

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

**[Posted: December 19, 2025 — 9:30 AM ET]** Global equity markets are generally higher this morning. In Europe, the Euro Stoxx 50 is down 0.1% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.5%. Chinese markets were higher, with the Shanghai Composite up 0.4% and the Shenzhen Composite up 1.0%. US equity index futures are signaling a higher open.

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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>

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Our *Comment* begins with an assessment of the latest CPI data and its implications. We then turn to critical geopolitical and legislative developments, including the proposed US-TikTok joint venture, the Bank of Japan's pivotal rate decision, and the progress in French budget negotiations. Finally, we include a roundup of essential domestic and international data releases to monitor.

**Foggy CPI:** [November's CPI report outperformed forecasts](#), with headline and core inflation cooling to 2.7% and 2.6%, respectively, down from September's 3.0%. This slowdown was primarily driven by easing price pressures in hotels, airlines, and apparel, which offset the increase in energy costs. However, the report's reliability is being debated; data collection hurdles stemming from the government shutdown suggest these figures might not reflect the full economic reality.

- The primary concern stems from significant data gaps within the report. Due to the lapse in appropriations, the BLS was unable to retroactively collect price data for October and

November, leaving several categories incomplete. The October index was calculated by carrying forward September's figures — consistent with standard contingency procedures — while the [November index was derived using those October carry-forwards as the baseline.](#)

- Speculation is mounting that these data gaps have artificially suppressed the headline CPI figures. Particular scrutiny has fallen on the shelter component, which accounts for nearly one-third of the total index weight. Because the BLS lacked primary data for this category over the two-month period, the index remained virtually unchanged. This stagnation suggests that the reported cooling may be a byproduct of missing inputs rather than a genuine shift in the housing prices.
- Financial markets offered a mixed response to the shutdown-impacted report. Stocks performed well, buoyed by hopes that the 2.7% reading would secure a January rate cut. However, the bond market was far less convinced. Investors there largely stood pat, wary that the “missing” data may have artificially lowered the result. For bondholders, the report seemed to be more of a non-event that will require further verification from the upcoming December release.
- While the recent data is a positive signal for inflation, it likely will not justify a rate cut as early as January given the current composition of the FOMC. We believe Fed officials will require further softening in the labor market in order to feel comfortable allowing rates to fall meaningfully. However, the Fed's overall stance on rates could shift significantly with the appointment of a new Fed chair.

**TikTok Partnership:** The [US has reached an agreement regarding TikTok](#) that allows its Chinese parent company, ByteDance, to maintain direct control over US operations through a partnership with Oracle, MGX, and Silver Lake. For now, this deal resolves the standoff sparked by legislation that threatened a nationwide ban. However, because ByteDance retains ownership, the arrangement may still face future legal or political challenges. Ultimately, we view this compromise as a significant sign of easing tensions between Washington and Beijing.

**China's AI Maneuvers:** China [has successfully scaled its AI chip production by retrofitting legacy ASML lithography](#) systems. This strategy will allow Beijing to circumvent stringent export restrictions intended to stifle its semiconductor development. By repurposing older equipment to manufacture advanced chips, China is demonstrating a growing capacity for self-reliance as it competes with the US in the AI race. This breakthrough will likely compel the US to further prioritize AI within its national security strategy.

**Bank of Japan:** The yen (JPY) slid against the dollar on Friday despite the [Bank of Japan raising interest rates to 0.75%](#) — the highest level in nearly 30 years. Although the central bank signaled a willingness to continue the hikes into next year, Governor Kazuo Ueda's reluctance to provide specific guidance on the terminal rate has sparked market concern. Investors fear the tightening cycle may be shallower than anticipated, fueling worries that monetary conditions will remain accommodative for longer than expected.

**FedEx Positive Result:** The shipping giant, widely considered a barometer for global trade and broader economic health, [has raised its full-year outlook](#). This upward revision follows a surge in revenue driven by robust US shipment volumes and improved margins on international freight. Such a spike in logistics activity is traditionally viewed as a leading indicator of economic expansion, reinforcing expectations for a strong rebound in the coming quarter.

**EU Lending to Ukraine:** The European Union [has committed to a 90 billion EUR \(\\$105.6 billion\) loan for Ukraine to bolster its defense against the Russian invasion](#). This pledge arrives as the bloc continues to debate the legalities of seizing frozen Russian assets. The timing is critical and is occurring as Russia, Ukraine, and the US engage in negotiations to end the conflict, with the EU eager to secure its influence in the process. Notably, the loan is structured to be repaid only once Russia provides war reparations, a condition intended to grant Kyiv significant leverage in upcoming peace talks.

**French Budget Talks:** The French government [will not reach a budget agreement before the end of the year](#). Prime Minister Sébastien Lecornu has struggled to secure sufficient parliamentary support for his fiscal plan, prompting the government to prepare a “special law” — essentially an emergency rollover of the 2025 budget — to prevent a shutdown in 2026. This prolonged fiscal impasse is expected to exert upward pressure on French bond yields and deepen the country's climate of political uncertainty.

## 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							
DATE	EST	Indicator			Expected	Prior	Rating
12/19	10:00	U. of Michigan Consumer Sentiment	m/m	Dec F	53.5	53.3	***
12/19	10:00	U. of Michigan Current Conditions	m/m	Dec F	50.7	50.7	**
12/19	10:00	U. of Michigan Future Expectations	m/m	Dec F	55.0	55.0	**
12/19	10:00	U. of Michigan 1-Year Inflation Expectation	m/m	Dec F	4.1%	4.1%	*
12/19	10:00	U. of Michigan 5-10 Year Inflation Expectation	m/m	Dec F	3.2%	3.2%	*
12/19	11:00	Kansas City Fed Services Activity	m/m	Dec		7	*
12/19-12/21	10:00	Housing Starts	y/y	Sep	1328k	1307k	***
12/19-12/21	10:00	Housing Starts MoM	m/m	Sep	1.6%		*
12/19-12/21	10:00	Building Permits	y/y	Sep P	1350k	1330k	**
12/19-12/21	10:00	Building Permits MoM	m/m	Sep P	1.5%		*
12/19-12/21	10:00	Construction Spending	m/m	Sep	0.0%	0.2%	***
Economic Releases							
DATE	EST	Speaker or Event	District or Position				
12/19	8:30	John Williams Appears on CNBC	President of the Federal Reserve Bank of New York				

## 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>								
Japan	National CPI	y/y	Nov	2.9%	3.0%	2.9%	***	Equity and bond neutral
	National CPI Ex-Fresh Food	y/y	Nov	3.0%	3.0%	3.0%	**	Equity and bond neutral
	National CPI Ex-Fresh Food & Energy	y/y	Nov	3.0%	3.1%	3.0%	*	Equity and bond neutral
Australia	Private Sector Credit	y/y	Nov	7.4%	7.3%		*	Equity and bond neutral
New Zealand	ANZ Consumer Confidence Index	m/m	Dec	101.5	98.4		*	Equity and bond neutral
	Exports NZD	m/m	Nov	6.99b	6.44b		**	Equity and bond neutral
	Imports NZD	m/m	Nov	7.15b	8.03b		**	Equity and bond neutral
	Trade Balance NZD	m/m	Nov	-163m	-1598m		**	Equity and bond neutral
	ANZ Activity Outlook	m/m	Dec	60.9	53.1		*	Equity and bond neutral
	ANZ Business Confidence	m/m	Dec	73.6	67.1		**	Equity and bond neutral
South Korea	PPI	y/y	Nov	1.9%	1.6%		**	Equity and bond neutral
<b>EUROPE</b>								
Eurozone	ECB Current Account SA	m/m	Oct	25.7b	23.6b		*	Equity and bond neutral
Germany	PPI	y/y	Nov	-2.3%	-1.8%	-2.2%	**	Equity and bond neutral
	GfK Consumer Confidence	m/m	Jan	-26.9	-23.4	-23.0	**	Equity bearish, bond bullish
France	PPI	y/y	Nov	-3.3%	-0.8%		*	Equity and bond neutral
	Retail Sales SA	y/y	Nov	0.7%	-1.0%		**	Equity and bond neutral
Italy	Current Account Balance	m/m	Oct	3532m	3412m		*	Equity and bond neutral
	Consumer Confidence Index	m/m	Dec	96.6	95.0	96.0	***	Equity and bond neutral
	Economic Sentiment	m/m	Dec	96.5	96.1		**	Equity and bond neutral
	Manufacturing Confidence	m/m	Dec	88.4	89.5	89.5	***	Equity bearish, bond bullish
	Industrial Sales WDA	y/y	Oct	1.7%	3.4%		*	Equity and bond neutral
UK	GfK Consumer Confidence	m/m	Dec	-17	-19	-18	***	Equity and bond neutral
	Public Finances (PSNCR)	m/m	Nov	10.3b	205.b		*	Equity and bond neutral
	Public Sector Net Borrowing	m/m	Nov	11.7b	21.2b	10.0b	*	Equity and bond neutral
	PSNB ex Banking Groups	m/m	Nov	11.7b	21.2b		**	Equity and bond neutral
	Retail Sales	y/y	Nov	0.6%	0.6%	0.9%	***	Equity and bond neutral
	Retail Sales Ex-Auto Fuel	y/y	Nov	1.2%	1.6%	1.5%	**	Equity and bond neutral
Russia	Gold and Forex Reserves	m/m	12-Dec	\$741.0b	\$741.5b		***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	12-Dec	19.3t	19.16t		*	Equity and bond neutral
<b>AMERICAS</b>								
Mexico	Aggregate Supply and Demand	y/y	3Q	1.1%	0.0%		*	Equity and bond neutral
Brazil	Current Account Balance	m/m	Nov	\$4943m	-\$5512m	-\$5000m	**	Equity and bond neutral
	Foreign Direct Investment	m/m	Nov	\$9820m	\$10937m	\$6500m	**	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
Currencies	Direction			
Dollar	Up			Up
Euro	Flat			Down
Yen	Up			Down
Pound	Flat			Down
Franc	Up			Flat
Central Bank Action	Actual	Prior	Expected	
Bank of Mexico Overnight Rate	7.00%	7.25%	7.00%	On Forecast
BOJ Target Rate	0.75%	0.50%	0.75%	On Forecast
Bank of Russia Key Rate	16.00%	16.50%	16.00%	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.

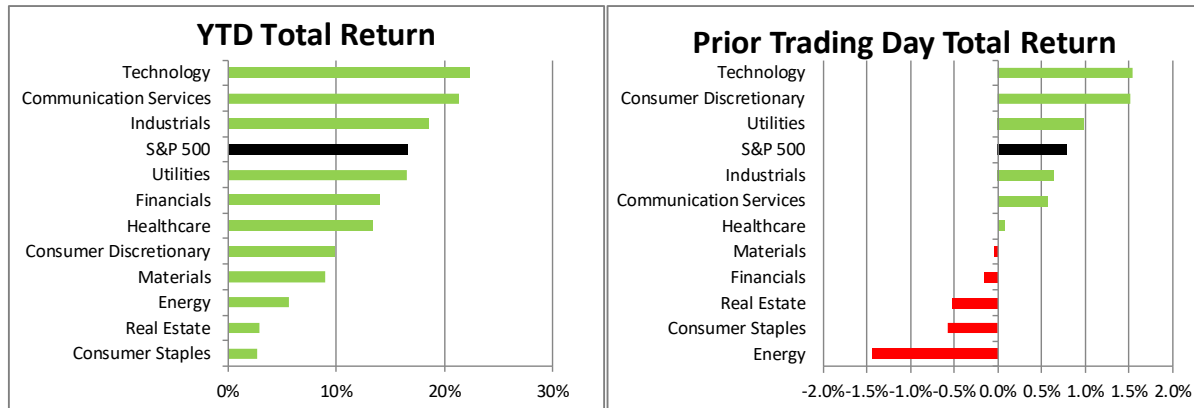
	Price	Prior	Change	Explanation
<b>Energy Markets</b>				
Brent	\$59.89	\$59.82	0.12%	
WTI	\$56.35	\$56.15	0.36%	
Natural Gas	\$3.90	\$3.91	-0.15%	
Crack Spread	\$21.20	\$21.29	-0.42%	
12-mo strip crack	\$23.28	\$23.23	0.22%	
Ethanol rack	\$1.83	\$1.83	-0.38%	
<b>Metals</b>				
Gold	\$4,325.35	\$4,332.62	-0.17%	
Silver	\$65.95	\$65.47	0.73%	
Copper contract	\$550.25	\$543.75	1.20%	
<b>Grains</b>				
Corn contract	\$443.50	\$444.50	-0.22%	
Wheat contract	\$506.25	\$507.75	-0.30%	
Soybeans contract	\$1,060.00	\$1,062.00	-0.19%	
<b>Shipping</b>				
Baltic Dry Freight	2,071	2,121	-50	
<b>DOE Inventory Report</b>				
	Actual	Expected	Difference	
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)	-167	-176	9	

## **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 Washington, Oregon, and California, 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

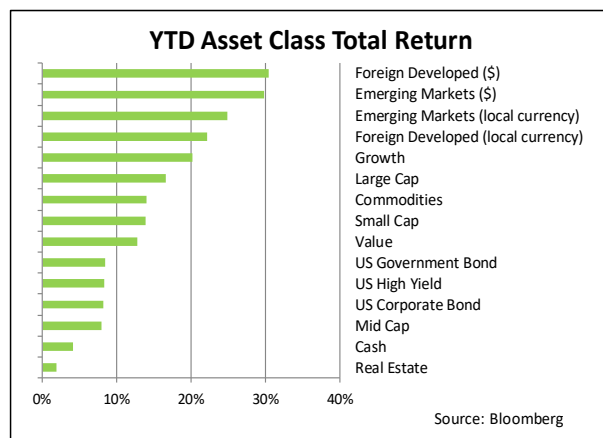
### US Equity Markets – (as of 12/18/2025 close)



(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 12/18/2025 close)



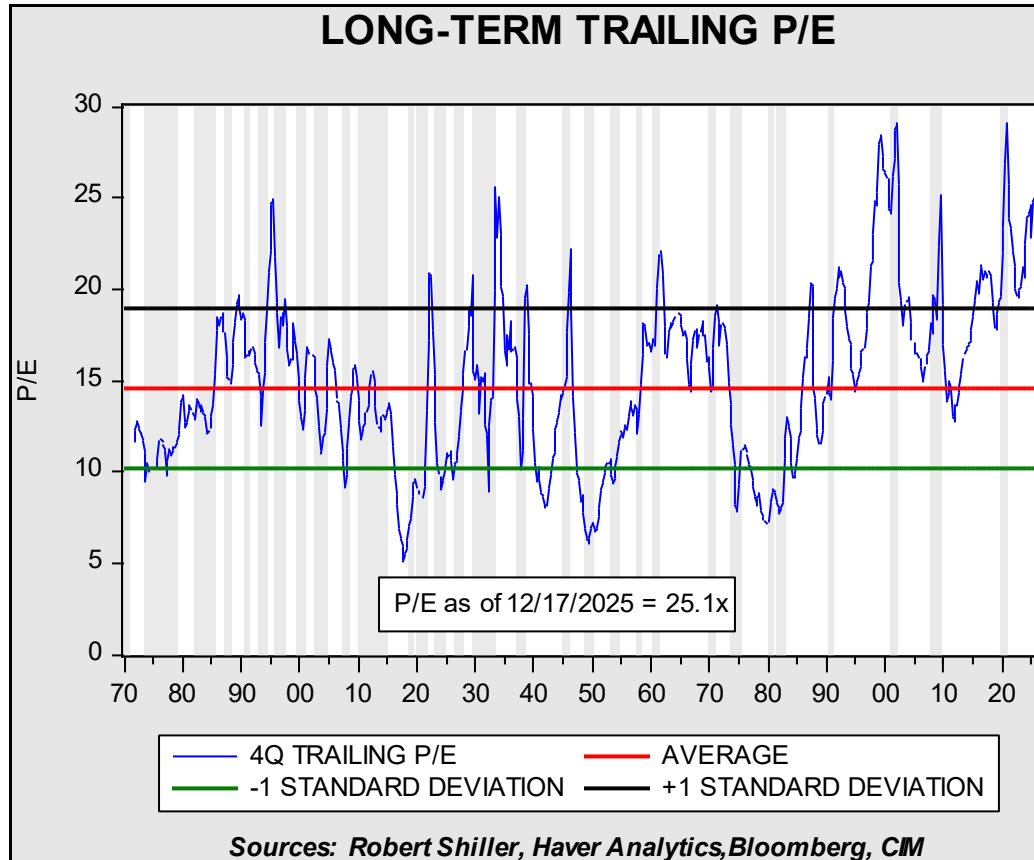
This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.