

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: October 22, 2026 — 9:30 AM ET] Global equity markets are lower this morning. In Europe, the Euro Stoxx 50 is down 1.4% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 2.7%. Chinese markets were lower, with the Shanghai Composite down 1.5% and the Shenzhen Composite down 2.9%. US equity index futures are signaling a lower open.

With 91 companies having reported so far, S&P 500 earnings for Q3 are running at \$91.50 per share, compared to estimates of \$94.17, which is up 29.6% from Q3 2025. Of the companies that have reported thus far, 80.2% exceeded expectations while 13.2% 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	Q4 Reports Coming Soon	Keller Quarterly 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 our thoughts on the recent attacks in Saudi Arabia. We then turn to cybersecurity, examining how AI can both uncover and create vulnerabilities. Next, we briefly cover expectations for the Bank of Japan's upcoming rate decision, possible changes at Petrobras following Brazil's elections, and a setback in peace talks between Russia and Ukraine. As always, we conclude with a review of recent domestic and international economic data.

Houthi Attacks: Saudi Arabia faces growing threats from Houthi forces as the conflict in the Middle East continues to broaden. On Wednesday, the [US State Department ordered non-essential staff to leave Saudi Arabia](#) following persistent strikes on the country. The escalation comes as the Iranian-backed group seeks to disrupt oil flows and preserve Iran's leverage over

the United States. Consequently, these ongoing attacks have disrupted global supply chains, forcing other regions to step in to offset the shortfall.

- The evacuation order occurred after two people were killed in drone strikes targeting regional oilfields. Over the past few weeks, the Houthis have escalated attacks against Saudi Arabia, targeting airports and critical infrastructure in a bid to disrupt oil production and capture key territory. On Monday, [the United Kingdom deployed forces to help defend Saudi Arabia against further strikes](#), following the US's reluctance to provide assistance.
- Renewed attacks in the region continue to put upward pressure on global energy prices. This week, WTI crude prices rose above \$100 per barrel for the first time in over a month as hostilities escalated. Beyond recent strikes in Saudi Arabia, tension has intensified following [Iran's claims that it possesses missiles capable of striking US warships](#), a stark threat that comes even as both Washington and Tehran signal openness to renewed diplomatic talks.
- Conflict in the Middle East has triggered [a surge in infrastructure investment across other regions](#), with North and South America emerging as primary targets. The US, Canada, and Brazil have seen their exports rise sharply following the conflict and are using the excess revenue to expand production capacity. The growing strategic importance of the Americas comes as other producers, including Venezuela, Suriname, and Guyana, also aim to attract fresh investment to build out their own energy infrastructure.
- Once the conflict between the US and Iran concludes, which is expected sometime after the midterm elections, oil prices could experience a longer-lasting downward trend than the market currently anticipates. Competition for market share will likely intensify as Middle Eastern producers lower prices to undercut competitors. The resulting decline in oil prices could provide a welcome economic boost to major net importers and clear a path for looser monetary policy.

Cyber Vulnerability: Critical flaws in a popular programming language have forced numerous websites offline. On Wednesday, [reports surfaced that sites running on Hypertext Preprocessor \(PHP\) had been widely exploited](#), leaving administrators scrambling to secure their systems. The impact appears broad-based, with websites worldwide potentially exposed. With hacking on the rise in recent months due to increasingly sophisticated AI techniques, this incident raises fresh questions about the level of cybersecurity required to defend against modern threats.

- [Amazon was the first to flag the threat using its AI tools](#). The cloud computing company discovered that hackers had attempted to exploit the vulnerabilities four days before they were made public. The exposure is believed to have affected more than 70% of websites, including many built on WordPress, Drupal, Joomla, and Magento, and is thought to have existed for at least a decade.
- The [vulnerability was severe enough that operators of PHP-based websites were urged to update their systems](#) immediately or take them offline. Several government and institutional websites across Europe were taken down as a precaution while the issue was resolved. Governments and developers also appear to be coordinating to identify

vulnerable websites. The developers who maintain PHP have released a patch to close the security gap.

- This discovery of a security hole highlights the growing paradox of AI systems, as they can both help uncover vulnerabilities and cause breaches. The PHP vulnerability would likely have gone unnoticed far longer without the assistance of AI tools, and probably would have taken months to fix after its discovery. At the same time, these technologies possess the power to exploit those very same vulnerabilities or create new ones with ease, making them a significant threat, particularly in the hands of malicious actors.
- The role of AI in discovering vulnerabilities will likely improve public sentiment regarding its overall utility, especially as it becomes a greater part of our daily lives. AI-driven detection should help make the internet supply chain more resilient, particularly for firms that adopt these technologies. However, the risk that these same tools can be weaponized creates an even greater need for guardrails to prevent a broader crisis in the future.

Dovish BOJ: According to the Japanese publication *Nikkei*, the Bank of Japan is expected to hold interest rates steady at its meeting next week. BOJ officials are likely to signal that inflation remains consistent with their 2% target, even as headline inflation has risen to 1.9%. The overnight index swap market has priced in a 4% chance of a rate hike next week, but an 80% chance of a hike in December. The anticipated hold could weigh on the yen.

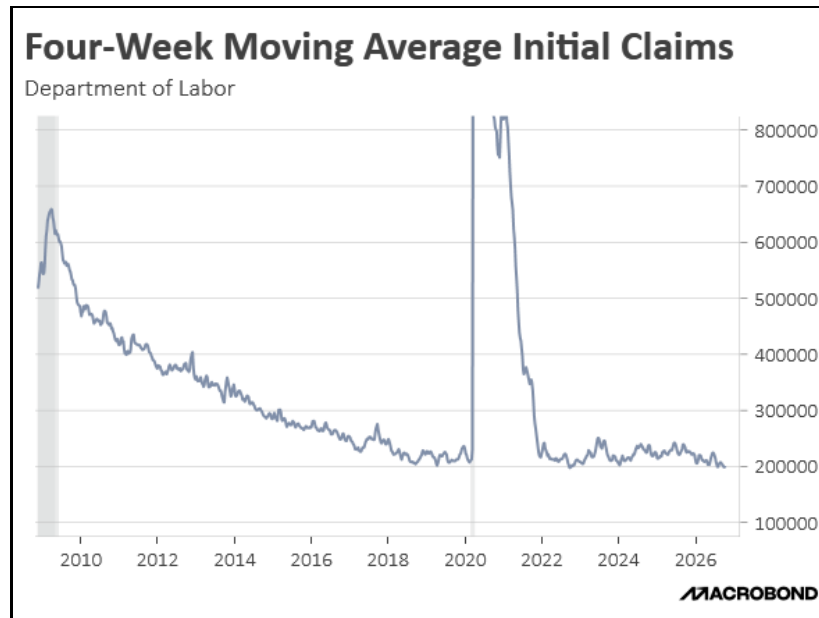
Petrobras Unleashed: According to an adviser to the front-runner in Brazil's presidential race, [the campaign has vowed to make changes at Petrobras](#). If elected, Flávio Bolsonaro, son of former President Jair Bolsonaro, is expected to grant the state-controlled oil company broad freedom to diversify its portfolio, which could include the sale of certain assets. The push to liberalize one of Brazil's largest national assets has boosted regional equities, as the market welcomes prospective reforms designed to draw in greater foreign investment.

Russia Escalates: [Moscow increased its missile strikes on Kyiv](#) in a sign that it remains unwilling to agree to peace talks. The latest bombardment follows Russian President Vladimir Putin's meeting with US special envoy Steve Witkoff regarding recent arrangements involving Ukraine. While Putin has stated a willingness to meet with Chinese and US leaders to discuss the situation, it remains unclear whether he would agree to any terms shaped or influenced by Kyiv. The increase in strikes suggests that the Kremlin may not be open to halting its attacks anytime soon.

US Economic Releases

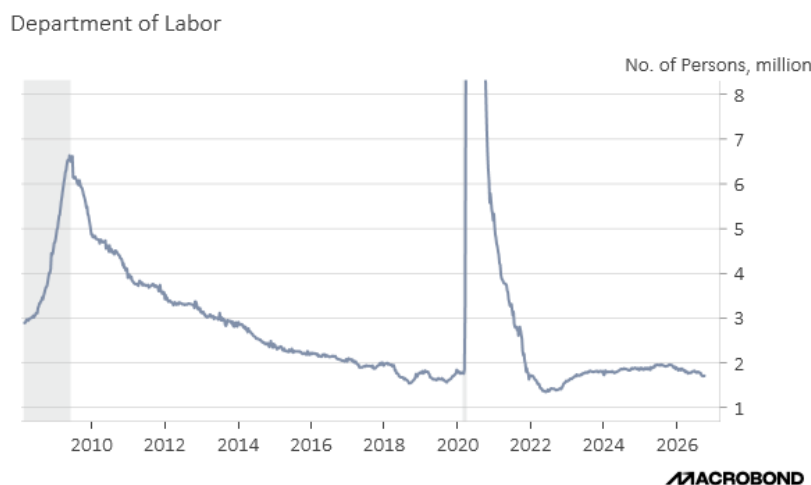
In the week ended October 17, *initial claims for unemployment benefits* dropped to a seasonally adjusted 194,000, slightly below the expected and previous week's level of 200,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, fell to 197,750. The chart below shows how initial jobless claims have fluctuated since

just before the Great Financial Crisis. The chart is truncated through much of the pandemic period because of the extremely high level of claims at that time.



In the week ended October 10, the number of *continuing claims for unemployment benefits* (people continuing to draw benefits) edged up to a seasonally adjusted 1.728 million, above the anticipated reading of 1.703 million and the previous week's revised reading of 1.720 million. The four-week moving average of continuing claims came in at 1,711,000. The chart below shows how continuing claims have fluctuated since the GFC. It is also truncated during the pandemic period because of the high level of claims at the time.

Four-Week Moving Average Continuing Claims



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	Leading Economic Index	m/m	Sep	-0.1%	-0.1%	***
11:00	Kansas City Fed Manufacturing Index	m/m	Oct	12	14	*
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	Japan Buying Foreign Bonds	w/w	16-Oct	-¥161.6b	-¥339.9b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	16-Oct	¥128.3b	-¥760.7b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	16-Oct	¥1454.2b	¥1080.2b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	16-Oct	-¥66.5b	¥3545.5b		*	Equity and bond neutral
	Machine tool orders	y/y	Sep F	60.4%	60.4%		**	Equity and bond neutral
New Zealand	CPI	y/y	Q3	3.7%	4.1%	3.8%	**	Equity and bond neutral
EUROPE								
Eurozone	EU27 New Car Registrations	y/y	Sep	9.3%	4.5%	5.8%	***	Equity and bond neutral
France	Business Confidence	m/m	Oct	97	96	96	**	Equity and bond neutral
	Manufacturing Confidence	m/m	Oct	105	101	101	*	Equity and bond neutral
Russia	PPI	y/y	Sep	8.6%	6.5%		***	Equity and bond neutral
AMERICAS								
Mexico	Unemployment Rate NSA	m/m	Sep	2.85%	3.01%	3.00%	***	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)	406	407	-1	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 (%)	5.11	5.11	0.00	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		Flat
Franc	Down	Switzerland		Down
Central Bank Action	Prior	Expected	Expected	
Bank of Korea Base 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	\$108.62	\$108.79	-0.16%	
WTI	\$97.01	\$97.82	-0.83%	
Natural Gas	\$2.82	\$2.96	-4.89%	Supply optimism
Crack Spread	\$51.78	\$54.44	-4.89%	
12-mo strip crack	\$50.15	\$52.41	-4.32%	
Ethanol rack	\$2.24	\$2.24	-0.09%	
Metals				
Gold	\$4,133.47	\$4,125.20	0.20%	
Silver	\$57.60	\$57.94	-0.58%	
Copper Contract	\$657.70	\$660.35	-0.40%	
Grains				
Corn contract	\$463.00	\$462.00	0.22%	
Wheat contract	\$629.00	\$643.25	-2.22%	
Soybeans contract	\$1,260.50	\$1,263.50	-0.24%	
Shipping				
Baltic Dry Freight	2,593	2,546	47	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)	-3.06	-0.34	-2.72	
Gasoline (mb)	-2.95	-0.31	-2.64	
Distillates (mb)	1.68	-1.24	2.92	
Refinery run rates (%)	0.00	0.00%	0.00	
Natural gas (bcf)		81		

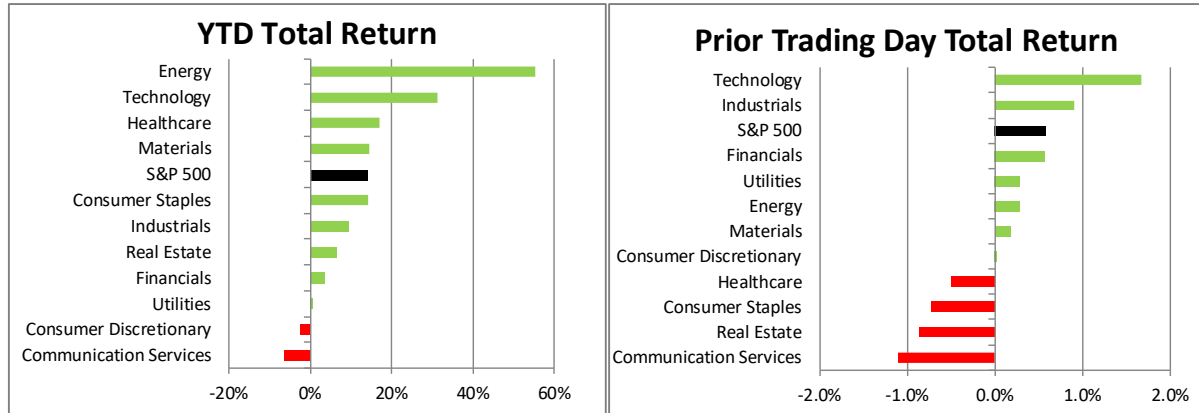
Weather

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 Northwest. 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 are two atmospheric disturbances in the Atlantic Ocean area. The disturbance closest to the US has strengthened into Tropical Storm Josephine and is moving just off the New England coast. The other disturbance is located further out in the Atlantic and has a 10% chance of cyclone formation within the next seven days.

Data Section

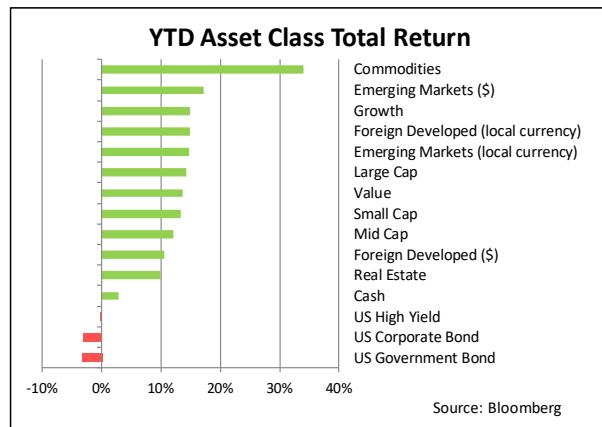
US Equity Markets – (as of 10/21/2026 close)



(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 10/21/2026 close)

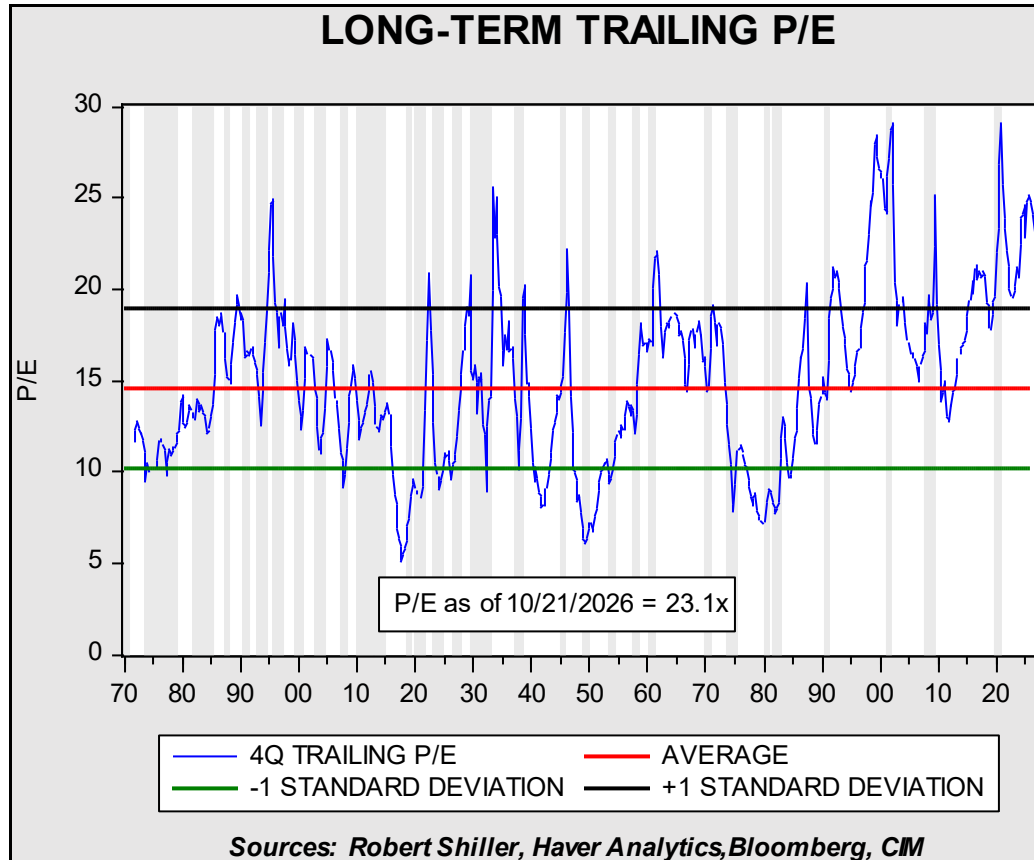


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 22, 2026



Based on our methodology,¹ the current P/E is 23.1x, down 0.2 from the previous report. The drop in the multiple is due to an increase in earnings and a decrease in the stock price index.

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.