



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: December 1, 2025 – 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is down 0.7% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed relatively unchanged. Chinese markets were higher, with the Shanghai Composite up 0.7% and the Shenzhen Composite up 1.0%. US equity index futures are signaling a 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. (Note: *The next and final Asset Allocation Bi-Weekly for 2025 will be published next Monday, December 8.*)

Bi-Weekly Geopolitical Report	Asset Allocation Bi-Weekly	Asset Allocation Quarterly	Of Note
“Meet Sanae Takaichi” (11/10/25) + podcast	“The COLA for Social Security Benefits in 2026” (11/17/25) + podcast	Q4 2025 Report Q4 2025 Rebalance Presentation	Confluence Mailbag podcast Value Equities Quarterly Video Update

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 is dominated by Asian and other international developments, as might be expected after the long Thanksgiving holiday weekend in the US. Our coverage includes several important political and economic developments in Japan, as well as some economic and foreign relations stories related to China. We end with a few lower-profile items from the US and beyond that could also affect the financial markets today.

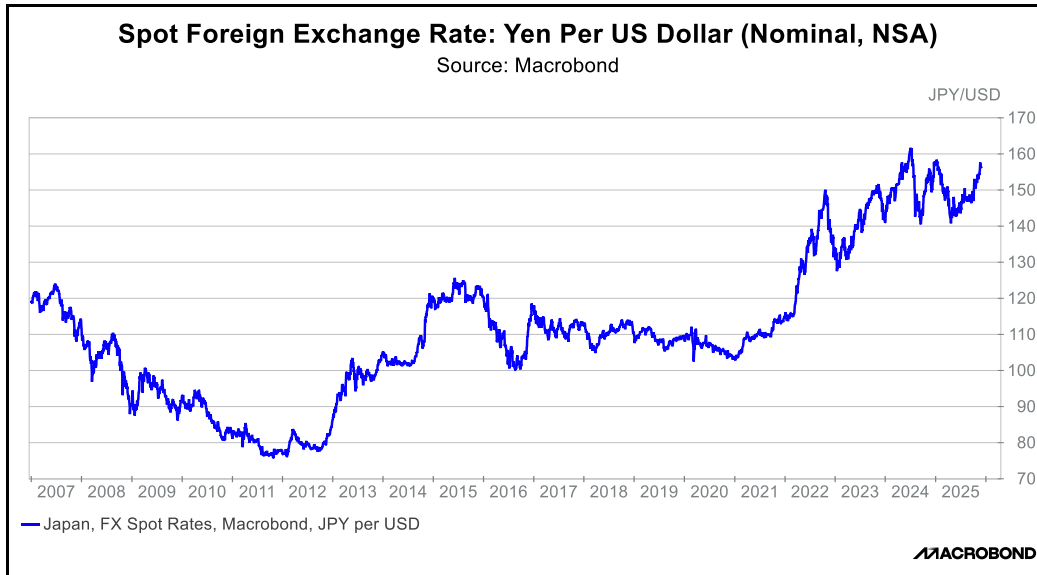
Japanese Politics: On Friday, Prime Minister Takaichi’s Liberal Democratic Party (LDP) and its junior coalition partner, the Japan Innovation Party, [gained a majority in the lower house of parliament](#) when three independent lawmakers agreed to vote with the LDP. That gives the ruling coalition 233 of the 465 seats in the Diet, meaning Takaichi won’t need to rely on opposition parties to approve her budget or other legislation.

- Takaichi also continues to score unusually high approval ratings in public opinion polls.

- We believe that Takaichi’s solid political position will be supportive of Japanese stocks going forward and help them reverse their price pullback from November, so long as the current China-Japan dispute doesn’t worsen (see next section).

Japanese Fiscal Policy: Prime Minister Takaichi’s cabinet on Friday [approved a supplementary budget equal to about \\$117 billion for the fiscal year ending March 2026](#), with the additional spending requiring about \$75 billion in new bond issuance. The plan, which reflects the near-term stimulus program laid out by Takaichi the week before, is likely to put additional upward pressure on Japanese interest rates and consumer price inflation in the coming months.

- On a related note, Finance Minister Katayama on Sunday [said it is “clear” that the yen’s depreciation over the last few months hasn’t been “based on fundamentals.”](#) Her statement marks the latest expression of the government’s frustration over the currency.
- In contrast to Katayama’s assertion, the weakness in the roughly 6% depreciation in the yen versus the dollar over the last three months and the pullback in Japanese stock prices since the end of October do appear to reflect fundamentals, in the sense that investors are increasingly worried about Prime Minister Takaichi’s willingness to boost debt issuance in order to put into place more stimulative fiscal policy.
- Katayama’s statements raise the specter of impending government action to support the yen. We think that would be even more likely if the US government takes note of the yen’s dropping value and begins to pressure Tokyo to do something about it.



Japanese Monetary Policy: Consistent with concerns that more stimulative fiscal policy will not only boost government debt issuance but also exacerbate price inflation, Bank of Japan chief Ueda [hinted in a speech today that he is prepared to hike the central bank’s benchmark interest rate at the next policy meeting this month](#). Futures trading now suggests there is about a 75% chance that the BOJ will hike rates at the meeting. In response, the yen has appreciated about 0.6% versus the dollar so far today, while Japanese stock and bond prices have retreated.

China-Japan: Diplomatic sources say China [has now frozen all youth exchange programs with Japan, marking the latest in a long string of retaliatory measures](#) for Japanese Prime Minister Takaichi's statement earlier in November that Tokyo would intervene militarily if Beijing tried to take over Taiwan by force. China still hasn't taken its most disruptive possible steps, such as cutting Japan off from its rare-earth magnets. Nevertheless, the continuing dispute raises risks for the Japanese economy and financial markets if it worsens.

Taiwan-China: Last Wednesday, President Lai [touched off an international and domestic political storm with a statement that China is prepping for "complete unification with Taiwan by force by 2027."](#) Lai's office later clarified that he meant Beijing is preparing for such an option, but the statement still brought a strong rebuke from China and political attacks by opposition parties back home. The row marks the latest example of Lai's aggressive rhetoric against China, which likely raises the risk of a dangerous military conflict across the Taiwan Strait.

China: The government's official purchasing managers' index for manufacturing [rose to a seasonally adjusted 49.2 in November, meeting expectations and improving from 49.0 in October](#). Still, that marked the eighth straight month in which the index was below the 50.0 level that indicates expansion. Moreover, the November PMI for services merely rose to 50.1 from 50.0 in the previous month, suggesting that sector is barely growing. The data suggests that China's economy continues to struggle against factors such as trade curbs and excess capacity.

United States-Venezuela: In a Thanksgiving call to US service members, President Trump [warned that his administration's military campaign against Venezuelan drug traffickers would "very soon" expand](#) from attacking drug boats to hitting land targets. With the big US military force that has been assembled in the region, the administration could easily launch such attacks. However, it's less clear that it can achieve its goal of ousting President Maduro in the near term or avoid anger among the isolationists in Trump's political base.

- In a more recent development, President Trump on Saturday [issued a warning to airlines and private pilots that they should consider Venezuelan airspace "closed."](#)
- The warning could be just another tactic to heap pressure on President Maduro to resign, but it could also be aimed at laying the groundwork for US air attacks on Venezuelan ground targets.

US Labor Market: In response to last week's shooting of two national guard members as they patrolled in Washington, DC, President Trump [said he'll ban migration from less-developed nations and push for "reverse migration,"](#) even deporting legal migrants. By late Friday, officials had already begun to follow through on those goals.

- From an economic perspective, a further tightening of immigration policy will likely cut the number of available non-native workers even as firms slow their hiring. That could boost employment opportunities for native workers, at least if they have required skills.
- In turn, that could help keep the unemployment rate low, potentially encouraging the Fed to go slower in cutting interest rates.

European Artificial Intelligence: Since US and Chinese firms are so prominent in the AI space, it's tempting to think that Europe isn't a player at all. However, the *Financial Times* today [has a useful article on Germany's privately held Black Forest](#), which has quickly become a big player in the exploding market for image-editing AI models. The firm's valuation has reportedly tripled in just the last year. The article suggests that European AI firms such as Black Forest and France's Mistral could eventually be attractive opportunities when they have their IPO.

US Economic Releases

There were no domestic releases prior to the publication of this report. The table below lists the economic releases and Fed events scheduled for the rest of the day.

Economic Releases							
EST Date	EST	Indicator			Expected	Prior	Rating
12/1	9:45	S&P Global US Manufacturing PMI	m/m	Nov F	51.9	51.9	***
12/1	10:00	ISM Manufacturing	m/m	Nov	49.0	48.7	**
12/1	10:00	ISM Prices Paid	m/m	Nov	57.5	58.0	**
12/1	10:00	ISM New Orders	m/m	Nov		49.4	**
12/1	10:00	ISM Employment	m/m	Nov		46.0	*
12/01/2025-12/10/2025	TBD	Durable Goods Orders	m/m	Sep F		0.5%	***
12/01/2025-12/10/2025	TBD	Durables Ex Transportation	m/m	Sep		0.6%	**
12/01/2025-12/10/2025	TBD	Cap Goods Orders Nondef Ex Air	m/m	Sep F		0.9%	*
12/01/2025-12/10/2025	TBD	Cap Goods Ship Nondef Ex Air	m/m	Sep F		0.9%	*
12/01/2025-12/10/2025	TBD	Factory Orders	m/m	Sep	0.3%	1.4%	***
12/01/2025-12/10/2025	TBD	Factory Orders Ex Trans	m/m	Sep		0.1%	*
12/01/2025-12/12/2025	TBD	Housing Starts	m/m	Sep	1330K	1307k	***
12/01/2025-12/12/2025	TBD	Building Permits	m/m	Sep P	1349K	1330k	**
12/01/2025-12/12/2025	TBD	Construction Spending	m/m	Sep	0.0%	0.2%	***
12/01/2025-12/19/2025	TBD	Wholesale Inventories	m/m	Sep P		0.0%	***
12/01/2025-12/19/2025	TBD	New Home Sales	m/m	Sep	716K		***
12/01/2025-12/20/2025	TBD	PPI Ex Food, Energy, Trade YOY	m/m	Oct		2.9%	**
12/01/2025-12/20/2025	TBD	PPI Final Demand YoY	m/m	Oct		2.7%	**
12/01/2025-12/20/2025	TBD	PPI Ex Food and Energy YoY	m/m	Oct		2.6	**
12/01/2025-12/24/2025	TBD	Leading Index	m/m	Sep	-0.3%		***
12/01/2025-12/31/2025	TBD	Trade Balance	m/m	Sep	-\$63.2B	-\$59.6b	***
Federal Reserve							
	EST	Speaker or Event	District or Position				
12/1	8:00	Jerome Powell Speaks at Memorial	Chairman 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 change 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	Housing Starts	y/y	Oct	3.2%	-7.3%	-4.9%	**	Equity bullish, bond bearish
	Annualized Housing Starts	y/y	Oct	0.803m	0.728m	0.740m	*	Equity and bond neutral
	Capital Spending	y/y	3Q	2.9%	7.6%	6.0%	**	Equity bearish, bond bullish
	S&P Global Japan Manufacturing PMI	m/m	Nov F	48.7	48.8	-	***	Equity and bond neutral
Australia	S&P Global Australia Manufacturing	m/m	Nov	51.6	51.6		***	Equity and bond neutral
	Melbourne Institute Inflation	y/y	Nov	3.2%	3.1%		***	Equity and bond neutral
	ANZ-Indeed Job Advertisements	m/m	Nov	-0.8	-1.9		*	Equity and bond neutral
New Zealand	Building Permits	m/m	Oct	-0.9%	7.3%		**	Equity and bond neutral
South Korea	Exports	y/y	Nov	8.4%	3.5%	5.4%	***	Equity bullish, bond bearish
	Trade Balance	m/m	Nov	\$9735m	\$5995m	\$8076m	*	Equity and bond neutral
	Imports	y/y	Nov	1.2%	-1.5%	2.0%	**	Equity bearish, bond bullish
	S&P Global South Korea PMI	m/m	Nov	49.4	49.4		***	Equity and bond neutral
China	Official Manufacturing PMI	m/m	Nov	49.2	49.0	49.4	***	Equity and bond neutral
	Official Services PMI	m/m	Nov	49.5	50.1	50.0	**	Equity and bond neutral
	Official Composite PMI	m/m	Nov	49.7	50.0		*	Equity and bond neutral
	RatingDog China PMI Mfg	m/m	Nov	49.9	50.6	50.5	***	Equity and bond neutral
India	GDP	y/y	3Q	8.2%	7.8%	7.4%	*	Equity bullish, bond bearish
	HSBC India PMI Mfg	m/m	Nov F	55.6	57.4		***	Equity and bond neutral
	Industrial Production	y/y	Oct	0.4%	4.6%	2.5%	***	Equity bearish, bond bullish
EUROPE								
Eurozone	HCOB Eurozone Manufacturing PMI	m/m	Nov F	49.6	49.7	49.7	***	Equity and bond neutral
Germany	Import Price Index	y/y	Oct	-1.4%	-1.0%	-1.6%	**	Equity and bond neutral
	Retail Sales	y/y	Oct	1.3%	3.4%	0.1%	*	Equity bullish, bond bearish
	Unemployment Change	m/m	Nov	1.0k	-2.0k	4.5k	***	Equity and bond neutral
	Unemployment Claims Rate	m/m	Nov	6.3%	6.3%	6.3%	**	Equity and bond neutral
	CPI	y/y	Nov P	2.3%	2.3%	2.4%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Nov P	2.6%	2.3%	2.4%	**	Equity and bond neutral
France	HCOB Germany Manufacturing PMI	m/m	Nov F	48.2	48.4	48.4	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Nov P	0.8%	0.8%	1.0%	**	Equity and bond neutral
	CPI	y/y	Nov P	0.9%	0.9%	1.0%	***	Equity and bond neutral
	GDP	y/y	3Q F	0.9%	0.9%	0.9%	**	Equity and bond neutral
	PPI	y/y	Oct	-0.8%	0.1%		*	Equity and bond neutral
	HCOB France Manufacturing PMI	m/m	Nov F	47.8	47.8	47.8	***	Equity and bond neutral
Italy	GDP WDA	y/y	3Q F	0.4%	0.4%	0.4%	**	Equity and bond neutral
	CPI, EU Harmonized	y/y	Nov P	1.3%	1.3%	1.3%	***	Equity and bond neutral
	CPI NIC Including Tobacco	y/y	Nov P	1.2%	1.2%	1.2%	**	Equity and bond neutral
	HCOB Italy Manufacturing PMI	m/m	Nov	50.1	49.9	50.1	***	Equity and bond neutral
UK	Net Lending Sec. on Dwellings	m/m	Oct	4.3b	5.2b	4.5b	*	Equity and bond neutral
	Mortgage Approvals	m/m	Oct	65.0k	65.6k	64.5k	***	Equity and bond neutral
	M4 Money Supply	y/y	Oct	3.5%	3.7%		*	Equity and bond neutral
	S&P Global UK Manufacturing PMI	m/m	Nov F	50.2	50.2	50.2	***	Equity and bond neutral
Switzerland	KOF Leading Indicator	m/m	Nov	101.7	101.5	101.0	**	Equity and bond neutral
	GDP	y/y	3Q F	0.5%	1.3%	0.6%	**	Equity and bond neutral
	Real Retail Sales	y/y	oct	2.7%	1.8%		**	Equity and bond neutral
	Domestic Sight Deposits CHF	w/w	28-Nov	437.3b	439.8b		*	Equity and bond neutral
Russia	Total Sight Deposits CHF	w/w	28-Nov	458.5b	460.2b		*	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	21-Nov	19.14t	19.13t		*	Equity and bond neutral
	S&P Global Russia Manufacturing PMI	m/m	Nov	48.3	48.0		***	Equity and bond neutral
AMERICAS								
Canada	GDP	y/y	Sep	1.0%	0.7%	0.6%	**	Equity and bond neutral
Mexico	Unemployment Rate NSA	m/m	Oct	2.61%	2.98%	2.78%	***	Equity bearish, bond bullish
Brazil	Primary Budget Balance	y/y	Oct	32.4b	-17.5b	34.1b	*	Equity and bond neutral
	Net Debt % GDP	m/m	Oct	65.0%	64.8%	64.8%	**	Equity and bond neutral
	National Unemployment Rate	m/m	Oct	5.4%	5.6%	5.5%	*	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)	370	372	-2	Down
U.S. Sibor/OIS spread (bps)	377	378	-1	Down
U.S. Libor/OIS spread (bps)	367	368	-1	Down
10-yr T-note (%)	4.03	4.02	0.01	Up
Euribor/OIS spread (bps)	206	206	0	Up
Currencies	Direction			
Dollar	Down			Up
Euro	Up			Down
Yen	Down			Down
Pound	Up			Down
Franc	Down			Flat

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.

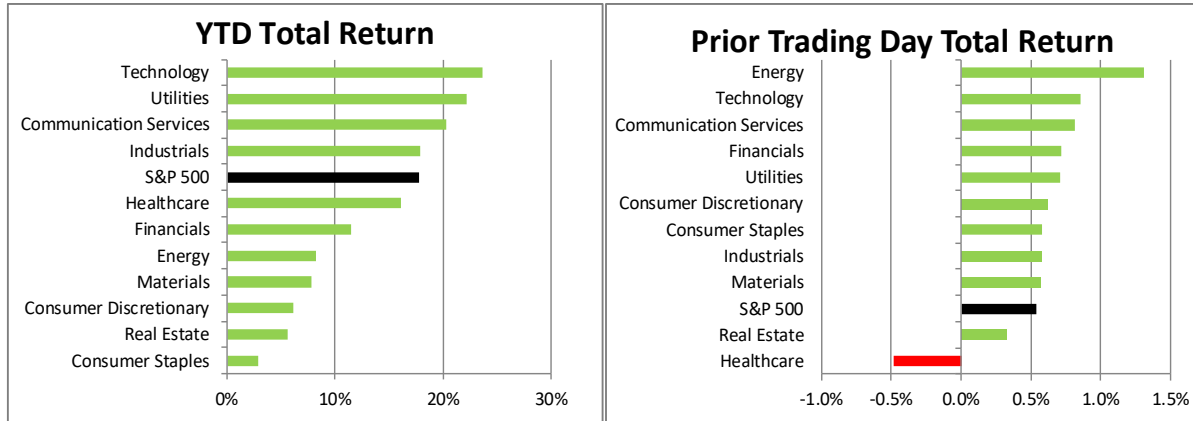
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$62.96	\$62.38	0.93%	
WTI	\$59.14	\$58.55	1.01%	
Natural Gas	\$4.79	\$4.85	-1.32%	
Crack Spread	\$25.39	\$24.78	2.47%	
12-mo strip crack	\$25.69	\$25.34	1.39%	
Ethanol rack	\$2.00	\$2.00	0.00%	
Metals				
Gold	\$4,246.63	\$4,239.44	0.17%	
Silver	\$57.10	\$56.50	1.05%	
Copper contract	\$531.20	\$527.20	0.76%	
Grains				
Corn contract	\$445.75	\$447.75	-0.45%	
Wheat contract	\$535.50	\$538.50	-0.56%	
Soybeans contract	\$1,135.75	\$1,137.75	-0.18%	
Shipping				
Baltic Dry Freight	2,560	2,480	80	

Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for cooler-than-normal temperatures in most of the country, with warmer-than-normal temperatures in the Midwest, Mid-Atlantic, and New England regions. The precipitation outlook calls for wetter-than-normal conditions for most of the country, with dry conditions expected in Southwest.

Data Section

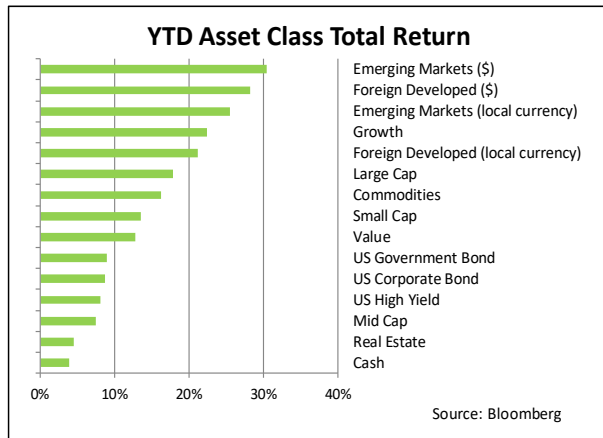
US Equity Markets – (as of 11/28/2025 close)



(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 11/28/2025 close)

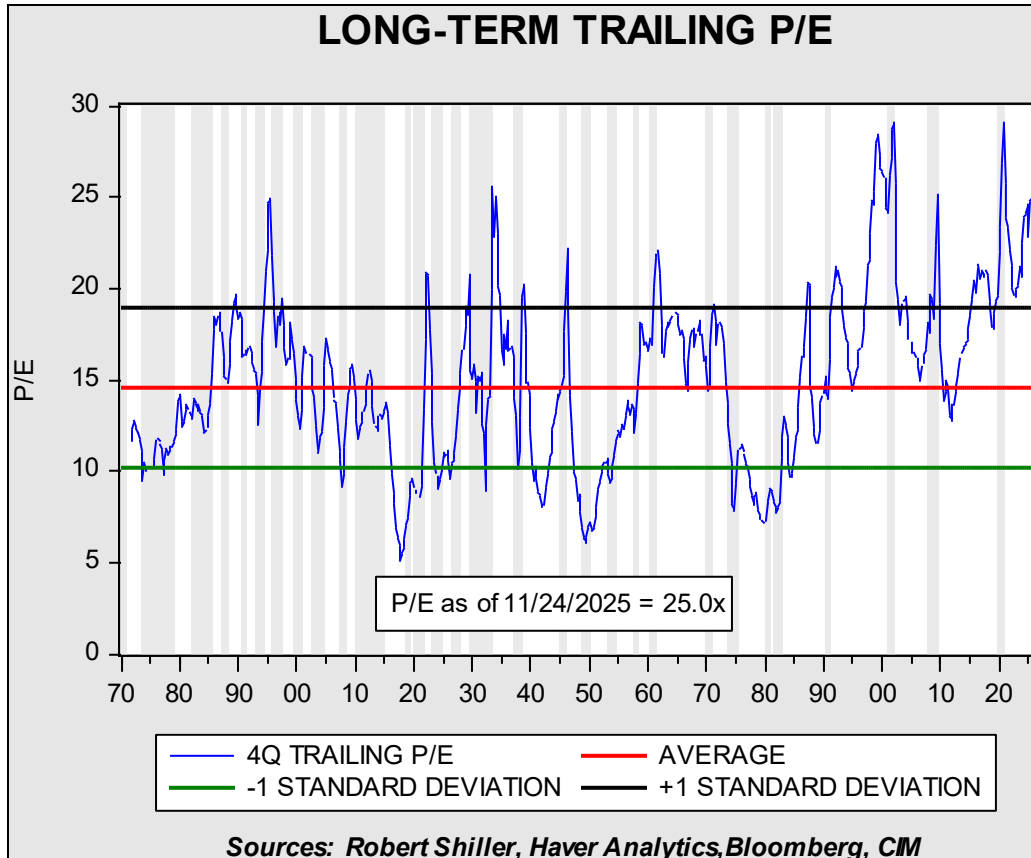


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

November 25, 2025



Based on our methodology,¹ the current P/E is 25.0x, which is down 0.1 from the previous report. The drop in the multiple was due to a slight decline in the stock price index.

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.