

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: October 23, 2026 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is down 0.6% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.6%. Chinese markets were higher, with the Shanghai Composite up 0.9% and the Shenzhen Composite up 2.4%. US equity index futures are signaling a lower open.

With 120 companies having reported so far, S&P 500 earnings for Q3 are running at \$91.70 per share, compared to estimates of \$94.17, which is up 29.6% from Q3 2025. Of the companies that have reported thus far, 80.0% 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	Check back later today for the Q4 Report	Keller Quarterly VE Insights: A Moving Yardstick VE Insights: Quality and Value

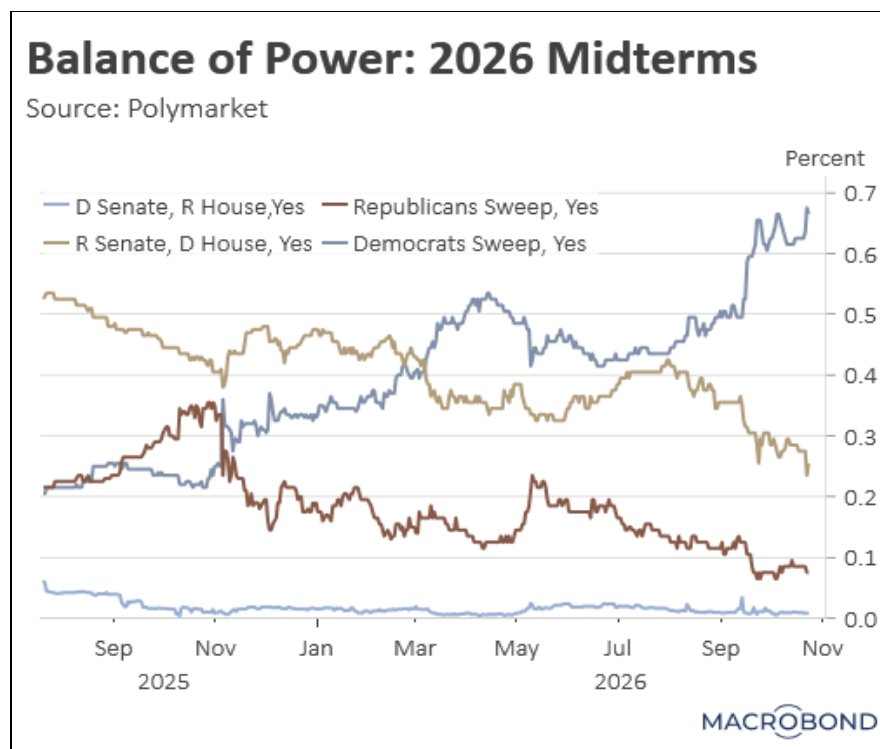
Have a question on the economy, markets, geopolitics, or other important topics? You can submit your queries to our monthly podcast, *Confluence Mailbag*! Submit your question to mailbag@confluenceim.com.

Our *Comment* opens with our takeaways on the upcoming midterm elections. We then turn to fixed income and examine the recent rotation out of tech stocks and into bonds. Next, we briefly cover rising friction between the US and Canada, as well as Anthropic's plans to expand its business into Europe. As always, we conclude with a review of recent domestic and international economic data.

Midterm Jitters: A little over 10 days ahead of the midterm elections, market indicators and polling models suggest a growing likelihood of a Democratic wave. According to Polymarket, odds favor Democrats sweeping both chambers, [with a nearly 70% probability](#). Meanwhile, projections from [RealClearPolling favor Democrats in the House](#) while indicating a much tighter

Senate contest, where each party is projected to win 46 seats and eight races are toss-ups. Though consensus is currently leaning toward a sweep by the Democrats, historical volatility suggests a Senate upset is still entirely possible.

- A Democratic takeover of the Senate remains far from guaranteed. To capture the chamber, Democrats would need to win at least five toss-up seats — a steep challenge. According to tracking from RealClearPolling, [eight states are currently designated as toss-ups](#): Texas, Ohio, Kansas, Alaska, Iowa, Michigan, Minnesota, and Maine. Half of these states have historically leaned Republican or continue to be GOP strongholds, while two of the remaining four seats are currently held by Republican incumbents.
- Additionally, while prediction markets are still confident, actual polling points to much closer races. According to Polymarket odds, [Kansas is the only state among those mentioned that leans Republican, with Iowa still the lone toss-up](#). In contrast, polling data from RealClearPolling shows five key states — Texas, Iowa, Kansas, Minnesota, and Maine — are separated by an average of two percentage points or less, placing them well within the margin of error.

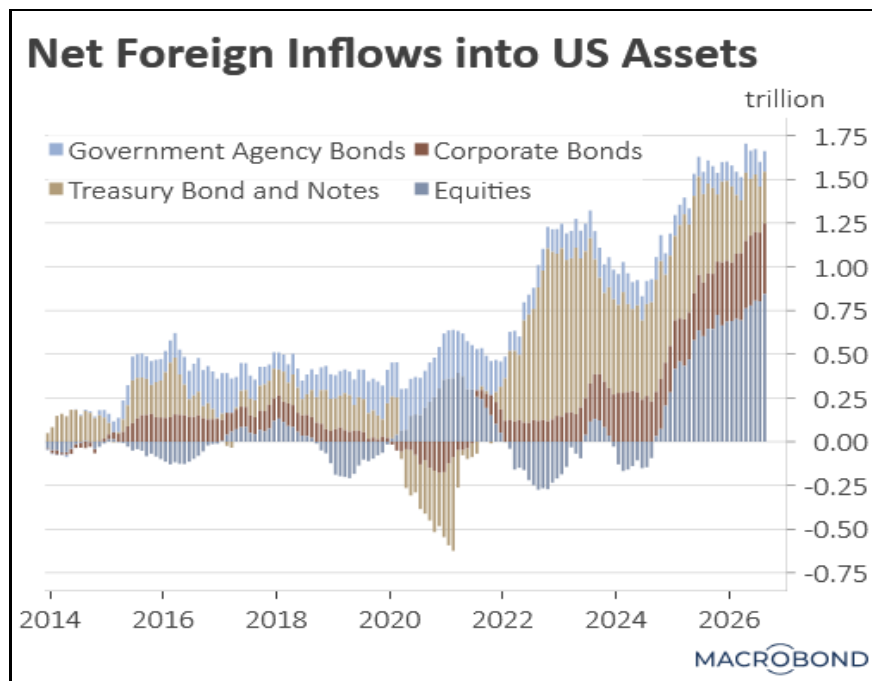


- While control of the Senate remains in play, the House race appears to lean toward Democrats, who are expected to secure a majority of the 435 seats, according to polling averages and prediction markets such as Polymarket. RealClearPolling projections suggest Democrats could win up to 237 seats, while Polymarket gives the party [an 80% chance of securing at least 230 seats](#). Taking control of at least one chamber would give Democrats a significantly stronger foothold in shaping legislative policy.

- A return to Democratic control in either chamber would likely bring added political theater, but it could also foster greater consensus-building. Over the past two years, fierce debates over fiscal and foreign policy have heightened partisanship given the narrow congressional margins. However, a divided Congress could empower moderate lawmakers to bridge the political divide, potentially opening the door to pragmatic policy solutions on the national debt, trade, and foreign conflicts.

Bond Returns: Tech sector anxieties have [driven investors back into US Treasuries](#). Over the past few weeks, there has been speculation that the massive AI buildout has started to compete directly with sovereign debt for safe-haven status. As market jitters over CoreWeave's debt load raise broader questions about the sustainability of the AI boom, demand for government bonds has surged. This trend suggests that despite mounting concerns over the national debt and inflation, Treasuries may remain attractive for investors.

- The latest market fears [were reignited by Meta's recent earnings report](#). On Thursday, the Facebook parent company posted strong results, beating revenue estimates while announcing plans to further increase capital expenditures for its infrastructure buildout. The move raised fresh concerns that Meta is expanding data centers too quickly and relying too heavily on debt. Following the announcement, [Meta's bond prices weakened, and its credit spread widened](#).
- Growing anxiety over AI spending comes as the corporate bonds used to finance the infrastructure expansion begin to saturate the credit markets. Over the past few months, traditionally cash-rich tech giants [and their partners have amassed over \\$500 billion in debt](#). This surge in borrowing has strained the financial system, forcing companies to syndicate their loans across multiple lending institutions to secure sufficient capital.



- The massive scale of the AI buildout may be directly affecting the US government debt market as AI-linked assets emerge as formidable competitors for capital. Recent Treasury International Capital (TIC) data shows foreign investment flows shifting away from US Treasuries and toward US corporate bonds and equities. While the report does not pinpoint the exact destinations of these funds, the reallocation closely coincides with the latest surge in demand for AI-driven tech assets.
- Fears of an AI bubble bursting could spark a rotation into US Treasuries. A market pullback in AI would not only eliminate a key equity competitor for capital but also temper inflation concerns. A sector slowdown would curb demand for data center inputs while leaving surplus capacity for companies to leverage. That said, the exact timing of any market adjustment remains highly uncertain.

Northern Border Friction: [Washington has accused Ottawa of election interference just days ahead of the US midterms](#) by alleging that Canadian retaliatory tariffs were designed to sway voters. While Canada insists the duties are purely economic defenses for domestic industries, [Ottawa has directed diplomats to avoid US political figures](#) until the midterm voting concludes. The growing rift risks stalling the upcoming bilateral trade negotiations.

Europe Adopts AI: Anthropic has agreed [to support the creation of a European consultancy aimed at expanding corporate AI adoption](#). By placing AI specialists directly within businesses, the initiative will help European firms integrate model capabilities into their operations. While the move poses a competitive threat to traditional consulting firms, it creates a lucrative new revenue stream for AI developers seeking to justify heavy capital expenditures and enter new regional markets.

US Economic Releases

No major US 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
9:45	S&P Global US Manufacturing PMI	m/m	Oct P	55.5	55.9	***
9:45	S&P Global US Services PMI	m/m	Oct P	58.0	58.8	***
9:45	S&P Global US Composite PMI	m/m	Oct P	57.6	58.4	***
10:00	U. of Michigan Consumer Sentiment	m/m	Oct F	46.3	46.3	***
10:00	U. of Michigan Current Conditions	m/m	Oct F	44.9	44.7	**
10:00	U. of Michigan Future Expectations	m/m	Oct F	47.1	47.3	**
10:00	U. of Michigan 1-Year Inflation Expectation	m/m	Oct F	4.7%	4.7%	*
10:00	U. of Michigan 5-10 Year Inflation Expectation	m/m	Oct F	3.5%	3.5%	*
11:00	Kansas City Fed Services Activity	m/m	Oct	1	0	*
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	National CPI	y/y	Sep	2.1%	1.9%	2.1%	***	Equity and bond neutral
	National CPI Ex-Fresh Food	y/y	Sep	2.1%	1.7%	2.1%	**	Equity and bond neutral
	National CPI Ex-Fresh Food & Energy	y/y	Sep	2.4%	1.9%	2.3%	*	Equity and bond neutral
	S&P Global Japan Composite PMI	m/m	Oct P	52.3	52.3		*	Equity and bond neutral
	S&P Global Japan Manufacturing PMI	m/m	Oct P	53.3	54.1		***	Equity and bond neutral
	S&P Global Japan Services PMI	m/m	Oct P	52.0	51.3		*	Equity and bond neutral
	Nationwide Dept Sales	y/y	Sep	4.20%	2.60%		***	Equity and bond neutral
Australia	S&P Global Australia Composite PMI	m/m	Oct P	47.7	51.3		*	Equity and bond neutral
	S&P Global Australia Manufacturing PMI	m/m	Oct P	49.7	49.6		***	Equity and bond neutral
	S&P Global Australia Services PMI	m/m	Oct P	47.8	51.9		*	Equity and bond neutral
India	HSBC India PMI Composite	m/m	Oct P	56.7	55.9		**	Equity and bond neutral
	HSBC India PMI Mfg	m/m	Oct P	54.9	55.1		***	Equity and bond neutral
	HSBC India PMI Services	m/m	Oct P	56.2	55.2		**	Equity and bond neutral
EUROPE								
Eurozone	Consumer Confidence	m/m	Oct P	-17.9	-16.8	-17.0	**	Equity and bond neutral
	S&P Global Eurozone Manufacturing PMI	m/m	Oct P	52.4	52.9	52.8	***	Equity and bond neutral
	S&P Global Eurozone Services PMI	m/m	Oct P	51.7	53.0	52.5	**	Equity bearish, bond bullish
	S&P Global Eurozone Composite PMI	m/m	Oct P	51.9	53.1	52.7	*	Equity bearish, bond bullish
Germany	S&P Global/BME Germany Manufacturing	m/m	Oct P	54.2	53.9	53.5	***	Equity bullish, bond bearish
	S&P Global Germany Services PMI	m/m	Oct P	51.7	52.9	52.5	**	Equity bearish, bond bullish
	S&P Global Germany Composite PMI	m/m	Oct P	52.8	53.8	53.4	**	Equity bearish, bond bullish
France	S&P Global France Manufacturing PMI	m/m	Oct P	49.3	50.6	50.5	***	Equity bearish, bond bullish
	S&P Global France Services PMI	m/m	Oct P	48.4	51.2	50.7	**	Equity bearish, bond bullish
	S&P Global France Composite PMI	m/m	Oct P	48.4	51.1	50.3	**	Equity bearish, bond bullish
UK	GfK Consumer Confidence	m/m	Oct	-24	-13	-14	***	Equity bearish, bond bullish
	Retail Sales	y/y	Sep	0.8%	2.7%	1.0%	***	Equity and bond neutral
	Retail Sales Ex-Auto Fuel	y/y	Sep	0.8%	2.9%	1.4%	**	Equity bearish, bond bullish
	S&P Global UK Services PMI	m/m	Oct P	53.1	52.1	51.8	**	Equity bullish, bond bearish
	S&P Global UK Manufacturing PMI	m/m	Oct P	52.8	51.9	51.8	***	Equity bullish, bond bearish
Russia	S&P Global UK Composite PMI	m/m	Oct P	53.1	52.0	51.7	**	Equity bullish, bond bearish
	Gold and Forex Reserves	m/m	16-Oct	\$723.2b	\$723.5b		***	Equity and bond neutral
AMERICAS	Money Supply, Narrow Definition	w/w	16-Oct	23.07t	22.88t		*	Equity and bond neutral
Canada	Industrial Product Price	m/m	Sep	2.0%	1.2%	0.9%	**	Equity bullish, bond bearish
Canada	Raw Material Prices	m/m	Sep	4.8%	3.3%	2.9%	*	Equity bearish, bond bullish
Mexico	Economic Activity IGAE	y/y	Aug	3.33%	3.41%	3.10%	**	Equity and bond neutral
Brazil	FGV CPI IPC -S	w/w	22-Oct	0.45%	0.45%		**	Equity and bond neutral
	IBGE Inflation IPCA-15	m/m	Oct	4.62%	4.47%	4.74%	***	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)	403	404	-1	Up
U.S. Sibor/OIS spread (bps)	406	404	2	Up
U.S. Libor/OIS spread (bps)	403	401	2	Up
10-yr T-note (%)	4.99	4.96	0.03	Down
Euribor/OIS spread (bps)	268	267	1	Up
Currencies	Direction			
Dollar	Up	US		Up
Euro	Down	Euro		Down
Yen	Up	Japan		Up
Pound	Down	UK		Up
Franc	Down	Switzerland		Down
Central Bank Action	Prior	Expected	Expected	
Bank of Russia Key Rate	14.00%	14.00%	14.00%	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	\$114.35	\$113.17	1.04%	
WTI	\$100.69	\$99.47	1.23%	
Natural Gas	\$2.70	\$2.80	-3.61%	
Crack Spread	\$52.88	\$53.61	-1.36%	
12-mo strip crack	\$51.59	\$51.62	-0.06%	
Ethanol rack	\$2.16	\$2.16	-0.03%	
Metals				
Gold	\$4,024.75	\$4,024.85	0.00%	
Silver	\$53.89	\$54.57	-1.24%	
Copper Contract	\$648.75	\$639.80	1.40%	
Grains				
Corn contract	\$459.25	\$460.50	-0.27%	
Wheat contract	\$625.75	\$624.75	0.16%	
Soybeans contract	\$1,266.25	\$1,264.75	0.12%	
Shipping				
Baltic Dry Freight	2,693	2,680	13	
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)	77	78	-1	

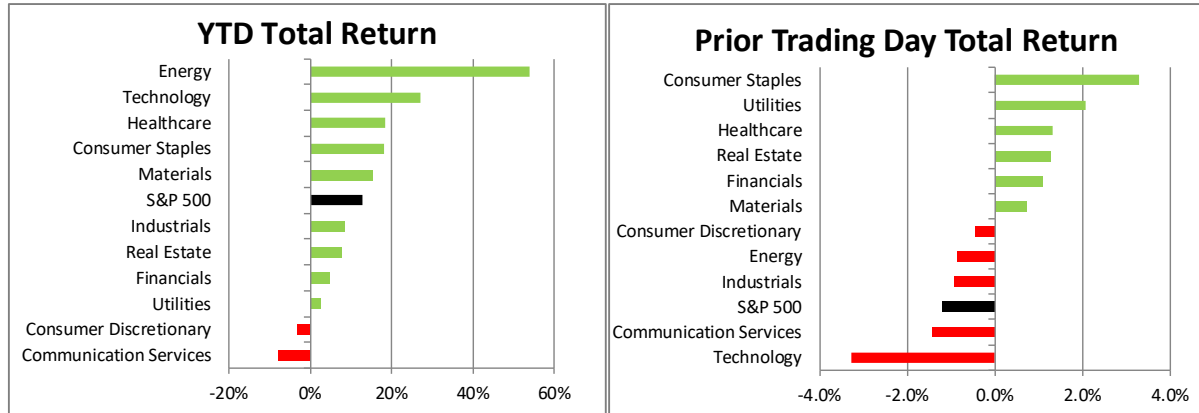
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in Southern California, southern Arizona, and from the eastern slopes of the Rocky Mountains to the East Coast, with near-normal temps elsewhere. The outlook calls for wetter-than-normal conditions everywhere except along the border with Canada, where conditions will be near normal.

There are now no atmospheric disturbances in the Atlantic Ocean area, and no cyclone activity is expected over the next seven days.

Data Section

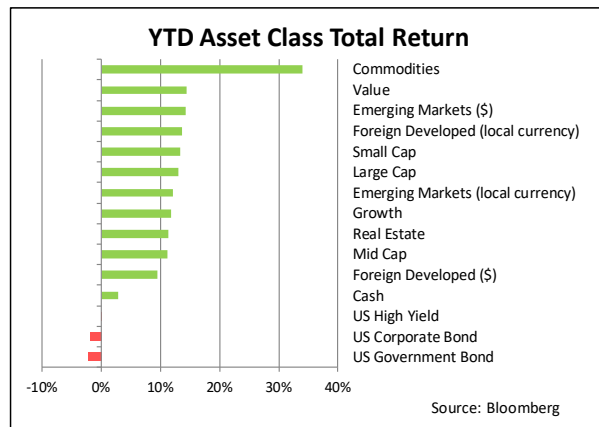
US Equity Markets – (as of 10/22/2026 close)



(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 10/22/2026 close)

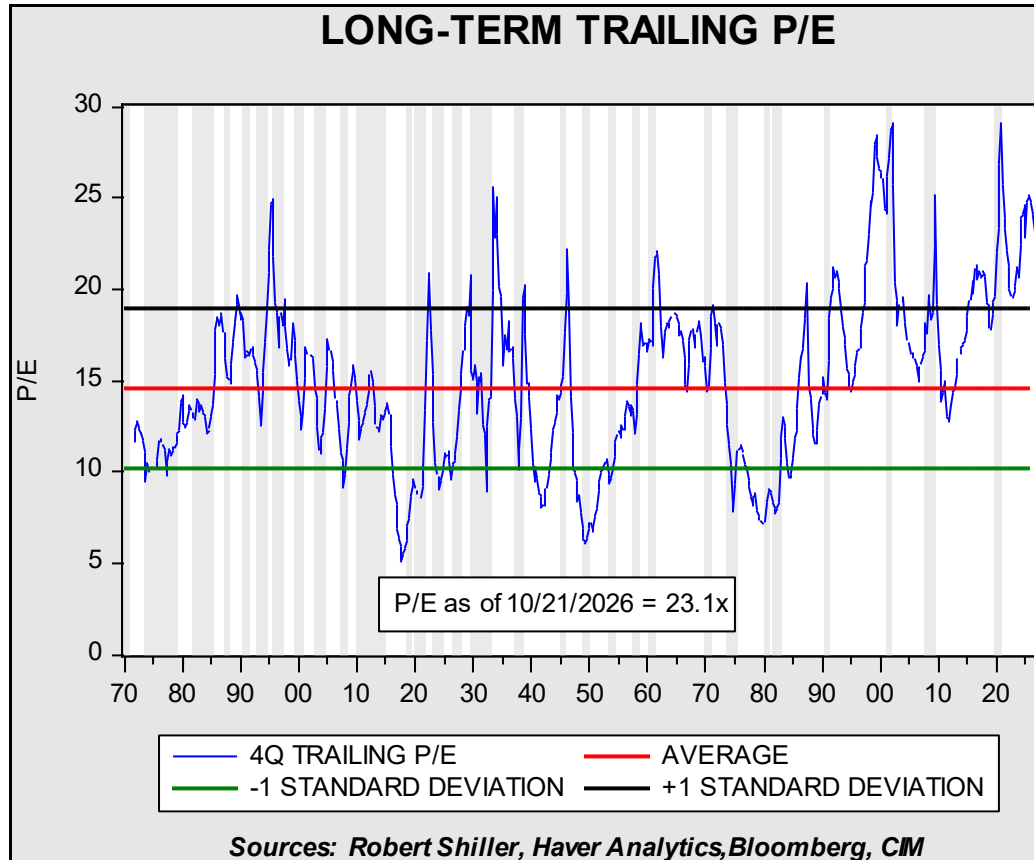


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.