

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

**[Posted: October 28, 2026 — 9:30 AM ET]** Global equity markets are generally higher this morning. In Europe, the Euro Stoxx 50 is down 0.3% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 3.0%. Chinese markets were higher, with the Shanghai Composite up 0.9% and the Shenzhen Composite up 2.0%. US equity index futures are signaling a higher open.

With 175 companies having reported so far, S&P 500 earnings for Q3 are running at \$92.10 per share, compared to estimates of \$94.17, which is up 29.6% from Q3 2025. Of the companies that have reported thus far, 81.7% exceeded expectations while 12.6% 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                                                                                                                               |
|-------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|--------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|
| <a href="#">"The US, China, and Constructive Strategic Stability"</a><br>(10/26/26) | <a href="#">"The Euro vs. the Swiss Franc"</a><br>(10/19/26)<br>+ <a href="#">podcast</a> | <a href="#">Q4 2026 Report</a> | <a href="#">Keller Quarterly</a><br><a href="#">VE Insights: A Moving Yardstick</a><br><a href="#">VE Insights: Quality and Value</a> |

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](mailto:mailbag@confluenceim.com).

---

Our *Comment* opens with the latest developments in the Russia-Ukraine conflict. We then turn to AI and how Anthropic's IPO could influence sentiment toward the sector. Next, we briefly cover the preliminary results of Israel's election, Iran's threat against South Korean shipper Sinokor, and Flávio Bolsonaro's decision to flee to the US. As always, we conclude with a review of recent domestic and international economic data.

**Ukraine Progress:** Russia remains intent on negotiating a Ukrainian peace deal exclusively with the US, effectively brushing aside European efforts to join the talks. Reports also point to discussions with the White House aimed at paving the way for American companies to re-enter

Russia. Moscow's refusal to engage the EU highlights its deep distrust of mainstream European leadership and its strong preference for dealing with more accommodating Western political figures.

- Talks between Russian President Vladimir Putin and European leaders were largely performative and unproductive. While European leaders intended to discuss Ukraine's conditions for ending the conflict, [Putin spent most of the conversation attempting to justify Russia's claim to Ukrainian territory](#). Following the meeting, the Russian foreign minister dismissed Europe's mediation efforts and hinted at a possible escalation between the two sides.
- At the same time, the White House appears to be preparing for an eventual resumption of ties between the US and Russia. The [two sides are reportedly working on a joint venture that would allow American firms to invest in pipelines to supply Europe](#) directly. These discussions seem aimed at creating a pathway for Russia to re-establish international relations. Additionally, the two nations are discussing allowing US commercial flights over Russian airspace and exploring cooperation on titanium production.
- Russia's contrasting relationships with the EU and the US are largely driven by its strategic preference for right-wing populist movements. Moscow appears to have concluded that it cannot reach what it considers a fair compromise with Western establishment parties. As a result, if current political trends persist and populist parties such as Germany's AfD and France's National Rally gain significant power over the coming years, we could see renewed efforts to reintegrate Russia into the global economy.
- Progress toward ending the war in Ukraine remains a very real possibility. While a resolution is still a long way off, a successful peace deal could provide a noticeable economic tailwind. A key political obstacle to an agreement may be a shifting US Congress, as current polls suggest Democrats could gain ground in the midterm elections. Nevertheless, a final settlement would likely help lower global oil prices, benefiting equities both domestically and internationally, particularly in Asia and Europe.

**IPO Lifts Optimism:** AI is riding a new wave of optimism as Anthropic prepares to go public. Earlier this week, the creator of Claude [officially filed its highly anticipated S-1 and kicked off its investor roadshow](#) to build demand for the initial public offering (IPO). Aiming for what could be the second-largest market debut behind SpaceX, Anthropic's public offering will serve as a crucial test of Wall Street's continued appetite for capital-intensive AI ventures.

- The company's results point to improved performance in recent months, but its growing spending commitments raise questions about its financial flexibility and path to returns. In the first half of the year, it generated \$3.45 billion in positive cash flow — a marked improvement from the negative cash flow reported in previous periods. However, its commitments total \$657 billion, with 76% classified as noncancelable, creating substantial future obligations that could constrain that progress.
- Investors are increasingly focused on AI providers' overall spending relative to revenue as they evaluate the long-term viability of the industry. According to data tracked by [IsAIProfitable.com](#), the sector has poured \$1.9 trillion into AI infrastructure while

generating only \$972 billion in revenue. The disparity is even more pronounced given that much of that revenue is concentrated among chipmakers, while application and software companies continue to post heavy operating losses.

- AI companies are accelerating plans to go public amid a sharp divergence between equity and debt markets. Firms are capitalizing on elevated equity valuations to raise capital at a premium, even as fixed-income investors continue to demand higher compensation for bonds. [SpaceX exemplifies this dichotomy, trading at a staggering P/E ratio of 646x](#) on the equity side, while [spreads on its debt issuances have widened to a record high](#).
- Anthropic's push toward an IPO will serve as a critical litmus test for investor appetite across the AI landscape. A successful public debut could reinvigorate optimism, bolstering the AI trade in the near term. Conversely, a disappointing launch could trigger a broader reassessment of risk tolerance. Given the ongoing uncertainty surrounding AI's long-term commercial sustainability, maintaining a well-diversified portfolio could guard against a shift in market sentiment.

**Israeli Elections:** Israel faces political deadlock as election counts leave both main blocs short of a 61-seat majority. Prime Minister [Benjamin Netanyahu's bloc holds a projected 54 seats](#) against 49 seats for Gadi Eisenkot's opposition alliance, with Arab parties holding 17 seats. Coalition negotiations will be critical to breaking the stalemate, placing potential support from Arab parties at the center of those talks. Meanwhile, Polymarket odds for Netanyahu to secure the [premiership have risen to 45%, recovering from around 30% leading into the vote](#).

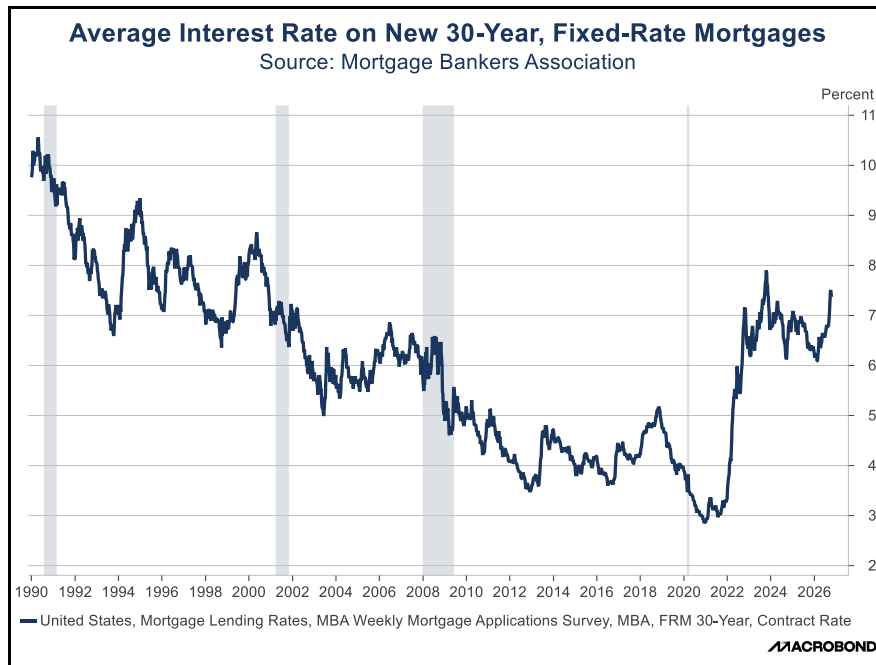
**Iran Threats:** Iran is moving to enforce control over the Strait of Hormuz by [threatening legal action against South Korean shipping firm Sinokor beginning November 1](#). The warning reflects Tehran's broader push to validate its Persian Gulf Strait Authority (PGSA), which was created in May to manage vessel passage. Although Iran has not launched missile strikes against every noncompliant ship, it explicitly warned that vessels committing transit violations could be treated as legitimate targets.

**Bolsonaro Flees:** Defeated right-wing presidential candidate [Flávio Bolsonaro has left Brazil after defying a court order to surrender his passport](#). Before the election, Bolsonaro was under investigation for corruption and a money-laundering scheme involving fundraising for a biographical film about his father. Reports that the US is granting him asylum are expected to cool US-Brazil relations, complicating Washington's push to deepen diplomatic engagement in the region.

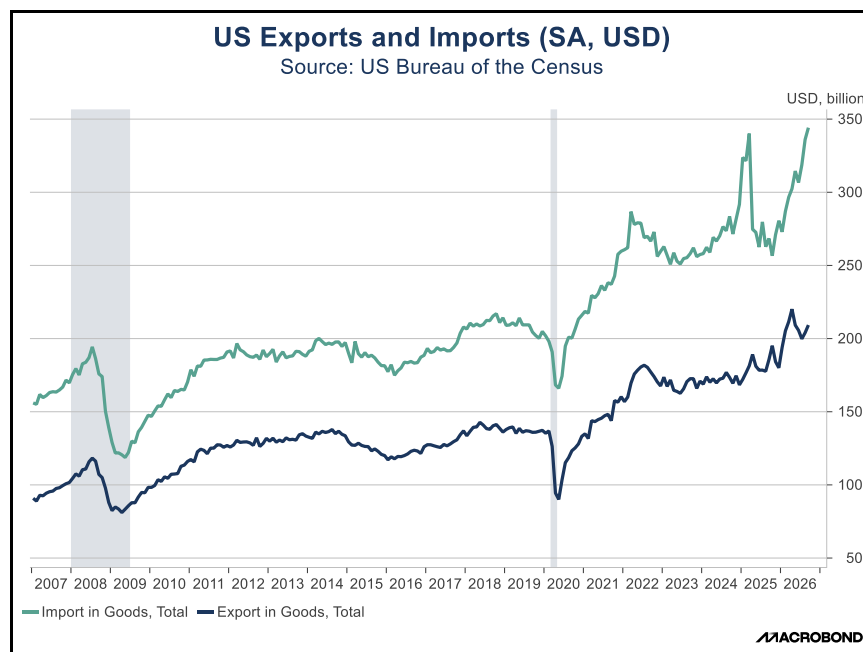
---

## US Economic Releases

The Mortgage Bankers Association said **mortgage applications** in the week ended October 23 rose 3.4%, reversing part of their 5.3% drop in the previous week but still leaving applications down 42.8% year-over-year. Applications for home purchase mortgages rose 3.8%, compared with a fall of 7.3% in the prior week. Applications for refinancing mortgages rose 2.7%, versus a decline of 2.0% the week before. The average interest rate on a 30-year, fixed-rate mortgage fell 4 basis points to 7.37%. The chart below shows how mortgage rates have changed over time.



In a separate report today, a preliminary estimate showed the US *merchandise trade balance* in September came in at a seasonally adjusted deficit of \$134.9 billion, a bit worse than both the expected shortfall of \$130.2 billion and the revised August deficit of \$132.1 billion. According to the data, total merchandise exports rose 2.6% in September, and imports rose 2.4%. The chart below shows the monthly value of US exports and imports 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 |
| 14:00                                           | FOMC Rate Decision (Lower Bound) | w/w | 28-Oct | 3.75%    | 3.75% | ***    |
| 14:00                                           | FOMC Rate Decision (Upper Bound) | w/w | 28-Oct | 4.00%    | 4.00% | ***    |
| 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 |                               |     |        |           |           |          |        |                         |
| Australia    | CPI                           | y/y | Sep    | 4.3%      | 4.0%      | 4.2%     | ***    | Equity and bond neutral |
| South Korea  | Retail Sales                  | y/y | Sep    | 4.5%      | 7.7%      |          | **     | Equity and bond neutral |
|              | Depart. Store Sales           | y/y | Sep    | 8.4%      | 11.9%     |          | *      | Equity and bond neutral |
|              | Discount Store Sales          | y/y | Sep    | 4.0%      | 4.5%      |          | *      | Equity and bond neutral |
| India        | Industrial Production         | y/y | Sep    | 6.7%      | 7.8%      | 7.2%     | ***    | Equity and bond neutral |
| EUROPE       |                               |     |        |           |           |          |        |                         |
| Italy        | Industrial Sales WDA          | y/y | Aug    | 4.2%      | 4.9%      |          | *      | Equity and bond neutral |
|              | PPI                           | y/y | Sep    | 17.4%     | 13.5%     |          | **     | Equity and bond neutral |
| AMERICAS     |                               |     |        |           |           |          |        |                         |
| Mexico       | International Reserves Weekly | w/w | 23-Oct | \$257016m | \$257077m |          | *      | 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)     | 404       | 403         | 1        | Up             |
| U.S. Sibor/OIS spread (bps) | 406       | 406         | 0        | Up             |
| U.S. Libor/OIS spread (bps) | 404       | 403         | 1        | Up             |
| 10-yr T-note (%)            | 5.00      | 5.00        | 0.00     | Down           |
| Euribor/OIS spread (bps)    | 262       | 264         | -2       | Up             |
| Currencies                  | Direction |             |          |                |
| Dollar                      | Up        | US          |          | Up             |
| Euro                        | Down      | Euro        |          | Down           |
| Yen                         | Up        | Japan       |          | Up             |
| Pound                       | Down      | UK          |          | Flat           |
| Franc                       | Down      | Switzerland |          | Down           |
| Central Bank Action         | Current   | Prior       | Expected |                |
| RBNZ Official Cash Rate     | 2.75%     | 2.75%       | 3.00%    | Below 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 |
|-----------------------------|------------|------------|------------|-------------|
| <b>Energy Markets</b>       |            |            |            |             |
| Brent                       | \$115.14   | \$113.88   | 1.11%      |             |
| WTI                         | \$101.61   | \$99.90    | 1.71%      |             |
| Natural Gas                 | \$2.79     | \$2.70     | 3.26%      |             |
| Crack Spread                | \$49.99    | \$50.04    | -0.09%     |             |
| 12-mo strip crack           | \$50.16    | \$50.30    | -0.28%     |             |
| Ethanol rack                | \$2.12     | \$2.12     | -0.20%     |             |
| <b>Metals</b>               |            |            |            |             |
| Gold                        | \$4,047.52 | \$4,060.13 | -0.31%     |             |
| Silver                      | \$53.81    | \$54.43    | -1.13%     |             |
| Copper Contract             | \$663.95   | \$665.25   | -0.20%     |             |
| <b>Grains</b>               |            |            |            |             |
| Corn contract               | \$451.50   | \$448.75   | 0.61%      |             |
| Wheat contract              | \$613.50   | \$610.25   | 0.53%      |             |
| Soybeans contract           | \$1,248.50 | \$1,243.00 | 0.44%      |             |
| <b>Shipping</b>             |            |            |            |             |
| Baltic Dry Freight          | 2,603      | 2,628      | -25        |             |
| <b>DOE Inventory Report</b> |            |            |            |             |
|                             | Actual     | Expected   | Difference |             |
| Crude (mb)                  |            | 0.00       |            |             |
| Gasoline (mb)               |            | -1.00      |            |             |
| Distillates (mb)            |            | -1.08      |            |             |
| Refinery run rates (%)      |            | -0.10%     |            |             |
| Natural gas (bcf)           |            | 76         |            |             |

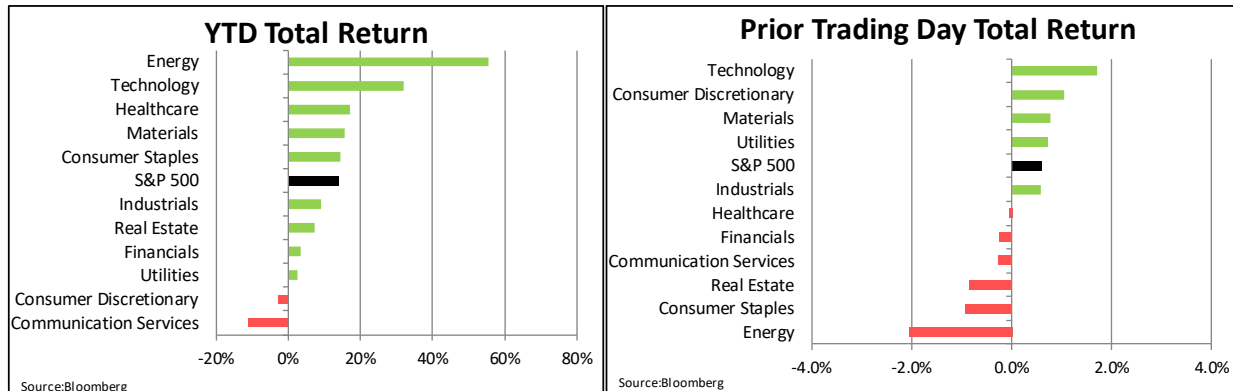
## **Weather**

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in the Pacific Northwest, the northern Rocky Mountains, and in all areas from the Great Plains to the East Coast, with near-normal temps elsewhere. The outlook calls for wetter-than-normal conditions along the West Coast, the Gulf Coast, and the East Coast, with dry conditions in Montana.

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

## Data Section

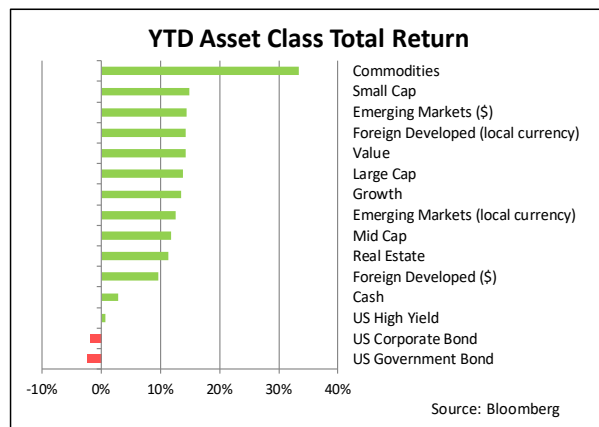
### US Equity Markets – (as of 10/27/2026 close)



(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 10/27/2026 close)

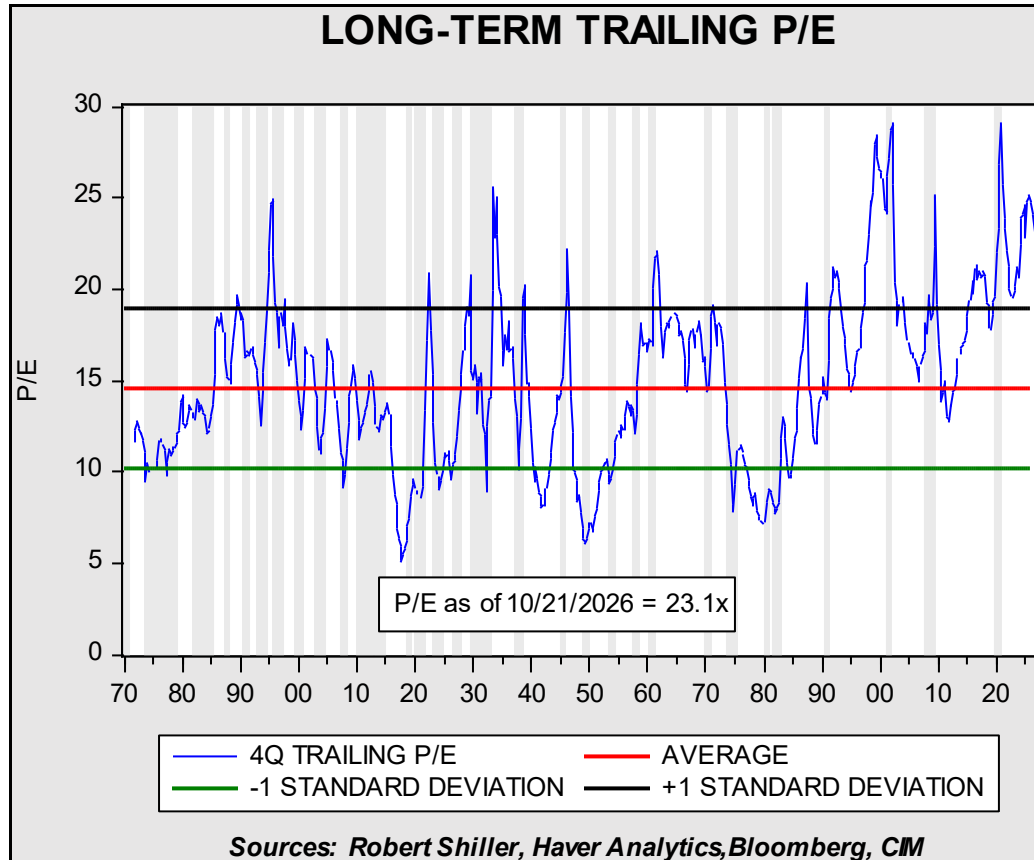


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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,<sup>1</sup> 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.*

<sup>1</sup> 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.