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**[Posted: December 18, 2025 — 9:30 AM ET]** Global equity markets are mixed 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 0.1%. Chinese markets were mixed, with the Shanghai Composite up 0.2% and the Shenzhen Composite down 0.7%. 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
<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>

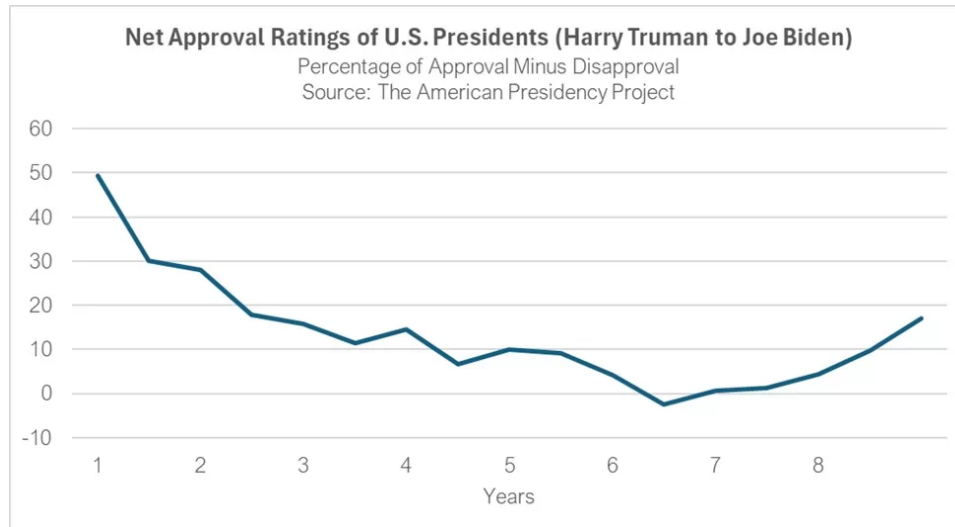
Have a question on the economy, markets, geopolitics, or other important topics? You can submit your queries to our new monthly podcast, *Confluence Mailbag*! Submit your question to [mailbag@confluenceim.com](mailto:mailbag@confluenceim.com).

Our *Comment* opens by assessing the president’s 2026 policy shift and its potential market impact. Following a deep dive into the AI-related volatility surrounding Oracle, we will then evaluate high-stakes geopolitical and legislative developments, specifically the US healthcare bill, Tricolor’s fraud crisis, and US arms shipments to Taiwan. Finally, we include a roundup of essential domestic and international data releases.

**The President Speaks:** With next year's midterm elections approaching, President Trump is seeking to frame his first year as a success. [In a recent address](#), he highlighted his key achievements, including a crackdown on illegal immigration, policies that lowered the cost of essentials like groceries and travel, and the negotiation of new trade deals to secure foreign investment. He also announced a symbolic \$1,776 Christmas bonus for active-duty troops. His address reflects a strategic shift from an offensive to a defensive posture, as he looks to protect his agenda.

- The president's current strategy seems designed to circumvent the lame-duck syndrome that historically afflicts second-term presidents. As we noted in our earlier piece on

managing an economic slowdown, presidents typically lose popularity heading into their second term. In fact, historical trends show that approval ratings most often bottom in year six, which, for the incumbent, will be next year.



- The administration's drop in popularity comes at a critical time as key policies are currently stalled in court. The [Supreme Court is skeptical of the president's authority to impose broad tariffs](#), and his move to [nationalize AI standards has triggered a backlash from state governments](#). These legal and political challenges threaten to leave much of his first-year agenda unresolved.
- Despite the threat posed by recent Democratic gains, the president is currently struggling with a “war within.” His recent move to [impose 50% tariffs on Brazil was blocked by the Senate](#), while his plan to centralize AI regulation has repeatedly failed to gain Republican support. Adding to the friction, moderate Republicans have joined forces with Democrats to bypass leadership and advance an extension of healthcare subsidies, further complicating the administration's year-end agenda (see more below).
- That said, the outlook is not entirely negative for the president. As the net approval ratings chart above illustrates, his popularity is projected to stabilize in the coming months, allowing him to build momentum ahead of the election. Furthermore, although his approval rating at 43.6% can improve, [he is currently outperforming his two most recent predecessors — Barack Obama \(42.7%\) and George W. Bush \(43.6%\)](#) — at the same point in their presidencies.
- As we look toward 2026, we anticipate that the president will push for policies designed to stimulate growth and enhance affordability. This may also mean that the president may be less aggressive in imposing new tariffs. This more predictable, defensive posture should be a net positive for equities, offering businesses a stable regulatory environment and households the confidence to increase consumption.

**Oracle Problems:** Concerns regarding the rapid expansion of AI infrastructure are intensifying following a shift in Oracle's financing. On Wednesday, it was reported that Blue Owl, a longtime

financier of cloud computing firms, [has withdrawn its backing for Oracle's Michigan data center project](#). While the project is still expected to proceed, Blue Owl's departure has sparked fresh anxieties regarding Oracle's debt levels and the long-term sustainability of the AI build-out.

- Oracle has recently become a proxy for the burgeoning AI bubble. The market began paying close attention to the company following a reported [jump in orders that wildly exceeded expectations, triggering a 36% single-day stock surge](#). However, since that peak, concerns have emerged regarding the company's ability to meet those targets. Questions remain surrounding the profitability of these deals, as well as the company's rumored reliance on a handful of suppliers.
- Growing skepticism toward AI is increasingly weighing on the technology sector. The central concern is the industry's structural pivot from a traditionally capital-light model to one that is highly capital-intensive. This escalation in investment has fueled fears that the cost of infrastructure may erode future profitability. According to estimates from Apollo Global Management, [capital expenditures for the Magnificent 7 have skyrocketed, rising from just over 40% of operating cash flow in 2024 to more than 60% today](#).
- The tech sector's growth story is far from over. Recent market trends show a clear preference for companies with robust balance sheets that avoid the high costs of the debt market. Large cap tech stocks, in particular, maintain an edge over smaller firms by better managing economic volatility. Moreover, because the US government views AI leadership as a matter of national security, the sector likely benefits from an implicit "federal backstop" if growth were to falter significantly.
- We view sector diversification as essential for navigating current market turbulence. Drawing a parallel to the post-tech bubble era, value stocks are again offering a vital outlet for capital preservation. Recent data confirms this shift, with investors rotating heavily into defensive plays, most notably healthcare, which have outperformed to close the year.

**Affordable Care:** House Republicans [have passed the Lower Health Care Premiums for All Americans Act](#), framing it as a market-based alternative to the expiring Affordable Care Act (ACA) subsidies. While the bill faces steep opposition in the Senate, its passage signals that healthcare affordability will be a defining political flashpoint heading into the 2026 midterm elections. We believe this issue has the potential to significantly influence the congressional landscape next year.

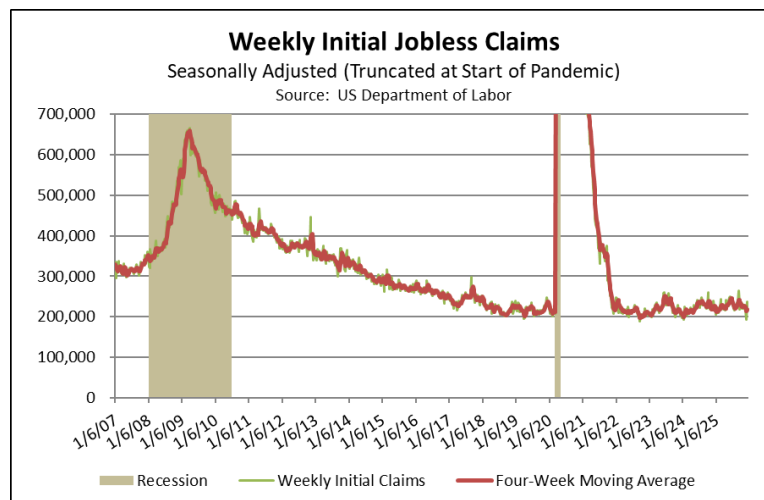
**Tricolor Holdings:** The [founder and top executives of the now-bankrupt Tricolor have been charged with fraud](#) following allegations that they misled lenders. The company reportedly falsified records to portray delinquent auto loans as current, a move that is expected to intensify scrutiny of subprime consumer debt. As investors assess the potential for rising defaults — particularly within the private credit markets — this crackdown serves as a warning sign. While we do not see immediate systemic risks, we remain vigilant.

**Taiwan Weapons Sale:** The US government [has approved the potential sale of over \\$10 billion in arms to Taiwan](#). While still subject to congressional approval, the weapons package would be

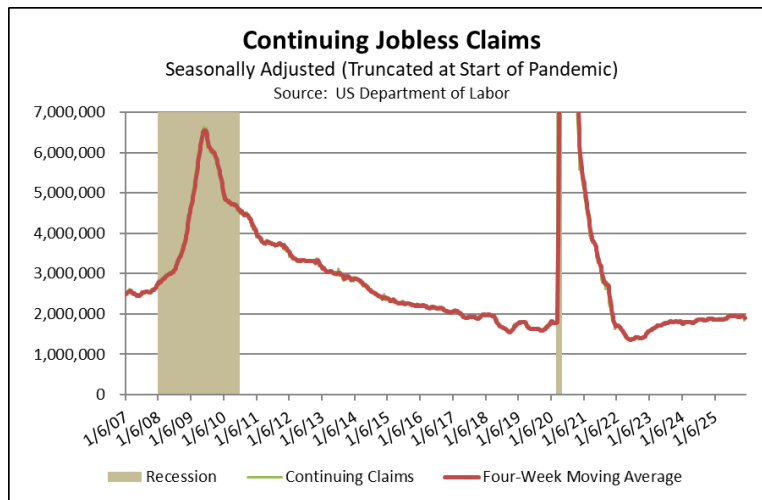
the largest ever offered to the island. The move is likely to provoke a strong reaction from China, which views such sales as interference in its internal affairs, and signals that underlying tensions between the two superpowers remain high despite a recent period of calm.

## US Economic Releases

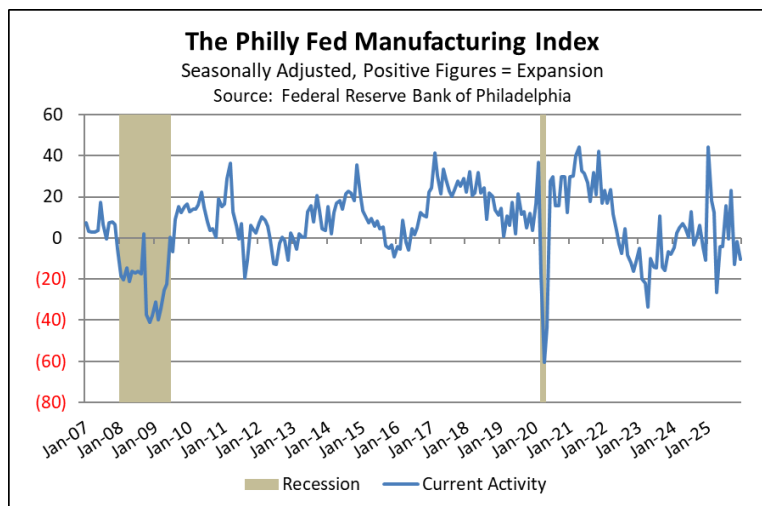
In the week ended December 13, *initial claims for unemployment benefits* fell to a seasonally adjusted 224,000, below both the expected level of 225,000 and the previous week's revised level of 237,000. Nevertheless, the four-week moving average of initial claims, which helps smooth out some of the volatility in the series, rose slightly to 217,500. 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.



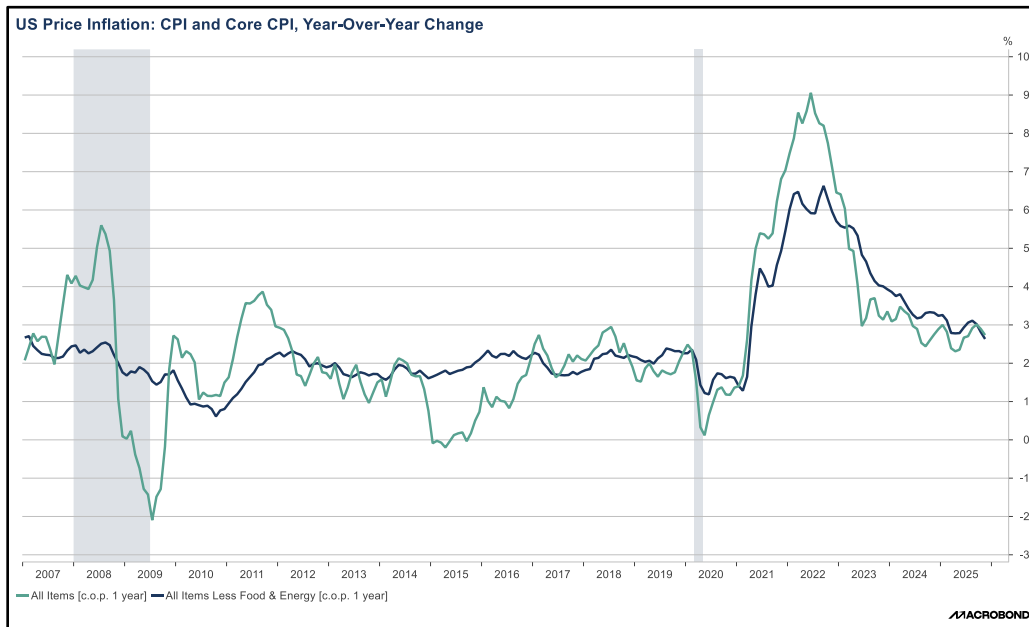
In the week ended December 6, the number of *continuing claims for unemployment benefits* (people continuing to draw benefits) rose to a seasonally adjusted 1.897 million, below the anticipated reading of 1.920 million but still above the revised reading of 1.830 million in the prior week. The four-week moving average of continuing claims fell to 1.902 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 Philadelphia FRB said its December **Philly Fed Index** fell to a seasonally adjusted -10.2, far short of the expected level of 2.3 and much worse than the November level of -1.7. The index, officially designated as the Philadelphia FRB Manufacturing Activity Index, is designed so that positive readings point to expanding factory activity in the mid-Atlantic region. At its current level, the index suggests mid-Atlantic manufacturing has now fallen in seven of the last nine months. The chart below shows how the index has fluctuated since just before the GFC.



Finally, the November **consumer price index (CPI)** was up just 2.7% from the same month one year earlier, significantly better than the anticipated increase of 3.1%. The November core CPI was up 2.6% on the year, versus an expected rise of 3.0%. The chart below shows the year-over-year change in the CPI and the core CPI since 1980.



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
12/17-12/19	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%	*
12/18	11:00	Kansas City Fed Manufacturing Index	m/m	Doc	6	8	*
12/18	16:00	Total Net TIC Flows	m/m	Oct		\$190.1b	**
12/18	16:00	Net Long-Term TIC Flows	m/m	Oct		\$179.8b	**
Economic Releases							
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>	Japan Buying Foreign Bonds	w/w	12-Dec	¥356.4b	¥456.3b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	12-Dec	-¥79.2b	-¥64.5b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	12-Dec	¥1407.5b	-¥444.1b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	12-Dec	¥528.3b	¥132.8b		*	Equity and bond neutral
<b>Australia</b>	Consumer Inflation Expectation	m/m	Dec	4.7	4.50%		*	Equity and bond neutral
<b>New Zealand</b>	GDP	y/y	3Q	1.3%	-1.1%	1.3%	***	Equity and bond neutral
<b>China</b>	Swift Global Payments CNY	m/m	Nov	2.94%	2.47%		*	Equity and bond neutral
<b>EUROPE</b>								
<b>Eurozone</b>	Construction Output	y/y	Oct	0.5%	-0.4%		*	Equity and bond neutral
<b>France</b>	Business Confidence	m/m	Dec	99	98	98	**	Equity and bond neutral
	Manufacturing Confidence	m/m	Dec	102	98	98	*	Equity and bond neutral
<b>Switzerland</b>	Real Exports	m/m	Nov	-0.6%	-1.1%		*	Equity and bond neutral
	Real Imports	m/m	Nov	0.2%	-0.1%		*	Equity and bond neutral
<b>AMERICAS</b>								
<b>Canada</b>	Int'l Securities Transactions	m/m	Oct	46.62b	31.32b		**	Equity and bond neutral
<b>Mexico</b>	Retail Sales	y/y	Mar	3.4%	3.3%	3.0%	***	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)	353	354	-1	Down
U.S. Sibor/OIS spread (bps)	369	370	-1	Down
U.S. Libor/OIS spread (bps)	362	363	-1	Down
10-yr T-note (%)	4.14	4.15	-0.01	Down
Euribor/OIS spread (bps)	205	206	-1	Up
<b>Currencies</b>	<b>Direction</b>			
Dollar	Up			Up
Euro	Down			Down
Yen	Flat			Down
Pound	Flat			Down
Franc	Flat			Down
<b>Central Bank Action</b>	<b>Actual</b>	<b>Prior</b>	<b>Expected</b>	
Bank of England Bank Rate	3.75%	4.00%	3.75%	On Forecast
ECB Deposit Facility Rate	2.00%	2.00%	2.00%	On Forecast
ECB Main Refinancing Rate	2.15%	2.15%	2.15%	On Forecast
ECB Marginal Lending Facility	2.40%	2.40%	2.40%	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
<b>Energy Markets</b>				
Brent	\$59.66	\$59.68	-0.03%	
WTI	\$55.98	\$55.94	0.07%	
Natural Gas	\$4.12	\$4.02	2.49%	
Crack Spread	\$21.44	\$21.51	-0.33%	
12-mo strip crack	\$23.12	\$23.22	-0.44%	
Ethanol rack	\$1.83	\$1.83	0.27%	
<b>Metals</b>				
Gold	\$4,318.82	\$4,338.33	-0.45%	
Silver	\$66.05	\$66.27	-0.32%	
Copper contract	\$541.40	\$543.55	-0.40%	
<b>Grains</b>				
Corn contract	\$442.00	\$440.50	0.34%	
Wheat contract	\$506.00	\$506.25	-0.05%	
Soybeans contract	\$1,068.75	\$1,068.75	0.00%	
<b>Shipping</b>				
Baltic Dry Freight	2,121	2,204	-83	
<b>DOE Inventory Report</b>				
	<b>Actual</b>	<b>Expected</b>	<b>Difference</b>	
Crude (mb)	-1.27	-2.05	0.78	
Gasoline (mb)	4.81	1.95	2.86	
Distillates (mb)	1.71	0.90	0.81	
Refinery run rates (%)	0.03%	-0.10%	0.13%	
Natural gas (bcf)		-176		

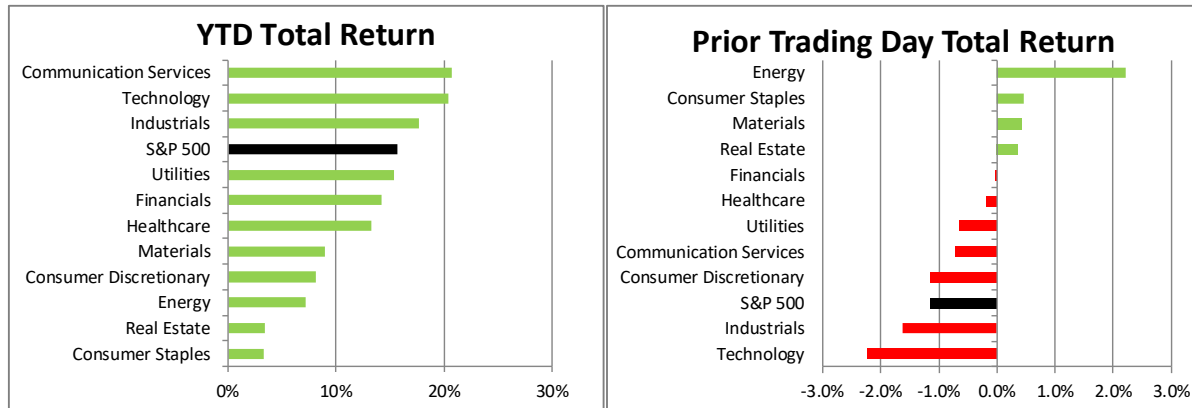
## Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures everywhere except the coastal areas of Oregon and Washington and all of the Northeast, with cooler-than-normal temperatures in New England. The outlook calls for wetter-than-normal conditions throughout the Far West and Upper Midwest, with dry conditions in the central Great Plains and the Deep South.



## Data Section

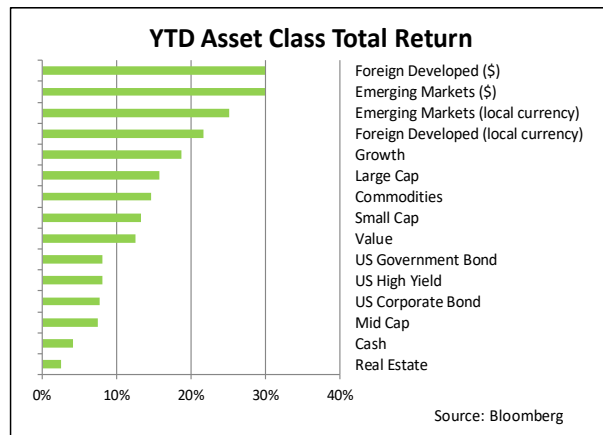
### US Equity Markets – (as of 12/17/2025 close)



(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 12/17/2025 close)

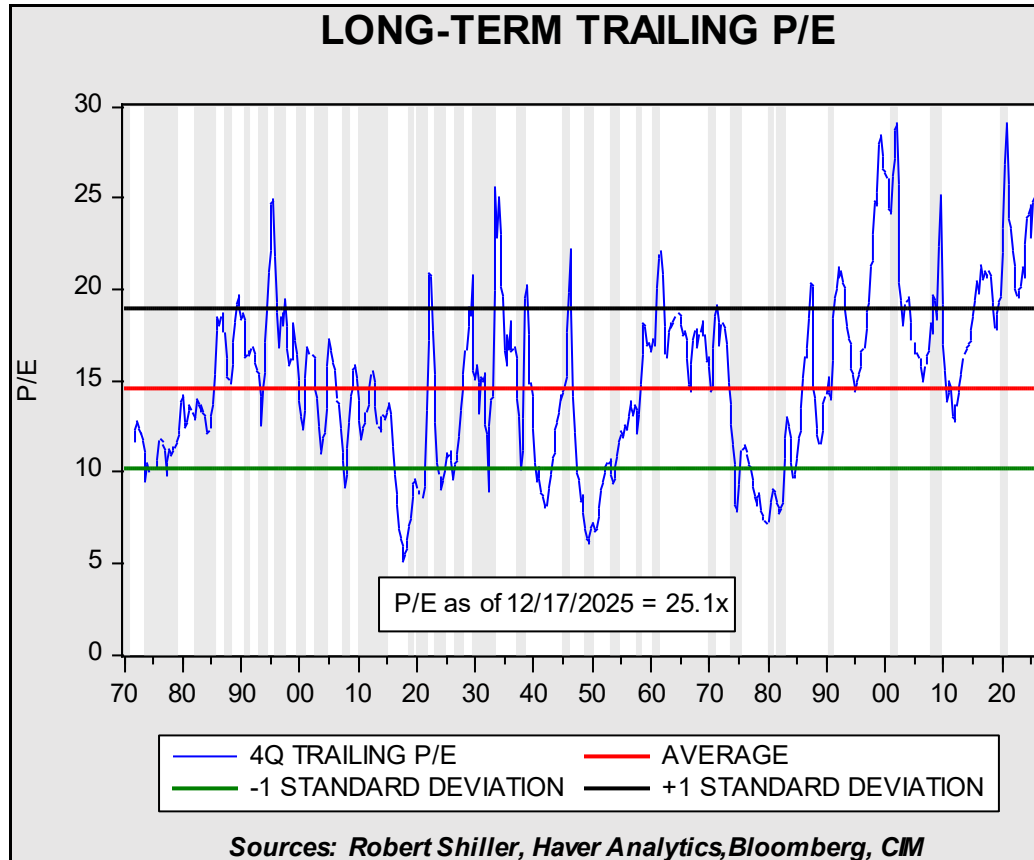


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 18, 2025



Based on our methodology,<sup>1</sup> the current P/E is 25.1x, unchanged from the previous report. The stock price index and earnings were little changed from the previous month.

*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.