Daily Comment

Confluence INVESTMENT MANAGEMENT

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[Posted: October 27, 2025 — 9:30 AM ET] Global equity markets are higher 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 up 2.3%. Chinese markets were higher, with the Shanghai Composite up 1.2% and the Shenzhen Composite up 1.3%. US equity index futures are signaling a higher open.

With 145 companies having reported so far, S&P 500 earnings for Q3 are running at $69.60 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* today opens with news that US and Chinese officials have struck a "framework" trade deal that President Trump and General Secretary Xi can approve when they meet later this week. Since the deal should help ease US-Chinese tensions, the news has given a big boost to global stock prices so far this morning. We next review several other international and US developments that could affect the financial markets today, including a big midterm election win for Argentina's libertarian president and new fears that avian flu could boost US price inflation.

United States-China: US Treasury Secretary Bessent and Chinese Vice Premier He said they struck a preliminary trade deal at their latest talks in Kuala Lumpur over the weekend. If so, having the outline of a US-China trade deal could help de-escalate tensions, potentially giving a boost to global risk assets. If President Trump and General Secretary Xi sign off on the deal when they meet on Thursday, officials from both countries would then work to flesh out the details, likely leading to a detailed, final agreement sometime in the coming months.

- Speaking about the preliminary deal in a television interview on Sunday, Bessent said he thought "the threat of the [added]100% tariff [on Chinese imports] has gone away, as has the threat of the immediate imposition of the Chinese initiating a worldwide [rare earths] export control regime."
- Bessent also hinted that China would commit to restarting large-scale imports of US soybeans. According to Bessent, US soybean farmers are going to be "extremely happy with this deal for this year and for the coming years."
- We have been arguing that a broad deal that defuses US-China tensions would likely be especially positive for US and Chinese stocks. As of this writing, Chinese stock prices have risen more than 1.0%, while premarket trading suggests US stock prices will rise by more than 0.8%.

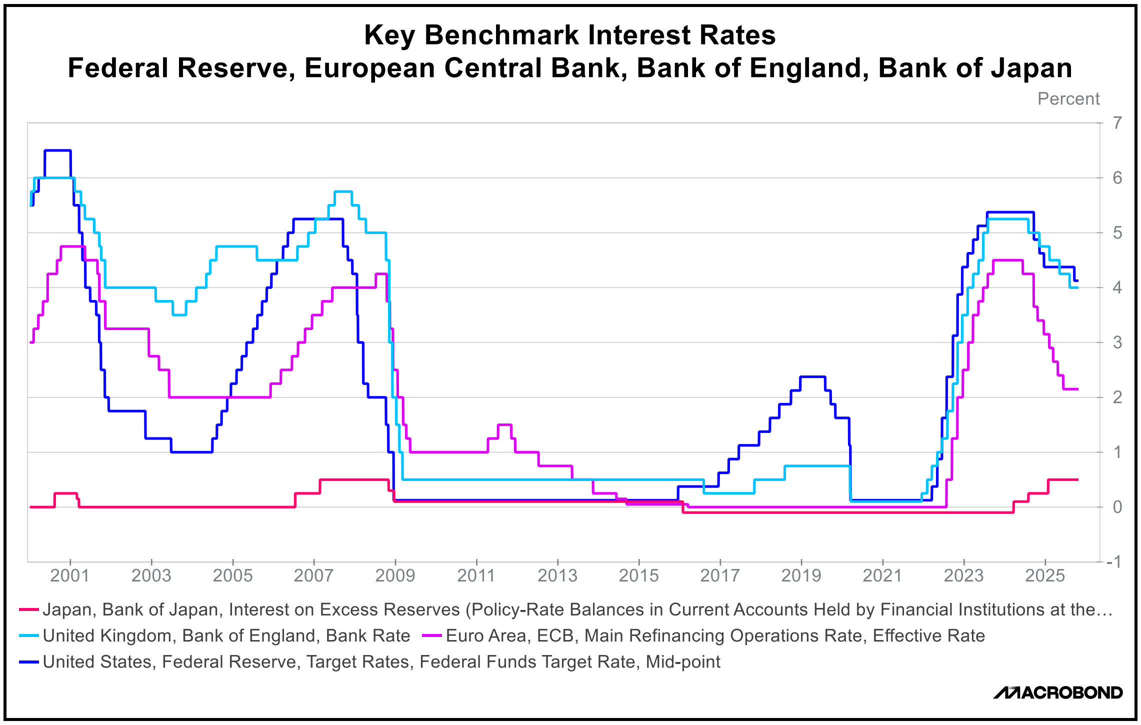
United States-Thailand-Malaysia-Cambodia: On the first day of his weeklong trip to Asia, President Trump yesterday said he had struck deals with Thailand, Malaysia, and Cambodia under which they will cooperate with the US on export controls, sanctions and access to critical minerals. However, the deals evidently do not reduce the 19% import tariffs that the Trump administration has already imposed on the countries.

- The deals appear aimed at least in part to weaken China's ability to leverage its near monopoly on critical minerals and other trade advantages.
- All the same, it's not clear if the new deals were helpful in reaching the US-China framework deal mentioned above.

United States-Canada: President Trump on Saturday said he'll impose an additional 10% tariff on imports from Canada to punish it for US television ads placed by the province of Ontario that featured anti-tariff audio by President Reagan. Current US tariffs haven't been applied to Canadian goods compliant with the US-Mexico-Canada trade deal, so about 85% of Canadian imports are duty-free, with the rest subject to the administration's new tariff of 35%. It isn't yet clear whether the new 10% tariff will apply even to USMCA-compliant imports.

Argentina: In legislative elections yesterday, preliminary results show President Milei's libertarian Liberty Advances party came in first with 40.8% of the vote, beating the Peronist opposition alliance with 31.7%. The results should help calm fears of a Peronist resurgence, which sparked a run on the peso last month and prompted the US to offer a bailout centered on a \$20-billion currency swap facility. Reflecting renewed confidence that Milei can keep pushing through his reforms, Argentina stock, bond, and currency values are surging so far today.

US Monetary Policy: The Federal Reserve tomorrow begins its latest two-day policy meeting, with the decision due on Wednesday at 2:00 PM ET. Based on interest-rate futures prices, investors are nearly unanimous in expecting the policymakers to cut their benchmark fed funds rate by 25 basis points to a range of 3.75% to 4.00%. Investors will also be looking for confirmation that the officials will keep loosening policy in the coming months, as we expect, during the policy statement and Chair Powell's post-decision news conference.



US Consumer Price Inflation: Agriculture and public health officials say avian influenza is surging in commercial flocks and herds this fall, raising the prospect of renewed tight supplies and higher prices for eggs and other farm products. Wholesale turkey prices are reportedly already up 40% year-over-year, just a month before the Thanksgiving holiday. An additional risk this time around is that the US Department of Agriculture may be understaffed to respond to the crisis if the flu continues to spread.

Eurozone: In contrast with the Fed, the European Central Bank's policy committee is widely expected to hold its benchmark interest rate unchanged at 2.0% when it meets later this week. That would mark the third straight meeting at which the ECB held its benchmark rate steady, reflecting ECB chief Lagarde's desire to keep rates on hold for an extended period now that the institution has struck a balance between modest economic growth and lower price inflation.

Italy: Prime Minister Meloni's plan for a 13.5-billion EUR ($15.7 billion) bridge to connect the Italian mainland to Sicily appears to be hitting a legal roadblock after a court questioned whether the mothballed project — which held its first tender in 2005 — can be restarted without a new tender. If Meloni can pull off the project, it is expected to provide a significant boost to Italy's economy. Since the bridge could also conceivably aid military mobilization, Rome has also floated it as a boost to Italy's defense spending to help appease US demands.

Japan: As investors, we all fear bear markets. But what about real bears? Because of factors ranging from its declining population to climate change, Japan is suffering from a spate of bear attacks, with a record nine people killed by the animals so far this year, including one killed and four injured just on Friday. We don't know about you, but we'll take the occasional bear market in stocks over a bear mauling any day of the week!

US Economic Releases

There were no economic releases prior to the publication of this report. The table below lists the economic releases and Fed events scheduled for the rest of the day.

Economic Releases						
EST	Indicator			Expected	Prior	Rating
10:30	Dallas Fed Manufacturing Activity	m/m	Oct	-7.8	-8.7	**
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	PPI	y/y	Sep	3.0%	2.7%	2.7%	***	Equity and bond neutral
China	Industrial Profits	y/y	Sep	21.6%	20.4%		*	Equity and bond neutral
EUROPE								
Eurozone	M3 Money Supply	y/y	Sep	2.8%	2.9%	2.7%	***	Equity and bond neutral
Germany	IFO Business Climate	m/m	Oct	88.4	87.7	88.0	***	Equity and bond neutral
	IFO Current Assessment	m/m	Oct	85.3	85.7	86.0	**	Equity and bond neutral
	IFO Expectations	m/m	Oct	91.6	89.8	90.0	**	Equity and bond neutral
Switzerland	Domestic Sight Deposits CHF	w/w	24-Oct	448.7b	451.1b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	24-Oct	471.5b	473.8b		*	Equity and bond neutral
AMERICAS								
Mexico	Trade Balance	m/m	Sep	-$2399.5	-$1943m	-$500m	**	Equity and bond neutral
	Exports	m/m	Sep	56488m	$55718m		*	Equity and bond neutral
	Imports	m/m	Sep	58887m	$57662m		*	Equity and bond neutral
Brazil	FGV Consumer Confidence	y/y	Oct	88.5	87.5		*	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)	376	377	-1	Down
U.S. Sibor/OIS spread (bps)	385	385	0	Down
U.S. Libor/OIS spread (bps)	375	375	0	Down
10-yr T-note (%)	4.03	4.00	0.03	Up
Euribor/OIS spread (bps)	207	207	0	Up
Currencies	**Direction**			
Dollar	Down			Up
Euro	Up			Up
Yen	Flat			Down
Pound	Up			Down
Franc	Flat			Up

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	$65.60	$65.94	-0.52%	
WTI	$61.17	$61.50	-0.54%	
Natural Gas	$3.31	$3.30	0.15%	
Crack Spread	$24.57	$23.94	2.61%	
12-mo strip crack	$25.57	$25.29	1.14%	
Ethanol rack	$1.99	$1.99	-0.15%	
Metals				
Gold	$4,030.00	$4,113.05	-2.02%	
Silver	$47.45	$48.63	-2.42%	
Copper contract	$518.25	$512.25	1.17%	
Grains				
Corn contract	$429.75	$423.25	1.54%	
Wheat contract	$524.00	$512.50	2.24%	
Soybeans contract	$1,079.50	$1,060.25	1.82%	
Shipping				
Baltic Dry Freight	1,991	2,057	-66	

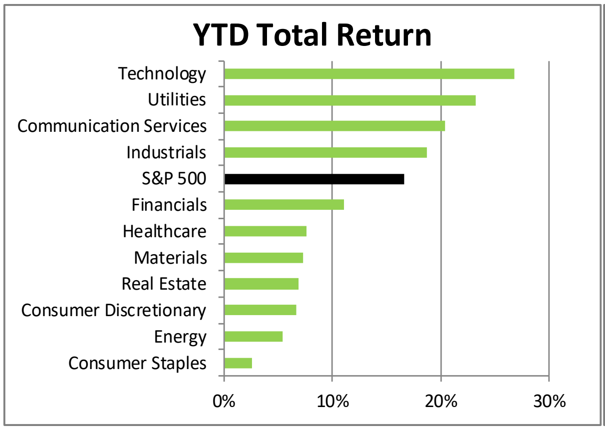
Weather

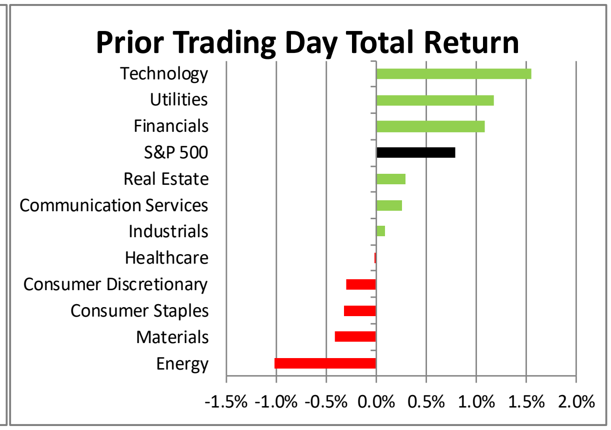
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in most states west of the Mississippi River, with cooler-than-normal temperatures in the East. The precipitation outlook calls for wetter-than-normal conditions in the Pacific Northwest and the Northeast, with dry conditions in the Southwest and southern Great Plains.

Hurricane Melissa is expected to landfall in Jamaica, Haiti, and the Dominican Republic before moving east into the Atlantic Ocean.

Data Section

US Equity Markets – (as of 10/24/2025 close)

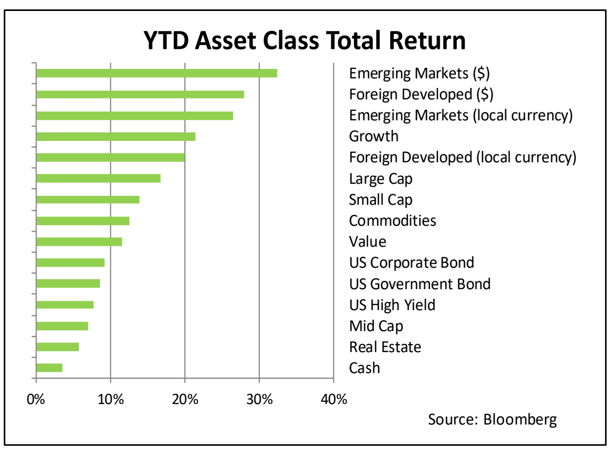




(Source: Bloomberg)

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 10/24/2025 close)

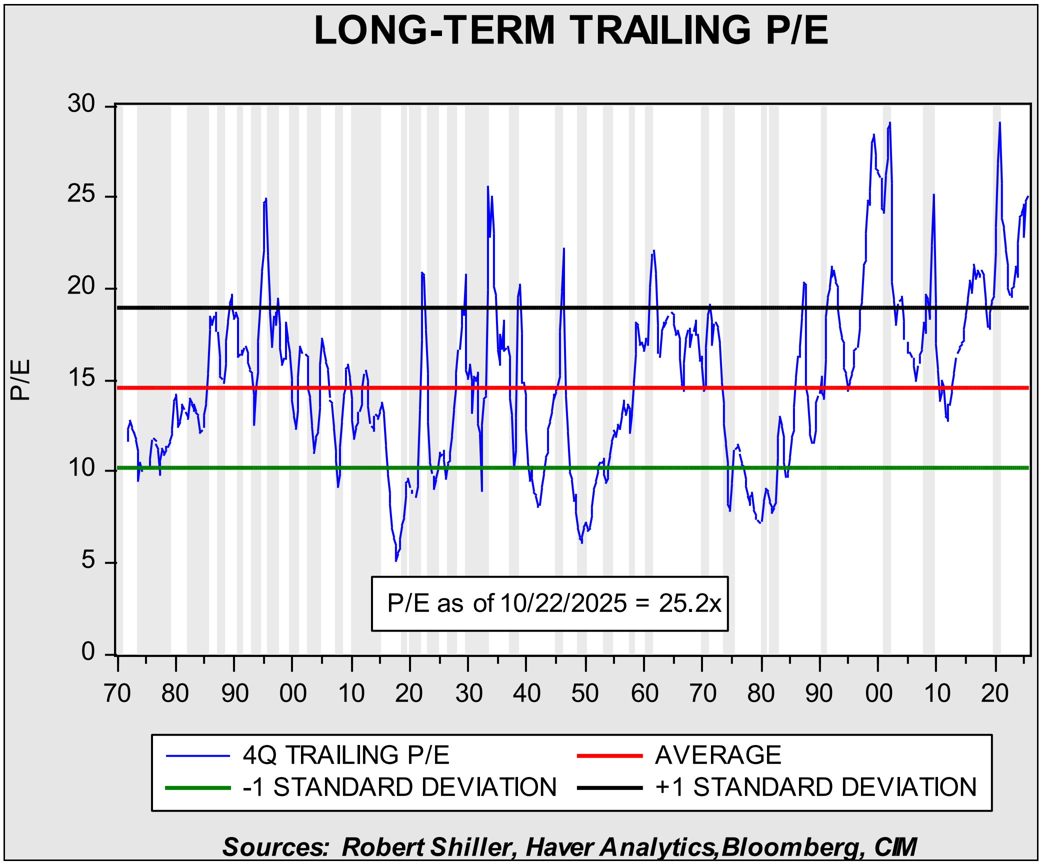


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.