



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

**[Posted: December 16, 2025 — 9:30 AM ET]** Global equity markets are lower 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 down 1.6%. Chinese markets were lower, with the Shanghai Composite down 1.1% and the Shenzhen Composite down 1.5%. US equity index futures are signaling a mildly 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
<a href="#">“Geopolitical Outlook for 2026”</a> (12/15/25) + <a href="#">podcast</a>	<a href="#">“What Catch-Up Economic Reports Say About the AI Boom”</a> (12/8/25) + <a href="#">podcast</a>	<a href="#">Q4 2025 Report</a>  <a href="#">Q4 2025 Rebalance Presentation</a>	<a href="#">The 2026 Outlook</a>  <a href="#">Confluence of Ideas Podcast</a>

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](mailto:mailbag@confluenceim.com).

Our *Comment* today opens with several public statements made yesterday by Federal Reserve policymakers, all of which suggest the policymaking committee remains split on whether to cut US interest rates further in the coming months. We next review several other international and US developments with the potential to affect the financial markets today, including a significant rollback in the European Union’s environmental regulations and a dangerous incident involving an out-of-control drone from Russia or Ukraine that was shot down as it approached Turkey.

**US Monetary Policy:** Fast on the heels of last week’s interest rate cut, remarks by Fed officials yesterday [showed the policymakers remain split on further rate cuts](#). New York FRB President Williams said the Fed’s policy stance is now “well positioned as we head into 2026,” and Boston FRB President Collins said she wants to wait for more data on price inflation before cutting rates further. However, board member Stephan Miran argued that true inflation is at target after stripping out distorting prices, warranting more rate cuts.

- Miran argued that tough-to-measure housing costs, portfolio management prices, and other distorting figures are making the inflation rate look higher than it really is. After stripping out those costs, Miran said true inflation is only a hair above the Fed's target rate of 2.0%.
- Miran is widely seen as the White House's representative on the Fed's policymaking committee, and he is expected to keep pushing for more aggressive rate cuts. Indeed, we still think the Fed will ultimately cut rates more aggressively in 2026 than in 2025. However, the faster rate cuts may have to wait until current Chair Powell is replaced in mid-2026.

**US Automobile Market:** Auto giant Ford [said yesterday it will take \\$20 billion in charges through 2027 to abandon much of its planned shift to all-electric vehicles](#). Instead, the firm will focus future investment on hybrid vehicles and energy storage equipment. Ford tagged its retreat to customer demand for cheaper vehicles that don't compromise on performance, but the move also shows the impact of dramatic policy shifts from the Biden administration to the new Trump administration – costly shifts that have become more common with political polarization.

**European Union Automobile Market:** The European Commission today [will reportedly propose scrapping the EU's complete ban on manufacturing cars with internal combustion engines by 2035](#). Instead, it will allow EU automakers to sell vehicles representing 10% of their 2021 greenhouse gas emissions. If approved by the EU's member countries and the European Parliament, the move would dismantle a key plank of the bloc's "Green Deal" program.

- The change would also be consistent with our view that the EU is in the early stages of an important deregulation phase aimed at boosting economic growth and precluding more electoral gains by right-wing political parties.
- If such a deregulatory program is carried out widely, it would likely help boost Europe's economic growth and potentially support European industrial stocks.
- We discuss this thesis in our new [Geopolitical Outlook for 2026](#), which we published yesterday.

**Turkey-Russia-Ukraine:** Turkish military jets today [shot down an out-of-control aerial drone approaching the country's airspace](#), bringing it down over the Black Sea. At this writing, it isn't clear whether the drone was Russian or Ukrainian. Nevertheless, amid a spate of unidentified drone incursions that have shut down European airports, the incident highlights the risk that armed or unarmed drones could malfunction and cause unintended damage in noncombatant nations, potentially sparking an international crisis that would disrupt financial markets.

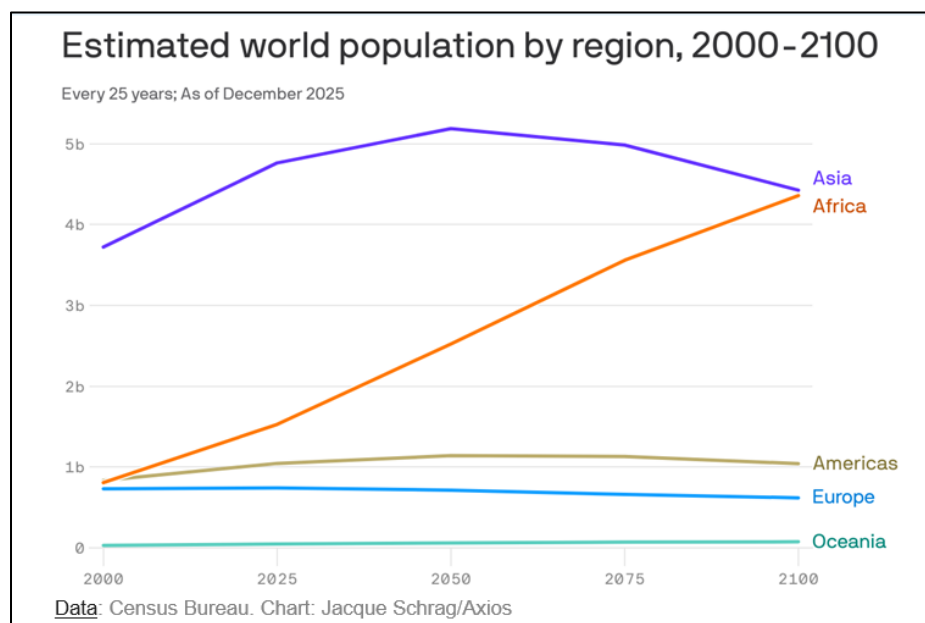
- Despite the risk from rogue drones, global oil prices [have fallen 1.5% so far today](#), extending their recent declines as traders become increasingly convinced that the US will force Russia and Ukraine into a peace deal. Investors are betting that any such deal would involve eased sanctions on Russian energy exports.
- As of this writing, Brent crude is trading at \$59.66 per barrel, and West Texas Intermediate is trading at \$55.89 per barrel.

**Estonia:** In a little noticed development last week, Estonia [installed the first of 600 military bunkers planned for the “Baltic Defense Line”](#) being built by Estonia, Latvia, and Lithuania to deter invasion by Russia. The expensive string of bunkers illustrates how Eastern European countries have become especially worried about future territorial grabs by Russia once the Ukraine war winds down. Continued defense investment to deter Russia is one reason we expect strong returns from European defense stocks in the coming years.

**Japan:** Starting Thursday, Tokyo [will begin enforcing its new “Act on Promotion of Competition for Specified Smartphone Software.”](#) which aims to curb the dominance of technology giants and foster competition in Japan’s digital services market. Since the law is partly patterned on the European Union’s Digital Services Act, which has drawn Washington’s ire due to its impact on US technology firms, it could lead to renewed bilateral tensions and potentially even put Japan at risk of US sanctions despite the recent improvement in relations.

- The new law could have an especially big impact on US tech giants Apple and Google as it requires them to allow third parties to run independent app stores and offer their own payment options, while ensuring search engines other than those they run are immediately visible to the user.
- On the other hand, consumers would enjoy a wider range of options for apps and payments, while developers, in principle, will have more leeway showcasing their products and expanding their presence in digital markets.

**Global Demographics:** New research by the Census Bureau finds that Africa’s continued high birth rates compared with other regions [will make it the world’s demographic center of gravity by 2100, with several “mega-nations,” more geopolitical power, and potentially the fastest economic growth](#) of all regions. Coupled with Africa’s valuable mineral resources, we think the continent’s population growth could also help make it a rising investment destination, especially if African nations can improve their political and economic institutions.



**China:** According to state media, the Chinese government [will expand its national healthcare insurance next year to fully cover all out-of-pocket expenses related to childbirth](#). The move will be China's latest effort to lift birth rates and avert a looming demographic crisis that threatens to undermine long-term economic growth. However, since childbirth costs are only a small fraction of the resources needed to raise a child, it seems unlikely that the policy change will spur enough new births to significantly support population growth.

**Argentina:** The central bank yesterday [said it will accelerate the widening of the peso's exchange-rate band, allowing it to increase in line with monthly consumer price inflation](#) instead of the current 1.0% per month. The move is set to bolster the central bank's effort to quickly rebuild the country's foreign currency reserves now that it has survived the October political crisis. However, many observers are skeptical that investors will be willing to accumulate significant Argentine assets in the near term.

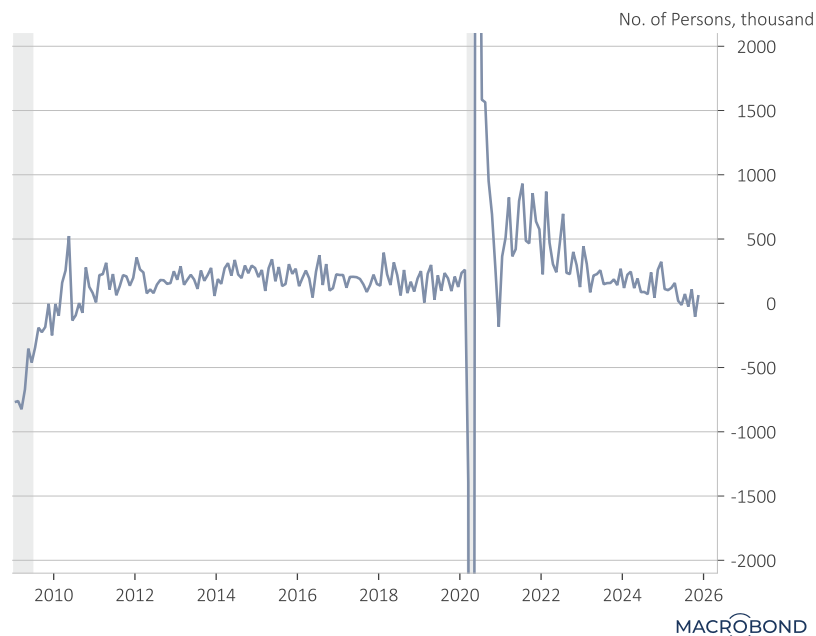
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## US Economic Releases

November **nonfarm payrolls** rose a seasonally adjusted 64,000, beating the expected gain of 40,000 and easily reversing the revised decline of 105,000 in October. The vast majority of the payroll gains in November came from the private sector. The chart below shows the change in nonfarm payrolls since shortly before the Global Financial Crisis (GFC).

### 1-Month Change in Nonfarm Payrolls

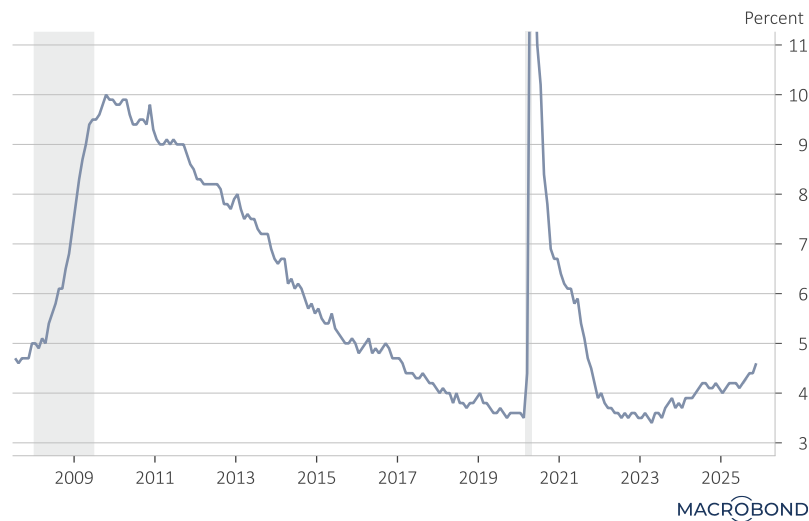
Bureau of Labor Statistics



The November **unemployment rate** rose to a seasonally adjusted 4.6%, worse than expectations that it would be unchanged from the October rate of 4.4%. The next chart shows how the unemployment rate has evolved since just before the GFC.

## Unemployment Rate

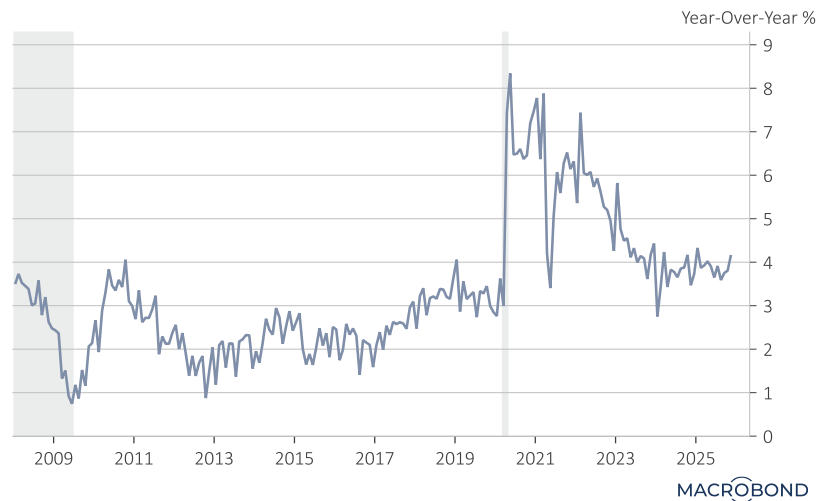
16 Years & Over, SA  
Bureau of Labor Statistics



According to the report, **average hourly earnings** in November rose to a seasonally adjusted \$31.76, up 3.5% from the same month one year earlier, slightly missing the expected annual rise of 3.7%. The chart below shows the year-over-year growth in average hourly earnings for production and nonsupervisory workers since just before the GFC.

## Average Hourly Earnings for Prod & Nonsupervisory Workers

Bureau of Labor Statistics



A final key indicator in the monthly employment report focuses on the share of the adult, civilian, non-institutionalized population that is either working or looking for work. The November **labor force participation rate (LFPR)** rose to a seasonally adjusted 62.5%, in line

with market expectations. This chart shows how the LFPR has changed over the last several decades.

## Civilian Labor Force Participation Rate

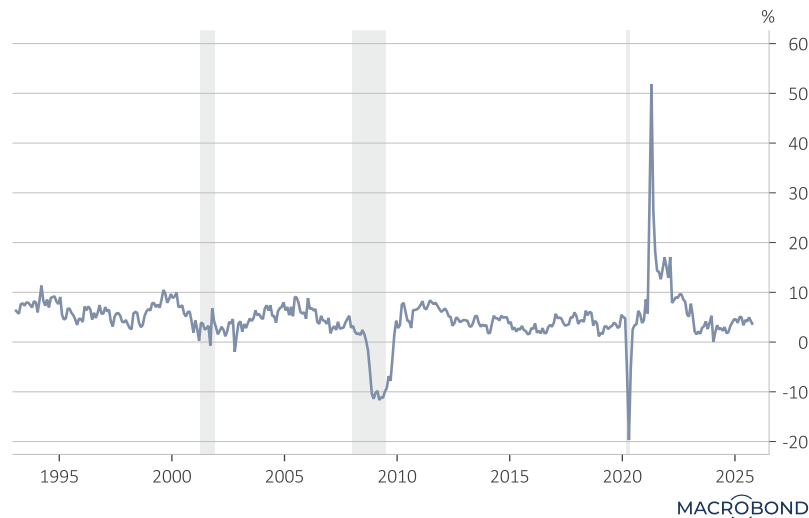
Bureau of Labor Statistics



October **retail sales** were relatively unchanged from the previous month. The reading was lower than the expected gain of 0.1% and the September rise of 0.2%. Of course, overall retail sales are often driven by the volatile auto and auto parts sector, which makes up almost one-fifth of the total. October **retail sales excluding autos and auto parts** were up 0.5% from the previous report, well above expectations of 0.2%.

## Retail Sales & Food Services

Year-over-Year  
US Census Bureau



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

<b>Economic Releases</b>						
<b>EST</b>	<b>Indicator</b>			<b>Expected</b>	<b>Prior</b>	<b>Rating</b>
<b>9:45</b>	S&P Global US Manufacturing PMI	m/m	Dec P	52.1	52.2	***
<b>9:45</b>	S&P Global US Services PMI	m/m	Dec P	54.0	54.1	***
<b>9:45</b>	S&P Global US Composite PMI	m/m	Dec P	53.9	54.2	***
<b>10:00</b>	Business Inventories	m/m	Sep	0.1%	0.0%	*
<b>Federal Reserve</b>						
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
<b>ASIA-PACIFIC</b>								
<b>Japan</b>	S&P Global Japan Manufacturing	m/m	Dec P	51.5	52.0		***	Equity and bond neutral
	S&P Global Japan Composite PMI	m/m	Dec P	49.7	48.7		*	Equity and bond neutral
	S&P Global Japan Services PMI	m/m	Dec P	52.5	53.2		*	Equity and bond neutral
<b>Australia</b>	S&P Global Australia Composite PMI	m/m	Dec P	51.1	52.6		*	Equity and bond neutral
	S&P Global Australia Manufacturing	m/m	Dec P	52.2	51.6		***	Equity and bond neutral
	S&P Global Australia Services PMI	m/m	Dec P	51.0	52.8		*	Equity and bond neutral
	Westpac Consumer Conf SA	m/m	Dec	-9.0%	12.8%		**	Equity and bond neutral
	Westpac Consumer Conf Index	m/m	Dec	94.5	103.8		**	Equity and bond neutral
<b>New Zealand</b>	Food Prices	m/m	Nov	-0.4%	-0.3%		***	Equity and bond neutral
	Non Resident Bond Holdings	m/m	Nov	59.5%	60.3%		*	Equity and bond neutral
<b>India</b>	HSBC India PMI Composite	m/m	Dec P	58.9	59.7		**	Equity and bond neutral
	HSBC India PMI Mfg	m/m	Dec P	55.7	56.6		***	Equity and bond neutral
	HSBC India PMI Services	m/m	Dec P	59.1	59.8		**	Equity and bond neutral
<b>EUROPE</b>								
<b>Eurozone</b>	HCOB Eurozone Manufacturing PMI	m/m	Dec P	49.2	49.6	49.9	***	Equity and bond neutral
	HCOB Eurozone Services PMI	m/m	Dec P	52.6	53.6	53.3	**	Equity bearish, bond bullish
	HCOB Eurozone Composite PMI	m/m	Dec P	51.9	52.8	52.6	*	Equity bearish, bond bullish
	ZEW Survey Expectations	m/m	Dec	33.7	25.0		**	Equity and bond neutral
	Trade Balance SA	m/m	Oct	18.4b	18.7b		**	Equity and bond neutral
<b>Germany</b>	HCOB Germany Manufacturing PMI	m/m	Dec P	47.7	48.2	48.6	***	Equity bearish, bond bullish
	HCOB Germany Services PMI	m/m	Dec P	52.6	53.1	53.0	**	Equity and bond neutral
	HCOB Germany Composite PMI	m/m	Dec P	51.5	52.4	52.4	**	Equity bearish, bond bullish
	ZEW Survey Expectations	m/m	Dec	45.8	38.5	38.4	**	Equity bullish, bond bearish
	ZEW Survey Current Situation	m/m	Dec	-81.0	-78.7	-80.0	**	Equity and bond neutral
<b>France</b>	HCOB France Manufacturing PMI	m/m	Dec P	50.6	47.8	48.1	***	Equity bullish, bond bearish
	HCOB France Services PMI	m/m	Dec P	50.2	51.4	51.1	**	Equity bearish, bond bullish
	HCOB France Composite PMI	m/m	Dec P	50.1	50.4	50.2	**	Equity and bond neutral
<b>Italy</b>	CPI, EU Harmonized	y/y	Nov F	1.1%	1.1%	1.1%	***	Equity and bond neutral
	CPI NIC Including Tobacco	y/y	Nov F	1.1%	1.2%	1.2%	**	Equity and bond neutral
	Trade Balance GBP	m/m	Oct	4156m	2968m		*	Equity and bond neutral
<b>UK</b>	Average Weekly Earnings 3M/YoY	m/m	Oct	4.7%	4.9%	4.4%	**	Equity and bond neutral
	ILO Unemployment Rate 3Mths	m/m	Oct	5.1%	5.0%	5.1%	**	Equity and bond neutral
	Employment Change 3M/3M	m/m	Oct	-16k	-22k	-75k	*	Equity and bond neutral
	Claimant Count Rate	m/m	Nov	4.40%	4.30%		**	Equity and bond neutral
	Jobless Claims Change	m/m	Nov	20.1k	-3.9k		**	Equity and bond neutral
	S&P Global UK Services PMI	m/m	Dec P	52.1	51.3	51.6	**	Equity bullish, bond bearish
	S&P Global UK Manufacturing PMI	m/m	Dec P	51.2	50.2	50.3	***	Equity bullish, bond bearish
	S&P Global UK Composite PMI	m/m	Dec P	52.1	51.2	51.5	**	Equity and bond neutral
<b>AMERICAS</b>								
<b>Canada</b>	Housing Starts	m/m	Nov	254.1k	232.2k	250.0k	**	Equity and bond neutral
	Manufacturing Sales	m/m	Oct	-1.0%	3.6%	-1.1%	**	Equity and bond neutral
	CPI	y/y	Nov	2.2%	2.2%	2.3%	***	Equity and bond neutral
<b>Mexico</b>	ANTAD Same-Store Sales	y/y	Nov	4.2%	2.6%		*	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)	363	363	0	Down
10-yr T-note (%)	4.17	4.17	0.00	Down
Euribor/OIS spread (bps)	207	208	-1	Up
Currencies	Direction			
Dollar	Down			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.

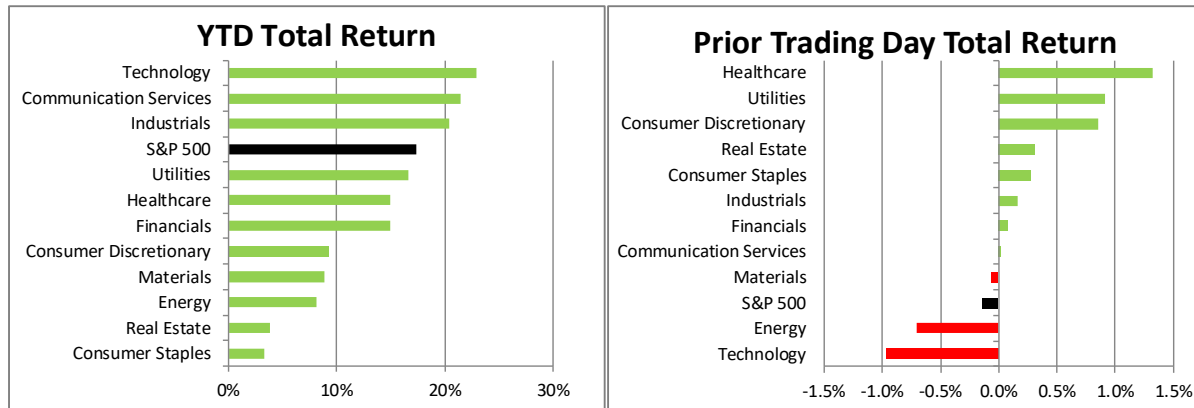
	Price	Prior	Change	Explanation
<b>Energy Markets</b>				
Brent	\$59.75	\$60.56	-1.34%	
WTI	\$55.97	\$56.82	-1.50%	
Natural Gas	\$3.94	\$4.01	-1.82%	
Crack Spread	\$22.33	\$22.36	-0.14%	
12-mo strip crack	\$23.84	\$24.03	-0.79%	
Ethanol rack	\$1.83	\$1.84	-0.45%	
<b>Metals</b>				
Gold	\$4,289.40	\$4,305.01	-0.36%	
Silver	\$63.08	\$64.09	-1.58%	
Copper contract	\$536.95	\$541.20	-0.79%	
<b>Grains</b>				
Corn contract	\$438.50	\$439.75	-0.28%	
Wheat contract	\$517.00	\$520.75	-0.72%	
Soybeans contract	\$1,081.50	\$1,081.25	0.02%	
<b>Shipping</b>				
Baltic Dry Freight	2,193	2,205	-12	
<b>DOE Inventory Report</b>				
	Actual	Expected	Difference	
Crude (mb)		-1.30		
Gasoline (mb)		2.04		
Distillates (mb)		1.15		
Refinery run rates (%)		0.15%		
Natural gas (bcf)		-167		

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

## Data Section

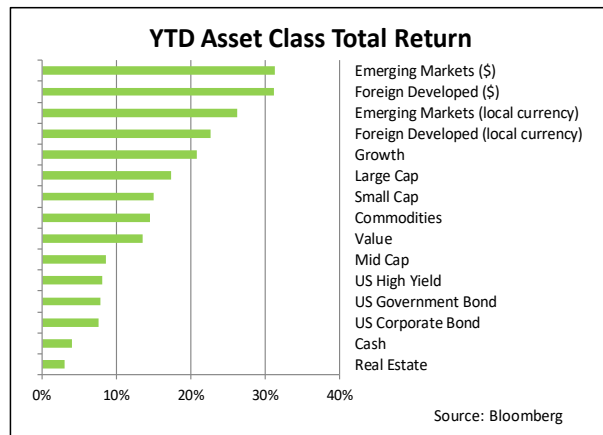
### US Equity Markets – (as of 12/15/2025 close)



(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 12/15/2025 close)

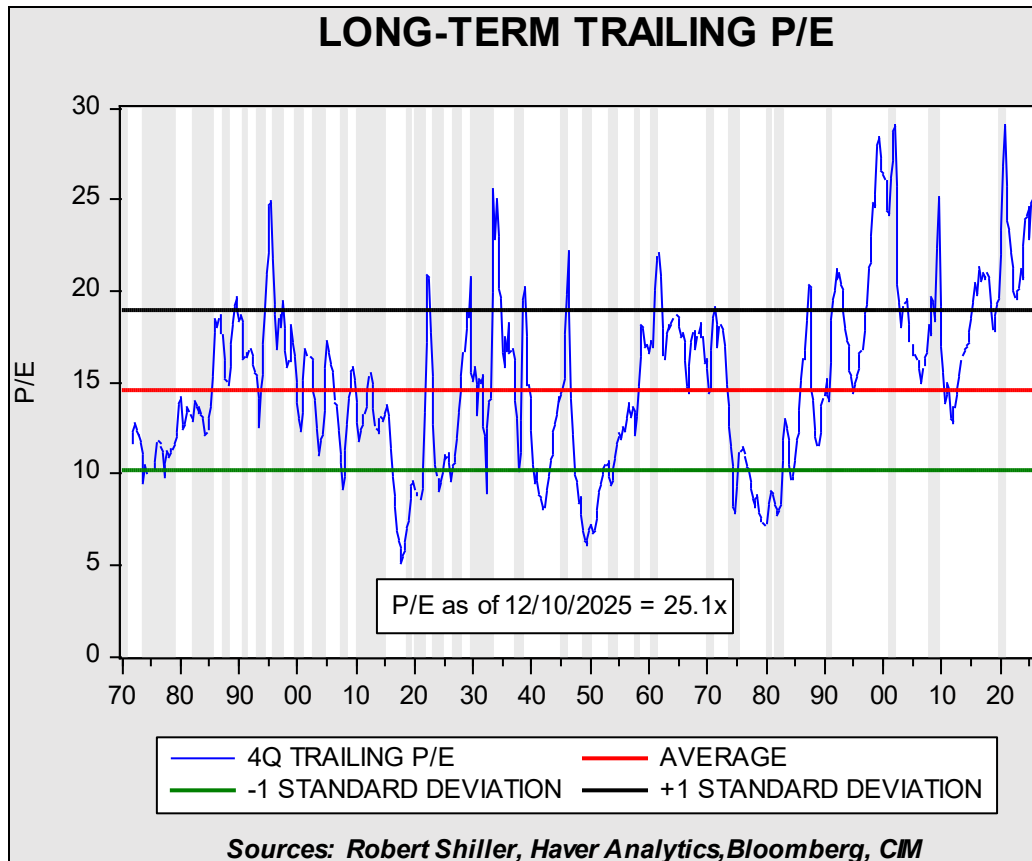


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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,<sup>1</sup> the current P/E is 25.1x, 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.*

<sup>1</sup> 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.