



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: October 14, 2026 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 0.5% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.2%. Chinese markets were lower, with the Shanghai Composite down 0.9% and the Shenzhen Composite down 1.8%. 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 AI Buildout" (10/12/26) + podcast	"What "Real" Interest Rates Are Telling Us" (10/5/26) + podcast	Q3 2026 Report Q3 2026 Rebalance Presentation	Mailbag Podcast VE Insights: A Moving Yardstick VE Insights: Quality and Value

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 an update on the escalating conflict in the Middle East, particularly as Saudi Arabia becomes more deeply involved. Next, we discuss how Fed officials continue to keep forward guidance alive even as the Fed chair tries to do away with it. We then briefly cover Fed Governor Lisa Cook's decision not to attend a hearing, as well as the global pressure on Putin to join an energy truce. As always, we conclude with a roundup of key domestic and international economic data.

Broadening Conflict: The war in Iran continues to show signs of spreading across the Middle East. This week, [the Houthis stepped up their attacks on Saudi Arabia](#), while Iran intensified its attacks on ships transiting the surrounding waterways. The escalation marks a sharp rise in regional tensions that has continued to push energy prices higher worldwide. However, while the conflict has added to price pressures, it is important to remember that not all regions will necessarily be affected equally.

- Saudi Arabia is being drawn deeper into the conflict as Houthi attacks target major cities, including Riyadh, hitting both civilian areas and critical energy infrastructure. To counter these threats, the kingdom has relied on a coalition of member states to help repel incoming strikes. This escalation comes as Saudi Arabia actively seeks alternative export routes to ship oil and relieve global supply strains caused by the conflict with Iran.
- Simultaneously, [Iran has escalated its maritime operations](#). To sustain pressure on the Strait of Hormuz despite having its primary radar infrastructure destroyed by US strikes, Tehran adapted its strategy by relying on unarmed spotters to maintain surveillance and target identification for the Islamic Revolutionary Guard Corps. This tactical pivot has driven the sharpest increase in commercial tanker attacks since the war began in February.

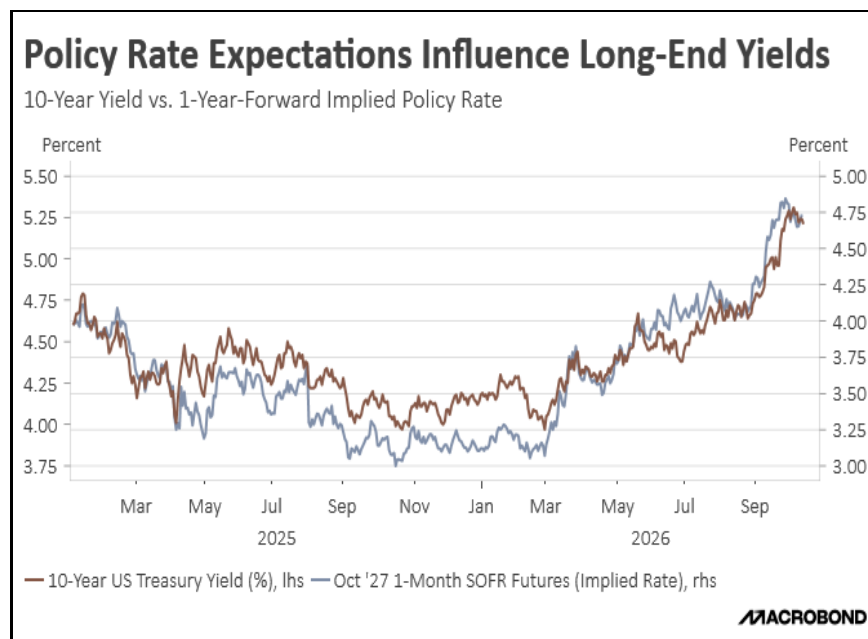


- Iran and its partners are escalating attacks, adding to upward pressure on oil prices and weighing on US voter sentiment. However, the US oil market has been relatively sheltered from the disruption. WTI is trading at a substantial discount to its competitors, reflecting domestic supplies' lower direct exposure to shipping risks in the Middle East. Meanwhile, US exporters still face soaring freight costs, making their crude more expensive to deliver overseas and helping sustain that discount.
- The recent escalation in the Middle East may reflect Iran's desire to pressure the White House ahead of the midterm elections. Tensions could ease after the vote, when Tehran has a clearer sense of its negotiating leverage. Such an outcome would likely support US

equities, but foreign markets, particularly those more exposed to higher energy costs, could offer greater upside if oil prices retreat.

Forward Guidance? While Fed Chair Kevin Warsh has been reluctant to offer insights into the central bank's next moves, other FOMC members have been more vocal. On Tuesday, [New York Fed President John Williams stated that he does not see a need for a rate hike in 2027](#). His remarks suggest that the rate-hiking cycle may be significantly shorter than markets currently price in. If so, this could provide much-needed relief for bond markets, which are presently under pressure on multiple fronts.

- Williams explained that while he has not ruled out another rate hike this year, he sees a path for inflation to decline next year. He noted that inflation could ease significantly toward the Fed's 2% target as the effects of tariffs and energy shocks begin to roll off. This cooling, along with easing stress in other areas, should help offset price increases driven by the ongoing AI buildout.
- Williams' commentary on the rate path follows similar remarks from other Fed officials. Cleveland Fed President Elizabeth Hammack, [a voting member this year, advocated for returning interest rates to restrictive territory](#) to contain inflation. Meanwhile, Richmond Fed President Tom Barkin, an alternate voter this year who becomes a full voting member next year, also maintained that monetary tightening could occur before the end of the year.



- Expectations surrounding Federal Reserve policy remain a primary driver of rising long-duration bond yields. The Fed's more hawkish posture has significantly influenced long-term rates, helping push the 10-year Treasury yield to its highest level since 2002. Since the Fed's September FOMC meeting, at which officials raised rates for the first time since

2023 and the dot plot signaled at least one further hike this year, the 10-year yield has risen roughly 30 bps.

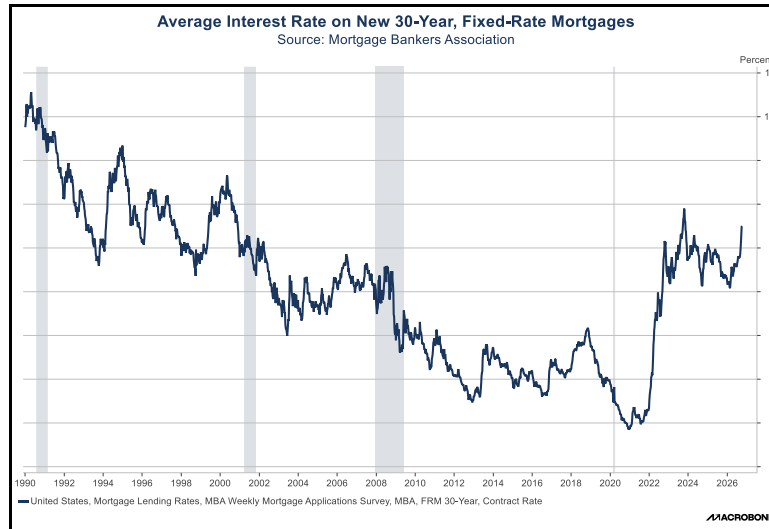
- Although Chair Warsh has been reluctant to offer forward guidance, markets have been able to read signals from the rest of the committee. This increased communication could reduce some of the volatility in the bond market. That said, recent remarks from Fed officials suggest they still favor at least one more hike, while the path in 2027 remains uncertain. Signs of dovishness could weigh on bond yields over the coming months.

Fed Pressure: Fed Governor [Lisa Cook will not attend a November 5 White House hearing](#) on allegations of mortgage fraud. Her attorney said that Cook will be in Europe that day on official business at financial and monetary policy meetings, and any hearing would need to take place no earlier than the conclusion of the December 8-9 FOMC meeting in order to allow time to prepare. The inquiry is the White House's latest attempt to remove Cook from the Federal Reserve Board; so far, she has not been charged with a crime.

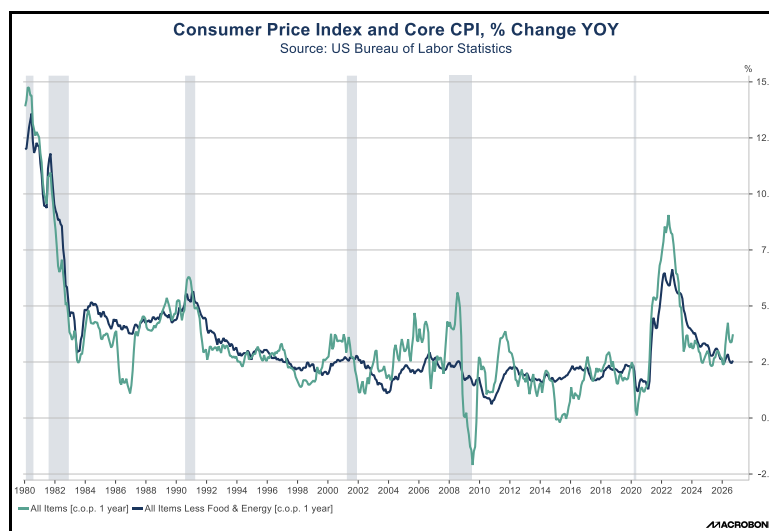
Ukraine Ceasefire: German Chancellor [Friedrich Merz and Ukrainian President Volodymyr Zelenskyy have requested that Russia agree to an energy truce](#). The move follows US President Donald Trump's announcement of a diesel deal with Russian President Vladimir Putin, which included an agreement that Russia and Ukraine would refrain from attacking each other's energy infrastructure. However, the deal quickly collapsed when neither side formally acknowledged the arrangement, leading Russia to strike a Ukrainian oil refinery and prompting Ukraine to retaliate in kind.

US Economic Releases

The Mortgage Bankers Association said **mortgage applications** in the week ended October 9 fell 2.7%, after declining 4.2% in the previous week. Applications for home purchase mortgages decreased 4.0%, after falling 2.1% in the prior week. Applications for refinancing mortgages decreased 0.4%, after dropping 7.5% the week before. The average interest rate on a 30-year, fixed-rate mortgage rose 1 basis point to 7.50%. The chart below shows how mortgage rates have changed over time.



Separately, the September **consumer price index (CPI)** rose by a seasonally adjusted 0.6%, matching expectations and accelerating from its 0.4% rise in August. Excluding the volatile food and energy components, the **“core” CPI** rose 0.3%, worse than the anticipated rise of 0.2% but matching the increase in August. The total CPI in September was up 3.7% from the same month one year earlier, while the core CPI was up 2.6%. The chart below shows the year-over-year change in the CPI and the core CPI since 1980.



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

Economic Releases						
EST	Indicator			Expected	Prior	Rating
14:00	Federal Budget Balance	m/m	Sep	-\$30.0b	\$197.9b	**
Federal Reserve						
EST	Speaker or Event	District or Position				
5:40	Michelle Bowman in Moderated Discussion	Member of the Board of Governors				
13:30	Thomas Barkin Speaks in Fireside Chat	President of the Federal Reserve Bank of Richmond				
14:00	U.S. Federal Reserve Releases Beige Book	Federal Reserve Board				
15:00	Austan Goolsbee Speaks in Interview on Yahoo Finance	President of the Federal Reserve Bank of Chicago				
22:55	Michelle Bowman Speaks at Bangkok Economic Festival	Member of the Board of Governors				
	Austan Goolsbee Speaks in Interview on NPR	President of the Federal Reserve Bank of Chicago				

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	Money Stock M2	y/y	Sep	2.0%	2.0%	3.0%	**	Equity bearish, bond bullish
	Money Stock M3	y/y	Sep	1.2%	1.2%	3.0%	**	Equity bearish, bond bullish
Australia	Westpac Leading Index	m/m	Sep	-0.06%	-0.02%		**	Equity and bond neutral
China	Trade Balance	m/m	Sep	\$133.53b	\$119.09b	\$117.78b	***	Equity and bond neutral
	Exports	y/y	Sep	36.3%	25.0%	25.7%	**	Equity bullish, bond bearish
	Imports	y/y	Sep	31.0%	28.2%	25.0%	**	Equity bullish, bond bearish
	PPI	y/y	Sep	5.0%	3.8%	4.4%	**	Equity bearish, bond bullish
	CPI	y/y	Sep	0.9%	0.8%	1.0%	**	Equity and bond neutral
	New Yuan Loans	m/m	Sep	11520.0b	10440.0b	11465.0b	**	Equity and bond neutral
	Aggregate Financing CNY YTD	m/m	Sep	27460.0b	23910.0b	27250.5b%	**	Equity and bond neutral
	Money Supply M2	y/y	Sep	7.2%	7.5%	7.4%	***	Equity and bond neutral
	Money Supply M1	y/y	Sep	3.2%	4.1%	4.0%	*	Equity bearish, bond bullish
	Money Supply M0	y/y	Sep	10.6%	11.2%		*	Equity and bond neutral
India	Wholesale Prices	m/m	Sep	11.39%	9.92%	10.60%	*	Equity bullish, bond bearish
EUROPE								
			Sep					
Germany	Current Account Balance	m/m	Aug	10.3b	21.8b		*	Equity and bond neutral
	Wholesale Price Index	y/y	Sep	8.7%	6.8%		*	Equity and bond neutral
AMERICAS								
Mexico	International Reserves Weekly	w/w	9-Oct	\$256344m	\$256040m		*	Equity and bond neutral
Brazil	IBGE Services Volume	y/y	Aug	0.6%	0.9%	1.3%	*	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)	407	407	0	Up
U.S. Sibor/OIS spread (bps)	406	406	0	Up
U.S. Libor/OIS spread (bps)	404	403	1	Up
10-yr T-note (%)	5.20	5.21	-0.01	Down
Euribor/OIS spread (bps)	263	263	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	\$106.31	\$105.69	0.59%	
WTI	\$95.95	\$94.14	1.92%	
Natural Gas	\$3.25	\$3.28	-1.04%	
Crack Spread	\$64.21	\$65.29	-1.66%	
12-mo strip crack	\$56.12	\$56.75	-1.12%	
Ethanol rack	\$2.26	\$2.27	-0.01%	
Metals				
Gold	\$4,141.09	\$4,160.74	-0.47%	
Silver	\$58.52	\$59.15	-1.08%	
Copper Contract	\$674.30	\$672.60	0.25%	
Grains				
Corn contract	\$483.00	\$482.75	0.05%	
Wheat contract	\$668.00	\$669.25	-0.19%	
Soybeans contract	\$1,291.75	\$1,283.75	0.62%	
Shipping				
Baltic Dry Freight	2,801	2,852	-51	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-1.50		
Gasoline (mb)		-1.08		
Distillates (mb)		-1.44		
Refinery run rates (%)		-0.47%		
Natural gas (bcf)		74		

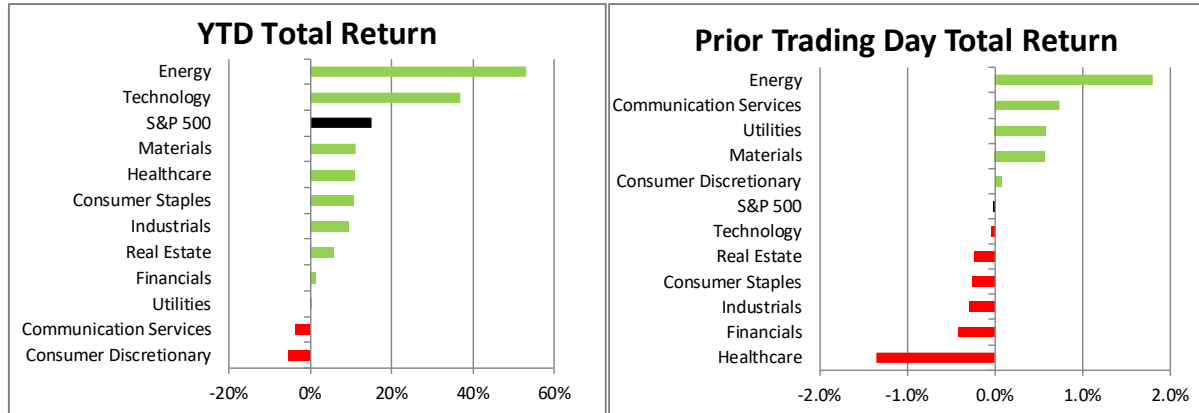
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures everywhere from the Rocky Mountains to the East Coast excluding New England, with cooler-than-normal temperatures in Nevada, Oregon, and northern California. The outlook calls for wetter-than-normal conditions from the West Coast to the Mississippi River and along the Gulf Coast, with dry conditions in the Northeast.

In the Atlantic Ocean area, there is now an atmospheric disturbance off the western coast of Africa, but it is assessed to have less than a 1% chance of developing into a cyclone over the next seven days.

Data Section

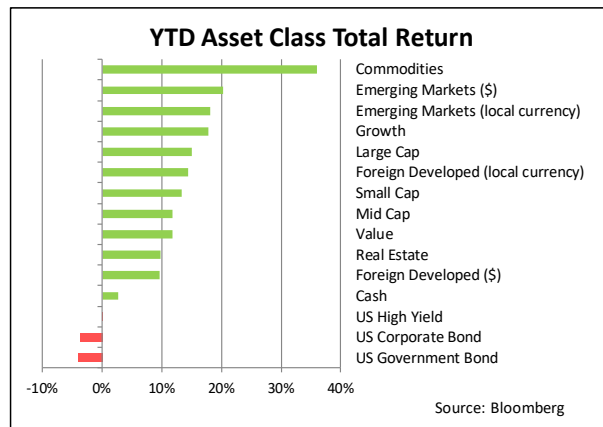
US Equity Markets – (as of 10/13/2026 close)



(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 10/13/2026 close)

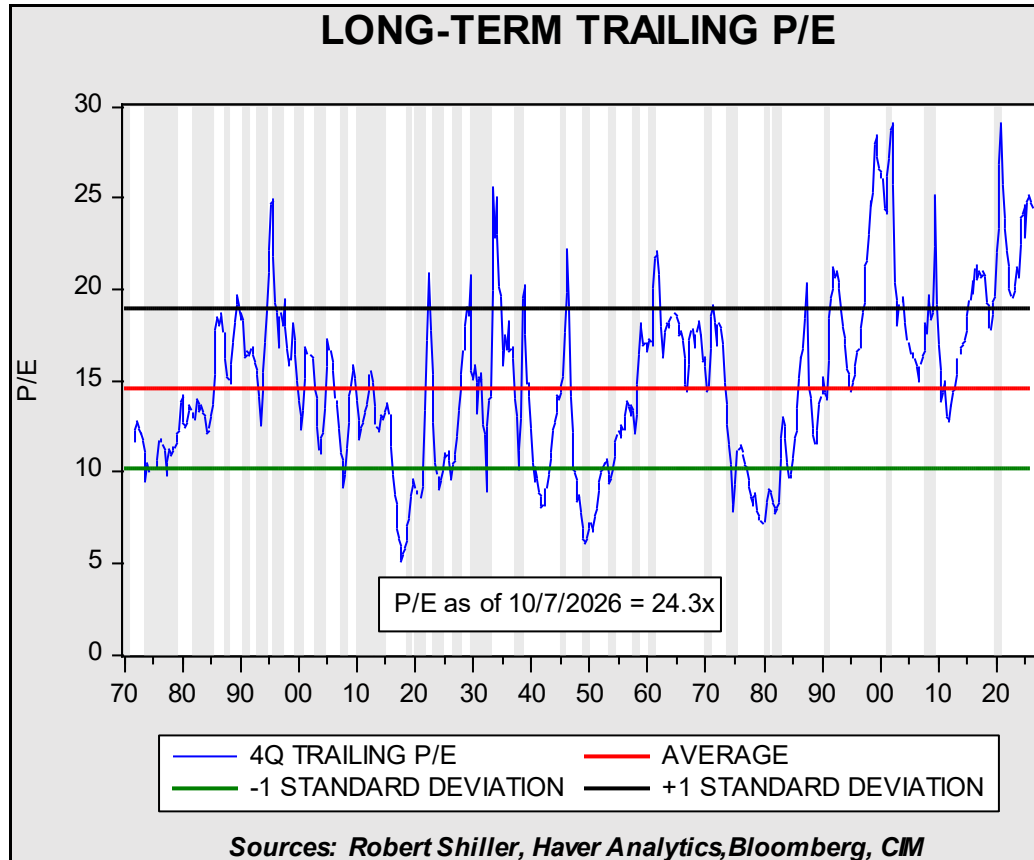


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.