

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: October 15, 2026 — 9:30 AM ET] Global equity markets are lower this morning. In Europe, the Euro Stoxx 50 is down 0.7% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 4.6%. Chinese markets were lower, with the Shanghai Composite down 1.6% and the Shenzhen Composite down 2.6%. US equity index futures are signaling a lower open.

With 32 companies having reported so far, S&P 500 earnings for Q3 are running at \$90.20 per share, compared to estimates of \$94.17, which is up 29.6% from Q3 2025. Of the companies that have reported thus far, 78.1% exceeded expectations while 15.6% fell short.

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

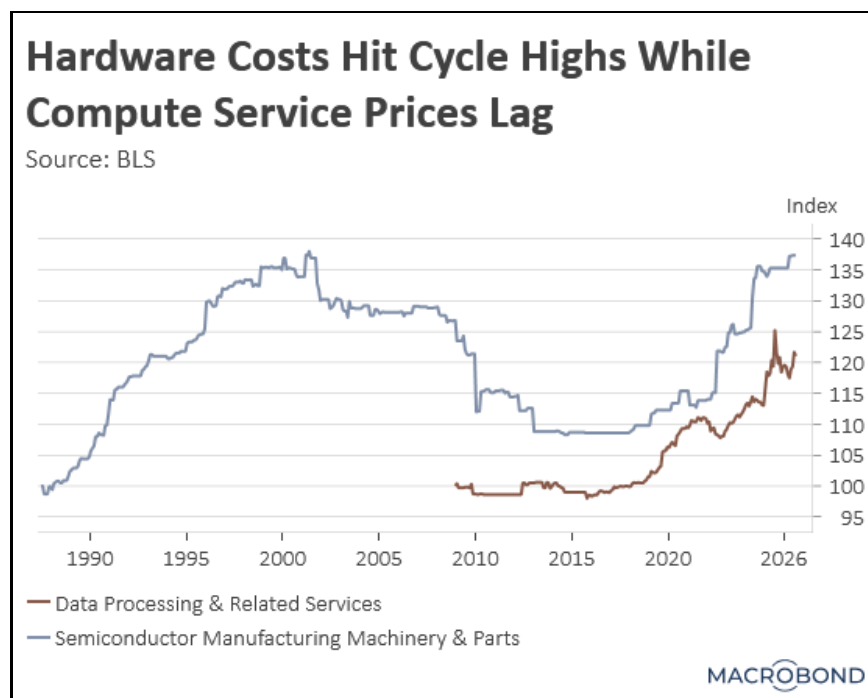
Have a question on the economy, markets, geopolitics, or other important topics? You can submit your queries to our monthly podcast, *Confluence Mailbag*! Submit your question to mailbag@confluenceim.com.

Our *Comment* begins with our thoughts on speculative AI debt. Next, we discuss growing signs that inflationary pressure is building in the economy. We then briefly cover the new ways that hyperscalers are getting communities to sign off on data centers, as well as the push by the White House to restart peace talks between Russia and Ukraine. As always, we conclude with a roundup of key domestic and international economic data.

AI Concerns: The market is beginning to show uneasiness regarding debt quality for companies tied to the AI infrastructure buildout. [CoreWeave has become the latest to face scrutiny](#), with its debt falling into distressed territory. These rising fears over AI-related debt have triggered a [rotation out of speculative bonds and into government debt](#) as investors seek safer alternatives.

Though this sentiment shift currently appears limited to a handful of companies, it could indicate a broader market trend ahead.

- [CoreWeave's weakness stems from concerns over its balance sheet](#) as investors begin to price in a potential AI slowdown. As a specialized cloud provider, CoreWeave generates revenue by equipping data centers with Nvidia GPUs (Nvidia is also an investor) and renting out compute power to AI labs. Although demand for its services has surged, the company has taken on substantial debt alongside rising operational costs, raising questions about the sustainability of its rapid expansion.
- While CoreWeave remains the focal point, credit risk is spreading across the AI space. In recent weeks, credit default swap (CDS) spreads have widened for Oracle and SpaceX as investors gauge potential friction in the AI expansion. Five-year default probabilities derived from current CDS pricing sit at nearly 50% for CoreWeave, [20% for Oracle, and 16.5% for SpaceX](#), far above the 3% historical average for speculative-grade debt.

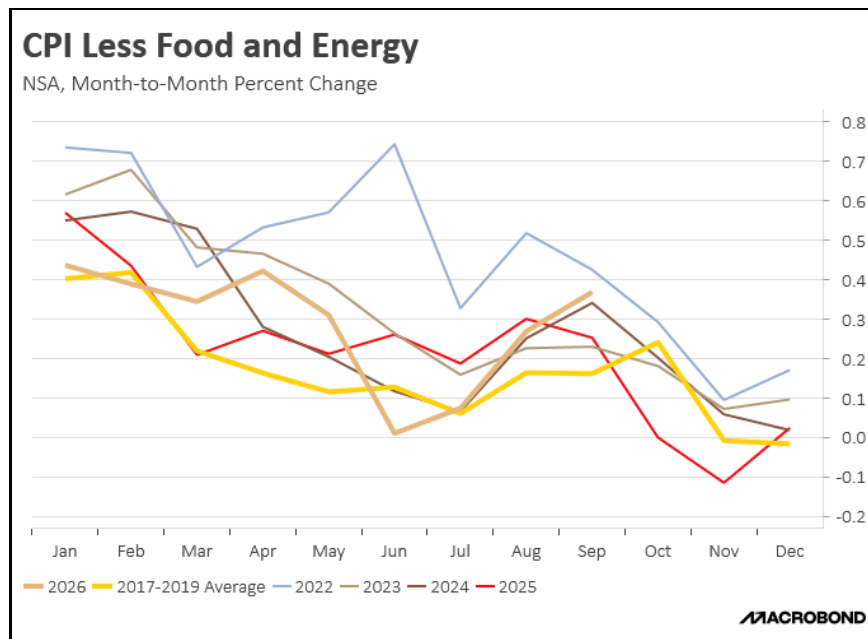


- The weakness in the AI trade comes as companies grapple with the rising costs of AI hardware, elevated borrowing rates, and declining compute prices. Following years of steady decline, semiconductor equipment costs have spiked to levels not seen since the dot com bubble. At the same time, higher government debt yields have pushed up corporate borrowing costs, making debt loads increasingly unsustainable, while cloud providers face growing pressure to cut prices to stay competitive.
- Beyond AI itself, credit markets are still our primary focus. If a moderation in AI investment results merely in a reduction of capital expenditure, the broader economy should remain resilient. However, if rising credit stress triggers a tighter lending environment across other sectors, the fallout could extend well beyond technology. So

far, the evidence points to the former. If that holds true, it could even benefit AI labs, as excess capacity would likely push down compute prices.

Inflation Worries: Signs of mounting price pressures have fueled speculation that the Federal Reserve could raise rates again this month. The [latest Beige Book reported a pickup in inflation across several districts](#), while September's CPI report showed prices rising faster than expected. Together, the data has raised concerns that the Fed may be falling behind the curve on inflation heading into its October 27-28 meeting. Fed officials, however, continue to send mixed signals about their next policy decision.

- Half of the Federal Reserve's 12 districts reported robust or intensifying price pressures in recent weeks. Some contacts across the districts cited higher oil and diesel prices, whereas others pointed to rising costs for other commodities, as well as tariffs and insurance. Firms also said higher input costs were squeezing margins, and some indicated a willingness to pass those costs on to consumers as they navigate heightened uncertainty.
- September's CPI reflected similar inflation pressures. Headline CPI accelerated to 0.6% month-over-month from 0.4% in August, while the core index rose 0.3% for a second straight month. Both readings came in slightly above market expectations, and both were well above their pre-pandemic norms. In fact, on a non-seasonally adjusted basis, core CPI posted its highest September reading in over four years.



- While inflation continues to be a problem, a Fed hike is far from certain. For one, even though growth has been robust, there are indications that it isn't being felt across the entire country. According to the Beige Book, seven of the 12 districts reported only slight or no growth in economic activity since the last report. Additionally, job gains, while better than last year, are still relatively sluggish, suggesting that firms may be feeling the effects of previous tightening.

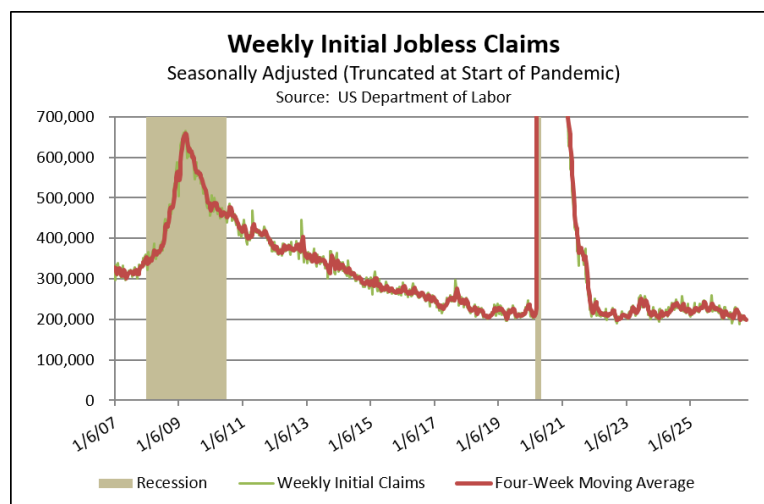
- As the Fed heads into the blackout period this weekend, it continues to be unclear which way policymakers will lean. While most Fed officials appear to back at least one more rate hike this year, whether it comes in October or December remains up in the air. Markets now price roughly even odds of a hike this month after the September CPI report sharply raised expectations. Further Fed tightening would likely weigh on bond prices.

Tech Pays Up: Data center developers are evaluating direct cash incentives for local residents to ease community opposition. In Kansas, [a real estate firm has partnered with major technology companies](#) to offer households \$1,000 annually over a 10-year period in exchange for supporting local development. The initiative comes as developers seek innovative strategies to overcome mounting public pushback against large-scale infrastructure projects.

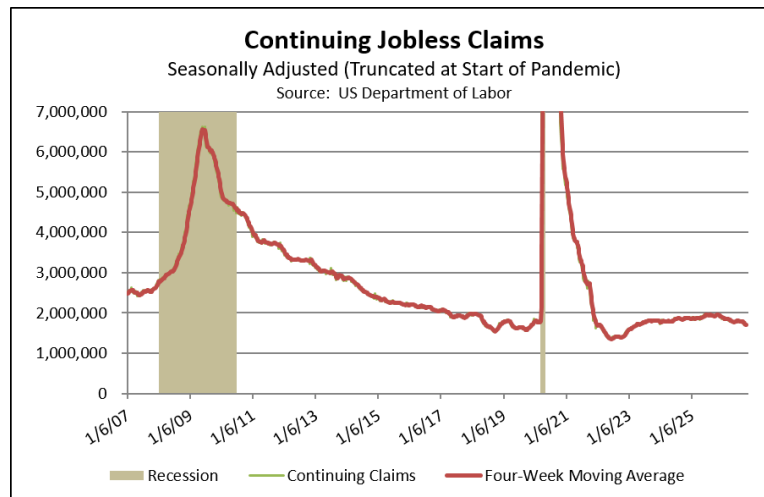
Russia-Ukraine: The [US is making renewed diplomatic efforts to bring Russia and Ukraine](#) to the negotiating table. Recently, the White House floated to European allies the idea of unfreezing Russian assets to help restart talks. However, the proposal was met with minimal support from the European Union, which remained skeptical of its effectiveness. The initiative has raised fresh concerns about the long-term US commitment to Ukraine, particularly as both Russia and Ukraine continue to target each other's energy infrastructure amid already elevated prices.

US Economic Releases

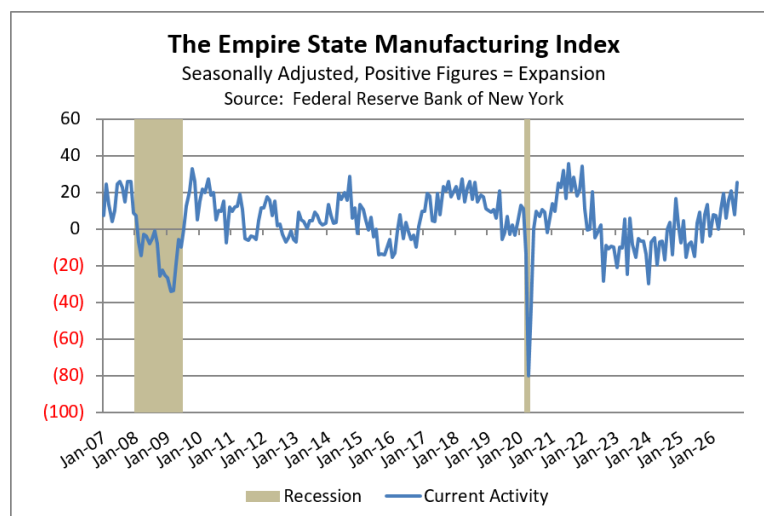
In the week ended October 10, *initial claims for unemployment benefits* edged up to a seasonally adjusted 199,000, slightly below the expected level of 200,000 but slightly above the prior week's revised level of 198,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, rose to 198,500. The chart below shows how initial jobless claims have fluctuated since just before the Great Financial Crisis. The chart is truncated through much of the pandemic period because of the extremely high level of claims at that time.



In the week ended October 3, the number of *continuing claims for unemployment benefits* (people continuing to draw benefits) edged down to a seasonally adjusted 1.710 million, slightly above the anticipated reading of 1.709 million but below the previous week's revised reading of 1.714 million. The four-week moving average of continuing claims fell to a very low 1,708,750. The chart below shows how continuing claims have fluctuated since the GFC. It is also truncated during the pandemic period because of the high level of claims at the time.

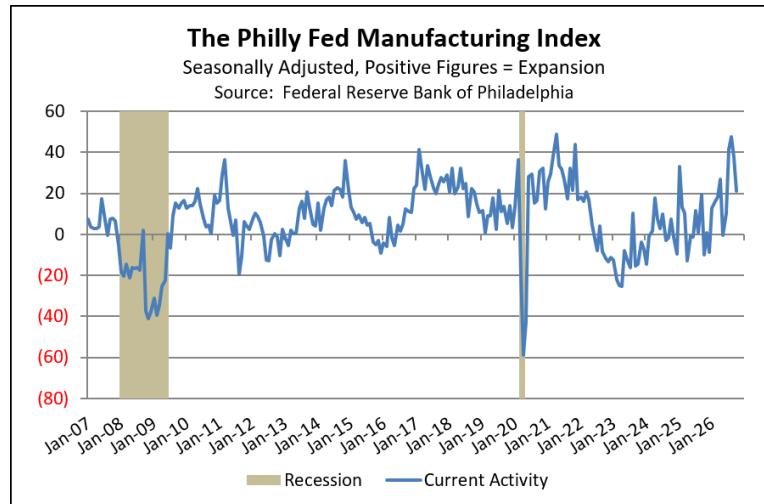


Separately, the New York FRB said its October *Empire State Manufacturing Index* rose to a seasonally adjusted 25.5, more than twice the expected level of 12.0 and well above the September level of 7.6. This index is designed so that positive readings point to expanding factory activity in New York state. At its current level, the index suggests that New York manufacturing is growing robustly again. The chart below shows how the index has fluctuated since just before the GFC.

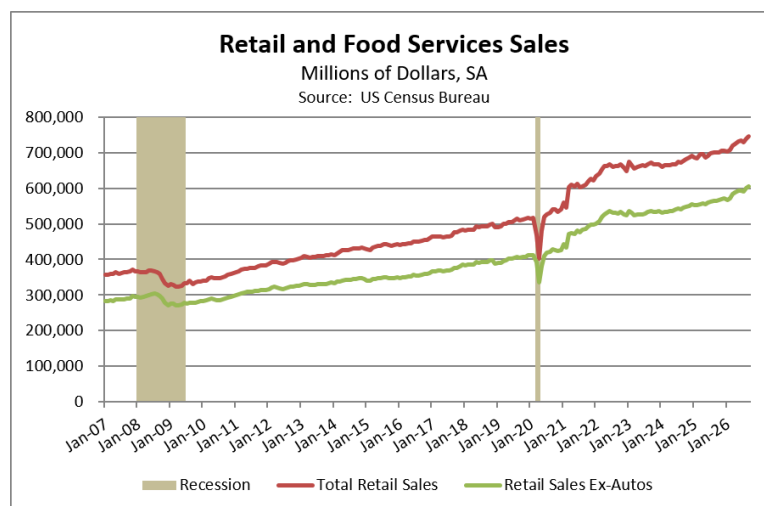


In contrast, the Philadelphia FRB said its October *Philly Fed Index* fell to a seasonally adjusted 20.9, well below both the anticipated reading of 28.0 and the September reading of 37.8. The

index, officially designated as the Philadelphia FRB Manufacturing Activity Index, is designed so that positive readings point to expanding factory activity in the mid-Atlantic region. At its current level, the index suggests mid-Atlantic manufacturing is growing well but not necessarily booming. The chart below shows how the index has fluctuated since just before the GFC.

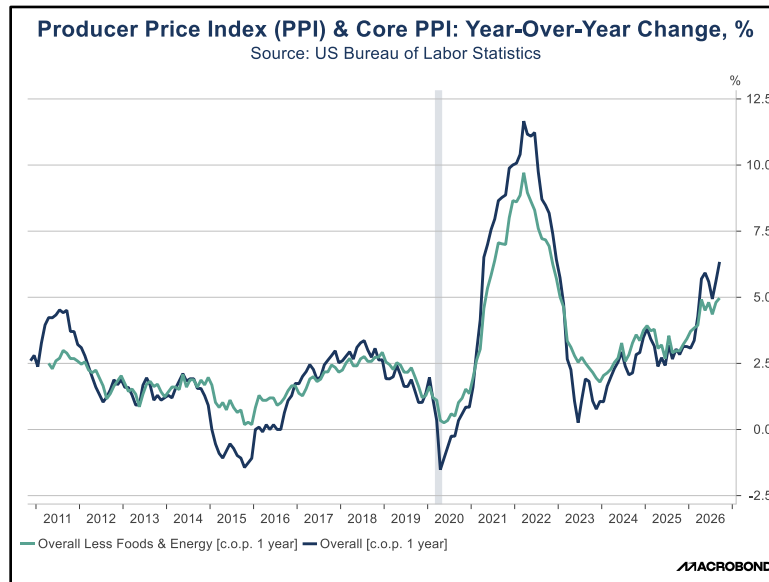


Separately, September **retail sales** jumped by a seasonally adjusted 0.8%, beating the expected rise of 0.3% but still decelerating from the revised August surge of 1.3%. Overall retail sales are often driven by the volatile auto and auto parts sector, which makes up almost one-fifth of the total, but that wasn't the case this time. September **retail sales excluding autos and auto parts** were up 0.9%, also beating their expected rise of 0.5% but decelerating from their revised August jump of 1.4%. Overall retail sales in September were up 6.8% from the same month one year earlier, while sales excluding autos and auto parts were up 7.7%. The chart below shows how retail sales have changed since just before the GFC.



Finally, the September **producer price index (PPI)** jumped by a seasonally adjusted 1.3%, more than twice the anticipated increase of 0.6% and much stronger than the revised August rise of

0.5%. Excluding the volatile food and energy components, the September “core” **PPI** rose a more muted 0.7%, but that was still much more than both its expected rise of 0.3% and its August increase of 0.2%. The overall PPI in September was up 6.3% from the same month one year earlier, while the core PPI was up 5.0%. The chart below shows the year-over-year change in the PPI and the core PPI over the last decade and a half.



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	Business Inventories	m/m	Aug	0.4%	0.8%	*
Federal Reserve						
EST	Speaker or Event	District or Position				
10:00	Austan Goolsbee Speaks in Kyla's Newsletter Podcast Interview	President of the Federal Reserve Bank of Chicago				
16:30	Beth Hammack Participates in a Moderated Discussion	President of the Federal Reserve Bank of Cleveland				
23:30	Kevin Warsh in Fireside Chat with IMF's Georgieva	Chairman of the Board of Governors				

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	Core Machine Orders	y/y	Aug	18.6%	11.2%	15.6%	**	Equity bullish, bond bearish
	Capacity Utilization	y/y	Aug	-4.2%	0.5%		**	Equity and bond neutral
	Industrial Production	y/y	Aug F	2.7%	3.4%		***	Equity and bond neutral
Australia	Employment Change	m/m	Sep	-39.3k	29.3k	20.0k	***	Equity bearish, bond bullish
	Unemployment Rate	m/m	Sep	4.7%	4.7%	4.6%	***	Equity and bond neutral
	Participation Rate	m/m	Sep	66.8%	67.0%	67.0%	**	Equity and bond neutral
India	Trade Balance	m/m	Sep	-\$30210m	-\$26860m	-\$30300m	**	Equity and bond neutral
	Exports	y/y	Sep	23.1%	26.1%		**	Equity and bond neutral
	Imports	y/y	Sep	8.0%	14.1%		**	Equity and bond neutral
	Unemployment Rate	m/m	Sep	5.0%	5.0%		***	Equity and bond neutral
EUROPE								
Sep								
Eurozone	Industrial Production WDA	y/y	Aug	-1.1%	-0.3%	-0.1%	**	Equity bearish, bond bullish
France	CPI	y/y	Sep F	3.1%	3.0%	3.0%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Sep F	3.4%	3.4%	3.4%	**	Equity and bond neutral
	CPI Ex-Tobacco Index	q/q	Sep F	103.07	103.35	102.99	*	Equity and bond neutral
UK	GDP	m/m	Aug	0.1%	0.4%	-0.1%	*	Equity and bond neutral
	Industrial Production	y/y	Aug	1.6%	0.8%	0.7%	***	Equity bullish, bond bearish
	Manufacturing Production	y/y	Aug	3.0%	2.2%	2.3%	**	Equity bullish, bond bearish
	Construction Output	y/y	Aug	-1.8%	-1.9%	-2.1%	*	Equity and bond neutral
	Index of Services 3M/3M	m/m	Aug	1%	1%	1%	**	Equity and bond neutral
	Visible Trade Balance GBP/Mn	m/m	Aug	-£18007m	-£19303m	-£21900m	**	Equity and bond neutral
	Trade Balance GBP/Mn	m/m	Aug	-£920m	-£2322m	-£4150m	**	Equity and bond neutral
Switzerland	Producer & Import Prices	y/y	Sep	-2.0%	-0.7%		**	Equity and bond neutral
AMERICAS								
Canada	Building Permits	m/m	Aug	8.8%	-15.8%	3.00	**	Equity bullish, bond bearish
Brazil	Retail Sales	y/y	Aug	0.4%	1.2%	1.5%	***	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)	408	410	-2	Up
U.S. Sibor/OIS spread (bps)	409	409	0	Up
U.S. Libor/OIS spread (bps)	406	406	0	Up
10-yr T-note (%)	5.09	5.19	-0.10	Down
Euribor/OIS spread (bps)	263	263	0	Up
Currencies	3 Mo			
Dollar	Up	US		Up
Euro	Down	Euro		Down
Yen	Up	Japan		Up
Pound	Down	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	\$104.60	\$106.06	-1.38%	
WTI	\$95.16	\$95.09	0.07%	
Natural Gas	\$3.25	\$3.20	1.50%	
Crack Spread	\$61.82	\$65.09	-5.03%	
12-mo strip crack	\$54.44	\$56.72	-4.02%	
Ethanol rack	\$2.25	\$2.25	0.00%	
Metals				
Gold	\$4,152.75	\$4,105.37	1.15%	
Silver	\$56.74	\$55.56	2.13%	
Copper Contract	\$657.50	\$666.05	-1.28%	
Grains				
Corn contract	\$480.75	\$480.75	0.00%	
Wheat contract	\$672.25	\$673.25	-0.15%	
Soybeans contract	\$1,273.00	\$1,277.25	-0.33%	
Shipping				
Baltic Dry Freight	2,667	2,801	-134	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		0.15		
Gasoline (mb)		-0.91		
Distillates (mb)		-1.72		
Refinery run rates (%)		-0.64%		
Natural gas (bcf)		74		

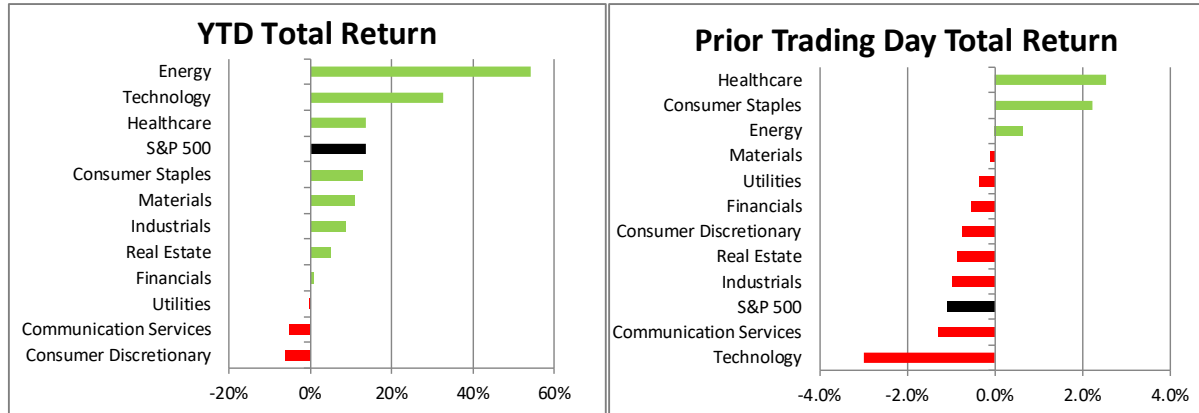
Weather

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

There are now no atmospheric disturbances in the Atlantic Ocean area, and no tropical cyclone activity is expected over the next seven days.

Data Section

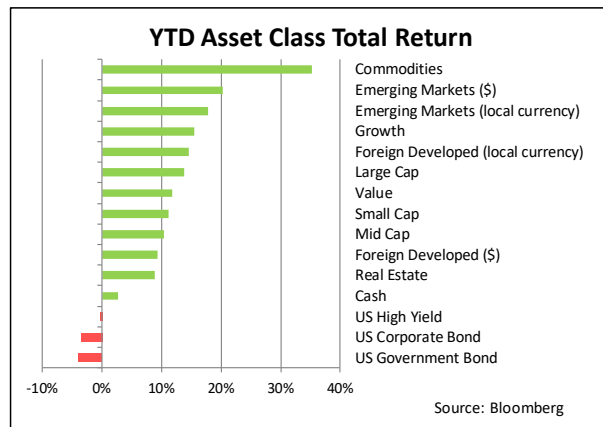
US Equity Markets – (as of 10/14/2026 close)



(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 10/14/2026 close)

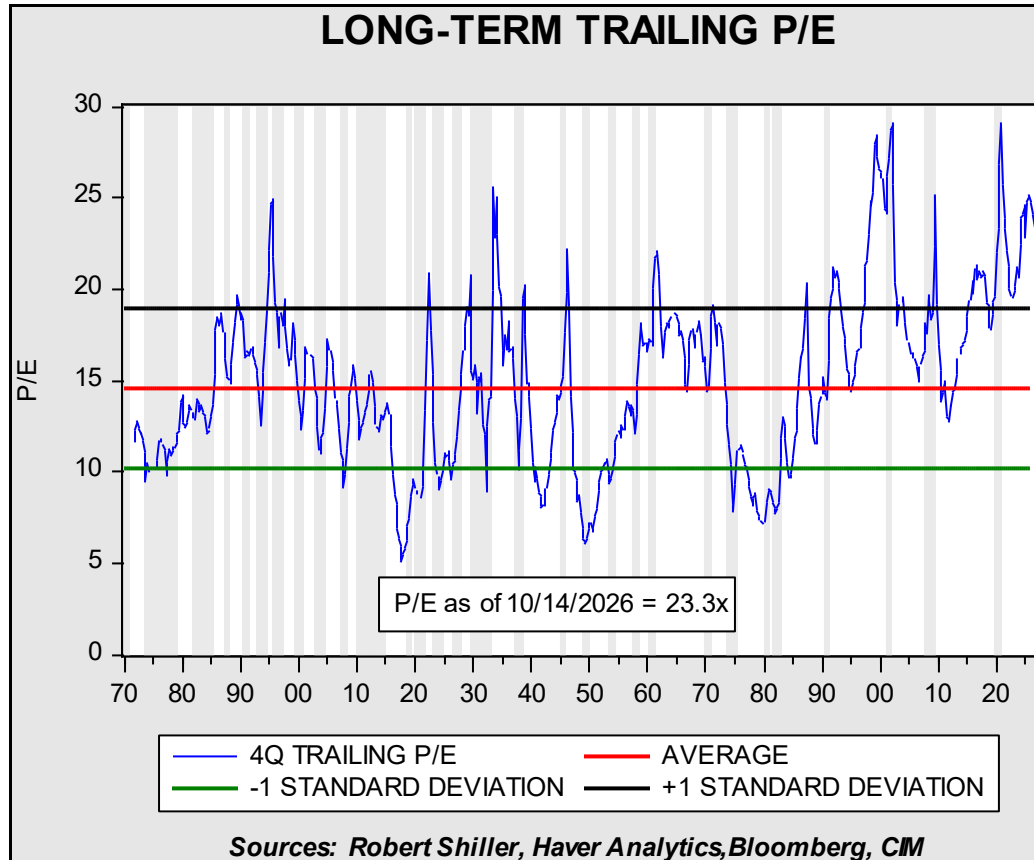


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 15, 2026



Based on our methodology,¹ the current P/E is 23.3x, down 1.0 from the previous report. The decrease is due to the stock price index falling faster than the drop in 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.