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[Posted: October 20, 2026 — 9:30 AM ET] Global equity markets are mostly lower this morning. In Europe, the Euro Stoxx 50 is down 1.0% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 1.7%. Chinese markets were higher, with the Shanghai Composite up 0.1% and the Shenzhen Composite up 0.3%. US equity index futures are signaling a lower open.

With 45 companies having reported so far, S&P 500 earnings for Q3 are running at \$90.60 per share, compared to estimates of \$94.17, which is up 29.6% from Q3 2025. Of the companies that have reported thus far, 79.2% exceeded expectations while 12.5% 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	"The Euro vs. the Swiss Franc" (10/19/26) + 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.

Today's *Comment* opens with our analysis of Friedrich Merz's warning regarding Russia. We then turn to AI, examining what the weak IPO of a South Korean cloud computing company reveals about the current AI boom. Next, we discuss post-midterm concerns surrounding defense spending, the outcome of the Alberta referendum, and the ongoing energy investment surge across the Americas. As always, we conclude with a review of recent domestic and international economic data.

EU Isolated? The European Union is increasingly concerned about Russia's growing influence as Moscow builds closer ties with Washington. On Monday, [German Chancellor Friedrich Merz](#)

[warned that Moscow is seeking to disrupt democratic institutions](#) within the EU. His warning comes amid signs of a deepening relationship between Russian President Vladimir Putin and the White House following a deal to supply diesel in order to lower US domestic prices. These worries are expected to further intensify calls for the EU to become more self-reliant.

- Merz believes the European Union has grown overly complacent about protecting itself against Russian threats. He explained that [Putin feels threatened by European integration and liberal democracy](#), which has led Moscow to attempt to destabilize the region. His remarks come amid deteriorating relations between Germany and Russia; in September, Berlin accused Moscow of orchestrating a failed drone attack on Leipzig Airport in August.
- Merz's comments appear to respond to a growing consensus that the White House is preparing to side with Russia in its war against Ukraine. On Monday, President Trump expressed openness to a trilateral meeting with Putin and Chinese President Xi Jinping at the upcoming Asia-Pacific Economic Cooperation (APEC) summit, [provided the talks focus on nuclear weapons](#). His remarks suggest he may be willing to use Ukraine as a bargaining chip to secure a broader nuclear deal.
- As Europe becomes more isolated, it is seeking to become more self-sufficient. The region is exploring measures to lessen its dependence on foreign critical technology and appears to be moving toward developing its own independent military capabilities. This shift has already sparked friction with both the US and China, particularly as the EU moves to reserve portions of its satellite spectrum for European companies and restrict imports of Chinese hybrid vehicles.
- Despite the importance of unity, the EU often divides under pressure. Most notably, in 2025, the bloc failed to coordinate a decisive response to US tariffs after threatening action. As the US potentially shifts away from its traditional allies, maintaining cohesion will be a crucial test. Should the EU unite to forge a common strategy, its push for self-reliance may succeed. However, if member states prioritize national self-interest, the bloc risks unraveling, threatening the future of the euro.

Data Center Concerns: Fresh concerns about the sustainability of the AI boom have been raised following a disappointing IPO. On Monday, [South Korean firm Elice saw its shares plunge as much as 38% during its debut](#). Its weak performance comes as investors reassess the value of AI companies amid fears that the rising cost of infrastructure will hurt their long-term profitability. Fears of an AI bust are likely to weigh on sentiment as several US companies prepare to go public in the coming months.

- Despite the weak performance, Elice still managed to raise \$150 million in its IPO. The AI company plans to use the proceeds to purchase portable, modular data centers and related infrastructure to increase its overall capacity. Although retail shares were 400 times oversubscribed leading up to the launch, high initial demand quickly gave way to a selloff as investors grew more and more wary of stock valuations. This marked the worst opening day ever for a Korean IPO of this scale.
- Market sentiment surrounding AI has shifted following mounting debt concerns at cloud provider CoreWeave. Last week, the company saw [its borrowing costs surge as investors](#)

[began pricing in the risk that it might default on its debt](#) within the next five years.

Although these fears have eased slightly in recent days, lingering anxiety continues to weigh heavily on companies tied to the AI buildout, particularly South Korean chipmakers.

- While a drop in share prices following an IPO is not unusual, Elice's weakness appears to reflect a broader trend. Over the past week, investors have questioned whether companies can service their debt given rising borrowing costs and input prices. These worries coincide with growing fears that intensifying competition among data center operators is depressing cloud computing rates, threatening future profitability.
- Elice's weak debut raises the stakes for upcoming AI offerings, most notably Anthropic's reportedly planned November listing. A strong showing from the Claude developer could reassure investors that AI momentum remains intact; a stumble, however, could amplify fears of a broader sector retrenchment. If the AI bubble bursts, value is likely to emerge in established enterprise software names.

Defense Cuts? Growing expectations of a [Democratic sweep have started to weigh on defense stocks](#). Investors increasingly believe that if Democrats win control of both chambers of Congress, they could push for defense spending cuts to help narrow the deficit. That view rests largely on the expected winding down of conflicts abroad, including in Iran and Ukraine. While polls currently favor Democrats, we think an upset for them in the Senate is more likely than markets suggest. If we are correct, defense companies could rally after the midterms.

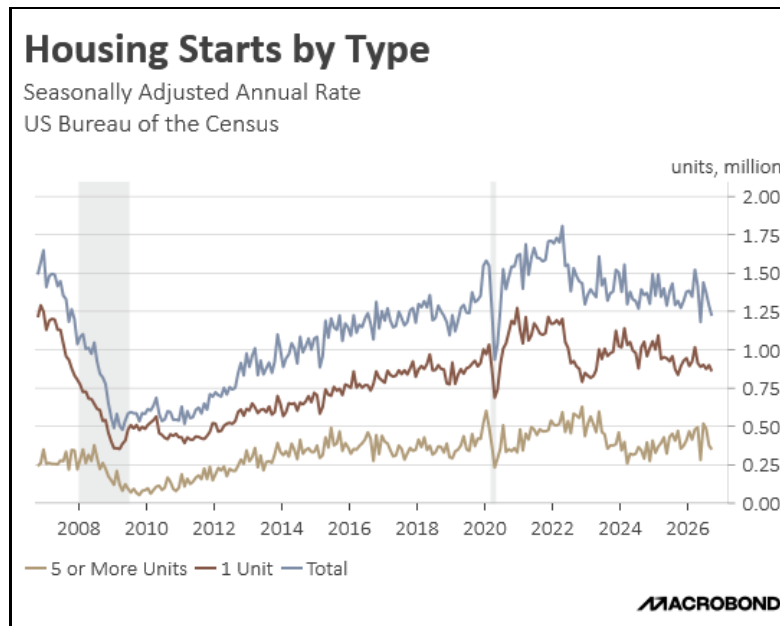
Alberta Stays: Alberta [voters overwhelmingly chose to remain part of Canada in Monday's referendum](#), with roughly 76% backing the remain option. The decisive result should ease concerns that the province was moving toward independence. The vote followed a push by separatists for a referendum, amid pressure from the US for Canada to become the 51st state. This vote is unlikely to be the last separatist push, but the result suggests the risk of a successful independence bid remains low.

OPEC Dominance to End? Escalating conflict in [the Middle East has triggered a surge in energy investment across the Americas](#). Capital is increasingly flowing into North and South America as the confrontation involving Iran and Saudi Arabia accelerates global efforts to diversify supply lines. While energy prices are likely to remain elevated in the near term, this expanding capacity in the Western Hemisphere should drive down global oil prices over the next decade, ultimately weakening the Middle East's historic dominance over global energy flows.

US Economic Releases

September **housing starts** increased to a seasonally adjusted, annualized rate of just 1.221 million units, short of the expected rate of 1.300 million units and below the revised August rate of 1.288 million units. The rate of housing starts in August was down 5.2% from the previous month. Additionally, September **housing permits** increased 1.400 million units, slightly above

their anticipated rate of 1.399 million units and roughly in line with the August rate of 1.403 million units. Permits issued for new housing units in September were down 0.2% from the previous month. Compared with the same month one year earlier, housing starts in September were down 7.4% while permits were down 3.0%. The chart below shows the growth in new home starts by type of property since just before the Great Financial Crisis.



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	Pending Home Sales	m/m	Sep	-0.5%	0.3%	**
10:00	Pending Home Sales NSA	y/y	Sep	-3.9%	-4.9%	**
Federal Reserve						
No Fed speakers or events for the rest of today						

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	Tokyo Condominiums for Sale	y/y	Sep	-40.1%	-12.4%		*	Equity and bond neutral
EUROPE								
Eurozone	ECB Current Account SA	m/m	Aug	8.7b	27.2b		*	Equity and bond neutral
	ZEW Survey Expectations	m/m	Oct	18.5	25.8		**	Equity and bond neutral
	Construction Output	y/y	Aug	1.4%	-1.7%		*	Equity and bond neutral
Germany	PPI	y/y	Sep	6.7%	4.6%	6.3%	**	Equity and bond neutral
	ZEW Survey Expectations	m/m	Oct	28.1	34.7	30.0	**	Equity and bond neutral
	ZEW Survey Current Situation	m/m	Oct	-35.9	-47.1	-47.1	**	Equity bullish, bond bearish
Italy	Current Account Balance	m/m	Aug	2766m	7634m		*	Equity and bond neutral
UK	Average Weekly Earnings 3M/YoY	m/m	Aug	3.70%	3.90%	3.80%	**	Equity and bond neutral
	ILO Unemployment Rate 3Mths	m/m	Aug	4.70%	4.90%	4.90%	**	Equity and bond neutral
	Claimant Count Rate	m/m	Sep	4.40%	4.40%		**	Equity and bond neutral
	Jobless Claims Change	m/m	Sep	30.3k	7.0k		**	Equity and bond neutral
Switzerland	Real Exports	m/m	Sep	-0.1%	-9.7%		*	Equity and bond neutral
	Real Imports	m/m	Sep	7.0%	-3.6%		*	Equity and bond neutral
AMERICAS								
Canada	CPI	y/y	Sep	3.1%	3.0%	3.2%	***	Equity and bond neutral
	CPI Ex Food and Energy	y/y	Sep	2.1%	2.1%	2.1%	*	Equity and bond neutral
	BoC Business Outlook Future Sales	q/q	3Q	-0.3%	-0.4%		*	Equity and bond neutral
Brazil	Trade Balance Weekly	w/w	18-Oct	\$2661m	\$2694m		*	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)	407	409	-2	Up
U.S. Sibor/OIS spread (bps)	407	407	0	Up
U.S. Libor/OIS spread (bps)	405	404	1	Up
10-yr T-note (%)	5.12	5.14	-0.02	Down
Euribor/OIS spread (bps)	264	264	0	Up
Currencies	Direction			
Dollar	Up	US		Up
Euro	Down	Euro		Down
Yen	Up	Japan		Up
Pound	Down	UK		Down
Franc	Down	Switzerland		Down
Central Bank Action	Prior	Expected	Expected	
PBOC 5-Year Loan Prime Rate	3.50%	3.50%	3.50%	On Forecast
PBOC 1-Year Loan Prime Rate	3.00%	3.00%	3.00%	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	\$111.71	\$109.55	1.97%	
WTI	\$109.50	\$103.66	5.63%	Geopolitical Tensions
Natural Gas	\$3.02	\$3.06	-1.24%	
Crack Spread	\$50.64	\$54.58	-7.21%	
12-mo strip crack	\$52.66	\$53.15	-0.92%	
Ethanol rack	\$2.26	\$2.26	-0.01%	
Metals				
Gold	\$4,121.12	\$4,140.72	-0.47%	
Silver	\$57.15	\$57.08	0.13%	
Copper Contract	\$657.45	\$657.55	-0.02%	
Grains				
Corn contract	\$468.00	\$467.00	0.21%	
Wheat contract	\$661.25	\$655.25	0.92%	
Soybeans contract	\$1,273.50	\$1,268.75	0.37%	
Shipping				
Baltic Dry Freight	2,546	2,511	35	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-0.34		
Gasoline (mb)		-0.31		
Distillates (mb)		-1.24		
Refinery run rates (%)		-0.32%		
Natural gas (bcf)		83		

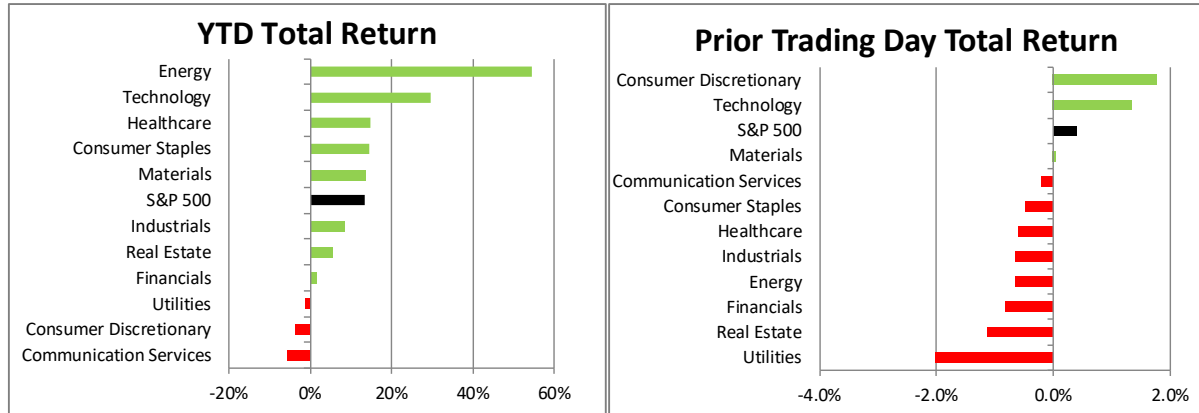
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures from east of the Rocky Mountains to the East Coast, with cooler-than-normal temperatures in the Pacific region. The precipitation outlook calls for wetter-than-normal conditions in the entire region from the Rocky Mountains to the Mississippi River and southern Florida, with dry conditions in New England.

There is one atmospheric disturbance in the Atlantic Ocean area. It has a 40% chance of cyclone formation within the next seven days.

Data Section

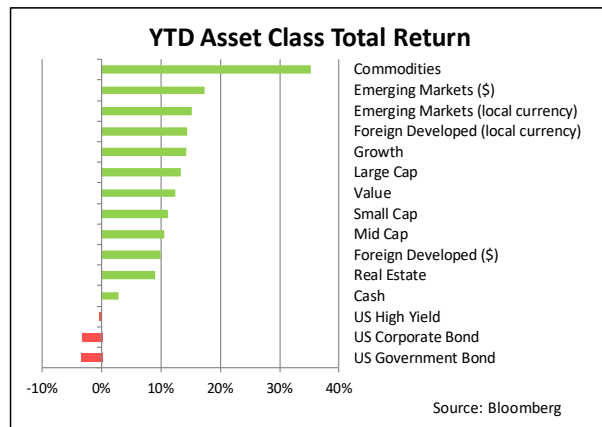
US Equity Markets – (as of 10/16/2026 close)



(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 10/16/2026 close)

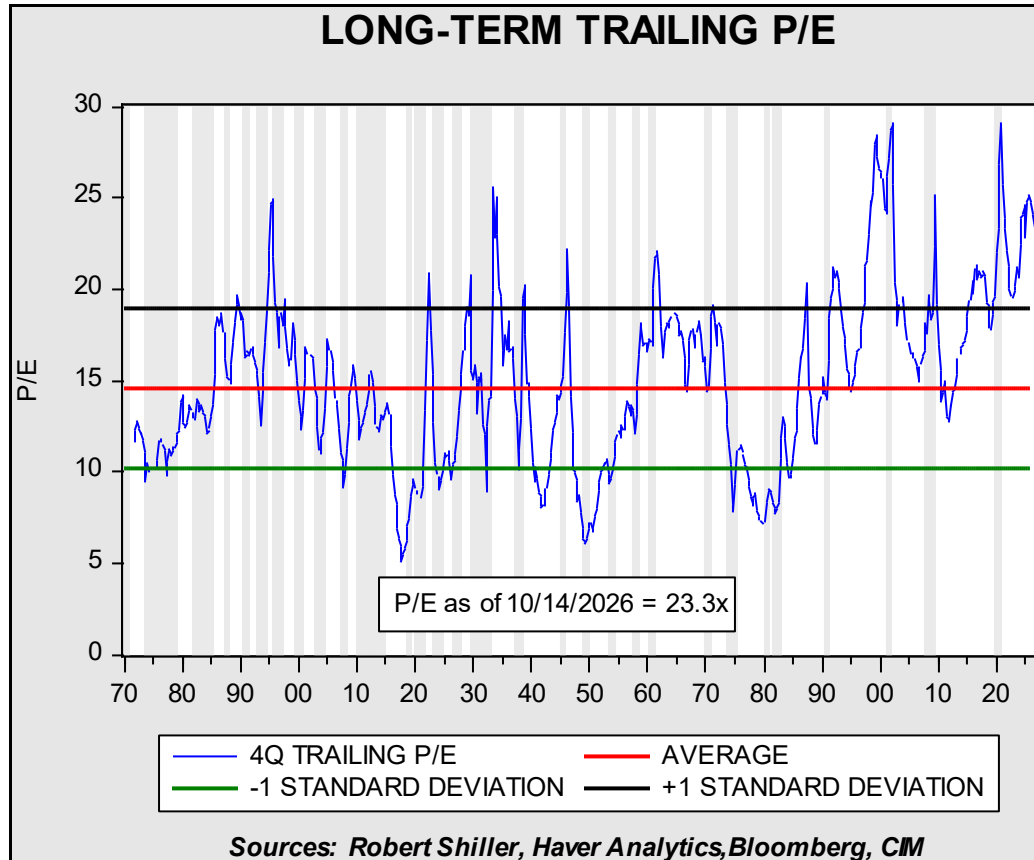


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.