



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: December 12, 2025 — 9:30 AM ET] Global equity markets are mostly higher this morning. In Europe, the Euro Stoxx 50 is up 0.3% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 1.2%. Chinese markets were higher, with the Shanghai Composite up 0.4% and the Shenzhen Composite up 0.7%. Conversely, 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	The 2026 Outlook Confluence of Ideas 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 our examination of growing concerns for an AI bubble. We then provide an update on the strategic dynamics of the Ukraine conflict. The analysis continues with key market-moving stories, including reappointment of Federal Reserve governors, corporate partnerships to build supply chains independent of China, and the Bank of Japan’s hawkish policy shift. Finally, we include a roundup of essential domestic and international data releases to monitor.

Tech Tight Rope: Investor sentiment in the tech sector is fragile, underscoring the high tension between the AI boom's potential and inherent risks. Broadcom's earnings fueled this pessimism as [its \\$75 million order backlog missed analyst targets](#). The company further created uncertainty by withholding 2026 guidance. This [disappointment amplified earlier concerns raised by Oracle](#). The software giant reported weak earnings alongside accelerated capital spending plans, sparking doubts about Oracle's long-term debt servicing capacity.

- Since October, the market has been plagued by valuation anxieties. This sentiment shift stems from a growing body of evidence indicating that widespread AI adoption is progressing much more slowly within firms than originally anticipated. The resulting disconnect between lofty stock prices and the actual speed of business integration has led investors to scrutinize whether companies can deliver the earnings growth required to sustain their elevated stock valuations.
- This shift has been evident in recent market performance as small and mid-cap stocks have demonstrated strong outperformance relative to their large cap counterparts during this period. Simultaneously, the Health Care sector, which contended with headwinds for much of the year, has [generated the majority of its annual gains over the last three months](#), underscoring the market's rediscovered appetite for defensive value.
- We maintain the view that AI momentum still has room to run, but we strongly recommend investors broaden their portfolio exposure beyond concentrated growth sectors. Adopting this strategy of diversification will serve to mitigate potential downside risk stemming from any future setbacks or valuation concerns within the AI sector.

Ukraine-Russia Peace Deal? While there appears to be momentum toward ending the conflict, the White House is reportedly struggling to secure unified support for a proposed peace deal. Reports emerged earlier this week that [US officials are pressing Ukrainian President Volodymyr Zelensky to agree to a deal with Russia by Christmas](#). The main sticking point is reportedly the White House's push for Ukraine to accept territorial concessions in exchange for unspecified security guarantees.

- The European Union is deeply skeptical of the peace deal, fearing Russia's broader territorial ambitions in Europe. NATO's leader recently stated that [Russia is back in the "empire building business,"](#) while provocations, such as [surveillance balloons from Belarus drifting into Lithuania](#) that forced it to shut its airspace and declare a state of emergency, continue.
- In order to calm fears, the White House does plan to offer some security support for Ukraine. It has been suggested that the assistance would come in the form of intelligence or possibly even air support; however, the administration has stated that it is still negotiating between the two sides.
- While Ukraine has succeeded in resisting Russia's full-scale invasion, Moscow has secured incremental territorial gains that have weakened Kyiv's negotiating position. However, Ukraine has resisted conceding land to the Kremlin. In a gesture to Western partners, President Zelensky [has indicated an openness to holding a referendum in the Donbas region](#) on its future status.
- We assess that active hostilities in Ukraine are likely to conclude by the first half of 2026. The end of this conflict is expected to compel European nations to significantly accelerate their military modernization efforts in response to the enduring Russian threat, providing a substantial and sustained tailwind for the Continent's defense industry.

Fed Presidents Approved: The [Federal Reserve Board of Governors unanimously reappointed the presidents in 11 out of 12 Federal Reserve Banks](#) to new five-year terms. The only exception

was Raphael Bostic of the Atlanta Fed, who did not seek reappointment. This action is expected to alleviate worry that the White House would attempt to reshape the Fed's structure, a concern raised by [Treasury Secretary Scott Bessent's suggestion of a new residency requirement for bank presidents](#). This should calm fears of the Fed losing its independence.

EU-Mercosur Deal in Jeopardy? The [landmark EU-Mercosur trade deal faces significant delays due to European agricultural concerns](#). France and Poland are leading the opposition, arguing that lower South American production standards would give those farmers an unfair competitive advantage. This ratification failure complicates the EU's strategic goal of diversifying its economic partnerships away from over-reliance on the US and China.

Supply Chain Resilience: Two US firms have [partnered to develop domestically manufactured iron nitride magnets](#) that do not require rare earth elements. This collaboration reflects a growing effort within the American defense sector to lessen dependence on Chinese rare earth supplies. We believe such partnerships signal a broader trend of US innovation aimed at building resilient supply chains, aligning with the White House's industrial policy goals.

AI Executive Order: The president signed an [executive order establishing federal primacy in AI regulation](#) to accelerate innovation by US tech firms. The order empowers the Attorney General to challenge state laws that conflict with the national goal of AI leadership. This move, which follows the failure of Congressional legislation, addresses the tech industry's complaint that a "patchwork" of state regulations stifles development with complexity and red tape. The order aims to unify regulations and bolster US tech competitiveness.

Hawkish BOJ: Senior Bank of Japan officials [have signaled that its benchmark interest rate could exceed 0.75%](#), and potentially surpass 1.00%, by the end of the current tightening cycle. This guidance provides further evidence of the central bank's decisive shift toward a more hawkish policy stance, as it moves interest rates from stimulative levels toward a more neutral setting. This projected path for higher rates is expected to strengthen the yen, which would likely place downward pressure on the US dollar in 2026.

US Economic Releases

No major US economic reports have been released so far today. 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		
Federal Reserve		
EST	Speaker or Event	District or Position
8:00	Anna Paulson Speaks on Economic Outlook	President of the Federal Reserve Bank of Philadelphia
8:30	Beth Hammack Speaks at Real Estate Roundtable Series	President of the Federal Reserve Bank of Cleveland
10:35	Austan Goolsbee Speaks at Economic Outlook Symposium	President of Federal Reserve Banks 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 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	Capacity Utilization	y/y	Oct	3.3%	2.5%		**	Equity and bond neutral
	Industrial Production	y/y	Oct F	1.6%	1.5%		***	Equity and bond neutral
New Zealand	BusinessNZ Manufacturing PMI	m/m	Nov	51.4	51.2		***	Equity and bond neutral
South Korea	Export Price Index	y/y	Nov	7.0%	4.8%		*	Equity and bond neutral
	Import Price Index	y/y	Nov	2.2%	0.5%		*	Equity and bond neutral
China	New Yuan Loans CNY YTD	m/m	Nov	15360.0b	15417.6b	14970.0b	**	Equity and bond neutral
	Aggregate Financing CNY YTD	m/m	Nov	33390.0b	30900.0b	33098.0b	**	Equity and bond neutral
	Money Supply M2	y/y	Nov	8.0%	8.2%	8.2%	***	Equity and bond neutral
	Money Supply M1	y/y	Nov	4.9%	6.2%	5.7%	*	Equity bearish, bond bullish
	Money Supply M0	y/y	Nov	10.6%	10.6%		*	Equity and bond neutral
India	CPI	y/y	Nov	0.71%	0.25%	0.70%	***	Equity and bond neutral
EUROPE								
Germany	CPI	y/y	Nov F	2.3%	2.3%	2.3%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Nov F	2.6%	2.6%	2.6%	**	Equity and bond neutral
France	CPI	y/y	Nov F	0.9%	0.9%	0.9%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Nov F	0.8%	0.8%	0.8%	**	Equity and bond neutral
	CPI Ex-Tobacco Index	q/q	Nov	119.67	119.89	119.71	*	Equity and bond neutral
UK	Industrial Production	y/y	Oct	-0.8%	-2.5%	-1.2%	***	Equity and bond neutral
	Manufacturing Production	y/y	Oct	-0.8%	-2.2%	-0.2%	**	Equity and bond neutral
	Index of Services 3M/3M	m/m	Oct	0.00%	0.2%	0.1%	**	Equity and bond neutral
	Construction Output	y/y	Oct	0.90%	1.3%	1.5%	*	Equity bearish, bond bullish
	Trade Balance GBP/Mn	m/m	Oct	-£48254m	-£1094m	-£1235m	**	Equity and bond neutral
Russia	Visible Trade Balance GBP/Mn	m/m	Oct	-£19875m	-£18883m	-£19100m	**	Equity and bond neutral
	Gold and Forex Reserves	m/m	5-Dec	\$741.5b	\$733.4b		***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	5-Dec	19.16t	19.07b		*	Equity and bond neutral
	Trade Balance	m/m	Oct	11.1b	13.7b		**	Equity and bond neutral
	Exports	m/m	Oct	36.1b	38.7b		*	Equity and bond neutral
	Imports	m/m	Oct	25.0b	24.9b		*	Equity and bond neutral
AMERICAS								
Canada	International Merchandise Trade	m/m	Sep	0.15b	-6.32b	-4.50b	*	Equity bullish, bond bearish
Mexico	Industrial Production	y/y	Oct	-0.4%	-2.4%	-2.0%	***	Equity and bond neutral
	Manufacturing Production	y/y	Oct	-1.3%	-0.8%	-0.9%	*	Equity and bond neutral
Brazil	IBGE Services Volume NSA	y/y	Oct	2.20%	4.10%	2.80%	***	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)	356	357	-1	Down
U.S. Sibor/OIS spread (bps)	371	371	0	Down
U.S. Libor/OIS spread (bps)	363	363	0	Down
10-yr T-note (%)	4.17	4.16	0.01	Up
Euribor/OIS spread (bps)	210	208	2	Up
Currencies	Direction			
Dollar	Up			Up
Euro	Down			Flat
Yen	Up			Down
Pound	Down			Down
Franc	Flat			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.

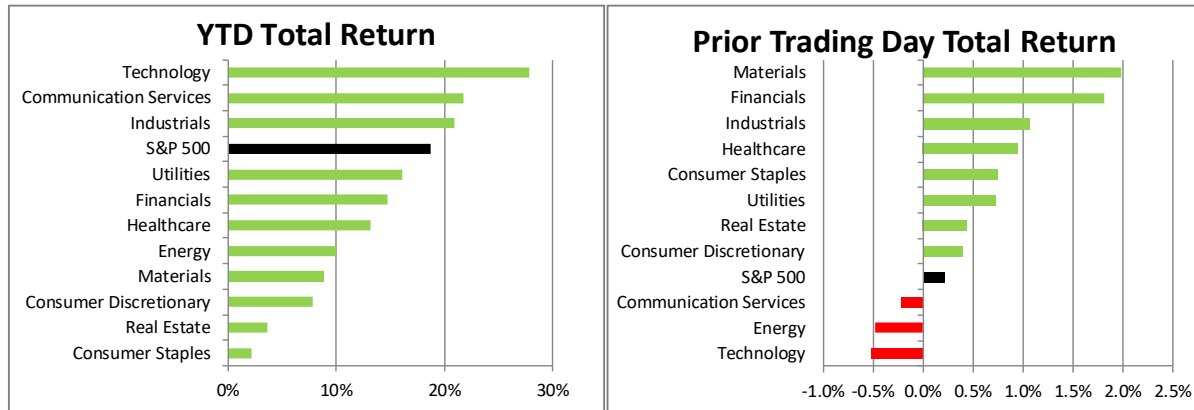
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$61.16	\$61.28	-0.20%	
WTI	\$57.52	\$57.60	-0.14%	
Natural Gas	\$4.24	\$4.23	0.31%	
Crack Spread	\$22.68	\$22.96	-1.22%	
12-mo strip crack	\$24.30	\$24.43	-0.56%	
Ethanol rack	\$1.85	\$1.86	-0.15%	
Metals				
Gold	\$4,331.96	\$4,280.18	1.21%	
Silver	\$64.38	\$63.56	1.29%	
Copper contract	\$546.15	\$550.15	-0.73%	
Grains				
Corn contract	\$444.75	\$446.50	-0.39%	
Wheat contract	\$530.00	\$533.50	-0.66%	
Soybeans contract	\$1,093.25	\$1,102.75	-0.86%	
Shipping				
Baltic Dry Freight	2,294	2,430	-136	
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)	-177	-167	-10	

Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures everywhere except for the Canadian border regions of Montana, North Dakota, and Minnesota, where temperatures will be cooler than normal. The outlook calls for wetter-than-normal conditions throughout the Far West, the northern Great Plains, the Midwest, and the Northeast, with dry conditions in the southern Great Plains and the Deep South.

Data Section

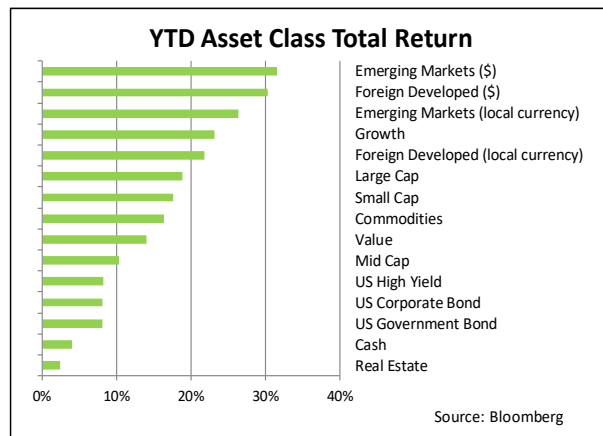
US Equity Markets – (as of 12/11/2025 close)



(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 12/11/2025 close)

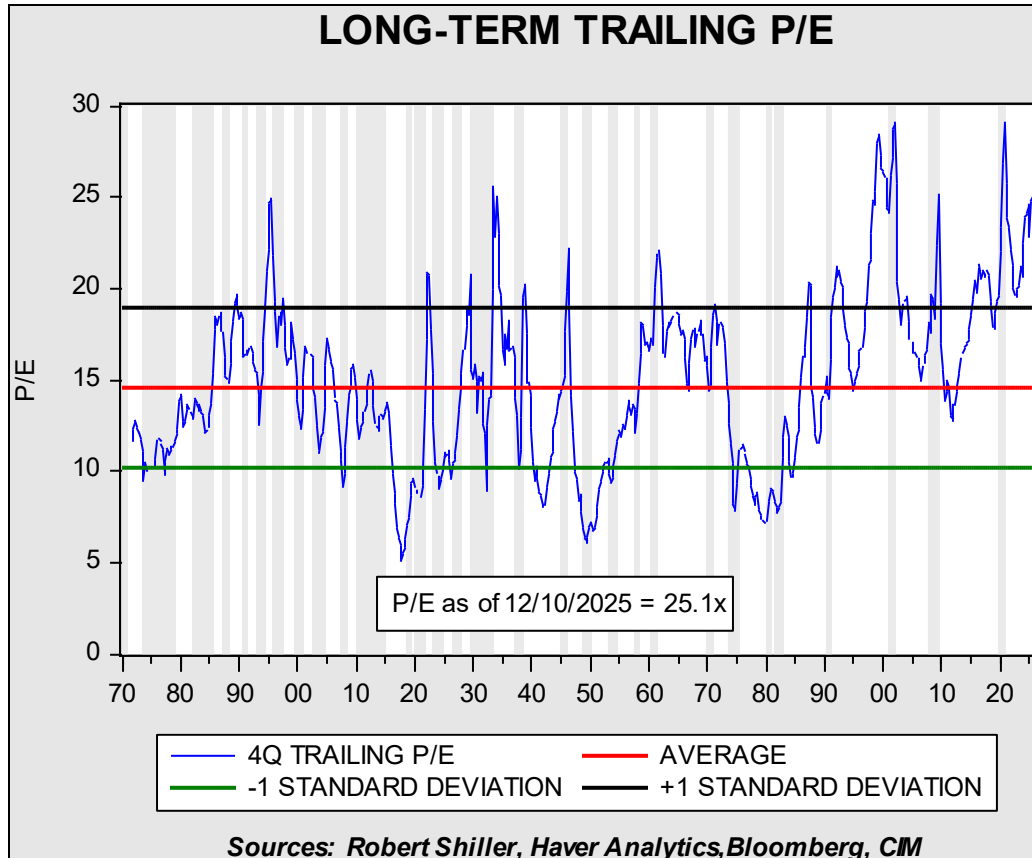


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.