

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: October 29, 2026 — 9:30 AM ET] Global equity markets are mostly lower this morning. In Europe, the Euro Stoxx 50 is up 0.2% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 1.2%. Chinese markets were lower, with the Shanghai Composite down 0.8% and the Shenzhen Composite down 2.8%. US equity index futures are signaling a lower open.

With 225 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, 80.0% exceeded expectations while 14.2% 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
"The US, China, and Constructive Strategic Stability" (10/26/26)	"The Euro vs. the Swiss Franc" (10/19/26) + podcast	Q4 2026 Report	Keller Quarterly VE Insights: A Moving Yardstick VE Insights: Quality and Value

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.

Our *Comment* opens with our takeaways from the latest FOMC meeting. We then turn to geopolitics, examining efforts to bring Iran to the negotiating table before the midterm elections. Next, we discuss Federal Reserve Chair Kevin Warsh's changes to the meeting schedule, the implications of Alphabet's earnings for market sentiment, and the UK's efforts to rein in government spending. As always, we conclude with a review of recent domestic and international economic data.

Serious and Sober Discussion: Federal Reserve officials delivered no surprises with their latest decision to [leave the benchmark interest rate unchanged](#), though the outlook for December

remains far less clear. While the pause was widely expected, two policymakers dissented in favor of an immediate rate hike. However, this hawkish tilt was offset by the Fed chair's reluctance to view AI as a trigger for further policy tightening. Thus, while a December rate hike remains possible, another pause is still very much in play.

- During the press conference, Warsh was tight-lipped about the specifics of the meeting. He described the session as a serious and sober discussion in which all participants aired their views in what he called “a good family fight.” He suggested that the committee is weighing the geopolitical conflict and will closely monitor incoming data. His comments implied that a de-escalation of the war in the Middle East could open the door to extending the Fed's pause in policy tightening.
- Although Fed Chair Warsh adopted a noncommittal tone regarding future rate hikes, hawkish sentiment is clearly building across the committee. Leading the push for higher rates were [Fed Governor Lisa Cook](#) and [Cleveland Fed President Elizabeth Hammack](#), both of whom cited the expansion of AI as a major contributor to persistent inflation. Even Chair Warsh hinted at AI's growing influence on price dynamics by noting that he is keeping a close eye on how South Korean tech imports are affecting inflation.
- While the Fed has made it clear that its goal is to contain inflation, it has been less transparent about its willingness to tighten policy in response to the AI buildout. During the press conference, Warsh initially sidestepped a question about whether AI-related investment could add to demand pressures but was compelled to answer when a reporter repeated it. His comments suggested that the central bank has not settled on how it would respond, with Warsh saying it is not the Fed's goal to “throw sand in the gears of the economy.”
- Market pricing for the December rate decision may be underestimating near-term policy risk. Although consensus aligned around a pause following the recent FOMC meeting, Warsh's remarks on AI introduce a critical variable. To the extent Warsh considers imported cost pressures a larger inflation risk than capex-driven expansion, he could lean on trade indicators as a forward-looking proxy for price stability, thereby establishing a justification to avoid further monetary tightening.

Iran Talks: The White House has reached out to Iran in an effort to help end the conflict in the Middle East. Earlier this week, [Vice President JD Vance sent a letter to a noted Iranian hardliner](#) to help reopen peace negotiations. This outreach comes as the administration considers another round of strikes on Iran following the midterm elections. While it is unclear whether Iran is open to talks, the letter signals that the White House still favors a diplomatic pathway toward de-escalation.

- The letter was sent to Mohsen Rezaei, the secretary of Iran's top security body, the Supreme National Security Council. Rezaei is set to become a key figure in discussions over the coming weeks. The message sent by Vice President Vance did not include specific proposals, but it did provide a framework to restart talks. Rezaei, seen as a key voice of resistance within Iran, has argued for prolonging the conflict unless Washington meets core Iranian demands.

- Vance's letter to Rezaei appears to be part of a broader effort to [restart negotiations regarding Iran's nuclear capabilities](#). Alongside the vice president, regional leaders in the Middle East have been working to convince Tehran to make concessions. Most recently, [Qatari mediators have sought to persuade Iran to allow UN inspectors access to its nuclear facilities](#) in exchange for sanctions relief.
- Publicly, Iran appears unwilling to make concessions to the US, even as momentum builds for potential US strikes following the midterm elections. Overnight, both sides seemed to dig in their heels, with [Iran rejecting Qatari proposals and launching strikes on vessels in the Strait of Hormuz](#). At the same time, the White House [has warned its Gulf allies to prepare for Iranian retaliation](#) in the event of a renewed US offensive.
- Although the timing and outcome of the war are still uncertain, the White House clearly favors ending it sooner rather than later. Diplomatic windows are rapidly closing, though talks could regain momentum if a US offensive yields results. Regardless, oil markets will closely follow the trajectory of the conflict after the midterms. We remain cautiously optimistic about a resolution, but the risk of a protracted conflict is still high.

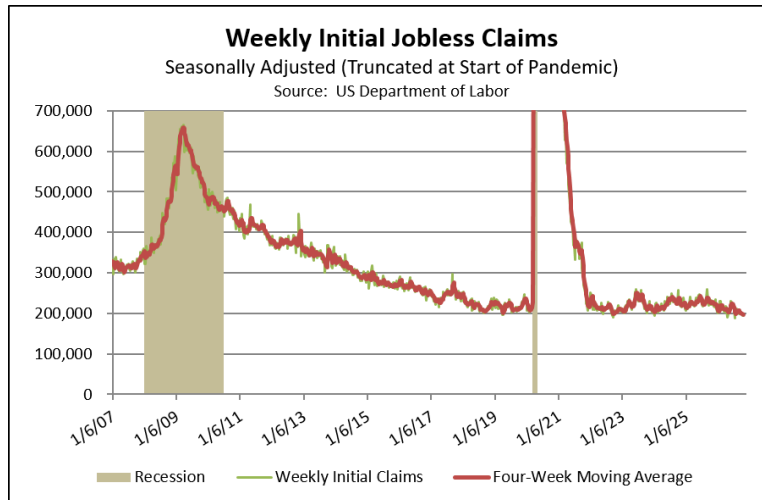
Fed Change: In addition to the rate decision, [Fed Chair Warsh announced a shift in the FOMC's meeting schedule beginning next year](#). While the Fed will maintain its standard schedule of eight annual gatherings, the number of rate-setting meetings will decline to seven in 2027 and six by 2028. The remaining sessions will be dedicated to broader strategic policy discussions, formalizing ideas Warsh had floated as early as July. This structural shift could impact futures contract markets tied to those meeting dates.

AI Concerns: Disappointing results from Google's parent company, Alphabet, will likely weigh on market sentiment. [The company reported that third-quarter sales, excluding partner payouts, missed expectations](#), while ad sales, its core business, grew at their slowest pace in over five quarters. This weaker-than-expected performance comes as the tech giant continues to aggressively fund massive infrastructure projects to expand its AI capabilities, renewing concerns among investors about capital discipline.

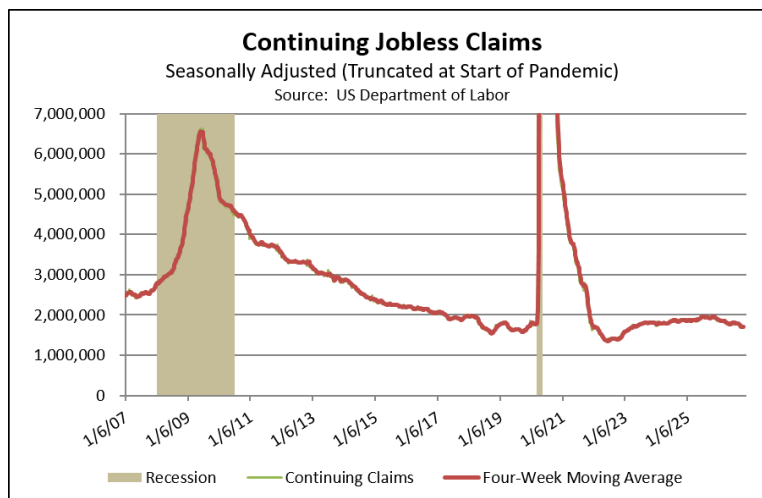
UK Budget: UK officials are seeking to rein in [the country's budget deficit as higher energy costs and debt-servicing](#) expenses strain public finances. Following Wednesday's budget release, Chancellor John Healey pledged to reduce welfare spending, although the timing and details have yet to be announced. The budget also included support for households facing higher energy bills, highlighting the government's challenge of balancing short-term relief with longer-term fiscal discipline.

US Economic Releases

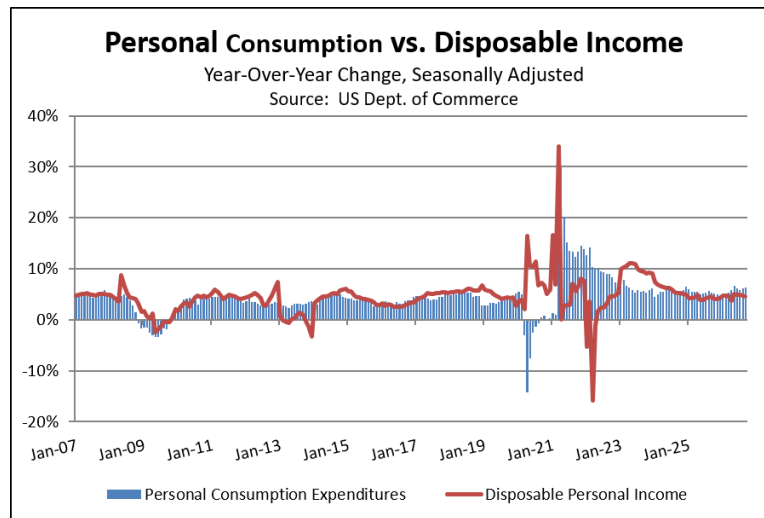
In the week ended October 24, *initial claims for unemployment benefits* fell to a seasonally adjusted 194,000, below both the expected level of 198,000 and the prior week's revised level of 195,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, fell to 196,750. The chart below shows how initial jobless claims have fluctuated since just before the Great Financial Crisis. The chart is truncated through much of the pandemic period because of the extremely high level of claims at that time.



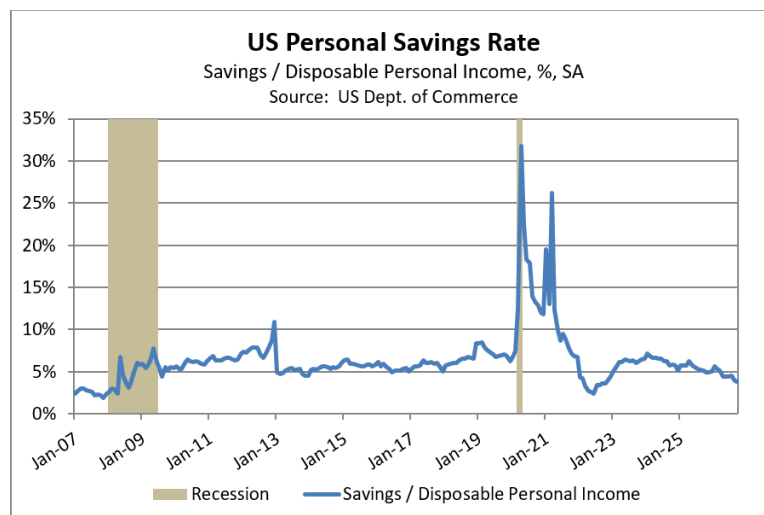
In the week ended October 17, the number of *continuing claims for unemployment benefits* (people continuing to draw benefits) fell to a seasonally adjusted 1.701 million, below both the anticipated reading of 1.720 million and the previous week's revised reading of 1.722 million. The four-week moving average of continuing claims nevertheless rose slightly to 1.710 million. The chart below shows how continuing claims have fluctuated since the GFC. It is also truncated during the pandemic period because of the high level of claims at the time.



In a separate report today, September **personal income** rose by a seasonally adjusted 0.2%, below expectations that the rise would match the revised increase of 0.3% in August. The report said September **personal consumption expenditures (PCE)** rose 0.5%, but that was short of both the anticipated gain of 0.6% and the August jump of 0.9%. Personal income in September was up 4.1% from the same month one year earlier, while PCE was up 6.3%. The chart below shows the year-over-year change in personal income and PCE since just before the GFC.

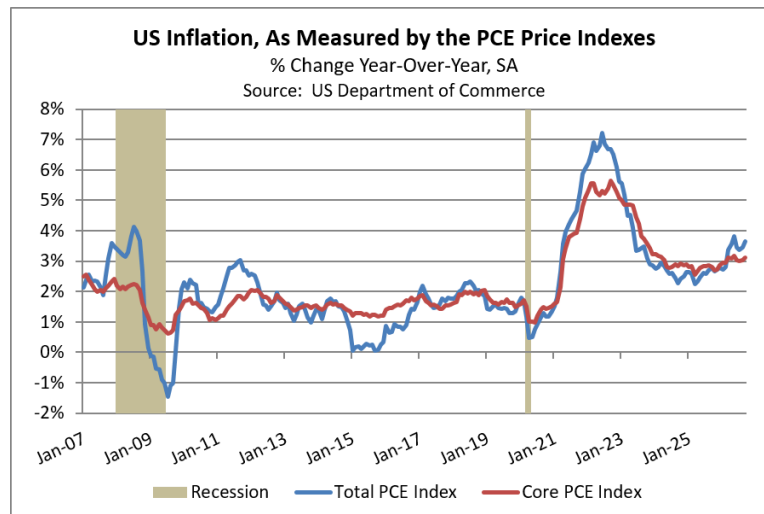


The personal income and spending report also includes a measure of personal saving, defined as disposable (after tax) income less consumption spending on goods and services. The September **personal savings rate** fell to a seasonally adjusted 3.8%, marking another extremely low rate. The chart below shows how the personal savings rate has fluctuated since just before the GFC.

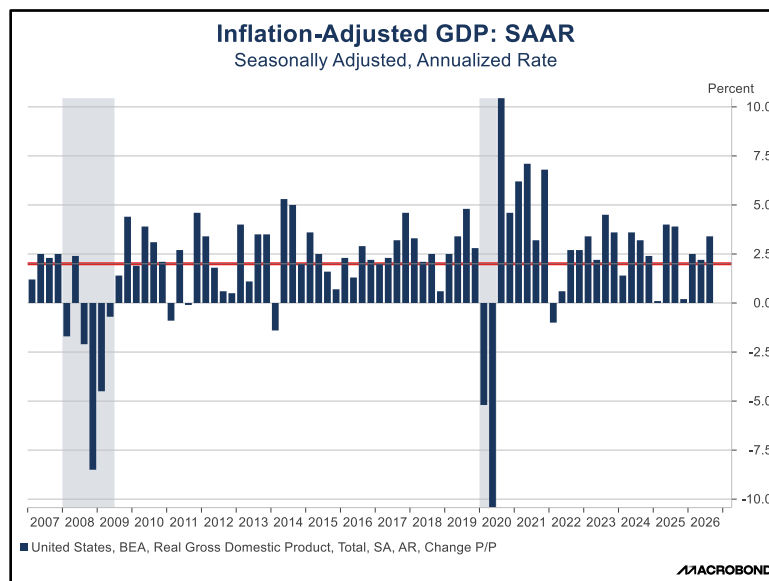


The income and spending report includes the Fed's preferred measure of consumer price inflation. After stripping out the volatile food and energy components, the **Core PCE Deflator**

for September was up 3.1% from the same month one year earlier, as anticipated. The chart below shows the year-over-year change in the Core PCE Deflator since just before the GFC.

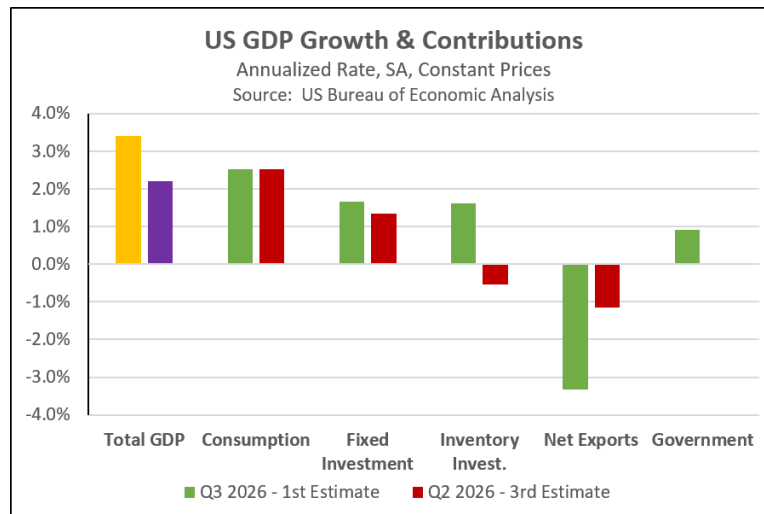


Finally, the Commerce Department released its first estimate of economic activity in the third quarter. After stripping out seasonal factors and price changes, the report showed that third-quarter **gross domestic product (GDP)** rose at an annualized rate of 3.4%, beating both the expected rise of 3.2% and the final second-quarter growth rate of 2.2%. The chart below shows the annualized growth rate of US GDP since just before the GFC; the horizontal red line indicates the average growth rate of 2.0% over the last two decades.



A close look at the details in the report shows that the main source of growth in the quarter was consumer spending, followed by fixed investment and inventory investment. More than half the contribution from fixed investment reflected spending on information-processing equipment,

likely related to the AI investment boom. The chart below shows the contributions to the annualized growth rate in the third quarter.



There are no economic releases or Fed events scheduled for the rest of the day.

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								
Japan	Japan Buying Foreign Bonds	w/w	23-Oct	-¥92.6b	-¥160.5b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	23-Oct	¥288.1b	¥128.3b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	23-Oct	¥43.3b	¥1454.3b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	23-Oct	¥1180.9b	-¥67.5b		*	Equity and bond neutral
	Consumer Confidence Index	m/m	Oct	35.0	35.4	35.1	*	Equity and bond neutral
New Zealand	ANZ Activity Outlook	m/m	Oct		47.9		*	Equity and bond neutral
	ANZ Business Confidence	m/m	Oct		51.9		**	Equity and bond neutral
EUROPE								
Eurozone	Economic Confidence	m/m	Oct	96.9	97.5	97.5	***	Equity and bond neutral
	Industrial Confidence	m/m	Oct	-3.4	-3.9	-3.8	***	Equity and bond neutral
	Services Confidence	m/m	Oct	5.3	5.9	5.6	**	Equity and bond neutral
	Consumer Confidence	m/m	Oct F	-17.7	-17.9	-17.9	**	Equity and bond neutral
Italy	Unemployment Rate	m/m	Sep	6.3%	6.2%	6.2%	**	Equity and bond neutral
	Consumer Confidence	m/m	Oct	90.3	91.2	91.0	***	Equity and bond neutral
	Economic Sentiment	m/m	Oct	96.6	95.9		**	Equity and bond neutral
	Manufacturing Confidence	m/m	Oct	91.9	91.9	92.0	***	Equity and bond neutral
UK	Net Lending Sec. on Dwellings	m/m	Sep	3.9b	4.2b	4.2b	*	Equity bearish, bond bullish
	Mortgage Approvals	m/m	Sep	53.4k	54.8k	54.0k	***	Equity and bond neutral
	M4 Money Supply	y/y	Sep	3.9%	4.5%		*	Equity and bond neutral
Russia	Retail Sales	m/m	Sep	3.90%	3.30%	3.70%	***	Equity and bond neutral
	Unemployment Rate	m/m	Sep	2.20%	2.20%	2.20%	***	Equity and bond neutral
	Industrial Production	y/y	Sep	1.8%	-0.6%	-0.3%	***	Equity bullish, bond bearish
AMERICAS								
Brazil	FGV Inflation IGPM	y/y	Oct	5.24%	3.34%	5.35%	***	Equity and bond neutral
Brazil	Total Outstanding Loans	m/m	Sep	7444b	7412b		**	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)	399	400	-1	Up
U.S. Sibor/OIS spread (bps)	405	404	1	Up
U.S. Libor/OIS spread (bps)	403	402	1	Up
10-yr T-note (%)	5.02	5.02	0.00	Up
Euribor/OIS spread (bps)	262	262	0	Up
Currencies	Direction			
Dollar	Up	US		Up
Euro	Down	Euro		Down
Yen	Up	Japan		Up
Pound	Down	UK		Down
Franc	Down	Switzerland		Down
Central Bank Action	Current	Prior	Expected	
FOMC Rate Decision (Upper B)	4.00%	4.00%	4.00%	On Forecast
FOMC Rate Decision (Lower B)	3.75%	3.75%	3.75%	On Forecast
FOMC Rate on Reserve Bala	3.90%	3.90%	3.90%	On Forecast
Bank of Canada Rate Decisid	2.50%	2.25%	2.50%	On 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	\$113.94	\$115.32	-1.20%	
WTI	\$101.40	\$102.78	-1.34%	
Natural Gas	\$3.03	\$3.03	-0.03%	
Crack Spread	\$48.29	\$50.34	-4.08%	
12-mo strip crack	\$49.53	\$50.65	-2.21%	
Ethanol rack	\$2.14	\$2.13	0.16%	
Metals				
Gold	\$4,033.56	\$4,067.35	-0.83%	
Silver	\$52.82	\$53.98	-2.16%	
Copper Contract	\$659.35	\$667.15	-1.17%	
Grains				
Corn contract	\$451.25	\$451.75	-0.11%	
Wheat contract	\$598.50	\$599.00	-0.08%	
Soybeans contract	\$1,230.50	\$1,238.00	-0.61%	
Shipping				
Baltic Dry Freight	2,652	2,603	49	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)	-1.89	0.00	-1.89	
Gasoline (mb)	3.87	-1.00	4.87	
Distillates (mb)	-1.46	-1.08	-0.39	
Refinery run rates (%)	0.00	-0.10%	0.00	
Natural gas (bcf)		71		

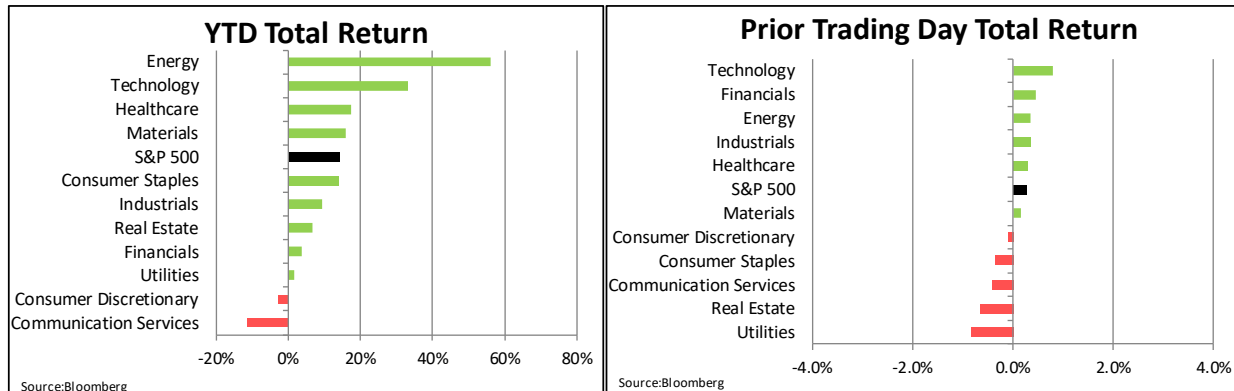
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures everywhere except the Desert Southwest, where temps will be near normal. The outlook calls for wetter-than-normal conditions everywhere except the Pacific Northwest, the northern Rocky Mountains, the northern Great Plains, and the Midwest, 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

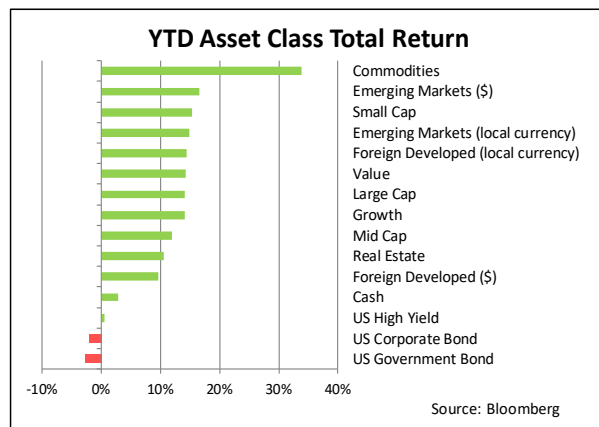
US Equity Markets – (as of 10/28/2026 close)



(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 10/28/2026 close)

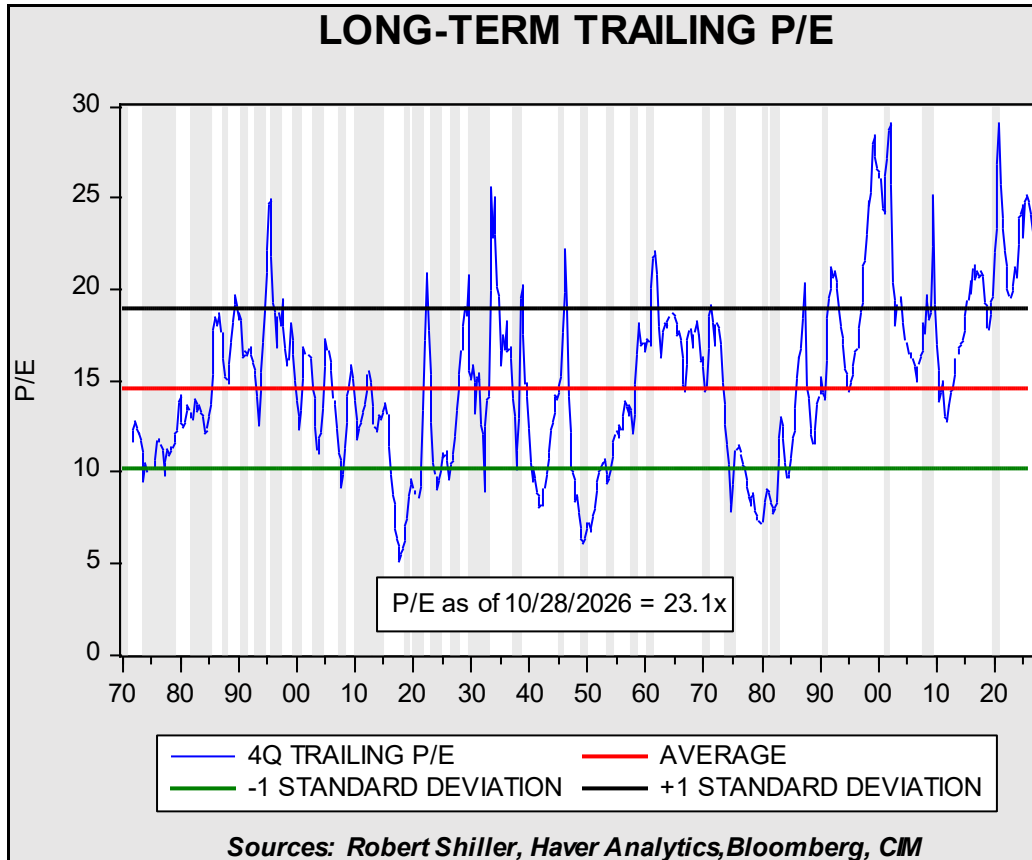


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 29, 2026



Based on our methodology,¹ the current P/E ratio is 23.1x, remaining unchanged from the previous report. The multiple held flat as both the stock price index and earnings showed little change week-over-week.

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 (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.