Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: October 8, 2025 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 0.4% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 1.0%. 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	"The AI Arms Race" (10/6/25) + podcast	Q3 2025 Report Q3 2025 Rebalance Presentation	The Confluence Mailbag Podcast

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 analysis regarding new concerns about AI profitability, following the reported leak of internal documents from Oracle. We then assess a strategic pivot in global trade, as the EU considers more protectionist measures to counter US economic policy. We also examine the recent surge in gold prices and evaluate spillover risks from the First Brand bankruptcy. As always, we conclude by providing a summary of key economic indicators from the US and global markets.

AI Concerns: Fears that Oracle may be unable to hit profit targets following its sizable Nvidia chip order triggered a massive AI-related sell-off. The core concern, fueled by leaked internal documents, is that profit margins in Oracle's cloud computing business are lower than anticipated from the chips it currently leases from Nvidia. The reports raise doubts about Oracle's $40 billion commitment to purchase Nvidia chips earlier this year to support data centers, reportedly for OpenAI.

- Following the report, Oracle shares plunged as much as 7.1% as investors scrambled to gauge the implications for the broader technology sector. The report, citing internal documents, revealed that Oracle's Nvidia-powered server rentals generated approximately $900 million in revenue but yielded a gross profit of only $125 million. Even more concerning was the fact that the company incurred losses on smaller, less utilized quantities of chips.

- The revelations are likely to put a spotlight on chipmakers, underscoring their sensitivity to customer purchasing decisions. Since only a few companies can afford this cutting-edge technology, chipmakers face significant risk from potential pullbacks, prompting them to actively diversify their client base. This pressure was immediately evident when, on the same day the Oracle report broke, Nvidia announced a chip deal with Elon Musk's xAI.
- Despite widespread skepticism regarding a potential bubble in the AI sector, these companies' affiliation with the US government through the Stargate Project could sustain investor confidence. However, any concerns about the long-term commercial viability of these ambitious technologies could trigger a significant market correction. Consequently, we recommend investors maintain a well-diversified portfolio, utilizing exposure to value-oriented assets as a strategic hedge against a potential AI bubble.

EU Pushback: The EU is adopting an assertive trade posture on two fronts. First, it has raised concerns over new US demands perceived as an effort to compel regulatory concessions. Second, it is advancing a plan to cap steel imports and slapping a 50% tariff on any country that exceeds the quota — a measure that has already provoked a sharp response from the UK. Together, these developments illustrate the bloc's strategic pivot in order to navigate a more protectionist global trade landscape.

- Despite a lack of public details, the US has consistently pressured the EU to overhaul its regulations across several critical sectors, including digital and technology rules, corporate compliance, and climate-related policy. While the EU has opened the door for discussions, it has characterized the US proposals as "maximalist" and has vowed to resist significant changes.
- The EU's decision to resist trade pressures and impose new tariffs demonstrates a strategic play to assert both its independence and its trade power. This move has particularly impacted the UK steel industry, which sends over 80% of its exports to the bloc. The blow is especially sharp as the UK is still waiting for the US to lower its own steel tariffs from 25% to 0%.
- The EU's assertive new trade posture is a double-edged sword: it shields vulnerable domestic industries from US pressure but risks provoking retaliatory actions. While a compromise remains possible as the European Parliament debates its response, a failure to reach an agreement could trigger an escalation. In such a scenario, the US would likely impose higher tariffs, forcing the EU to reciprocate with defensive measures of its own.

Gold Price: Gold prices soared to a record $4,000 an ounce on Tuesday as investors sought safety amid political and economic uncertainty. The rally was driven by a looming US government shutdown and a broader market shift away from the 10-year Treasury note. Investor skepticism toward US debt is growing due to concerns over rising national debt and higher inflation expectations.

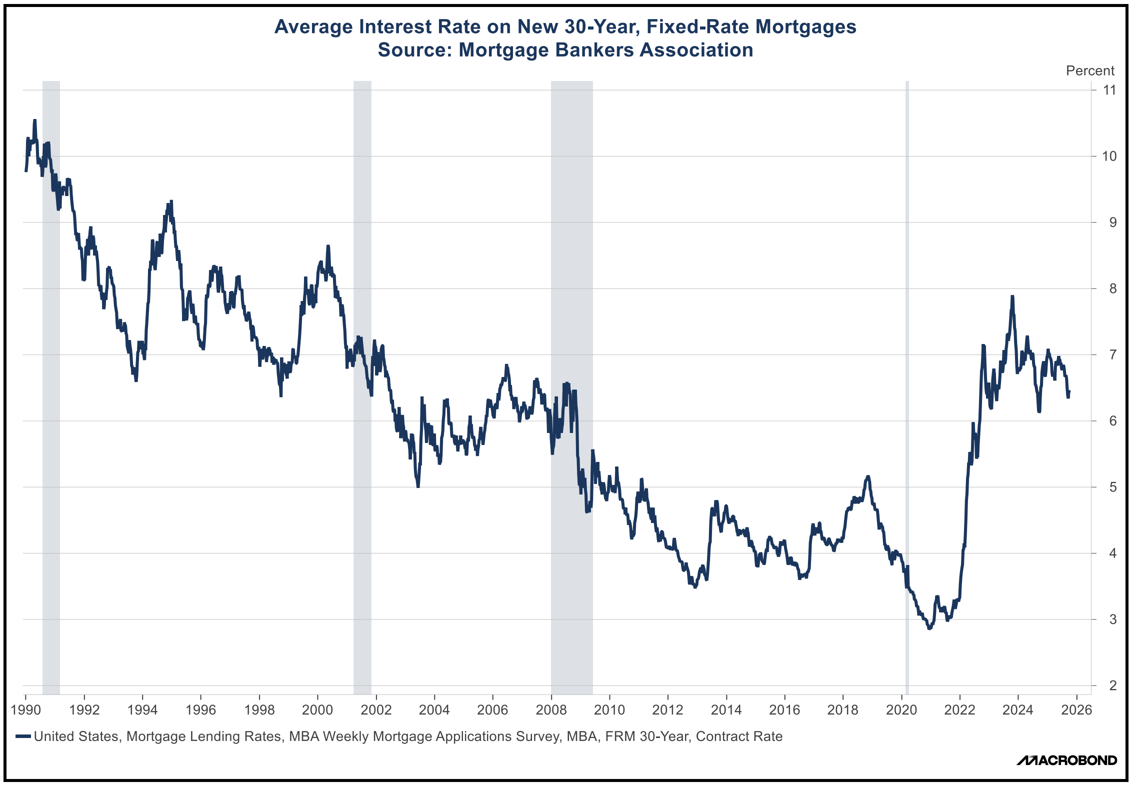
First Brand: The demise of First Brand, a critical auto supplier, has exposed concentrated financial vulnerabilities among its creditors. The fallout underscores substantial exposure at several institutions, including a UBS fund with a highly concentrated 30% position and an estimated $500 million in total exposure for the firm. Jefferies is confronting an even larger estimated exposure of $715 million, with Blackstone and Onset Financial also having some exposure. This incident, while isolated, serves as a clear indicator of stress in the financial system.

France Stalemate: A breakthrough on France's national budget appears imminent, with outgoing Prime Minister Sébastien Lecornu expressing confidence that a deal can be finalized ahead of the December 31 cutoff, notwithstanding remaining policy disputes. Following his announcement, a French legislator proposed withdrawing the controversial increase in the retirement age as a critical concession for parliamentary approval. The forthcoming budgetary resolution is anticipated to reduce market pressure on French sovereign bonds.

Shutdown Standoff: As the government shutdown enters its second week, the White House is considering withholding back pay from furloughed workers. This move would intensify the financial strain on federal employees, who have already gone without one paycheck. There is now concern that the threat of lost wages could compel essential staff — who are currently working unpaid — to walk off the job. Such an action would cripple vital government services and potentially weigh on market sentiment and investor confidence.

US Economic Releases

The Mortgage Bankers Association said ***mortgage applications*** in the week ended October 4 fell 4.7%, building on their 12.7% decline in the prior week. Applications for home purchase mortgages fell 1.2%, after falling 1.0% in the previous week. Applications for refinancing mortgages slumped 7.7%, after plunging 20.6% the week before. According to the report, the average interest rate on a 30-year, fixed-rate mortgage fell 3 basis points to 6.43%. The chart below shows how mortgage rates have changed over time.



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		
	No Fed speakers or events for the rest of today	
EST	**Speaker or Event**	**District or Position**
9:20	Alberto Musalem Gives Welcoming Remarks	President of the Federal Reserve Bank of St. Louis
9:30	Michael Barr Keynote at Community Banking Conference	Members of the Board of Governors
10:00	Austan Goolsbee Gives Opening Remarks	President of the Federal Reserve Bank of Chicago
14:00	U.S. Federal Reserve Releases Meeting Minutes	Federal Reserve Board
15:15	Neel Kashkari Speaks at Center for Indian Country Dev.	President of the Federal Reserve Bank of Minneapolis
16:30	Neel Kashkari Hosts Fireside Chat with Senator Tina Smith	President of the Federal Reserve Bank of Minneapolis
17:45	Michael Barr Speaks on Community Development	Members of the Board of Governors
19:15	Austan Goolsbee Speaks at Payments Conference	President of the Federal Reserve Bank of Chicago

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	Labor Cash Earnings	y/y	Aug	1.5%	3.4%	2.7%	**	Equity bearish, bond bullish
	Real Cash Earnings	m/m	Aug	-1.4%	-0.2%	-0.5%	*	Equity bearish, bond bullish
	BoP Current Account Balance	m/m	Aug	¥3775.8b	¥2684.3b	¥3506.7b	***	Equity and bond neutral
	BoP Trade Balance	m/m	Aug	-¥105.9b	-¥189.4b	-¥111.5b	**	Equity and bond neutral
Australia	Foreign Reserves	m/m	Sep	-A$107.1b	-A$103.9b		**	Equity and bond neutral
EUROPE								
Germany	Industrial Production WDA	y/y	Aug	-3.9%	1.5%	-0.9%	**	Equity bearish, bond bullish

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)	384	383	1	Down
U.S. Sibor/OIS spread (bps)	393	394	-1	Down
U.S. Libor/OIS spread (bps)	386	386	0	Down
10-yr T-note (%)	4.10	4.12	-0.02	Flat
Euribor/OIS spread (bps)	203	203	0	Up
Currencies	**Direction**			
Dollar	Up			Up
Euro	Down			Down
Yen	Up			Down
Pound	Flat			Down
Franc	Up			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	$66.41	$65.45	1.47%	Supply Concerns
WTI	$62.78	$61.73	1.70%	
Natural Gas	$3.49	$3.50	-0.29%	
Crack Spread	$23.05	$22.98	0.31%	
12-mo strip crack	$23.91	$23.85	0.25%	
Ethanol rack	$2.10	$2.11	-0.72%	
Metals				
Gold	$4,034.75	$3,984.85	1.25%	
Silver	$48.89	$47.83	2.22%	
Copper contract	$510.90	$509.75	0.23%	
Grains				
Corn contract	$420.75	$419.75	0.24%	
Wheat contract	$507.50	$506.75	0.15%	
Soybeans contract	$1,026.25	$1,022.00	0.42%	
Shipping				
Baltic Dry Freight	1,947	1,932	15	

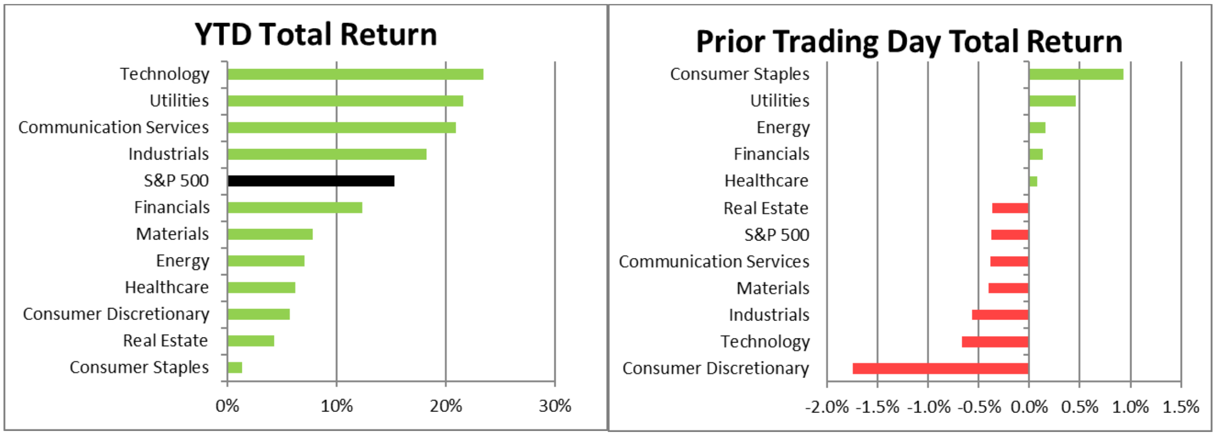
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures from the Great Plains eastward, with cooler-than-normal temperatures in California. The forecasts call for wetter-than-normal conditions in southern California, the Rocky Mountain states, the northern Great Plains, and the Upper Midwest, with dry conditions in the Deep South excluding Florida.

There are now two tropical disturbances in the Atlantic Ocean area. Hurricane Jerry is in the central Atlantic and traveling northwesterly, but it is expected to eventually hook north and not hit the US mainland. There is also a disturbance moving westerly over the Bay of Campeche, but it is assessed to have only a 10% chance of cyclonic formation in the next seven days.

Data Section

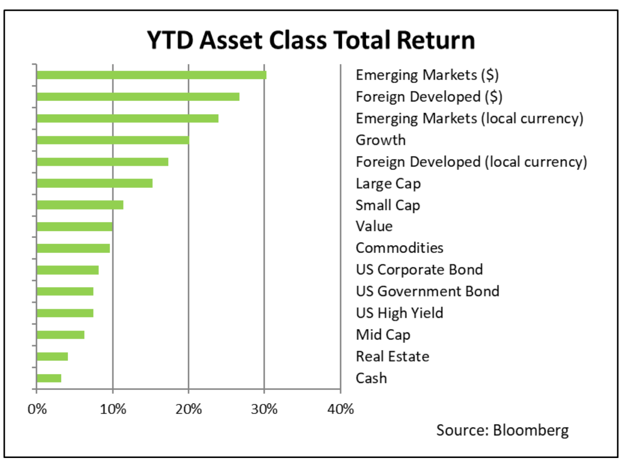
US Equity Markets – (as of 10/7/2025 close)



(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 10/7/2025 close)

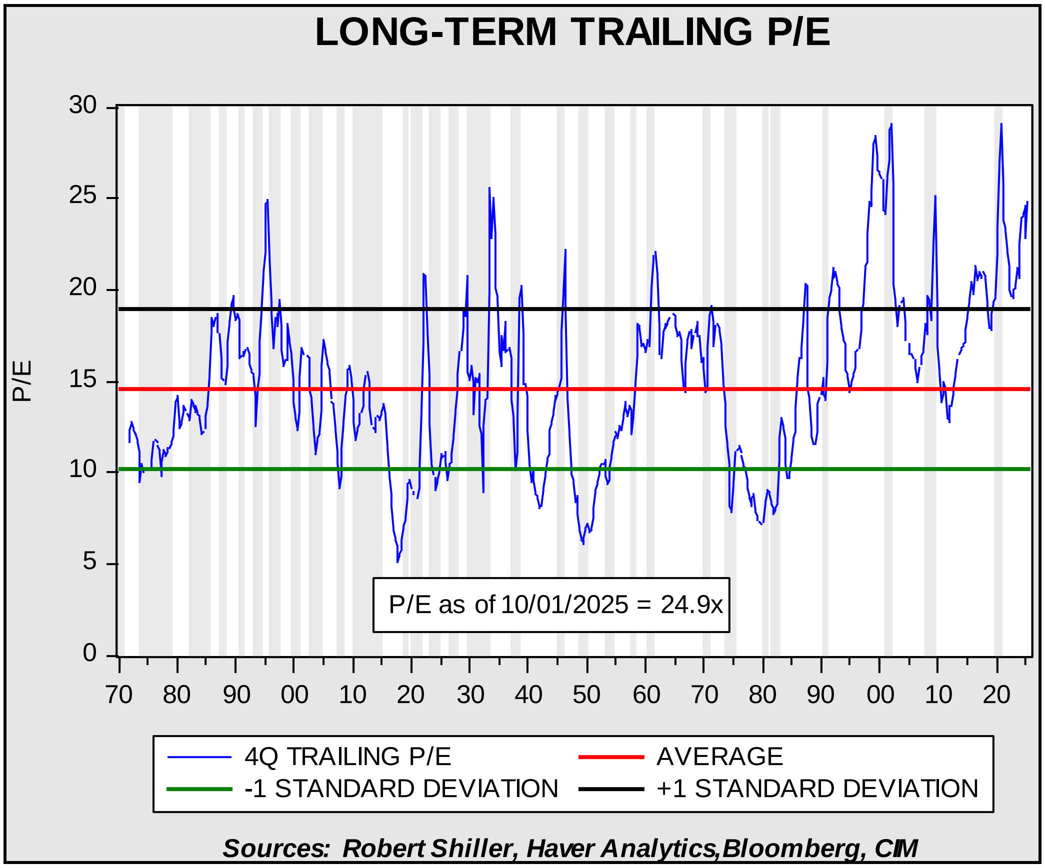


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.

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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, 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.