Daily Comment

Confluence INVESTMENT MANAGEMENT

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: October 13, 2025 — 9:30 AM ET] Global equity markets are mixed 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 1.8%. Chinese markets were lower, with the Shanghai Composite down 0.2% and the Shenzhen Composite down 0.7%. 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* today opens with the latest dramatic policy announcements on US-China relations, which drove stock prices sharply lower on Friday before a reversal gave stocks a boost this morning. We next review several other international and US developments with the potential to affect the financial markets today, including a big new investment in US defense firms, mineral producers, and artificial-intelligence firms by JPMorgan and a growing chance that the long ruling Liberal Democratic Party could lose power in Japan.

United States-China: There was a sudden rekindling of US-China tensions on Friday, when President Trump said he would impose an additional 100% tariff on US imports from China, restrict critical US exports, and possibly cancel his summit with General Secretary Xi this month. However, Trump and Vice President Vance both made more conciliatory statements over the weekend. The renewed trade tensions had weighed heavily on global stock and cryptocurrency assets on Friday, but the more conciliatory statements have boosted asset values so far today.

- The initial move by Trump on Friday was in response to Beijing's decision to further tighten its curbs on Chinese exports of critical minerals and the technology to mine and process them, which we described in our *Comment* last week.
- The renewed US export curbs apparently would have included critical software and aircraft parts. That's a reminder that US producers of those items could face reduced sales in China if the trade dispute worsens again.
- Months ago, the reciprocal US and Chinese export controls of critical products helped prompt a truce in the US-China trade war. All the same, the experience during the spring has taught each side where its economic leverage really lies. Despite China's huge reliance on exports to the US, perhaps the key takeaway is that Beijing has developed important leverage against Washington with its control of critical minerals and its ability to shut its domestic market to US goods ranging from soybeans to semiconductors.
- Coupled with China's growing military, technological, and diplomatic strength, its newly realized economic strength raises the likelihood that the US will have to back down and accept a long-term compromise such as the one we described in our *Comment* last week, i.e., US acquiescence in a Chines takeover of Taiwan and a cut in US import tariffs in exchange for more Chinese investment in the US. Indeed, the White House's reversal at the weekend helps confirm that this is a possibility.
- In the short-to-medium term, such a deal would likely be positive for US and Chinese stocks, as it would remove an important geopolitical risk. By allowing China to increase its global influence, however, such a deal would likely be negative for US economic and financial prospects in the long run.

US Defense Industry: JPMorgan Chase today said it will directly invest $10 billion of its own capital over the next 10 years in a range of companies deemed critical to US national security and economic resiliency. The targeted firms are expected to include defense contractors, mineral producers, and artificial-intelligence firms. According to the bank, its investments will facilitate a total of $1.5 trillion in additional capital for the firms.

- We think the program also underscores our longstanding belief that rising Great Power competition will spur stronger defense spending and programs for economic resiliency across the globe, although we continue to believe that the threat from Russia will make the trend more pronounced in Europe.
- JPMorgan is probably also responding to the US administration's penchant for taking direct stakes in critical companies, which has often sharply boosted their share prices.

US Critical Minerals Industry: The Pentagon's Defense Logistics Agency has said it's looking to buy up to $1 billion of critical minerals to add to the US's national security stockpile as it seeks to reduce China's ability to crimp US defense production by withholding supplies. Some of the targeted minerals have not previously been stockpiled. The program could give a boost to many mining and mineral processing firms.

US Economy: In its latest regular survey of economists, the *Wall Street Journal* found that the respondents have ratcheted up their forecasts of near-term US economic growth, with an average expectation that fourth-quarter gross domestic product will be up 1.7% from a year earlier, compared with a forecast of just 1.0% in July. However, they maintained their forecast of 1.9% growth for 2026. The increased growth forecasts generally reflect looser monetary and fiscal policy combined with reduced policy uncertainty.

- Despite expecting less Federal Reserve independence and improved growth, the economists have lowered their forecasts for consumer price inflation.
- In part, that reflects their expectation for a much softer labor market and a modest rise in unemployment.

Netherlands-China: In a sign of continued Europe-China tensions, the Dutch government said it has taken control of Netherlands-based semiconductor company Nexperia from its Chinese owner to keep Europe from losing "technological knowledge and capabilities" necessary for its economic security. According to Dutch officials, the move was taken after the government picked up "signals of serious governance shortcomings and actions within Nexperia."

- Nexperia's Chinese owner, Wingtech Technology, suggested the Dutch move resulted from the US's recent blacklisting of several Chinese firms, including Wingtech, along with their subsidiaries. Nexperia evidently could have been subject to US sanctions, raising the risk that Wingtech would bring its operations back to China.
- In any case, the incident is the latest evidence of how countries are working feverishly to secure their critical supply chains and shore up their domestic industrial and technological capabilities. These moves will create both risks and opportunities for investors.

Japan: The centrist Komeito party is talking with several smaller opposition parties about backing Yuichiro Tamaki, leader of the Democratic People's Party, in the upcoming Diet vote for a new prime minister. Komeito quit its long role as junior partner to the ruling Liberal Democratic Party only on Friday, so the sudden coalescing of opposition parties against the LDP is a shock to Japan's political system. It also raises doubts as to whether the LDP's new chief, the conservative, pro-market Sanae Takaichi, will really become the new prime minister as expected.

- Optimism that Takaichi would again implement the stimulative "Abenomics" policies of former Prime Minister Abe had given a big boost to Japanese stock prices in recent weeks. Now that Komeito has pulled out of the ruling coalition and is talking with other parties about supporting a rival candidate, investors are much less certain about Takaichi's ascension.
- As a result, Japanese stock values have pulled back over the last few days. If Takaichi's future becomes even more uncertain, Japanese stocks could soften further.

France: Late Friday, President Macron again nominated Sébastien Lecornu to be prime minister, just days after Lecornu resigned from his first stint in the position after only a month. Macron's decision has been widely criticized as a sign that the president is running out of options for his government. Popular opinion also increasingly criticizes Macron for refusing to respect the people's rejection of his plan for fiscal tightening to cut France's rising debt. The political chaos in France is likely to continue weighing on French and European asset values.

Pakistan-Afghanistan: The Pakistani and Afghan armed forces have engaged in a series of border skirmishes in recent days, culminating in dozens of deaths on each side over the weekend. The fighting has sparked concerns that the violence could lead to a broader conflict between the two countries, whose governments have become increasingly hostile to each other in recent months over Islamabad's accusation that Afghanistan is harboring anti-Pakistani militants on its side of the border.

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		
	No economic releases for the rest of today	
Federal Reserve		
EST	**Speaker or Event**	**District or Position**
12:55	Anna Paulson Speaks at NABE	President of the Federal Reserve Bank of Philadelphia

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								
China	Exports	y/y	Sep	8.3%	4.4%	6.6%	**	Equity bullish, bond bearish
	Imports	y/y	Sep	7.4%	1.3%	1.8%	**	Equity bullish, bond bearish
	Trade Balance	m/m	Sep	$90.45b	$102.33b	$98.05b	***	Equity and bond neutral
India	CPI	y/y	Sep	1.5%	2.1%	1.5%	***	Equity and bond neutral
EUROPE								
Germany	Wholesale Price Index	y/y	Sep	1.2%	0.7%		*	Equity and bond neutral
	Current Account Balance	m/m	Aug		14.8b		**	Equity and bond neutral
Switzerland	Domestic Sight Deposits CHF	w/w	10-Oct	451.7b	445.0b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	10-Oct	474.2b	477.0b		*	Equity and bond neutral
Russia	CPI	y/y	Sep	7.98%	8.14%	8.00%	***	Equity and bond neutral
	Core CPI	y/y	Sep	7.65%	8.04%		**	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
	Participation Rate	m/m	Sep	65.2%	65.1%		*	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)	385	386	-1	Down
U.S. Sibor/OIS spread (bps)	389	391	-2	Down
U.S. Libor/OIS spread (bps)	382	384	-2	Down
10-yr T-note (%)	4.03	4.03	0.00	Down
Euribor/OIS spread (bps)	201	203	-2	Up
Currencies	**Direction**			
Dollar	Up			Up
Euro	Down			Down
Yen	Up			Down
Pound	Down			Down
Franc	Up			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	$63.67	$62.73	1.50%	
WTI	$59.90	$58.90	1.70%	
Natural Gas	$3.07	$3.11	-1.32%	
Crack Spread	$23.09	$23.09	-0.01%	
12-mo strip crack	$23.99	$23.84	0.63%	
Ethanol rack	$2.01	$2.01	0.03%	
Metals				
Gold	$4,077.01	$4,017.79	1.47%	
Silver	$51.48	$50.15	2.65%	
Copper contract	$501.90	$489.40	2.55%	
Grains				
Corn contract	$413.00	$413.00	0.00%	
Wheat contract	$495.25	$498.50	-0.65%	
Soybeans contract	$1,007.50	$1,006.75	0.07%	
Shipping				
Baltic Dry Freight	1,936	1,923	13	

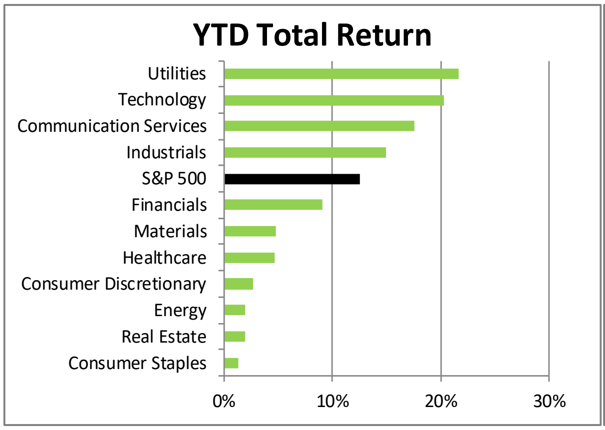
Weather

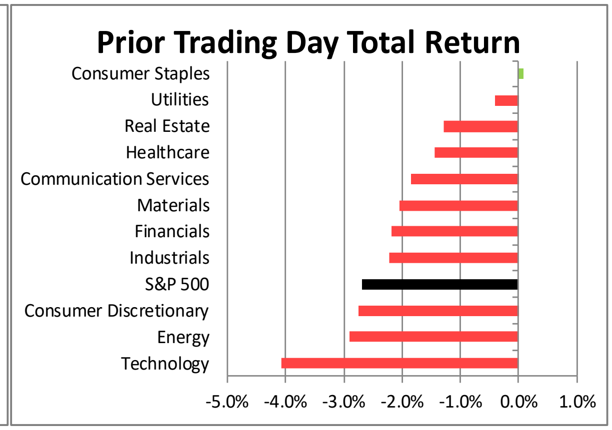
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures east of the Rocky Mountains, with cooler-than-normal temperatures for the rest of the country. The forecasts call for wetter-than-normal conditions in most states, with dry conditions expected in the Southwest.

There is one tropical disturbance, Tropical Storm Lorenzo, deep in the Atlantic Ocean area. It is not expected to make landfall within the next seven days.

Data Section

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

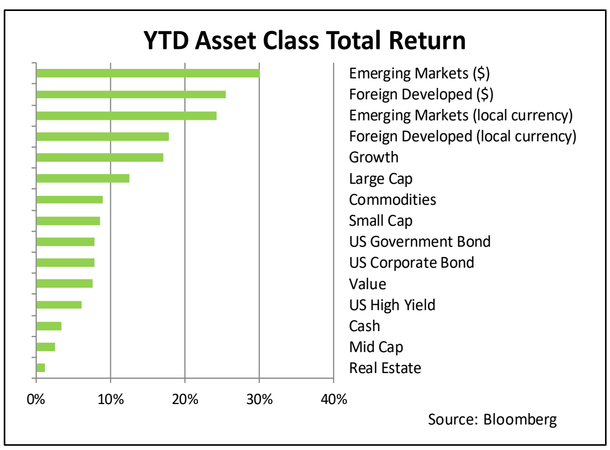




(Source: Bloomberg)

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 10/10/2025 close)

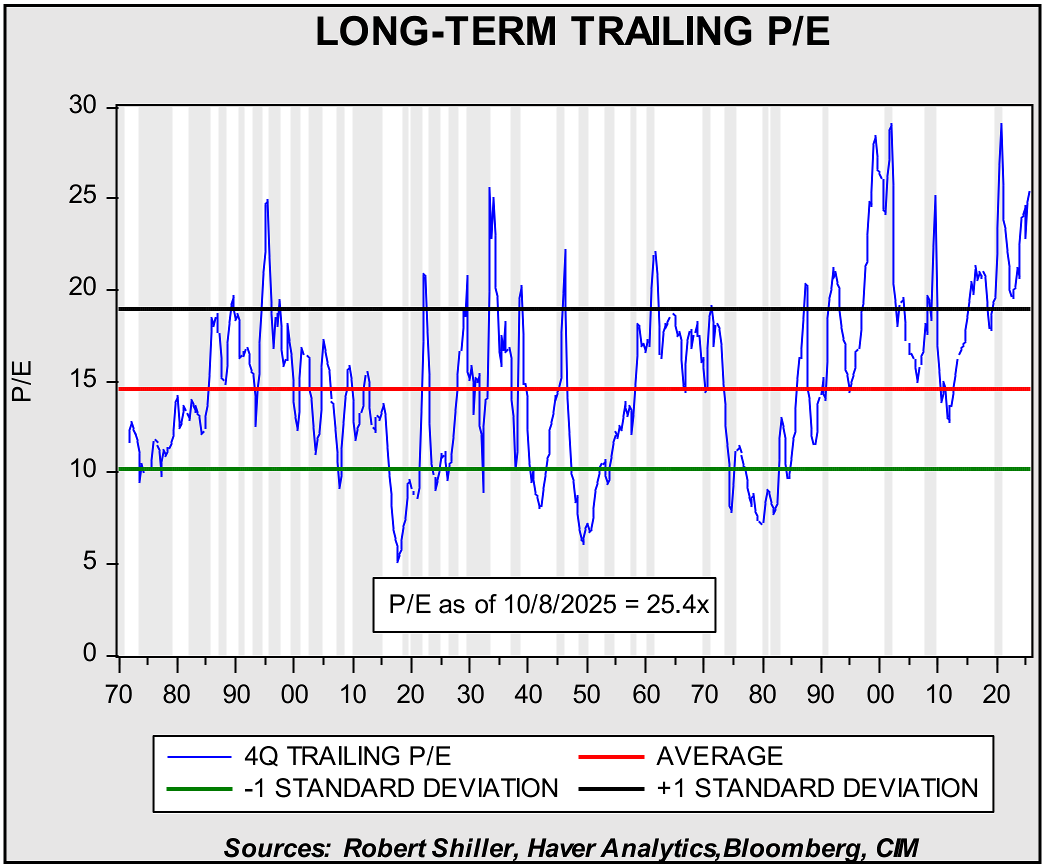


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.