



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: December 15, 2025 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 0.6% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 1.7%. Chinese markets were lower, with the Shanghai Composite down 0.6% and the Shenzhen Composite down 0.8%. 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 |
|--|--|--|---|
| “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* today opens with key takeaways on monetary policy from an interview President Trump did with the *Wall Street Journal* on Friday. We next review several other international and US developments with the potential to affect the financial markets today, including a preview of tomorrow’s off-cycle reports on the US labor market, a new US investment in a critical-minerals facility, and a conservative’s victory in Chile’s run-off presidential election over the weekend.

US Monetary Policy: In an interview with the *Wall Street Journal* on Friday, President Trump [said he wouldn’t put anyone on the Federal Reserve board who would raise interest rates as economic growth is accelerating](#). Just days after the Fed cut its benchmark fed funds rate to a range of 3.50% to 3.75%, he also said he would like to see the rate at 1.00% or lower one year from now. The statements are consistent with our view that the Fed will be under strong pressure to cut interest rates more aggressively in 2026 than in 2025.

- In our [2026 Outlook](#), published last week, we discuss our projections for interest rates and longer-term bond yields. After cutting the fed funds rate three times in 2025, we

would expect the central bank to cut rates at least four times in 2026, and potentially more.

- More aggressive rate cuts could unsettle the bond market, but we would expect the administration to keep taking steps designed to cap longer-term bond yields. By implication, that means the yield curve may only steepen modestly in 2026.

US Labor Market: As a preview, the Department of Labor [tomorrow will release a combined report on the job market in October and November](#). The unusually timed report will come out on Tuesday morning at 8:30 AM ET. Analysts currently expect the data to show that November payrolls rose by 50,000 while the unemployment rate rose to 4.5%. However, Fed Chair Powell last week said actual hiring might be much weaker than the recent available data showed, so investor concerns could keep the US financial markets volatile today.

United States-South Korea: Korea Zinc, the world's biggest zinc-smelting company, [announced a deal today in which the US government will enter a joint venture with the firm](#) and back its \$7.4-billion investment in a new critical-minerals processing plant in Tennessee. The plant will produce rare earths and other critical minerals. The deal is further evidence that the US is intent on building up its own critical minerals industry to end its reliance on China, even as China builds up its artificial intelligence industry to cut its reliance on the US.

- The news also shows how the US administration appears to be much more willing to work with Asian partners than European ones. Such deals could strengthen US ties to key foreign countries, such as South Korea, even as US ties to Europe fray.
- The news has also given a big boost to Korea Zinc's share price today. The price reportedly surged as much as 27% when the deal was announced earlier this morning.

United States-United Kingdom: According to confidential sources, the US [has told the UK that it will stop implementing a May technology agreement between the two countries to retaliate for Britain being slow](#) to lower its trade barriers. The frozen tech deal was part of the US-UK trade agreement reached in May and called for collaboration on artificial intelligence and nuclear energy. The development is a reminder that the quickly negotiated, relatively vague deals spawned by the US tariff war can carry a lot of implementation risk and may not be final.

Chinese Industrial Policy: Shandong province [has released a plan to sharply improve and increase its copper-smelting sector, in part to help boost Chinese exports](#) of the metal. Now that the world has seen in 2025 how China has nearly monopolized the production of rare earth minerals and is willing to embargo them to undermine Western economies, the Shandong plan will likely raise concerns that Beijing wants to do the same with copper. One concern would be if China were willing to use predatory pricing to put foreign copper producers out of business.

Chinese Economy: Several data releases today [showed Chinese economic growth continues to slow, in part because of its massive excess production](#). November retail sales were up just 1.3% year-over-year, compared with a rise of 2.9% in the year to October. November industrial output was up 4.8% on the year, compared with an increase of 4.9% in the year to October. Fixed-asset

investment in January through November was down 2.6% compared with the same period one year earlier, and had an annual decline of 1.7% in the January through October period.

- As reported last week, Chinese exports continue to surge, producing a record trade surplus of more than \$1 trillion so far in 2025. All the same, the weakness in China's domestic demand helps confirm that the country's producers are likely dumping product on the global markets because they can't sell them at home.
- That is likely to continue causing trade frictions between China and its trade partners, including the US. Even if the US and China reach a long-term trade truce, Beijing's need to keep exporting could make any such deal tenuous.

European Union-France-South America: Paris yesterday [urged the European Parliament to delay a vote aimed on the proposed free-trade agreement between the EU and the Mercosur grouping](#) of Argentina, Brazil, Uruguay, and Paraguay. If France is successful in delaying the vote, it would increase the odds of the deal being rejected. Any rejection of the deal would likely help shield European agribusiness firms from a wave of cheaper imports from South America and further signal the end of the post-Cold War period of globalization.

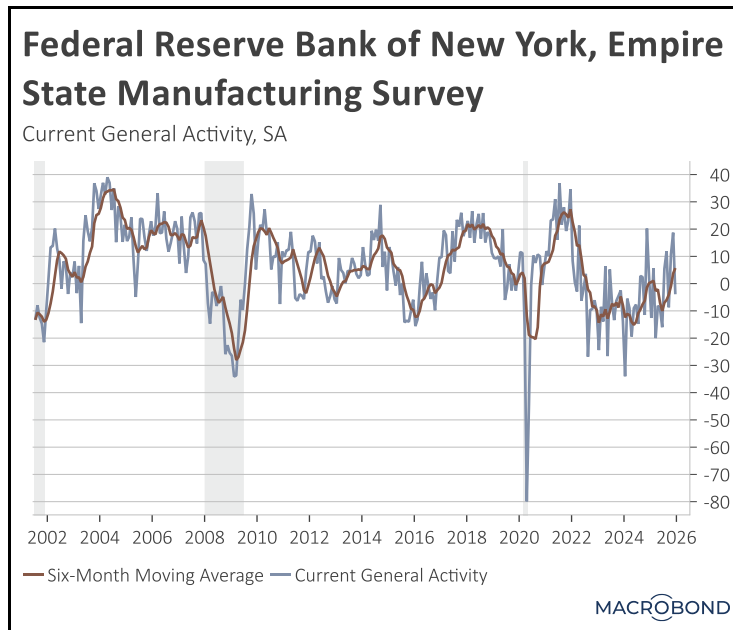
Chile: In yesterday's presidential run-off election, hardline conservative José Antonio Kast [came in first with approximately 58% of the vote](#), heralding Chile's most right-wing government in more than a decade. Kast's success has largely been tagged to his tough positions on crime and illegal immigration. However, he has also championed government spending cuts, lower taxes, and deregulation, all of which will likely be taken well by investors.

Kenya: As foreign aid falls and its people become more resistant to tax increases, Nairobi this week [is planning its biggest sell-off of state assets in nearly 20 years to finance a new infrastructure fund](#). The plan includes selling a \$1.58-billion stake in telecom and fintech firm Safaricom, considered the crown jewel of Nairobi's state-owned assets, to South African telecom firm Vodacom.

- The deals illustrate how the US aid pullback will likely put economic pressure on many less-developed countries.
- Some of the affected countries may respond with better fiscal and regulatory policies, but a key risk is that Beijing might step into the breach with its own aid to curry favor with them and draw them closer to China.

US Economic Releases

Manufacturing activity in the New York Fed region unexpectedly slowed in December. The Federal Reserve Bank of New York's Empire State General Business Conditions index fell sharply from +18.7 to -3.9. This reading was well below the consensus expectation of +10.0, driven largely by deteriorating current indicators such as new orders and shipments. However, future gauges do point to greater optimism over the coming months, as firms anticipate a sharp increase in activity.



The chart above tracks general business activity alongside its six-month moving average. While the December survey indicated a temporary setback, the underlying momentum in factory activity continues to be positive.

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

| Economic Releases | | | | | | |
|-------------------|--|---|-----|----------|-------|--------|
| EST | Indicator | | | Expected | Prior | Rating |
| 10:00 | NAHB Housing Market Index | m/m | Dec | 10.0 | 18.7 | * |
| Federal Reserve | | | | | | |
| EST | Speaker or Event | District or Position | | | | |
| 9:30 | Stephen Miran Delivers Talk on Inflation Outlook | Members of the Board of Governors | | | | |
| 10:30 | John Williams Delivers Keynote Remarks | President of the Federal Reserve Bank of New York | | | | |
| 11:00 | Stephen Miran Appears on CNBC | Members of the Board of Governors | | | | |

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 | Tankan Large Manufacturing | q/q | 4Q | 15 | 14 | 15 | *** | Equity and bond neutral |
| | Tankan Large Manufacturing | q/q | 4Q | 15 | 12 | 13 | *** | Equity and bond neutral |
| | Tankan Large Non- | q/q | 4Q | 34 | 34 | 35 | *** | Equity and bond neutral |
| | Tankan Large Non- | q/q | 4Q | 28 | 28 | 28 | *** | Equity and bond neutral |
| | Tankan Large All-Industry Capex | q/q | 4Q | 12.6% | 12.5% | 12.1% | *** | Equity and bond neutral |
| | Tertiary Industry Index | m/m | Oct | 0.9% | 0.1% | 0.2% | *** | Equity bullish, bond bearish |
| China | New Home Prices | m/m | Nov | -0.39% | -0.45% | | *** | Equity and bond neutral |
| | Retail Sales | y/y | Nov | 1.3% | 2.9% | 2.9% | -- | Equity bearish, bond bullish |
| | Industrial Production | y/y | Nov | 4.8% | 4.9% | 5.0% | -- | Equity and bond neutral |
| | Fixed Assets Ex Rural YTD | y/y | Nov | -2.6% | -1.7% | -2.3% | -- | Equity and bond neutral |
| India | Wholesale Prices | m/m | Nov | -0.32% | -1.21% | -0.70% | * | Equity and bond neutral |
| | Unemployment Rate | m/m | Nov | 4.7 | 5.2 | | ** | Equity and bond neutral |
| | Exports | y/y | Nov | 19.4% | -11.8% | | ** | Equity and bond neutral |
| | Imports | y/y | Nov | -1.9% | 16.6% | | ** | Equity and bond neutral |
| | Trade Balance | m/m | Nov | -\$24533m | -\$41686m | -\$33000m | ** | Equity and bond neutral |
| EUROPE | | | | | | | | |
| Eurozone | Industrial Production WDA | y/y | Oct | 2.0% | 1.2% | 1.9% | ** | Equity and bond neutral |
| Germany | Wholesale Price Index | y/y | Nov | 1.5% | 1.1% | | * | Equity and bond neutral |
| UK | Rightmove House Prices | y/y | Dec | -0.60% | -0.50% | | ** | Equity and bond neutral |
| Switzerland | Producer & Import Prices | y/y | Nov | -1.6% | -1.7% | | ** | Equity and bond neutral |
| | Domestic Sight Deposits CHF | w/w | 12-Dec | 444.7b | 440.5b | | * | Equity and bond neutral |
| | Total Sight Deposits CHF | w/w | 12-Dec | 463.5b | 461.9b | | * | Equity and bond neutral |
| Russia | GDP | y/y | 3Q P | 0.6% | 0.6% | 0.6% | ** | Equity and bond neutral |
| AMERICAS | | | | | | | | |
| Canada | Wholesale Sales ex Petroleum | m/m | Oct | 0.10% | 0.60% | -0.10% | ** | Equity and bond neutral |
| | Building Permits | m/m | Oct | 14.9% | 5.9% | -1.4% | ** | Equity bullish, bond bearish |
| Brazil | FGV Inflation IGP-10 | m/m | Dec | -0.76% | 0.34% | | ** | Equity and bond neutral |
| Brazil | Economic Activity | y/y | Oct | 0.38% | 2.20% | 0.65% | ** | 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) | 353 | 354 | -1 | Down |
| U.S. Sibor/OIS spread (bps) | 370 | 371 | -1 | Down |
| U.S. Libor/OIS spread (bps) | 362 | 363 | -1 | Down |
| 10-yr T-note (%) | 4.16 | 4.19 | -0.03 | Flat |
| Euribor/OIS spread (bps) | 208 | 210 | -2 | Up |
| Currencies | Direction | | | |
| Dollar | Down | | | Up |
| Euro | Up | | | Flat |
| Yen | Down | | | Down |
| Pound | Up | | | Down |
| Franc | Flat | | | 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.

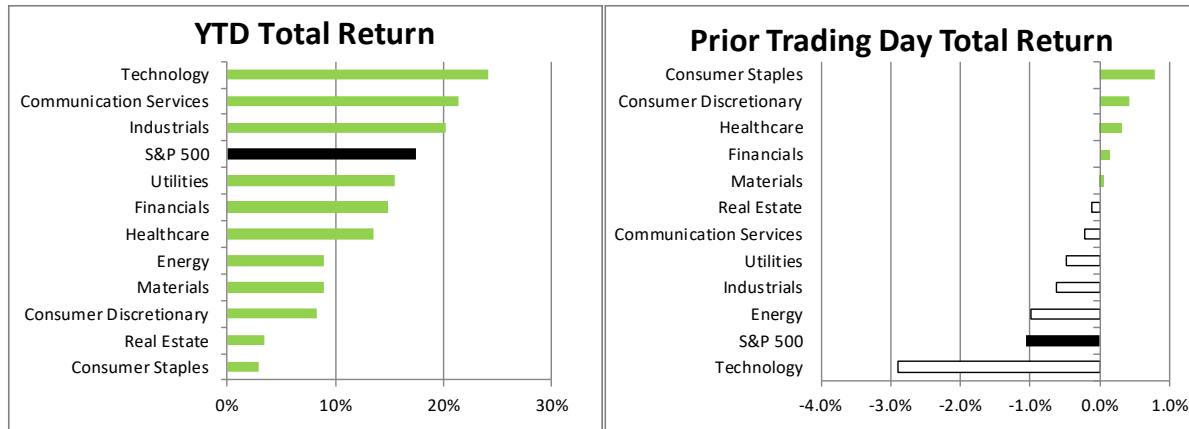
| | Price | Prior | Change | Explanation |
|-----------------------|------------|------------|--------|-------------|
| Energy Markets | | | | |
| Brent | \$60.79 | \$61.12 | -0.54% | |
| WTI | \$57.10 | \$57.44 | -0.59% | |
| Natural Gas | \$4.07 | \$4.11 | -1.02% | |
| Crack Spread | \$22.40 | \$22.44 | -0.21% | |
| 12-mo strip crack | \$24.07 | \$24.11 | -0.18% | |
| Ethanol rack | \$1.85 | \$1.85 | 0.09% | |
| Metals | | | | |
| Gold | \$4,345.38 | \$4,299.63 | 1.06% | |
| Silver | \$63.96 | \$61.96 | 3.22% | |
| Copper contract | \$543.80 | \$535.90 | 1.47% | |
| Grains | | | | |
| Corn contract | \$440.00 | \$440.75 | -0.17% | |
| Wheat contract | \$524.25 | \$529.25 | -0.94% | |
| Soybeans contract | \$1,086.25 | \$1,086.75 | -0.05% | |
| Shipping | | | | |
| Baltic Dry Freight | 2,205 | 2,294 | -89 | |

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, with dry conditions in the southern Great Plains, the Midwest, the Northeast, and the Deep South.

Data Section

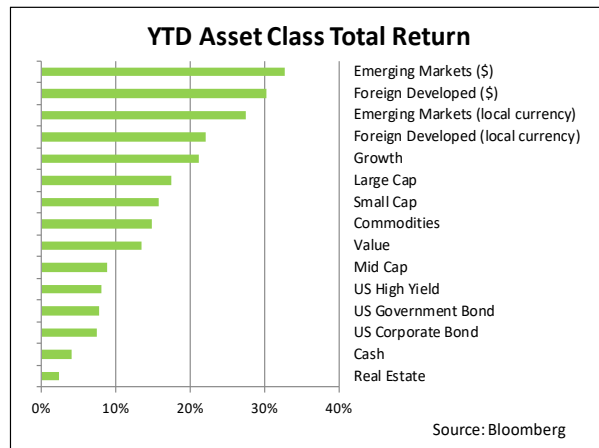
US Equity Markets – (as of 12/12/2025 close)



(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 12/12/2025 close)

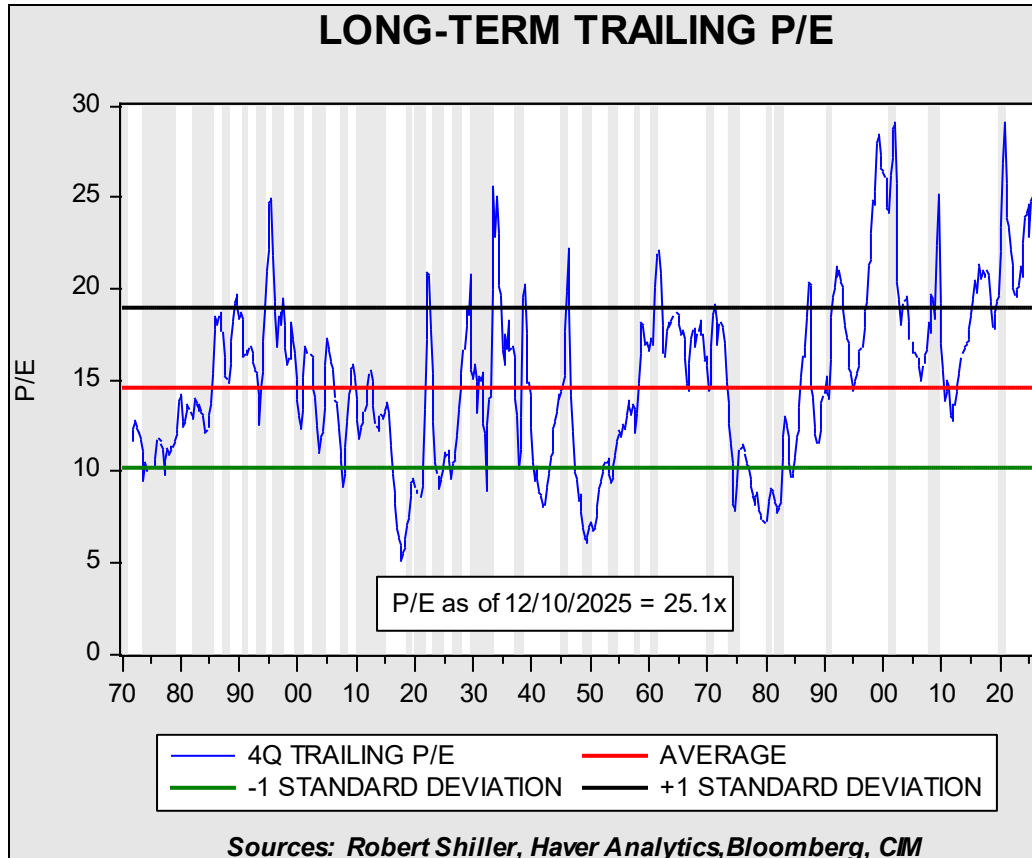


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.