Daily Comment

Confluence INVESTMENT MANAGEMENT

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: October 31, 2025 — 9:30 AM ET] Global equity markets are mostly lower 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 down 0.9%. Chinese markets were lower, with the Shanghai Composite down 0.8% and the Shenzhen Composite down 0.3%. Conversely, US equity index futures are signaling a higher open.

With 304 companies having reported so far, S&P 500 earnings for Q3 are running at $71.20 per share compared to estimates of $68.15, which is up 8.0% from Q3 2024. Of the companies that have reported thus far, 82.6% have exceeded expectations, while 13.2% 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. ***Note: Due to the federal government shutdown, we were unable to update the* Business Cycle Report *this month. The report will return as soon as we are able to once again access government data.***

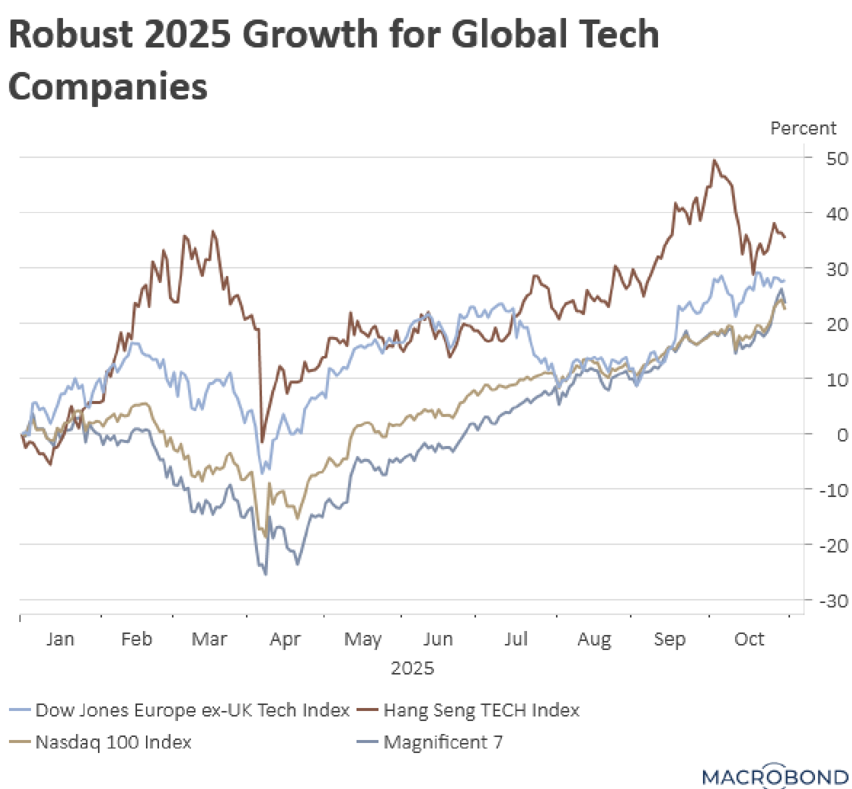
Bi-Weekly Geopolitical Report	Asset Allocation Bi-Weekly	Asset Allocation Quarterly	Of Note
"China's Rising Power and the Implications for US Hegemony" (10/27/25) + podcast	"The Debasement Hedge: A Tale of Two Safeties" (10/20/25) + podcast	Q4 2025 Report	Keller Quarterly

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 an examination of the US push for a digital free-trade economy. We then assess the ongoing government shutdown and its implications. Further coverage includes the Senate's movement on tariff-repeal bills, the role of corporate earnings in bolstering tech sector sentiment, and the EU's development of a new trade strategy to counter China. We also include our regular summary of critical international and domestic data releases.

US Digital Service Economy: The White House is aiming to preserve the US global trade surplus in services by championing tariff-free digital commerce. This move signifies a broader strategic shift as the US redefines its economic dominance by emphasizing global technology access over traditional consumer market access. Such tailored policy making demonstrates a clear alignment with the interests of Silicon Valley, granting those companies a significant political and economic advantage on the world stage.

- To implement this strategy, the administration has leveraged tariffs on goods to dissuade foreign governments from imposing barriers on US tech companies. The plan has already seen some success. The White House has secured commitments from nations like Malaysia, Cambodia, and Thailand that they will not impose restrictions, while also convincing major partners, including the EU, Britain, and Canada, to openly discuss loosening their digital services regulations.
- While tariff-free digital services encompass a wide range of commerce — including social media, streaming, and cloud platforms — this policy is also critical to the US ambition for global dominance in AI. As detailed in our *Bi-Weekly Geopolitical Report*, "The Great AI Race," the United States is actively trying to construct a technological ecosystem where it sits at the center of the AI supply chain, ensuring that both the core technology and supporting equipment are manufactured domestically.



- The growing partnership between the White House and Silicon Valley marks a significant strategic shift in US economic policy. By leveraging tariffs on goods to push for deregulation in foreign markets, this alliance aims to secure crucial market access and vital resources for American tech giants. However, this support comes at a clear cost: companies must align their business plans with Washington's policy initiatives.

- In the near term, this alignment should accelerate the expansion of US tech firms and boost returns. However, we project that long-term profitability may be hampered by the political friction this partnership generates. Furthermore, we anticipate other nations will resist this trend to protect and bolster their own domestic industries, reducing their reliance on the US. This resistance could, in turn, spur increased investment into their own local tech champions.

Government Shutdown: Friction is escalating within both political parties as the government shutdown extends into its fifth week, with neither side showing an immediate willingness to concede on key demands. November is shaping up as a critical inflection point as millions of vulnerable households reliant on SNAP (food stamp) benefits may begin to see those funds dry up. Furthermore, the expiration of federal funding risks a significant spike in Affordable Care Act health insurance premiums if existing COVID-era subsidies are not renewed before the deadline.

- The Democratic caucus is under increasing strain to approve a clean government funding bill proposed by Republicans. This mounting pressure is driven by key labor leaders, particularly those representing airline industry workers and government workers, whose constituents are missing paychecks. The situation is further complicated by Senators such as Jon Ossoff (D-GA) and John Fetterman (D-PA), who face competitive re-election battles and are viewed as possible defectors seeking a quick end to the political standoff.
- Simultaneously, Republicans are beginning to question their party's strategy for resolving the impasse. They are now debating whether to allow SNAP benefits to lapse — a move that would sever a key source of funding for vulnerable households. Furthermore, there is growing concern that the prolonged shutdown will complicate efforts to pass other critical legislation.
- The White House has so far adopted a nuanced strategy during the shutdown. While the president has expressed a willingness to work with Democrats on modifying the Affordable Care Act to better serve working families, he has simultaneously urged Republicans to pursue the "nuclear option" of eliminating the legislative filibuster, which requires 60 votes for most bills to pass.
- The shutdown is not expected to severely impact near-term economic activity, but the financial toll increases daily. Our main concern is the effect on consumer sentiment, which is already low. Consequently, a prolonged shutdown could quickly reduce household spending, especially among low-income earners sensitive to financial uncertainty and payment delays.

Senate Tariff Challenges: The Senate passed bipartisan legislation to repeal the president's use of sweeping global tariffs imposed on US allies. Although the bill is unlikely to be taken up in the House or survive a presidential veto, it represents a growing, cross-party resistance to the executive's trade restrictions. This political maneuver is unfolding as the White House anticipates a Supreme Court hearing that will rule on the constitutional limits of the president's authority to unilaterally impose tariffs without congressional approval.

Tech Sentiment Strong: Tech sector sentiment received a necessary boost following strong outlooks from Amazon and Apple. Amazon Web Services (AWS) beat cloud revenue estimates, while Apple, despite a current revenue dip due to soft China sales, announced expectations for its best-ever December quarter revenue. Given the ongoing market headwinds and policy uncertainty, we maintain our view that corporate earnings remain the single most critical factor for judging the sustainability of the current market rally.

EU Trade Strategy: To address Chinese import dumping, the European Union is devising a novel toolkit that moves beyond traditional tariffs. Key proposals include "in-kind" tariffs that require Chinese exporters to directly supply the EU's strategic reserves of critical raw materials or mirroring China's own tactics by restricting exports of key goods. This delicate balancing act highlights the EU's primary objective to reform China's unfair trade practices without jeopardizing the very mineral resources essential to its own green and digital transitions.

More Oil: Exxon and Chevron surpassed market earnings expectations as new oilfield acquisitions boosted their crude output. This production increase comes amid signs of a supply glut, driven by the OPEC+ alliance flooding the market to retain market share. The situation suggests that oil prices may face downward pressure as major players compete for dominance in an increasingly competitive global market.

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						
EST	**Indicator**			**Expected**	**Prior**	**Rating**
9:45	MNI Chicago PMI	m/m	Oct	42.0	40.6	***
Federal Reserve						
EST	**Speaker or Event**	**District or Position**				
9:30	Lorie Logan Speaks at Bank Funding Conference, Day 2	President of the Federal Reserve Bank of Dallas				
12:00	Beth Hammack and Raphael Bostic Speak at Bank Funding Conference	Presidents of the Federal Reserve Banks of Cleveland and Atlana				

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	Industrial Production	y/y	Sep P	3.4%	-1.6%	1.8%	***	Equity bullish, bond bearish
	Depart. Store & Supermarket Sales	y/y	Sep	1.9%	1.8%		*	Equity and bond neutral
	Housing Starts	y/y	Sep	-7.3%	-9.8%	-7.8%	**	Equity bullish, bond bearish
	Annualized Housing Starts	y/y	Sep	0.728m	0.711m	0.740m	*	Equity and bond neutral
Australia	PPI	y/y	3Q	3.5%	3.4%		**	Equity and bond neutral
	Private Sector Credit	y/y	Sep	7.3%	7.3%		**	Equity and bond neutral
New Zealand	ANZ Consumer Confidence Index	m/m	Oct	92.4	94.6		*	Equity and bond neutral
South Korea	Industrial Production	y/y	May	11.6%	0.7%	5.9%	***	Equity bullish, bond bearish
China	Official Manufacturing PMI	m/m	Oct	49.0	49.8	49.6	***	Equity and bond neutral
	Official Services PMI	m/m	Oct	50.1	50.0	50.1	**	Equity and bond neutral
	Official Composite PMI	m/m	Oct	50.0	50.6		*	Equity and bond neutral
EUROPE								
Eurozone	CPI	y/y	Oct P	2.1%	2.2%	2.1%	***	Equity and bond neutral
	Core CPI	y/y	Oct P	2.4%	2.4%	2.3%	**	Equity and bond neutral
Germany	Import Price Index	y/y	Sep	-1.0%	-1.5%	-1.4%	**	Equity and bond neutral
	Retail Sales	y/y	Sep	2.8%	-1.6%	2.7%	*	Equity and bond neutral
	CPI	y/y	Oct P	2.3%	2.4%	2.2%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Oct P	2.3%	2.4%	2.2%	**	Equity and bond neutral
France	CPI	y/y	Oct P	1.0%	1.2%	1.0%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Oct P	0.9%	1.1%	0.9%	**	Equity and bond neutral
	PPI	y/y	Sep	0.1%	0.1%		*	Equity and bond neutral
Italy	CPI, EU Harmonized	y/y	Oct P	1.3%	1.8%	1.6%	***	Equity and bond neutral
	CPI NIC Including Tobacco	y/y	Oct P	1.2%	1.6%	1.5%	**	Equity and bond neutral
UK	Nationwide House Price Index	y/y	Oct	2.4%	2.2%	2.3%	***	Equity and bond neutral
Switzerland	Real Retail Sales	y/y	Sep	1.5%	-0.4%		**	Equity and bond neutral
Russia	Gold and Forex Reserves	m/m	24-Oct	$731.2b	$742.4b		***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	24-Oct	19.01t	19.08t		*	Equity and bond neutral
AMERICAS								
Brazil	Formal Job Creation Total	m/m	Sep	213002	150980	170000	*	Equity and bond neutral
	Primary Budget Balance	y/y	Sep	-17.4b	-17.3b	-17.6b	*	Equity and bond neutral
	Net Debt % GDP	m/m	Sep	64.8%	64.2%	64.5%	**	Equity and bond neutral
	National Unemployment Rate	m/m	Sep	5.6%	5.6%	5.5%	*	Equity and bond neutral
	Central Govt Budget Balance	m/m	Sep	-14.5b	-15.5b	-15.1b	*	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)	374	376	-2	Down
U.S. Sibor/OIS spread (bps)	390	389	1	Down
U.S. Libor/OIS spread (bps)	379	379	0	Down
10-yr T-note (%)	4.10	4.10	0.00	Up
Euribor/OIS spread (bps)	205	207	-2	Up
Currencies	**Direction**			
Dollar	Flat			Down
Euro	Flat			Up
Yen	Flat			Down
Pound	Down			Down
Franc	Flat			Up
Central Bank Action	**Actual**	**Prior**	**Expected**	
ECB Deposit Facility Rate	2.00%	2.00%	2.00%	On Forecast
ECB Main Refinancing Rate	2.15%	2.15%	2.15%	On Forecast
ECB Marginal Lending Facility	2.40%	2.40%	2.40%	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	$64.76	$65.00	-0.37%	
WTI	$60.33	$60.57	-0.40%	
Natural Gas	$4.08	$3.96	3.21%	
Crack Spread	$25.87	$25.99	-0.48%	
12-mo strip crack	$25.83	$25.81	0.07%	
Ethanol rack	$1.92	$1.93	-0.09%	
Metals				
Gold	$4,003.88	$4,024.54	-0.51%	
Silver	$48.95	$48.93	0.04%	
Copper contract	$508.15	$510.40	-0.44%	
Grains				
Corn contract	$428.25	$430.25	-0.46%	
Wheat contract	$519.00	$524.25	-1.00%	
Soybeans contract	$1,103.50	$1,107.75	-0.38%	
Shipping				
Baltic Dry Freight	1,983	1,961	22	
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	74	0	

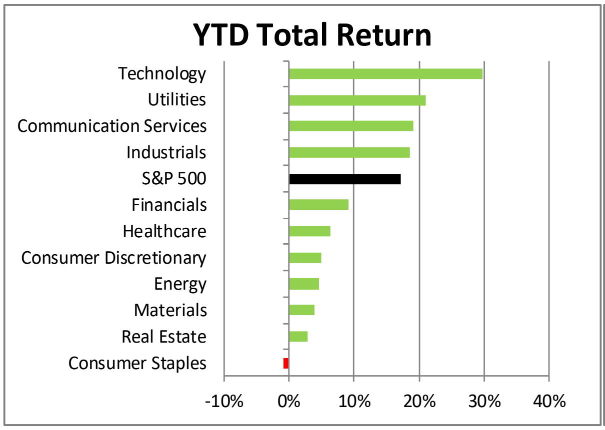
Weather

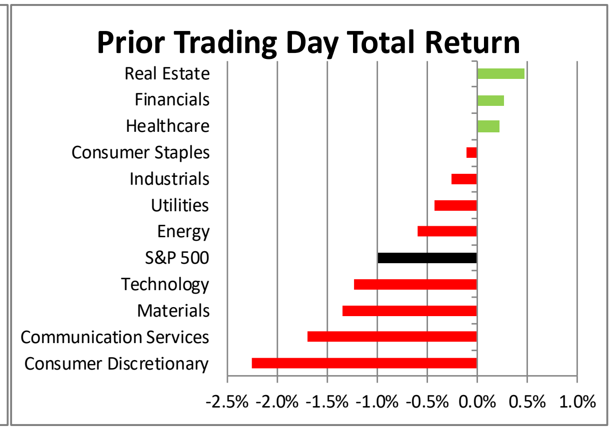
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures from the West Coast to the Appalachian Mountains, with cooler-than-normal temperatures only in New England. The outlook calls for wetter-than-normal conditions in the Pacific Northwest and Florida, with dry conditions in the Southwest, the Great Plains, and the Mississippi Valley region.

Hurricane Melissa is now in the western Atlantic Ocean and traveling northeasterly away from the US.

Data Section

US Equity Markets – (as of 10/30/2025 close)

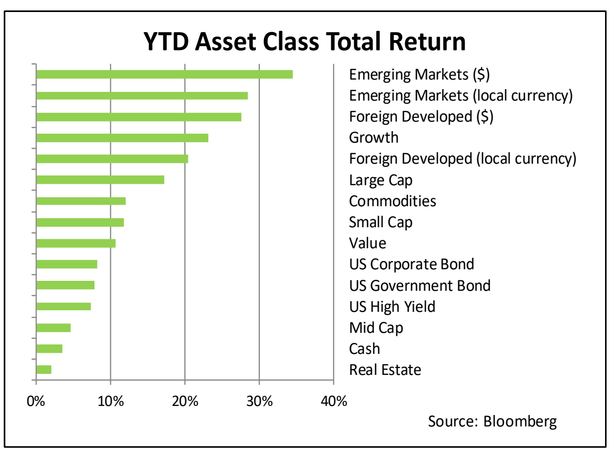




(Source: Bloomberg)

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 10/30/2025 close)

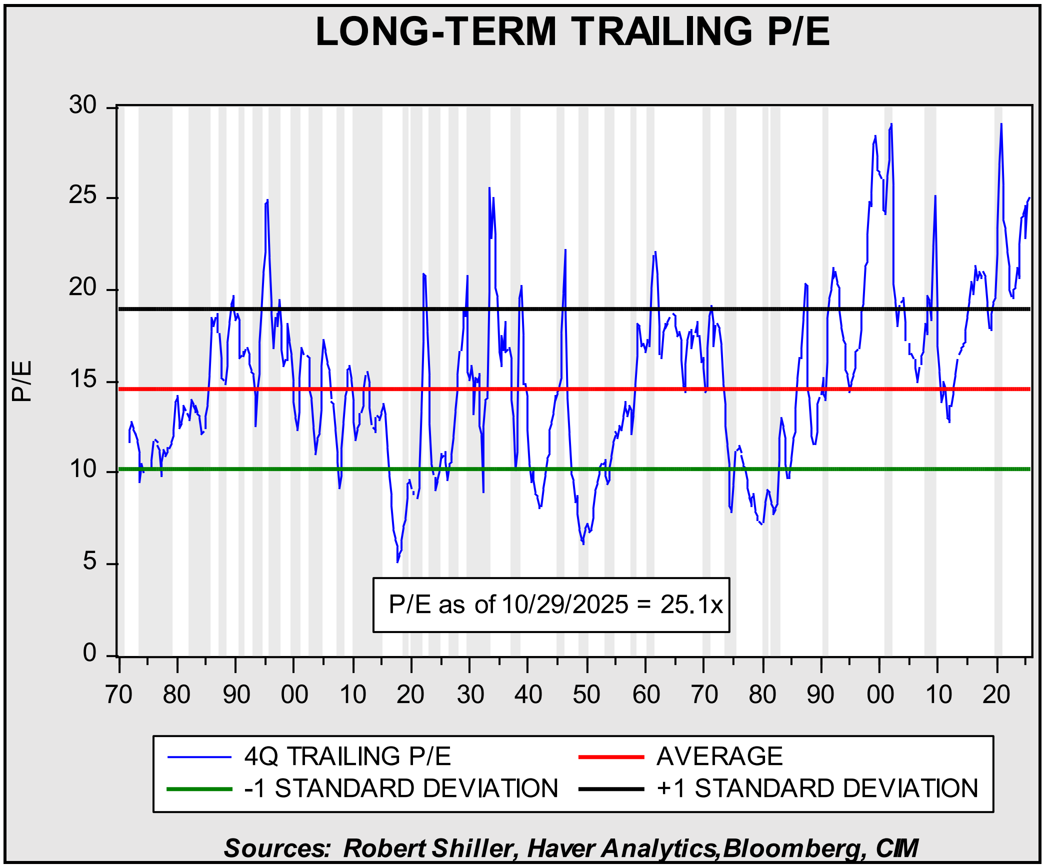


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.

[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.