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[Posted: October 17, 2025 — 9:30 AM ET] Global equity markets are lower this morning. In Europe, the Euro Stoxx 50 is down 0.9% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 1.6%. Chinese markets were lower, with the Shanghai Composite down 2.0% and the Shenzhen Composite down 2.7%. US equity index futures are signaling a lower open.

With 51 companies having reported so far, S&P 500 earnings for Q3 are running at \$68.10 per share compared to estimates of \$68.15, which is up 8.0% from Q3 2024. Of the companies that have reported thus far, 82.4% have exceeded expectations, while 15.7% 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* opens with a deep dive into emerging credit quality concerns that could signal vulnerability within the financial system. We then pivot to US diplomacy, assessing the latest efforts to broker a resolution in Ukraine. Our coverage also unpacks two key energy and trade updates: the extended tariff exemptions for automakers and the revived debate over the Keystone Pipeline. We also include a summary of key economic indicators from US and global markets.

More Credit Concerns: New concerns of financial stress have emerged. [Western Alliance and Zions Bancorporation disclosed instances of fraud within their loan portfolios](#), specifically where non-defaulted borrowers improperly accessed funds. The primary concern centers on the insufficient level of collateral used to back these loans. While the direct exposure reported by the

banks appears limited, there are broader market concerns that these institutions may not be alone in carrying a significant amount of poorly collateralized or "bad" loans.

- Equity markets sold off after two regional banks disclosed lending irregularities and fraud within their portfolios. This news amplified market fears that the collapse of subprime auto lender Tricolor and the bankruptcy of auto-parts supplier First Brands — both involving allegations of double-pledging collateral and missing funds — may be revealing wider systemic vulnerabilities in the credit market's underwriting and monitoring standards.
- This renewed market anxiety is likely to [draw intense scrutiny toward the private credit sector](#), which has significantly expanded its lending activity in recent years. This spotlight intensified following comments from J.P. Morgan CEO Jamie Dimon, who [likened the sector's risk exposure to finding "cockroaches"](#) after the fallout from the auto lender and other distressed firms. Additionally, there [have been signs that investors may be trying to limit their exposure](#) to these funds.
- The turmoil in credit markets may be contributing to liquidity strains within the financial system. The [surge in banks using the Standing Repo Facility \(SRF\) is indicative of funding stress](#). This activity could prompt the central bank to intervene, which should stabilize the situation relatively quickly assuming there isn't a broader solvency issue at play.
- While we acknowledge some signs of credit stress in the market, we remain confident that there are no signs of an immediate financial market blow-up. We suspect the Federal Reserve will act decisively to provide liquidity when trouble emerges, which would be favorable for equities. Moreover, tightening credit conditions may encourage the central bank to ease policy more aggressively over the next few months.

Ukraine Focus: With one major geopolitical issue receding, the White House has now focused its attention on ending the conflict in Ukraine. President Trump is reportedly [expected to meet with Vladimir Putin within the next two weeks in Budapest](#) to discuss potential conditions for a peace settlement. Meanwhile, Ukrainian [President Volodymyr Zelensky will continue to lobby the US for additional Tomahawk missiles](#) when the two sides meet on Friday in order to inflict more damage on Russian forces.

- The upcoming peace talks coincide with the US becoming more open to Ukraine using its weapons to strike Russian oil refineries. Since August, [Ukraine has launched more than two dozen strikes on these refineries](#), which has not only hindered Russia's ability to export oil but has also led to domestic fuel shortages in certain regions of the country.
- That said, the White House views the continuation of military aid to [Ukraine as a critical source of diplomatic leverage](#), as the US aims to conclude the conflict as peacefully as possible. Consequently, the president's meeting with Ukrainian officials is intended to strengthen this negotiating position ahead of potential talks with Russia in the coming weeks.
- The biggest unknown remains Russia's true willingness to negotiate. For President Putin, a key constraint is the need to secure enough territory to claim an unquestionable victory

in Ukraine. Furthermore, a significant portion of the Russian economy has become heavily dependent on the war effort, creating a powerful internal incentive to prolong the conflict rather than end it.

- We remain optimistic that the conflict is moving toward an end, given the White House's clear motivation to secure a resolution. We suspect an agreement could be reached within weeks, especially if Russia begins to fear the potential loss of its recent territorial gains. An end to the conflict would likely be bearish for oil prices but bullish for European equities.

Tariff Exemptions: US automakers are [set to receive significant tariff relief on imported auto parts](#). The Commerce Department has announced a five-year extension of the import adjustment offset. This arrangement allows carmakers that assemble and sell complete vehicles in the US to mitigate the 25% tariff by claiming a credit of up to 3.75% of the vehicle's value. This policy adjustment highlights the White House's willingness to modify tariff policy to mitigate some of the economic strain on domestic manufacturing.

European Single Market: German Chancellor Friedrich Merz has [called for the establishment of a unified capital market within the European Union](#). This strategic push is aimed at making it easier for European companies to finance themselves domestically, reducing their over-reliance on US capital markets. The initiative represents a long-term effort to boost the attractiveness and liquidity of European stocks for both domestic and foreign investment.

Keystone Pipeline: The US and Canada are [reportedly in preliminary discussions to revive the Keystone Pipeline development](#). These talks are part of a broader negotiation where the US is seeking greater energy supply in exchange for easing existing tariffs on Canadian steel and aluminum. Both countries appear open to restarting the project, which, if completed, would help alleviate energy supply pressures.

Government Shutdown Pain: The economic fallout from the government shutdown is accelerating. The [aviation sector is already experiencing significant disruptions](#), with flight delays and cancellations mounting as air traffic controllers work without pay. More alarmingly, the USDA [warns that vital nutrition programs like WIC and SNAP are at severe risk](#) of exhausting their funds. While short-term economic damage may be contained, the cumulative costs and systemic risks are poised to spike with each passing day.

Homebuilders Optimistic: The NAHB Housing Market Index (HMI) [rose to its highest level in six months, reaching a reading of 37](#), a five-point increase over the previous month. This surge was primarily driven by the market's expectations of easier monetary policy, which promises both more accessible project financing and improved consumer demand via greater housing affordability. However, the index remains significantly below the critical breakeven point of 50, suggesting that homebuilders still harbor substantial reservations about initiating new projects.

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						
16:00	Net Long-Term TIC Flows	m/m	Aug		\$49.2b	**
16:00	Total Net TIC Flows	m/m	Aug		\$2.1b	**
Federal Reserve						
EST	Speaker or Event	District or Position				
12:15	Alberto Musalem in Fireside Chat at IIF	President of the Federal Reserve Bank of St. Louis				

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	Japan Buying Foreign Bonds	w/w	10-Oct	¥596.4b	-¥923.0b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	10-Oct	¥59.3b	-¥1450.2b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	10-Oct	¥199.4b	¥1258.6b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	10-Oct	¥1885.0b	¥2476.1b		*	Equity and bond neutral
South Korea	Export Price Index	y/y	Sep	2.2%	-1.1%		*	Equity and bond neutral
	Import Price Index	y/y	Sep	0.6%	-2.2%		*	Equity and bond neutral
	Unemployment Rate	m/m	Sep	2.5%	2.6%	2.6%	***	Equity and bond neutral
EUROPE								
Eurozone	CPI	y/y	Sep F	2.2%	2.2%	2.2%	***	Equity and bond neutral
	Core CPI	y/y	Sep F	2.4%	2.3%	2.3%	**	Equity and bond neutral
Russia	Gold and Forex Reserves	m/m	10-Oct	\$729.5b	\$722.5b		***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	10-Oct	19.02t	18.94t		*	Equity and bond neutral
AMERICAS								
Canada	Housing Starts	m/m	Sep	279.2k	244.5k	257.5k	**	Equity and bond neutral
Brazil	FGV Inflation IGP-10	m/m	Oct	1.60%	2.88%		**	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)	383	385	-2	Down
U.S. Sibor/OIS spread (bps)	386	386	0	Down
U.S. Libor/OIS spread (bps)	378	377	1	Down
10-yr T-note (%)	3.99	3.98	0.01	Down
Euribor/OIS spread (bps)	200	202	-2	Down
Currencies	Direction			
Dollar	Flat			Down
Euro	Flat			Up
Yen	Down			Down
Pound	Flat			Up
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	\$60.97	\$61.06	-0.15%	
WTI	\$57.43	\$57.46	-0.05%	
Natural Gas	\$2.93	\$2.94	-0.27%	
Crack Spread	\$23.66	\$23.46	0.84%	
12-mo strip crack	\$24.00	\$23.98	0.10%	
Ethanol rack	\$1.97	\$1.97	-0.06%	
Metals				
Gold	\$4,308.83	\$4,326.58	-0.41%	
Silver	\$53.77	\$54.24	-0.87%	
Copper contract	\$496.25	\$499.90	-0.73%	
Grains				
Corn contract	\$424.25	\$421.75	0.59%	
Wheat contract	\$504.00	\$502.50	0.30%	
Soybeans contract	\$1,015.25	\$1,010.75	0.45%	
Shipping				
Baltic Dry Freight	2,046	1,997	49	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)	3.52	-1.20	4.72	
Gasoline (mb)	-0.27	-1.00	0.73	
Distillates (mb)	-4.53	-1.00	-3.53	
Refinery run rates (%)	-6.7%	-1.0%	-5.7%	
Natural gas (bcf)	80	81	-1	

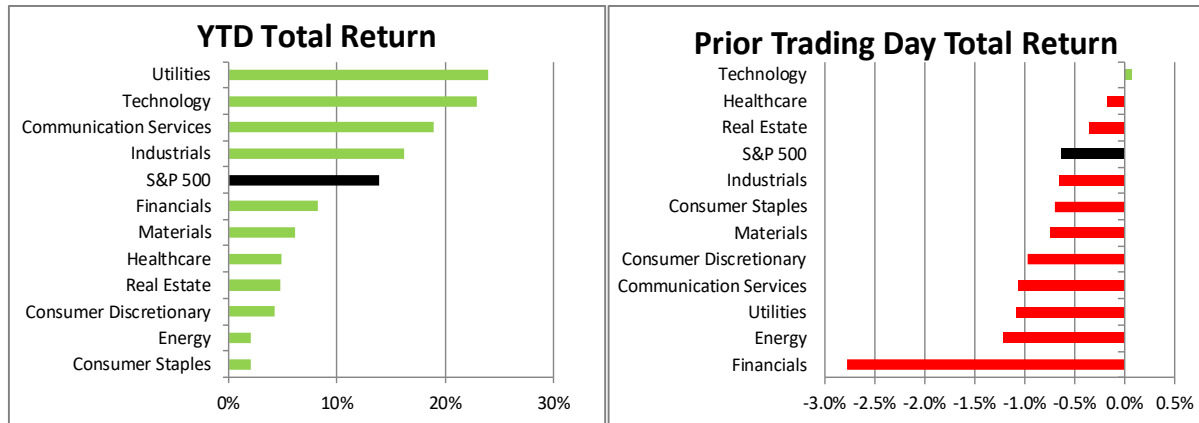
Weather

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 along the West Coast and in Virginia, North Carolina, and South Carolina. The forecasts call for wetter-than-normal conditions in the Far West, with dry conditions in the Midwest and New England.

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

Data Section

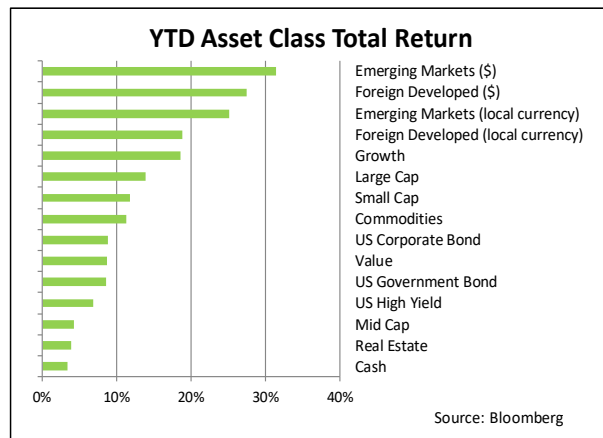
US Equity Markets – (as of 10/16/2025 close)



(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 10/16/2025 close)

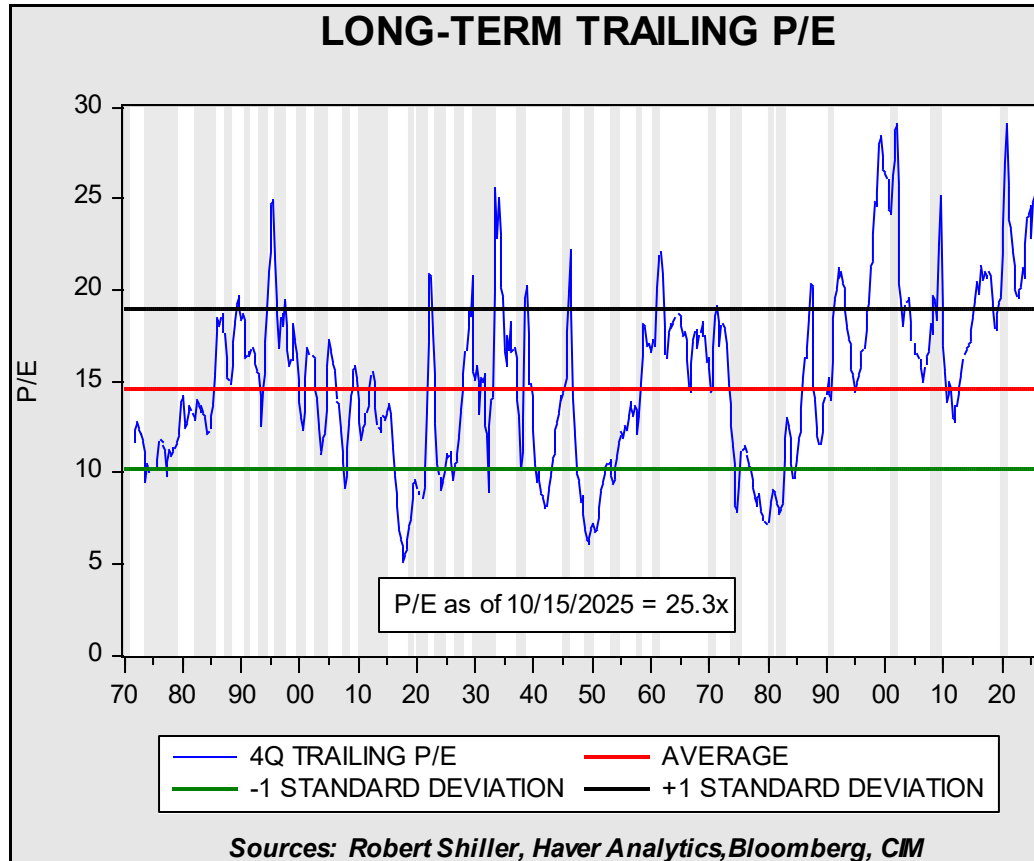


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.

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.