Daily Comment

Confluence INVESTMENT MANAGEMENT

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[Posted: October 28, 2025 — 9:30 AM ET] Global equity markets are mostly lower 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 down 0.7%. Chinese markets were lower, with both the Shanghai and the Shenzhen Composites down 0.2%. Conversely, US equity index futures are signaling a higher open.

With 161 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
"China's Rising Power and the Implications for US Hegemony" (10/27/25) + 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 a few notes on the recent pullback in global gold prices. We next review several other international and US developments with the potential to affect the financial markets today, including two new deals in the red-hot areas of artificial intelligence and nuclear energy and another high-profile expression of concern that bad loans in the private-credit industry could lead to wider financial problems.

Global Gold Market: As of this writing, gold prices have fallen decisively below the psychologically important $4,000-per-ounce mark for the first time since spiking above that level in early October. As we have warned previously, signs of a thaw in US-China relations have probably taken some safe-haven bid out of the yellow metal, at least temporarily. We remain bullish on gold over the longer term, but a short-term pullback would not be unusual. We see gold's next significant support levels at about $3,730 and $3,640.

(*Source: Yahoo Finance*)

US Artificial Intelligence Industry: Renewable energy giant NextEra and Google have struck a deal under which NextEra will restart a 615-megawatt nuclear generating station in Iowa to sell Google electricity over the coming 25 years, mostly for its artificial-intelligence data centers. The nuclear plant, known as the Duane Arnold Energy Center, has been shuttered for the last five years; a reopening is expected to cost about $1.6 billion

- The deal is the latest in a string of such agreements designed to feed the enormous power needs of the AI industry.
- The deals involving nuclear plants are helping foster renewed interest in the technology, which in turn is helping foster strong demand for uranium and boosting the stock prices of uranium miners.

US Nuclear Energy Industry: In another, broader nuclear deal, reports today say the US government and Cameco, the owner of reactor builder Westinghouse, have struck a deal under which the US will provide $80 billion to Westinghouse for land purchases, permitting, and business development costs associated with building about eight modular reactors, a mix of large and small. The $80 billion would be part of the funds Tokyo agreed to invest in the US under its recent trade deal with Washington.

- Consistent with other recent deals, the federal government would get a 20% share of Westinghouse's profits from the reactors once it has distributed $17.5 billion to its current owners. The US government can also require Westinghouse to go public if its value exceeds $30 billion by 2029 and then convert its profit share into a 20% equity stake in the company.
- Those features will likely keep alive concerns regarding government ownership of productive facilities and possible interference in the operations of private companies.

US Financial Industry: The chief financial officer of banking giant HSBC has issued another high-profile warning about financial risks in the burgeoning private-credit industry. The official stressed that HSBC has very little direct exposure to private-credit firms that may be facing soured loans, but he warned that second- and third-order risks could be important. His comments echo those of JPMorgan CEO Jamie Dimon, who recently warned that the few "cockroaches" seen so far probably point to a broader infestation.

US Monetary Policy: Today, the Fed's policy committee starts its latest two-day meeting, with its decision due on Wednesday at 2:00 PM ET. Based on interest-rate futures prices, investors widely expect the policymakers to cut their benchmark fed funds rate by 25 basis points to a range of 3.75% to 4.00%. In the policy statement and Chair Powell's news conference, investors will look for confirmation that the officials will keep cutting rates in the coming months, as we expect.

- Chair Powell also may announce that the Fed will stop shrinking its bond holdings earlier than the year-end date he has suggested previously.
- Investors have recently begun to call for a quicker end to "quantitative tightening" after bank usage of the Fed's standby repo facility spiked to its highest level since the coronavirus pandemic, pointing to growing funding stress in the financial system.

United States-Japan: President Trump today hosted Japan's newly installed Prime Minister Sanae Takaichi aboard the US aircraft carrier *George Washington* at its home port near Tokyo. Importantly, Trump heaped praise on the US-Japan alliance and on the conservative Takaichi, who has vowed to boost cooperation with the US and accelerate Japan's defense spending hikes. Takaichi still wants to revisit the recent US-Japan trade deal, but today's good vibes nevertheless are probably playing into investors' growing sense of reduced geopolitical and trade tensions.

United States-Russia: In a sign that Russia's top two energy companies are concerned about the Trump administration's new sanctions on them, Lukoil yesterday said it will sell all its foreign business units as soon as possible. The sale would use a license granted by the US that expires on November 21. Press reports say that Lukoil's foreign subsidiaries account for approximately 5% of the firm's earnings before interest, taxes, depreciation, and amortization.

Jamaica: Hurricane Melissa, which spent much of the last week plodding through the Caribbean Sea as a mere tropical storm, has suddenly strengthened to a Category 5 powerhouse and is now bearing down on Jamaica today. The hurricane is expected to cause widespread flooding, intense winds, and significant damage. After striking Jamaica, the storm is expected to hit Cuba and the Bahamas before heading out into the open Atlantic Ocean. It is not expected to affect the US.

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
10:00	Richmond Fed Manufact. Index	m/m	Oct	-12	-17	**
10:00	Conf. Board Consumer Confidence	m/m	Oct	93.4	94.2	***
10:30	Dallas Fed Manufacturing Activity	m/m	Oct		-5.6	**
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								
South Korea	GDP	q/q	3Q A	1.7%	0.6%	1.5%	***	Equity and bond neutral
	Consumer Confidence	m/m	Oct	109.8	110.1		*	Equity and bond neutral
India	Industrial Production	y/y	Sep	4.0%	4.1%	2.9%	***	Equity bullish, bond bearish
EUROPE								
Eurozone	EU27 New Car Registrations	y/y	Sep	10.0%	5.3%		***	Equity and bond neutral
Germany	GfK Consumer Confidence	m/m	Nov	-24.1	-22.5	-22.0	**	Equity bearish, bond bullish
Italy	Consumer Confidence	m/m	Oct	97.6	96.8	97.0	***	Equity and bond neutral
	Economic Sentiment	m/m	Oct	94.3	93.7		**	Equity and bond neutral
	Manufacturing Confidence	m/m	Oct	88.3	87.4	87.0	***	Equity and bond neutral
AMERICAS								
Mexico	Unemployment Rate NSA	m/m	Sep	2.98%	2.93%	2.86%	***	Equity and bond neutral
Brazil	FGV Consruction Costs	m/m	Oct	0.21%	0.21%	0.26%	*	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)	371	372	-1	Down
U.S. Sibor/OIS spread (bps)	384	385	-1	Down
U.S. Libor/OIS spread (bps)	374	375	-1	Down
10-yr T-note (%)	3.98	3.98	0.00	Up
Euribor/OIS spread (bps)	208	207	1	Up
Currencies	**Direction**			
Dollar	Flat			Flat
Euro	Up			Up
Yen	Down			Down
Pound	Down			Down
Franc	Down			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	$64.75	$65.62	-1.33%	
WTI	$60.49	$61.31	-1.34%	
Natural Gas	$3.30	$3.44	-4.10%	Supply Optimism
Crack Spread	$24.89	$24.64	1.03%	
12-mo strip crack	$25.47	$25.48	-0.04%	
Ethanol rack	$1.98	$1.98	-0.04%	
Metals				
Gold	$3,921.37	$3,982.21	-1.53%	
Silver	$46.31	$46.85	-1.15%	
Copper contract	$513.15	$517.15	-0.77%	
Grains				
Corn contract	$430.25	$428.75	0.35%	
Wheat contract	$531.25	$526.00	1.00%	
Soybeans contract	$1,093.75	$1,085.00	0.81%	
Shipping				
Baltic Dry Freight	1,976	1,991	-15	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		2.18		
Gasoline (mb)		-1.65		
Distillates (mb)		-3.18		
Refinery run rates (%)		-0.8%		
Natural gas (bcf)		83		

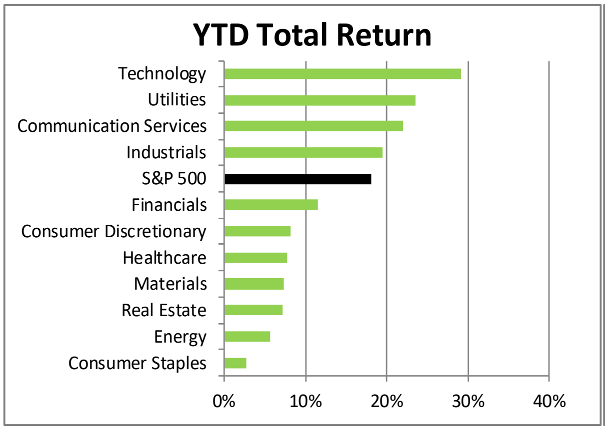
Weather

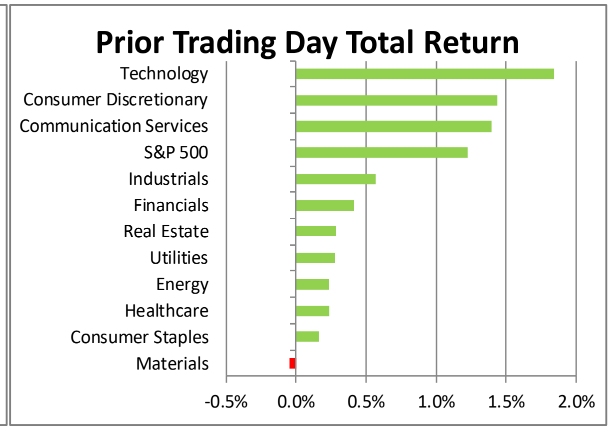
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in most states west of the Mississippi River, with cooler-than-normal temperatures in the East. The precipitation outlook calls for wetter-than-normal conditions in the Pacific Northwest, northern Rockies and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

Hurricane Melissa has made landfall in Jamaica and is expected to move toward Cuba and the Bahamas before moving east into the Atlantic Ocean.

Data Section

US Equity Markets – (as of 10/27/2025 close)

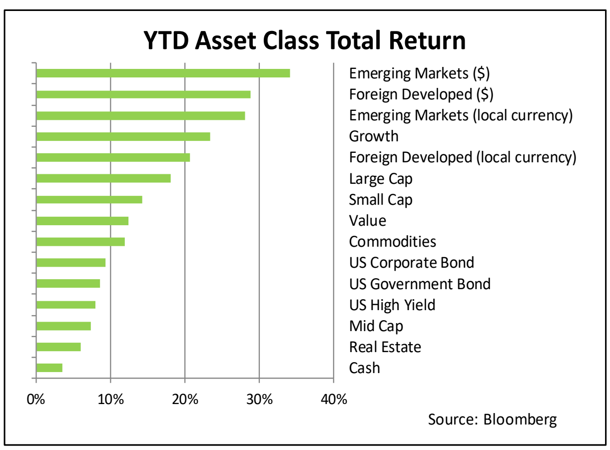




(Source: Bloomberg)

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 10/27/2025 close)

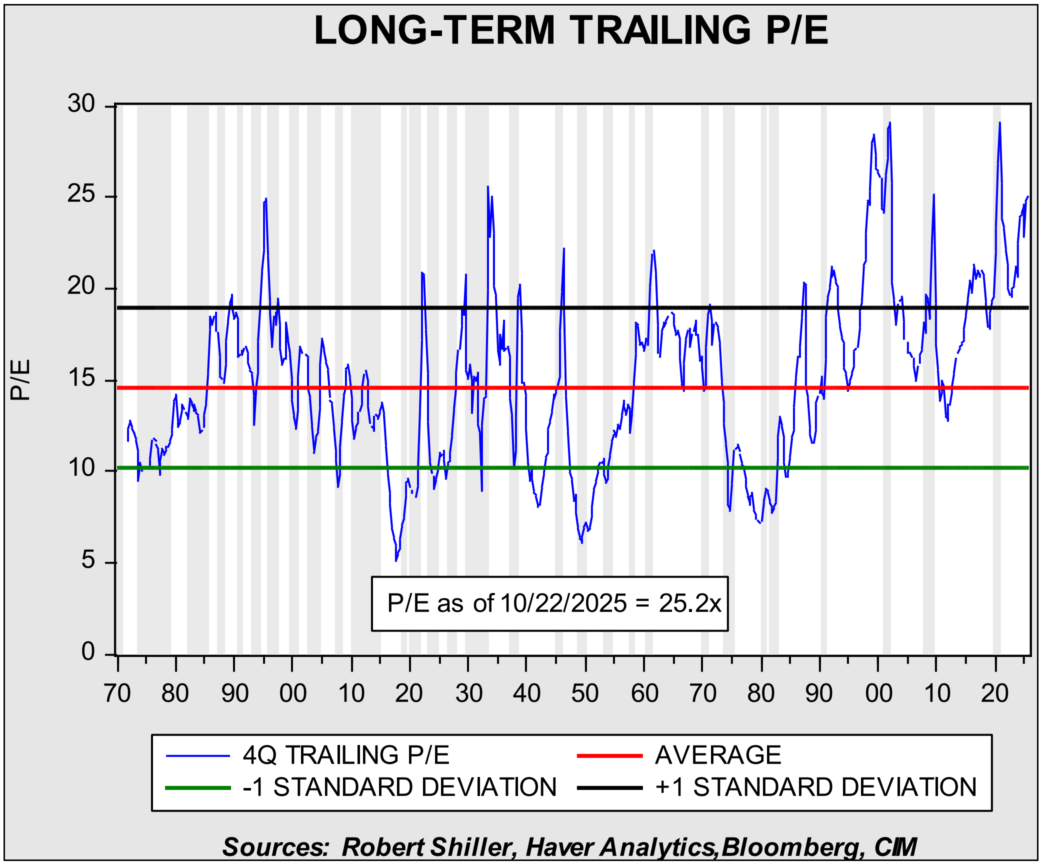


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.