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**[Posted: October 6, 2025 — 9:30 AM ET]** Global equity markets are generally lower this morning. In Europe, the Euro Stoxx 50 is down 0.2% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 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
<a href="#">“US Influence on the Wane: New Evidence”</a> (9/29/25) + <a href="#">podcast</a>	<a href="#">“The AI Arms Race”</a> <b>(10/6/25)</b> + <a href="#">podcast</a>	<a href="#">Q3 2025 Report</a>  <a href="#">Q3 2025 Rebalance Presentation</a>	<a href="#">The Confluence Mailbag Podcast</a>

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](mailto:mailbag@confluenceim.com).

Our *Comment* today opens with the latest market-moving deal in the US artificial intelligence industry. We next review several other international and US developments with the potential to affect the financial markets today, including the outlines of a potential US-China trade deal, prospects for a new, market-friendly prime minister in Japan, and the latest on the US government shutdown.

**US Artificial Intelligence Industry:** Artificial intelligence developer OpenAI and chip designer Advanced Micro Devices (AMD) this morning [announced a deal under which Open AI will equip its data centers with gigawatts worth of AMD chips](#), leading to tens of billions of dollars in new revenue for AMD over the next five years. OpenAI will also get warrants for up to 160 million AMD shares (roughly 10% of the firm) at 1 cent per share, if OpenAI hits certain targets and AMD’s stock price rises.

- The requirement for AMD’s stock to rise doesn’t look like a problem, as its shares are trading approximately 25% richer as of this writing.

- The deal is the latest in a string of AI-related linkups that have further fueled the excitement over AI's prospects. However, concerns are also rising about excessive exuberance and daisy-chain deals that could ultimately lack economic substance.

**China-United States:** Bloomberg reported over the weekend that Beijing [is pressing the Trump administration to lower national security restrictions on Chinese investment in the US](#) to resolve the current US-China trade war. The proposed deal would involve Chinese firms investing up to \$1 trillion in new factories and other industrial facilities in the US. It would also require the US to lower its tariffs on Chinese inputs used in the Chinese-owned facilities built under the deal.

- Other reporting suggests that China is also seeking a commitment from the US to oppose Taiwanese independence under the deal. Such a move would be a fundamental change to the US's traditional policy of "strategic ambiguity," under which it doesn't say how it would respond to a Chinese effort to take control of the island.
- Such a deal might be hard for the US administration to swallow, given that it would likely generate strong opposition from domestic China hawks and could be seen by the public as capitulation to Beijing. It would also pose the risk that massive Chinese investment would allow Beijing to eventually dominate the US economy.
- Still, such a deal could have some positive economic benefits as well. For example, it would likely reduce the risk of a costly, destabilizing war. It could also allow the administration to cut its high tariffs against China and thereby reduce the risk of higher consumer price inflation. It could spur faster re-industrialization in the US. Also, producing more Chinese goods in the US could help rebalance bilateral trade and re-channel Chinese investment from Treasuries into fixed investment.
- If announced, the deal could be a headwind for gold, at least temporarily, while faster US re-industrialization would likely be positive for other commodities. US defense stocks would likely fall in value, but European defense equities would probably be less affected. In any case, such a deal would likely be positive for the broader US and Chinese stock markets.

**China-Mexico-United States:** Late on Friday, Beijing [issued a strong condemnation of Mexico's 11 on-going anti-dumping investigations against Chinese imports, which it said were masterminded by the US](#) to help crimp China's economic growth. Importantly, the statement also implicitly threatened to retaliate against Mexico if the probes lead to new tariffs against Chinese goods. Of course, various reports say the US is trying to enlist other countries to constrict Chinese exports. This incident shows how third-party countries can be caught in the crossfire.

**Japan:** The ruling Liberal Democratic Party on Saturday [chose former Economic Security Minister Sanae Takaichi as its new leader](#), virtually guaranteeing the arch conservative will become Japan's next prime minister due to the recent resignation of incumbent Shigeru Ishiba. If the Diet approves her as expected, Takaichi would serve out the remainder of Ishiba's term, which ends in September 2027. Her policies are expected to include being tough on China, supporting big increases in the defense budget, and [promoting faster economic growth](#).

- The prospect that Takaichi would win and return Japan to the pro-market economic policies of former Prime Minister Shinzo Abe has helped boost the country's stock prices in recent weeks, even though the LDP's lack of a majority in either house of parliament will make it hard to push through new reforms.
- So far today, Japanese stock prices have surged approximately 4.8%, while the yen (JPY) has weakened about 1.7% to 149.94 per dollar (\$0.0067).

**Philippines:** New reports say the wave of coup rumors that have risen in recent weeks in conjunction with mass anti-corruption protests [can be traced to loyalists and influencers aligned with former President Rodrigo Duterte](#), the chief political rival of incumbent President Ferdinand Marcos, Jr. The coup rumors, claims of foreign interference, and accusations of military disloyalty are increasingly seen as destabilizing, and may potentially set the stage for major disruption in a key US ally and major Asia-Pacific economy.

**France:** Prime Minister Lecornu [resigned today after less than a month in office and less than one day after presenting his proposed government](#). Lecornu's departure, driven by difficulties in pushing a vital deficit-cutting budget through parliament, makes him the fourth French prime minister to resign in the last year and the shortest-serving prime minister in the Fifth Republic. Since the move is further evidence of the political chaos in one of the European Union's biggest economies, the news is weighing heavily today on the euro and on EU stocks and bonds.

**Czech Republic:** In parliamentary elections at the weekend, the Ano party of right-wing billionaire and former prime minister Andrej Babiš [came in first, allowing Babiš to try to form a government and become prime minister again](#). Although the Ano party supports Czech membership in the North Atlantic Treaty Organization, it is more skeptical of the European Union and wants to reduce the country's aid to Ukraine while it pursues more conservative economic policies. The result could be reduced aid to Kyiv and more friendly relations with Russia.

**US Fiscal Policy:** The federal government shutdown [appears set to continue in the coming days](#), as Republican and Democratic leaders look committed to their budget positions, meaning Senate votes on a new funding bill continue to fail due to lack of the 60 votes needed for it to pass. However, President Trump is still holding in reserve his threat to use the shutdown to implement mass firings of federal employees — a move that could substantially worsen the economic impact of the shutdown.

**US Labor Market:** In a little-noticed development amid the federal shutdown, some 100,000 federal employees who had taken the administration's deferred buyout deal earlier this year [dropped off the federal payroll as of October 1](#). Another 55,000 or so will go off the payroll in the coming weeks. The newly unemployed workers are expected to add to the increased softness in the US labor market, raising the risk of a near-term economic slowdown despite expectations for faster growth in 2026.

**Global Oil Market:** The Organization of the Petroleum Exporting Countries and its Russia-led partners said eight of their members [will boost their oil output by a modest 137,000 barrels per](#)

[day starting November 1](#). The move, led by Saudi Arabia, will likely help keep the global oil market well supplied and keep a lid on prices in the near term, especially if slowing economic growth weighs on demand.

## 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		
No economic releases for the rest of today		
Federal Reserve		
EST	Speaker or Event	District or Position
17:00	Jeffrey Schmid Speaks on Economic Outlook and Monetary	President of the Federal Reserve Bank of Kansas City

## 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
<b>ASIA-PACIFIC</b>								
India	HSBC India PMI Composite	m/m	Sep	61.0	61.9		**	Equity and bond neutral
	HSBC India PMI Services	m/m	Sep	60.9	61.6		**	Equity and bond neutral
Australia	Melbourne Institute Inflation	m/m	Sep	0.4%	-0.3%		**	Equity and bond neutral
New Zealand	ANZ Commodity Price	m/m	Sep	-1.1%	0.7%		*	Equity bearish, bond bullish
<b>EUROPE</b>								
Eurozone	Sentix Investor Confidence	m/m	Oct	-5.4	-7.7	-9.2	**	Equity and bond neutral
	Retail Sales	y/y	Aug	0.1%	-0.5%	0.1%	**	Equity and bond neutral
	Industrial Output	m/m	Aug	-2.4%	1.5%		***	Equity bearish, bond bullish
Germany	HCOB Germany Construction PMI	m/m	Sep	46.2	46		***	Equity and bond neutral
Switzerland	Unemployment Rate	m/m	Sep	2.8%	2.8%	2.8%	***	Equity and bond neutral
UK	S&P Global UK Construction PMI	m/m	Sep	46.2	45.5	46.0	**	Equity and bond neutral
<b>AMERICAS</b>								
Mexico	Consumer Confidence	m/m	Sep	46.5	46.9	46.9	***	Equity bearish, bond bullish
Canada	Bloomberg Nanos Confidence	m/m	3-Oct	50.5	50.8		**	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)	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	Up
Euribor/OIS spread (bps)	200	202	-2	Up
<b>Currencies</b>	<b>Direction</b>			
Dollar	Up			Up
Euro	Down			Down
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
<b>Energy Markets</b>				
Brent	\$65.10	\$64.53	0.88%	Supply Concerns
WTI	\$61.35	\$60.88	0.77%	
Natural Gas	\$3.42	\$3.32	2.80%	
Crack Spread	\$22.63	\$22.60	0.11%	
12-mo strip crack	\$23.49	\$23.46	0.10%	
Ethanol rack	\$2.14	\$2.15	-0.09%	
<b>Metals</b>				
Gold	\$3,935.48	\$3,886.54	1.26%	
Silver	\$48.40	\$48.00	0.84%	
Copper contract	\$504.25	\$510.90	-1.30%	
<b>Grains</b>				
Corn contract	\$418.75	\$419.00	-0.06%	
Wheat contract	\$517.25	\$515.25	0.39%	
Soybeans contract	\$1,020.00	\$1,018.00	0.20%	
<b>Shipping</b>				
Baltic Dry Freight	1,901	1,909	-8	

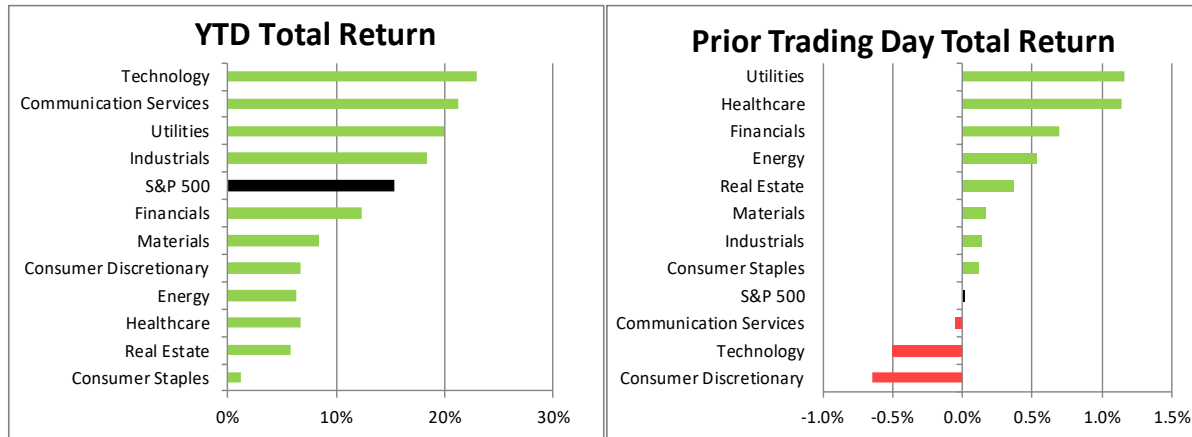
## **Weather**

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for most of the country, with cooler temperatures expected in the Pacific region. The forecasts call for wetter-than-normal conditions in the Far West and Florida, with dry conditions in the Mississippi Valley region.

There is one tropical disturbance in the Atlantic Ocean area. It is located in the south-central Atlantic off the coast of Africa and is moving westward toward the Caribbean. The disturbance is assessed to have a 70% chance of cyclonic formation within the next seven days.

## Data Section

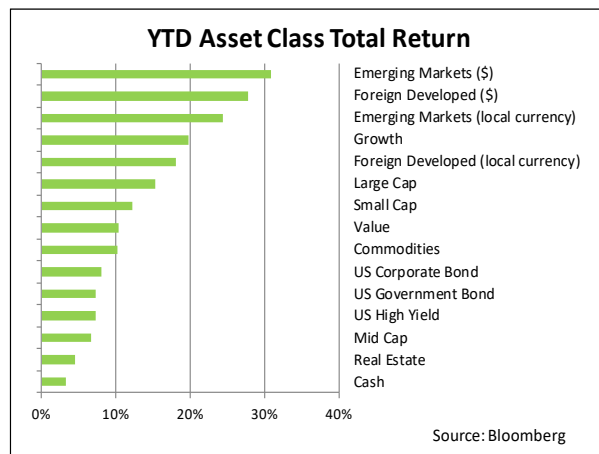
### US Equity Markets – (as of 10/3/2025 close)



(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 10/3/2025 close)



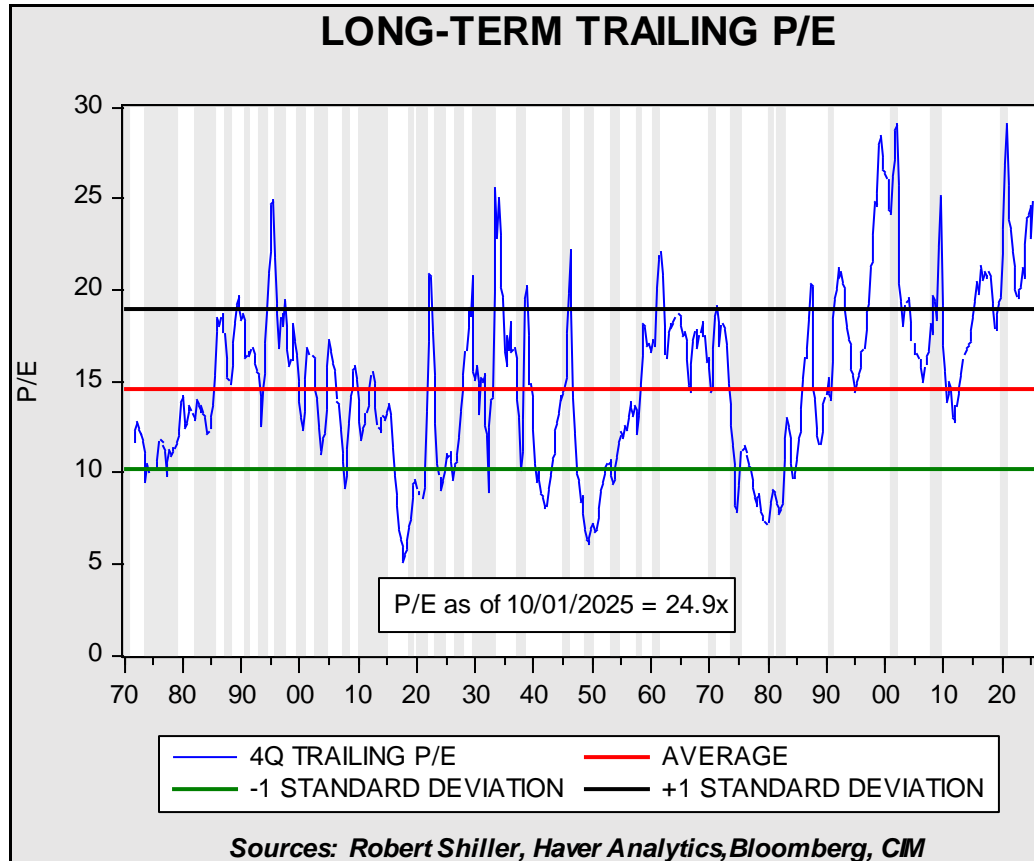
This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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,<sup>1</sup> 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.*

<sup>1</sup> 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.