Daily Comment

Confluence INVESTMENT MANAGEMENT

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: October 22, 2025 — 9:30 AM ET] Global equity markets are lower this morning. In Europe, the Euro Stoxx 50 is down 0.1% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.8%. Chinese markets were lower, with the Shanghai Composite down 0.1% and the Shenzhen Composite down 0.4%. US equity index futures are signaling a mildly lower open.

With 85 companies having reported so far, S&P 500 earnings for Q3 are running at $68.30 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.

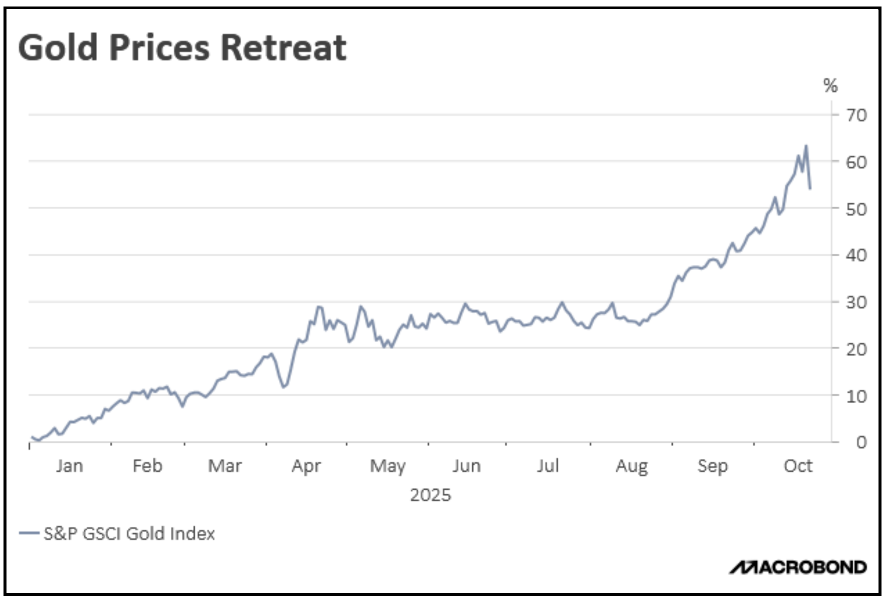
Bi-Weekly Geopolitical Report	Asset Allocation Bi-Weekly	Asset Allocation Quarterly	Of Note
"Why the US Is Offering to Bail Out Argentina" (10/13/25) + podcast	"The Debasement Hedge: A Tale of Two Safeties" (10/20/25) + podcast	**Q4 2025 Report**	The Confluence Mailbag Podcast

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* section opens with a deep dive into the recent drop in gold prices and its stark implications for US-China trade tensions. We then explore the potential pathway to persuading Russia to end the war in Ukraine. Closer to home, a strong earnings season and a landmark AI deal could signal robust market momentum, while in the EU, there is mounting pressure to recalibrate climate strategy. As always, we include a summary of key economic indicators from US and global markets.

Gold Retreat: Precious metals, including gold and silver, sold off as the de-escalation of US-China trade tensions reduced the appeal of safe-haven assets. This decline was amplified by the post-Diwali lull in Indian demand and widespread concern that the metals were overbought, triggering significant profit-taking. While the retreat from gold and silver signals investors are shifting away from safe havens, the lack of a corresponding surge in equities suggests lingering investor caution.

- The market's hesitation to embrace riskier assets reflects a standoff-ish posture as investors await for more details about US-China trade negotiations. This hesitation persists despite the White House's upbeat remarks on Tuesday, expressing confidence in reaching a "fantastic deal." Yet, skepticism lingers, with no meeting date set and the President Trump implying he will only attend if the talks show real promise of progress.
- The White House has indicated that it will seek a deal that includes provisions on rare earth exports, measures to curb the flow of fentanyl, and the resumption of US soybean purchases. In exchange, Washington could offer tariff relief. There has also been speculation that the US could soften its stance on Taiwan, particularly after the president suggested that Beijing is not currently inclined to pursue an invasion.



- We continue to anticipate a meeting between the two sides at the upcoming ASEAN Summit in Malaysia, ahead of the crucial November 1 tariff deadline. Our base case projects a minimal consensus with a commitment to extend negotiations supported by reciprocal minor concessions. Failure to achieve even this minimal step toward de-escalation, however, would likely serve as a negative catalyst, prompting immediate short-term profit taking across various market sectors.
- That said, a successful meeting yielding a "grand bargain" between the world's two largest economies would be a highly positive event for markets. We believe this agreement would center on Chinese assurances regarding rare earth exports and a commitment to major purchases of American agricultural products. This outcome would provide a significant boost to both Chinese and US equities, with technology stocks and the US agricultural sector poised for the greatest immediate sectoral benefits.

No Putin Meeting: A high-stakes meeting with Russian President Vladimir Putin in Budapest is now off the table, the White House has confirmed. The decision to halt talks comes after Russia offered no reassurances regarding an end to its invasion of Ukraine, leading the US to conclude that the discussion would be unproductive. This cancellation follows reports of internal US debates, including a recent reversal on sending Tomahawk missiles to Ukraine and rumors of possibly pressing Kyiv for more territorial concessions to secure a deal.

- Two structural factors entrench the conflict's persistence: a strategic imperative for Putin to obtain a definable victory that legitimizes the invasion's staggering costs, and the Russian economy's absorption of war-related production as a key driver of growth. Therefore, the war may be prolonged, as its continuation is directly tied to fulfilling these core strategic and economic objectives.
- While the path to ending the war is challenging, the US retains significant leverage. In addition to sanctions relief, a potent bargaining chip is the unsold, frozen Russian state assets, which could be used as a strategic tool in negotiations. Furthermore, Moscow may be incentivized by the potential for a diplomatic off-ramp, specifically the opportunity to re-establish a closer relationship with the US and secure a pathway for re-engagement with the European Union.
- Recent overtures point to potential avenues for de-escalation. For instance, Moscow has recently floated the idea of an Arctic tunnel connecting Russia and the US across the Bering Strait. On the European side, some speculation persists that the conclusion of the conflict could lead to a significant policy shift in Germany. This includes the possibility that a future German government might reconsider the Nord Stream 2 gas pipeline project.
- While the suspension of talks suggests a pushback on the immediate ceasefire timeline, we maintain an optimistic view that the conflict could be resolved by early 2026, if not sooner. A definitive end to hostilities is expected to be a strong catalyst for European equities. Conversely, the anticipated full resumption of Russian energy (oil, gas, and coal) flows to international markets would likely create significant downward pressure on global commodity prices.

Earnings Season: With only a fraction of S&P 500 companies having reported, the earnings beat rate (the percentage of companies surpassing consensus EPS estimates) this quarter is the highest in over four years. This outcome defies even high initial expectations and suggests better-than-anticipated corporate fundamentals. The primary pillars supporting this profit strength are robust consumer spending, expansive investment in AI technology and infrastructure, and the flow-through effects of ongoing federal deficit spending.

US-India Trade Deal: A pending US-India trade agreement aims to dramatically lower tariffs on Indian goods, cutting them from around 50% to 15-16%. The deal is part of a broader strategic bargain. In return for this tariff relief, India will reduce its reliance on Russian oil and increase imports of American non-GMO corn and soymeal. Successfully concluding this pact would mark a significant diplomatic achievement for the White House, demonstrating its capacity to broker deals that advance both economic and foreign policy objectives.

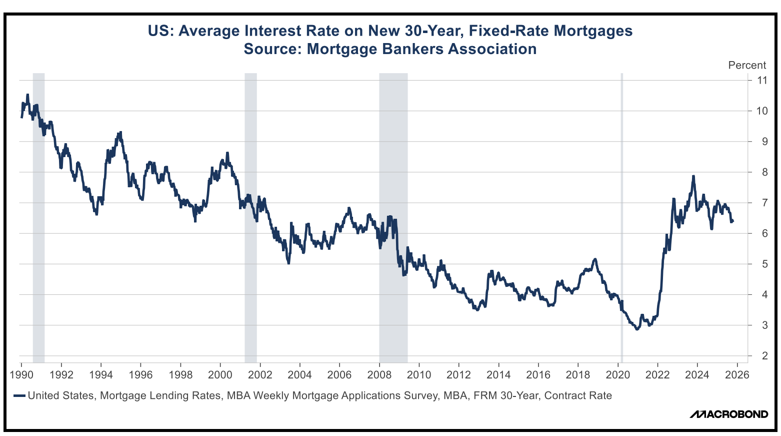
EU Under Pressure: The United States and Qatar have joined forces to pressure the European Union to revise its proposed climate regulations. The push comes as EU lawmakers debate legislation that would fine companies up to 5% of their global revenue for supply chain practices that harm the environment or violate human rights. Washington has warned that the measure could undermine economic growth and jeopardize the trade agreement reached with the EU in July.

Anthropic and Google: A major rival to OpenAI is negotiating a deal with Google for its cloud computing services. The agreement would grant Anthropic access to Google's Tensor Processing Units (TPUs), which are specifically designed for machine learning workloads. This move comes as one of its largest suppliers, Amazon, is contending with outages of its cloud services. The deal reinforces an industry trend of heavy spending to build AI supply chain resiliency, while also highlighting the intensifying competition for dominance in AI infrastructure.

Japan Stimulus: Newly appointed Japanese Prime Minister Sanae Takaichi is proposing a targeted economic package to counter rising inflation. The proposal, which aims to mitigate rising costs of living, is believed to center on direct subsidies for winter energy bills and grants to local governments. Deliberately avoiding the broad stimulus spending that has unnerved financial markets, Takaichi's strategy emphasizes targeted expenditures. However, key questions regarding the package's total cost and financing have yet to be clarified.

US Economic Releases

The Mortgage Bankers Association said ***mortgage applications*** in the week ended October 18 edged down 0.3%, after declining 1.8% in the previous week. Applications for home purchase mortgages fell 5.2%, after a fall of 2.7% in the prior week, but applications for refinancing mortgages rose 4.0%, easily reversing their 1.0% decline the week before. The average interest rate on a 30-year, fixed-rate mortgage fell 5 basis points to 6.37%. 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 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	Trade Balance	y/y	Sep	-¥234.6b	-¥242.5b	¥22.5b	**	Equity and bond neutral
	Exports	y/y	Sep	4.2	-0.1	4.4	*	Equity and bond neutral
	Imports	y/y	Sep	3.3	-5.2	0.6	*	Equity bullish, bond bearish
South Korea	PPI	y/y	Sep	1.2%	0.6%		**	Equity and bond neutral
EUROPE								
UK	CPI	y/y	Sep	3.8%	3.8%	4.0%	***	Equity and bond neutral
	CPI Core	y/y	Sep	3.5%	3.6%	3.7%	***	Equity and bond neutral
	Retail Price Index	m/m	Sep	406.1	407.7	407.1	**	Equity and bond neutral
	RPI	y/y	Sep	4.5%	4.6%	4.7%	**	Equity and bond neutral
	House Price Index	y/y	Sep	3.00%	2.80%	3.20%	**	Equity and bond neutral
AMERICAS								
Canada	CPI	y/y	Sep	2.4%	1.9%	2.2%	***	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)	378	379	-1	Down
U.S. Sibor/OIS spread (bps)	387	388	-1	Down
U.S. Libor/OIS spread (bps)	377	378	-1	Down
10-yr T-note (%)	3.94	3.96	-0.02	Down
Euribor/OIS spread (bps)	204	202	2	Up
Currencies	Direction			
Dollar	Up			Up
Euro	Down			Down
Yen	Flat			Down
Pound	Down			Down
Franc	Flat			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	$62.46	$61.32	1.86%	
WTI	$58.38	$57.24	1.99%	
Natural Gas	$3.49	$3.47	0.58%	
Crack Spread	$22.99	$23.82	-3.50%	
12-mo strip crack	$24.01	$24.13	-0.47%	
Ethanol rack	$1.97	$1.98	-0.16%	
Metals				
Gold	$4,025.92	$4,125.22	-2.41%	
Silver	$47.99	$48.71	-1.49%	
Copper contract	$497.00	$496.60	0.08%	
Grains				
Corn contract	$420.25	$419.75	0.12%	
Wheat contract	$499.75	$500.25	-0.10%	
Soybeans contract	$1,051.25	$1,048.50	0.26%	
Shipping				
Baltic Dry Freight	2,094	2,071	23	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		2.18		
Gasoline (mb)		-1.65		
Distillates (mb)		-3.18		
Refinery run rates (%)		-0.8%		
Natural gas (bcf)		83		

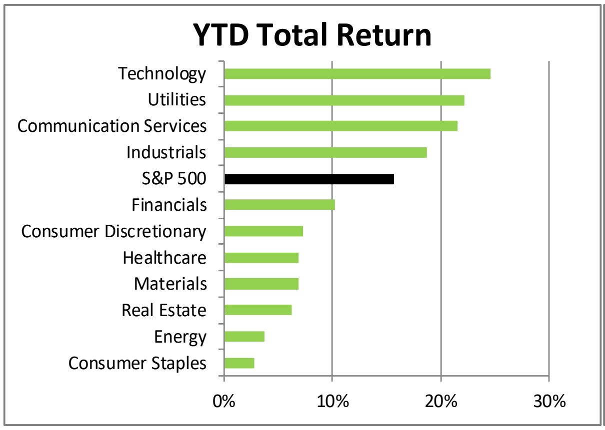
Weather

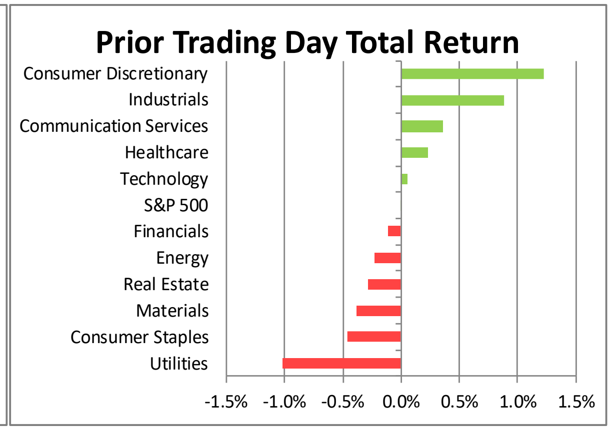
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in all southern tier states from California to Florida, as well as in the Mississippi Valley region and the Midwest, with cooler-than-normal temperatures in the Pacific Northwest and the Carolinas. The outlook calls for wetter-than-normal conditions in the Pacific Northwest, the Upper Midwest, and all points east of the Great Lakes, with dry conditions in New Mexico and Texas.

There is currently one tropical disturbance in the Atlantic Ocean area. Tropical Storm Melissa is in the Caribbean Sea and heading northwesterly toward Jamaica.

Data Section

US Equity Markets – (as of 10/21/2025 close)

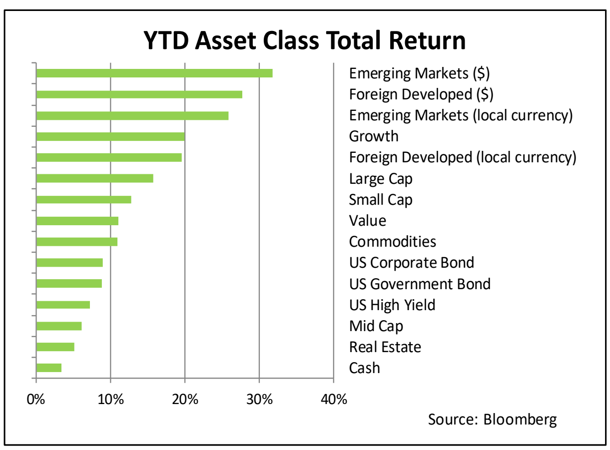




(Source: Bloomberg)

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 10/21/2025 close)

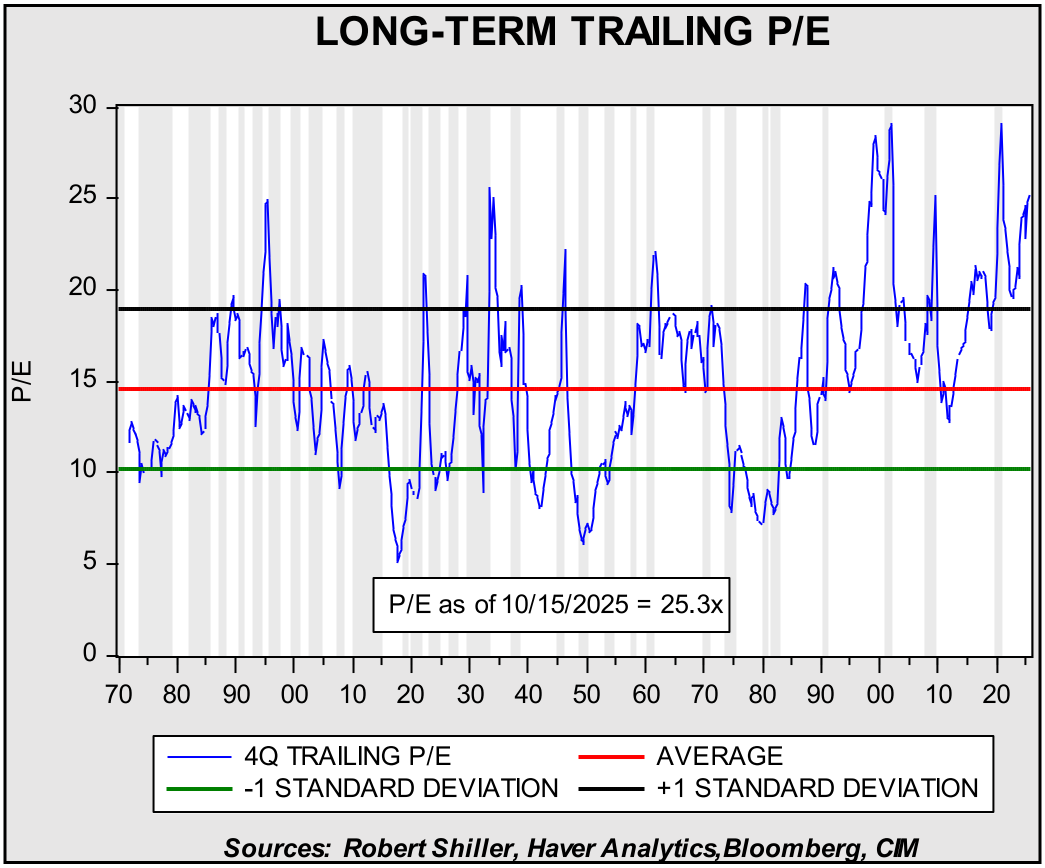


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.