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[Posted: October 23, 2025 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 0.3% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.3%. Chinese markets were higher, with the Shanghai Composite up 0.2% and the Shenzhen Composite up 0.2%. US equity index futures are signaling a lower open.

With 112 companies having reported so far, S&P 500 earnings for Q3 are running at \$69.20 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	Q4 2025 Report	Keller Quarterly

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 an unraveling of the reasons behind the market's recent breather. This is followed by a crucial look at US monetary policy, specifically analyzing how scant jobs data could constrain the Federal Reserve's next interest rate decision. We also discuss a major quantum technology breakthrough, the latest in the US-China trade escalation, and North Korea's weapons advancements. Finally, we provide a concise summary of the day's essential US and global economic indicators.

Rally Cools: While many companies reported strong earnings, high-profile disappointments from several key players raised red flags. Tesla, for instance, saw [record vehicle sales undermined by shrinking profit margins](#), fueling doubts about its adaptability in a less EV-

friendly environment. Similarly, [Netflix fell short of earnings targets](#), largely attributed to a regulatory dispute in Brazil, while [Texas Instruments dampened sentiment](#) with a pessimistic forward outlook.

- The market's narrow focus reflects heightened anxiety over a lack of economic data due to the government shutdown, which has severely hampered the ability to assess the economy's health. This is particularly concerning amid rising fears about consumer strain and a potential credit crunch. Auto loan troubles at firms like First Brand and Tricolor, coupled with mounting fears that small lenders are carrying a significant amount of bad debt on their books, has largely driven this anxiety.
- Investor confidence in the economy has been heavily reliant on the remarkable resilience of the consumer. Against all odds, consumer spending has consistently defied recessionary warnings, weathering several significant scares over the past three years — from the collapse of Silicon Valley Bank in 2023 to the triggering of the Sahm Rule in 2024 and the ongoing pressures of this year's trade war.
- Thursday's market action reflects a market in search of its next catalyst due to the lack of government data. We attribute the recent dip in sentiment to routine profit-taking following several strong quarters and view it as a temporary consolidation. We expect a more definitive market direction to emerge after the upcoming US-China trade talks and the Fed's policy meeting. We believe that these two catalysts will ultimately provide a supportive backdrop for equities.

Central Bank Data: The Federal Reserve is now operating with a reduced level of vital information following a dispute that led [private payroll processor ADP](#) to halt its data sharing. ADP, which tracks payroll for approximately 20% of the US labor force, provided a crucial, high-frequency gauge of the job market. This data loss is particularly challenging now, as the government's official labor reports are unavailable due to the shutdown, severely complicating the Fed's ability to accurately assess the job market.

- The dispute stems from comments made by Fed Governor Chris Waller, who cited preliminary ADP estimates — before their public release — to justify his cautious outlook on the economy. This unusual disclosure inadvertently raised concerns (later debunked) that ADP was sharing proprietary client-level information, prompting the company to terminate the data feed.
- This data shortfall arrives at a critical juncture, amplifying a deep policy split among Fed officials regarding their dual mandate. One faction is advocating for accommodative policies to counteract persistent signs of labor market weakness. The opposing group, however, argues that rising price pressures — exacerbated by the effect of tariffs flowing through the economy — demand a cautious stance to prevent fueling inflation, making rate cuts ill-advised at this time.
- The absence of reliable ADP data, which has historically tracked the long-run employment trend despite short-term differences from monthly government figures, makes resolving the Fed's internal policy debate considerably more difficult. However, clarity is expected tomorrow with the release of the Consumer Price Index (CPI) report.

A softer-than-expected inflation reading would likely pave the way for the Fed to pursue another rate cut at its October 28-29 meeting.

Quantum Leaps: Alphabet, Google's parent company, has announced a quantum computing breakthrough: It has [successfully executed a novel algorithm on its "Willow" chip that outperformed the world's leading classical supercomputers](#) by a staggering 13,000%. This milestone bolsters the conviction that practical quantum technology could be within reach in five years, with near-term applications expected to revolutionize drug discovery and materials science. The achievement also reinforces the US's dominant technological lead over China.

New US Curbs: The [White House is threatening to impose extensive new curbs on software exports](#) to China, a powerful countermeasure to Beijing's recent restrictions on rare earth elements. This policy debate intensifies trade friction ahead of the preparatory [trade talks scheduled for Friday in Malaysia](#), which precede the anticipated meeting between [President Trump and President Xi Jinping in South Korea](#). Despite trade tensions, we remain optimistic that the two sides will come to an agreement.

Russia Sanctions: Following a recent breakdown in talks with Moscow, the [White House is significantly escalating sanctions against Russian oil companies](#). The US is directly targeting oil giants Rosneft and Lukoil, which together account for 5% of global output. This move has contributed to a broader increase in oil prices. The sanctions are intended to cripple Russia's ability to finance its war efforts and pressure the Kremlin back to the negotiating table.

US Drug Clash: The [United States is intensifying its efforts against organizations it designates as narco-terrorists](#), extending its operational reach from the Caribbean into the Pacific. This new, more hawkish posture was demonstrated by two recent US military strikes on suspected narcotics vessels. While the current justification is disrupting the drug trade, this escalation in military force could set a precedent for armed intervention for other purposes in the future.

North Korea Weapons: North Korea [has announced the successful test of a new hypersonic weapon](#), signaling significant advances in its weapons technology. These missiles are designed to travel at such high speeds that they are virtually undetectable by current missile defense systems, making them extremely difficult to intercept. The announcement comes as world leaders prepare to gather in South Korea for the APEC conference, a timing that underscores North Korea's intent to project strength and military prowess to its rivals.

US Economic Releases

Due to the federal government shutdown, no economic reports have been released so far today.

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	Existing Home Sales	m/m	Sep	4.06m	4.0m	***
10:00	Existing Home Sales MoM	m/m	Sep	1.5%	-0.2%	*
11:00	Kansas City Fed Manufacturing Index	m/m	Oct	2	4	*
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 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	Japan Buying Foreign Bonds	w/w	17-Oct	-¥669.7b	¥601.3b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	17-Oct	-¥288.1b	¥59.2b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	17-Oct	-¥0.7	¥1201.2b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	17-Oct	¥752.6	¥1886.6b		*	Equity and bond neutral
EUROPE								
France	Business Confidence	m/m	Oct	97	96	96	**	Equity and bond neutral
	Manufacturing Confidence	m/m	Oct	101	96	97	*	Equity bullish, bond bearish
Russia	Industrial Production	y/y	Sep	0.3%	0.5%	1.4%	***	Equity and bond neutral
	PPI	y/y	Sep	-0.4%	-0.4%		***	Equity and bond neutral
AMERICAS								
Mexico	Retail Sales	y/y	Aug	2.4%	2.4%	2.6%	***	Equity and bond neutral
	Economic Activity IGAE	y/y	Aug	-0.90%	-1.14%	-0.50%	**	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)	386	387	-1	Down
U.S. Libor/OIS spread (bps)	376	377	-1	Down
10-yr T-note (%)	3.99	3.95	0.04	Up
Euribor/OIS spread (bps)	207	204	3	Up
Currencies	Direction			
Dollar	Up			Up
Euro	Down			Down
Yen	Up			Down
Pound	Down			Down
Franc	Up			Down
Central Bank Action	Actual	Prior	Expected	
Bank of Korea Base Rate	2.50%	2.50%	2.50%	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	\$65.64	\$62.59	4.87%	
WTI	\$61.61	\$58.50	5.32%	Supply Pessimism
Natural Gas	\$3.47	\$3.45	0.52%	
Crack Spread	\$23.53	\$23.10	1.86%	
12-mo strip crack	\$24.90	\$24.21	2.85%	
Ethanol rack	\$1.99	\$1.99	-0.06%	
Metals				
Gold	\$4,114.95	\$4,098.42	0.40%	
Silver	\$49.25	\$48.49	1.56%	
Copper contract	\$508.70	\$499.55	1.83%	
Grains				
Corn contract	\$424.50	\$423.00	0.35%	
Wheat contract	\$504.75	\$503.75	0.20%	
Soybeans contract	\$1,054.25	\$1,050.00	0.40%	
Shipping				
Baltic Dry Freight	2,092	2,094	-2	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)	-0.96	2.18	-3.14	
Gasoline (mb)	-2.15	-1.65	-0.49	
Distillates (mb)	-1.48	-3.18	1.70	
Refinery run rates (%)	2.9%	-0.8%	3.7%	
Natural gas (bcf)		83		

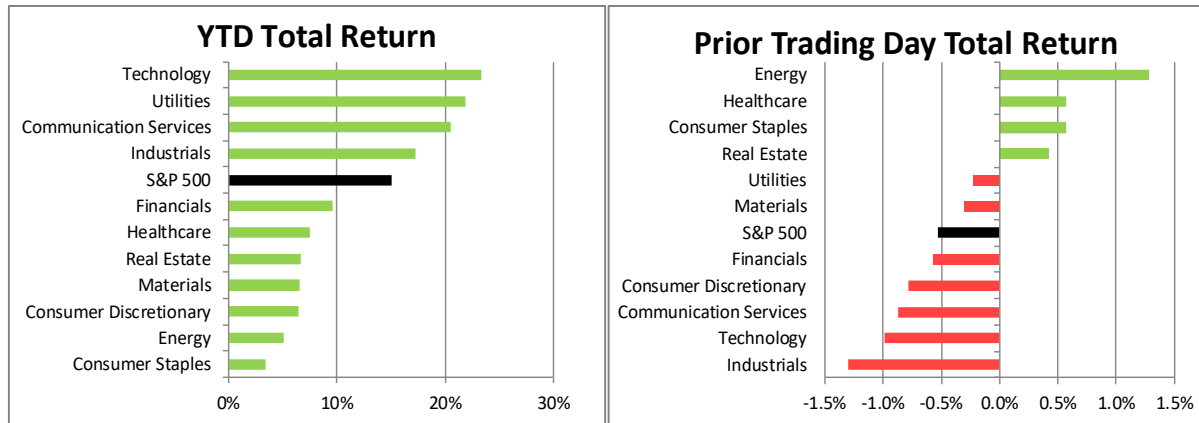
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in California, the Desert Southwest, the northern Great Plains, the Upper Midwest, and Maine, with cooler-than-normal temperatures in the Southeast. The outlook calls for wetter-than-normal conditions in the Northern Tier states and the East Coast, with dry conditions in the Desert Southwest.

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

Data Section

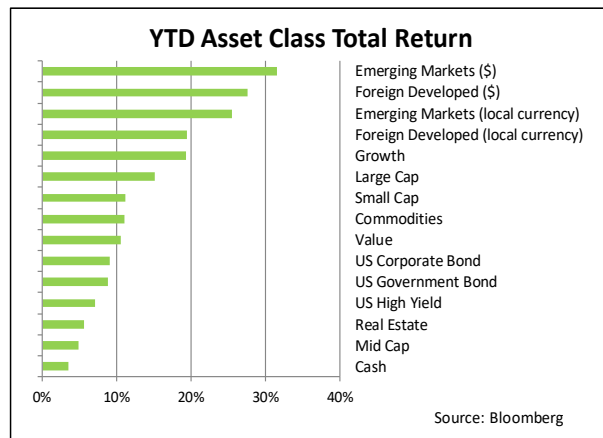
US Equity Markets – (as of 10/22/2025 close)



(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 10/22/2025 close)

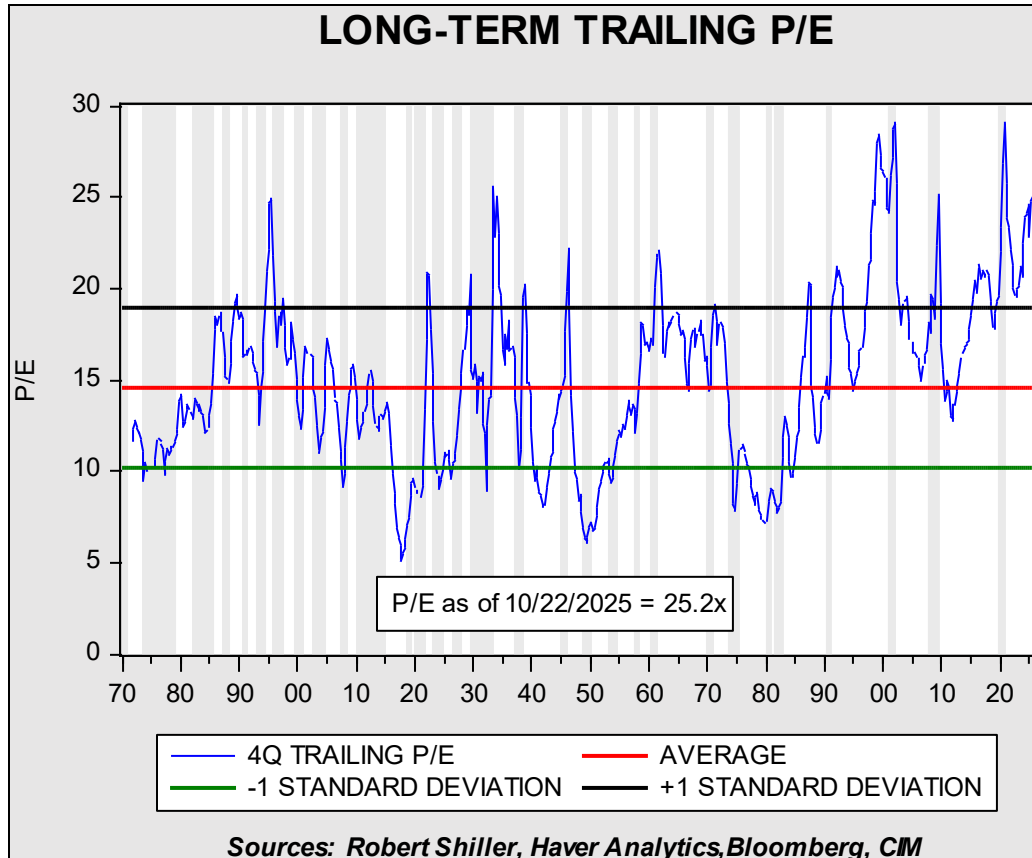


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 23, 2025



Based on our methodology,¹ the current P/E is 25.2x, which is down 0.1 from the previous report. This slight decline was due to the price index remaining relatively unchanged 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.