Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: October 30, 2025 — 9:30 AM ET] Global equity markets are generally lower this morning. In Europe, the Euro Stoxx 50 is down 0.5% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed unchanged. Chinese markets were lower, with the Shanghai Composite down 0.7% and the Shenzhen Composite down 1.3%. US equity index futures are signaling a lower open.

With 248 companies having reported so far, S&P 500 earnings for Q3 are running at $70.70 per share compared to estimates of $68.15, which is up 8.0% from Q3 2024. Of the companies that have reported thus far, 81.0% have exceeded expectations, while 14.9% 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.

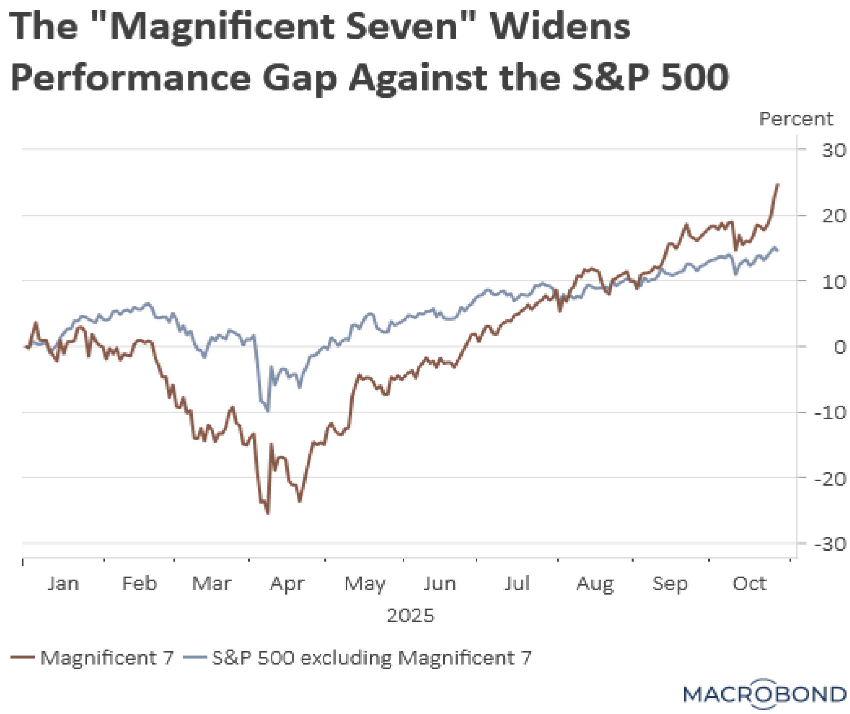
Our *Comment* begins with our key takeaways from the October 28-29 FOMC meeting. We then assess concerns over elevated tech spending and explain why it is unlikely to derail near-term sector momentum. Additional analysis covers the newly agreed US-China trade truce and the implications of stronger-than-expected economic growth in Europe. We conclude with our regular summary of critical international and domestic data releases.

Fed Division: The FOMC's widely anticipated 25 basis point rate cut at its October meeting laid bare a deepening rift on the committee. The vote revealed a sharp division, with dissents coming from both sides of the debate. Kansas City Fed President Jeff Schmid argued for no cut at all, while Governor Stephen Miran championed a deeper 50-point reduction. This rare public split underscores the central bank's fundamental challenge of navigating the conflicting demands of its dual mandate to foster both maximum employment and price stability.

- The division was further reinforced at the press conference when Fed Chair Jerome Powell bluntly stated that a December rate cut was not a "foregone conclusion." This clear, direct remark — a contrast to his usual guardedness and hedged approach regarding policy — suggested he intended to aggressively rein in market expectations as Fed officials themselves still grapple with the proper direction for monetary policy.
- Investor sentiment shifted decisively following the Fed's announcement as the S&P 500 relinquished its advances and the dollar strengthened. This market move was a direct response to the hawkish undertones of the rate cut, underscored by internal dissent and Chair Powell's uncharacteristically blunt communication, which together signaled a potential extended pause in the easing cycle.
- Adding significant risk to the policy outlook, the government shutdown is effectively blinding the Federal Reserve, undermining its commitment to being data dependent. The halt to official statistical releases means the central bank must now operate without its most reliable economic indicators. Though Fed officials are referencing private and survey data, these sources are demonstrably less robust and statistically noisier than timely government reports.
- That said, Wednesday's market decline likely reflects growing conviction that the Fed will not cut rates in December. This shift is clear in the CME FedWatch Tool, which now shows a 70% probability of rates holding steady through year-end, up sharply from 30% just a week ago. Should these rate expectations reverse, it would likely boost equity prices broadly, with particularly significant gains for interest-rate-sensitive sectors.

Big Tech Tests Investors: While this year has seen a surge in AI-related capital expenditures, firms expect this high level of spending to continue into next year. The trend is driven by continued heavy investment in data centers and infrastructure from tech giants like Meta, Microsoft, and Alphabet. Although these companies maintain that the spending is necessary to meet rising demand, there are growing concerns that it could be fueling a market bubble.

- Investor anxiety over soaring capital outlays sparked an immediate pre-market retreat in tech stocks. The trigger seemed to be the staggering scale of AI-related investment: Alphabet, Meta, and Microsoft collectively poured $78 billion into capital expenditures last quarter, an 89% jump from a year earlier. Meta's guidance for "notably higher" spending further fueled bubble concerns, especially since it is not a major cloud provider serving external clients, making its investments appear riskier.



- That said, drawing a comparison to the tech bubble of the1990s may be premature, given fundamental differences in corporate health. Crucially, the major companies driving the current AI boom — unlike their dot-com predecessors — possess verifiable profits, diversified revenue streams, and massive cash reserves. This robust financial foundation provides a strong buffer against any sharp market downturn, lending momentum and stability to these stocks, at least over the immediate horizon.

US-China Trade Deal: The US and China have agreed to a one-year trade truce, though it falls short of the comprehensive deal many anticipated. The agreement includes a suspension of new trade and investment restrictions. Key concessions included the US agreeing to reduce fentanyl tariffs to 10% and lift certain corporate restrictions, while China committed to resuming soybean purchases and rare earths exports. While this alleviates immediate pressure, it sets the stage for potential renewed tensions next year.

- Although this falls short of the comprehensive deal that markets were anticipating, it serves as a strategic pause. This interim period will likely be used by the US to accelerate the diversification of its critical mineral supply chains away from China, and by Beijing to advance its campaign for technological self-reliance, particularly in chips.
- The truce is likely to sustain equity market support, as it alleviates supply chain strains and safeguards the resilient earnings trajectory seen in recent quarters. However, the underlying uncertainty in US-China trade relations is expected to re-emerge as a major investor concern in 2026.

Eurozone Resiliency: Third-quarter GDP for the eurozone came in stronger than forecast, growing by 0.2% against a 0.1% consensus. The outperformance was largely due to a surprisingly strong 0.5% expansion in France — its fastest pace since 2023 — which more than offset a stagnation in Germany. France's resilience amid political uncertainty is likely to bolster investor confidence, supporting the view that the region's strong equity performance can continue.

Centrist Win in Netherlands: The [centrist-liberal D66 party is projected to win the most seats in the Netherlands](), narrowly defeating the far-right Freedom Party. This outcome represents a rare setback for right-wing populists in Europe, a movement that has largely gained popularity in recent years. While some speculate this result could inspire similar shifts across Europe, we believe the Dutch vote reflects a deeper trend of rising income inequality eroding loyalty to any specific parties, creating a more volatile political landscape.

Nuclear Testing: The White House has announced [plans to resume nuclear weapons testing](), a move aimed at modernizing US defenses and countering advancements by strategic competitors China and Russia. This decision follows the recent authorization for South Korea to build nuclear submarines and reflects a broader pivot in the administration's foreign policy. Despite a stated agenda of conflict resolution, President Trump is simultaneously adopting a more hawkish stance to address rising global tensions.

US Economic Releases

Due to the federal government shutdown, no economic reports have been released so far today. The table below lists the economic releases and Fed events scheduled for the rest of the day.

Economic Releases		
No economic releases for the rest of today		
Federal Reserve		
EST	**Speaker or Event**	**District or Position**
9:55	Michelle Bowman Gives Pre-Recorded Remarks	Member of the Board of Governors
13:15	Lorie Logan Speaks at Bank Funding Conference	President of the Federal Reserve Bank of Dallas

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	Japan Buying Foreign Bonds	w/w	24-Oct	-¥351.4b	-¥664.4b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	24-Oct	-¥62.1b	-¥288.1b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	24-Oct	-¥253.5b	-¥25.5b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	24-Oct	¥1344.2b	¥752.6b		*	Equity and bond neutral
New Zealand	ANZ Activity Outlook	m/m	Oct	44.6	43.4		*	Equity and bond neutral
	ANZ Business Confidence	m/m	Oct	58.1	49.6		**	Equity and bond neutral
	ANZ Consumer Confidence Index	m/m	Oct		94.6		*	Equity and bond neutral
EUROPE								
Eurozone	Consumer Confidence	m/m	Oct F	-14.2	-14.2		**	Equity and bond neutral
	Economic Confidence	m/m	Oct	96.8	95.6	96.0	***	Equity and bond neutral
	Industrial Confidence	m/m	Oct	-8.2	-10.1	-10.0	***	Equity bullish, bond bearish
	Services Confidence	m/m	Oct	4	3.7	3.8	**	Equity and bond neutral
	GDP	y/y	3Q A	1.3%	1.5%	1.2%	***	Equity and bond neutral
	Unemployment Rate	m/m	Sep	6.3%	6.3%	6.3%	**	Equity and bond neutral
Germany	Unemployment Change	m/m	Oct	-1.0k	13.0k	8.0k	***	Equity and bond neutral
	Unemployment Claims Rate	m/m	Oct	6.3%	6.3%	6.3%	**	Equity and bond neutral
	GDP NSA	y/y	Q3 P	0.3%	0.1%	0.2%	**	Equity and bond neutral
	GDP WDA	y/y	Q3 P	0.3%	0.3%	0.2%	**	Equity and bond neutral
France	Consumer Spending	y/y	Sep	-0.3	-0.8		***	Equity and bond neutral
	GDP	y/y	Q3 P	0.9%	0.7%	0.6%	**	Equity and bond neutral
Italy	GDP WDA	y/y	Q3 P	0.4%	0.5%	0.5%	**	Equity and bond neutral
	Unemployment Rate	m/m	Sep	6.1%	6.0%	6.0%	**	Equity and bond neutral
	Industrial Sales WDA	y/y	Aug	-0.1%	1.2%		*	Equity and bond neutral
Switzerland	KOF Leading Indicator	m/m	Oct	101.3	98.0	98.4	**	Equity and bond neutral
Russia	Retail Sales	m/m	Sep	1.8%	2.8%		***	Equity and bond neutral
	Unemployment Rate	m/m	Sep	2.2%	2.1%		***	Equity and bond neutral
AMERICAS								
Mexico	GDP NSA	y/y	Q3 P	-0.2%	0.0%	-0.4%	***	Equity and bond neutral
Brazil	FGV Inflation IGPM	y/y	Oct	0.92%	2.82%	1.03%	***	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	379	-3	Down
U.S. Sibor/OIS spread (bps)	389	391	-2	Down
U.S. Libor/OIS spread (bps)	379	381	-2	Down
10-yr T-note (%)	4.08	4.08	0.00	Up
Euribor/OIS spread (bps)	207	207	0	Up
Currencies	**Direction**			
Dollar	Flat			Down
Euro	Flat			Up
Yen	Up			Down
Pound	Flat			Down
Franc	Flat			Up
Central Bank Action	**Actual**	**Prior**	**Expected**	
FOMC Rate Decision (Upper Bound)	4.00%	4.25%	4.00%	On Forecast
FOMC Rate Decision (Lower Bound)	3.75%	4.00%	3.75%	On Forecast
FOMC Rate on Reserve Balances	3.90%	4.15%	3.90%	On Forecast
BOJ Target Rate	0.50%	0.50%	0.50%	On Forecast
Bank of Canada Rate Decision	2.25%	2.50%	2.25%	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	$64.39	$64.92	-0.82%	
WTI	$59.99	$60.48	-0.81%	
Natural Gas	$3.79	$3.82	-0.63%	
Crack Spread	$25.51	$26.11	-2.28%	
12-mo strip crack	$25.61	$25.88	-1.06%	
Ethanol rack	$1.92	$1.93	-0.46%	
Metals				
Gold	$3,970.23	$3,930.07	1.02%	
Silver	$47.98	$47.55	0.90%	
Copper contract	$519.90	$526.35	-1.23%	
Grains				
Corn contract	$429.00	$434.00	-1.15%	
Wheat contract	$523.25	$532.25	-1.69%	
Soybeans contract	$1,076.75	$1,094.50	-1.62%	
Shipping				
Baltic Dry Freight	1,961	1,950	11	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	-6.86	1.20	-8.06	
Gasoline (mb)	-5.94	-1.92	-4.02	
Distillates (mb)	-3.36	-1.90	-1.46	
Refinery run rates (%)	-2.0%	-0.6%	-1.4%	
Natural gas (bcf)		74		

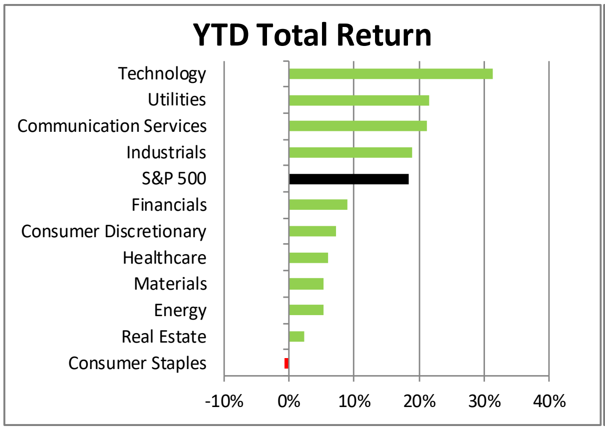
Weather

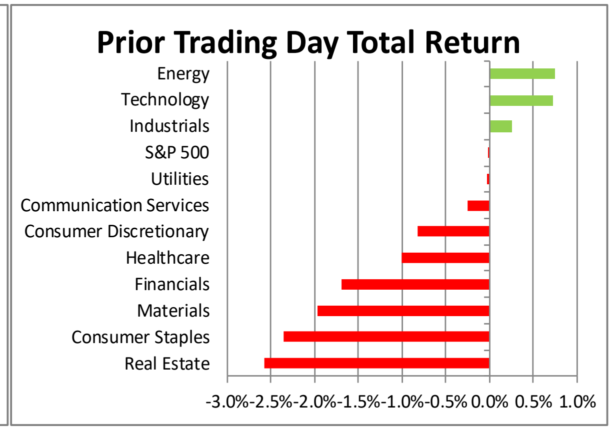
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in all areas west of the Mississippi River, with cooler-than-normal temperatures in New England. The outlook calls for wetter-than-normal conditions along the West Coast and in Florida, with dry conditions in the Southwest, the Great Plains, and the Mississippi Valley region.

Hurricane Melissa is now northeast of the Bahamas and slowly moving northeasterly into the Atlantic Ocean.

Data Section

US Equity Markets – (as of 10/29/2025 close)

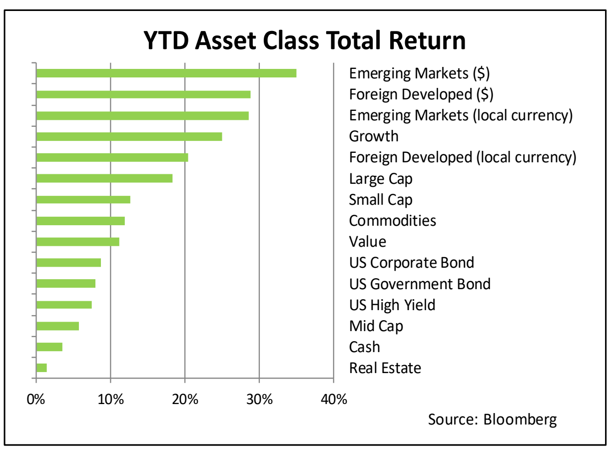




(Source: Bloomberg)

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 10/29/2025 close)

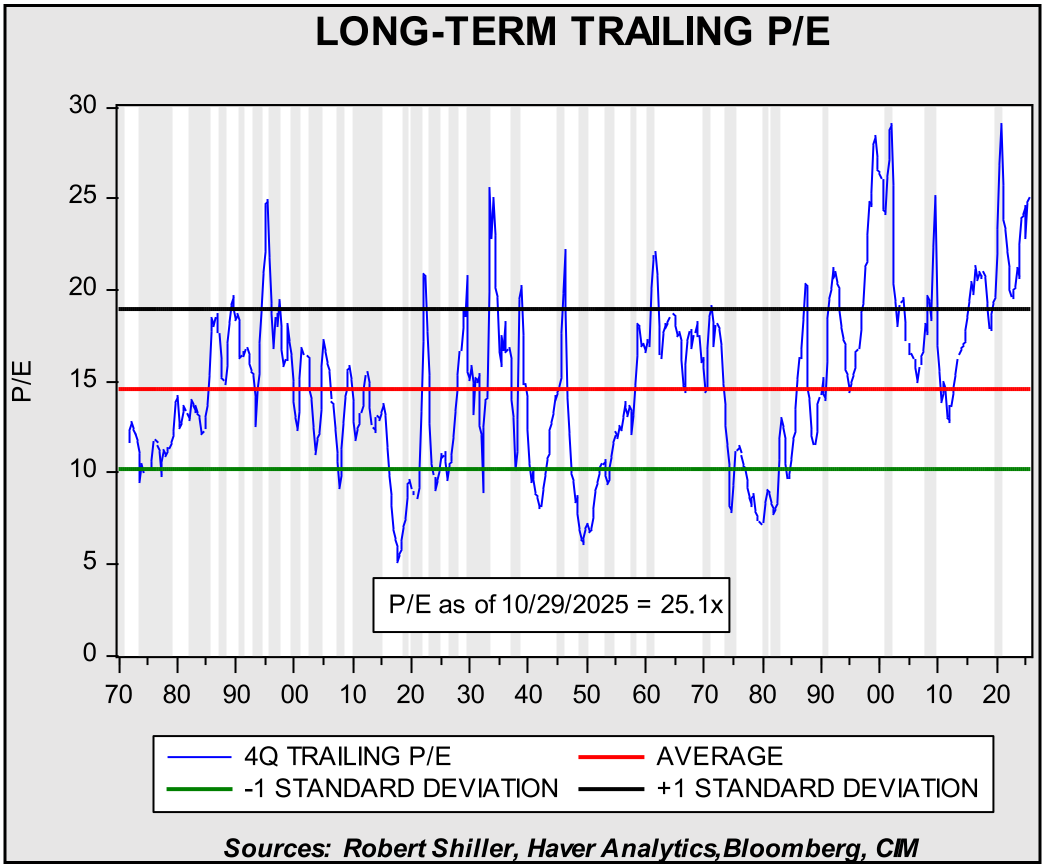


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 30, 2025



Based on our methodology,[1] the current P/E is 25.1x, which is down 0.1 from the previous report. This slight decline was due to the rise in the price index being offset by a bigger 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.

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[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.