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[Posted: October 3, 2025 — 9:30 AM ET] Global equity markets are generally higher this morning. In Europe, the Euro Stoxx 50 essentially unchanged from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.5%. Chinese markets remain closed in observance of National Day and the Golden Week holiday. US equity index futures are signaling a higher open.

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
“US Influence on the Wane: New Evidence” (9/29/25) + podcast	“Stopping the Bond Vigilante” (9/22/25) + podcast	Q3 2025 Report Q3 2025 Rebalance Presentation	The Confluence Mailbag Podcast Business Cycle Report

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* opens with an analysis of fresh signs of escalating tensions between NATO and Russia. We then pivot to the positive momentum in trade negotiations between the US and China. Further into the report, we delve into the rising hype surrounding Chinese tech stocks, examine a significant new milestone in Italy's fiscal situation, and detail the emerging signs of trouble within the consumer credit market. We also provide a summary of key economic indicators from the US and global markets.

Rising NATO-Russia Tensions: The possibility of a direct conflict between NATO and Russia continues to intensify as the US weighs a significant policy shift. Specifically, the [White House is reportedly considering providing Ukraine with intelligence](#) for its deployment of Tomahawk missiles and drones to strike Russian energy infrastructure. This assertive step, though unconfirmed, is seen as a strategic lever designed to compel Moscow to the negotiating table, given its continued attempts to stall talks in order to gain more territory in Ukraine.

- While [Moscow has downplayed the development by stating that the US was already sharing intelligence](#), it has concurrently expressed strong frustration with NATO's

increased assistance with strikes on Russian territory. These strikes, [which have targeted at least 15 Russian oil refineries](#), have been highly effective, forcing refinery throughput to below five million barrels per day. This drop is a significant financial blow, directly undermining the oil revenue Moscow relies on to finance its military campaign.

- In response, Russia continues to test NATO's resolve through repeated airspace violations. The most recent incident occurred late on Thursday when [Munich Airport in Germany was forced to temporarily suspend all flight](#) operations due to multiple drone sightings in its airspace, affecting approximately 3,000 passengers. These incursions prompt calls for the drones to be shot down, an action Russia could deem a declaration of war.
- This standoff has devolved into a dangerous game of chicken, with Washington and Moscow each betting the other will yield to prevent a major conflict. This geopolitical brinkmanship is inherently hazardous, as it increases the potential for miscalculation and accidental escalation. Although the likelihood of direct military confrontation remains low, we believe the risk is greater than current market sentiment would suggest.

China Trade Progress: The White House has announced a potential breakthrough in trade talks with China. Treasury Secretary Scott Bessent [suggested that the two nations could be nearing an agreement during their fifth round of talks](#), which are being held in South Korea. The secretary's comments underscored the ongoing US effort to persuade China to resume purchases of American [agricultural products](#) and lift restrictions on the export of rare earth minerals. A potential trade deal could open the door for a new phase in the two countries' complicated relationship.

- The US is believed to be using trade talks as a way to convince China to pivot away from an export-driven model toward one powered by domestic demand. Yet, Beijing has reframed the dialogue, shifting the focus from economics to also include geopolitics. China is demanding both the removal of US tariffs and an explicit US denial of Taiwan's sovereignty. While the US has [denied agreeing to a change in its stance](#), these discussions show how China plans to use talks to achieve its aims beyond trade.
- However, while trade tensions show signs of cooling, the geopolitical rivalry is clearly heating up. Earlier this week, a senior Chinese [diplomat expressed displeasure with the newly appointed US consul general to Hong Kong](#), warning her not to collude with "anti-China forces." This warning is particularly pointed since under the previous administration, US officials were photographed conversing with student leaders in Hong Kong.
- A trade deal between the US and China would be highly supportive of equities in both countries, as their economies remain strongly linked despite efforts to decouple. That said, even as commercial uncertainty dissipates, we anticipate that the strategic competition for influence will continue as both nations pursue the development of their respective global spheres of influence.

Japan Elections: Following a series of electoral setbacks, [Japan's ruling Liberal Democratic Party will choose its new leader on Saturday](#). Five candidates are in the running, with Shinjirō

Koizumi and Sanae Takaichi being the clear favorites to win and subsequently become the next prime minister in mid-October. This incoming leader faces an immediate and difficult agenda consisting of handling cost-of-living discontent, managing US trade and security tensions, and tackling increasingly urgent immigration concerns.

China AI Hype: The global AI rally is broadening, [propelling Chinese tech companies into focus](#). Alibaba's deep commitment to AI, which aligns with China's policy push for technological self-reliance, is seen as a primary driver for the recent surge in returns. Investors are also attracted to the stark valuation gap where the Hang Seng Index carries a P/E ratio of approximately 26.4×, which is dramatically lower than the NASDAQ Composite's multiple of about 57.1×, according to Bloomberg data.

Italy Deficit Improves: Italy's improving fiscal health is set to give its government crucial political flexibility, with [the budget deficit projected to drop below 3% by 2026](#). Achieving this would bring Italy into compliance with EU rules for the first time since 2019 and would likely lead to its exit from the EU infringement procedure. This timing is opportune, as the freedom from restrictive EU oversight could immediately open the door for new government initiatives, including significant defense spending increases and substantial tax relief.

AI Integration: Walmart is increasing [its investment in AI to optimize supply chain management](#), signaling a strategic shift to reduce its dependence on manual labor for specific tasks. This move is expected to boost profitability, especially as the company adapts its business model to navigate challenges like tariffs. While AI adoption is becoming widespread across industries, its integration will be a gradual process. The most immediate impact will likely be seen in a reduced pace of hiring for roles susceptible to automation.

Credit Problems? Despite the economy's overall resilience, significant vulnerabilities are [surfacing in the consumer credit market](#). The collapse of subprime auto lender Tricolor Holdings, combined with weak earnings from CarMax and the bankruptcy of First Brands Group, points to an intensifying credit crunch in the subprime auto sector. This distress is a key indicator that, beneath strong macroeconomic headlines, a segment of the population is increasingly burning through savings and accumulating debt to sustain their standard of living.

US Economic Releases

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

Economic Releases						
EST	Indicator			Expected	Prior	Rating
9:45	S&P Global US Services PMI	m/m	Sep F	53.9	53.9	***
9:45	S&P Global US Composite PMI	m/m	Sep F	53.6	53.6	***
10:00	ISM Services Index	m/m	Sep	51.7	52.0	***
10:00	ISM Services Prices Paid	m/m	Sep	68.0	69.2	*
10:00	ISM Services New Orders	m/m	Sep	54.0	56.0	*
10:00	ISM Services Employment	m/m	Sep	46.6	46.5	*
Federal Reserve						
EST	Speaker or Event	District or Position				
6:05	John Williams Speaks in Amsterdam	President of the Federal Reserve Bank of New York				
8:30	Austan Goolsbee on CNBC	Presidents of Federal Reserve Banks of Chicago, Atlanta				
9:35	Stephen Miran Speaks on Bloomberg TV	Members of the Board of Governors				
13:30	Lorie Logan Speaks in Moderated Conversation	President of the Federal Reserve Bank of Dallas				
13:40	Philip Jefferson Speaks on Economic Outlook	Vice-Chair of the Board of Governors				
15:30	Stephen Miran on Fox Business	Members of the Board of Governors				

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	Jobless Rate	m/m	Aug	2.6%	2.3%	2.4%	***	Equity and bond neutral
	S&P Global Japan Composite PMI	m/m	Sep F	51.3	51.1		*	Equity and bond neutral
	S&P Global Japan Services PMI	m/m	Sep F	53.3	53.0		*	Equity and bond neutral
Australia	S&P Global Australia Composite PMI	m/m	Sep F	52.4	52.1		*	Equity and bond neutral
	S&P Global Australia Services PMI	m/m	Sep F	52.4	52.0		*	Equity and bond neutral
EUROPE								
Eurozone	HCOB Eurozone Services PMI	m/m	Sep F	51.3	51.4	51.4	**	Equity and bond neutral
	HCOB Eurozone Composite PMI	m/m	Sep F	51.2	51.2	51.2	*	Equity and bond neutral
	PPI	y/y	Aug	-0.6%	0.2%	-0.4%	**	Equity and bond neutral
Germany	HCOB Germany Services PMI	m/m	Sep F	51.5	52.5	52.5	**	Equity and bond neutral
	HCOB Germany Composite PMI	m/m	Sep F	52.0	52.4	52.4	**	Equity and bond neutral
France	Industrial Production	y/y	Aug	0.4%	1.8%	0.6%	***	Equity and bond neutral
	Manufacturing Production	y/y	Aug	0.5%	2.2%		**	Equity and bond neutral
	HCOB France Services PMI	m/m	Sep F	48.5	48.9	48.9	**	Equity and bond neutral
	HCOB France Composite PMI	m/m	Sep F	48.1	48.4	48.4	**	Equity and bond neutral
Italy	HCOB Italy Services PMI	m/m	Sep	52.5	51.5	51.5	**	Equity bullish, bond bearish
	HCOB Italy Composite PMI	m/m	Sep	51.7	51.7	51.6	**	Equity and bond neutral
	Retail Sales	y/y	Aug	0.5%	1.8%		**	Equity and bond neutral
UK	S&P Global UK Services PMI	m/m	Sep F	50.8	51.9	51.9	**	Equity bearish, bond bullish
	S&P Global UK Composite PMI	m/m	Sep F	50.1	51.0	51.0	**	Equity bearish, bond bullish
	Official Reserves Changes	m/m	Sep	\$4618m	\$3106m		*	Equity and bond neutral
Russia	Gold and Forex Reserves	m/m	26-Sep	\$713.3b	\$712.6b		***	Equity and bond neutral
	S&P Global Russia Composite PMI	m/m	Sep	46.6	49.1		**	Equity and bond neutral
	S&P Global Russia Services PMI	m/m	Sep	47.0	50.0		**	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	26-Sep	18.88t	18.95t		*	Equity and bond neutral
AMERICAS								
Mexico	Gross Fixed Investment NSA	y/y	Jul	117,182	124,108		**	Equity and bond neutral
	Leading Indicators	y/y	Aug	0.21	0.2		*	Equity and bond neutral
Brazil	Industrial Production	y/y	Aug	-0.7%	0.2%	-1.3%	***	Equity bullish, bond bearish

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)	385	386	-1	Down
U.S. Sibor/OIS spread (bps)	394	395	-1	Down
U.S. Libor/OIS spread (bps)	387	387	0	Down
10-yr T-note (%)	4.08	4.08	0.00	Down
Euribor/OIS spread (bps)	200	202	-2	Up
Currencies	Direction			
Dollar	Down			Up
Euro	Up			Down
Yen	Flat			Down
Pound	Flat			Down
Franc	Down			Down

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	\$64.35	\$64.11	0.37%	
WTI	\$60.70	\$60.48	0.36%	
Natural Gas	\$3.38	\$3.44	-1.69%	
Crack Spread	\$22.82	\$22.64	0.78%	
12-mo strip crack	\$23.52	\$23.46	0.23%	
Ethanol rack	\$2.15	\$2.14	0.31%	
Metals				
Gold	\$3,862.42	\$3,856.58	0.15%	
Silver	\$47.54	\$46.99	1.17%	
Copper contract	\$500.65	\$494.95	1.15%	
Grains				
Corn contract	\$422.50	\$421.75	0.18%	
Wheat contract	\$516.25	\$514.75	0.29%	
Soybeans contract	\$1,026.25	\$1,023.75	0.24%	
Shipping				
Baltic Dry Freight	1,909	1,980	-71	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)	1.79	-0.05	1.84	
Gasoline (mb)	4.13	-0.08	4.21	
Distillates (mb)	0.58	-1.65	2.23	
Refinery run rates (%)	-1.6%	-0.3%	-1.4%	
Natural gas (bcf)	53	64	-11	

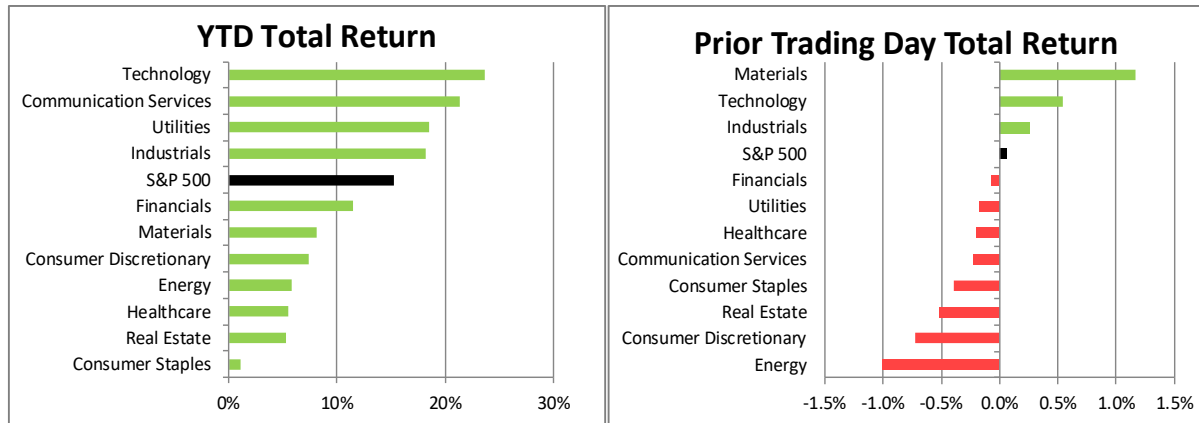
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures from the Rocky Mountains eastward, with near-normal temperatures in the Far West. The forecasts call for wetter-than-normal conditions in the Far West and Florida, with dry conditions in the Mississippi Valley region.

There are now two tropical disturbances in the Atlantic Ocean area. One disturbance in the south-central Atlantic off the coast of Africa is moving westward toward the Caribbean, and it is assessed to have a 40% chance of cyclonic formation within the next seven days. The other disturbance is sitting over Florida, but it is assessed to have only a 10% chance of cyclonic formation within the next seven days.

Data Section

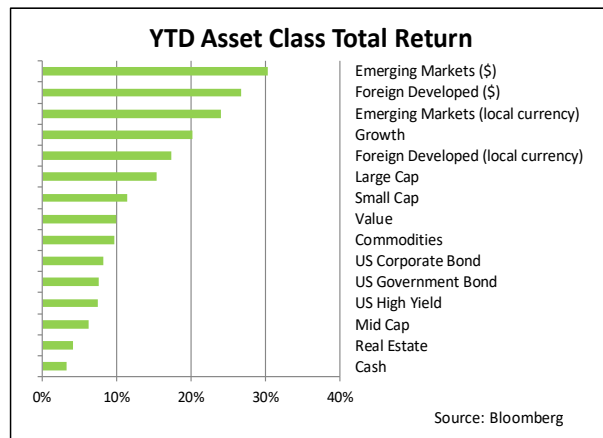
US Equity Markets – (as of 10/2/2025 close)



(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 10/2/2025 close)

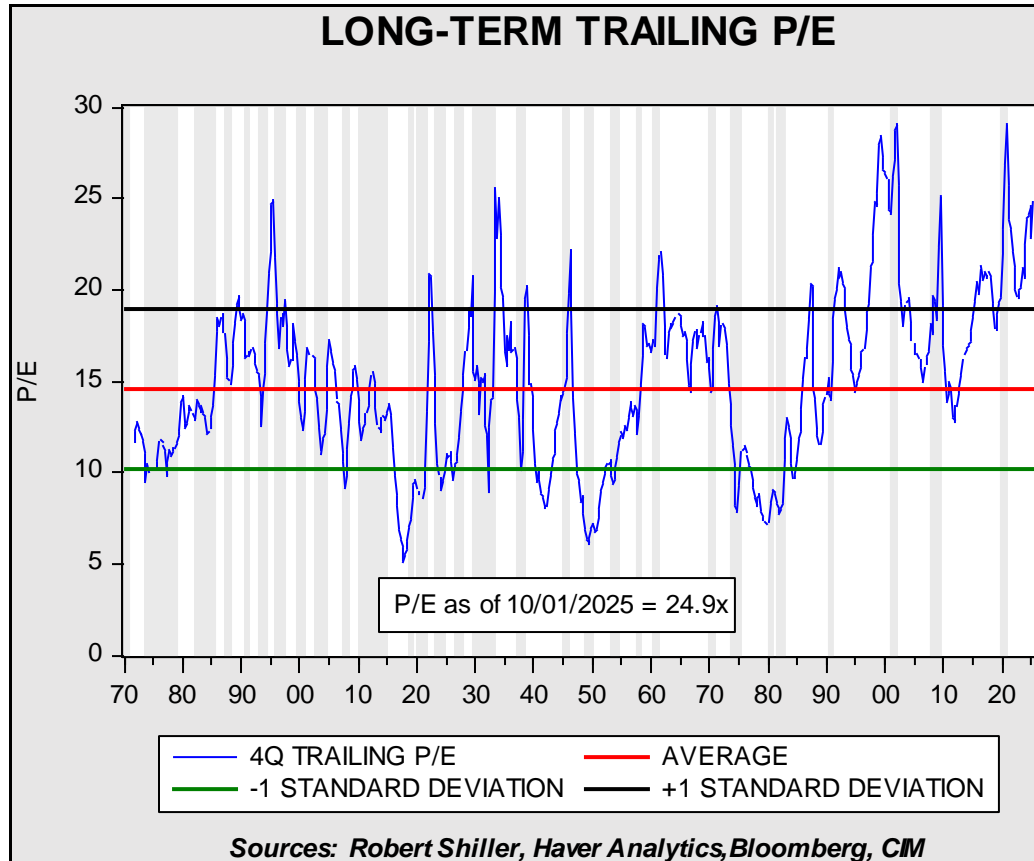


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 2, 2025



Based on our methodology,¹ the current P/E is 24.9x, which is up 0.1 from the previous report. The gain was attributable to an appreciation in the stock price index, whereas earnings remained flat relative to the previous 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 (Q1, Q3, Q4) 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.