

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: October 29, 2025 — 9:30 AM ET] Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 is up 0.4% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 1.2%. Chinese markets were higher, with the Shanghai Composite up 0.7% and the Shenzhen Composite up 1.3%. US equity index futures are signaling a higher open.

With 197 companies having reported so far, S&P 500 earnings for Q3 are running at \$70.00 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

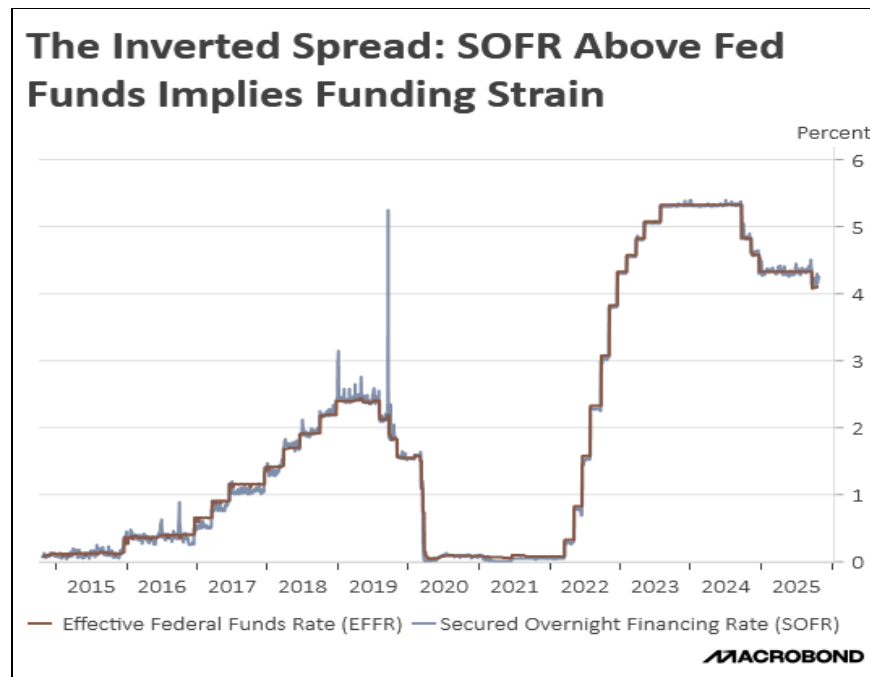
Have a question on the economy, markets, geopolitics, or other important topics? You can submit your queries to our new monthly podcast, *Confluence Mailbag*! Submit your question to mailbag@confluenceim.com.

Our *Comment* begins with our analysis of why the Federal Reserve's balance sheet may now be more critical than its rate decision. We then examine the surge in tech deals as a potential signal of a longer-term trend. Additional topics will include the growing corporate focus on efficiency-driven earnings, progress in US-China trade talks, and a possible setback in the Israel-Gaza truce. We also provide a summary of key international and domestic data releases.

Fed Meeting Primer: While rate cuts have dominated headlines, [the market's focus appears to be shifting to the Fed's quantitative tightening](#). A severe liquidity crunch is underway, fueled by a perfect storm of factors: interbank rates breaching the Fed's target, the Treasury's rapid refilling of its General Account, and the depletion of the reverse repo facility (RRP). This aggressive

drain on system-wide cash is driving up funding costs and threatens to become the primary headwind, structurally undermining the supportive liquidity environment that has powered the recent equity rally.

- The Fed's signal to conclude quantitative tightening (QT) aligns with its goal of preempting liquidity stress. A key preparatory dynamic has been the drawdown of the RRP. As the [Fed's overnight repurchase agreement rate became less attractive](#), investors were incentivized to deploy cash into higher-yielding private markets. This process naturally drains liquidity from the RRP and, by doing so, helps the Fed identify the true, underlying level of demand for bank reserves within the system.



- Furthermore, the Fed had already begun [to slow the pace of its balance sheet reduction in April](#). This deliberate slowdown is intended to extend the tightening cycle, allowing reserves to gradually decline from "abundant" to "ample" levels. The central bank's objective is to execute this transition smoothly to avoid the kind of market disruptions that characterized the September 2019 repo crisis.
- Foreshadowing the current market stress, Fed Chair Jerome Powell had already signaled earlier this month that the central bank [was looking to end its quantitative tightening program](#), which is likely to reduce much of the funding stress and could potentially pave the way for more rate cuts.
- It's important to note that even with the tightening of liquidity, market stability has held up comparatively well. This resilience is a result of the Fed's creation of robust liquidity backstops, encouraging banks to increase reliance on the standing repo facility (SRF) and, to a lesser extent, the discount window for immediate funding. As long as there is no abrupt loss of confidence triggering systemic bank runs, we expect the market impact to remain manageable.

Tech Boost: The AI merger and partnership trend continues to affirm the tech rally's staying power in the equity market. The most notable deal on Monday was OpenAI's restructuring, [which granted Microsoft a 24% stake in the company](#). This move will make the company more attractive to investors as it shifts to a for-profit entity. Additionally, [Nvidia announced a 2.9% equity stake in Nokia, a deal valued near \\$1 billion](#). Recent high-profile deals underscore a new era of resource consolidation and strategic alignment across the tech industry.

- These strategic investments have become critical for tech firms aiming to accelerate growth and secure essential resources. They are primarily driven by the need to quickly improve operational synergies and gain rapid access to proprietary technology and specialized talent.
- Through its strategic partnership with OpenAI, Microsoft has secured a pathway to advancements in artificial general intelligence (AGI) — a transformative step beyond current AI. In a similar vein, NVIDIA's collaboration with Nokia positions it at the forefront of next-generation wireless technology by involving it in the development of 6G cellular services.
- This flurry of activity is driven by the White House's agenda to spur AI-driven reindustrialization and build a robust US industrial ecosystem. While this initiative fosters unprecedented collaboration, the inherent structure of the AI sector means it simultaneously risks accelerating market concentration, likely cementing the dominance of a few key technology giants.
- We believe tech stocks maintain significant momentum, a trend likely to persist through 2026. Deal-making is expected to shift into higher gear, fueled by tax incentives such as the interest rate deduction provision from the landmark bill passed in July. Although concerns of an AI bubble are valid, we see little evidence suggesting it will burst in the near term.

Jobs and Earnings: The trend of corporate workforce reduction continues as executives prioritize profitability. This week, [UPS beat earnings forecasts, crediting its recent layoffs for boosting margins](#), while [Amazon announced further job cuts to drive efficiency](#) through restructuring and AI. These moves confirm our thesis that in an era of sustained pressure from tariffs and rising costs, aggressive headcount reduction has become a primary corporate strategy for stabilizing and growing earnings.

US AI Alliance: [The United States and South Korea are expected to finalize an agreement to strengthen their collaboration](#) in key technologies, including artificial intelligence, quantum computing, and 6G. The deal will establish aligned export controls and reduce regulatory burdens for tech companies. This move reinforces our view that the US is seeking to supplement traditional trade relationships with strategic technology alliances as a primary means of maintaining its global leadership.

US-China Trade: In a sign of easing tensions between Washington and Beijing, China has [purchased its first cargoes of soybeans this year](#), indicating a potential recovery in bilateral trade flows. This move follows President Trump's announcement that he would allow China to have access to [Nvidia's advanced Blackwell chips](#). These developments reinforce our view that the

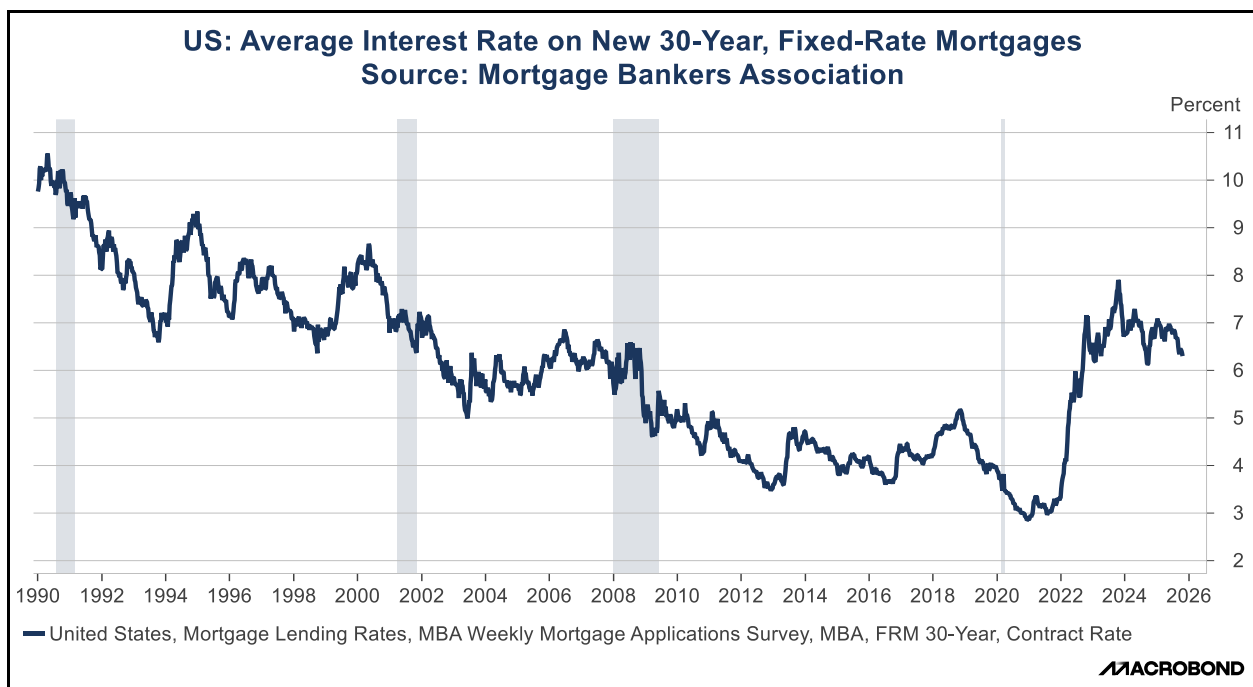
two sides are moving toward a broader "grand bargain" agreement, a prospect that is likely to provide crucial support to the market.

Canada Looks for Friends: Canadian Prime Minister Mark Carney is following through on his promise to reduce Canada's economic dependency on the United States by strengthening ties with Asia. During the ASEAN conference in Malaysia, [he pursued a free trade agreement between Canada and the 11-nation bloc](#). This push comes as Canada faces mounting job losses resulting from a trade dispute with the US, which imposed 10% tariffs after the province of Ontario released an anti-tariff advertisement in American markets.

Israel and Gaza: The ceasefire between [Israel and Hamas has been severely tested](#) in recent days. On Tuesday, Israeli Prime Minister Netanyahu ordered strikes on Gaza, accusing Hamas of violating the agreement by attacking Israeli soldiers. Although tensions have since cooled, significant concerns remain that the truce may collapse. A renewed escalation in the region could exert upward pressure on global oil prices.

US Economic Releases

The Mortgage Bankers Association said ***mortgage applications*** in the week ended October 25 rose 7.1%, erasing the prior week's decline of 0.3% as well as the declines of 1.8% and 4.7% in the two weeks before that. Applications for home purchase mortgages rose 4.5%, after falling 5.2% in the prior week. Applications for refinancing mortgages jumped 9.3%, building on their 4.0% gain in the previous week. Helping explain the rise in mortgage applications last week, the average interest rate on a 30-year, fixed-rate mortgage fell 7 basis points to 6.30%, the lowest in more than a year. The chart below shows how mortgage rates have changed over time.



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	Pending Home Sales	m/m	Sep	1.2%	4.0%	**
10:00	Pending Home Sales NSA	y/y	Sep		0.5%	**
14:00	FOMC Rate Decision (Lower Bound)	w/w	29-Oct	4.0%	4.0%	***
14:00	FOMC Rate Decision (Upper Bound)	w/w	29-Oct	3.8%	4.2%	***
14:00	Interest on Reserve Balances Rate	w/w	30-Oct	3.9%	4.0%	**
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 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	Consumer Confidence Index	m/m	Oct	35.8	35.3	35.5	*	Equity and bond neutral
Australia	CPI	y/y	Sep	3.5%	3.0%	3.1%	**	Equity and bond neutral
South Korea	Retail Sales	y/y	Sep	7.7%	3.7%		**	Equity and bond neutral
	Depart. Store Sales	y/y	Sep	4.8%	2.8%		*	Equity and bond neutral
	Discount Store Sales	y/y	Sep	-11.7%	-15.6%		*	Equity and bond neutral
EUROPE								
Italy	PPI	y/y	Sep	1.5%	0.5%		**	Equity and bond neutral
UK	Net Lending Sec. on Dwellings	m/m	Sep	5.5b	4.3b	4.1b	*	Equity and bond neutral
	Mortgage Approvals	m/m	Sep	65.9k	65.0k	64.0k	***	Equity and bond neutral
	M4 Money Supply	y/y	Sep	3.6%	3.4%		*	Equity and bond neutral
AMERICAS								
Mexico	International Reserves Weekly	w/w	24-Oct	\$249341m	\$249744m		*	Equity and bond neutral
Brazil	Total Outstanding Loans	m/m	Sep	6844b	6771b		**	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)	370	372	-2	Down
U.S. Sibor/OIS spread (bps)	384	383	1	Down
U.S. Libor/OIS spread (bps)	375	374	1	Down
10-yr T-note (%)	3.99	3.98	0.01	Up
Euribor/OIS spread (bps)	207	208	-1	Up
Currencies	Direction			
Dollar	Up			Flat
Euro	Down			Up
Yen	Up			Down
Pound	Down			Down
Franc	Up			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	\$64.79	\$64.40	0.61%	
WTI	\$60.50	\$60.15	0.58%	
Natural Gas	\$3.23	\$3.35	-3.47%	
Crack Spread	\$25.18	\$25.08	0.39%	
12-mo strip crack	\$25.43	\$25.30	0.50%	
Ethanol rack	\$1.95	\$1.96	-0.60%	
Metals				
Gold	\$4,017.81	\$3,952.14	1.66%	
Silver	\$48.14	\$47.06	2.29%	
Copper contract	\$520.50	\$517.10	0.66%	
Grains				
Corn contract	\$431.50	\$432.00	-0.12%	
Wheat contract	\$527.00	\$529.00	-0.38%	
Soybeans contract	\$1,089.50	\$1,095.25	-0.52%	
Shipping				
Baltic Dry Freight	1,950	1,976	-26	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-0.90		
Gasoline (mb)		-2.05		
Distillates (mb)		-1.85		
Refinery run rates (%)		0.0%		
Natural gas (bcf)		71		

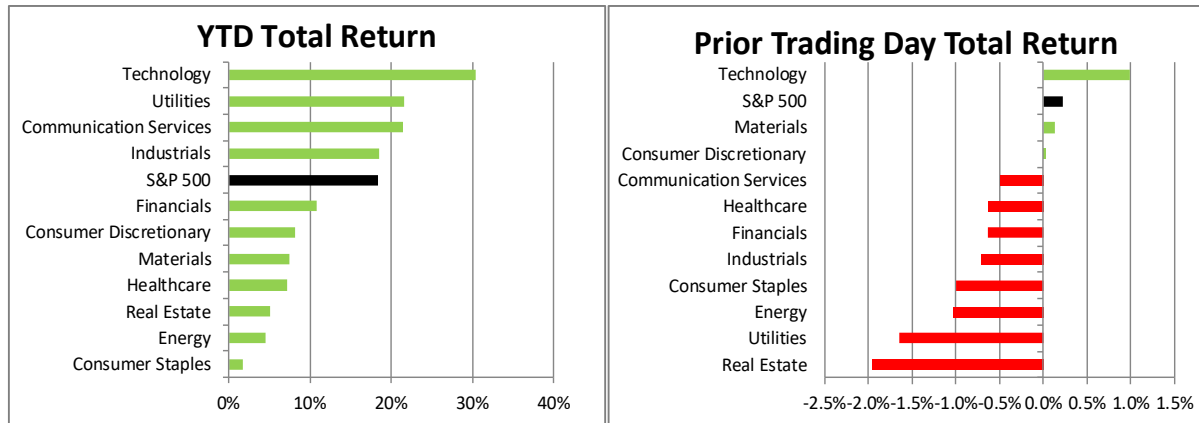
Weather

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

Hurricane Melissa is now over Cuba and headed northeasterly toward the Bahamas, after which it is expected to move into the Atlantic Ocean.

Data Section

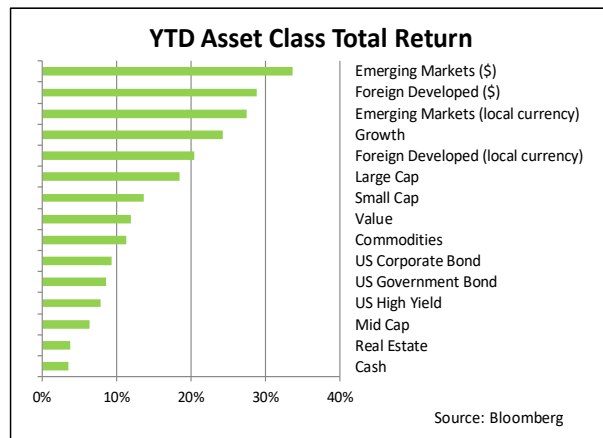
US Equity Markets – (as of 10/28/2025 close)



(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 10/28/2025 close)

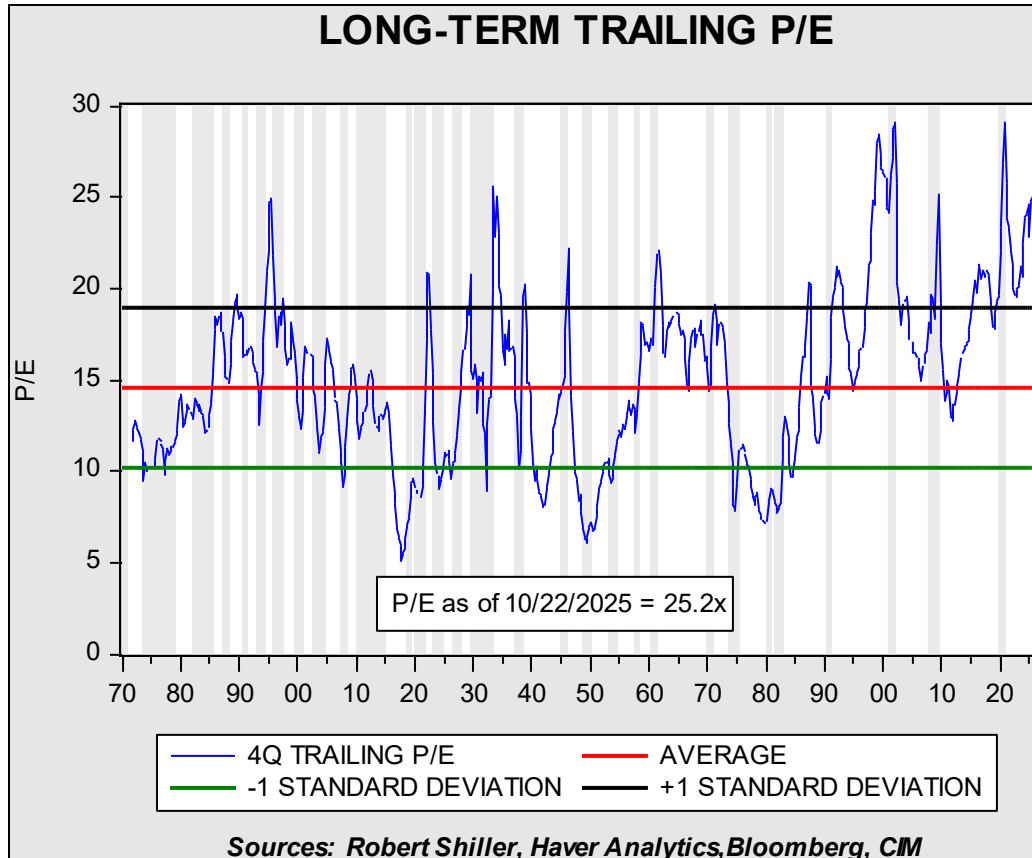


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.