Daily Comment

Confluence INVESTMENT MANAGEMENT

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: December 11, 2025 — 9:30 AM ET] Global equity markets are mostly lower 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 1.2%. Chinese markets were lower, with the Shanghai Composite down 0.7% and the Shenzhen Composite down 1.4%. 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* opens with an analysis of the Federal Reserve's latest rate action and the 2026 policy outlook. We then assess rising US-Venezuela tensions and their implications for US foreign policy. This is followed by other market moving events such as China's strategic dilemma over US chip restrictions, investor skepticism toward Oracle's AI buildout, and the US-China tax standoff that is delaying the global minimum tax framework. Finally, we include a roundup of essential domestic and international data releases.

Fed Decision: The Federal Reserve delivered a quarter-point reduction to its benchmark rate, setting the new target range at 3.50% to 3.75%. The decision was highly controversial, featuring the most contentious vote of Federal Reserve Chair Powell's tenure with three dissents — a split not seen in six years. To address persistent strain in the repo market, the Fed concurrently announced the imminent resumption of Treasury Bill purchases. Despite these stimulative actions, the central bank clearly signaled a cautious and potentially restrained trajectory for future monetary easing.

- The Federal Reserve's latest Summary of Economic Projections (SEP) indicates a more confident economic outlook since September. Officials materially upgraded their median forecast for 2026 GDP growth from 1.8% to 2.3% and modestly improved their inflation projection, lowering it from 2.6% to 2.4% for the year. This brighter picture for output and prices was not extended to the labor market, where the unchanged projection implies policymakers still anticipate tepid hiring in the coming year.
- Despite the official vote, significant internal divisions persist within the Federal Open Market Committee (FOMC). Although the rate decision garnered only three formal dissents, SEP revealed a much deeper disagreement. Five officials favored maintaining interest rates at their previous level, while three others projected that the federal funds rate should be higher than the current target range by the end of 2026.
- In his press conference remarks, Chair Powell framed the committee's internal divisions as a reflection of differing estimates for the long-run neutral rate — the theoretical policy setting that neither spurs nor slows economic activity. He further elaborated that officials' growth projections rely significantly on productivity gains, which could result in slower hiring. Speaking on inflation, Powell characterized the recent uptick as likely temporary, attributing it primarily to tariff impacts.
- Heading into 2026, the central debate will be whether the Federal Reserve opts to cut interest rates to below the neutral rate. This decision will largely depend on whether inflation continues to ease and if the labor market cools as expected over the coming year. If these conditions materialize, the Fed may have the necessary impetus to implement deeper rate cuts before the next chair assumes leadership.

US Foreign Policy Turns Hawkish: The United States' seizure of an oil tanker en route to Cuba has heightened diplomatic tensions with Venezuela. Washington justified the action by declaring the vessel stateless, despite its last known registration being from Venezuela. This intervention directly impedes Caracas's ability to export oil — its primary source of government funding — and raises the potential for a direct conflict within the region.

- This US action marks the latest in a series of escalations with Venezuela. The pattern began with US airstrikes on Venezuelan vessels suspected of drug trafficking. It escalated further with presidential threats of a land invasion, and most recently, with Caracas accusing Washington of sending fighter jets to intrude on its airspace.
- The recent escalation of rhetoric and actions against Venezuela may be viewed as a bid for regional supremacy. Regardless of whether the US intends to intervene directly, its current behavior — characterized by increased external pressure and military signaling — echoes the pattern of strategic aggression seen in Russia's approach to Ukraine and China's persistent actions regarding Taiwan.
- Due to the White House's unwillingness to create volatility leading into the midterm elections, a direct military attack is not expected. Crucially, though, these actions are designed to normalize the view of the Western Hemisphere as a US sphere of influence. The successful establishment of this precedent will likely lead to a more permanent and greater level of US engagement and assertiveness throughout the region.

Immigration Crackdown: New measures from the Trump Administration aim to restrict migration by tightening enforcement in two key areas. First, the White House has mandated a strict English proficiency requirement for commercial truck drivers, allowing for their immediate removal from service. Second, it has proposed using social media screening to deport visa holders. Collectively, these actions may reduce the supply of labor as it will remove or deter foreign workers from seeking work in the US.

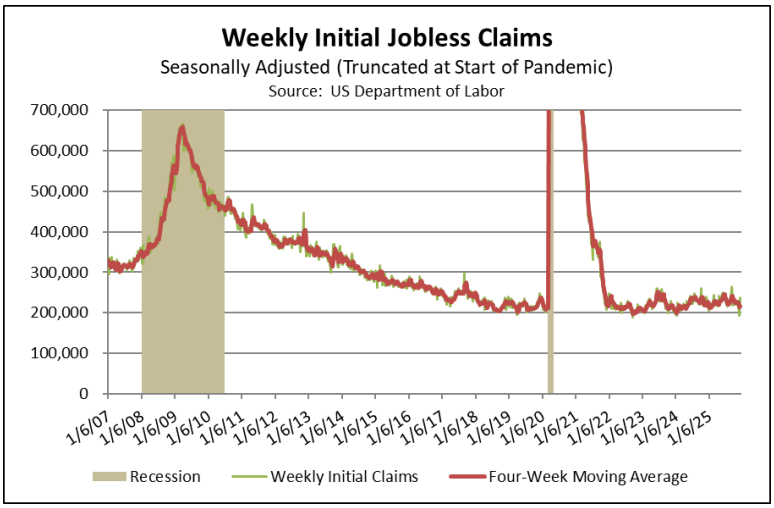
China Chip Dilemma: Chinese firms' continued demand for high-end US chips is straining Beijing's push for domestic alternatives, as no local product can match the capabilities of NVIDIA's H200. Recent disclosures — such as DeepSeek's use of banned chips and a government review of NVIDIA demand — highlight the gap. Regulators now face mounting pressure as they decide how to allocate export permits after President Trump's limited sales approval. Chinese firms' need for US made chips is a reminder of the White House's leverage in talks.

Oracle Disappoints: The cloud computing company reported disappointing financial results on Thursday, missing sales and profit estimates while raising its capital expenditure plan. This lackluster performance has amplified existing market concerns, specifically, that the aggressive spending on AI infrastructure is outpacing the immediate returns and earnings growth. This growing disconnect between investment and realization will likely lead to greater investor scrutiny and a push for more realistic valuations across the technology sector.

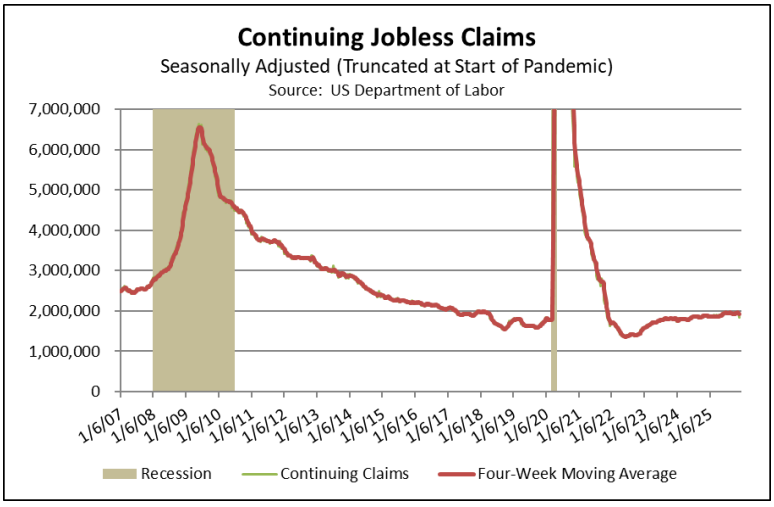
Global Pushback: The White House's aim to exempt US multinationals from the global minimum tax has met with resistance from OECD nations, led by China. The group was set to finalize this arrangement as part of the second pillar of the global tax regime. While the full plan was expected to be released this year, objections from Beijing, which is advocating for a similar exemption for its firms, have delayed its publication. This holdup has led to speculation that the US could revive the retaliatory tax measures that it contemplated earlier this year**.**

US Economic Releases

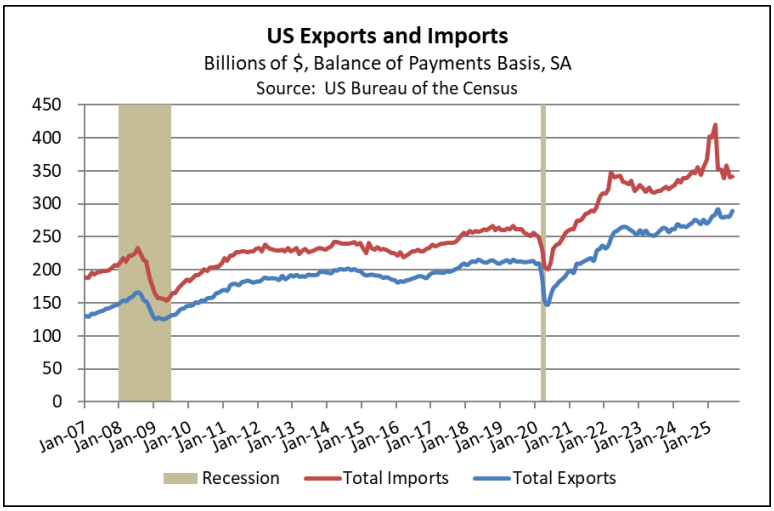
In the week ended December 6, ***initial claims for unemployment benefits*** rose to a seasonally adjusted 236,000, above both the expected level of 220,000 and the revised level of 192,000 in the prior week. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, rose to 216,750. The chart below shows how initial jobless claims have fluctuated since just before the Great Financial Crisis. The chart is truncated through much of the pandemic period because of the extremely high level of claims at that time.



In the week ended November 29, the number of ***continuing claims for unemployment benefits*** (people continuing to draw benefits) plunged to a seasonally adjusted 1.838 million, dramatically lower than both the anticipated reading of 1.938 million and the previous week's revised reading of 1.937 million. The four-week moving average of continuing claims fell to a seven-month low of 1.918 million. The chart below shows how continuing claims have fluctuated since the GFC. It is also truncated during the pandemic period because of the high level of claims at the time.



Separately, the September ***trade balance*** showed a seasonally adjusted deficit of $52.8 billion, narrower than both the expected shortfall of $63.1 billion and the revised August shortfall of $59.3 billion. According to the data, total ***exports*** rose 3.0% from July to August, while ***imports*** rose just 0.6%. Compared with the same month one year earlier, exports in September were up 5.7%, while imports were down 3.7%. The chart below shows the monthly value of US exports and imports since just before the previous recession.



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

Economic Releases						
No economic releases for the rest of today						
EST	**Indicator**			**Expected**	**Prior**	**Rating**
10:00	Wholesale Inventories	m/m	Sep F	0.1%		**
10:00	Wholesale Trade Sales	m/m	Sep	0.4%	0.1%	*
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	Market Impact
ASIA-PACIFIC								
Japan	Japan Buying Foreign Bonds	w/w	5-Dec	¥452.9b	-¥771.3b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	5-Dec	-¥64.5b	¥78.8b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	5-Dec	-¥442.6b	¥1065.8b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	5-Dec	¥96.8b	¥655.67		*	Equity and bond neutral
Australia	Employment Change	m/m	Nov	-21.3	41.1k	21.0k	***	Equity and bond neutral
	Unemployment Rate	m/m	Nov	4.3%	4.3%	4.4%	***	Equity and bond neutral
	Participation Rate	m/m	Nov	66.7%	66.9%	67.0%	**	Equity and bond neutral
New Zealand	Mfg Activity Volume	q/q	3Q	1.1%	-2.8%		**	Equity and bond neutral
	Mfg Activity SA	q/q	3Q	2.7%	-2.8%		*	Equity and bond neutral
EUROPE								
UK	RICS House Price Balance	y/y	Nov	-16%	-19%	-21%	**	Equity and bond neutral
Russia	CPI	y/y	Nov	6.64%	7.71%	6.76%	***	Equity and bond neutral
	Core CPI	y/y	Nov	6.12%	6.94%		**	Equity and bond neutral
AMERICAS								
Brazil	Retail Sales	y/y	Oct	1.1%	0.8%	0.0%	***	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)	358	359	-1	Down
U.S. Sibor/OIS spread (bps)	371	372	-1	Down
U.S. Libor/OIS spread (bps)	363	364	-1	Down
10-yr T-note (%)	4.14	4.15	-0.01	Up
Euribor/OIS spread (bps)	208	209	-1	Up
Currencies	**Direction**			
Dollar	Down			Up
Euro	Up			Down
Yen	Down			Down
Pound	Flat			Down
Franc	Down			Down
Central Bank Action	**Actual**	**Prior**	**Expected**	
FOMC Rate Decision (Upper Bound)	3.75%	4.00%	3.75%	On Forecast
FOMC Rate Decision (Lower Bound)	3.50%	3.75%	3.50%	On Forecast
Swiss National Bank Policy Rate	0.00%	0.00%	0.00%	On Forecast
Bank of Canada Rate Decision	2.25%	2.25%	2.25%	On Forecast
Brazil Selic Rate	15.00%	15.00%	15.00%	On Forecast

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.

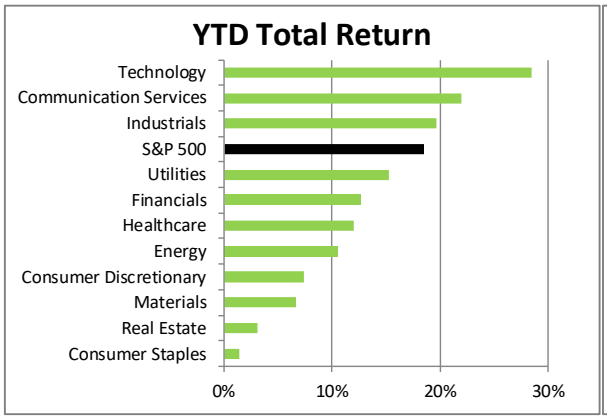
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$61.37	$62.21	-1.35%	
WTI	$57.65	$58.46	-1.39%	
Natural Gas	$4.48	$4.60	-2.52%	
Crack Spread	$23.36	$23.24	0.53%	
12-mo strip crack	$24.85	$24.81	0.15%	
Ethanol rack	$1.85	$1.85	0.00%	
Metals				
Gold	$4,213.58	$4,228.84	-0.36%	
Silver	$62.26	$61.81	0.73%	
Copper contract	$540.25	$535.35	0.92%	
Grains				
Corn contract	$447.75	$444.25	0.79%	
Wheat contract	$533.25	$529.50	0.71%	
Soybeans contract	$1,103.75	$1,101.00	0.25%	
Shipping				
Baltic Dry Freight	2,430	2,557	-127	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	-1.81	-1.30	-0.51	
Gasoline (mb)	6.40	2.04	4.35	
Distillates (mb)	2.50	1.15	1.35	
Refinery run rates (%)	0.04%	0.15%	-0.11%	
Natural gas (bcf)		-166		

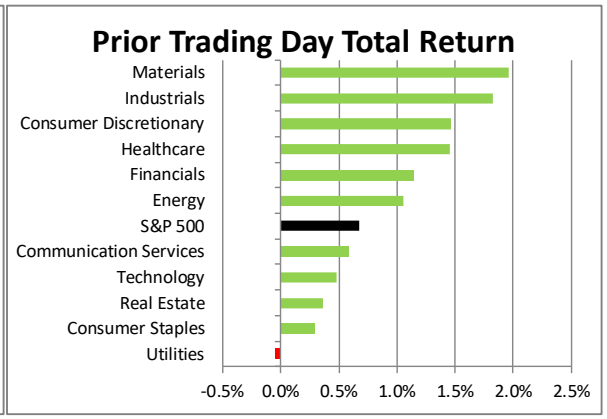
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures everywhere except the Great Lakes region and New England, with cooler-than-normal temperatures only in Maine. The outlook calls for wetter-than-normal conditions in the entire northern half of the country, with dry conditions in the Desert Southwest, the southern Great Plains, and the Deep South.

Data Section

US Equity Markets – (as of 12/10/2025 close)

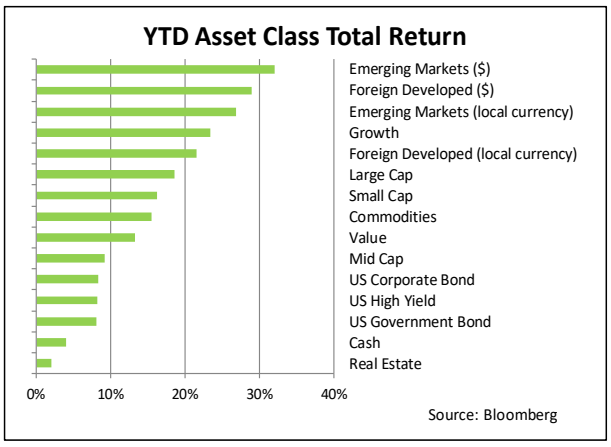




(Source: Bloomberg)

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 12/10/2025 close)

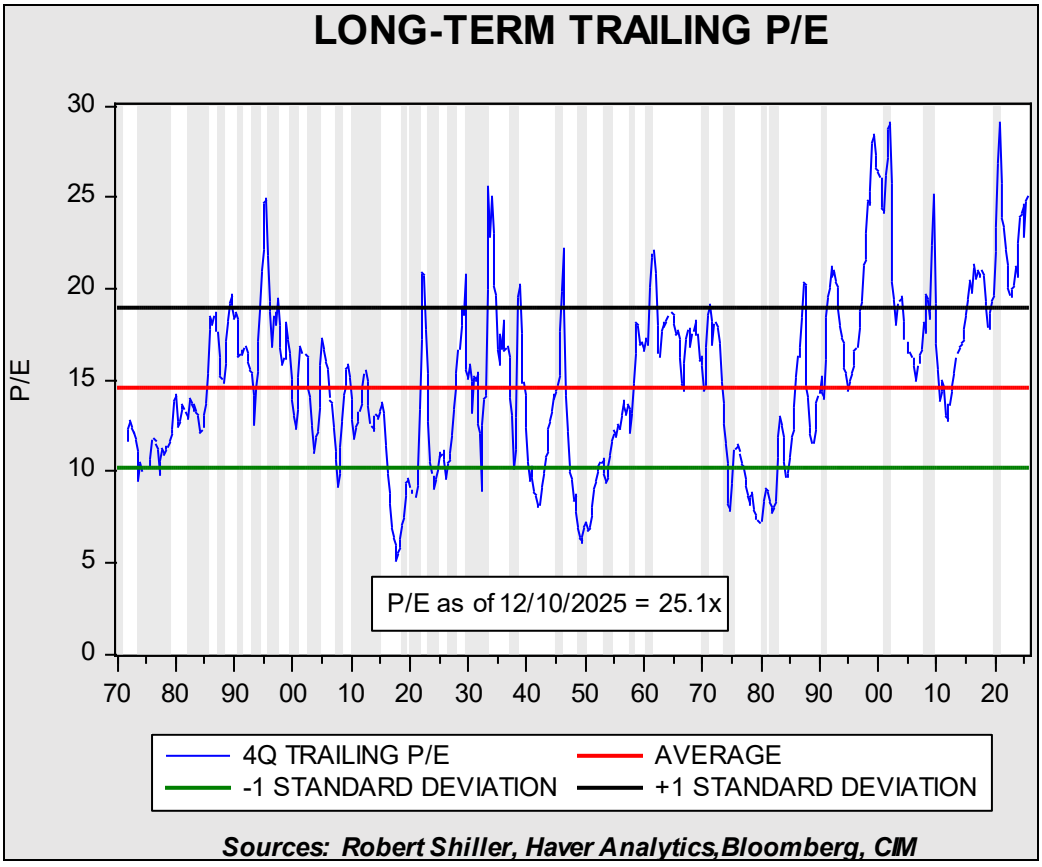


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 11, 2025



Based on our methodology,[1] the current P/E is 25.1x, which was up 0.1 from the previous report. The rise in the stock price index outweighed the 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.