Daily Comment

Confluence INVESTMENT MANAGEMENT

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[Posted: October 10, 2025 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is currently unchanged from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.5%. Chinese markets were lower, with the Shanghai Composite down 0.9% and the Shenzhen Composite down 1.7%. 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
"US Influence on the Wane: New Evidence" (9/29/25) + podcast	"The AI Arms Race" (10/6/25) + podcast	Q3 2025 Report Q3 2025 Rebalance Presentation	The Confluence Mailbag Podcast

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

Our *Comment* begins with an in-depth analysis of US intervention in the Argentine currency market. We then examine the latest strategic moves by the US and China ahead of pivotal trade talks. Our coverage continues with a discussion of the accounting controversy surrounding First Brands and explores the potential for a capital markets union in the EU. We also provide a summary of key economic indicators from the US and global markets.

US Intervenes: The United States has taken exceptional steps to stabilize Argentina's economy, with Treasury Secretary Scott Bessent announcing a $20 billion currency swap and direct support for the peso (ARS). The intervention is a clear signal of support for President Javier Milei amid market turmoil ahead of the October 26 legislative elections. Bessent defended the policy by declaring Argentina's free-market reforms to be of "systemic importance" to the US and promising to do "whatever exceptional measures are warranted" to ensure their success.

- This marks the first attempt to prop up a foreign currency since the 1995 financial support package for Mexico (known as the "Tequila Crisis"). While the bailout for

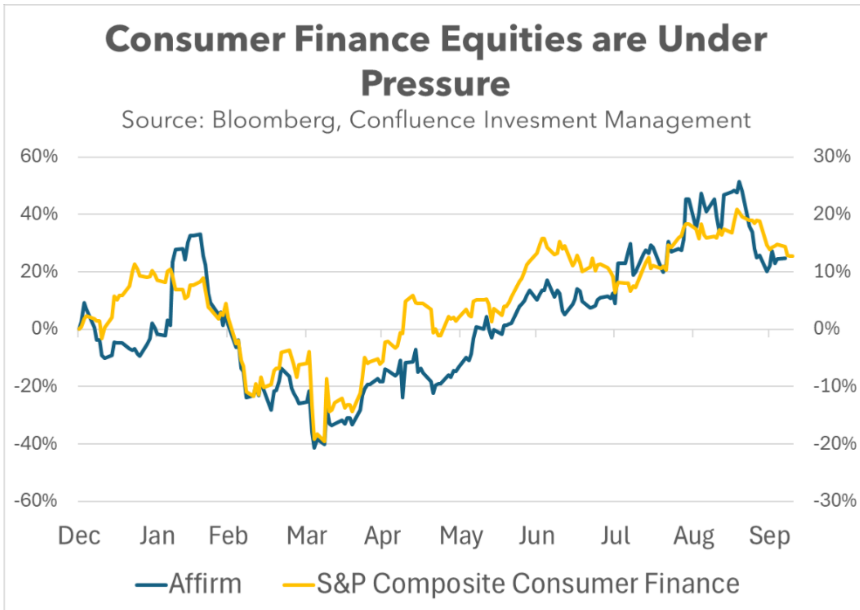
Mexico was primarily justified as an effort to prevent a systemic financial crisis from impacting the US economy and its regional interests (like NAFTA), the measures for Argentina appear less focused on systemic risk and more overtly aimed at ensuring the viability of the current administration's specific economic reform agenda.

- The move is a significant demonstration of US influence aimed at countering China's deep economic ties in Latin America. China has cemented its role as a key financial partner through its currency swap line with Argentina and by increasingly becoming a major buyer of regional agricultural exports to diversify its sourcing from the US.
- Another strategic benefit of the US financial package is currency stabilization, which prevents a peso collapse that would otherwise sharply reduce the export price of Argentine goods, thereby safeguarding the global price competitiveness of US agricultural producers.
- The efficacy of the currency intervention in preventing a financial collapse is debatable, but the move signifies the US's willingness to deploy its financial tools for geopolitical ends. This strategic use of the dollar as a lever of hegemony could undermine the dollar's perceived credibility and neutrality. As a result, market participants may become more inclined to seek stability and diversification in other currencies, presenting a structural resistance to the dollar's continued strength.

Trade Tensions Escalate: The US and China are continuing to escalate tensions ahead of their next meeting through a series of reciprocal economic measures. In a significant move, US senators have endorsed a bill to prohibit federal funding from reaching Chinese firms and to bar American investment from key Chinese industries. Simultaneously, Beijing has retaliated by launching an anti-trust probe into the American chipmaker Qualcomm and imposing new fees on US vessels using Chinese ports.

- We interpret these maneuvers as strategic posturing in advance of trade negotiations scheduled for later this month, suggesting no imminent setback. Both the Congressional move to ban funding and the Chinese probes into US firms are likely performative acts. Furthermore, the fees levied on US vessels at Chinese ports are a direct, reciprocal response to American charges on Chinese-built ships, reflecting China's clear intent to counter the US push for increased use of domestically manufactured vessels.
- We remain optimistic that talks between the US and China will culminate in a significant grand bargain, one that should yield benefits for both markets. Our premise is that the agreement must improve the trade relationship, particularly in technology, by granting China greater access to advanced chips in exchange for US access to critical minerals. Crucially, we anticipate that substantial Chinese investment into the US economy will be a major component of the final agreement.

First Brands: The auto parts giant is facing a formal investigation by the Department of Justice following its bankruptcy filing amid concerns over accounting irregularities. The crisis centers on approximately $2.3 billion in undisclosed off-balance-sheet financing, a debt structure that concealed the true scale of the company's liabilities. The failure has amplified concerns regarding the credit quality of borrowers across the private credit space, potentially casting a wider net of scrutiny on the loan portfolios of major consumer finance firms, such as Affirm.



Finally, More Data! The US government is recalling furloughed employees to ensure the release of the Consumer Price Index (CPI) report. Although the report was originally scheduled for October 15, it is now expected by the end of the month. This data is critical as it determines the cost-of-living adjustment (COLA) for Social Security. It is also vital for Federal Reserve policy; a strong inflation reading could lead the Fed to keep interest rates unchanged at its October 29 meeting.

Japan Coalition Collapse: Coalition talks between Japan's Liberal Democratic Party (LDP) and its junior partner, Komeito, collapsed on Friday, complicating efforts to form a new government. This breakdown poses a significant challenge for new LDP leader Sanae Takaichi, who must now secure a partner to become prime minister. The difficulty in forming a stable government raises fresh concerns about political instability in a country that has had four prime ministers since Shinzo Abe stepped down in 2020.

EU Capital Markets: Germany has signaled its willingness to grant European financial regulators more authority, a significant move indicating the EU is advancing toward a capital markets union (CMU). This policy shift is expected to enhance the competitiveness of European markets against global rivals like the US and China. The CMU concept, championed by former ECB chief Mario Draghi, aims to deepen and integrate the bloc's capital markets, potentially making European equities and investment opportunities more attractive to global investors.

Shutdown Prolonged: The political standoff over federal funding has dragged the US government into its second week of shutdown, with no resolution in sight. The core legislative fight centers on the demand by Senate Democrats to permanently extend the enhanced Affordable Care Act (ACA) tax credits as part of any stopgap funding bill. Republicans have so far refused to negotiate policy matters while the government is closed. So far, shutdown troubles have not impacted equity markets.

US Economic Releases

Due to the federal government shutdown, no economic reports have been released so far today. The table below lists the economic releases and/or 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	54.0	55.1	***
10:00	U. of Michigan Current Conditions	m/m	Oct P	60.0	60.4	**
10:00	U. of Michigan Future Expectations	m/m	Oct P	51.4	51.7	**
10:00	U. of Michigan 1-Year Inflation Expectation	m/m	Oct P	4.7%	4.7%	*
10:00	U. of Michigan 5-10 Year Inflation Expectation	m/m	Oct P	3.7%	3.7%	*
Federal Reserve						
EST	Speaker or Event	District or Position				
9:45	Austan Goolsbee Gives Opening Remarks	President of Federal Reserve Banks of Chicago				
13:00	Alberto Musalem Speaking at Springfield Area Chamber of Com.	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 change 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	PPI	y/y	Sep	2.7%	2.7%	2.5%	***	Equity and bond neutral
New Zealand	BusinessNZ Manufacturing PMI	m/m	Sep	49.9	49.9		***	Equity and bond neutral
South Korea	Foreign Reserves	m/m	May	$422.02b	$416.29b		**	Equity and bond neutral
EUROPE								
Italy	Industrial Production WDA	y/y	Aug	-2.7%	0.9%	0.6%	***	Equity bearish, bond bullish
Russia	Money Supply, Narrow Definition	w/w	3-Oct	18.94t	18.88t		*	Equity and bond neutral
AMERICAS								
Canada	Net Change in Employment	m/m	Sep	60.4k	-65.5k	5.0k	***	Equity and bond neutral
	Unemployment Rate	m/m	Sep	7.1%	7.1%	7.2%	***	Equity and bond neutral
Mexico	Industrial Production	y/y	Aug	-3.6%	-2.7%	-2.0%	***	Equity bearish, bond bullish
	Manufacturing Production	y/y	Aug	-3.1%	-1.9%	-0.8%	*	Equity bearish, bond bullish

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)	385	386	-1	Down
U.S. Sibor/OIS spread (bps)	391	391	0	Down
U.S. Libor/OIS spread (bps)	384	384	0	Down
10-yr T-note (%)	4.10	4.14	-0.04	Down
Euribor/OIS spread (bps)	203	202	1	Up
Currencies	**Direction**			
Dollar	Down			Up
Euro	Flat			Down
Yen	Down			Down
Pound	Down			Down
Franc	Down			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	$64.35	$65.22	-1.33%	
WTI	$60.65	$61.51	-1.40%	
Natural Gas	$3.19	$3.27	-2.45%	
Crack Spread	$23.32	$23.06	1.13%	
12-mo strip crack	$24.09	$24.01	0.32%	
Ethanol rack	$2.01	$2.03	-0.89%	
Metals				
Gold	$3,991.33	$3,976.86	0.36%	
Silver	$50.20	$49.29	1.85%	
Copper contract	$514.15	$512.30	0.36%	
Grains				
Corn contract	$416.75	$418.25	-0.36%	
Wheat contract	$502.75	$506.50	-0.74%	
Soybeans contract	$1,012.25	$1,022.25	-0.98%	
Shipping				
Baltic Dry Freight	1,923	1,963	-40	

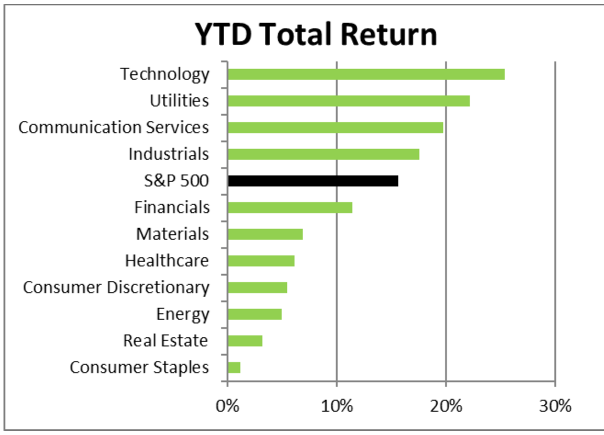
Weather

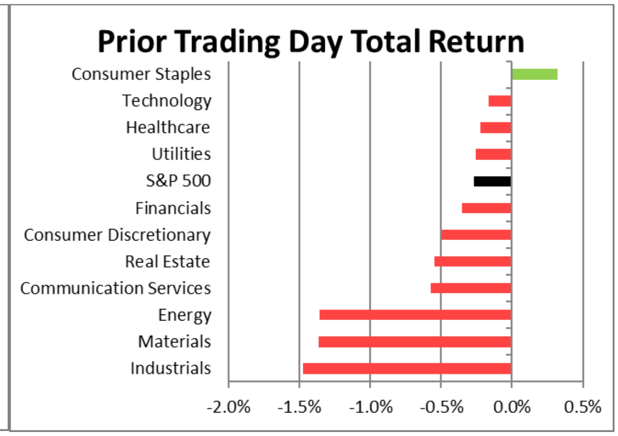
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures from the Rocky Mountains to the Southeast, with cooler-than-normal temperatures in the West Coast, mid-Atlantic, and New England states. The forecasts call for wetter-than-normal conditions in California, the Rocky Mountains, and the northern Great Plains, with dry conditions in the Deep South.

There are now two tropical disturbances in the Atlantic Ocean area. Hurricane Jerry is just east of Puerto Rico but heading north, so it is not expected to hit the US mainland. Hurricane Karen is now in the north-central Atlantic and heading northeasterly toward Iceland.

Data Section

US Equity Markets – (as of 10/9/2025 close)

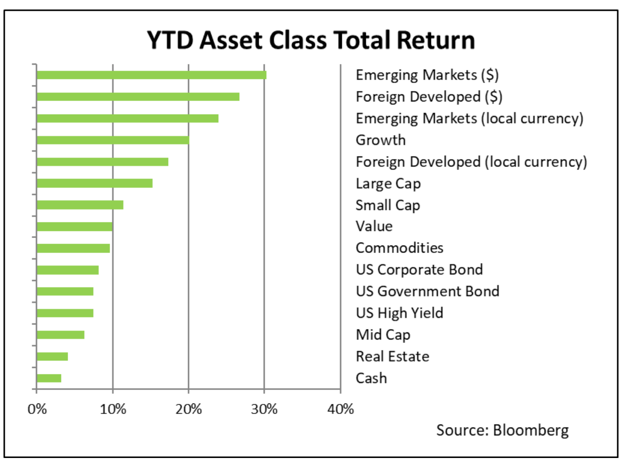




(Source: Bloomberg)

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 10/9/2025 close)

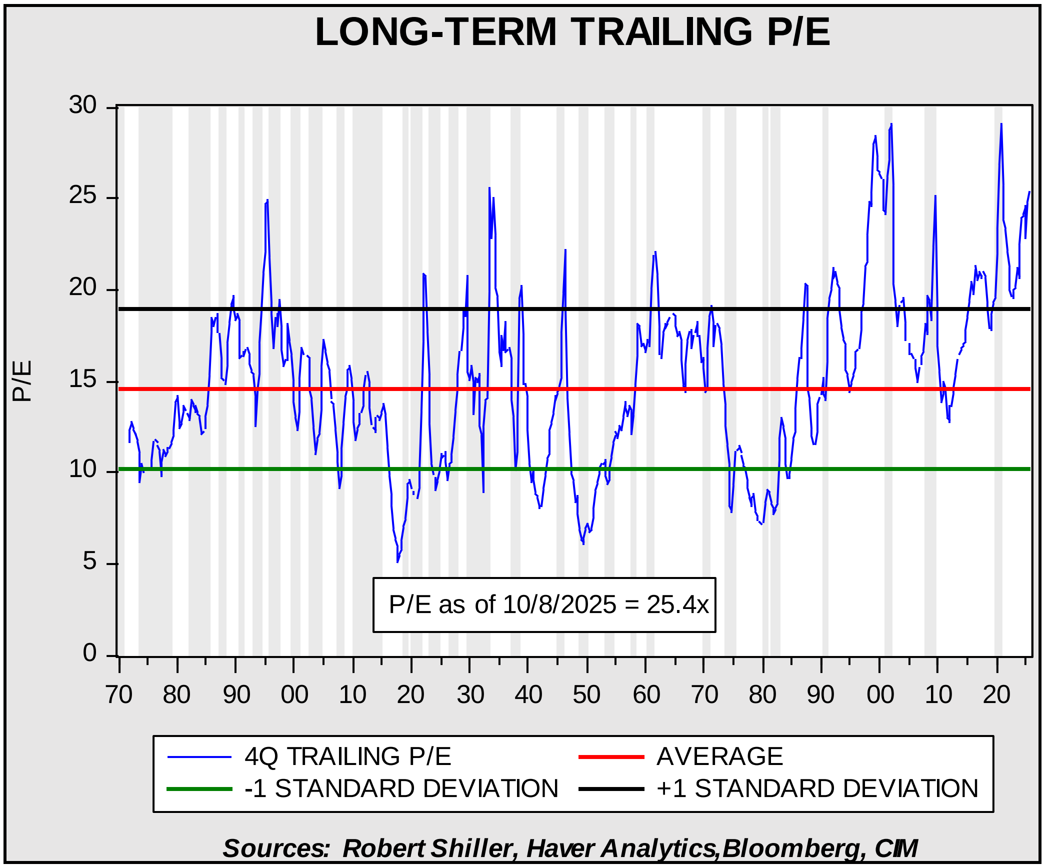


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 9, 2025



Based on our methodology,[1] the current P/E is 25.4x, which is up 0.5 from the previous report. This notable jump resulted from the transition in the price index calculation to incorporate the next quarter's average stock price.

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 (Q1, Q2, Q4) and one estimate (Q3). 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.