

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: October 15, 2025 — 9:30 AM ET] Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 is up 1.3% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 2.3%. Chinese markets were higher, with the Shanghai Composite up 1.2% and the Shenzhen Composite up 1.6%. US equity index futures are signaling a higher open.

With 24 companies having reported so far, S&P 500 earnings for Q3 are running at \$68.00 per share compared to estimates of \$68.15, which is up 8.0% from Q3 2024. Of the companies that have reported thus far, 70.8% have exceeded expectations, while 29.2% have fallen short of expectations.

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
“Why the US Is Offering to Bail Out Argentina” (10/13/25) + 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 the latest escalation in US-China trade tensions. We then analyze shifting monetary policy expectations and the market's growing conviction for an imminent rate cut. Our coverage continues with an examination of sustained AI infrastructure investment, potential regulatory moves against AI chatbots, and emerging signals that Putin may be facing pressure to end the war in Ukraine. We also provide a summary of key economic indicators from the US and global markets.

US-China Trade Tensions: In another tit-for-tat move, the United States has threatened to ban all imports of Chinese cooking oil in response to China's pause of US soybean purchases — an act the [White House has described as "economically hostile."](#) This escalation underscores

heightened trade tensions as both sides position themselves ahead of the upcoming Asia-Pacific Economic Cooperation (APEC) summit, scheduled for October 31 to November 1. The White House has expressed uncertainty about its attendance, further complicating the prospect for dialogue.

- The market's attention on US-China trade negotiations is intensely focused on the technology sector, which faces a dual vulnerability: deep supply chain reliance on China for production and China's critical importance as a foreign sales market. This dependence on both the supply and demand sides exacerbates the risk during trade conflicts, despite companies increasingly taking steps to diversify their manufacturing and sourcing away from China.
- The escalating trade and technological conflict between the US and China, which has been underscored by disputes over rare earth minerals, export restrictions, and critical maritime shipping, is forcing a dramatic expansion in the scope of their bilateral discussions. Consequently, these high-stakes negotiations are now inevitably dominated by core geopolitical flashpoints, including the rising military tensions in the Taiwan Strait and Beijing's sustained strategic support for Russia amidst the ongoing Ukraine conflict.
- While tensions are escalating between the two sides, we remain optimistic that there will be a grand bargain of sorts. In our view, a larger deal will likely include some form of Chinese investment in US manufacturing and purchases of US agricultural products, in exchange for more favorable trade terms and more access to US technology.

Powell Opens the Door? Federal Reserve [Chair Jerome Powell has signaled a potential interest rate cut as early as the next FOMC meeting this month](#), citing a notable cooling in the labor market. In a speech to the National Association for Business Economics, he indicated that the ongoing decline in job openings could foreshadow a rise in unemployment. These remarks suggest that the Fed, despite navigating with limited recent data, may be shifting its priority toward upholding the maximum employment side of its dual mandate, even as concerns about price stability persist.

- With the government's official jobs report delayed or unavailable, private data validates Federal Reserve concerns over the weakening labor market. The latest ADP National Employment Report for [September showed that private employers cut 32,000 jobs](#), marking the sharpest decline in months. This deceleration is mirrored by surveys of consumer sentiment from the University of Michigan and the Conference Board, which show that households remain pessimistic about their job prospects.
- That said, inflation is also likely to be a key topic, as several FOMC members have signaled concern over recent increases. Over the last two weeks, both Dallas Fed President Lorie Logan and Fed Governor Michael Barr have emphasized that inflation remains a top priority. Consequently, the upcoming September CPI report, scheduled for release on October 24, will be critical in shaping their perspective.
- So far, momentum appears to be building for another rate cut at the October 28-29 FOMC meeting, driven by growing concern among Fed officials about the labor market. We anticipate a 25bps cut, after which the Fed will likely adopt a "wait-and-see" stance. While market pricing, per the CME FedWatch Tool, suggests a 93% probability of a

further 25bps cut in December, this remains contingent on clear, continued signs of a cooling labor market.

More AI News: A wave of mega-deals is propelling the tech industry, driven by soaring capital expenditures for massive data centers. On Thursday, [Nscale's agreement to build a Microsoft data center](#) using Nvidia's AI chips highlighted this trend. The ripple effect was immediately evident in the supply chain, [with ASML — a critical maker of chipmaking equipment — reporting a sharp jump in new orders](#). Ultimately, the market sees these deals as the core engine powering the tech sector's ride on the AI wave.

US to Leave Argentina? Argentine President Javier Milei visited the White House on Tuesday [to finalize a crucial \\$20 billion US currency swap line](#), a lifeline intended to stabilize the Argentine peso. However, President Trump explicitly conditioned this support, directly linking its continuation to the electoral success of Milei's coalition in the upcoming October 26 legislative elections. This direct intervention introduces a significant risk of market turmoil, as a poor showing for the ruling party could now trigger an immediate withdrawal of US financial backing.

AI Chatbot Restrictions: Missouri Senator Josh Hawley [has introduced a bill to ban the use of AI chatbots for minors](#). The legislation reflects growing political scrutiny of tech companies as AI becomes more omnipresent. The bill has gained traction amid concerns about the negative impact of chatbots on the mental health of teenagers who confide in them. While this specific restriction is unlikely to dampen the current market rally in AI, it signals initial political pushback against the largely unregulated technology.

Aluminum Import Limits: The [US Aluminum Association has publicly called for increased trade restrictions on imported scrap metal](#) to protect domestic markets. Key measures proposed include a complete ban on the import of used beverage containers from outside North America and stricter controls on “mill ready” scrap metal shipments. Additionally, the Association is advocating for enhanced tracking of the aluminum scrap flow and stronger enforcement mechanisms for existing trade regulations.

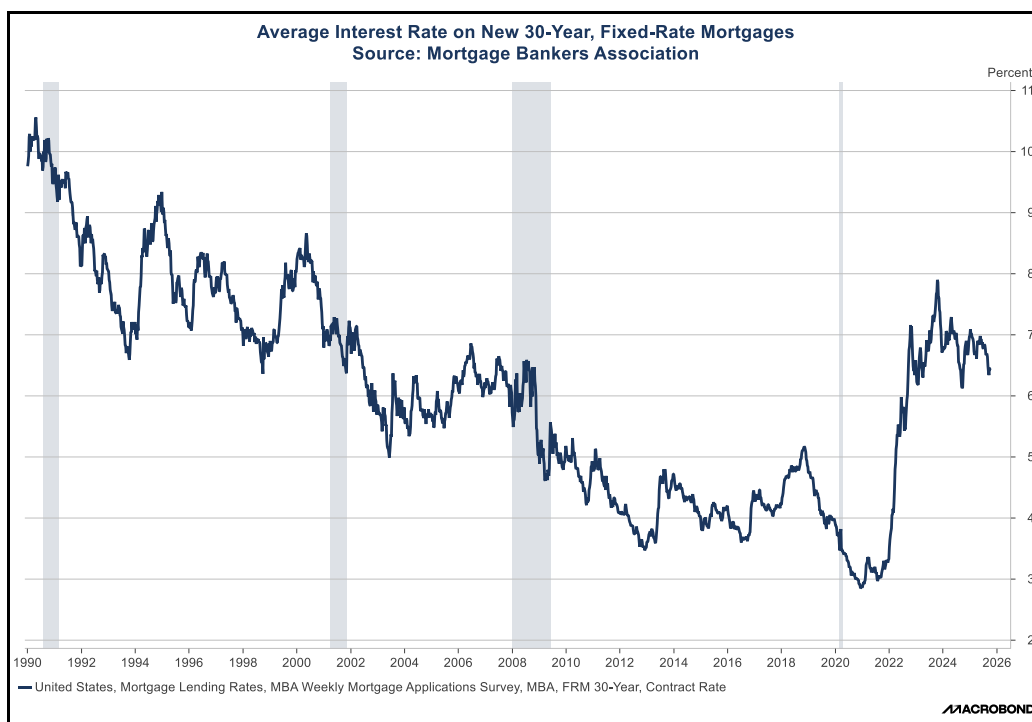
French Pension Reforms: French [Prime Minister Sébastien Lecornu has proposed suspending controversial pension reforms](#), including raising the retirement age from 62 to 64, until after the 2027 presidential election. This concession comes ahead of a no-confidence vote, as the reform has been a major obstacle to passing the national budget. While Lecornu's proposal has eased tensions, opposition parties are pushing for the complete abandonment of the reforms to secure the budget's approval.

Moscow Plot: Russian authorities have accused Mikhail Khodorkovsky, a former Russian oligarch and once the country's richest man, [of conspiring to overthrow the government](#). The Federal Security Service (FSB) alleges that Khodorkovsky and others are planning a coup to remove Vladimir Putin from power. This action appears to be part of a larger effort to intimidate domestic critics of the war in Ukraine and could signal that Putin's power may be under threat.

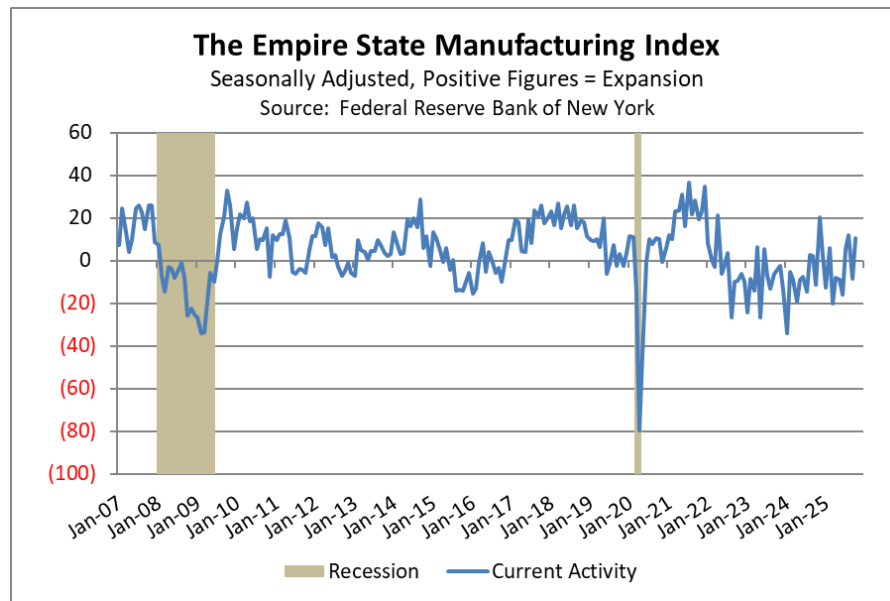
We suspect that internal political division in the Kremlin could pave the way for peace talks with the US and Ukraine.

US Economic Releases

The Mortgage Bankers Association said ***mortgage applications*** in the week ended October 11 fell 1.8%, following their 4.7% decline in the prior week. Applications for home purchase mortgages slumped 2.7%, after falling 1.2% in the previous week. Applications for refinancing mortgages edged down 1.0%, after plunging 7.7% in the week before. According to the report, the average interest rate on a 30-year, fixed-rate mortgage edged down 1 basis point to 6.42%. The chart below shows how mortgage rates have changed over time.



The New York FRB said its October ***Empire State Manufacturing Index*** rose to a seasonally adjusted 10.7, far better than the expected reading of -1.8 and the September reading of -8.7. This index is designed so that positive readings point to expanding factory activity in New York state. At its current level, the index suggests New York manufacturing is growing again after a short-lived decline in the previous month. The chart below shows how the index has fluctuated since just before the Great Financial Crisis.



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	
9:30	Stephen Miran Speaks at Invest in America Forum	Members of the Board of Governors	
12:30	Stephen Miran at Nomura Research Forum	Members of the Board of Governors	
13:00	Christopher Waller Speaks on Artificial Intelligence	Member of the Board of Governors	
14:00	U.S. Federal Reserve Releases Beige Book	Federal Reserve Board	
14:30	Jeffrey Schmid Holds Townhall Event	President of the Federal Reserve Bank of Kansas City	

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	Industrial Production	y/y	Aug	-1.6%	-1.3%		***	Equity and bond neutral
	Capacity Utilization	y/y	Aug	-2.3%	-1.1%		**	Equity and bond neutral
Australia	Westpac Leading Index	m/m	Sep	-0.30%	-0.80%		**	Equity and bond neutral
China	New Yuan Loans CNY	m/m	Sep	14750.0b	13460.0b	14919.6b	*	Equity and bond neutral
	Aggregate Financing CNY	m/m	Sep	30090.0b	26560.0b	29905.0b	*	Equity and bond neutral
	Money Supply M2	y/y	Sep	8.4%	8.8%	8.5%	***	Equity and bond neutral
	Money Supply M1	y/y	Sep	7.2%	6.0%	6.1%	**	Equity and bond neutral
	Money Supply M0	y/y	Sep	11.5%	11.7%		*	Equity and bond neutral
China	PPI	y/y	Sep	-2.3%	-2.9%	-2.3%	**	Equity and bond neutral
	CPI	y/y	Sep	-0.3%	-0.4%	-0.2%	**	Equity and bond neutral
India	Unemployment Rate	m/m	Sep	5.2%	5.1%		*	Equity and bond neutral
	Exports	y/y	Sep	6.7%	6.7%		**	Equity and bond neutral
	Imports	y/y	Sep	16.7%	-10.1%		**	Equity and bond neutral
	Trade Balance	m/m	Sep	-\$32150m	-\$26847m	-\$27500m	**	Equity and bond neutral
EUROPE								
Eurozone	Industrial Production WDA	y/y	Aug	1.1%	2.0%	0.0%	**	Equity bullish, bond bearish
France	CPI	y/y	Sep F	1.2%	1.2%	1.2%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Sep F	1.1%	1.1%	1.1%	**	Equity and bond neutral
	CPI Ex-Tobacco Index	q/q	Sep F	119.81%	121.00%	119.80%	*	Equity and bond neutral
AMERICAS								
Canada	Building Permits	m/m	Aug	-1.2%	-1.1%	-1.0	**	Equity and bond neutral
Mexico	International Reserves Weekly	w/w	10-Oct	\$248249m	\$247733m		*	Equity and bond neutral
Brazil	Retail Sales	y/y	Aug	-2.1%	-2.4%	-2.4%	***	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	Down
Currencies	Direction			
Dollar	Down			Up
Euro	Up			Up
Yen	Down			Down
Pound	Up			Down
Franc	Down			Up

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	\$62.31	\$62.39	-0.13%	
WTI	\$58.69	\$58.70	-0.02%	
Natural Gas	\$2.98	\$3.03	-1.59%	
Crack Spread	\$23.01	\$23.43	-1.78%	
12-mo strip crack	\$23.78	\$23.93	-0.63%	
Ethanol rack	\$1.98	\$1.99	-0.37%	
Metals				
Gold	\$4,199.82	\$4,142.94	1.37%	
Silver	\$52.75	\$51.43	2.56%	
Copper contract	\$504.80	\$502.30	0.50%	
Grains				
Corn contract	\$412.00	\$413.00	-0.24%	
Wheat contract	\$498.00	\$500.25	-0.45%	
Soybeans contract	\$1,004.50	\$1,006.50	-0.20%	
Shipping				
Baltic Dry Freight	2,022	2,144	-122	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		0.25		
Gasoline (mb)		-1.33		
Distillates (mb)		-1.25		
Refinery run rates (%)		-1.1%		
Natural gas (bcf)		78		

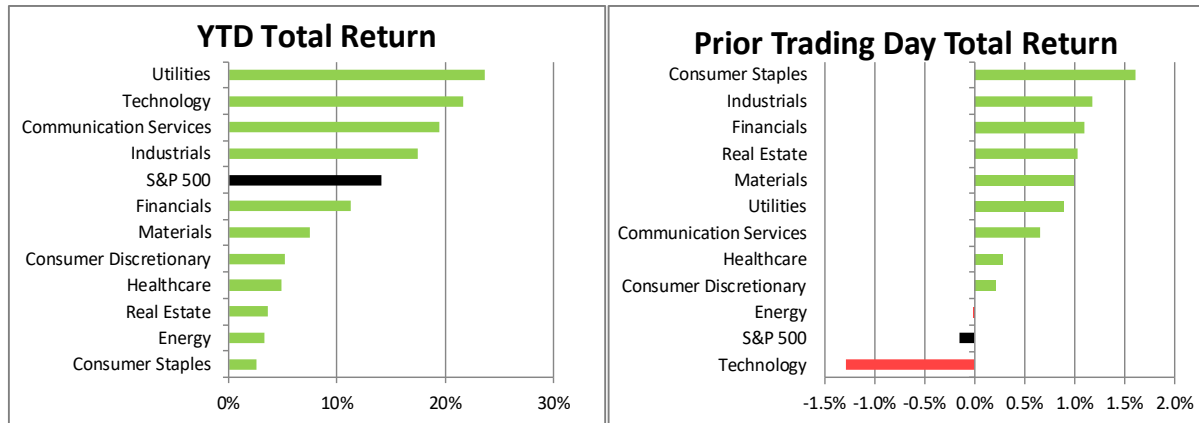
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures from the Great Plains eastward, with cooler-than-normal temperatures in the Far West. The forecasts call for wetter-than-normal conditions throughout the Pacific Northwest, the Gulf Coast states, and the East Coast, with dry conditions in the Desert Southwest.

There is now only one tropical disturbance in the Atlantic Ocean area. Tropical Storm Lorenzo is in the central Atlantic and heading northeasterly, so it is not expected to make landfall within the next seven days.

Data Section

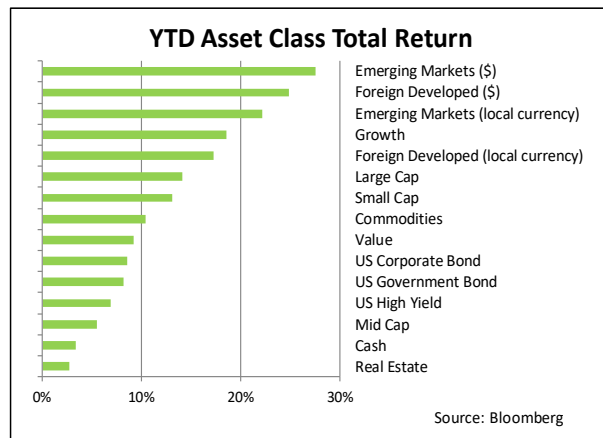
US Equity Markets – (as of 10/14/2025 close)



(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 10/14/2025 close)

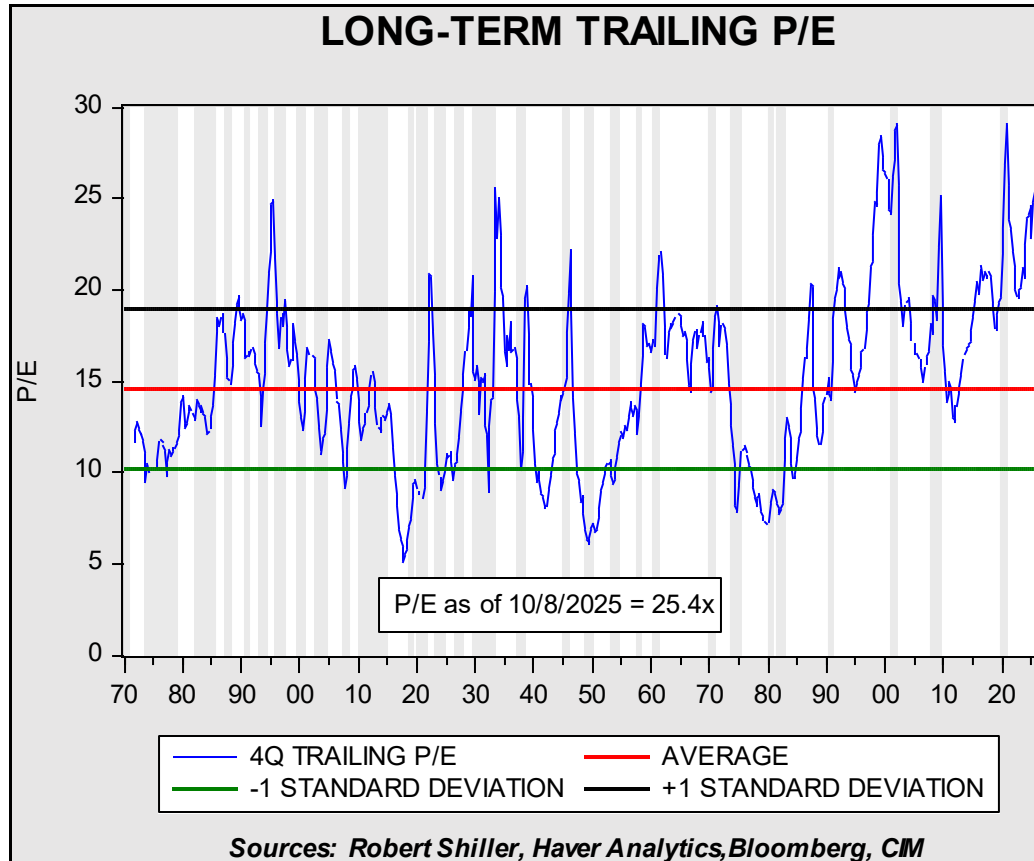


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.