

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: October 21, 2026 — 9:30 AM ET] Global equity markets are mostly higher this morning. In Europe, the Euro Stoxx 50 is up 0.9% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 1.8%. Chinese markets were lower, with the Shanghai Composite down 0.6% and the Shenzhen Composite down 0.5%. US equity index futures are signaling a higher open.

With 60 companies having reported so far, S&P 500 earnings for Q3 are running at \$90.70 per share, compared to estimates of \$94.17, which is up 29.6% from Q3 2025. Of the companies that have reported thus far, 83.3% exceeded expectations while 10.0% 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.

Our *Comment* opens with a look at the White House's efforts to resolve global conflicts. We then turn to AI, examining why SpaceX's earnings have lifted sentiment around the AI trade. Next, we briefly discuss Germany's debate over nationalizing landlord assets and explain why US-Mexico trade talks broke down. We conclude, as always, with a review of the latest domestic and international economic data.

Easing Tensions: There are growing signs that the White House will push to end active conflicts in the coming weeks. Unconfirmed reports on Thursday hinted at an impending US-Iran truce, though those claims were quickly dismissed. Meanwhile, Ukraine appears to have softened its

stance on US-led peace negotiations following accusations that SpaceX restricted its access to Starlink satellite internet. These diplomatic pressures come as the White House seeks to stabilize global energy markets ahead of the midterm elections.

- [Washington remains skeptical about whether Iran is willing to hold talks](#) before the midterm elections. While Iranian representatives maintain that negotiations will not resume unless the US lifts sanctions and ends its threats, White House officials claim Tehran is intentionally stalling to see whether the November outcome provides greater leverage. Also, a prominent [Iranian official stated that Iran is still unwilling to relinquish any of its enriched uranium reserves](#).
- Meanwhile, Ukrainian President Volodymyr Zelenskyy met with European and US officials to discuss a potential framework to end the war in Ukraine. Following negotiations, which [Finnish representatives described as “genuine progress” toward peace](#), Zelenskyy confirmed that full access to Starlink services was being restored. These diplomatic developments coincide with expectations that President Trump may meet with his Russian and Chinese counterparts on the sidelines of next month's APEC summit.
- The ongoing conflicts involving Ukraine and Iran continue to disrupt two of the world's most critical oil chokepoints. Before the disruptions, the [Strait of Hormuz and the Black Sea export routes together carried roughly 23 million barrels per day](#). Constrained flows through these waterways have been a key driver of the inflation shocks of 2022 and, more recently, 2026. Resolving these conflicts is, therefore, central to easing price pressures.
- There is a strong possibility that the conflicts in both Ukraine and Iran could be resolved by 2027. If so, this would likely provide a powerful tailwind for markets by not only lowering inflation but also reducing the need for tighter monetary policy. However, the path forward continues to be uncertain, given questions about how many concessions the US is willing to make to secure a deal. While we remain cautiously optimistic, we advise investors against rushing to take on excessive risk.

AI Sustained: Recent earnings have helped sustain optimism that the AI trade is still alive. On Tuesday, [SpaceX reported stronger-than-expected earnings, helped by a sharp increase in demand](#) for its AI business. This revenue surge has eased fears that the infrastructure buildout is happening too fast, worries that have been heightened by concerns over companies' ability to service debt amid rising input and borrowing costs. Earnings growth remains a barometer of AI momentum as the technology continues to account for a larger share of the economy.

- SpaceX, which went public in June, provided further evidence that AI companies can maintain strong business growth. In the third quarter, the company reported revenue of \$14.6 billion, a 161% increase year-over-year that easily topped market expectations. While much of this growth was driven by recurring revenue from its satellite internet service, Starlink, SpaceX also experienced a major boost in demand for its Super Intelligence business.
- The earnings arrive as AI debt has become a gauge of the buildout's sustainability. Alongside Oracle and CoreWeave, SpaceX has come under heavy fire over its leverage. Earlier this month, [its five-year credit default swap spread rose to a record 194 basis](#)

[points](#) as it was reported to be in talks to raise \$40 billion to buy Nvidia chips. As the AI infrastructure buildout grows increasingly expensive, these companies' debt burdens are still a key focus for investors assessing whether the AI boom is entering a bubble.

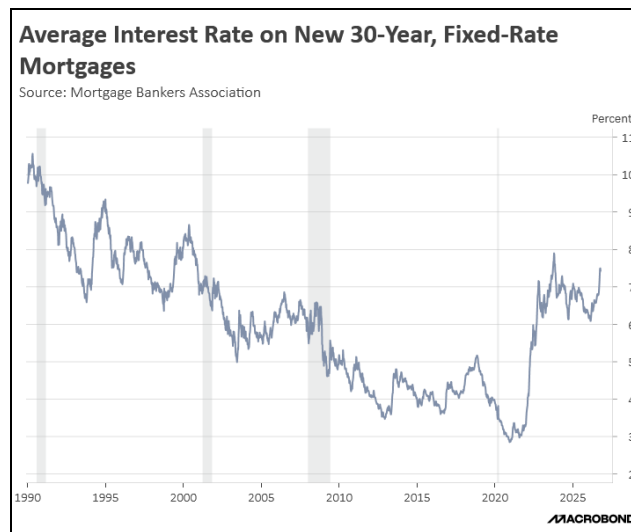
- The AI buildout remains one of the primary drivers of US economic growth as the nation stakes its future on the technology. According to the Brookings Institution, if tech companies follow through on their projected \$10.3 trillion in AI spending through 2032, [the sector could contribute an average of 3.63% of GDP each year](#). By comparison, the infrastructure expansion is expected to account for a larger share of economic growth than historical milestones such as canals, railroads, electrification, and the internet.
- SpaceX's earnings are likely to boost market sentiment regarding the sustainability of the AI boom, especially as Anthropic and OpenAI prepare to go public. The primary concern for investors continues to be whether demand for these products can keep pace with rising costs, particularly as demand pressures drive up inflation and heavy debt issuance lifts yields. So far, however, there are no signs of an imminent bust.

Nationalizing Property: German Chancellor Friedrich Merz has warned against efforts to nationalize assets owned by landlords. During a speech, [he stated that protecting property rights and maintaining trust in a functioning market](#) form the basis of a market economy. His remarks appear to address a push by Berlin politicians, including members of the Social Democratic Party (SPD), Greens, and Die Linke, to resolve the city's housing crisis while fending off political challenges from the far right and far left.

Mexico Trade Talks: Trade talks between the US and Mexico broke down following pushback over steel tariffs. The negotiations appeared to be approaching an agreement, with [Mexico working out an arrangement to lower US-imposed tariffs on metal derivatives](#). However, those talks stalled after White House officials raised objections regarding proposed concessions. While a deal is still likely, it is now not expected until after the midterm elections.

US Economic Releases

The Mortgage Bankers Association said mortgage applications in the week ended October 16 fell 5.3%, after declining 2.7% in the previous week. Applications for home purchase mortgages decreased 7.1%, after falling 4.0% in the prior week. Applications for refinancing mortgages decreased 2.0%, after dropping 0.4% the week before. The average interest rate on a 30-year, fixed-rate mortgage fell 9 basis points to 7.41%. The chart below shows how mortgage rates have changed over time.



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 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	Trade Balance	y/y	Sep	-¥536.6b	-¥1105.6b	-¥111.0b	**	Equity and bond neutral
	Exports	y/y	Sep	16.7%	19.3%	21.3%	*	Equity bearish, bond bullish
	Imports	y/y	Sep	18.9%	28.0%	20.4%	*	Equity bearish, bond bullish
India	Core Industries Output	y/y	Sep	7.9%	5.9%		*	Equity and bond neutral
EUROPE								
UK	CPI	y/y	Sep	3.5%	3.1%	3.4%	***	Equity and bond neutral
	CPI Core	y/y	Sep	2.8%	2.6%	2.8%	***	Equity and bond neutral
	CPI Services	y/y	Sep	3.7%	3.4%	3.6%	*	Equity and bond neutral
	Retail Price Index	m/m	Sep	422.1	421.6	422.0	**	Equity and bond neutral
	RPI	y/y	Sep	3.9%	3.4%	3.9%	**	Equity and bond neutral
	RPI Ex Mort Int.Payments	y/y	Sep	3.9%	3.3%	3.9%	*+	Equity and bond neutral
	Public Finances (PSNCR)	m/m	Sep	16.900	9.9b	16.9b	*	Equity and bond neutral
	Public Sector Net Borrowing	m/m	Sep	24.0b	17.3b	24.5b	*	Equity and bond neutral
	PSNB ex Banking Groups	m/m	Sep	24.5b	17.3b		**	Equity and bond neutral
Switzerland	M3 Money Supply	y/y	Sep	3.9%	3.6%		**	Equity and bond neutral
AMERICAS								
Mexico	International Reserves	w/w	16-Oct	\$25777m	\$256344m		*	Equity and bond neutral
	Retail Sales	y/y	Aug	3.3%	1.8%	1.9%	***	Equity bullish, bond bearish

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	407	0	Up
U.S. Sibor/OIS spread (bps)	407	406	1	Up
U.S. Libor/OIS spread (bps)	404	404	0	Up
10-yr T-note (%)	5.10	5.11	-0.01	Down
Euribor/OIS spread (bps)	265	264	1	Up
Currencies	Direction			
Dollar	Up	US		Up
Euro	Down	Euro		Down
Yen	Up	Japan		Up
Pound	Down	UK		Up
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	\$110.00	\$108.79	1.11%	
WTI	\$99.05	\$97.82	1.26%	
Natural Gas	\$2.85	\$2.96	-3.85%	
Crack Spread	\$53.69	\$54.44	-1.38%	
12-mo strip crack	\$51.26	\$52.41	-2.20%	
Ethanol rack	\$2.24	\$2.24	-0.05%	
Metals				
Gold	\$4,135.76	\$4,125.20	0.26%	
Silver	\$57.72	\$57.94	-0.38%	
Copper Contract	\$655.35	\$660.35	-0.76%	
Grains				
Corn contract	\$459.50	\$462.00	-0.54%	
Wheat contract	\$637.25	\$643.25	-0.93%	
Soybeans contract	\$1,258.50	\$1,263.50	-0.40%	
Shipping				
Baltic Dry Freight	2,593	2,546	47	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-0.34		
Gasoline (mb)		-0.31		
Distillates (mb)		-1.24		
Refinery run rates (%)		0.00%		
Natural gas (bcf)		82		

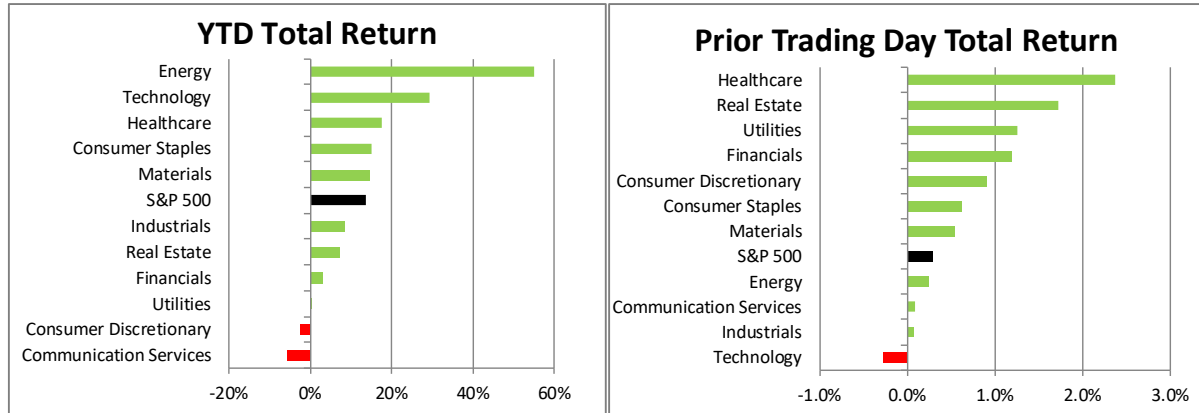
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures from east of the Great Plains to the East Coast, with cooler-than-normal temperatures in the Pacific region and parts of the Rocky Mountain region. The precipitation outlook calls for wetter-than-normal conditions for most of the country, with dry conditions in New England and the Mid-Atlantic.

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

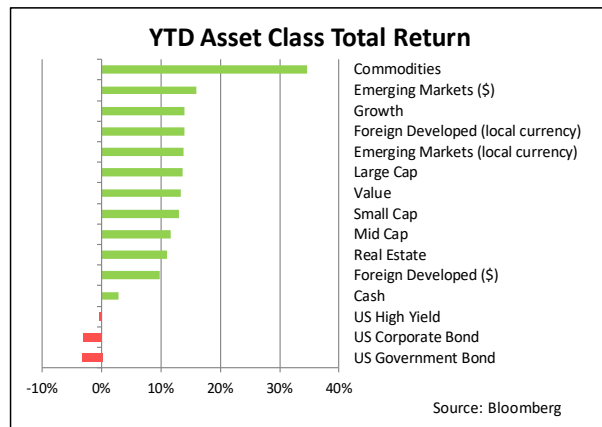
US Equity Markets – (as of 10/20/2026 close)



(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 10/20/2026 close)

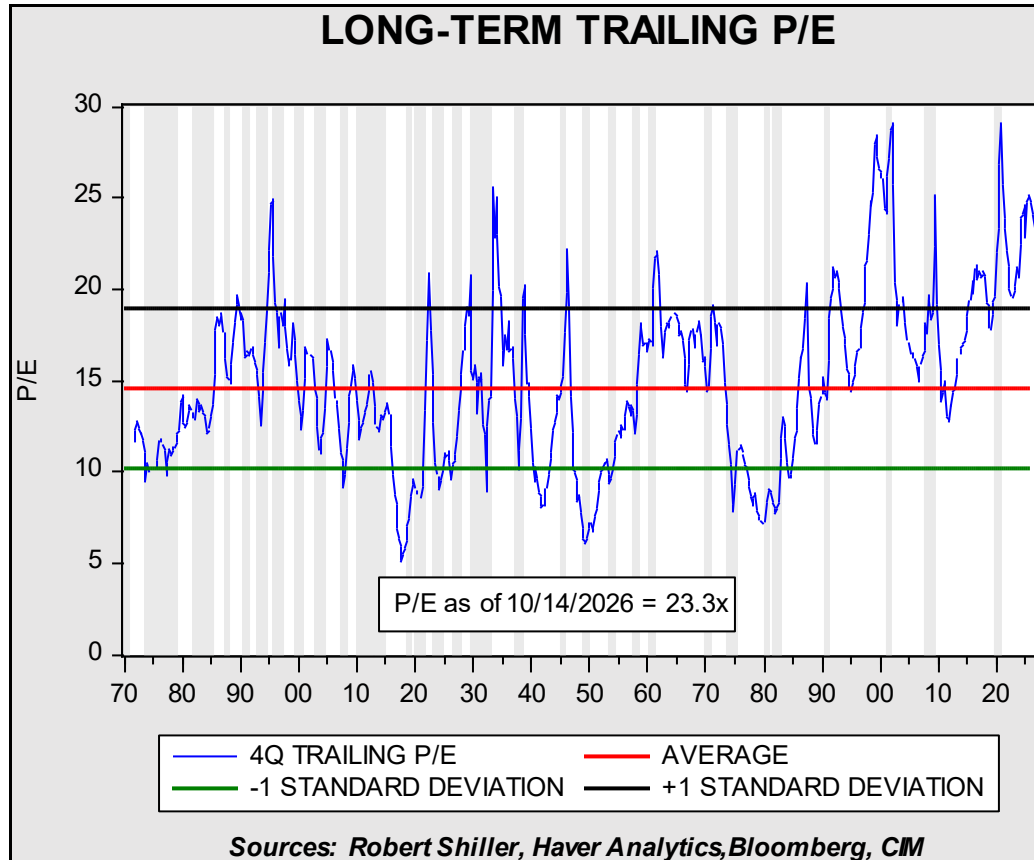


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.