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Morning Briefing

On Trade Truce, Global Financial Stability & Quarterly S&P 500 Earnings

Check out the accompanying [chart collection](#).

Executive Summary: It's great that Presidents Trump and Xi are coming to the table, but William argues that markets' jubilation at the prospect of a US-China trade deal may be inflated. Much still could go awry, and tensions between the two proud leaders could flare anew, with global collateral damage. ... Also: Melissa recaps the IMF's worries about global financial stability as discussed in its newly updated report on the topic. Worrying about a crisis is a healthy way to prevent one, so we're not overly concerned. ... And: Joe shares takeaways from his data on how earnings and revenues estimates have been changing as Q3 earnings season proceeds.

Trade War I: Why a US-China Deal Might Not Hold. After nine months of tariff drama, export bans, and more recriminations than we can count, a US-China trade accord finally seems within reach as Presidents Donald Trump and Xi Jinping sit down for Thursday's high-stakes summit.

The likely prospect of both presidents laying down their weapons and crafting an economic peace deal is an unambiguous good. But whether posterity will judge the deal to have been worth all the financial chaos, geopolitical angst, and high opportunity costs it took to get to a point of accord is another question.

Yet another question is whether the prospective deal will even hold since it is more like a ceasefire than a peace treaty. Odds are, it won't. Let's look at why tensions may flare up again:

(1) *First, the good news.* A possible Trump-Xi detente in Busan means two economies worth a combined [\\$45 trillion](#) would stop punching each other and stop putting the rest of the globe in the collateral damage zone ([Fig. 1](#)).

(2) *The bad news may trump the good.* Far from being a game-changing recalibration of

US-China trade dynamics, the latest likely outcome has a déjà vu feeling. On June 11, remember, Trump declared that “[our deal with China is done](#)” and that the “relationship is excellent.” Yet investors have spent the 140 days since then grappling with extreme trade-war volatility.

(3) *Not so ‘grand’ a bargain.* Neither the possible deal to come nor the US-China relationship is excellent. Nor is the play-by-play coming from the China side.

The spin from the art-of-the-deal White House is exuberant, while caution abounds from the Chinese side. The reason: Any “grand bargain” to come will be more about saving face than remaking a [\\$659 billion relationship](#) ([Fig. 2](#)).

(4) *Kicking the can.* Whatever Trump and Xi agree to might just kick the can down the road. Look no further than Team Trump still going back-and-forth with Japan, Europe, and Korea about what was agreed to—and what’s still negotiable—following supposed tariff deals. Case in point: Seoul, host of the Asia-Pacific Economic Cooperation summit that Trump and Xi are attending, is refusing to pay the [\\$350 billion](#) “signing bonus” that the White House has demanded ([Fig. 3](#)).

(5) *Checking investors’ euphoria.* Despite conciliatory language driving the Dow Jones Industrial Average and the [Nikkei 225 Index](#) to all-time highs this week, global investors might want to check their euphoria ([Fig. 4](#)).

“It’s good for the world’s top two largest economies to dial down tensions,” notes Ting Lu at Nomura Holdings, “but we believe the superpower rivalry will likely escalate in the future.”

Trade War II: Pitfalls Galore Check ‘Grand Bargain’ Hopes. Part of the problem is that both Trump and Xi seem convinced that they hold the trump card.

Trump’s advantage is that the US economy is the biggest, and his Treasury issues the reserve currency. His tariff deals have been stacked in Washington’s favor.

Xi, meanwhile, believes he has sufficiently Trump-proofed his economy by pivoting trade to Europe, Southeast Asia, and the test of the “[Global South](#).” And China’s rare-earth ban seriously spooked the White House.

Consider:

(1) *Rare earths chokehold*. True, Xi's gambit risks damaging China's global soft power. Yet Beijing's chokehold over a [\\$12 billion industry](#) at the nexus of trillions of dollars of output is a pressure point that can easily hobble the production of electric vehicles, LED TVs, lithium-ion batteries, military radar systems, semiconductors, and smartphones.

That said, there could indeed be some deliverables as part of the Trump-Xi truce. One is China pledging to begin buying soybeans from American farmers once again. Another: completion of the sale of Chinese social media platform [TikTok](#) to US investors. Most important would be a postponement of any severe restrictions on US access to Chinese rare-earth mineral and magnets.

(2) *Pitfalls galore*. Yet the odds of tensions flaring up anew are higher than market euphoria suggests. Possible pitfalls include: a sharp slowdown of the US economy, depreciation of the yuan by China; one side's perception that the other isn't living up to deal terms; domestic political troubles that prompt either leader to lash out abroad.

Look no further than how quickly Trump returned to battle stations versus Canada over the Ontario government's [anti-tariff ad](#) quoting former US President Ronald Reagan and railing against protectionism. Trump [added](#) a 10% tariff on Canada as a rebuke ([Fig. 5](#)).

(3) *China's turn to pay up?* Xi might balk at Trump's insisting that China also pay him tribute. After demanding \$550 billion from Japan, the equivalent of [Ireland's GDP](#), and investments worth [18% of Korea's GDP](#) from Seoul, can Trump resist hitting up China? This would put Xi, who's [less popular](#) in Beijing than the conventional wisdom suggests, in an impossible position.

There's a good chance that the Supreme Court will rule Trump's tariffs unconstitutional anyway—making all this a tempest in a teapot. Yet on the off-chance that justices side with Trump, he might feel justified in hitting China with even bigger mercantilist blows. And, as Canadian Prime Minister Mark Carney can attest, rather arbitrarily.

Given the myriad ways things could go awry, expect Team Xi to continue diversifying its export markets and Team Trump to broaden its sources of rare-earth minerals. Hopes that the "Trump Vs Xi" reality show has run its course seem irrationally exuberant.

Global Financial Stability: Comforting Concern. Worrying about global financial systems' falling apart can be a healthy preventative measure against an actual collapse of systems and markets. Melissa and I are not worried about that, in part because others are!

We would be concerned if the International Monetary Fund (IMF) proclaimed—as it did in April 2006—that “the near-term outlook is as good as it gets—or maybe even better than that.” Of course, it wasn’t much longer before global financial systems started breaking down, culminating in the Great Financial Crisis of 2008.

Fortunately, the IMF sounds far more cautious now, in its October [Global Financial Stability Report](#): “The apparent calm masks a degree of complacency. ... [B]eneath the calm surface, the ground is shifting in several parts of the financial system, giving rise to vulnerabilities.” A healthy dose of worry about known risks may be the best safeguard against a corresponding shock, in our view.

The IMF’s watch list includes three main market-related vulnerabilities that could have systemic legs: (1) asset prices are stretched and vulnerable to sudden repricing; (2) such adjustments could spill into nonbank financial institutions (NBFIs), triggering redemptions and amplifying stress; and (3) rising long-term yields—partly reflecting fiscal concerns—could pressure both banks and nonbanks.

Additionally, labor supply shocks, regional conflicts—including Russia’s war in Ukraine—and commodity price volatility are on the IMF’s worry list.

Here’s more from the IMF’s latest report:

(1) *Calm on the surface, fragility underneath.* The report’s central theme is that the calm surface of financial markets hides the shifting economic ground beneath. It warns that low market volatility reflects investor complacency despite rising economic uncertainty related to trade policy and geopolitical risk (see IMF’s Figure ES. 1). The warning proved timely: Markets turned volatile soon after the report’s release, validating the IMF’s concern that calm often precedes turbulence.

(2) *Stretched valuations.* Enthusiasm for artificial intelligence continues to lift economic growth expectations—and stock prices along with them ([Fig. 6](#)). The IMF cautions, however, that valuation models “indicate that risk-asset prices are well above fundamentals, increasing the probability of disorderly corrections when adverse shocks occur.” The IMF’s point isn’t that earnings are weak; it’s that prices have outrun current fundamentals, leaving the stock market more sensitive to surprises. At roughly 22 times forward earnings, the S&P 500’s forward P/E sits well above its historical average near 15.

(3) *Rising government debt and bond-market strain.* “Analysis of sovereign bond markets

highlights growing pressure from widening fiscal deficits on the functioning of markets,” the IMF notes. Countries’ persistent budget deficits and lighter demand for bonds by central banks that are easing monetary policy have stretched the capacity of sovereign bond markets to absorb record levels of bond issuance, even though yields remain low for now ([Fig. 7](#) and [Fig. 8](#)).

Liquidity mismatches can amplify market shocks, even in markets deemed “safe” like US Treasury bonds, the IMF’s scenario analysis shows. If bond yields were to spike suddenly, bond mutual funds could be forced to sell as much as \$300 billion in US Treasuries to meet redemptions.

Some emerging market economies have grown strong enough to finance their debt largely in local currencies, increasing their resilience to financial shocks. However, weaker emerging markets remain exposed to funding risks because of mounting debt service burdens and low growth.

(4) *NBFIs and the hidden web of finance*. “Stress tests for banks and NBFIs reveal increasing interconnectedness and persistent maturity mismatches that could amplify shocks,” the IMF cautions. Private credit funds now play a central role in global credit creation yet often operate outside prudential oversight. Their scale—and opacity—mean the non-bank system can transmit stress faster than banks.

The IMF observes that US and European banks hold about \$4.5 trillion in exposures to NBFIs—roughly 9% of global bank loan portfolios. With such large exposures, liquidity stress in one corner of the system easily could spill across global markets.

(5) *Currency and funding-market vulnerabilities*. A dedicated chapter on FX markets warns that rising global uncertainty typically increases investor risk aversion and boosts demand for safe-haven assets, tightening financial conditions globally. In its [blog](#) on FX resilience, the IMF highlights that demand for safe-haven currencies by NBFIs surges with uncertainty, leading to volatility and liquidity strains in foreign exchange markets (see [chart](#)). For example, during the March 2020 “dash for cash,” dollar funding pressures widened cross-currency basis spreads and forced central banks to reopen swap lines.

Strategy: Q3 Reports Support Analysts’ Q4 Sights. With the S&P 500’s Q3 earnings reporting season 36% complete through midday Tuesday, the results are better than expected and analysts’ Q4 estimates are remaining relatively stable.

Aggregating the results of the S&P 500 sectors' reporting companies to date shows them beating analysts' consensus expectations on the top and bottom lines at a tad slower rate than during Q2, but the percentage of companies with y/y growth is at four-year highs ([Fig. 9](#) and [Fig. 10](#)).

Future quarterly visibility has improved as tariff war uncertainties have receded. Many companies have reported lower than anticipated tariff costs, prompting analysts to raise earnings estimates. You can track and analyze the rapidly changing quarterly consensus expectations for the 11 sectors in our weekly [S&P 500 Sectors Quarterly Revenues/Earnings/Margins \(REM\)](#).

Here's Joe's compilation of the data on how analysts have been adjusting their Q4 revenues and earnings expectations for the various S&P 500 sectors and the S&P 500 itself:

(1) Next-quarter revenues estimates have risen for fewer sectors than one quarter ago but more sectors top the S&P 500 by this measure. The Q4 revenues forecast for the S&P 500 companies in aggregate has fallen over the past four weeks since September 30, but by only 0.3% ([Fig. 11](#)). At the same point during the Q2 season, Q3 estimates were up by 0.5% over the preceding four weeks.

Four sectors show increased Q4 revenues estimates over the past four weeks. That compares to all 11 (for Q3 estimates) exactly three months ago—so many owing to tariff-related uncertainties having cleared up at that point.

However, positive four-week revenues revisions momentum has spread to more sectors versus three months ago: Six sectors top the S&P 500 in terms of next-quarter revenues estimate change over the preceding four weeks versus just three back then.

Tied for the lead, with their Q4 revenues forecast rising 0.7% over the past four weeks, are: Consumer Staples, Real Estate, and Financials. They're followed by Energy (0.5%), Information Technology (-0.1), and Consumer Discretionary (-0.2). These five sectors are lagging the S&P 500's revenues forecast decline of 0.3%: Communication Services (-1.3%), Industrials (-1.3), Utilities (-1.2), Health Care (-1.0), and Materials (-0.5).

(2) Ditto for earnings estimates: Fewer sectors show increases but more beat the S&P 500. Analysts gave a tad bigger trim to the S&P 500's Q4 earnings forecast than they did to its Q4 revenues, with EPS ticking down 0.4% in the four weeks since September 30 ([Fig. 12](#)).

That's a reversal from the 0.4% gain by the comparable July 28 week for the Q3-2025 revenue forecast.

Financials' Q4 EPS forecast began popping higher after the October 13 week, and it now leads all 11 sectors by this measure since September 30. These four sectors have Q4 earnings changes ahead of the S&P 500's: Financials (1.5%), Materials (0.9), Energy (0.3), and Information Technology (-0.1). These seven sectors are lagging the S&P 500's earnings forecast decline of 0.4%: Utilities (-2.2%), Real Estate (-1.8), Consumer Staples (-1.8), Industrials (-1.7), Consumer Discretionary (-1.5), Communication Services (-1.2), and Health Care (-1.1).

The Consumer Staples and Real Estate sectors continue to struggle, as evidenced by their (coincidentally similar) 1.8% decline in Q4 earnings forecasts over the past four weeks despite a 0.7% gain in their Q4 revenue forecasts.

(3) *Quarterly y/y growth forecasts rising now.* On a proforma same-company basis, analysts expect revenues growth of 6.2% y/y in Q4 for the S&P 500 ([Fig. 13](#)). That's down immaterially from their 6.6% forecast for Q4 growth at the year's start, before Trump's Tariff Turmoil (TTT). It has improved 1.4ppts since mid-May and isn't much below the blended 6.7% y/y growth for Q3.

Analysts now think S&P 500 earnings, also on a proforma same-company basis, will rise 7.9% y/y in Q4. The glass-half-empty perspective: That's down from double-digit-percentage expectations at the year's start. We prefer the half-full view: Estimates have improved from a low of 6.0% prior to Liberation Day and remain on an improving trajectory ([Fig. 14](#)).

(4) *Quarterly profit margin forecasts steady so far for Q4.* When earnings forecasts rise more (or fall less) than revenues forecasts, the implied profit margin moves higher (we calculate analysts' margin expectations from their consensus earnings and revenues forecasts). That has been the case for the S&P 500 so far during 2025's quarterly earnings seasons. Profit margin forecasts took a hit during TTT but are rising again now.

Analysts currently expect the S&P 500's profit margin to improve from a blended 13.5% in Q3 to a record-high 13.6% in Q4 ([Fig. 15](#)). However, there's still plenty of time left in Q3's season for an earlier grab at the record-high profit-margin crown.

Calendars

US: Wed: Fed Interest Rate Decision 4.00%; MBA Mortgage Applications; Atlanta Fed GDPNow 3.9%; Powell. **Thurs:** Bowman; Logan. (Source: FX Street)

Global: Wed: Spain GDP 0.7%q/q; Japan Consumer Confidence 35.6; BoC Interest Rate Decision 2.25%; BoJ Interest Rate Decision 0.50%. **Thurs:** Eurozone GDP 0.1%q/q, 1.2%/y/y; Eurozone Business and Consumer Survey 95.7; ECB Interest Rate Decision & Deposit Facility Rate 2.15%, 2.00%; Germany GDP 0.0%q/q, 0.2%/y/y; Germany Unemployment Rate 6.3%; France GDP 0.1%q/q; Italy GDP 0.1%q/q; Italy Unemployment Rate 6.0%; Spain CPI 2.9%/y/y; Japan Industrial Production 1.6%; Japan Unemployment Rate 2.5%; Japan Retail Sales 0.8%/y/y; Lagarde. (Source: FX Street)

US Economic Indicators

Consumer Confidence ([link](#)): Consumer confidence was little changed this month, though moved lower for the third straight month. Headline consumer confidence fell from 98.7 in July to a six-month low of 94.6 this month; it was at 112.8 last November. The present situation component increased to 129.3 this month, after sinking from 135.5 in May to 127.5 in September, while expectations slipped for the third month to 71.5 this month, after climbing from 55.4 in April to 76.0 in July. Expectations have been below the threshold of 80, which typically signals a recession ahead since February of this year. Consumers' assessments of current business conditions improved in October, with 20.2% of consumers saying business conditions were good, up from 19.9% in September, while 14.7% said they were bad, down from 15.3% in September. Consumers' views of the labor market also improved this month, with 27.8% of consumers saying jobs were "plentiful," up from 26.9% in September, though 18.4% of consumers said jobs were hard to get, up slightly from September's 18.2%. Consumers were once again a bit more pessimistic about future business conditions this month, with 19.0% expecting conditions to improve, down from 19.3% in September, while 22.6% expected business conditions to deteriorate, unchanged from September's percentage. Consumers were more concerned about the labor market in six months, with 15.8% of consumers expecting more jobs to be available, down from 16.6% in September, while 27.8% anticipated fewer jobs, up from 25.7% in September. Consumers' outlook for their income prospects was less positive this month, with 17.9% expecting their incomes to increase, down from 18.2% last month, and 12.5% expecting their incomes to decrease, up from 11.7% in September.

Regional M-PMIs ([link](#)): Five regional Fed banks have now reported on manufacturing activity for October—New York, Philadelphia, Kansas City, Dallas, and Richmond—with business activity in the New York region moving from contraction to expansion, while the Philly region moved from expansion to contraction. Meanwhile, activity in the Kansas region continued to increase modestly, while the Dallas region saw below-average growth for the second successive month. Manufacturing activity in the Richmond region continued to contract, though at a slower pace. Here's a detailed look at each of the districts. New York's headline general business conditions index climbed 19.4 points (to 10.7 from -8.7) as both new orders (to 3.7 from -19.6) and shipments (14.4 from -17.3) measures rose 23.3 and 31.7 points, respectively. Turning to the labor market, the employment (6.2 from -1.2) gauge moved from contraction to expansion, rising 7.4 points, while the average workweek (-4.1 from -5.1) continued to contract, though at a slower pace. As for pricing, both the prices-paid (52.4 from 46.1) and prices-received (27.2 from 21.6) measures picked up. Philadelphia's headline general business activity index plunged 36.0 points (to -12.8 from 23.2) to a six-month low, after posting a 23.5-point gain (to 23.2 from -0.3) in September. The new orders (to 18.2 from 12.4) measure rose 5.8 points, while the shipments (6 from 26.1) gauge sank 20.1 points, though remained in expansion territory. Firms continued to report overall gains in employment (4.6 from 5.6), though held fairly steady around September's pace, while the average workweek (12.8 from 14.9) declined. As for pricing, both the prices-paid (49.2 from 46.8) and prices-received (26.8 from 18.8) measures accelerated, with the latter showing a steeper change. Kansas City's composite index rose to 6 in October, up from 4 in September and 1 in August. Both the production (to 15 from 4) and shipments (15 from 7) measures showed solid gains, while orders (1 from 2) were weak. Employment (1 from 7) in the region was depressed, while the average workweek (-3 from 3) contracted. As for pricing, prices received for finished products (19 from 13) accelerated slightly during the month, while prices paid for raw materials (41 from 40) held steady. The Dallas region's production index—a key measure of the state of manufacturing conditions—was unchanged at 5.2, a below-average reading. Other measures of activity either held steady or moved lower. The general business activity (to -5.0 from -8.7) index improved, though remained in negative territory, with new orders (-1.7 from -2.6) following suit. Meanwhile, shipments (5.8 from 6.7) continue to increase, though at a slightly slower pace. The employment (to 2.0 from -3.4) measure moved from negative to positive, while hours worked (-5.5 from 3.4) moved from positive to negative. Looking at pricing, both prices paid for raw materials (33.4 from 43.4) and prices received for finished goods (7.7 from 11.7) eased during the month. The Richmond Fed's composite index (to -4 from -17) continued to decline, though moved closer to the breakeven point of zero. All three of its components improved this month, with the shipments (4 from -20) measure moving from

contraction to expansion, while the new orders (-6 from -15) and employment (-10 from -15) measures continued to decline, though at a slower pace, especially for new orders. Local business conditions (-1 from -12) improved, while the index for future business conditions (-5 from -1) continued to deteriorate. As for pricing, both the prices-paid (5.81% from 7.22%) and prices-received (3.04 from 4.02) rates eased this month. (Note: In the Richmond region, the current price changes are percent changes over the last 12 months, while the expected price changes are expected changes over the next 12 months.)

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