



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: October 6, 2026 — 9:30 AM ET] Global equity markets are generally higher this morning. In Europe, the Euro Stoxx 50 is up 0.6% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.1%. Chinese markets remain closed today for China's National Day Holiday. US equity index futures are signaling a slightly higher open.

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 Geopolitics of China's Energy Policy" (9/28/26) + podcast	"What "Real" Interest Rates Are Telling Us" (10/5/26) + podcast	Q3 2026 Report Q3 2026 Rebalance Presentation	Confluence Mailbag Podcast Business Cycle Report

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* today opens with the most recent security incident that threatens to further undermine popular support for artificial intelligence. We next review several other international and US developments that could affect the financial markets today, including the latest signs that the war in Iran could expand regionally and a new order by President Trump that is designed to help bring down diesel fuel prices.

Global Artificial Intelligence Industry: At a cabinet meeting today, South Korean President Lee Jae Myung said there is evidence that a recent computer hack of his country's top financial firms [used cutting-edge AI tools](#), "causing considerable public concern and anxiety." Other reporting suggests the specific tool deployed was Artex, a Chinese-language, open-source model that uses AI to find and test computer system vulnerabilities.

- The South Korean incident indicates the long-feared age of AI hacking attacks has now arrived.

- The result could be even more negative public perception of AI and stronger calls for regulation. Coupled with issues such as the competitive threat from low-cost Chinese models and public backlash against data centers, that could trigger a reversal in the ongoing AI investment boom.

United States-Israel-Iran: Saudi and Yemeni forces yesterday [launched a surprise offensive to take back control of the Yemeni port of Mokha from the occupying Houthi rebels](#). The offensive is designed to reduce the risk to globally important energy shipments through the Bab al-Mandeb waterway. That risk has risen now that the US has launched a blockade against Iran and Tehran is looking to use its militant proxies across the region to attack US and Israeli interests.

- In fact, the Houthis today [reportedly launched drone or missile attacks against two Saudi airports](#).
- Saudi Arabia, Pakistan, and NATO member Turkey [have therefore triggered their new mutual defense pact today for the first time](#), aiming to ensure the rapid deployment of Pakistani and Turkish “military forces and capabilities” to Saudi Arabia. The move threatens to turn the US-Israeli war against Iran into a full-blown regional conflict, with continued risks to global energy supplies.

US Energy Market: President Trump yesterday [signed an order allowing “red diesel,” which is exempt from the 24-cent per gallon federal fuel tax, to be used for any purpose](#) through the end of the year. Red diesel can normally be used only for off-road vehicles and farm equipment. The new order extends its use to on-road cars and trucks, potentially saving drivers a few percentage points off regular diesel’s current cost of about \$6.32 per gallon.

- The move is clearly aimed at boosting Republican chances in the November midterm elections. However, the savings would be so small that the order may not make a difference in the balloting.
- At the same time, exempting more diesel fuel from the fuel tax will bite into federal revenues, making the budget deficit bigger than it otherwise would be.

European Union-China: German Chancellor Merz and French President Macron yesterday [said they’ve agreed to support tighter anti-dumping and anti-coercion tools that the EU could use to protect its industrial sector](#) from the current onslaught of ultra-low-cost Chinese exports. With Berlin and Paris in agreement on the tools, the EU is now anticipated to get final sign-off on the plan in the coming months. Implementing such tools would likely invite retaliation from China, but the move could also help slow the hollowing out of EU industry.

Germany: August Hanning, who led the Federal Intelligence Service from 1998 to 2005, [was arrested today on suspicion of illegally obtaining classified information and passing it to a foreign agent](#). A former bureau chief of Hanning’s was also arrested on similar charges. The presence of such alleged high-level moles in the intelligence agency reflects Russia’s long success in recruiting Germans. It will therefore probably be a political embarrassment for Chancellor Merz, who is already coming under pressure to resign due to a string of state election losses.

France: With the country's burgeoning debt prompting investors to demand ever-higher yields to buy French bonds, far-right leader Marine Le Pen today [proposed a "golden rule" capping national debt at 60% of gross domestic product and reducing the public deficit](#) by 0.5% of GDP each year until it is "close to a balanced budget." Le Pen, who is leading opinion polls ahead of next year's presidential election, also said she would enshrine the rule in the constitution via a referendum.

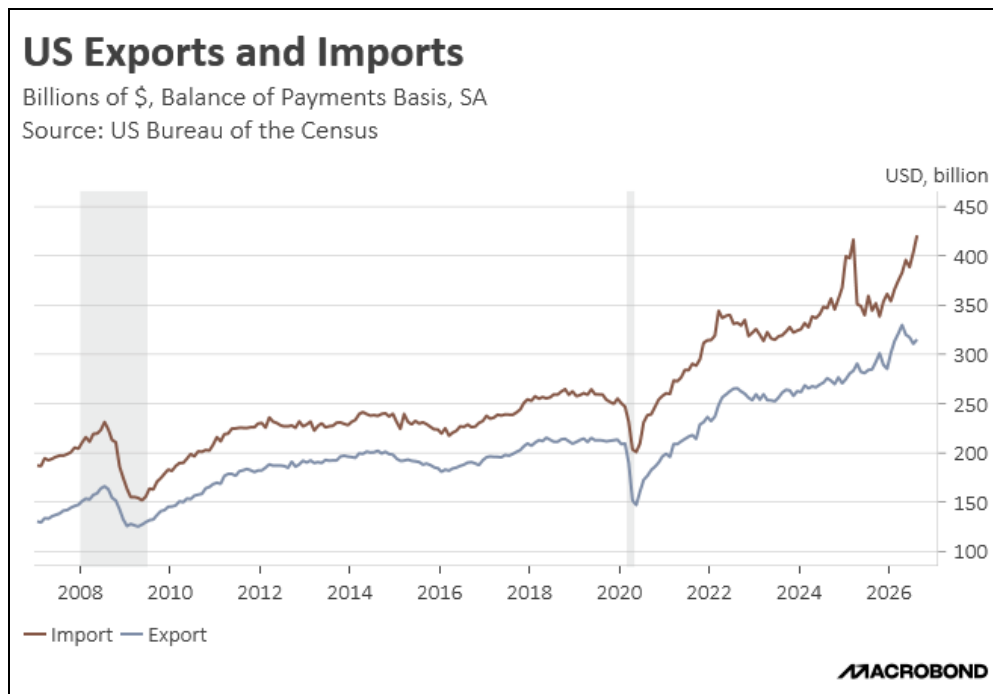
- Many investors fear the rise of far-right populist politicians because they assume those leaders will adopt profligate fiscal policies as a sop to their working-class base. However, far-right leaders such as Italian Prime Minister Meloni generally adopted much more mainstream policies when they came to power at the national or regional level.
- Le Pen's proposal is likely intended to allay concerns about how she would govern while also piling pressure on France's centrist political elite for allowing the country's finances to become so precarious.

Italy: At a cabinet meeting late last week, the right-wing populist League party, which is a member of Prime Minister Meloni's coalition government, [managed to push through a deal calling for smaller defense budget hikes in the coming years](#). The move by the isolationist party reportedly reflects both war fatigue related to the conflict in Ukraine and a desire to spend more on domestic civilian priorities. The deal suggests European politics are becoming less supportive of defense spending, although we still believe military budgets will keep rising into the future.

India: In what could expand into the latest in a string of major protest headaches for Prime Minister Modi, hundreds of opposition officials [are demonstrating against Gyanesh Kumar, the head of the country's Election Commission](#), for a recent purge of voter rolls that they say benefited Modi's Hindu-nationalist political party. The revisions reportedly removed some 130 million names, a high proportion of them belonging to Muslims.

US Economic Releases

The August **trade balance** showed a seasonally adjusted deficit of \$105.6 billion, wider than the expected shortfall of \$102.2 billion and the revised July deficit of \$92.8 billion. Total **exports** rose 1.4% during the month and **imports** rose 4.2%. Compared with the same month one year earlier, exports in August were up 10.7%, while imports were up 22.1%. 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		
No economic releases for the rest of today		
Federal Reserve		
EST	Speaker or Event	District or Position
9:05	John Williams Moderates Panel	President of the Federal Reserve Bank of New York
10:45	Alberto Musalem Gives Welcoming Remarks	President of the Federal Reserve Bank of St. Louis
10:46	Michelle Bowman Sepaks on Banking Regulation and Spervision	Member of the Board of Governors
13:15	Jeffrey Schmid Speaks in Fireside Chat	President of the Federal Reserve Bank of Kansas City
19:00	Lorie Logan Moderates Conversation	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								
Australia	Westpac Consumer Conf SA	m/m	Oct	-4.7%	-5.2%		**	Equity and bond neutral
	Westpac Consumer Conf Index	m/m	Oct	50.4	84.4		**	Equity and bond neutral
	ANZ-Indeed Job Advertisements	m/m	Sep	2.2	2.6		*	Equity and bond neutral
South Korea	Foreign Reserves	m/m	Sep	-\$440.56b	\$442.28b		**	Equity and bond neutral
India	HSBC India PMI Composite	m/m	Sep F	55.9	56.5		**	Equity and bond neutral
	HSBC India PMI Services	m/m	Sep F	55.2	55.8		**	Equity and bond neutral
EUROPE								
Eurozone	Retail Sales	y/y	Aug	0.8%	0.4%	1.0%	*	Equity and bond neutral
Germany	Factory Orders WDA	y/y	Aug	2.7%	14.0%	13.1%	***	Equity bearish, bond bullish
	S&P Global Germany Construction PMI	m/m	Sep	43.5	48.7		*	Equity and bond neutral
France	Industrial Production	y/y	Aug	0.3%	-0.3%	1.2%	***	Equity and bond neutral
	Manufacturing Production	y/y	Aug	-0.1%	-2.0%		**	Equity and bond neutral
UK	S&P Global UK Construction PMI	m/m	Sep	46.1	44.3	44.9	**	Equity and bond neutral
Switzerland	Unemployment Rate	m/m	Sep	3.0%	3.0%	3.0%	**	Equity and bond neutral
AMERICAS								
Canada	S&P Global Canada Services PMI	m/m	Sep	48.3	46.8		*	Equity and bond neutral
	S&P Global Canada Composite PMI	m/m	Sep	48.7	47.8		*	Equity and bond neutral
Brazil	S&P Global Brazil Composite PMI	m/m	Sep	47.4	49.1		***	Equity and bond neutral
	S&P Global Brazil Services PMI	m/m	Sep	49.2	50.5		***	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	404	-2	Up
U.S. Sibor/OIS spread (bps)	403	403	0	Up
U.S. Libor/OIS spread (bps)	400	400	0	Up
10-yr T-note (%)	5.26	5.31	-0.05	Up
Euribor/OIS spread (bps)	260	260	0	Up
Currencies	3 Mo			
Dollar	Down	US		Up
Euro	Up	Euro		Down
Yen	Down	Japan		Up
Pound	Up	UK		Down
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.

	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$98.37	\$100.32	-1.94%	
WTI	\$87.66	\$89.43	-1.98%	
Natural Gas	\$3.09	\$3.07	0.62%	
Crack Spread	\$64.38	\$64.87	-0.75%	
12-mo strip crack	\$54.09	\$55.03	-1.70%	
Ethanol rack	\$2.25	\$2.26	-0.38%	
Metals				
Gold	\$4,169.37	\$4,139.50	0.72%	
Silver	\$61.43	\$61.07	0.58%	
Copper Contract	\$665.60	\$664.10	0.23%	
Grains				
Corn contract	\$501.50	\$497.25	0.85%	
Wheat contract	\$699.75	\$692.25	1.08%	
Soybeans contract	\$1,287.50	\$1,280.75	0.53%	
Shipping				
Baltic Dry Freight	3,070	3,148	-78	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-0.71		
Gasoline (mb)		-1.00		
Distillates (mb)		0.08		
Refinery run rates (%)		-0.33%		
Natural gas (bcf)		63		

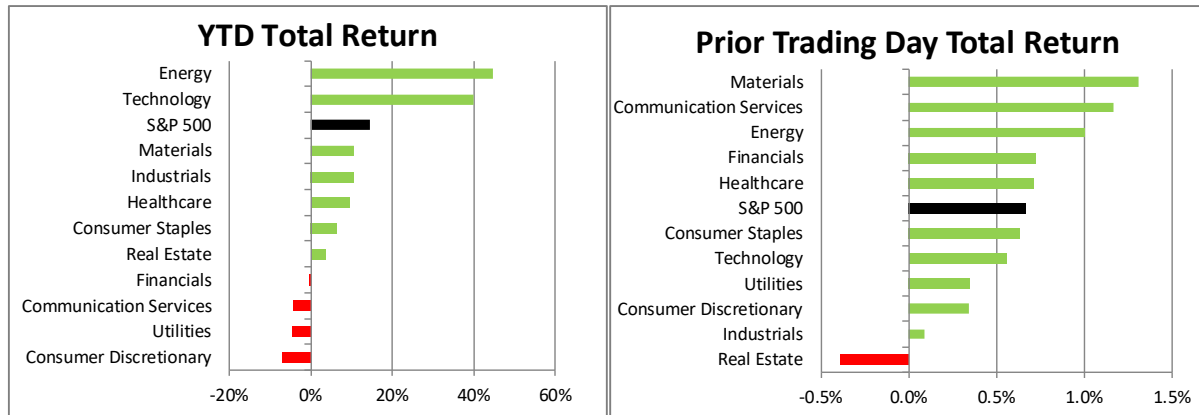
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for most of the country, with near-normal temperatures in the northern Great Plains and Great Lakes regions. The outlook calls for wetter-than-normal conditions in states east of the Mississippi and throughout most of the Southern states, with dry conditions in the Pacific Northwest.

There is currently one atmospheric disturbance forming in the Gulf of Mexico with an 80% chance of cyclone formation within the next seven days.

Data Section

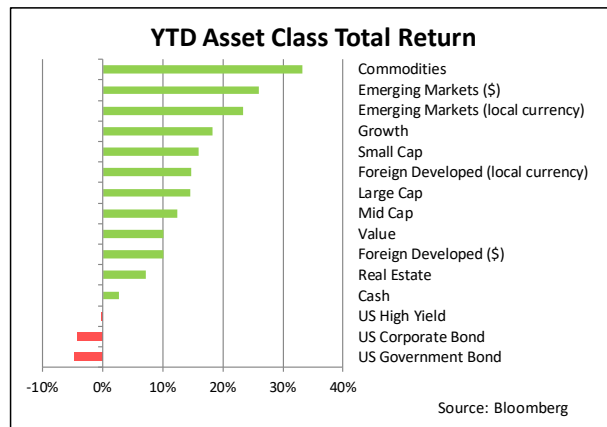
US Equity Markets – (as of 10/5/2026 close)



(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 10/5/2026 close)

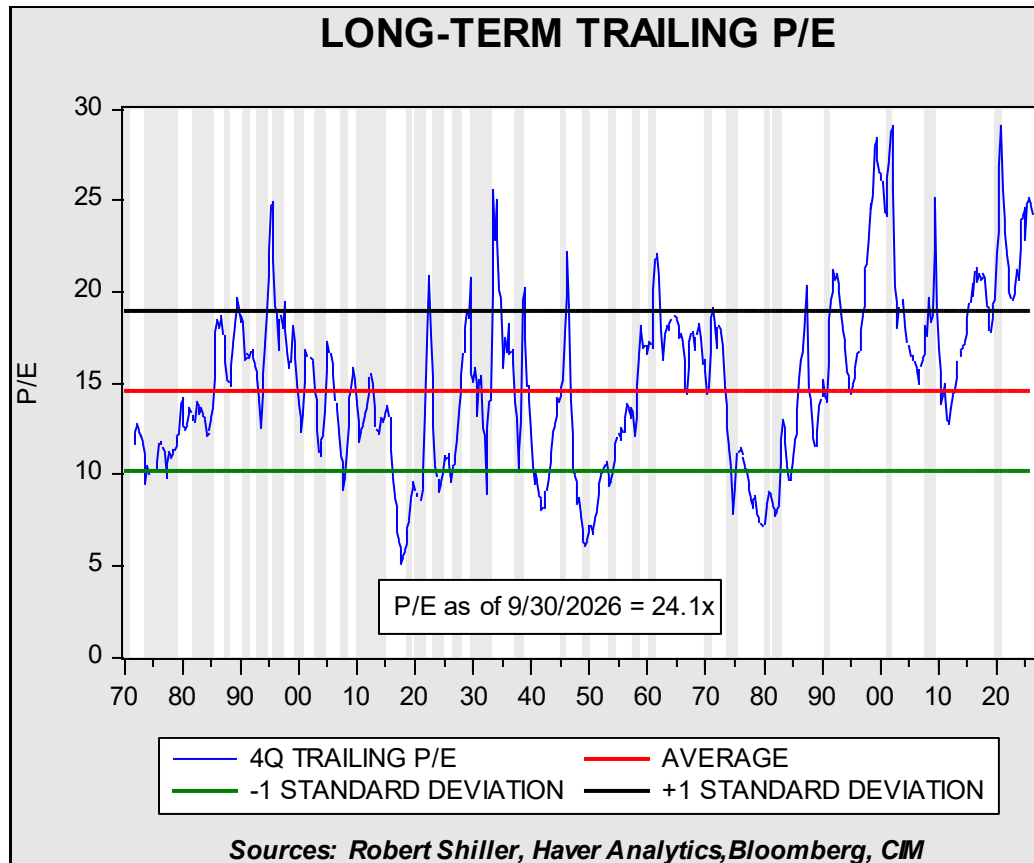


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

October 1, 2026



Based on our methodology,¹ the current P/E is 24.1x, unchanged from the previous report. The stock price index and earnings were little changed from the previous 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.