

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: October 9, 2026 — 9:30 AM ET] Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 is up 1.0% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.5%. Chinese markets were higher, with the Shanghai Composite up 0.1% and the Shenzhen Composite up 0.2%. US equity index futures are signaling a 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.

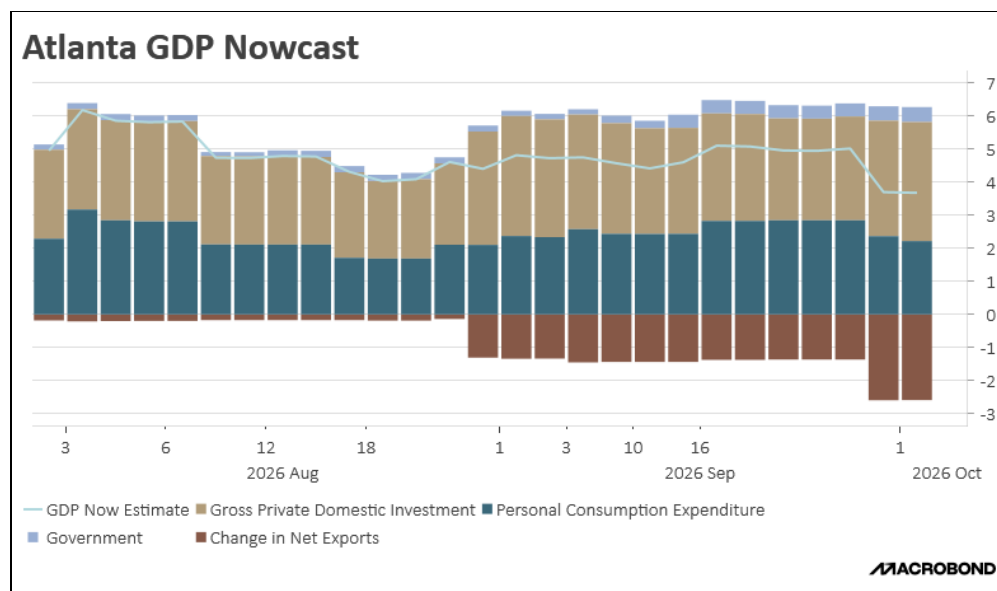
Bi-Weekly Geopolitical Report	Asset Allocation Bi-Weekly	Asset Allocation Quarterly	Of Note
"The Geopolitics of China's Energy Policy" (9/28/26) + podcast	"What "Real" Interest Rates Are Telling Us" (10/5/26) + podcast	Q3 2026 Report Q3 2026 Rebalance Presentation	Confluence Mailbag Podcast VE Insights: 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 concerns surrounding AI companies and their ability to meet soaring investor expectations. We then turn to geopolitics, examining the US-China AI race and its broader diplomatic fallout. Next, we briefly cover Italy's recent electoral reform, provide an update on US-Iran relations, and examine the Treasury's appointment of a controversial former Fed nominee. As always, we conclude with a roundup of key domestic and international economic data.

AI Concerns: As major AI labs prepare to go public, investors are once again questioning their valuations. On Thursday, OpenAI [reportedly projected \\$20 billion less annualized revenue than investors had anticipated](#). This shortfall has added to market jitters and sparked fresh speculation about a bubble, even as the broader impact of the AI boom becomes increasingly evident across the economy. While the miss probably won't deter these companies from going public, it is likely to raise concerns about the viability of the AI boom.

- OpenAI recently told investors it expects to report annualized revenue of \$50 billion at the end of September, well below the roughly \$70 billion figure reported earlier. The earlier number rested on a reported 70% jump from a \$40 billion annualized rate in July, a baseline the company has since revised to \$30 billion in an updated presentation. This discrepancy comes as investors have sought to make OpenAI's figures comparable with those of its rival Anthropic, which calculates revenue differently.
- Doubts about the company's figures come as it and its rival Anthropic prepare to go public. Both companies are looking to the equity market to help fund the infrastructure needed to serve customers and train their models. They have also come under scrutiny because their expenses far exceed their revenue, raising worries that the two companies are building faster than demand can justify.

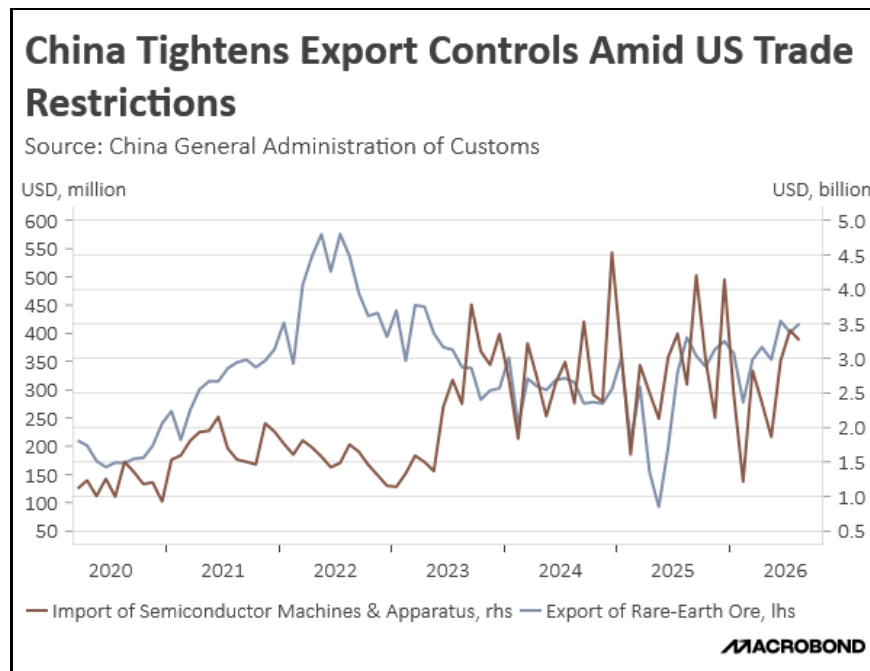


- Spending by AI companies and the hyperscalers has been a key source of support for the economy. Business investment, much of it driven by AI, is projected to account for more than half of GDP growth in the third quarter of 2026, according to the Atlanta Fed's latest GDPNow estimate. The AI investment boost is expected to keep economic growth above its potential through 2028.
- OpenAI's revenue miss may simply be an error, but it could also signal that demand is not as strong as hoped. While this alone is unlikely to end the boom, it could lead to a slowdown in investment, which could then weigh on overall sentiment. However, we think the slowdown would likely benefit the sector, as companies that build too fast typically create overcapacity, which undermines their prospects for long-term profitability.

AI Race: The competition for AI supremacy between the US and China is intensifying. On Thursday, reports revealed that Beijing [is accelerating its nationwide data center expansion to satisfy surging demand for computing power](#). Meanwhile, Washington is moving to secure critical mineral supply chains to reduce foreign dependencies. These parallel pushes underscore

how direct government intervention is reshaping markets as both superpowers champion domestic tech leaders on the global stage.

- China is actively building data center hubs to link its energy-rich regions with high-demand urban centers. [Under its "Eastern Data, Western Computing" initiative](#), Beijing is constructing major computing facilities in the country's resource-abundant western provinces to avoid driving up land and electricity costs in the densely populated east. This nationwide push aims to close the gap with the US, which currently leads global data center capacity with roughly 56 gigawatts compared with China's 24 gigawatts.
- At the same time, the US is making strides toward securing the critical minerals essential for the AI expansion. The federal government continues to back domestic resource development to reduce its reliance on Beijing. On Thursday, [Houston-based Hertha Metals announced that it is nearing commercial production](#) of high-purity iron — a key component in tech-grade permanent magnets. This progress aligns with broader US efforts to stockpile strategic materials following recent Chinese export restrictions.



- This intensifying rivalry reflects a delicate balancing act as both nations attempt to compete while maintaining a peaceful coexistence. Although China faces fewer supply chain bottlenecks for its data center expansion, it still lacks the sophisticated equipment required to take a decisive lead. Meanwhile, US energy constraints and critical resource shortages make it difficult for Washington to pull further ahead. As a result, both superpowers are still tethered by mutual dependencies.
- The economic decoupling between the US and China will probably happen much more slowly than many anticipate. Although both superpowers wish to operate independently, they remain deeply reliant on each other's supply chains. Nevertheless, as they gradually break away, both nations are expected to stockpile critical AI resources — a trend that

could drive up global commodity prices. Consequently, the ongoing AI buildout could introduce persistent inflationary pressures worldwide.

Meloni Win: Italy's parliament approved [Prime Minister Giorgia Meloni's proposed electoral overhaul](#), shifting to a proportional representation system with a 42% majority bonus. Designed to streamline government formation and prevent post-election deadlock, the law grants winning alliances additional seats to secure a functional majority in both houses. The legislative win restores political momentum for Meloni following the defeat of her earlier judicial reform referendum.

Attack Off? President Trump has ruled out the possibility of attacking Iran before the midterm elections. His decision [to pause military action follows recent "productive" diplomatic talks between Washington and Tehran](#). Additionally, political considerations appear to be playing a significant role, as Republicans struggle to maintain control of Congress amid public backlash over rising oil and gasoline prices driven by the conflict.

Treasury Hires Outsider: The [Treasury has appointed economist Judy Shelton as a currency policy adviser](#). Her 2019 nomination to the Federal Reserve was blocked due to concerns over her political objectivity and conflicting economic views — specifically, her advocacy for easy monetary policy despite her historical preference for restrictive frameworks. Her appointment underlines the Treasury's interest in rethinking financial strategy to increase resilience against foreign competitors.

US Economic Releases

No major US 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	U. of Michigan Consumer Sentiment	m/m	Oct P	47.6	48.1	***
10:00	U. of Michigan Current Conditions	m/m	Oct P	50.1	50.9	**
10:00	U. of Michigan Future Expectations	m/m	Oct P	45.7	46.3	**
10:00	U. of Michigan 1-Year Inflation Expectation	m/m	Oct P	4.8%	4.6%	*
10:00	U. of Michigan 5-10 Year Inflation Expectation	m/m	Oct P	3.5%	3.4%	*
Federal Reserve						
EST	Speaker or Event	District or Position				
16:00	Susan Collins Speaks at Conference	President of the Federal Reserve Bank of Boston				

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	Household Spending	y/y	Aug	-3.1%	-3.6%	-3.6%	**	Equity and bond neutral
	Machine Tool Orders	y/y	Sep P	60.4%	64.7%		**	Equity and bond neutral
EUROPE								
Italy	Industrial Production WDA	y/y	Aug	0.0%	-0.1%	2.1%	***	Equity and bond neutral
Russia	Gold and Forex Reserves	m/m	2-Oct	\$733.2b	\$742.7b		***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	2-Oct	22.78t	22.76t		*	Equity and bond neutral
AMERICAS								
Brazil	IBGE Inflation IPCA	y/y	Sep	4.58%	4.22%	4.51%	***	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)	404	405	-1	Up
U.S. Sibor/OIS spread (bps)	404	404	0	Up
U.S. Libor/OIS spread (bps)	402	401	1	Up
10-yr T-note (%)	5.25	5.23	0.02	Down
Euribor/OIS spread (bps)	264	264	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	\$102.78	\$104.28	-1.44%	
WTI	\$90.57	\$91.49	-1.01%	
Natural Gas	\$3.13	\$3.17	-1.29%	
Crack Spread	\$68.76	\$69.98	-1.74%	
12-mo strip crack	\$57.12	\$57.51	-0.68%	
Ethanol rack	\$2.26	\$2.26	0.26%	
Metals				
Gold	\$4,186.12	\$4,132.50	1.30%	
Silver	\$60.45	\$59.17	2.16%	
Copper Contract	\$669.30	\$656.85	1.90%	
Grains				
Corn contract	\$500.00	\$500.25	-0.05%	
Wheat contract	\$683.00	\$683.25	-0.04%	
Soybeans contract	\$1,293.75	\$1,287.50	0.49%	
Shipping				
Baltic Dry Freight	2,973	2,994	-21	
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		

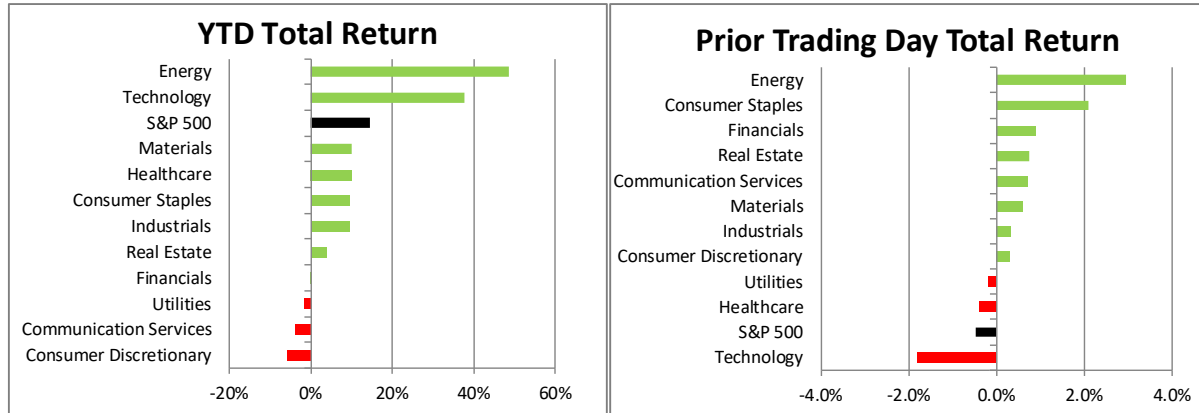
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in the Far West, the northern Great Plains, the Great Lakes region, and the Southeast, with cooler-than-normal temps in the Desert Southwest. The outlook calls for wetter-than-normal conditions in the Desert Southwest, the southern Great Plains, and the Southeast, with dry conditions on the West Coast.

Hurricane Isaias today is just off the Gulf Coast and is soon expected to make landfall over Alabama or the Florida Panhandle.

Data Section

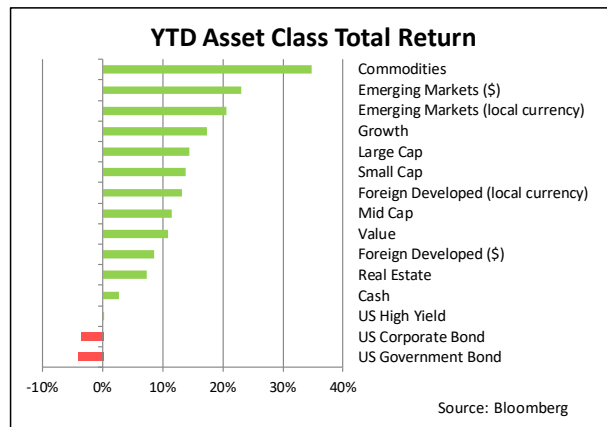
US Equity Markets – (as of 10/8/2026 close)



(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 10/8/2026 close)

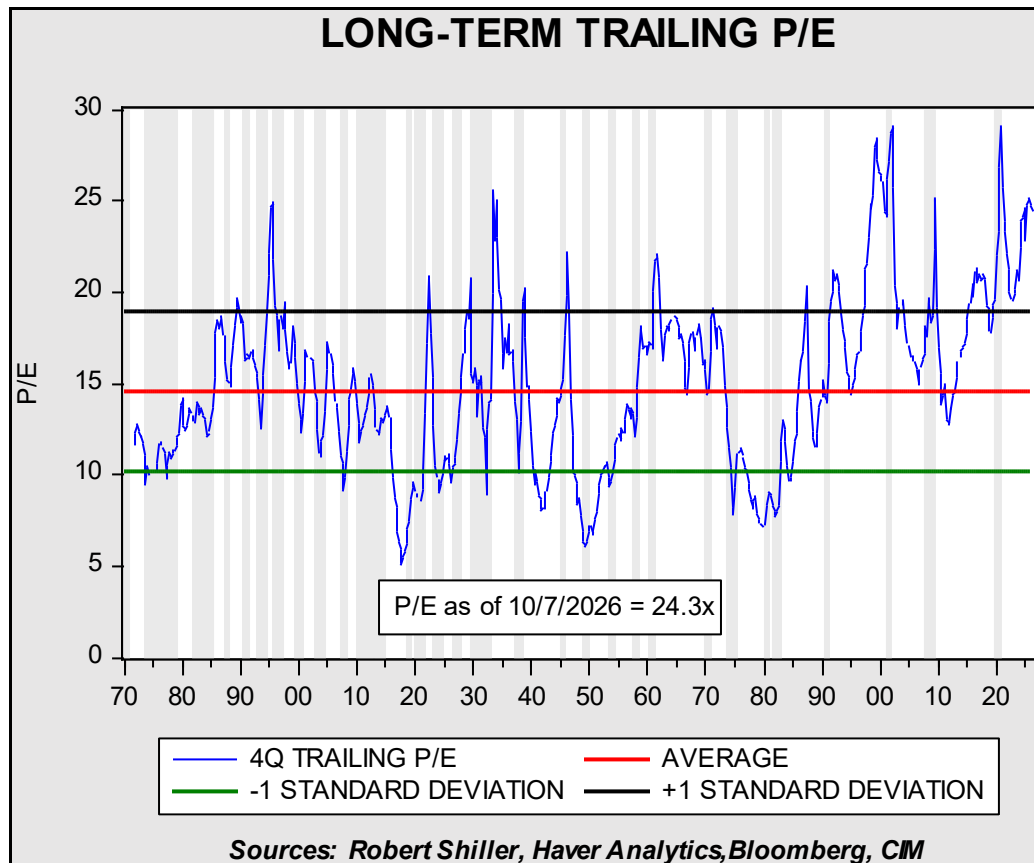


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.