Daily Comment

Confluence INVESTMENT MANAGEMENT

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[Posted: November 6, 2026 — 9:30 AM ET] Global equity markets are mostly lower this morning. In Europe, the Euro Stoxx 50 is down 1.5% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 4.5%. Chinese markets were lower, with the Shanghai Composite down 1.1% and the Shenzhen Composite down 2.3%. Conversely, US equity index futures are signaling a higher open.

With 419 companies having reported so far, S&P 500 earnings for Q3 are running at $94.10 per share, compared to estimates of $94.17, which is up 29.6% from Q3 2025. Of the companies that have reported thus far, 84.2% exceeded expectations while 11.7% 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	**Business Cycle** 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 a discussion of rising risks to data centers following the elections. We then turn to monetary policy, examining how the Federal Reserve may be insulated from potential changes to its Board of Governors. Next, we briefly cover a possible White House shake-up, the Paraguayan president's resignation, and delays to a data center project in New Mexico. As always, we conclude with a review of recent domestic and international economic data.

Data Center Fears: Equity markets slid Thursday as anxiety grew that congressional changes could slow data center expansion. The S&P 500 experienced a sharp selloff with investors

pulling back from the AI trade amid potential buildout disruptions. Paired with mounting worries about smaller cloud providers overextending on infrastructure debt, the pullback highlights rising skepticism over the sustainability of the AI rally.

- Political and regulatory uncertainty is casting a shadow over the AI infrastructure boom. Fears of structural construction delays, fueled in part by campaign proposals from several Democratic candidates to impose moratoriums on new builds, have led investors to push back expected operational timelines. In response to these rising risks, Microsoft has reportedly tightened oversight of projects managed by neocloud partners and is actively paring back involvement in higher risk developments.
- These infrastructure headwinds spilled into broader equity markets Thursday, amplifying jitters across the technology sector. The selloff intensified as Qualcomm joined the growing list of chipmakers offering cautious outlooks. Although Qualcomm beat fiscal fourth-quarter earnings and revenue expectations, its first-quarter EPS guidance fell below the midpoint of analysts' estimates. The company's share drop mirrors recent declines following Intel's weak results, even as AMD offered a rare bright spot with a post-earnings rally.
- Political headwinds are compounding concerns that the AI rally is running out of steam. Pullbacks across the "Magnificent 7" highlight growing AI fatigue as investors become hesitant to pay steep valuation premiums. Notably, Nvidia's price-to-earnings ratio has dropped to pre-pandemic lows. While the company's core earnings remain solid, the contracting multiple reflects market expectations that hyper-growth will normalize over the next few years.
- Nvidia's upcoming earnings report and Anthropic's expected IPO will serve as crucial tests of AI sentiment. A strong earnings outlook from Nvidia could alleviate fears of a slowdown in infrastructure spending, while a successful public debut for Anthropic would reinforce investor confidence in AI as a long-term transformative technology. If both events deliver positive results, broader market sentiment could recover heading into year-end; conversely, any major disappointment risks exacerbating downside pressure this quarter.

Fed Safe? The midterm elections have reshaped the narrative around Federal Reserve independence. Once the new Senate is seated, the White House will no longer be able to count on confirmation for whomever it nominates to vacant seats on the Federal Reserve Board. This has eased fears that the administration might pack the Fed with loyalists — a prospect that had fueled worries the central bank would turn overly dovish. Although recent changes in Fed operations still point to a dovish tilt, the shift in the Senate suggests tighter monetary policy remains on the table.

- The chamber's new composition will complicate any attempt to replace Fed Governors Lisa Cook and Jerome Powell — and, to a lesser extent, Michael Barr — with appointees more closely aligned with the administration. Even if the White House establishes legal grounds to remove them, their replacements would still require Senate confirmation, giving the Democratic majority an opportunity to block nominees perceived as too closely tied to the White House.

- Trump has long argued that the president should have a greater say in monetary policy and has repeatedly pressed the Federal Reserve to lower interest rates. Following September's rate hike, he continued to target the central bank's other policymakers rather than Chair Kevin Warsh, describing Warsh's colleagues as "hostile" and "political." His frustration underscores his broader push for greater influence over the central bank.
- The White House may face greater constraints on reshaping the Federal Reserve Board, but Warsh's changes to the policy calendar could create a more dovish tilt. At the latest Fed meeting, Warsh announced plans to reduce the number of scheduled rate-setting meetings from eight to seven in 2027 and then to six the following year. Although the Fed can adjust rates between scheduled meetings, such moves would likely come in response to an emergency — circumstances that have typically favored rate cuts.
- Stronger constraints on White House influence over the central bank should bolster investor confidence in US Treasurys. The incoming Senate majority should restrict the White House's ability to install allies on the Board, keeping rate hikes on the table. However, planned changes to the Fed's schedule could act as a counterweight by reducing the number of meetings available to tighten policy.

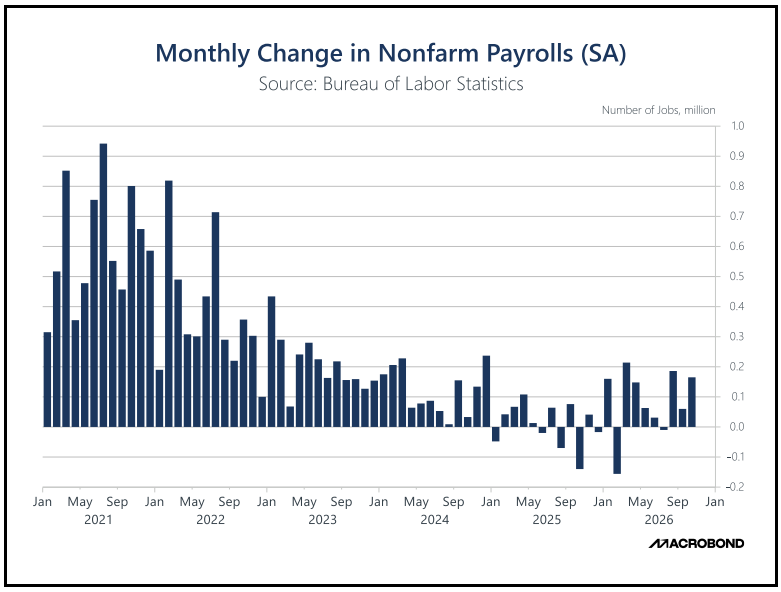
White House Shake Up: Following the Republicans' midterm defeat, the White House could face several high-profile departures. Secretary of State and acting national security adviser Marco Rubio is reportedly weighing an exit as he considers a 2028 presidential bid. Defense Secretary Pete Hegseth could also resign ahead of potential impeachment proceedings, which are rumored to have bipartisan support. Moving quickly to replace either official would allow Republicans to confirm successors before the next Congress takes office.

Paraguay Controversy: Paraguayan President Santiago Peña has resigned amid scrutiny of his ties to a failed commercial bank. He had already faced the threat of impeachment after the bank's collapse left many Paraguayans unable to access their savings. His departure is a setback for US efforts to expand its influence in South America, as he had been an ally of the White House.

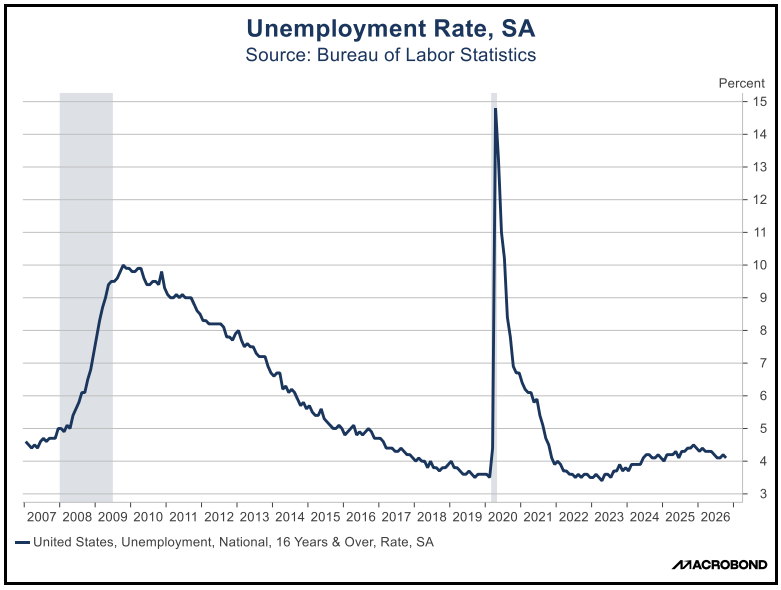
Oracle Data Centers: An Oracle-backed data center project in New Mexico faces further delays as its developer seeks the air-quality permit needed to expand on-site power generation. The facility's use of natural gas requires state approval because of its emissions, complicating the construction timeline. Such delays could heighten investor concerns about some developers' ability to repay their debt.

US Economic Releases

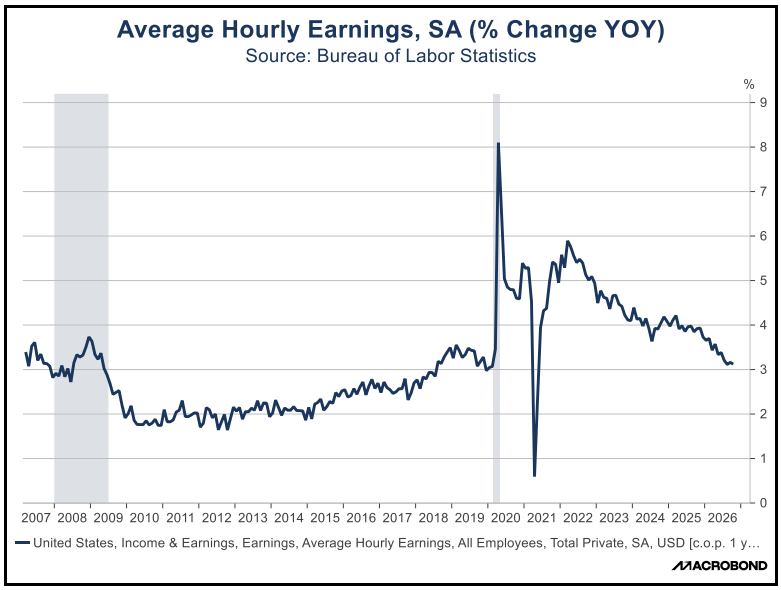
October ***nonfarm payrolls*** rose by a seasonally adjusted 165,000, more than double the expected rise of 70,000 and far above the revised September increase of 60,000. Almost all the increase in October came in private payrolls, which were up by 159,000. Manufacturing payrolls were unusually strong, with an expansion of 19,000. The chart below shows the monthly change in nonfarm payrolls over the last five years.



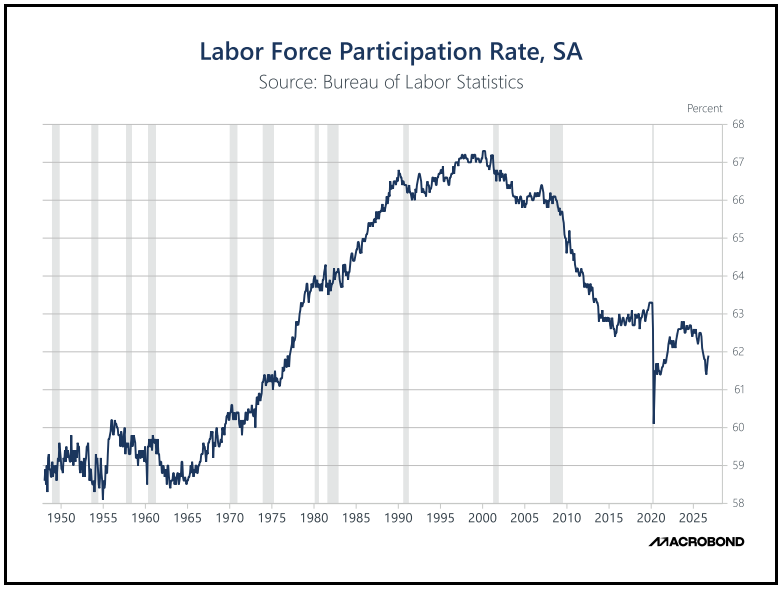
Consistent with the strong job gains, the October ***unemployment rate*** fell to a seasonally adjusted 4.1%, versus expectations that it would remain at the same 4.2% rate as in September. The chart below shows how the unemployment rate has evolved since just before the Great Financial Crisis.



According to the report, ***average hourly earnings*** in October rose to a seasonally adjusted $38.00, up 3.1% from the same month one year earlier. The chart below shows the annual growth in average hourly earnings since just before the GFC.



A final key indicator in the monthly employment report focuses on the share of the adult, civilian, non-institutionalized population that is either working or looking for work. Consistent with the jump in the number of jobs, the October ***labor force participation rate (LFPR)*** rose to a seasonally adjusted 61.9%, versus expectations it would be unchanged from the 61.8% rate in September. The chart below shows how the LFPR has changed over the last several decades.



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	U. of Mich. Sentiment	m/m	Nov P	48.0	48.0	***
10:00	U. of Mich. Current Conditions	m/m	Nov P	47	46.7	**
10:00	U. of Mich. Expectations	m/m	Nov P	49.0	48.8	**
10:00	U. of Mich. 1 Yr Inflation	m/m	Nov P	5%	4.7%	*
10:00	U. of Mich. 5-10 Yr Inflation	m/m	Nov P	4%	3.5%	*
15:00	Consumer Credit (Billions)	m/m	Sep	$ 13.80	$ 8.28	*
Federal Reserve						
EST	**Speaker or Event**	**District or Position**				
04:30	John Williams Participates on Moderated Discussion	President of the Federal Reserve Bank of New York				
04:30	Philip Lane and John Williams Speak in Frankfurt	Member of ECB Board and Pres Fed of New York				
09:10	Alberto Musalem Speaks at Greater St. Louis, Inc.	President of the Federal Reserve Bank of St. Louis				
12:15	Michelle Bowman in Modrated Conversation	Member of the Board of Governors				
13:00	Mary Daly Speaks in CNBC Interview	President of the Federal Reserve Bank of San Francisco				

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	Labor Cash Earnings	y/y	Sep	4.6%	7.9%		**	Equity and bond neutral
	Real Cash Earnings	m/m	Sep	2.2%	0.5%	0.1%	*	Equity bullish, bond bearish
	Japan Buying Foreign Bonds (JPY Billions)	w/w	Oct 30	-1312	-81.8		*	Equity and bond neutral
	Japan Buying Foreign Stocks (JPY Billions)	w/w	Oct 30	1077.7	289.9		*	Equity and bond neutral
	Foreign Buying Japan Bonds (JPY Billions)	w/w	Oct 30	1481.7	46.2		*	Equity and bond neutral
	Foreign Buying Japan Stocks (JPY Billions)	w/w	Oct 30	1129.3	1182.2		*	Equity and bond neutral
Australia	Foreign Reserves (AUD Millions)	m/m	Oct	$107.30	$109.70		**	Equity and bond neutral
India	Foreign Exchange Reserves (Billions)	w/w	30-Oct	$717.1	$719.7		*	Equity and bond neutral
EUROPE								
Eurozone	Retail Sales	y/y	Sep	0.4%	1.3%	0.6%	*	Equity and bond neutral
Germany	Industrial Production WDA	y/y	Sep	0.4%	0.7%	1.2%	**	Equity bearish, bond bullish
France	Trade Balance (Millions)	m/m	Sep	-7314.0	-5972		*	Equity and bond neutral
	Current Account Balance (Billions)	m/m	Sep	-2.7	-1.4		*	Equity and bond neutral
Switzerland	Foreign Currency Reserves (Billions)	m/m	Oct	758.5	770.3		***	Equity and bond neutral
Russia	Gold and Forex Reserves (Billions)	m/m	30-Oct	$ 721.60	$ 729.60		***	Equity and bond neutral
	Money Supply, Narrow Definition (Trillions)	w/w	30-Oct	22.95	20.03		*	Equity and bond neutral
AMERICAS								
Mexico	Gross Fixed Investment NSA	y/y	Aug	5.7%	6.8%	6.5%	**	Equity bearish, bond bullish
	Consumer Confidence	m/m	Oct	45.0	45.1	45.3	*	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	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		Flat
Pound	Down	UK		Down
Franc	Down	Switzerland		Down
Central Bank Action	**Current**	**Prior**	**Expected**	
Bank of Mexico Overnight Rate	6.25%	6.50%	6.50%	Below 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	$98.21	$98.29	-0.08%	
WTI	$90.64	$90.52	0.13%	
Natural Gas	$3.00	$2.95	1.83%	
Crack Spread	$47.42	$47.15	0.56%	
12-mo strip crack	$47.23	$47.08	0.33%	
Ethanol rack	$2.13	$2.14	-0.02%	
Metals				
Gold	$4,065.91	$4,088.00	-0.54%	
Silver	$52.07	$51.78	0.56%	
Copper Contract	$627.35	$627.00	0.06%	
Grains				
Corn contract	$439.75	$440.00	-0.06%	
Wheat contract	$590.00	$599.25	-1.54%	
Soybeans contract	$1,187.50	$1,188.25	-0.06%	
Shipping				
Baltic Dry Freight	2,740	2,694	46	
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)	77	78	-1	

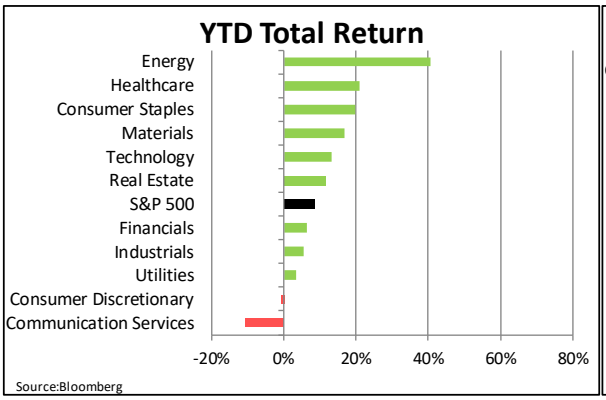
Weather

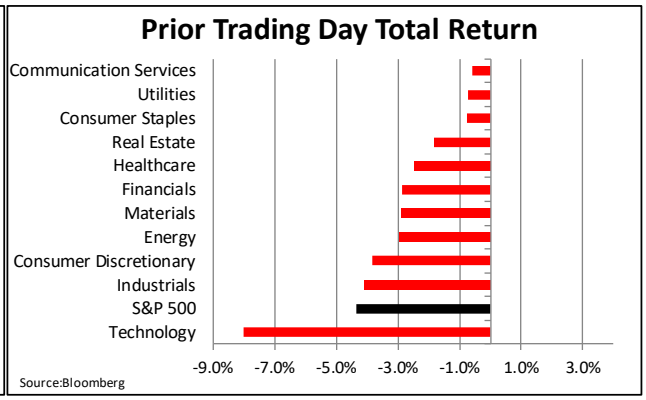
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures everywhere except along the East Coast, where temperatures will be near normal. The outlook calls for wetter-than-normal conditions in the Far West, with dry conditions in the Great Lakes region, the mid-Atlantic region, and the Northeast.

There is now one atmospheric disturbance moving eastward in the central Atlantic Ocean area, but it is assessed to have only a 20% chance of cyclonic formation within the next seven days.

Data Section

US Equity Markets – (as of 11/5/2026 close)

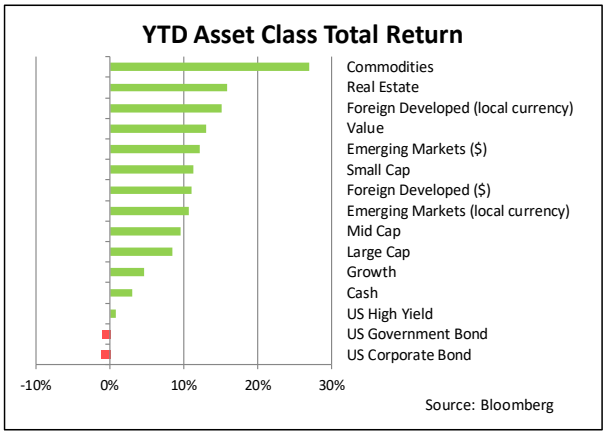




(Source: Bloomberg)

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 11/5/2026 close)

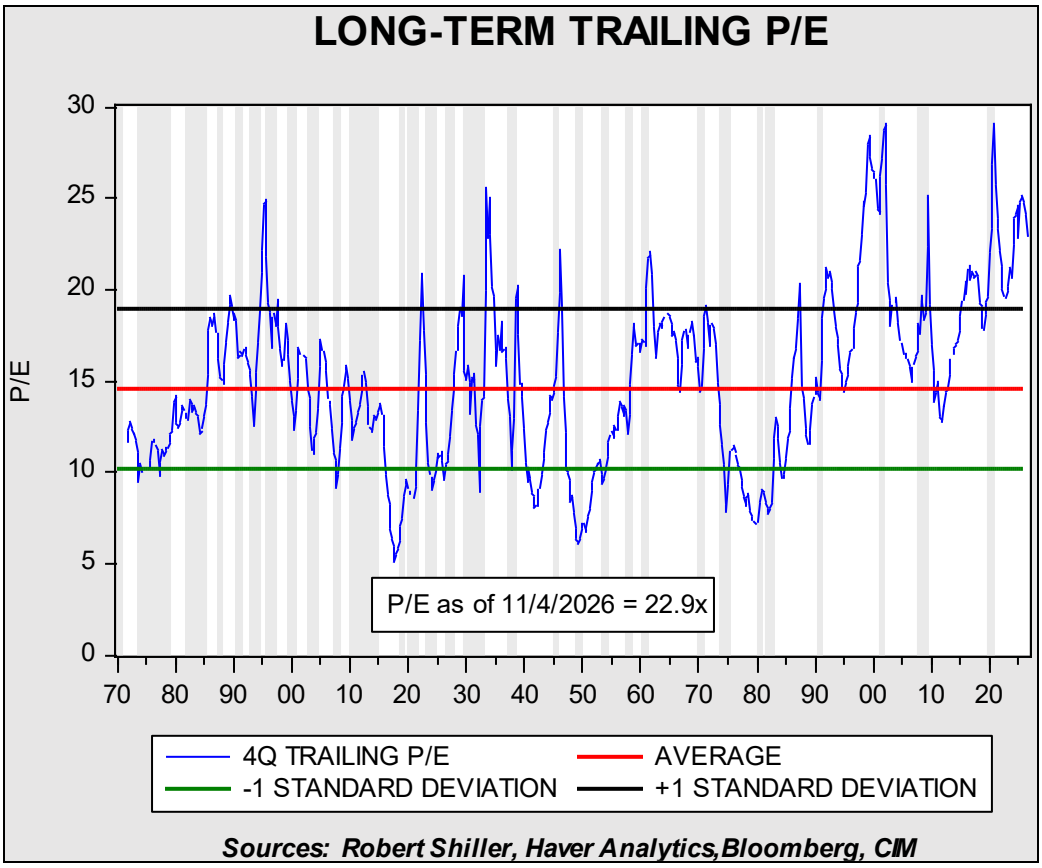


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.