

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: October 8, 2026 — 9:30 AM ET] Global equity markets are lower this morning. In Europe, the Euro Stoxx 50 is down 1.1% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 2.1%. Chinese markets were lower, with the Shanghai Composite down 0.8% and the Shenzhen Composite down 1.6%. 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 VE Insights: A Moving Yardstick

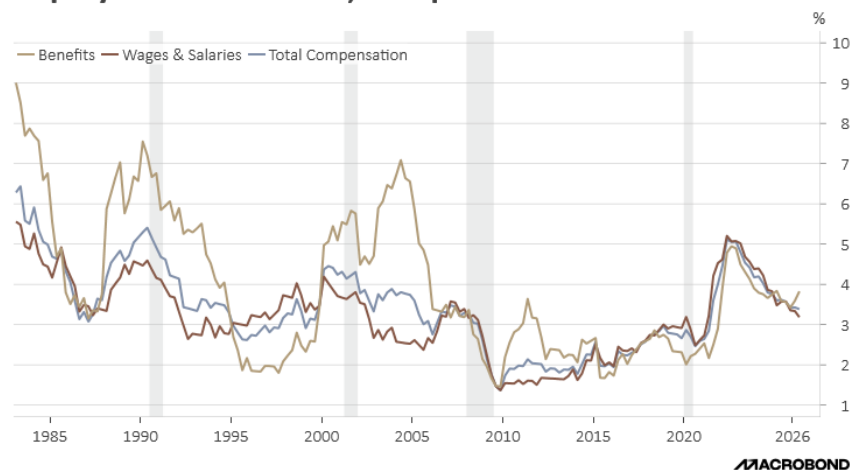
Have a question on the economy, markets, geopolitics, or other important topics? You can submit your queries to our monthly podcast, *Confluence Mailbag*! Submit your question to mailbag@confluenceim.com.

Our *Comment* opens with thoughts on the FOMC meeting as Fed officials focus on the AI buildout. Next, we examine rising civil unrest in Europe and why it may not be a reason to abandon the region just yet. We then briefly discuss Russia's pickup in petroleum product exports, signs of a broadening conflict in the Middle East, and markets' waning enthusiasm for chipmakers. As always, we conclude with a review of recent domestic and international economic data.

Hawkish Minutes: The [minutes from the latest FOMC meeting revealed that the AI buildout played a role in the Fed's decision](#) to raise rates for the first time since 2023. Officials expressed concern that AI-related investment was accelerating faster than many had realized and was beginning to spill over into other parts of the economy. Those worries come amid signs that the buildout could contribute to an overheating economy. If that sentiment persists, the Fed may be prepared to tighten policy further to mitigate the buildout's impact on the broader economy.

- Although Fed officials acknowledged that higher oil prices would add to inflation, most of the discussion appears to have centered on AI. Several members noted that the AI buildout could intensify inflationary pressures just as the effects of tariffs, which had contributed to rising core goods prices, begin to fade. More worrisome was that officials noted business contacts were having greater success passing higher costs on to customers, raising the risk that inflation expectations could move higher.
- The risk of higher inflation expectations appears to be driven, at least in part, by a sudden rise in growth estimates. The latest staff projections showed growth outpacing potential into 2028, a more optimistic outlook than at the previous meeting, when the staff expected growth to only slightly outpace potential through 2027. The upgrade came largely from a pickup in business investment, stronger investment spending, and supportive financial conditions.

Employment Cost Index, Compensation



- While the minutes were largely hawkish, a few officials offered a more dovish view of the economy. They noted that although financial conditions remained broadly supportive of growth, housing was the exception, with mortgage rates still elevated. Some officials also raised concerns about the labor market, noting that while layoffs have remained low, so has hiring. Others observed that aggregate wage growth was moderate and consistent with inflation returning to 2%.
- September's meeting minutes revealed that the Fed is clearly leaning more hawkish, but that may not be enough to guarantee another rate hike. The latest jobs report, which showed a sharp slowdown in hiring, has weighed on expectations for a hike at the October 27-28 meeting. We continue to believe that further hikes will depend on the incoming data as the Fed works to bring inflation back to its 2% target.

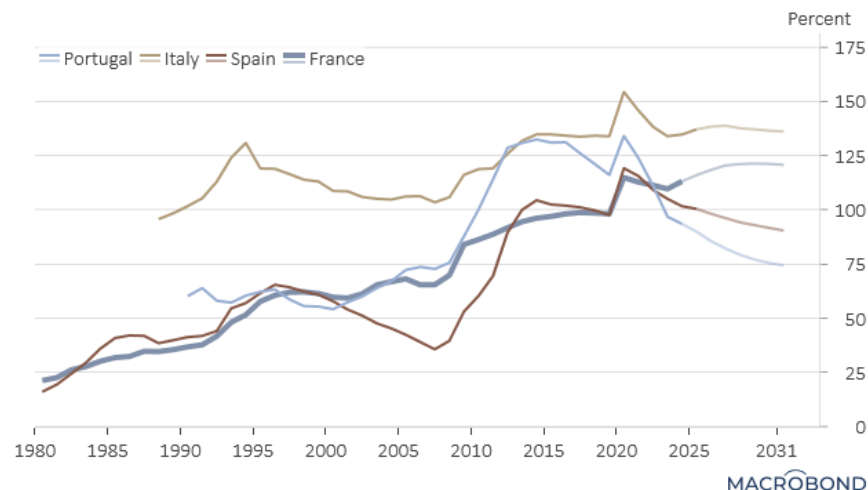
Europe Problems: Several political issues are coming to a head across the Continent. The most notable is a wave of protests in a number of EU member states, with demonstrators pointing to high property prices and the cost and quality of education. The unrest comes as the region

contends with mounting concerns over its debt burden and elevated energy prices. That said, Europe's resilience may be underestimated.

- Protests that began in Spain and France have since spread to Belgium and possibly Austria and have led to arrests as demonstrators press for change. In Spain, [the anger centers on private investment and mass tourism](#), which residents blame for pushing home prices out of reach. Elsewhere in the bloc, [the grievance is underinvestment, particularly in higher education, where universities](#) are seen as overcrowded and increasingly expensive.
- These protests come as the region appears headed for a political realignment. Across Europe, voters are shifting away from establishment candidates and toward populist (and most recently right-wing) alternatives. Support is rising for Vox in Spain, the National Rally in France, Vlaams Belang in Belgium, and the AfD in Germany. The trend points to growing demand for policies that prioritize domestic interests, such as higher public spending and tighter immigration controls.
- The rising popularity of populists is likely less of a bad omen than markets are pricing in. Although populists have long been viewed as risky for investors, many populist governments have proven less damaging to public finances than feared. Portugal, Spain, and Italy, for example, all have populist governments, yet each is expected to see its debt-to-GDP ratio fall over the next five years.

General Government Gross Debt Percent of GDP

Source: IMF



- Rising discontent and higher energy prices should be a short-term headwind for the euro area, but opportunities remain. Even during this period of rising inflation and tighter monetary policy, [the eurozone has remained resilient](#), which suggests the economy still rests on solid foundations. Investors therefore should not be deterred by the civil unrest, as it is unlikely to undermine the long-term viability of companies operating in the region.

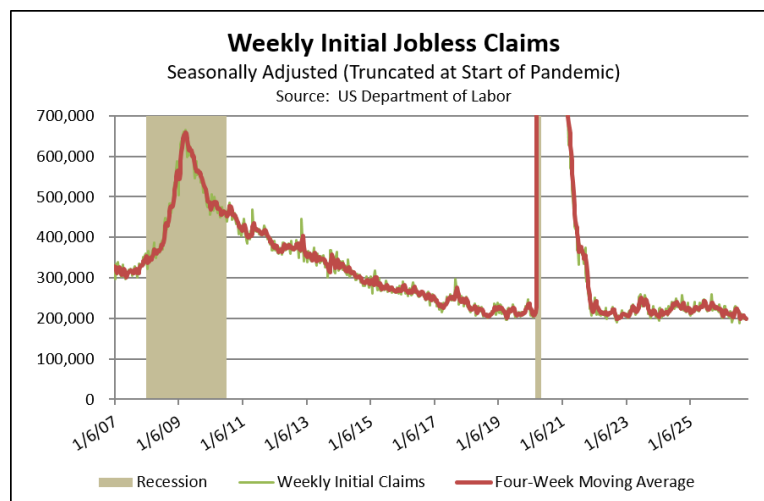
Russian Shipments: [Oil product exports from Russia have begun to rise](#) even amid the conflict and government restrictions. These foreign sales have emerged as the country seeks to prevent overstocking now that domestic supplies have stabilized. Previously, the country had limited sales of oil products abroad after Ukrainian attacks on its refineries curbed production. The sales suggest Russia may have enough to satisfy domestic demand.

Broadening Conflict: The US appears to be preparing to increase pressure on Iran, while Saudi Arabia faces further attacks. The Pentagon [has begun laying the groundwork for additional strikes on Iran](#), which could occur before the midterms. Meanwhile, [Saudi Arabia has faced an attack on one of its airports by Houthi forces](#). The conflict in the Middle East appears to be spreading and may add to the pressure on energy.

Chip Shrug: Investors appear to be less impressed by earnings from chipmakers. [Samsung reported a ninefold rise in operating profit](#), yet the result still fell short of investor expectations for a higher increase. Additionally, TSMC's 51% jump in revenue failed to excite investors, who had hoped for more. The muted share-price reaction comes at a time when investors appear to be more worried about the future of the investment boom.

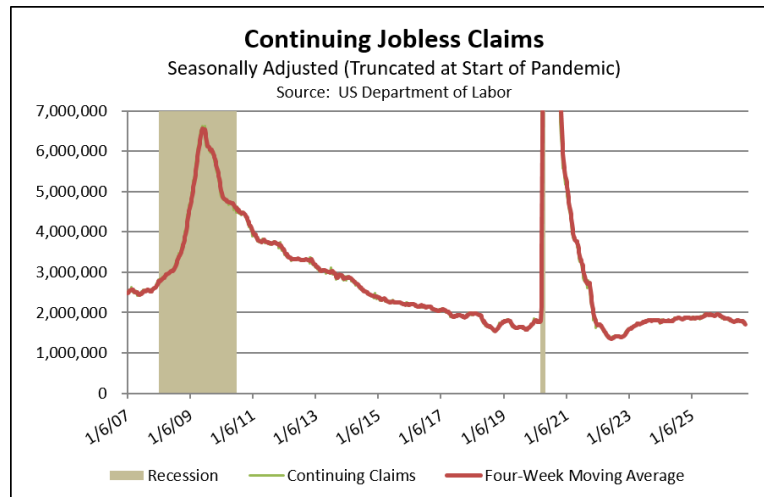
US Economic Releases

In the week ended October 3, *initial claims for unemployment benefits* fell to a seasonally adjusted 197,000, below both the expected level of 200,000 and the prior week's revised level of 199,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, fell to a very low 198,000. 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 September 26, the number of *continuing claims for unemployment benefits* (people continuing to draw benefits) rose to a seasonally adjusted 1.716 million, above both the anticipated reading of 1.700 million and the previous week's revised reading of 1.699 million.

The four-week moving average of continuing claims fell to just 1.711 million, reaching its lowest level in 3.5 years. 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.



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	Aug F	0.7%	0.7%	**
10:00	Wholesale Trade Sales	m/m	Aug		0.8%	*
Federal Reserve						
EST	Speaker or Event	District or Position				
4:30	Christopher Waller Speaks on Economic Outlook	Member of the Board of Governors				
10:40	Neel Kashkari Moderates Q&A	President of the Federal Reserve Bank of Minneapolis				
13:40	Alberto Musalem Speaks at Bloomberg Event on us Economy, 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 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	BoP Current Account Balance	m/m	Aug	¥4062.0b	¥2988.9b	¥3172.3b	***	Equity and bond neutral
	BoP Trade Balance	m/m	Aug	-¥687.7b	-¥399.9b	-¥715.2b	**	Equity and bond neutral
	Japan Buying Foreign Bonds	w/w	2-Oct	-¥347.6n	-¥682.3b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	2-Oct	¥1324.6n	¥225.8b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	2-Oct	-¥585.7n	-¥1341.8b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	2-Oct	-¥2191.9n	-¥354.2b		*	Equity and bond neutral
Australia	Foreign Reserves	m/m	Sep	A\$109.7b	A\$106.0b		**	Equity and bond neutral
South Korea	BoP Current Account Balance	m/m	Aug	\$46113.0m	\$42078.0m		**	Equity and bond neutral
	BoP Goods Balance	m/m	Aug	\$46812.1m	\$40430.1m		*	Equity and bond neutral
EUROPE								
Germany	Trade Balance	m/m	Aug	19.5b	21.6b	19.0b	*	Equity and bond neutral
	Exports	m/m	Aug	-0.8%	-0.5%	0.9%	*	Equity bearish, bond bullish
	Imports	m/m	Aug	0.9%	-5.5%	2.8%	*	Equity bearish, bond bullish
UK	RICS House Price Balance	y/y	Sep	-32%	-28%	-30%	**	Equity and bond neutral
AMERICAS								
Mexico	Vehicle Production	m/m	Sep	301803	344940		*	Equity and bond neutral
	CPI	y/y	Sep	3.45%	3.26%	3.47%	***	Equity and bond neutral
	Core CPI	y/y	Sep	3.75%	3.88%	3.78%	**	Equity and bond neutral
Brazil	FGV Inflation IGP-DI	y/y	Sep	3.80%	2.63%	3.81%	**	Equity and bond neutral
	FGV CPI IPC-S	w/w	7-Oct	0.39%	0.67%		*	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)	404	403	1	Up
U.S. Libor/OIS spread (bps)	402	401	1	Up
10-yr T-note (%)	5.34	5.28	0.06	Up
Euribor/OIS spread (bps)	264	260	4	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	\$105.21	\$100.20	5.00%	Supply Concerns
WTI	\$92.68	\$88.28	4.98%	Supply Concerns
Natural Gas	\$3.26	\$3.20	1.62%	
Crack Spread	\$68.61	\$66.34	3.43%	
12-mo strip crack	\$57.56	\$55.85	3.06%	
Ethanol rack	\$2.24	\$2.24	0.00%	
Metals				
Gold	\$4,122.43	\$4,111.23	0.27%	
Silver	\$58.82	\$59.78	-1.61%	
Copper Contract	\$662.95	\$664.95	-0.30%	
Grains				
Corn contract	\$503.00	\$502.00	0.20%	
Wheat contract	\$688.50	\$686.50	0.29%	
Soybeans contract	\$1,294.50	\$1,297.50	-0.23%	
Shipping				
Baltic Dry Freight	2,994	3,002	-8	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)	-3.19	1.92	-5.10	
Gasoline (mb)	0.38	-1.61	1.99	
Distillates (mb)	-0.04	-1.52	1.48	
Refinery run rates (%)	0.00	-0.30%	0.00	
Natural gas (bcf)		82		

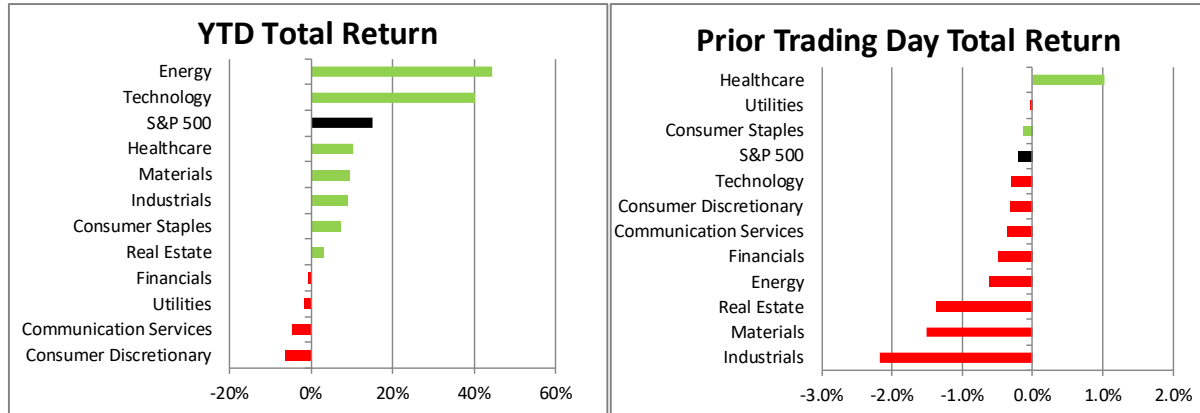
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures everywhere except for Nebraska, Kansas, and the Northeast, where temperatures will be near normal. The outlook calls for wetter-than-normal conditions in the southern Rocky Mountains, the southern Great Plains, and the Southeast, with dry conditions on the West Coast.

Hurricane Isaias today is just off the northern coast of Mexico's Yucatan Peninsula and is heading eastward toward Florida. It is expected to cause major flooding and high winds all along the Gulf Coast before making landfall on the Florida Peninsula as early as Friday.

Data Section

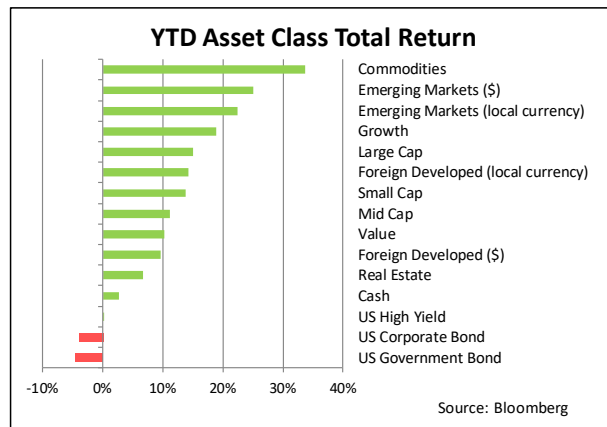
US Equity Markets – (as of 10/7/2026 close)



(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 10/7/2026 close)

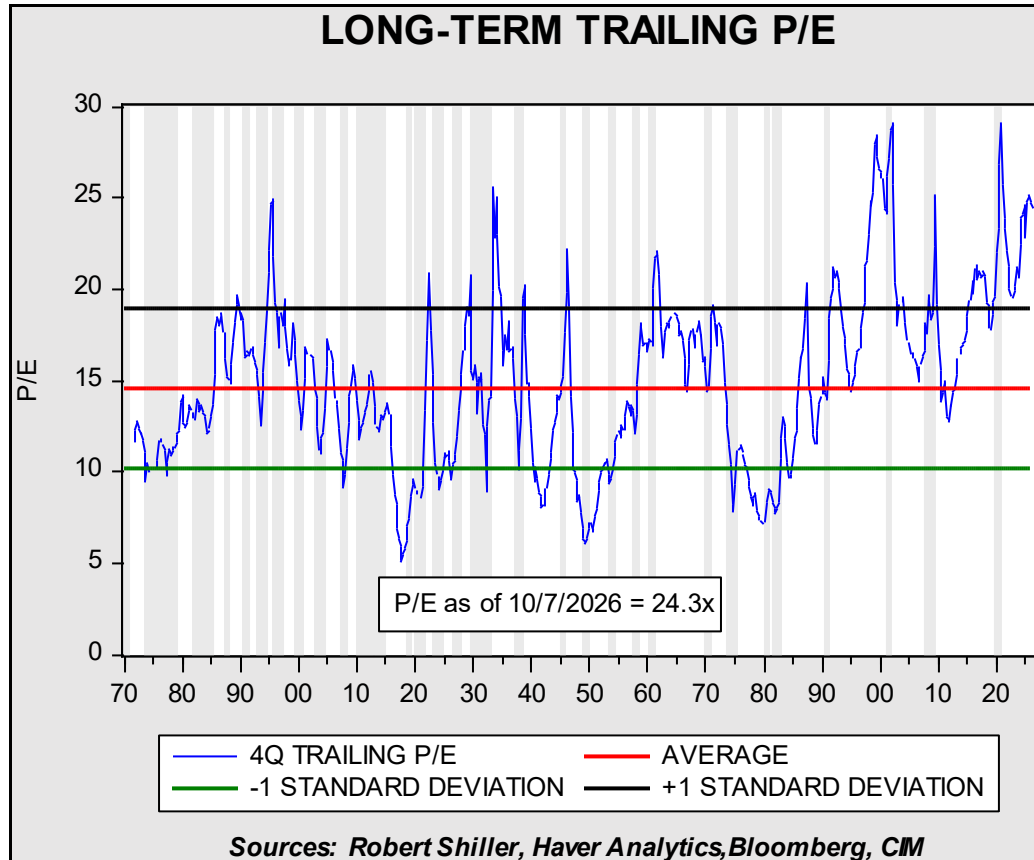


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 8, 2026



Based on our methodology,¹ the current P/E is 24.3x, up 0.2 from the previous report. The increase in the multiple was due to the stock price index rising faster than 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 (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.