



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: October 20, 2025 — 9:30 AM ET] Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 is up 0.7% 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 0.6% and the Shenzhen Composite up 1.0%. US equity index futures are signaling a higher open.

With 58 companies having reported so far, S&P 500 earnings for Q3 are running at \$68.20 per share compared to estimates of \$68.15, which is up 8.0% from Q3 2024. Of the companies that have reported thus far, 84.5% have exceeded expectations, while 13.8% 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 Debasing Hedge: A Tale of Two Safeties” (10/20/25) + 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* today opens with news that Japan’s ruling party has struck a coalition deal that will allow conservative and investor favorite Sanae Takaichi to become the new prime minister. We next review several other international and US developments with the potential to affect the financial markets today, including a slowdown in Chinese economic growth and news of a major internet outage at Amazon Web Services that we suspect could be Chinese retaliation for US cyberattacks.

Japan: Reports yesterday said the ruling Liberal Democratic Party and upstart right-wing party Nippon Ishin no Kai (Japan Innovation Party) [have broadly agreed to form a coalition government](#), setting the stage for Sanae Takaichi, the conservative leader of the LDP, to be voted

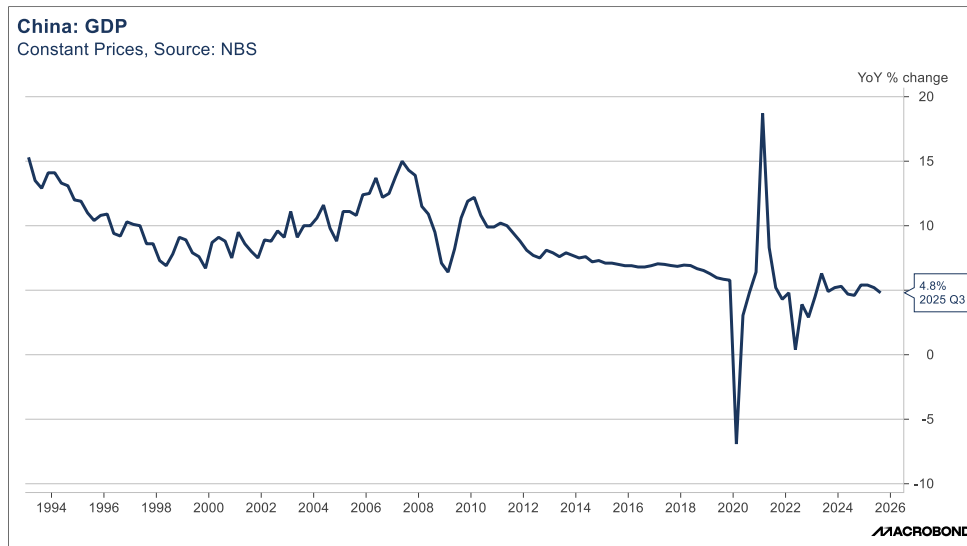
in as Japan's new prime minister tomorrow. Ishin will reportedly support Takaichi for prime minister but won't have any cabinet positions in her government. Nevertheless, Takaichi's stimulative economic proposals, which have made her an investor favorite, may have to be watered down to keep Ishin's support.

China-United States: Amazon Web Services (AWS) early today [suffered a major technology issue that disrupted internet services to thousands of major US companies](#), including Facebook, Venmo, and United Airlines. AWS hasn't tied the outage to a cyberattack, but we note that the outage came just days after Beijing [accused the US of launching cyberattacks against its National Time Service Center](#). According to AWS, the disruptions occurred in its data centers in northern Virginia, near Washington, suggesting China may have launched the attack to send a message.

- China's National Time Service Center is affiliated with the Chinese Academy of Sciences and is responsible for generating and distributing China's standard time.
- The NTSC also provides highly precise timing services for the country's communications, finance, power, transport, mapping and defense sectors. Therefore, if the US really did attack the NTSC, it would represent a major threat to many of China's key national systems and industries.
- By launching a retaliatory attack against AWS in northern Virginia, which is not only on the doorstep of Washington, DC, but also home to the Central Intelligence Agency, China could be sending a strong message that it will strike back against any US cyberattacks. Of course, this would add to the current US-China tensions over trade and could even more the current trade talks between the two countries harder.

China-Netherlands: After the Dutch government recently seized control of China-owned semiconductor firm Nexperia in response to US sanctions on the company, as we detailed in our *Comment* last week, reports over the weekend said Nexperia's China unit [told its workers to ignore directives from the company's Netherlands-based managers](#). The move suggests China will fight back against the Dutch seizure. It also suggests that the US's new, broader sanctions against China could mean that other firms in third-party countries could be caught in the crossfire.

Chinese Economy: According to newly released official data, Chinese gross domestic product in the third quarter [was up just 4.8% from the same period one year earlier, slowing from the 5.2% increase in the year to the second quarter](#). The report suggested that the slowdown stemmed mostly from weaker consumer spending and slower investment, despite government stimulus programs. All the same, the average growth rate over the first three quarters of 2025 stood at 5.2%, staying on track to meet the government's target of about 5.0% for the year.



Chinese Digital Currencies: The People's Bank of China and the Cyberspace Administration of China have reportedly [told several Chinese technology companies not to move forward with their plans to issue stablecoins](#) under a new Hong Kong program. The affected firms include Alibaba-backed Ant Group and ecommerce group JD.com.

- The regulators evidently believe the tech firms are moving too fast to develop what would essentially be their own currencies, which would compete with the PBOC's plan to issue its own digital currency.
- The move suggests stablecoins will face higher barriers in China than they are likely to face in the US. In turn, that highlights how the world is increasingly bifurcating between US and Chinese developments.

France: Wealth managers, bankers, and lawyers told the *Financial Times* that wealthy French citizens concerned about the fractured politics in their country [have been shifting large amounts of their investments to Luxembourg annuities and safe-haven assets in Switzerland](#). Even though Prime Minister Lecornu survived a no-confidence vote in parliament last week by watering down President Macron's signature pension reform, the government's position remains tenuous, suggesting further capital flight and continued headwinds for French stocks and bonds.

Russia-Ukraine Conflict: A Ukrainian intelligence report based on captured Russian documents shows that the Kremlin's forces [suffered 281,550 casualties in the first eight months of 2025](#), or an average of 1,159 per day. The casualty count consisted of 158,529 wounded (652 per day), 86,744 killed (357 per day), and 36,277 missing or captured (150 per day). The figures suggest that Russia continues to lose enormous numbers of troops for only limited territorial gains, raising questions about President Putin's willingness or ability to keep fighting so hard.

- Throughout the modern era of projectile warfare, the ratio of wounded to killed in battle has been remarkably steady at around 3 or 4 to 1. Defense economics nerds (like myself) typically attribute that ratio to the fact that only 20% to 25% of the surface of the human

body covers vital organs. Arrows, bullets, or shrapnel striking the body at random are therefore several times more likely to merely wound rather than kill.

- If Russia's data is correct, the country's ratio of wounded to killed this year is only 1.83:1, suggesting a much higher-than-expected share of soldiers who were killed. That's especially striking since modern body armor worn over the vital organs of the torso would suggest a *smaller* proportion of troops should be killed. It's not clear why Russia's ratio seems out of whack, but it could speak to the Russian military's reputation for callousness toward its own troops and its willingness to use them as "cannon fodder."

Canada: In an interview with the *Financial Times*, Industry Minister Mélanie Joly said her new industrial strategy to create jobs and attract more foreign investment [would include steps to get Canadian pension funds to invest more of their portfolios at home](#). According to Joly, the moves are part of a new embrace of "economic nationalism," which aim to reverse the longstanding trend of Canadian institutions investing less and less in Canada itself. We suspect the moves would create only very marginal headwinds for US stocks or the greenback.

Bolivia: In elections yesterday, centrist Senator Rodrigo Paz [won the presidency with about 55% of the vote, ending two decades of rule by the socialists](#). Paz reportedly appealed to voters by promising stronger ties with the US and more investment in the country's lithium mining sector. If Paz is successful in rebuilding Bolivia's ties with the US, it would mark a stark turnaround from the socialists' courting of US adversaries, such as China, Iran, and Venezuela.

US Economic Releases

Due to the federal government shutdown, no economic reports have been released so far today. There are no economic releases or Fed events scheduled for the rest of the day.

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								
New Zealand	CPI	y/y	3Q	3.0%	2.7%	3.0%	**	Equity and bond neutral
China	GDP	y/y	3Q	4.8%	5.2%	4.7%	***	Equity and bond neutral
	Retail Sales	y/y	Sep	3.0%	3.4%	3.0%	**	Equity and bond neutral
	Industrial Production	y/y	Sep	6.5%	5.2%	5.0%	***	Equity bullish, bond bearish
	Fixed Assets Ex Rural YTD	y/y	Sep	-0.5%	0.5%	0.1%	**	Equity bearish, bond bullish
EUROPE								
Eurozone	ECB Current Account SA	m/m	Aug	11.9b	29.8b		*	Equity and bond neutral
	Construction Output	y/y	Aug	0.1%	0.7%		*	Equity and bond neutral
Germany	PPI	y/y	Sep	-1.7%	-2.2%	-1.5%	**	Equity and bond neutral
Italy	Current Account Balance	m/m	Aug	4697m	8693m		*	Equity and bond neutral
UK	Rightmove House Prices	y/y	Oct	-0.10%	-0.10%		**	Equity and bond neutral
Switzerland	Domestic Sight Deposits CHF	w/w	17-Oct	451.1b	451.7b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	17-Oct	473.8b	474.2b		*	Equity and bond neutral
AMERICAS								
Canada	Int'l Securities Transactions	m/m	Aug	25.92b	26.66b		**	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)	381	383	-2	Down
U.S. Sibor/OIS spread (bps)	386	386	0	Down
U.S. Libor/OIS spread (bps)	378	378	0	Down
10-yr T-note (%)	4.01	4.01	0.00	Down
Euribor/OIS spread (bps)	201	200	1	Down
Currencies	Direction			
Dollar	Up			Flat
Euro	Flat			Down
Yen	Flat			Down
Pound	Down			Down
Franc	Flat			Up
Central Bank Action	Actual	Prior	Expected	
PBOC 1-Year Loan Prime Rate	3.00%	3.00%	3.00%	On Forecast
PBOC 5-Year Loan Prime Rate	3.50%	3.50%	3.50%	On Forecast

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	\$60.74	\$61.29	-0.90%	
WTI	\$56.95	\$57.54	-1.03%	
Natural Gas	\$3.22	\$3.01	6.88%	Demand Optimism
Crack Spread	\$24.50	\$24.20	1.25%	
12-mo strip crack	\$24.37	\$24.17	0.83%	
Ethanol rack	\$1.94	\$1.96	-0.84%	
Metals				
Gold	\$4,260.71	\$4,251.82	0.21%	
Silver	\$51.93	\$51.92	0.03%	
Copper contract	\$497.85	\$496.95	0.18%	
Grains				
Corn contract	\$422.75	\$422.50	0.06%	
Wheat contract	\$503.75	\$503.75	0.00%	
Soybeans contract	\$1,046.25	\$1,036.75	0.92%	
Shipping				
Baltic Dry Freight	2,069	2,046	23	

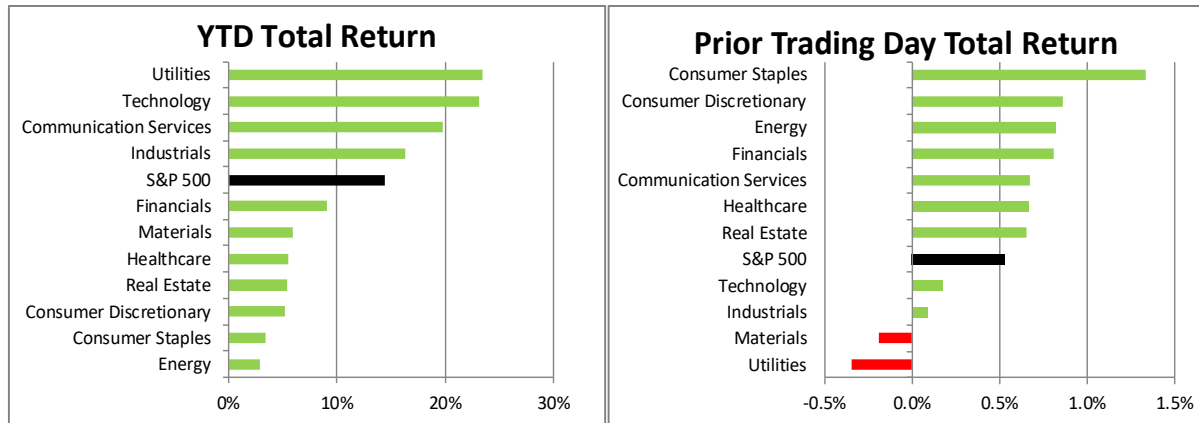
Weather

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 expected in Pacific Northwest. The forecasts call for wetter-than-normal conditions for most of the country, with dry conditions in the Southwest and New England regions.

There is one tropical disturbance forming in the Atlantic. The disturbance has an 80% chance of cyclone formation within the next seven days and is located in the eastern Caribbean Sea.

Data Section

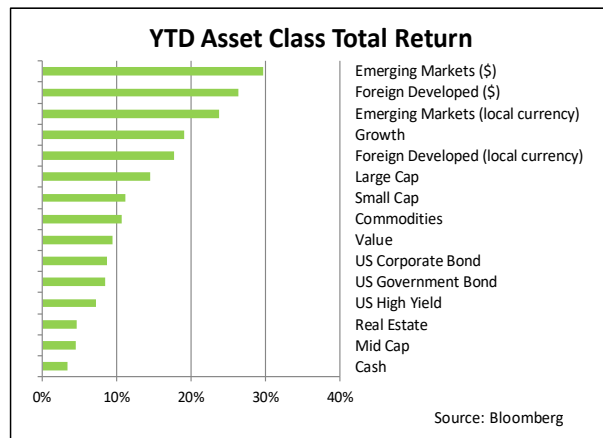
US Equity Markets – (as of 10/17/2025 close)



(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 10/17/2025 close)

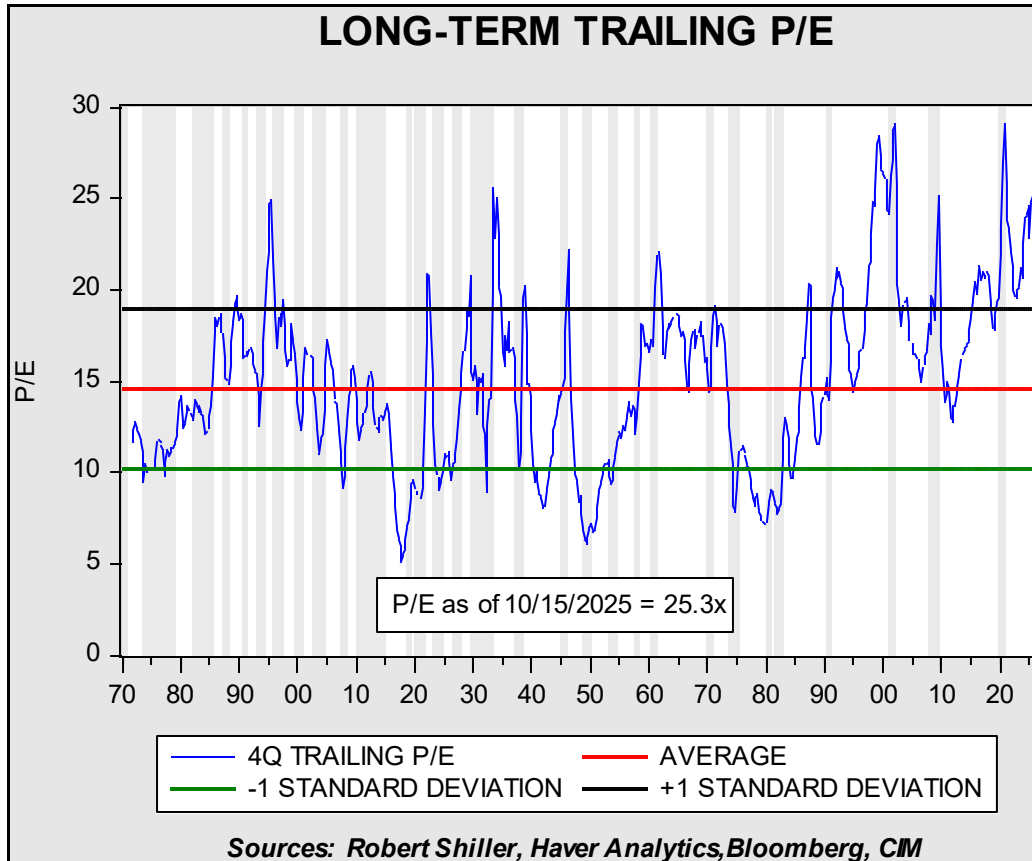


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.