

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: October 7, 2026 — 9:30 AM ET] Global equity markets are lower this morning. In Europe, the Euro Stoxx 50 is down 1.3% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 1.1%. Chinese markets remain closed today for China's National Day Holiday. US equity index futures are signaling a lower 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* opens with thoughts on the rise in attacks on ships traveling through the Strait of Hormuz and the possibility of a broader conflict. Next, we examine growing speculation that the Treasury may reduce issuance of 20-year bonds and what that could mean for yields. We then discuss concerns about a possible plague outbreak in Russia and signs of escalating trade tensions between the EU and China. As always, we conclude with a review of recent domestic and international economic data.

Iran Troubles: Although oil flows through the Strait of Hormuz have increased, shipping risks remain elevated. Reports on Tuesday indicated that [Iran had stepped up attacks on vessels transiting the strait](#). The escalation comes as Tehran and Washington appear no closer to an agreement and the conflict shows signs of widening. Continued attacks are likely to deepen concerns about disruptions at this critical supply-chain chokepoint as the conflict drags on.

- [UK Maritime Trade Operations has reported nine attacks in the Strait of Hormuz](#) so far this month — half of the total for the entire month of September. This escalation appears

designed to deter maritime traffic following a surge in regional energy exports. In September, Gulf oil producers surpassed pre-war shipment levels for at least half the month. The uptick in transit spanned several key export routes, including Hormuz, the Red Sea, and pipeline terminals.

- Iran's escalating attacks on commercial shipping may be a calculated effort to maintain leverage during ongoing nuclear negotiations with the White House. Vice President JD Vance, a primary representative in the talks, has maintained that any deal to end hostilities and reopen the Strait of Hormuz must include a concrete agreement by Tehran to reduce its uranium enrichment capacity. Vance also noted that Washington faces additional complexity due to an opaque decision-making apparatus in Tehran.
- As talks between Washington and Tehran continue, fighting elsewhere in the Middle East is intensifying. Overnight, the [Houthis reportedly attacked Aden International Airport amid a Saudi-backed counteroffensive](#) to retake territory near the Bab el-Mandeb Strait. Saudi Arabia is supporting allied Yemeni government forces, marking renewed hostilities between Riyadh and the Houthis.
- So far, markets have focused on the conflict's impact on oil prices, paying less attention to the shift in price momentum. Although crude remains above pre-conflict levels, it has stopped making new highs and is trading within a relatively narrow range. This loss of upward price pressure suggests the initial price shock may be fading even if the worst of the conflict isn't over. That could support the wider markets as investors reassess the risks.

Long-Bond Jitters: Investors are weighing potential Treasury interventions ahead of next month's quarterly refunding announcement. BNP Paribas warned Tuesday against trimming 20-year bond supply, cautioning that the move could backfire. The note follows comments in which Treasury Secretary Scott Bessent signaled active management, telling Axios that while he ["may not win every hand,"](#) he will "win over time." Speculation surrounding intervention continues to hang over the bond market.

- A new report from [BNP Paribas warns that reducing or eliminating 20-year Treasury bond issuance could be perceived as a panic move](#). The firm cautions that, rather than driving yields sustainably lower, the strategy could backfire, leading to higher yields and reduced liquidity. BNP Paribas also recommended taking a short position on 30-year Treasuries, setting a yield target of 5.80%, up from the current 5.66%.
- BNP Paribas's warning comes as Bessent maintains that the market is overreacting and pushing bond prices below their equilibrium value. Last month, the Treasury attempted to improve liquidity by announcing a larger-than-expected buyback of long-duration bonds. However, bond yields rose following the announcement as fresh concerns over the conflict in Iran combined with market skepticism regarding Treasury intervention to spark a renewed sell-off.
- The White House maintains that economic growth will be sufficient to rein in the national debt. While markets remain skeptical, this strategy has historical precedent. A [Brookings Institution study noted that the dot-com boom of the late 1990s drove nearly 60% of that](#)

[decade's deficit reduction](#). With third-quarter GDP projected to expand at an annualized rate of 5%, a sustained AI boom could produce a similar fiscal windfall.

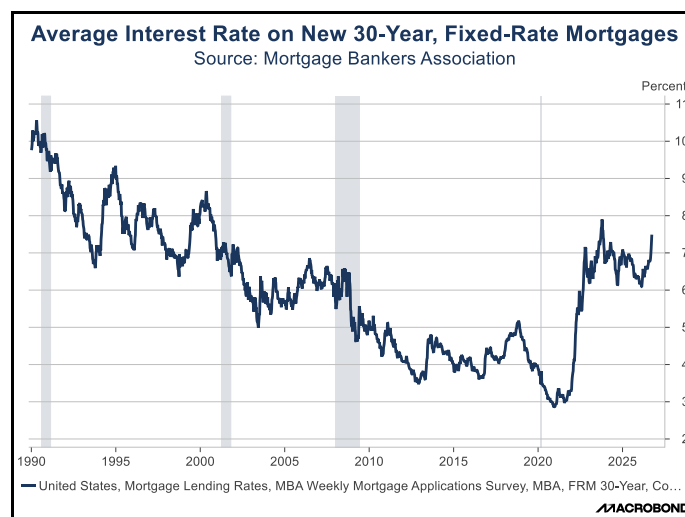
- Trimming 20-year issuance would be a concerted effort to lower yields and trim borrowing costs, but its impact will probably be short-lived. While it should lift demand for other maturities along the curve, it leaves the root cause unaddressed: a persistent oversupply of government debt. If the Treasury's tools fall short, the White House may have to seek fiscal remedies to contain yields — either spending cuts or tax increases — though the latter looks unlikely unless Democrats gain control of both chambers of Congress following the midterm elections.

Russian Plague: Concerns are growing regarding a potential [pneumonic plague outbreak in Russia](#). While authorities have confirmed only a single fatality to date, government officials are keeping a close watch on the situation. On Tuesday, President Trump announced he would speak with Russian President Vladimir Putin about the matter. Though the overall risk that the plague will spread remains low, apprehension lingers that the disease could lead to another pandemic.

China-EU: Trade tensions between the EU and China have begun to escalate. On Wednesday, [Beijing warned that it has tools to retaliate](#) if the bloc moves to limit trade. The warning follows a push by France and Germany to curb Chinese imports into the EU, potentially including blocking goods that benefit from unfair government subsidies. The escalation is another example of countries moving away from globalization as they look to shore up domestic industries.

US Economic Releases

The Mortgage Bankers Association said *mortgage applications* in the week ended October 2 fell 4.2%, decelerating from their 6.0% drop in the previous week but still marking their ninth decline in the last twelve weeks. Applications for home purchase mortgages fell 2.1%, after dropping 4.3% in the prior week. Applications for refinancing mortgages declined 7.5%, after falling 8.7% the week before. The average interest rate on a 30-year, fixed-rate mortgage jumped 19 basis points to 7.49%. The chart below shows how mortgage rates have changed over time.



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

Economic Releases						
EST	Indicator			Expected	Prior	Rating
15:00	Consumer Credit	m/m	Aug	\$15.000b	\$18.062b	*
Federal Reserve						
EST	Speaker or Event	District or Position				
14:00	U.S. Federal Reserve Releases Meeting Minutes	Federal Reserve Board				

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	Aug	3.8%	4.7%	3.7%	**	Equity and bond neutral
	Real Cash Earnings	m/m	Aug	1.5%	2.4%	1.5%	*	Equity and bond neutral
South Korea	BoP Current Account Balance	m/m	Aug	\$42078.0m	\$42078.0m		**	Equity and bond neutral
	BoP Goods Balance	m/m	Aug	\$40430.1m	\$40430.1m		*	Equity and bond neutral
China	Foreign Reserves	m/m	Sep	\$3400.25b	\$3438.33b	\$3425.00b	**	Equity and bond neutral
India	Foreign Exchange Reserves	w/w	2-Oct	\$734.6b	\$747.6b		*	Equity and bond neutral
EUROPE								
Germany	Industrial Production WDA	y/y	Aug	2.3%	-1.8%	0.7%	**	Equity and bond neutral
France	Current Account Balance	m/m	Aug	-1.5b	-3.9b		*	Equity and bond neutral
	Trade Balance	m/m	Aug	-6122m	-6597m		*	Equity and bond neutral
Switzerland	Foreign Currency Reserves	m/m	Sep	770.5b	770.1b		***	Equity and bond neutral
AMERICAS								
Canada	International Merchandise Trade	m/m	Aug	4.2b	0.79b	1.50b	*	Equity and bond neutral
Mexico	International Reserves Weekly	w/w	2-Oct	\$256040m	\$256543m		*	Equity and bond neutral
Brazil	Trade Balance	m/m	Sep	\$7741m	\$6909m	\$7400m	**	Equity and bond neutral
	Exports	m/m	Sep	\$34418m	\$32732m	\$35500m	*	Equity and bond neutral
	Imports	m/m	Sep	\$26678m	\$25824m	\$28047m	*	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)	403	404	-1	Up
U.S. Sibor/OIS spread (bps)	403	402	1	Up
U.S. Libor/OIS spread (bps)	401	400	1	Up
10-yr T-note (%)	5.32	5.28	0.04	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
Central Bank Action		Prior	Expected	
RBI Repurchase Rate	5.50%	5.25%	5.50%	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	\$101.86	\$100.58	1.27%	
WTI	\$89.97	\$89.44	0.59%	
Natural Gas	\$3.16	\$3.11	1.41%	
Crack Spread	\$70.52	\$65.72	7.31%	
12-mo strip crack	\$57.10	\$54.83	4.15%	
Ethanol rack	\$2.25	\$2.26	-0.14%	
Metals				
Gold	\$4,115.49	\$4,164.18	-1.17%	
Silver	\$60.12	\$61.34	-1.99%	
Copper Contract	\$665.15	\$664.95	0.03%	
Grains				
Corn contract	\$505.00	\$508.00	-0.59%	
Wheat contract	\$700.50	\$704.25	-0.53%	
Soybeans contract	\$1,305.75	\$1,303.00	0.21%	
Shipping				
Baltic Dry Freight	3,002	3,070	-68	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		1.92		
Gasoline (mb)		-1.61		
Distillates (mb)		-1.52		
Refinery run rates (%)		-0.30%		
Natural gas (bcf)		63		

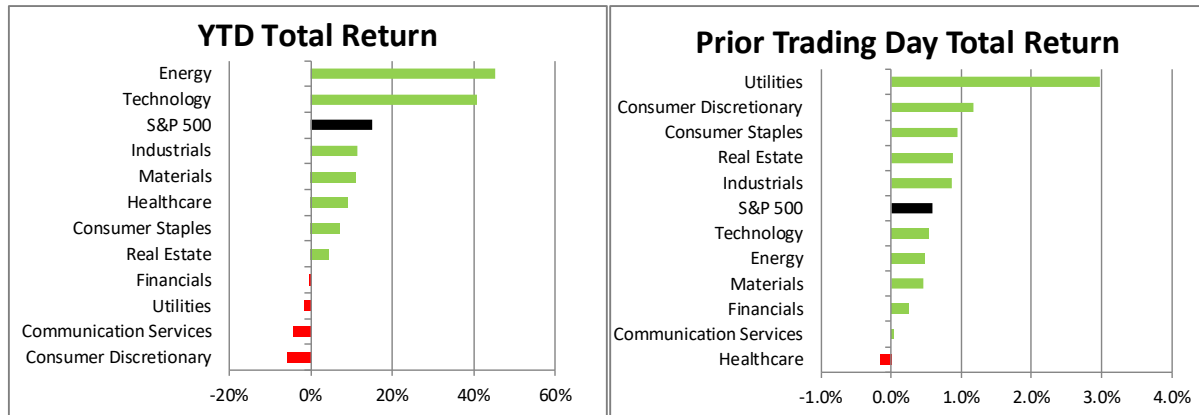
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures everywhere except the Northeast, where temperatures will be near normal. The outlook calls for wetter-than-normal conditions in the Desert Southwest, Texas, the southern Mississippi Valley, and the East Coast states, with dry conditions in the Pacific Northwest.

There is now one atmospheric disturbance in the Atlantic Ocean area. Tropical Storm Isaias is just off the eastern coast of Mexico and traveling slowly eastward away from land.

Data Section

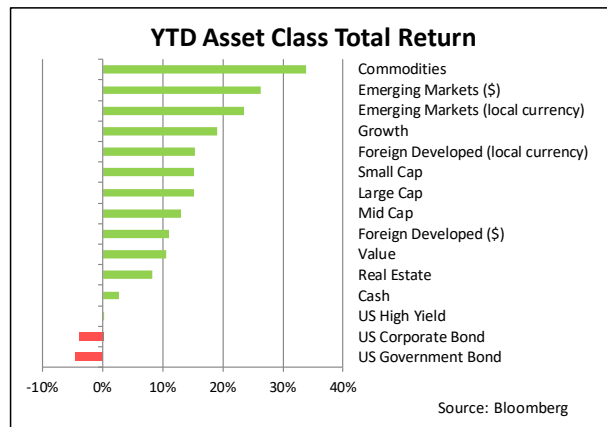
US Equity Markets – (as of 10/6/2026 close)



(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 10/6/2026 close)

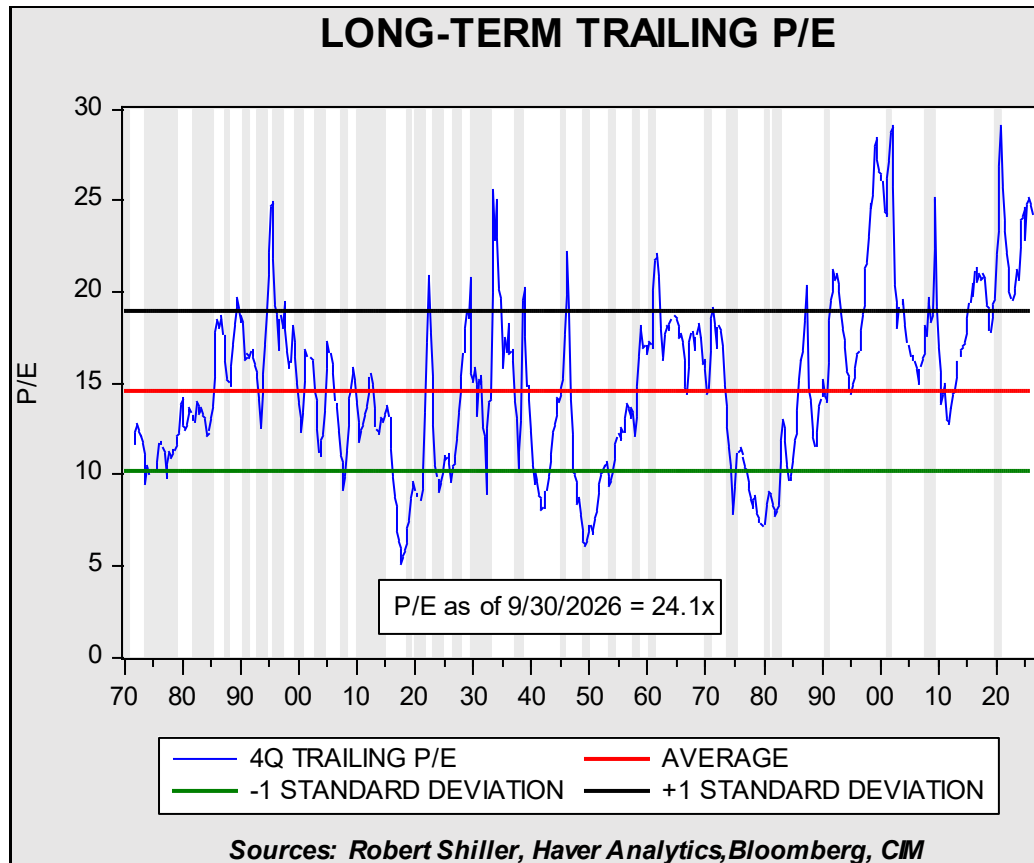


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.