Daily Comment

Confluence Investment Management

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: October 16, 2025 — 9:30 AM ET] Global equity markets are generally higher this morning. In Europe, the Euro Stoxx 50 is up 0.4% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.9%. Chinese markets were mixed, with the Shanghai Composite up 0.1% and the Shenzhen Composite down 0.6%. US equity index futures are signaling a higher open.

With 41 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, 78.0% have exceeded expectations, while 19.5% 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 Treasury Secretary Bessent's analysis of China's export restrictions and his recommendations for bolstering the US negotiating position ahead of trade talks. We then provide an overview of the Federal Reserve's Beige Book, followed by an examination of the sustained momentum in the AI sector, easing US-India trade tensions, and the outcome of the no-confidence vote in France. We also include a summary of key economic indicators from US and global markets.

Bessent on China: The US is strategically calibrating its leverage ahead of crucial trade talks with China scheduled for the end of the month. On Wednesday, Treasury Secretary Scott Bessent adopted a noticeably conciliatory stance, offering to extend the current trade truce — a pause on tariffs — beyond the 90-day deadline. The major condition: China must lift its restrictions on rare earth exports. While markets welcomed the unexpected concession, the explicit linkage reveals how vital China's mineral supply is for sustaining the recent stock market rally.

- The strategic importance of rare earth elements has become a major concern for the White House as it seeks leverage in trade talks. To address this, Secretary Bessent has suggested that China's failure to remove export controls may lead to retaliation, including coordinated action between the EU and the US to counter Chinese dominance. Furthermore, Bessent has floated proposals for a more assertive industrial policy, which could include the US government taking stakes in strategically important companies.
- The vulnerability of US technology due to its reliance on external sources for critical minerals has become a central challenge in diplomatic discussions, potentially weakening the US negotiating position. This geopolitical anxiety is reflected in the consistent market sensitivity observed in the NASDAQ throughout the escalation of these talks.
- Although we anticipate the talks will continue as planned, there is growing risk of a US withdrawal. Strategically, this move would be aimed at recalibrating the US negotiating position to secure greater leverage. The continued export ban of Chinese rare earth elements would likely exert downward pressure on US tech stocks. On the other hand, tangible progress toward an agreement would almost certainly trigger a market rally.

Fed Beige Book: In a worrying sign of broad economic stagnation, a recent Federal Reserve survey found that US economic activity showed little change over the past six weeks. This overall flatness, however, masks significant regional disparities. While some districts reported slight-to-modest growth, five saw no growth, and four noted a slight decline in activity, highlighting pockets of notable economic strain. In the absence of comprehensive government data, this report serves as a crucial substitute for gauging the economy's underlying trends.

- According to the report, consumer spending growth is being propelled primarily by high-income households, even as lower- and middle-income groups contend with financial pressure from increased tariffs. This divergence is evident in spending patterns as high-income consumers are increasing expenditure on luxury accommodations, whereas those in lower income brackets are relying on discounts and promotions to manage the price pressures.
- While this report may not fully reflect upcoming economic data, as the latest Atlanta GDPNow model suggests, it does indicate that market sentiment remains weighed down by economic uncertainty. This dynamic is not necessarily negative, as investors in recent years have consistently used large cap tech equities and gold as safe havens during uncertain periods. We expect this investment trend to persist, barring an unforeseen economic shock, which we consider unlikely in the coming weeks.

AI Momentum: In a strong signal that the AI capital expenditure cycle still has considerable momentum, chipmaking giant TSMC has raised its revenue outlook. As the world's largest semiconductor foundry, this upgraded guidance reflects TSMC's confidence that its corporate clients will continue spending heavily to build out their AI infrastructure. This bullish move is likely to bolster confidence across the tech sector, which has been facing growing concerns about the sustainability of its recent gains.

US-India Agreement: India and the US have improved their trade relations following an agreement for India to end its purchases of Russian oil. The White House announced that India will cease buying Russian crude at a future date but did not specify a timeline or confirm whether the US will become the replacement supplier. This agreement likely paves the way for reduced trade tensions, which had escalated after the US imposed secondary tariffs and immigration crackdowns affecting sectors with a high concentration of Indian workers.

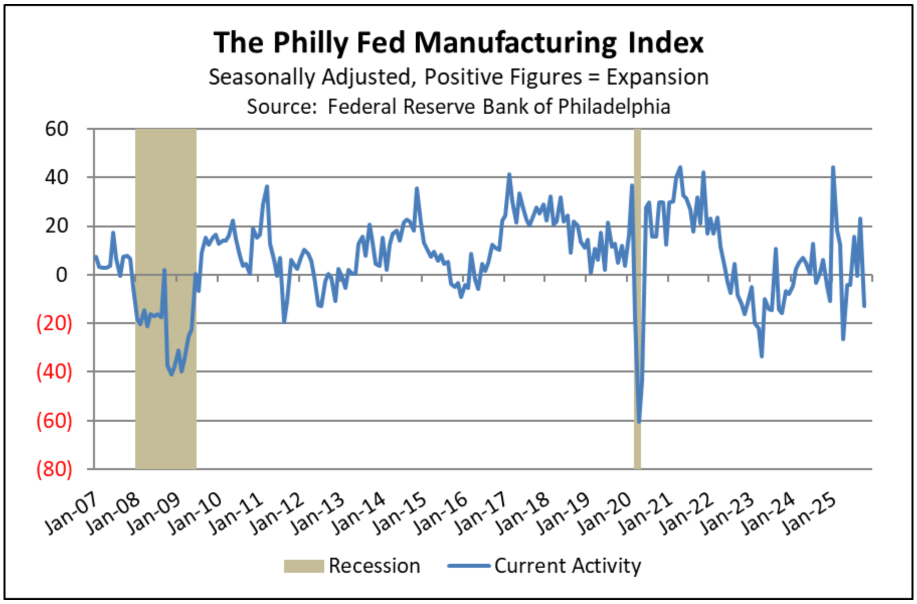
Farm Bailout: The White House is developing a bailout plan to assist farmers facing severe financial pressure from rising trade tensions, which have caused declining sales and increased costs for essential inputs like fertilizer and equipment. While the government shutdown has complicated the rollout of these funds, the administration appears determined to provide relief. This support is critical as failure to do so could have significant ripple effects across the economy, potentially leading to reduced agricultural supply and higher food prices nationwide.

No Confidence Avoided: French Prime Minister Sébastien Lecornu has survived a no-confidence vote. He managed to secure the necessary support from the Socialist party by agreeing to delay the contentious 2023 pension reforms until after the 2027 elections. This political compromise is expected to pave the way for the approval of a budget that has strained the government and weighed on France's credit quality. The government hopes this will help it avoid another credit rating downgrade, which could trigger forced selling of its sovereign debt.

Private Credit Concerns: JPMorgan Chase CEO Jamie Dimon sparked an uproar by suggesting there may be more "cockroaches" hidden within the private credit market. His comment has intensified scrutiny of the sector, which is already facing pressure from the collapse of Tricolor, the bankruptcy of First Brands, and rising delinquencies on subprime loans. While there are no immediate signs of systemic trouble, concerns are mounting that further pain may emerge. However, we suspect the broader financial system is likely to be insulated from a significant fallout.

US Economic Releases

The Philadelphia FRB today said its October ***Philly Fed Index*** fell sharply to a seasonally adjusted -12.8, well short of the expected reading of 10.0 and the September reading of 23.2. 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 has suddenly plunged, at least temporarily. 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						
EST	**Indicator**			**Expected**	**Prior**	**Rating**
10:00	Business Inventories	m/m	Aug	0.0%	0.2%	*
10:00	NAHB Housing Market Index	m/m	Oct	33	32	*
Federal Reserve						
EST	**Speaker or Event**	**District or Position**				
9:00	Christopher Waller Speaks at Council on Foreign Relations	Member of the Board of Governors				
9:00	Michael Barr on Stablecoins	Members of the Board of Governors				
9:00	Stephen Miran in Moderated Conversation	Members of the Board of Governors				
10:00	Michelle Bowman Speaks at Stress Testing Research Conference	Member of the Board of Governors				
16:15	Stephen Miran Participats in Moderated Conversation	Members of the Board of Governors				
18:00	Neel Kashkari Speaks in town Hall in South Dakota	President of the Federal Reserve Bank of Minneapolis				

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	Core Machine Orders	y/y	Aug	1.6%	4.9%	4.9%	**	Equity bearish, bond bullish
	Tertiary Industry Index	m/m	Aug	-0.4%	0.2%	-0.2%	***	Equity and bond neutral
Australia	Employment Change	m/m	Sep	14.9k	-11.9k	20.0k	***	Equity and bond neutral
	Unemployment Rate	m/m	Sep	4.5%	4.3%	4.3%	***	Equity and bond neutral
	Participation Rate	m/m	Sep	66.8%	66.9%	66.8%	**	Equity and bond neutral
New Zealand	Food Prices	m/m	Sep	-0.4%	0.3%		***	Equity and bond neutral
	Non Resident Bond Holdings	m/m	Sep	59.6%	61.5%		*	Equity and bond neutral
EUROPE								
Eurozone	Trade Balance SA	m/m	Aug	9.7b	6.0b	7.0b	**	Equity and bond neutral
Italy	CPI, EU Harmonized	y/y	Sep F	1.8%	1.8%	1.8%	***	Equity and bond neutral
	CPI NIC Including Tobacco	y/y	Sep F	1.6%	1.6%	1.6%	**	Equity and bond neutral
UK	Industrial Production	y/y	Aug	-0.7%	-0.1%	-0.8%	***	Equity and bond neutral
	Manufacturing Production	y/y	Aug	-0.8%	-0.1%	-1.0%	**	Equity and bond neutral
	Index of Services 3M/3M	m/m	Aug	0.4%	0.4%	0.4%	**	Equity and bond neutral
	Construction Output	y/y	Aug	1.0%	1.8%	1.5%	**	Equity and bond neutral
	Visible Trade Balance GBP/Mn	m/m	Aug	-£21183m	-£22244m	-£21186m	**	Equity and bond neutral
	Trade Balance GBP/Mn	m/m	Aug	-£3386m	-£5260m	-£4805m	**	Equity and bond neutral
AMERICAS								
Canada	Manufacturing Sales	m/m	Aug	-1.0%	2.2%	-1.5%	**	Equity and bond neutral
	Wholesale Sales ex Petroleum	m/m	Aug	-1.2%	1.7%	-1.30	**	Equity and bond neutral
Brazil	Econimic Activity	y/y	Aug	0.1%	1.2%	0.7%	**	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	387	-2	Down
U.S. Sibor/OIS spread (bps)	389	390	-1	Down
U.S. Libor/OIS spread (bps)	380	382	-2	Down
10-yr T-note (%)	4.02	4.03	-0.01	Down
Euribor/OIS spread (bps)	202	202	0	Down
Currencies	Direction			
Dollar	Down			Up
Euro	Flat			Up
Yen	Up			Down
Pound	Up			Flat
Franc	Flat			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	$62.26	$61.91	0.57%	
WTI	$58.63	$58.27	0.62%	
Natural Gas	$3.03	$3.02	0.50%	
Crack Spread	$23.55	$23.06	2.13%	
12-mo strip crack	$24.08	$23.82	1.11%	
Ethanol rack	$1.97	$1.98	-0.14%	
Metals				
Gold	$4,244.05	$4,207.48	0.87%	
Silver	$53.06	$53.03	0.06%	
Copper contract	$497.00	$501.45	-0.89%	
Grains				
Corn contract	$417.25	$416.75	0.12%	
Wheat contract	$496.00	$498.75	-0.55%	
Soybeans contract	$1,010.00	$1,006.50	0.35%	
Shipping				
Baltic Dry Freight	1,997	2,022	-25	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		-1.20		
Gasoline (mb)		-1.00		
Distillates (mb)		-1.00		
Refinery run rates (%)		-1.0%		
Natural gas (bcf)		81		

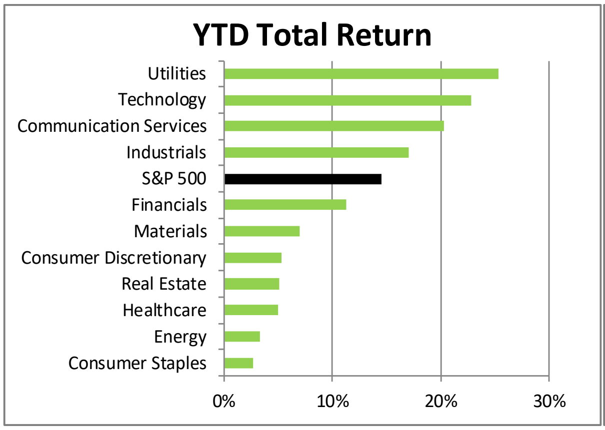
Weather

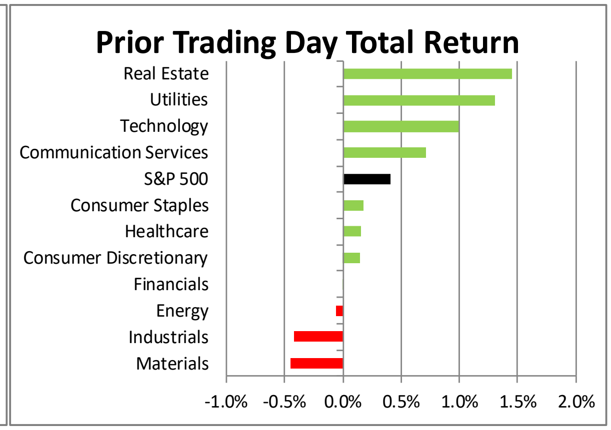
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in almost the entire region from the Rocky Mountains eastward, with near-normal temperatures in the Far West, Virginia, North Carolina, and South Carolina. The forecasts call for wetter-than-normal conditions in the Pacific Northwest, California, and western Texas, with dry conditions in the northern Great Plains and Florida.

There are currently no tropical disturbances in the Atlantic Ocean area.

Data Section

US Equity Markets – (as of 10/15/2025 close)

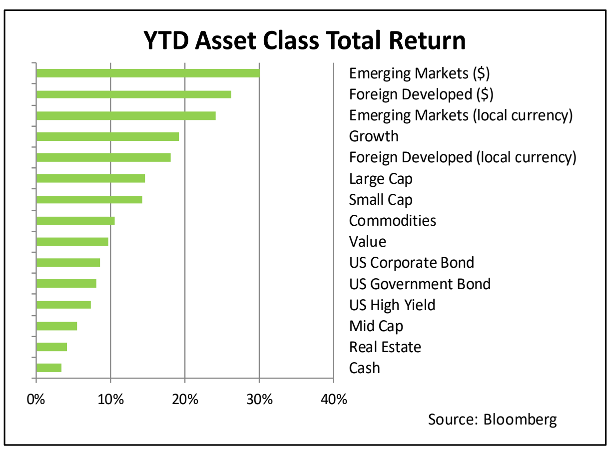




(Source: Bloomberg)

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 10/15/2025 close)

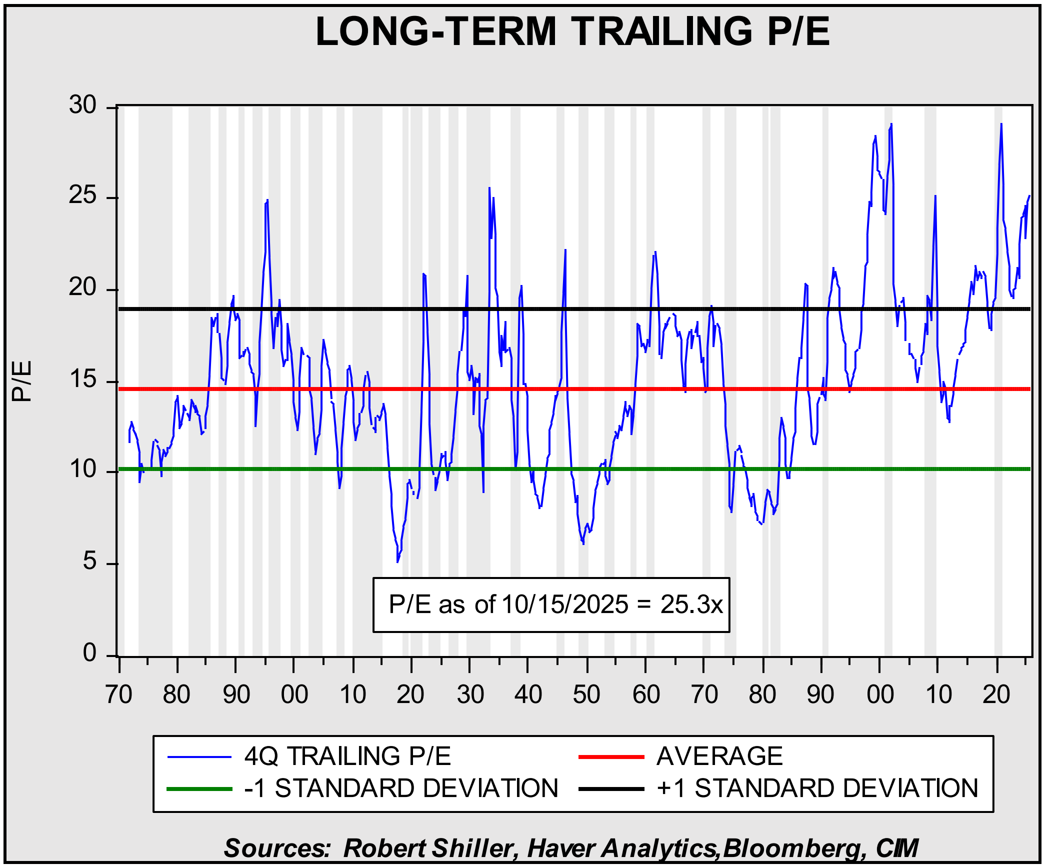


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 16, 2025



Based on our methodology,[1] the current P/E is 25.3x, which is down 0.1 from the previous report. This slight decline resulted from a minor drop in the price index and an increase 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.

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[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.