



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: December 10, 2025 — 9:30 AM ET] Global equity markets are mixed 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 up 0.8%. Chinese markets were mixed, with the Shanghai Composite down 0.2% and the Shenzhen Composite up 0.3%. US equity index futures are signaling a lower 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
“Meet Sanae Takaichi” (11/10/25) + podcast	“What Catch-Up Economic Reports Say About the AI Boom” (12/8/25) + podcast	Q4 2025 Report Q4 2025 Rebalance Presentation	Confluence Mailbag podcast Value Equities Quarterly Video Update

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 of President Trump's decision to push for new governance in the EU. Next, we provide a primer for today's pivotal Fed rate decision. We then offer an overview of critical global developments, including Denmark's security concerns regarding the US, China's restrictions on US chip sales, and a breakthrough in French government budget talks. Finally, we include a roundup of essential domestic and international data releases.

Trump on the EU: The US [president expressed significant displeasure with current EU governments during a recent Politico interview](#), signaling a potential rupture in transatlantic relations. He levied specific criticism against the bloc's leadership, citing its inability to control migration flows and its hesitation to fully back his strategic objectives for Ukraine. The president then intensified the statement by announcing he will openly endorse European candidates who share his outlook, suggesting an increasingly interventionist US foreign policy in the domestic politics of its allies.

- His remarks come as the US is embroiled in several disputes with European leaders, including disagreements over trade, technology regulation, and the approach to ending

the Ukraine-Russia conflict. These setbacks have hampered President Trump's efforts to pivot foreign policy toward containing China's growing global influence. This tension suggests that the administration may not view its European counterparts as equals, but rather as subordinates to core US interests.

- While an alliance with right-leaning parties in Europe is imperfect, these groups nonetheless are facilitating several policy initiatives that the White House favors. This alignment stems from shared objectives, notably the desire for a swift end to the Ukraine war, a preference for greater national sovereignty within the EU bloc, and a rollback of climate change regulation.
- Despite shared political goals, the informal coalition between right-wing European parties and the US faces some internal friction. This stems from allegations that members within groups such as [the Alternative for Germany \(AfD\) have been compromised, with some members reportedly passing sensitive data to Beijing](#). Furthermore, some members have pushed for closer energy ties with Russia to secure access to inexpensive resources, a position that directly conflicts with the US strategy of expanding its market share in the European energy sector.
- That said, the president's statement that he will endorse right-leaning governments appears to be part of a growing trend of political statecraft. The US is actively seeking to reshape its relationships with foreign governments to facilitate deals that may benefit its broader strategic goals. Overall, this increased US involvement could make election outcomes in targeted countries far less certain, as past US interference has yielded mixed results, potentially introducing volatility into the equities of those nations.
- Additionally, the president's stated aim is likely intended to encourage the EU to become more autonomous, urging the bloc to reduce its reliance on US influence and chart its own path forward. While we suspect the EU will continue to prefer strong ties to the United States, it may seek to balance this influence by entertaining closer relations with China and could even begin competing directly with the US for geopolitical influence in third countries.

Fed Primer: As its two-day meeting concludes, the [FOMC is anticipated to lower the benchmark rate by 25 basis points](#), with future guidance being seen as critical for markets. Deliberations that have occurred since the November meeting have revealed a struggle within the Committee over whether to prioritize the price stability or the maximum employment side of its dual mandate. This tension culminated in unusual, conflicting dissents last time, as one policymaker pushed for a deeper cut while another favored maintaining the current rate.

- This division is likely to dominate the chair's press conference, as markets remain uncertain about the future policy path. The latest [CPI report revealed that core inflation is now rising at the same pace as headline inflation](#), signaling a potential broadening of price pressures. Meanwhile, [the October JOLTS data showed an increase in job openings](#), even as hiring and quit rates stagnated — a mixed signal for the labor market.
- This policy dilemma unfolds against a backdrop of political pressure from the White House. The president [has hinted at nominating Kevin Hassett for Fed chair, while also considering candidates like former Fed Governor Kevin Warsh and current Governor](#)

[Christopher Waller](#). Notably, the president has publicly advocated for lower rates, a position echoed by [Hassett, who has argued for a cut larger than 25 basis points](#).

- The market has shown a mixed response to the prospect of Fed rate cuts. While the anticipation of lower rates has boosted equities, concern over the possible loss of Federal Reserve independence — fueled by the potential appointment of a politically-aligned figure like Kevin Hassett as Fed chair — [has provided support to 10-year Treasury yields](#), a development arguably more significant than the equity rally.
- The market will likely be paying close attention to the forward guidance provided by the Fed as it reviews the Summary of Economic Projections and the subsequent press conference. The prevailing expectation is that [the Fed will cut rates by 25 basis points but signal an indefinite pause](#) while it awaits further economic data. While we agree that a rate cut is more probable than not at this meeting, we suspect the Fed will continue to be less concrete on the path forward but will likely still leave the door open for additional cuts.

Denmark Fears the US: For the first time, the Danish Intelligence Agency (FE) [has described the US as a potential security risk](#) in its annual threat assessment. This unusual designation follows the US's public pursuit of acquiring Greenland, a Danish territory. The agency's report explicitly noted that the US is increasingly prioritizing its own self-interest, often at the expense of its allies. While this development is unlikely to have immediate market ramifications, it is a clear indicator of growing strategic mistrust between the US and its long-standing partners.

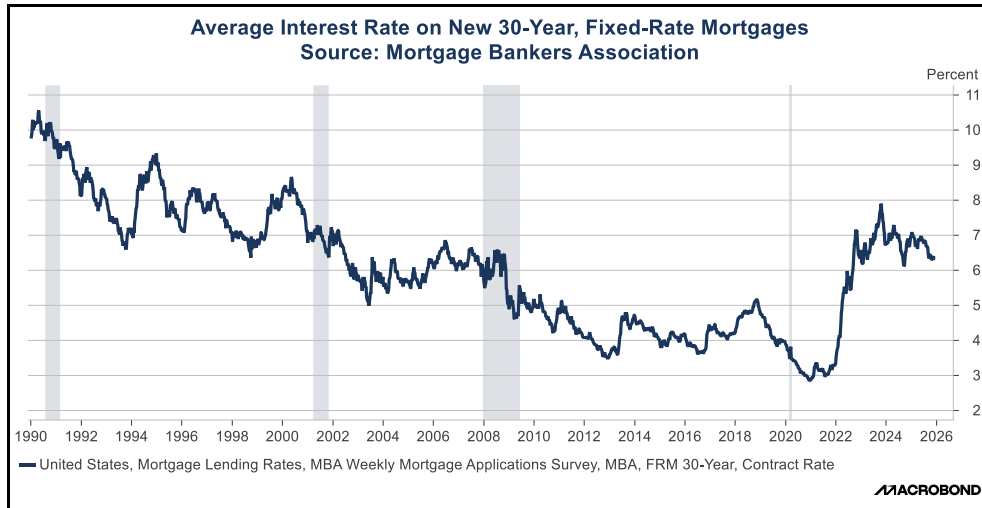
Pentagon Picks Google: Defense Secretary Pete Hegseth [announced that the department has selected Gemini for its government systems](#) to address its artificial intelligence (AI) needs. This selection is another example of the growing coordination between the US government and the technology sector, and it underscores the increasing reliance of tech companies on government contracts for sales. This major purchase is likely to boost Google's stature as a significant and capable challenger to OpenAI in the competitive AI space.

China Blocks Nvidia: Beijing is [reportedly preparing new limits on companies seeking to purchase the H200 chips](#) recently cleared by the White House for export. The move is intended to push Chinese firms toward domestically produced alternatives, consistent with China's broader goal of strengthening technological self-sufficiency. It also carries a political dimension as Beijing aims to avoid the appearance of yielding to US pressure — particularly amid reports that roughly 20% of the chip revenue is expected to go to the US government.

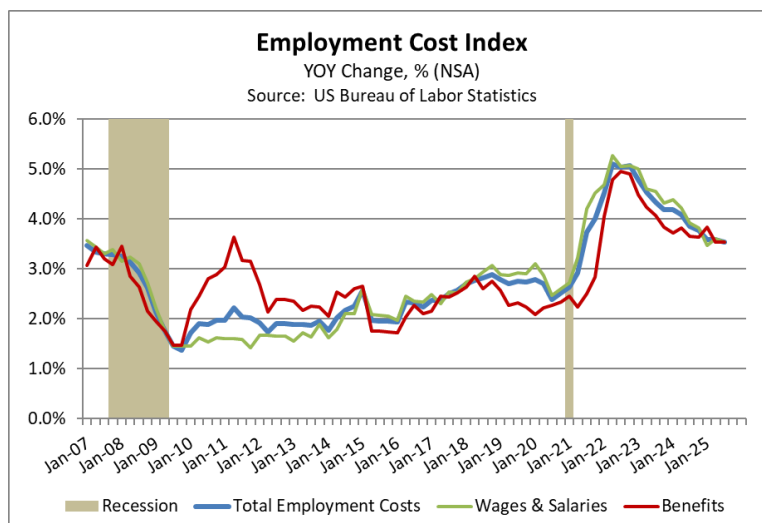
French Budget Passed: The [French parliament passed the 2026 social security budget on Tuesday](#), a critical step toward approving the full state budget by year's end. While the move was welcomed, concerns remain that Prime Minister Sébastien Lecornu may lack the votes needed for the broader bill, having alienated key allies with concessions to the Socialist Party. Nevertheless, finalizing the budget should help ease pressure on French bond yields.

US Economic Releases

The Mortgage Bankers Association said **mortgage applications** in the week ended December 5 rose 4.8%, easily erasing the 1.4% decline in the previous week. Applications for home purchase mortgages fell 2.4%, almost reversing their 2.5% rise in the prior week, but applications for refinancing mortgages jumped 14.3%, marking their first rise after five straight weeks of decline. According to the report, the average interest rate on a 30-year, fixed-rate mortgage rose by 1 basis point to 6.33%. The chart below shows how mortgage rates have changed over time.



Separately, the third-quarter **Employment Cost Index (ECI)** rose by a seasonally adjusted 0.8%, slightly below expectations that it would rise by the same 0.9% as in the second quarter. The subindex on wages and salaries rose 0.8%, while the subindex on benefits also rose 0.8%. Compared with the same period one year earlier, the overall ECI in the third quarter was up 3.5%. The subindex on wages and salaries was up 3.5% year-over-year as well, while the subindex on benefits was also up 3.5%. The chart below shows the year-over-year change in the ECI since just before the Great Financial Crisis.



The table below lists the economic releases and Fed events scheduled for the rest of the day.

Economic Releases							
EST Date	EST Time	Indicator			Expected	Prior	Rating
12/10	14:00	FOMC Rate Decision (Lower Bound)	w/w	10-Dec	3.50%	3.75%	***
12/10	14:00	FOMC Rate Decision (Upper Bound)	w/w	10-Dec	3.75%	4.00%	***
12/10	14:00	Federal Budget Balance	w/w	Nov	-\$195.0b	-\$366.8b	**
12/10/2025-12/31/2025	TBD	Personal Income	m/m	Oct		0.4	**
Federal Reserve							
No Fed speakers or events for the rest of today							

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 shift 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	Expected
ASIA-PACIFIC								
Japan	PPI	y/y	Nov	2.7%	2.7%	2.7%	***	Equity and bond neutral
South Korea	Unemployment Rate	m/m	Nov	2.7%	2.6%	2.6%	***	Equity and bond neutral
China	PPI	y/y	Nov	-2.2%	-2.1%	-2.0%	**	Equity and bond neutral
	CPI	y/y	Nov	0.7%	0.2%	0.7%	**	Equity and bond neutral
EUROPE								
Italy	Industrial Production WDA	y/y	Oct	-0.3%	1.4%	0.3%	***	Equity bearish, bond bullish
AMERICAS								
Mexico	International Reserves Weekly	w/w	5-Dec	\$250452m	\$250206m		*	Equity and bond neutral
Brazil	IBGE Inflation IPCA	y/y	Nov	4.46%	4.68%	4.47%	***	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)	363	362	1	Down
U.S. Sibor/OIS spread (bps)	374	374	0	Down
U.S. Libor/OIS spread (bps)	364	365	-1	Down
10-yr T-note (%)	4.20	4.19	0.01	Up
Euribor/OIS spread (bps)	209	207	2	Up
Currencies	Direction			
Dollar	Flat			Up
Euro	Up			Down
Yen	Down			Down
Pound	Up			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.

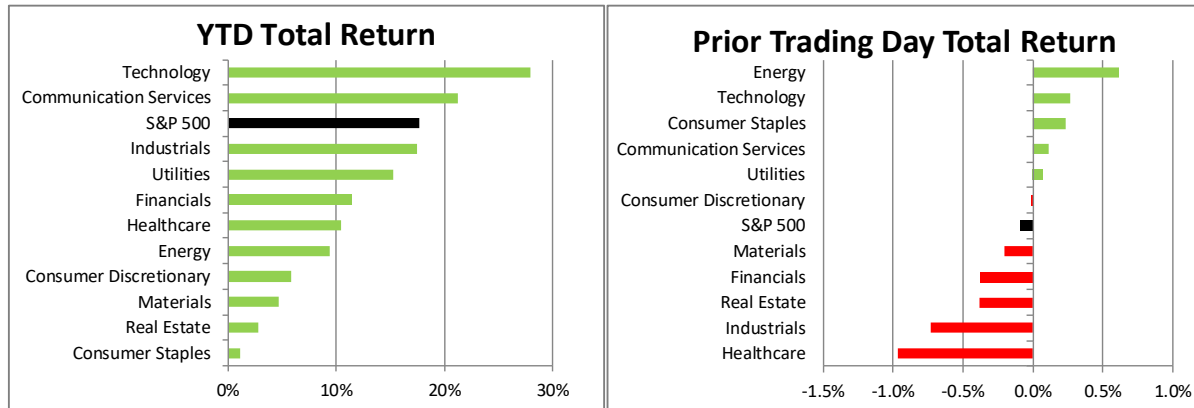
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$62.25	\$61.94	0.50%	
WTI	\$58.59	\$58.25	0.58%	
Natural Gas	\$4.49	\$4.57	-1.95%	
Crack Spread	\$23.70	\$23.58	0.47%	
12-mo strip crack	\$24.95	\$24.91	0.15%	
Ethanol rack	\$1.87	\$1.88	-0.58%	
Metals				
Gold	\$4,197.15	\$4,208.24	-0.26%	
Silver	\$61.03	\$60.67	0.59%	
Copper contract	\$539.80	\$532.00	1.47%	
Grains				
Corn contract	\$446.50	\$448.00	-0.33%	
Wheat contract	\$529.50	\$534.50	-0.94%	
Soybeans contract	\$1,082.00	\$1,087.25	-0.48%	
Shipping				
Baltic Dry Freight	2,557	2,694	-137	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-1.30		
Gasoline (mb)		2.04		
Distillates (mb)		1.15		
Refinery run rates (%)		0.2%		
Natural gas (bcf)		-170		

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 Great Plains, with cooler-than-normal temperatures in the Midwest, the Northeast, and the Southeast excluding Florida. The outlook calls for wetter-than-normal conditions in the Pacific Northwest, the northern Rocky Mountains, and the northern Great Plains, and also in southern Texas and Florida, with dry conditions in the Southwest, the central Great Plains, and the Ohio Valley.

Data Section

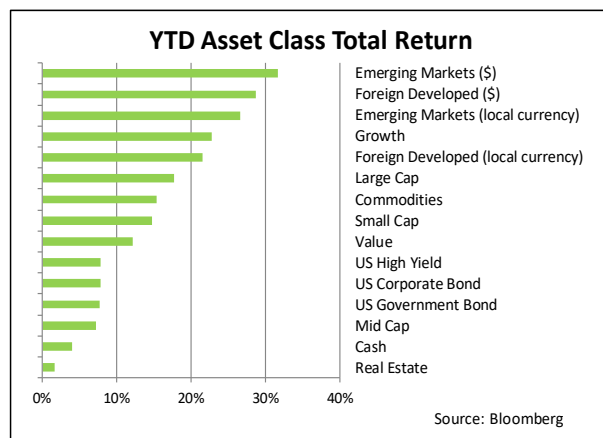
US Equity Markets – (as of 12/9/2025 close)



(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 12/9/2025 close)

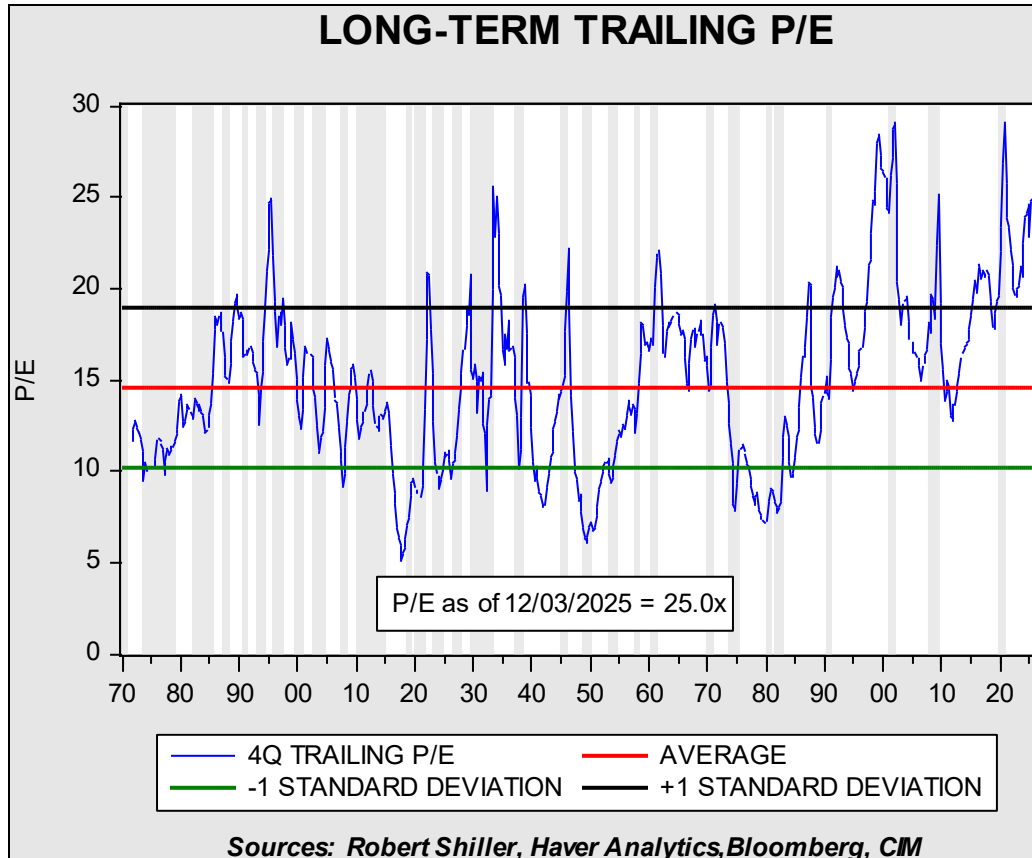


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

December 4, 2025



Based on our methodology,¹ the current P/E is 25.0x, which was unchanged from the previous report. The rise in the stock price index was offset by an 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.