

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: December 2, 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 up 0.9%. Chinese markets were lower, with the Shanghai Composite down 0.4% 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. (*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 opens with the latest example of how building tensions between China and Japan have boosted the risk of conflict between the two countries. We next review several other international and US developments with the potential to affect the financial markets today, including key developments in the US artificial intelligence and air travel industries and a potential risk to the Italian central bank’s independence.

China-Japan: Amid heightened tensions caused by Japanese Prime Minister Takaichi’s recent comments that Tokyo would intervene militarily if China tried to blockade Taiwan, Japan [said two Chinese coast guard patrol ships entered Japan's territorial waters around the disputed Senkaku Islands in the East China Sea today](#) and only left after being chased away by Japanese coast guard vessels.

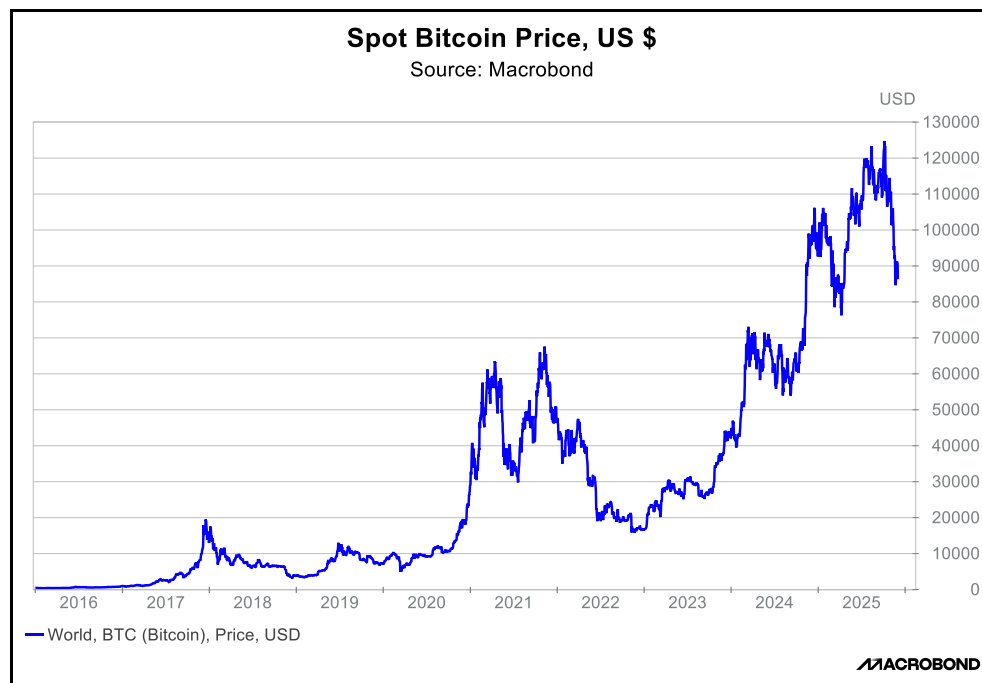
- The incident is a reminder that the new tensions pose some risk of a potential military conflict between China and Japan.

- Of course, that in turn would risk drawing in the US and perhaps its other allies, all of which would likely cause global economic disruptions and weigh on global financial markets.

US Artificial Intelligence Industry: In the latest examples of circular investment in the AI space, chip giant Nvidia yesterday [said it will invest \\$2 billion in chip design software maker Synopsys, one of its customers](#). Separately, AI model developer OpenAI said it will help fund startup investment vehicle Thrive Holdings, which was established by Thrive Capital, an investor in OpenAI. The deals are likely to further raise concerns about circular investment flows driving up valuations in the sector and helping create a bubble that will at some point pop.

US Air Travel Industry: The Transportation Security Administration yesterday [said it will start charging a \\$45 fee to travel on a domestic flight without a Real ID form of identification starting February 1](#). The fee would have to be paid in advance and would be valid for 10 days, after which another fee would be charged. The purpose of the charge is to cover enhanced biometric screening for those without Real ID. The new rule could potentially cause major disruptions to the airlines if people continue to put off getting a Real ID.

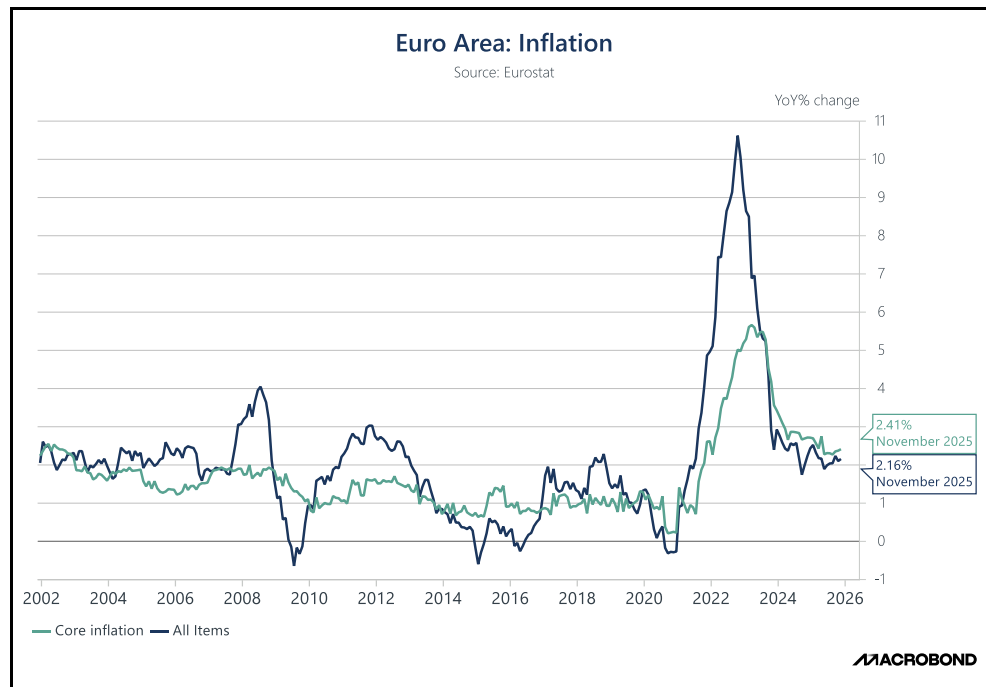
US Cryptocurrency Market: Leading cryptocurrency bitcoin yesterday [lost some 6% of its value, marking its worst day since mid-2021 and leaving the asset's price below \\$86,000](#). Other key cryptocurrencies and related stocks have also sharply depreciated in recent weeks. The market rout reflects growing concern about market concentration, technical issues, and reduced enthusiasm among investors. Just as important, the rout appears to have stemmed in large part from rising bond yields in Japan and other developed markets.



US Commercial Real Estate Market: The *Wall Street Journal* today carries a useful article [showing how commercial properties such as office and apartment buildings are perhaps the only major US asset class that is fairly valued](#) right now. The article examines whether those fair prices would help make the asset class a relatively safe place for investors to hide in the event of a market downturn for other, high-flying assets classes, especially now that the commercial real estate market is starting to show nascent signs of a rebound.

Global Bond Market: After Bank of Japan Governor Ueda yesterday hinted at another hike in his central bank's benchmark interest rate, [bond prices fell not only in Japan but also in key developed countries](#). The yield on the US's 10-year Treasury note jumped to 4.092%, while the yield on Germany's 10-year government bonds jumped to 2.756%. The market action appears to reflect growing concern about government debt burdens. As noted above, rising government bond yields are likely to push down the value of riskier, non-yielding assets.

Eurozone: The November consumer price index [was up 2.2% from the same month one year earlier, unexpectedly accelerating from the 2.1% rise in the year to October](#). That means eurozone inflation has now been above the European Central Bank's target of 2.0% for three straight months. The acceleration stemmed in part from a jump in German prices and continued high services inflation. The figures will help solidify expectations that the ECB will keep its benchmark interest rate steady at its upcoming December policy meeting.



Italy: Prime Minister Meloni's right-wing coalition [is pushing a parliamentary bill declaring that, "the gold reserves managed and held by the Bank of Italy belong to the Italian people."](#) The central bank sees its gold reserves — the world's third-largest at 2,452 tons — as a foundation of its credibility, but observers fear that declaring the gold as the people's property might tempt the

government to force its sale to fund fiscal spending. The move is therefore an example of how some major governments are chipping away at central bank independence.

United Kingdom: The Bank of England today [said it will roll back the stringent capital rules it imposed on banks following the Global Financial Crisis](#). Under the new requirements, the institution's benchmark ratio of capital to risk-weighted assets will fall to 13% from 14%. The change is expected to encourage British banks to lend more and potentially return more profits to investors in the form of dividends and share buybacks. It is also expected to encourage the ongoing efforts toward a similar cut to bank capital requirements in the US.

India: New Delhi yesterday [ordered that all smartphones sold in the country come preloaded with a government-developed cybersecurity app](#) that would give officials access to the phone's call log, memory, and camera. The rule is likely to generate pushback by US cellphone giants such as Apple and Google, potentially putting them into conflict with the government and risking their access to the Indian market.

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
12/2	10:00	Wards Total Vehicle Sales	m/m	Nov	15.40m	15.32m	*
12/02/2025-12/12/2025	TBD	Housing Starts	m/m	Sep	1330K	1307k	***
12/02/2025-12/24/2025	TBD	Leading Index	m/m	Sep	-0.3%		***
12/02/2025-12/12/2025	TBD	Building Permits	m/m	Sep P	1349K	1330k	**
12/02/2025-12/10/2025	TBD	Durable Goods Orders	m/m	Sep F		0.5%	***
12/02/2025-12/12/2025	TBD	Construction Spending	m/m	Sep	0.0%	0.2%	***
12/02/2025-12/10/2025	TBD	Durables Ex Transportation	m/m	Sep		0.6%	**
12/02/2025-12/19/2025	TBD	Wholesale Inventories	m/m	Sep P		0.0%	***
12/02/2025-12/10/2025	TBD	Cap Goods Orders Nondef Ex Air	m/m	Sep F		0.9%	*
12/02/2025-12/10/2025	TBD	Factory Orders	m/m	Sep	0.5%	1.4%	***
12/02/2025-12/10/2025	TBD	Cap Goods Ship Nondef Ex Air	m/m	Sep F		0.9%	*
12/02/2025-12/19/2025	TBD	New Home Sales	m/m	Sep	716K		***
12/02/2025-12/10/2025	TBD	Factory Orders Ex Trans	m/m	Sep		0.1%	*
12/02/2025-12/20/2025	TBD	PPI Final Demand YoY	m/m	Oct		2.7%	**
12/02/2025-12/20/2025	TBD	PPI Ex Food and Energy YoY	m/m	Oct		2.6	**
12/02/2025-12/20/2025	TBD	PPI Ex Food, Energy, Trade YOY	m/m	Oct		2.9%	**
12/02/2025-12/31/2025	TBD	Trade Balance	m/m	Sep	-\$63.2B	-\$59.6b	***
Federal Reserve							
	EST	Speaker or Event	District or Position				
12/2	10:00	Michelle Bowman Testifies Before House Committee	Member 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	Monetary Base	y/y	Nov	-8.5%	-7.8%		**	Equity and bond neutral
	Consumer Confidence Index	m/m	6-Feb	37.5	35.8	36.2	*	Equity bullish, bond bearish
Australia	BoP Current Account Balance	q/q	3Q	-A\$16.6b	-A\$13.7b	-A\$13.2b	***	Equity and bond neutral
	Building Approvals	m/m	Oct	-6.4%	11.1%	-4.5%	***	Equity bearish, bond bullish
New Zealand	Terms of Trade Index	q/q	3Q	-2.10%	4.20%	0.40%	**	Equity bearish, bond bullish
South Korea	CPI	m/m	Nov	2.4%	2.4%	2.3%	***	Equity and bond neutral
EUROPE								
Eurozone	Unemployment Rate	m/m	Oct	6.4%	6.4%	6.3%	**	Equity and bond neutral
	CPI	y/y	Nov P	2.2%	2.1%	2.1%	***	Equity and bond neutral
	Core CPI	y/y	Nov P	2.4%	2.4%	2.4%	**	Equity and bond neutral
France	Budget Balance YTD	y/y	Oct	-132.2b	-155.4b		***	Equity and bond neutral
Italy	New Car Registrations	y/y	Nov	-0.04%	-0.57%		*	Equity and bond neutral
	Budget Balance	m/m	Nov	-6.9b	-19.7b		*	Equity and bond neutral
	Unemployment Rate	m/m	Oct	6.0%	6.2%	6.1%	**	Equity and bond neutral
	PPI	y/y	Oct	0.2%	1.5%		**	Equity and bond neutral
UK	Nationwide House Price Index	y/y	Nov	1.8%	2.4%	1.4%	***	Equity and bond neutral
AMERICAS								
Canada	S&P Global Canada Manufacturing PMI	m/m	Nov	48.4	49.6		***	Equity and bond neutral
Mexico	S&P Global Mexico Manufacturing PMI	m/m	Nov	47.3	49.5		***	Equity and bond neutral
	Remittances Total	m/m	Oct	\$5634.8m	\$5216.8m	\$5415.0m	*	Equity and bond neutral
	IMEF Manufacturing Index SA	m/m	Nov	45.5	46.9	47.1	*	Equity bearish, bond bullish
	IMEF Non-Manufacturing Index SA	m/m	Nov	50.3	50.5	49.8	*	Equity and bond neutral
Brazil	Industrial Production	y/y	Oct	-0.5%	7.2%	0.2%	***	Equity bearish, bond bullish

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)	368	369	-1	Down
U.S. Sibor/OIS spread (bps)	377	377	0	Down
U.S. Libor/OIS spread (bps)	367	368	-1	Down
10-yr T-note (%)	4.11	4.09	0.02	Up
Euribor/OIS spread (bps)	206	206	0	Down
Currencies	Direction			
Dollar	Flat			Up
Euro	Flat			Down
Yen	Up			Down
Pound	Flat			Down
Franc	Flat			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.

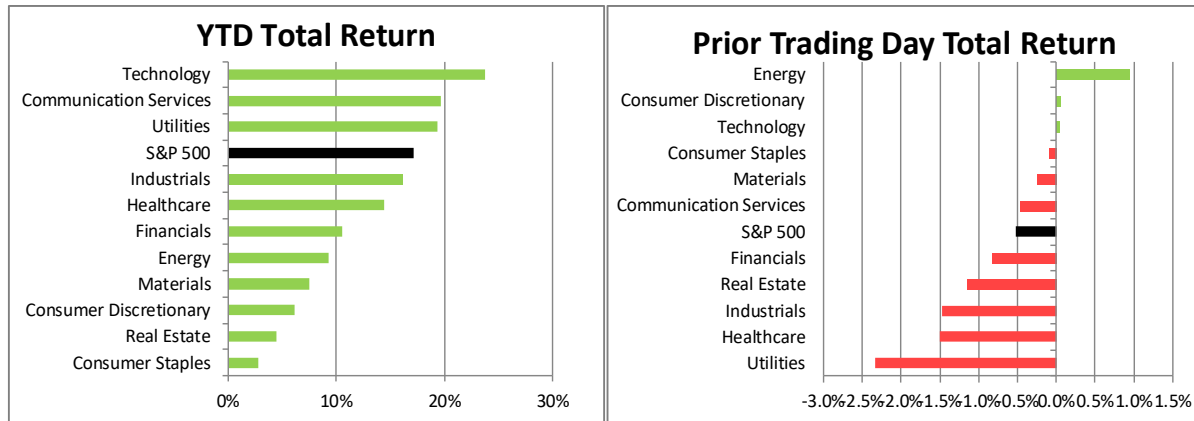
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$62.99	\$63.17	-0.28%	
WTI	\$59.20	\$59.32	-0.20%	
Natural Gas	\$4.98	\$4.92	1.10%	
Crack Spread	\$25.34	\$25.74	-1.53%	
12-mo strip crack	\$25.73	\$26.03	-1.18%	
Ethanol rack	\$2.00	\$2.00	0.00%	
Metals				
Gold	\$4,205.56	\$4,232.21	-0.63%	
Silver	\$57.33	\$57.99	-1.14%	
Copper contract	\$527.35	\$530.30	-0.56%	
Grains				
Corn contract	\$445.25	\$445.00	0.06%	
Wheat contract	\$530.25	\$535.00	-0.89%	
Soybeans contract	\$1,132.75	\$1,128.00	0.42%	
Shipping				
Baltic Dry Freight	2,583	2,560	23	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-2.36		
Gasoline (mb)		1.16		
Distillates (mb)		0.34		
Refinery run rates (%)		0.6%		
Natural gas (bcf)		-4		

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 and South Central region.

Data Section

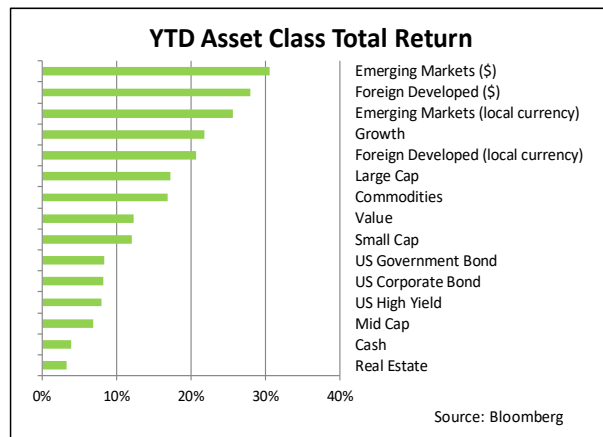
US Equity Markets – (as of 12/1/2025 close)



(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 12/1/2025 close)

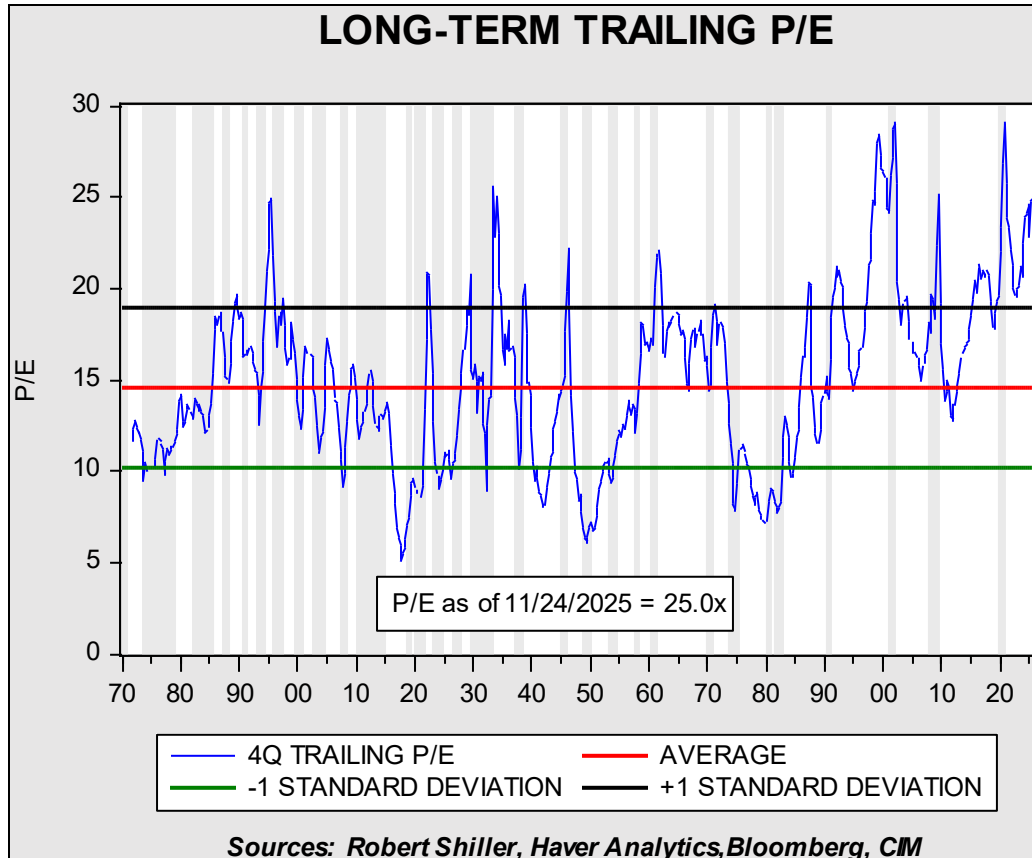


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.