

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: October 24, 2025 — 9:30 AM ET] Global equity markets are mostly higher this morning. In Europe, the Euro Stoxx 50 is down 0.2% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.7%. Chinese markets were higher, with the Shanghai Composite up 0.7% and the Shenzhen Composite up 1.4%. US equity index futures are signaling a higher open.

With 141 companies having reported so far, S&P 500 earnings for Q3 are running at \$69.50 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	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* opens with a discussion about the deepening trade dispute between the US and Canada. Then, we break down what's at stake as the US and China head back to the negotiating table. Also in today's report: Washington's push to maintain calm in Israel, the EU takes aim at an American tech giant, and France debates a new wealth tax. Plus, we'll give you a quick update on all the key economic data you need to know including the latest CPI data.

Canadian Trade Tensions: The [White House has announced the termination of trade talks with Canada](#), justifying the decision by citing the need to maintain tariffs for economic and national security reasons. This move is widely seen as a direct response to a Canadian advertising

campaign that aired last week. The ads, which appeared in several US markets and on social media, invoked the voice and legacy of Ronald Reagan to challenge the tariffs and sway American public opinion.

- The trade standoff between the US and Canada is redefining their relationship following the imposition of tariffs at the start of 2025. The United States has placed tariffs on a number of Canadian goods, specifically targeting the steel and auto industries. In response, [Canadian Prime Minister Mark Carney has declared that the country will seek to double its non-US exports](#), stating that Canada can no longer rely on its southern neighbor as a dependable trade partner.
- This ongoing friction between the two neighbors arises as the US, Canada, and Mexico are in the process of renegotiating the USMCA trade agreement. A key suspected goal of this renegotiation is to forge a unified North American front against China and other trade rivals to protect domestic industries. From this perspective, the White House likely viewed the Canadian ad campaign as undermining that very objective, prompting the decision to terminate talks.
- Although the recent US-Canada dispute represents a setback, we suspect both sides will eventually return to the negotiating table, as significant mutual interests remain at stake. Canada's economy avoided a recession in recent quarters, and lawmakers are likely to seek ways to build on that momentum. Concurrently, the United States has an incentive to reduce economic uncertainty heading into next year's midterm elections.
- This response establishes a precedent, signaling the administration's intent to aggressively counter foreign attempts to influence domestic policy and elections. We should expect a more confrontational stance from the White House, particularly if it believes rival nations are using the midterms to sabotage its policy agenda. Consequently, markets should brace for episodic volatility stemming from trade policy tensions, though these are unlikely to derail the broader market trend.

US-China Trade Truce? On Friday, [the US and China are scheduled to hold talks in Malaysia](#) during the ASEAN Summit. The discussions are expected to pave the way for a broader meeting between President Trump and President Xi Jinping at the APEC Summit next Thursday. In advance of these talks, the White House [has indicated it may extend the deadline for certain tariff exemptions as a goodwill gesture](#). Markets have reacted positively to the news, reflecting optimism that the extension could help build momentum toward a more comprehensive trade agreement.

- While the administration's public focus is on tangible trade outcomes with China — such as an improved agreement, curbing the fentanyl trade, and ending restrictions on rare earth elements — its strategy appears to be driven by broader, unstated geopolitical ambitions.
- One key objective is to enlist China's help in restraining some of its allies, namely Russia and Iran. The United States hopes Beijing can use its influence to discourage both countries from engaging in hostile actions against US allies and partners, particularly Russia's ongoing war in Ukraine and Iran's nuclear ambitions, which are viewed as a direct threat to Israel.

- In exchange for cooperation, China is likely to demand significant concessions from the United States. These would almost certainly include a reversal of the US stance on recognizing Taiwan's sovereignty and a removal of curbs on technology exports to China.
- We believe the coming week or so will be important for setting market direction. Greater clarity on US-China trade relations should boost confidence and offer support for equities. While we do not anticipate a major deal being finalized in this short timeframe, we suspect there should be measurable progress toward a larger agreement, possibly materializing in early 2026.

Vance Goes to Israel: A [White House visit to Israel to oversee the next phase of its peace initiative](#) has been complicated by diplomatic tensions. Vice President Vance sparked controversy by [calling a vote to annex the West Bank “stupid.”](#) while the administration has expressed frustration over Israel’s airstrikes and restrictions on humanitarian aid, even as it acknowledges Hamas’s provocations. While we believe the US presence is easing regional tensions, we are closely watching to see whether Washington may be drawn into a deeper role.

EU vs Silicon Valley: The [EU has accused Meta of failing to adequately police illegal content on its platforms](#), signaling a potential fine for violations of the Digital Services Act. This move is likely to provoke a response from the White House, which has previously criticized the EU for unfairly targeting US tech companies with hefty fines. Any retaliatory action by Meta could, in turn, prompt a reaction from Washington, escalating transatlantic trade tensions.

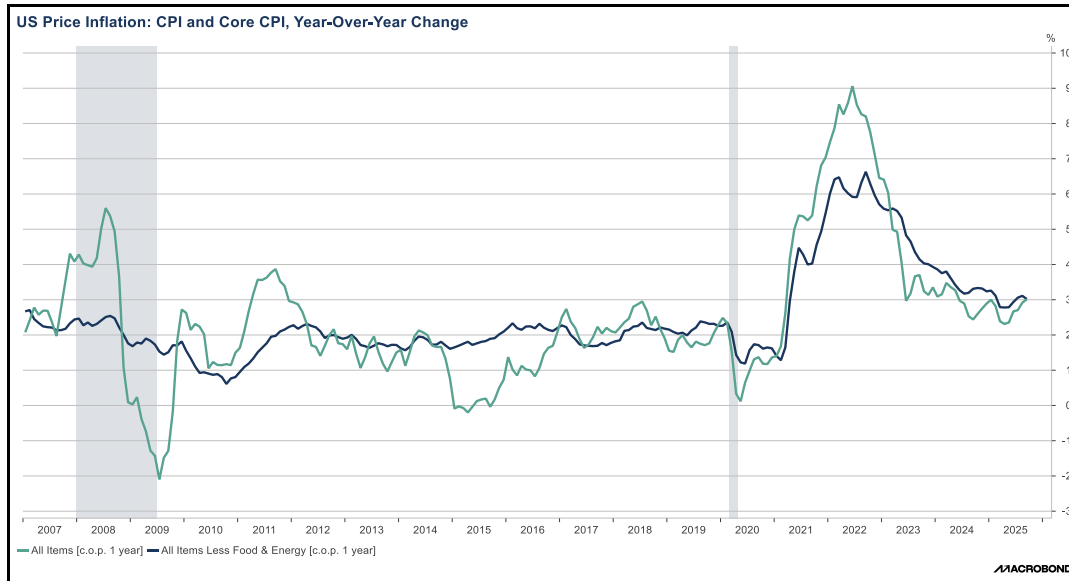
US Arms Race: The United States is taking steps [to enhance its weapons capabilities to maintain military dominance against China](#). On Thursday, the Pentagon agreed to a defense contract with startup Castelion to develop hypersonic missiles. These weapons, which can maneuver while traveling at speeds several times that of sound, are designed to broaden US striking power and modernize its artillery arsenal. This partnership is a key part of a broader initiative to field this game-changing technology.

France Wealth Tax: The [French Socialist Party is threatening to topple the government](#) if the prime minister does not include a wealth tax in his budget proposal. The party is a crucial voting bloc, having just sustained the government in a recent no-confidence vote. While the bill is expected to affect only approximately 1,800 households with assets exceeding \$100 million, critics warn it could prompt an exodus of wealthy individuals from the country. This debate exemplifies the profound political challenges involved in passing the national budget.

Turkish Courts Intervene: A [Turkish court's dismissal of a case against the main opposition CHP](#) has removed an immediate threat to its leader, Özgür Özel. While this decision spurred a rally in Turkish markets, the underlying political climate remains fraught. The recent conviction of Istanbul Mayor and presidential frontrunner Ekrem İmamoğlu on corruption charges underscores why, despite this legal reprieve, Turkey's political risk profile remains elevated.

US Economic Releases

The September **consumer price index (CPI)** rose by a seasonally adjusted 0.3%, a bit less than expectations that it would rise 0.4%, as it did in August. Excluding the volatile food and energy components, the **“core” CPI** rose a mild 0.2%, versus expectations it would rise again at its August pace of 0.3%. Both the overall CPI and the core CPI in September were up 3.0% from the same month one year earlier. The chart below shows the year-over-year change in the CPI and the core CPI since just before the Great Financial Crisis.



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	New Home Sales	m/m	Sep	708k	800k	***
10:00	New Home Sales MoM	m/m	Sep	-11.5%	20.5%	**
10:00	U. of Michigan Consumer Sentiment	m/m	Oct F	54.5	55.0	***
10:00	U. of Michigan Current Conditions	m/m	Oct F	60.8	61.0	*
10:00	U. of Michigan Future Expectations	m/m	Oct F	50.9	51.2	*
10:00	U. of Michigan 1-Year Inflation Expectation	m/m	Oct F	4.6%	4.6%	*
10:00	U. of Michigan 5-10 Year Inflation Expectation	m/m	Oct F	3.7%	3.7%	*
11:00	Kansas City Fed Manufacturing Index	m/m	Oct		-9	*
	Building Permits	m/m	Sep F			**
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	National CPI	y/y	Sep	2.9%	2.7%	2.9%	***	Equity and bond neutral
	National CPI Ex-Fresh Food	y/y	Sep	2.9%	2.7%	2.9%	**	Equity and bond neutral
	National CPI Ex-Fresh Food &	y/y	Sep	3.0%	3.3%	3.1%	*	Equity and bond neutral
	S&P Global Japan Composite PMI	m/m	Oct P	50.9	51.3		*	Equity and bond neutral
	S&P Global Japan Manufacturing	m/m	Oct P	48.3	48.5		***	Equity and bond neutral
	S&P Global Japan Services PMI	m/m	Oct P	52.4	53.3		*	Equity and bond neutral
	Leading Economic Index		Aug F	107.0	107.4		**	Equity and bond neutral
	Coincident Index	y/y	Aug F	112.8	113.4		**	Equity and bond neutral
	Nationwide Dept Sales	y/y	Sep	2.50%	2.60%		***	Equity and bond neutral
Australia	S&P Global Australia Composite	m/m	Oct P	52.6	52.4		*	Equity and bond neutral
	S&P Global Australia	m/m	Oct P	49.7	51.4		***	Equity and bond neutral
	S&P Global Australia Services PMI	m/m	Oct P	53.1	52.4		*	Equity and bond neutral
India	HSBC India PMI Composite	m/m	Oct P	59.9	61.0		**	Equity and bond neutral
	HSBC India PMI Mfg	m/m	Oct P	58.4	57.7		***	Equity and bond neutral
	HSBC India PMI Services	m/m	Oct P	58.8	60.9		**	Equity and bond neutral
EUROPE								
Eurozone	Consumer Confidence	m/m	Oct P	-14.2	-14.9	-15.0	**	Equity bullish, bond bearish
	HCOB Eurozone Manufacturing	m/m	Oct P	50.0	49.8	49.8	***	Equity and bond neutral
	HCOB Eurozone Services PMI	m/m	Oct P	52.6	51.3	51.2	**	Equity bullish, bond bearish
	HCOB Eurozone Composite PMI	m/m	Oct P	52.2	51.2	51.1	*	Equity bullish, bond bearish
Germany	HCOB Germany Manufacturing	m/m	Oct P	49.6	49.5	49.5	***	Equity and bond neutral
	HCOB Germany Services PMI	m/m	Oct P	54.5	51.5	51.0	**	Equity bullish, bond bearish
	HCOB Germany Composite PMI	m/m	Oct P	53.8	52.0	51.5	**	Equity bullish, bond bearish
France	Consumer Confidence	m/m	Oct	90	87	86	**	Equity bullish, bond bearish
	HCOB France Manufacturing PMI	m/m	Oct P	48.3	48.2	48.2	***	Equity and bond neutral
	HCOB France Services PMI	m/m	Oct P	47.1	48.5	48.7	**	Equity and bond neutral
UK	HCOB France Composite PMI	m/m	Oct P	46.8	48.1	48.4	**	Equity bearish, bond bullish
	GfK Consumer Confidence	m/m	Oct	-17	-19	-20	***	Equity bullish, bond bearish
	Retail Sales	y/y	Sep	1.5%	0.6%	0.4%	***	Equity bullish, bond bearish
	Retail Sales Ex-Auto Fuel	y/y	Sep	2.3%	1.3%	0.6%	**	Equity bullish, bond bearish
	S&P Global UK Services PMI	m/m	Oct P	51.1	50.8	51.0	**	Equity and bond neutral
	S&P Global UK Manufacturing PMI	m/m	Oct P	49.6	46.2	46.6	***	Equity bullish, bond bearish
	S&P Global UK Composite PMI	m/m	Oct P	51.1	50.1	50.5	**	Equity and bond neutral
Russia	Gold and Forex Reserves	m/m	17-Oct	\$742.4b	729.5b		***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	17-Oct	19.08t	19.02t		*	Equity and bond neutral
AMERICAS								
Canada	Retail Sales	m/m	Aug	1.0%	-0.7%	1.0%	**	Equity and bond neutral
	Retail Sales Ex-Autos	m/m	Aug	0.7%	-1.1%	1.3%	**	Equity and bond neutral
Brazil	Current Account Balance	m/m	Sep	-\$9744m	-\$4638m	-\$7800m	**	Equity and bond neutral
	Foreign Direct Investment	m/m	Sep	\$10671m	\$7,989	\$6000m	**	Equity and bond neutral
	IBGE Inflation IPCA-15	m/m	Oct	4.94%	5.32%	5.00%	***	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)	378	379	-1	Down
U.S. Sibor/OIS spread (bps)	386	386	0	Down
U.S. Libor/OIS spread (bps)	377	377	0	Down
10-yr T-note (%)	4.01	4.00	0.01	Flat
Euribor/OIS spread (bps)	207	207	0	Up
Currencies	Direction			
Dollar	Up			Up
Euro	Flat			Down
Yen	Up			Down
Pound	Down			Down
Franc	Up			Down
Central Bank Action	Actual	Prior	Expected	
Bank of Russia Key Rate	16.50%	17.00%	16.00%	Above 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	\$66.40	\$65.99	0.62%	
WTI	\$62.21	\$61.79	0.68%	
Natural Gas	\$3.29	\$3.34	-1.76%	
Crack Spread	\$23.72	\$23.69	0.10%	
12-mo strip crack	\$25.41	\$25.36	0.18%	
Ethanol rack	\$2.00	\$2.00	0.00%	
Metals				
Gold	\$4,058.94	\$4,126.28	-1.63%	
Silver	\$48.01	\$48.92	-1.87%	
Copper contract	\$509.55	\$511.05	-0.29%	
Grains				
Corn contract	\$426.50	\$428.00	-0.35%	
Wheat contract	\$513.50	\$513.00	0.10%	
Soybeans contract	\$1,060.75	\$1,062.00	-0.12%	
Shipping				
Baltic Dry Freight	2,057	2,092	-35	
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)	87	83	4	

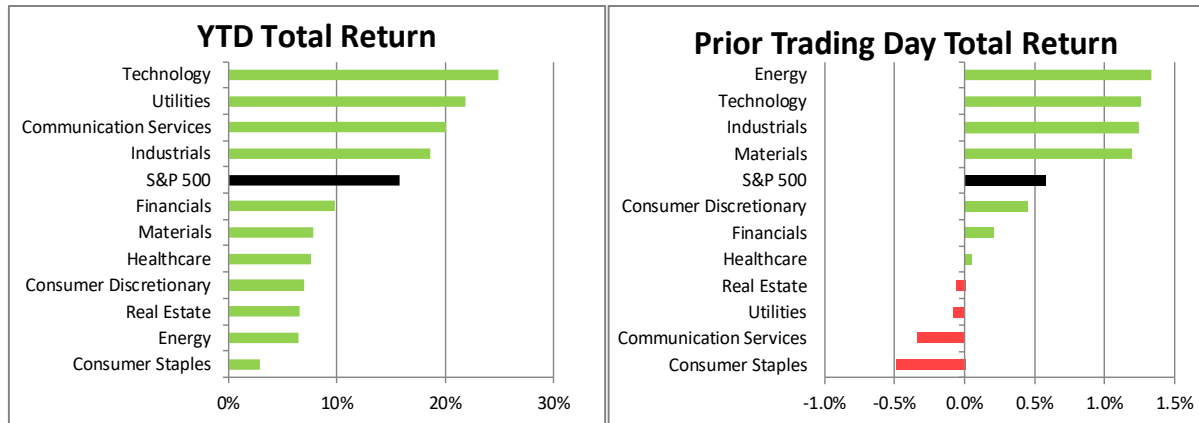
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures from the West Coast through the Great Plains and in Maine, with cooler-than-normal temperatures in the Southeast. The outlook calls for wetter-than-normal conditions in the Pacific Northwest and the Northeast, with dry conditions in the Southwest and southern Great Plains.

Tropical Storm Melissa remains in the Caribbean Sea and is heading slowly northwesterly toward Jamaica.

Data Section

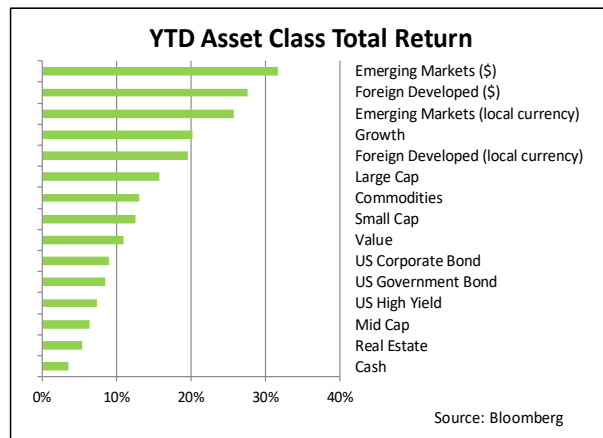
US Equity Markets – (as of 10/23/2025 close)



(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 10/23/2025 close)

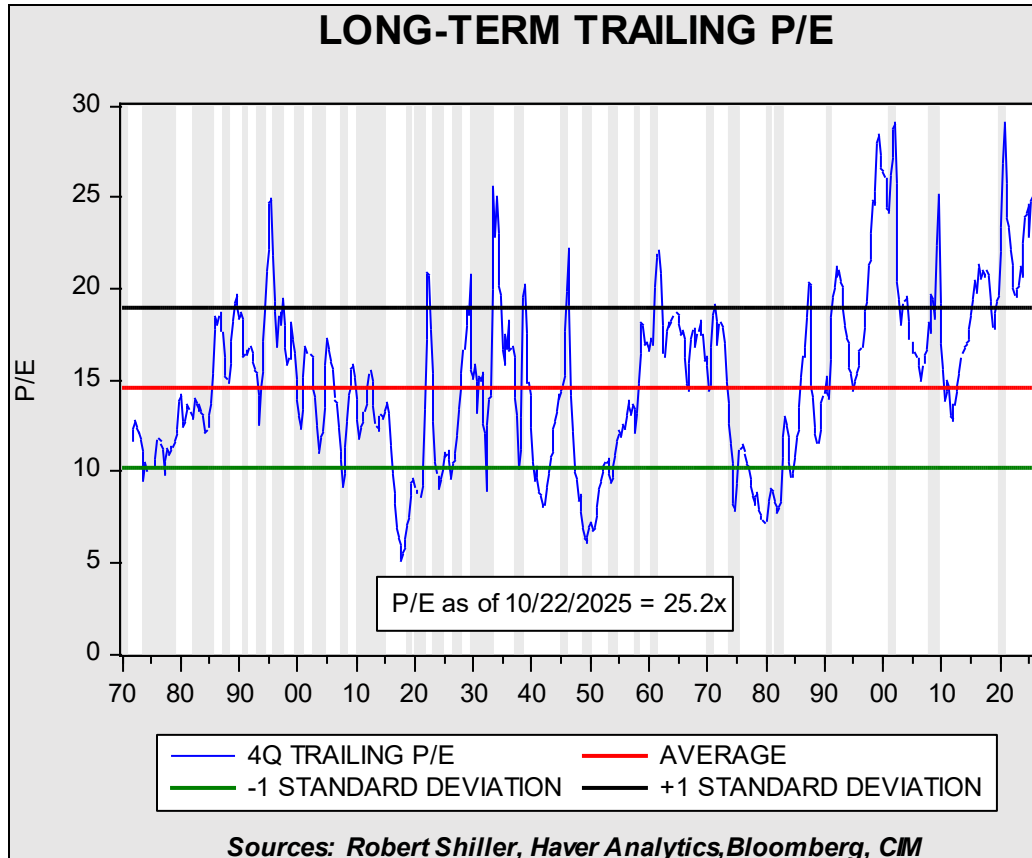


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.