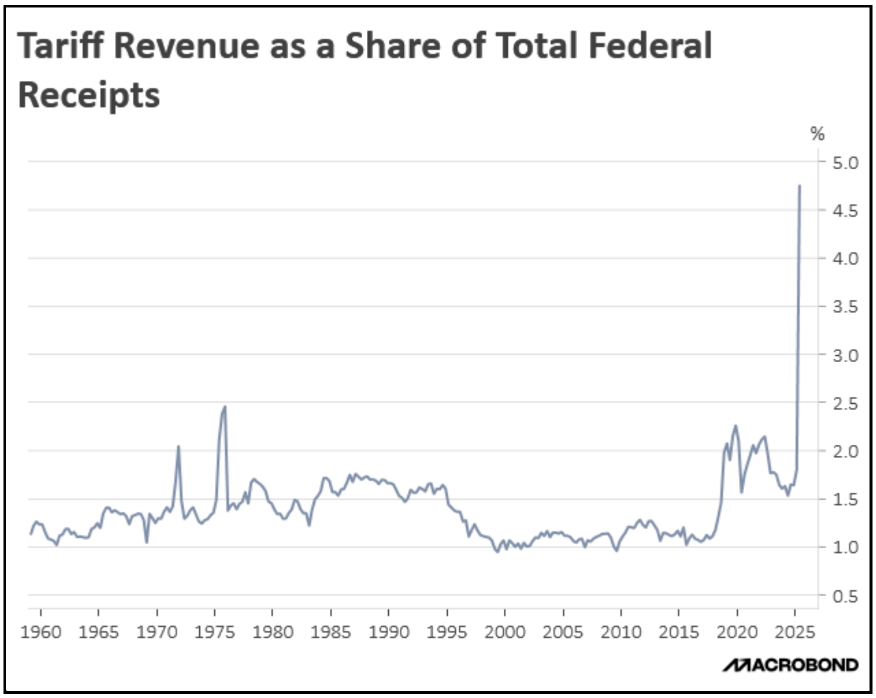
Bi-Weekly Geopolitical Report	Asset Allocation Bi-Weekly	Asset Allocation Quarterly	Of Note
"China's Rising Power and the Implications for US Hegemony" (10/27/25) + podcast	"When the Financial System Finds a Cockroach" (11/3/25) + podcast	Q4 2025 Report	**Confluence Mailbag podcast** Confluence of Ideas 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* leads with a critical analysis of the Supreme Court hearing on presidential tariff powers. Subsequent sections assess the economic implications of the latest PMI data and rising US household debt. Our international focus is Japan's significant commitment to AI and semiconductor manufacturing, followed by a review of the Bank of England's recent policy move. As always, the report includes a roundup of international and domestic data releases.

Supreme Court Tariffs: The US Supreme Court heard arguments challenging the president's authority to impose tariffs. During the two-hour hearing, several conservative justices expressed skepticism that the International Emergency Economic Powers Act (IEEPA) could justify such unilateral action. The case was brought by a coalition of businesses and twelve states, all claiming economic harm from the tariffs. A ruling is not expected for some time, but the Supreme Court may potentially overturn the presidential action.

- Although the ruling is highly anticipated, its impact would not remove all levies. The lawsuit focuses exclusively on the legitimacy of the reciprocal tariffs from last April, a policy intended to mirror other nations' duties. It does not, however, challenge the foundation of the broader, product-specific tariffs imposed under Section 232, which enjoy stronger statutory authority.
- A ruling against the administration would significantly hinder its trade strategy. The core of which relies on provisions that authorize tariffs against partners that do not uphold their obligations, a broad condition that encompasses both the removal of discriminatory regulations, trade barriers, and the fulfillment of promised investments.



- That said, these tariffs have effectively served as an experiment for Washington. They have proven that the US government can collect massive amounts of revenue through import taxes without causing an economic collapse. Therefore, if the Supreme Court rules that they are illegal, that ruling might not be the end but simply a trigger for Congress to pass the tariffs into permanent law.
- The removal of the tariffs could have a mixed impact on the economy. On one hand, it should provide a stimulus as firms rebuild inventory, similar to the activity observed in the first quarter. However, the immediate downside is that refunding the collected tariff revenue to the paying firms will cause a corresponding increase in government debt.

Strong PMI: Rising Purchasing Managers' Index (PMI) readings from two key surveys signal growing confidence among businesses. The S&P Global Services PMI rose from 54.2 to 54.8, while the ISM Services PMI increased from 50.0 to 52.4. The simultaneous rise in both indexes suggests the economy retains significant momentum. In the absence of other major economic data, these PMI reports serve as a crucial alternative barometer for assessing the economy's health, particularly as markets evaluate the impact of recent tariffs on economic activity.

- A closer examination of the data reveals the drivers behind this growing confidence. A sharp rise in new orders points to strengthening demand for services, while a concurrent increase in business activity indicates that companies are becoming busier. However, these positive signals are tempered by persistent signs of rising price pressures and a declining willingness to hire new employees.
- Respondent comments offer valuable insight into firm sentiment regarding the economy. Most firms reported that tariffs have weighed on business activity, though the intensity of this pressure — particularly concerning costs — has begun to ease. Furthermore, there were growing signs that the government shutdown was also creating problems, prompting some firms to delay planned projects.
- Overall, PMI surveys suggest that while significant headwinds persist in the economy, firms are expressing greater confidence in their ability to operate effectively despite the tariffs. This renewed confidence is largely predicated on the expectation that policy will remain relatively stable over the next few months. Assuming this stability holds, the data suggests the economy could begin showing signs of acceleration.

Households Under Pressure: Despite a robust economy, signs of strain are emerging among some households. US household debt has reached a record $18.6 trillion, with delinquency rates holding steady at a level unseen since 2011. This rising debt burden is a hallmark of a K-shaped recovery, where the financial strength of high-income households masks broader weaknesses elsewhere. While we do not expect this to weigh on equity prices in the short term, it presents a longer-term risk

Japan AI Industrial Policy: Japan's ruling Liberal Democratic Party plans to allocate an additional $6.5 billion annually to bolster its semiconductor and AI industries. Starting in April, this funding will be sourced from the regular budget rather than a supplementary one, signaling a long-term commitment. The move underscores the strategic importance of these sectors as nations worldwide act to shield their digital economies from foreign competition. While this policy aims to strengthen domestic industries, it also risks increasing government debt.

EU Backs Down: European officials have conceded they lack the strategic leverage to quickly persuade China to lift its restrictions on rare earth exports. This admission reflects a broader Western realization of China's dominance in this critical sector. Although the EU is pursuing a separate deal with China to ease trade tensions, its limited negotiating power is now clear. Consequently, this reality is likely to accelerate efforts by Western firms to develop their own rare earth mining capabilities.

BOE Divided: The Bank of England held interest rates steady at 4.0% at its policy meeting on Thursday, with the decision passing by a narrow 5-4 vote. This pause reflects the central bank's ongoing challenge in balancing slowing economic growth and labor market weakness against persistent inflationary pressures. Given the tight vote, there is a growing likelihood of a rate cut at the next meeting. Such a move would aim to boost growth but could also lead to a depreciation of the pound sterling (GBP) against the US Dollar.

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	Wholesale Inventories	m/m	Sep F			**
10:00	Wholesale Trade Sales	m/m	Sep			*
Federal Reserve						
EST	**Speaker or Event**	**District or Position**				
11:00	John Williams Speaks at Goethe University Frankfurt	President of the Federal Reserve Bank of New York				
11:00	Michael Barr Participates in Moderated Discussion	Members of the Board of Governors				
12:00	Beth Hammack Speaks at the Economic Club of New York	President of the Federal Reserve Bank of Cleveland				
15:30	Christopher Waller Panel on Central Banking and Payments	Member of the Board of Governors				
16:30	Anna Paulson Speaks on Consumer Finance Institute	President of the Federal Reserve Bank of Philadelphia				
17:30	Alberto Musalem Speaks at a Fireside Chat on Monetary Policy	President of the Federal Reserve Bank of St. Louis				

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 Composite PMI	m/m	Sep	51.5	50.9		*	Equity and bond neutral
	S&P Global Japan Services PMI	m/m	Oct F	53.1	52.4		*	Equity and bond neutral
	Labor Cash Earnings	y/y	Oct F	1.9%	1.5%	1.9%	**	Equity and bond neutral
Australia	Trade Balance	m/m	Sep	A$3938m	A$1111m	A$4000m	***	Equity and bond neutral
	Exports	m/m	Sep	7.9%	-8.7%		*	Equity and bond neutral
	Imports	m/m	Sep	1.1%	3.3%		*	Equity and bond neutral
South Korea	BoP Current Account Balance	m/m	Sep	$13467.4m	$9148.8m		**	Equity and bond neutral
	BoP Goods Balance	m/m	Sep	$14244.8m	$9397.8m		*	Equity and bond neutral
India	HSBC India PMI Composite	m/m	Oct F	60.4	59.9		**	Equity and bond neutral
	HSBC India PMI Services	m/m	Oct F	58.9	58.8		**	Equity and bond neutral
EUROPE								
Eurozone	Retail Sales	y/y	Sep	1.0%	1.6%	0.9%	*	Equity and bond neutral
Germany	Industrial Production WDA	y/y	Sep	-1.0%	-3.6%	0.1%	**	Equity and bond neutral
	HCOB Germany Construction PMI	m/m	Oct	42.8	46.2		*	Equity and bond neutral
UK	S&P Global UK Construction PMI	m/m	Oct	44.1	46.2	46.9	**	Equity bearish, bond bullish
Switzerland	Unemployment Rate	m/m	Sep	2.9%	2.8%	2.9%	**	Equity and bond neutral
Russia	S&P Global Russia Composite PMI	m/m	Oc	50.2	46.6		**	Equity and bond neutral
	S&P Global Russia Services PMI	m/m	Oct	51.7	47.0		**	Equity and bond neutral
AMERICAS								
Canada	S&P Global Canada Services PMI	m/m	Oct F	50.5	46.3		*	Equity and bond neutral
	S&P Global Canada Composite PMI	m/m	Oct	50.3	46.3		*	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)	377	379	-2	Down
U.S. Sibor/OIS spread (bps)	386	388	-2	Down
U.S. Libor/OIS spread (bps)	377	379	-2	Down
10-yr T-note (%)	4.14	4.16	-0.02	Up
Euribor/OIS spread (bps)	199	201	-2	Up
Currencies	**Direction**			
Dollar	Down			Up
Euro	Up			Down
Yen	Down			Down
Pound	Up			Down
Franc	Down			Down
Central Bank Action	**Actual**	**Prior**	**Expected**	
Bank of England Bank Rate	4.00%	4.00%	4.00%	On Forecast
Brazil Selic Rate	15.00%	15.00%	15.00%	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	$63.86	$63.52	0.54%	
WTI	$59.99	$59.60	0.65%	
Natural Gas	$4.29	$4.23	1.44%	
Crack Spread	$29.61	$27.99	5.79%	
12-mo strip crack	$27.16	$26.59	2.14%	
Ethanol rack	$1.95	$1.94	0.52%	
Metals				
Gold	$4,012.52	$3,979.57	0.83%	
Silver	$48.66	$48.02	1.35%	
Copper contract	$501.45	$498.60	0.57%	
Grains				
Corn contract	$432.75	$435.25	-0.57%	
Wheat contract	$546.00	$554.75	-1.58%	
Soybeans contract	$1,123.00	$1,134.25	-0.99%	
Shipping				
Baltic Dry Freight	2,003	1,958	45	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	-0.29	5.20	-4.92	
Gasoline (mb)	-4.73	-1.85	-2.88	
Distillates (mb)	-0.64	-2.50	1.86	
Refinery run rates (%)	1.1%	-0.6%	1.7%	
Natural gas (bcf)		33		

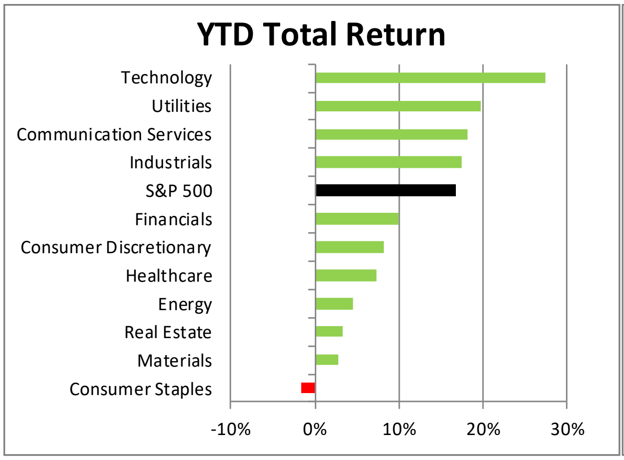
Weather

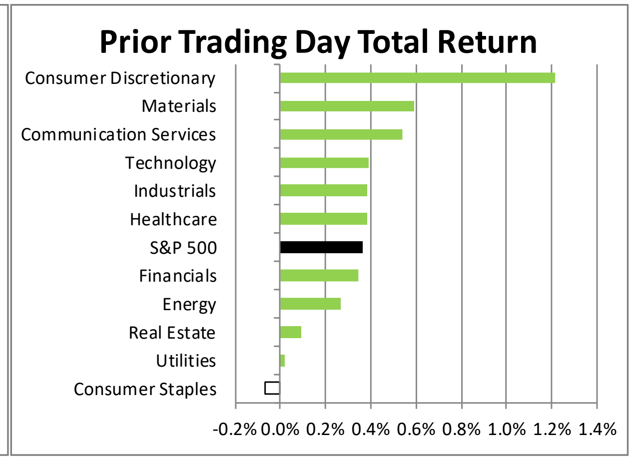
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures from the Rocky Mountains to the Mississippi River, with normal temperatures elsewhere. The outlook calls for wetter-than-normal conditions from the West Coast to the Rocky Mountains, with dry conditions in Texas and along the East Coast.

No tropical cyclone activity is expected in the Atlantic Ocean area within the next seven days.

Data Section

US Equity Markets – (as of 11/5/2025 close)

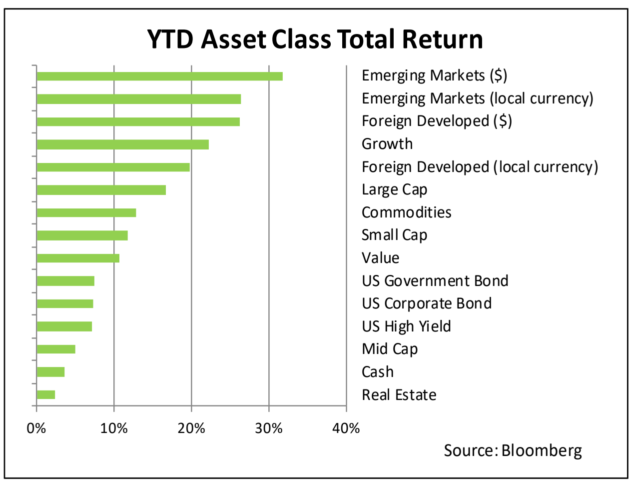




(Source: Bloomberg)

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 11/5/2025 close)

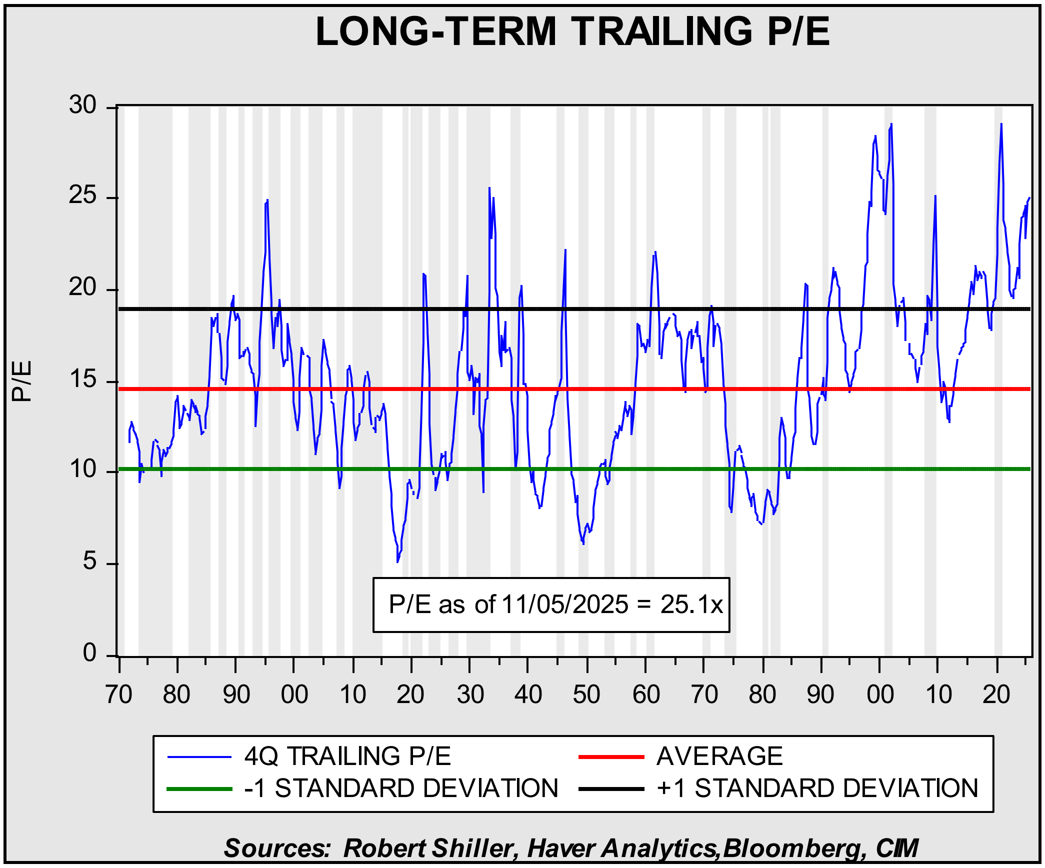


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

November 6, 2025



Based on our methodology,[1] the current P/E is 25.1x, which is unchanged from the previous report. The slight rise in the stock price index was offset by a rise 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.