



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: December 17, 2025 — 9:30 AM ET] Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 is up 0.1% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 1.0%. Chinese markets were higher, with the Shanghai Composite up 1.2% and the Shenzhen Composite up 1.7%. 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
“Geopolitical Outlook for 2026” (12/15/25) + 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* opens with the implications of the Venezuelan shipping blockade. Next, we discuss why weak labor data might not trigger a Fed rate cut in January. We then highlight critical market events, including US pressure on Russia for a peace deal, France mediating EU-China tensions, and US efforts to roll back European digital regulations. Finally, we include a roundup of essential domestic and international data releases to monitor.

Venezuelan Blockade: The US president has [announced a total blockade of sanctioned oil tankers entering and leaving Venezuela](#), alongside the formal designation of the Maduro regime as a Foreign Terrorist Organization (FTO). This move marks a sharp escalation in tensions following months of friction between the two nations. The blockade appears to be part of a broader trend in US foreign policy, characterized by a renewed effort to exert influence over South America and a need to project power to the rest of the world.

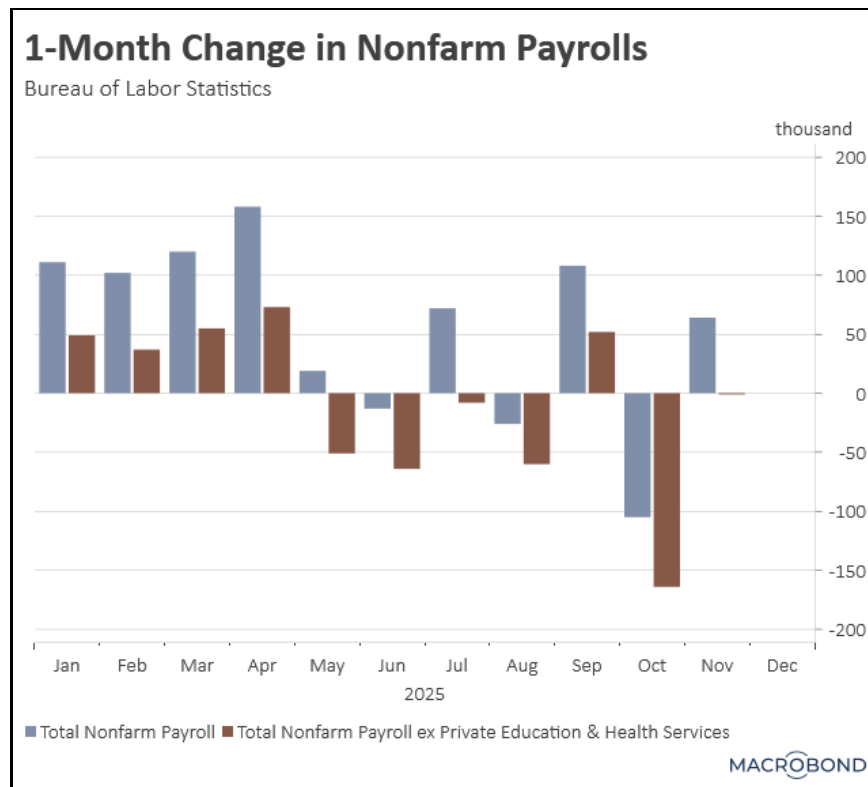
- These recent White House actions represent a significant and dangerous escalation in a months-long campaign against Venezuela. This strategy has already included [lethal strikes on vessels accused of drug trafficking](#) and provocative [incursions by US fighter](#)

[jets into Venezuelan airspace](#). Additionally, the administration has also signaled its willingness to expand these operations to include land-based strikes.

- While the blockade of Venezuela is the most visible sign of increased US engagement in South America, it is not an isolated case. The administration has intervened both punitively and supportively across the region. For example, the [US imposed tariffs on Brazilian goods](#) and [sanctioned a Brazilian Supreme Court justice](#) in response to their treatment of former President Jair Bolsonaro. Conversely, the [US has acted as a financial backstop for Argentina](#), following concerns about its currency.
- We believe the United States' intensified focus on South America — what we term the ["Modern Monroe Doctrine"](#) in our 2026 Geopolitical Outlook — is primarily driven by the perception that expanding Chinese influence constitutes a direct national security threat. A central concern is the region's deepening integration into China's supply chains, especially [through investments in mining for the critical resources](#) required for China's technological advancement.
- Moreover, Washington's assertive posture toward Venezuela is a strategic signal to the global community, demonstrating its readiness to employ military force to secure its foreign policy objectives. This confrontational approach has a tactical similarity to both Russia's military aggression in Ukraine and China's coercive actions against Taiwan, underscoring a troubling pattern of using power to resolve international disputes.
- While our baseline forecast does not anticipate direct military conflict between the United States and its rivals within the next 12 months, the recent escalation of tensions has significantly increased that risk. We assess that rising instability in this region, in particular, will likely provide support for commodity prices — most notably for oil — and should create a bullish environment for precious metals.

Labor Market: Recent employment data suggests a labor market that has cooled significantly but has not collapsed. Over the past two months, [the economy lost 41,000 jobs while the unemployment rate rose sharply to 4.6%](#), its highest level since 2021. This marked deterioration has likely strengthened the argument for the Federal Reserve to keep the possibility of an imminent rate cut on the table, even as some officials continue to signal a preference for maintaining the current policy stance.

- The latest payroll figures underscore a period of high volatility, as the labor market bounces between expansion and contraction. Although November saw a gain of 64,000 jobs, recovering from October's job loss of 105,000, the broader trend remains inconsistent. In fact, we haven't seen sustained growth for two consecutive months since May.
- A greater concern is that recent job creation has been overwhelmingly concentrated in a single sector. When private education and healthcare are removed from the calculation, the data reveals that the broader private sector has contracted, posting net job losses in five of the last six months.



- Although current labor market indicators are weak, optimism persists for a broader improvement next year. This expectation is one reason some Fed officials remain hesitant to commit to further rate cuts. As Atlanta Fed President Raphael Bostic noted, [he anticipates the economy will benefit from the end of the government shutdown and supportive new tax legislation](#), both of which should bolster conditions.
- While the Federal Reserve's current projection signals only one rate cut next year, we believe its ultimate decision will likely hinge on labor market conditions. Should the job market show further signs of deterioration, we expect the Fed will be compelled to enact more cuts than are currently signaled in order to support the faltering economy.

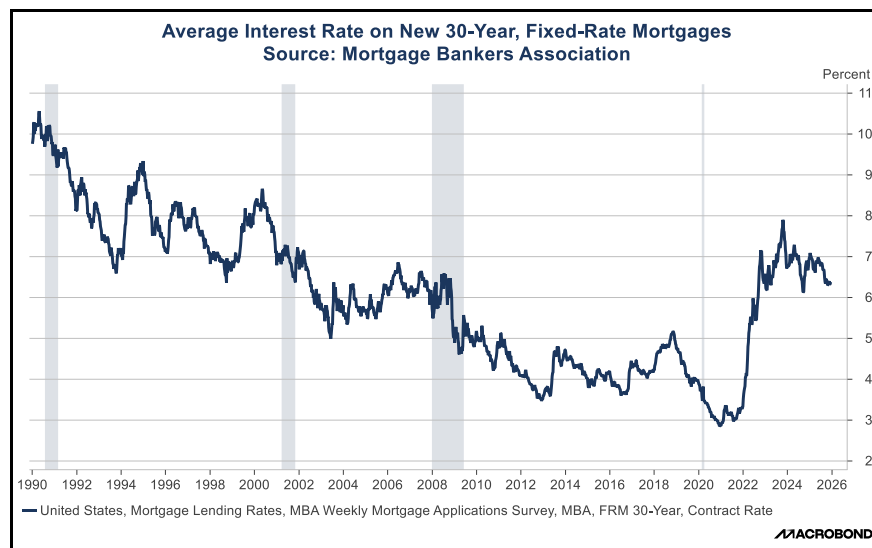
Putin Ultimatum: The White House is [preparing a fresh round of sanctions against Russia](#) should it reject a peace agreement with Ukraine later this week. These new measures will primarily target the energy sector by cracking down on “shadow fleet” tankers — vessels used to disguise the origin of cargo to evade international authorities. This move comes as the US nears a potential breakthrough in ending the regional conflict.

France Plea: French President [Emmanuel Macron has attempted to ease EU-China tensions](#), cautioning Brussels against imposing tariffs and quotas on Chinese goods. He warned that such measures would undermine cooperation on building balanced trade. This move follows Macron’s visit to China last week, where he discussed the bilateral relationship. While talks were positive, no final agreement was reached. His latest remarks signal a clear preference for a softer, more diplomatic approach toward Beijing.

US Digital Grievance: The White House [has threatened to impose new restrictions and fees on EU firms](#) in an effort to pressure the bloc to drop its regulations on Big Tech, which Washington views as being unfairly targeted toward US companies. The administration is preparing a Section 301 investigation under the Trade Act of 1974, a tool that would allow it to pursue trade remedies against perceived unfair practices. This escalation is likely to further strain transatlantic relations.

US Economic Releases

The Mortgage Bankers Association said **mortgage applications** in the week ended December 12 fell 3.8%, reversing most of their 4.8% rise in the previous week. Applications for home purchase mortgages fell 2.8%, after declining 2.4% in the prior week. Applications for refinancing mortgages fell 3.6%, but that came after a big 14.3% jump in the week before. According to the report, the average interest rate on a 30-year, fixed-rate mortgage rose by 5 basis points to 6.38%. The chart below shows how mortgage rates have changed over time.



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

Economic Releases							
DATE	EST	Indicator			Expected	Prior	Rating
12/17-12/21	10:00	Housing Starts	y/y	Sep	1328k	1307k	***
12/17-12/21	10:00	Housing Starts MoM	m/m	Sep	1.6%		*
12/17-12/21	10:00	Building Permits	y/y	Sep P	1350k	1330k	**
12/17-12/21	10:00	Building Permits MoM	m/m	Sep P	1.5%		*
12/17-12/21	10:00	Construction Spending	m/m	Sep	0.0%	0.2%	***
12/17-12/19	10:00	New Home Sales	y/y	Sep	714k	800k	***
12/17-12/19	10:00	New Home Sales MoM	m/m	Sep	-10.8%	20.5%	*
Economic Releases							
DATE	EST	Speaker or Event	District or Position				
12/17	8:15	Christopher Waller Speaks on Economic Outlook	Member of the Board of Governors				
12/17	9:05	John Williams Delivers opening Remarks	President of the Federal Reserve Bank of New York				
12/17	12:30	Raphael Bostic Participates in moderated Discussion	President of the Federal Reserve Bank of Atlanta				

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	Trade Balance	y/y	Nov	¥322.3b	-¥231.8b	¥72.6b	**	Equity and bond neutral
	Exports	y/y	Nov	6.1	3.6	5.0	*	Equity bullish, bond bearish
	Imports	y/y	Nov	1.3	0.7	3.0	*	Equity bullish, bond bearish
	Core Machine Orders	y/y	Oct	12.5%	11.6%	3.6%	**	Equity bullish, bond bearish
Australia	Westpac Leading Index	m/m	Nov	-0.04%	0.10%		**	Equity and bond neutral
New Zealand	Wespac Consumer Confidence	m/m	4Q	96.5	90.9		*	Equity and bond neutral
EUROPE								
Eurozone	CPI	y/y	Nov F	2.1%	2.2%	2.2%	***	Equity and bond neutral
	Core CPI	y/y	Nov F	2.4%	2.4%	2.4%	**	Equity and bond neutral
Germany	IFO Business Climate	m/m	Dec	87.6	88.0	88.2	***	Equity and bond neutral
	IFO Current Assessment	m/m	Dec	85.6	85.6	85.8	**	Equity and bond neutral
	IFO Expectations	m/m	Dec	89.7	90.5	90.5	**	Equity and bond neutral
UK	CPI	y/y	Nov	3.2%	3.6%	3.5%	***	Equity and bond neutral
	CPI Core	y/y	Nov	3.2%	3.4%	3.4%	***	Equity and bond neutral
	Retail Price Index	m/m	Nov	405.6	407.4	407.5	**	Equity and bond neutral
	RPI	y/y	Nov	3.8%	4.3%	4.2%	**	Equity and bond neutral
	RPI Ex Mort Int. Payments	y/y	Nov	3.70%	4.20%		*	Equity and bond neutral
AMERICAS								
Mexico	International Reserves Weekly	w/w	25-Mar	\$250525m	\$250452m		*	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)	354	354	0	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 (%)	4.18	4.15	0.03	Up
Euribor/OIS spread (bps)	206	207	-1	Up
Currencies	Direction			
Dollar	Up			Up
Euro	Down			Down
Yen	Up			Down
Pound	Down			Down
Franc	Up			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.

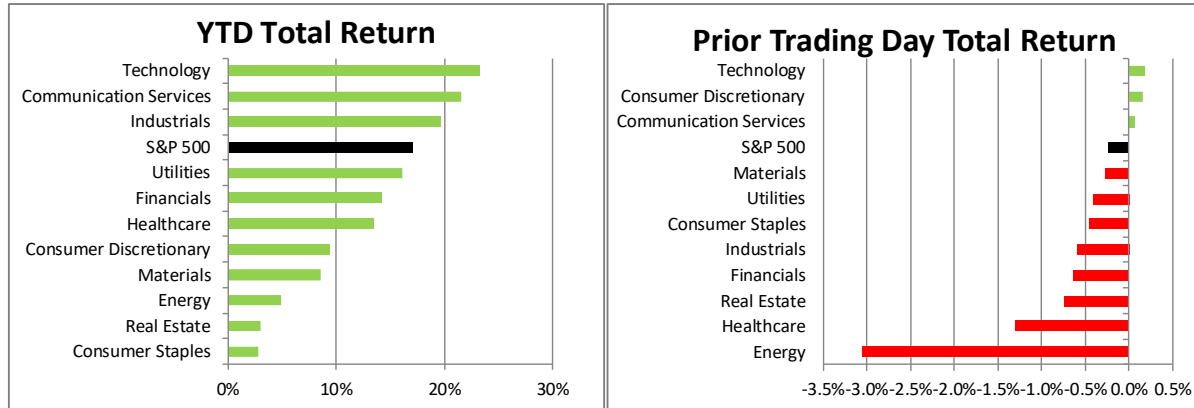
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$60.18	\$58.92	2.14%	
WTI	\$56.51	\$55.27	2.24%	
Natural Gas	\$3.96	\$3.89	1.85%	
Crack Spread	\$21.56	\$21.69	-0.60%	
12-mo strip crack	\$23.33	\$23.39	-0.25%	
Ethanol rack	\$1.82	\$1.83	-0.30%	
Metals				
Gold	\$4,320.72	\$4,302.32	0.43%	
Silver	\$66.01	\$63.76	3.54%	
Copper contract	\$541.45	\$535.90	1.04%	
Grains				
Corn contract	\$437.75	\$436.50	0.29%	
Wheat contract	\$509.00	\$509.50	-0.10%	
Soybeans contract	\$1,072.25	\$1,071.75	0.05%	
Shipping				
Baltic Dry Freight	2,204	2,193	11	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-2.05		
Gasoline (mb)		1.95		
Distillates (mb)		0.90		
Refinery run rates (%)		-0.10%		
Natural gas (bcf)		-176		

Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures everywhere except for the northwestern corner of Washington state and New England, 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 central and southern Great Plains and the Deep South.

Data Section

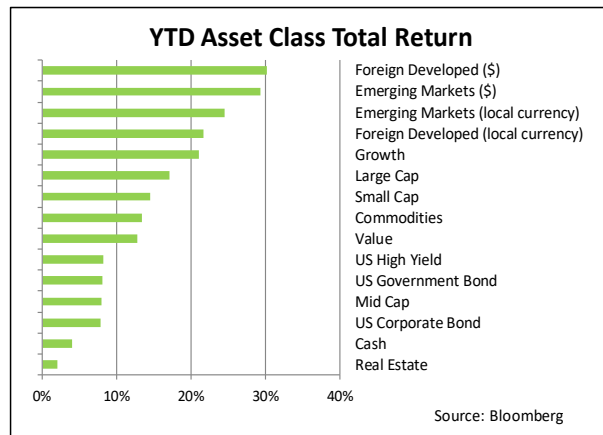
US Equity Markets – (as of 12/16/2025 close)



(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 12/16/2025 close)

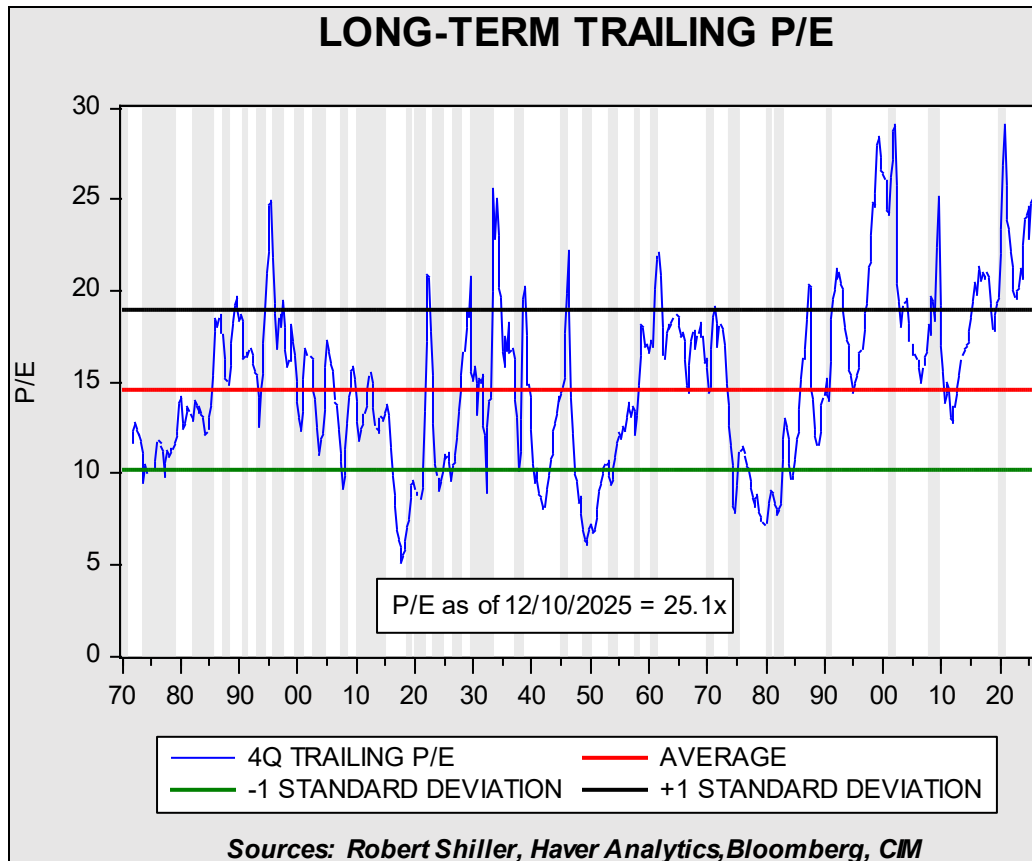


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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, 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.