Daily Comment

Confluence INVESTMENT MANAGEMENT

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: December 5, 2025 — 9:30 AM ET] Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 is up 0.5% 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 0.7% and the Shenzhen Composite up 1.2%. 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* opens with an assessment of the US effort to guarantee smooth economic relations with China. Next, we turn to the fine that the EU levied against X for violating its controversial new tech rules. We then provide an overview of critical global developments, including Japan's bond market concerns, US lawmakers' attempt to curtail advanced chip exports to Russia and China, and the latest indicators of a regional arms build-up in the Indo-Pacific. Finally, we close with a roundup of the essential domestic and international data releases.

Tensions Cool: The US and China trade tensions appear to have cooled after extending the deadline for trade talks last month. US Trade Representative Jamieson Greer stated that the US is prioritizing a stable trade dynamic with China as it seeks to prevent a new conflict. His comments are likely to reinforce the view that the White House is looking to calm fears of ongoing trade disruption as they seek to reduce uncertainty that could potentially hinder growth in a midterm election year.

- Greer's comment comes as the US and China work to fully implement an understanding reached during trade talks in early November. While a written agreement has not been formalized, the US announced plans to lower certain trade tariffs. In a reciprocal move, China committed to suspending export restrictions on rare earth elements vital for technology manufacturing, and the White House confirmed that China also promised to increase its purchases of US soybeans and other farm products.
- Following the talks, Chinese officials called on the US to honor commitments to curb rhetoric related to Taiwan's independence. This has complicated the regional security landscape and has forced the US to navigate heightened tensions stemming from Japan's claim that a Chinese takeover of Taiwan poses a national security risk. Also, similar concerns were voiced by Taiwanese leader Lai Ching-te regarding President Xi Jinping's rumored desire for the Chinese military to be ready for an invasion by 2027.
- Stable relations with China are likely crucial for the White House's goal of retaining control of both houses of Congress in the upcoming election year. To avoid voter backlash, the administration must ensure no disruptions in trade — such as the loss of rare earth elements that has historically caused a pull-back in equities — while also securing China's continued purchases of US agricultural products.
- That said, we view the US stance of prioritizing stability and avoiding tensions with China as particularly favorable for domestic equity markets heading into next year. The suspected resumption of trade consistency and the avoidance of new tariffs are expected to bolster corporate confidence, encouraging companies to pursue expansion, especially given the considerable tax incentives provided by recent legislation.

EU Fines: The European Union imposed a penalty on Elon Musk's X for failing to comply with its Digital Services Act (DSA). Despite the fine being less than anticipated, estimated at 120 million EUR ($140 million), it provoked swift criticism from the White House. The US administration asserted that the EU's action unfairly targets American tech firms and encroaches upon principles of free expression. The divergent approaches to tech regulation continue to pose a significant challenge to transatlantic relations even as both sides work toward resolving trade disputes.

Japan Bond Problems: Prime Minister Sanae Takaichi is closely monitoring the bond market as she attempts to chart a course for restoring growth in Japan. Her concern has intensified due to rising bond yields and a weakening yen, both driven by skepticism that her proposed $137 billion stimulus package will adequately boost growth without triggering inflation. This concern has prompted a renewed effort to cut government waste and support tight monetary policy. Should these initiatives prove successful, they could put downward pressure on the US dollar.

Canada Pushes Back: The Canadian government has served a default notice to Stellantis after the automaker announced its intention to move its manufacturing plant from Ontario to Illinois. This relocation may constitute a breach of the loan agreement under which Stellantis received forgivable financing to maintain operations in the region. Canada's enforcement action may, in turn, provoke a US reaction as Washington seeks to remove barriers to its national reindustrialization agenda.

Block AI Chips: A day after Nvidia successfully lobbied to defeat a provision that would have required it to prioritize American firms for its chip sales, the Senate introduced a separate, bipartisan piece of legislation. This new bill proposes to halt export licenses for selling advanced chips to US adversaries China and Russia for a minimum of 30 months. This legislative action is a reminder that even as trade tensions between the US and China have cooled, there remains little tolerance for American chip companies aiding Beijing's AI ambitions.

Macron and Xi Talk: French President Emmanuel Macron and Chinese President Xi Jinping met on Thursday to discuss ongoing relations between Europe and China, a talk held ahead of France taking over the G7 presidency in 2026. France reiterated its position that China needs to boost its investment in Europe. Meanwhile, Beijing stressed that France should not align with US efforts to contain China. Xi maintained that Europe could be included in its anticipated five-year plans, but the talks ultimately ended without a formal agreement.

Indo-Pacific Arms Race: Following White House approval, South Korea has decided to proceed with the development of its own nuclear-powered submarine. This military initiative is expected to strengthen South Korea's ability to counter threats from North Korea. However, the move is also likely to heighten tensions with China and place pressure on Japan to develop similar capabilities. This pursuit of advanced military technology by South Korea underscores the growing importance of defense companies as the world continues to fragment into blocs.

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							
EST Date	EST Time	Indicator			Expected	Prior	Rating
12/5	10:00	Personal Income	m/m	Sep	0.3	0.4	***
12/5	10:00	Personal Spending	m/m	Sep	0.3	0.6	***
12/5	10:00	PCE Price index	y/y	Sep	2.8	2.7	**
12/5	10:00	Core PCE Price Incex	y/y	Sep	2.8	2.9	**
12/5	10:00	U. of Michigan Consumer Sentiment	m/m	Dec P	52.0	51.0	***
12/5	10:00	U. of Michigan Current Conditions	m/m	Dec P	52.1	51.1	**
12/5	10:00	U. of Michigan Future Expectations	m/m	Dec P	53.0	51.0	**
12/5	10:00	U. of Michigan 1-Year Inflation Expectation	m/m	Dec P	4.4%	4.5%	*
12/5	10:00	U. of Michigan 5-10 Year Inflation Expectation	m/m	Dec P	3.4%	3.4%	*
12/5	14:00	Consumer Credit	m/m	Oct	$10.480b	$13.093b	*
12/05/2025-12/24/2025	TBD	Leading Index	m/m	Sep	-0.3%		***
Federal Reserve							
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 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	Household Spending	y/y	Oct	-3.0%	1.8%	1.0%	**	Equity bearish, bond bullish
	Leading Economic Index	m/m	Oct P	110.0	108.2	109.3	**	Equity and bond neutral
	Coincident Index	y/y	Oct P	115.4	114.9	115.0	**	Equity and bond neutral
Australia	Foreign Reserves	m/m	Nov	A$110.5b	A$107.0b		*	Equity and bond neutral
South Korea	BoP Current Account Balance	m/m	Oct	$6818.8m	$13467.4m		**	Equity and bond neutral
	BoP Goods Balance	m/m	Oct	$7817.3m	$14244.8m		*	Equity and bond neutral
EUROPE								
Eurozone	GDP	y/y	3Q T	1.4%	1.4%	1.4%	***	Equity and bond neutral
	Employment	y/y	3Q F	0.6	0.5		*	Equity and bond neutral
Germany	Factory Orders WDA	y/y	Oct	-0.7%	-3.4%	-2.4%	***	Equity bullish, bond bearish
France	Industrial Production	y/y	Oct	1.7%	1.3%	1.3%	***	Equity and bond neutral
	Manufacturing Production	y/y	Oct	1.5%	1.5%		**	Equity and bond neutral
Italy	Retail Sales	y/y	Oct	1.3%	0.7%	1.0%	**	Equity and bond neutral
Switzerland	Foreign Currency Reserves	m/m	Nov	727.4b	724.9b		***	Equity and bond neutral
Russia	Gold and Forex Reserves	m/m	28-Nov	$733.4b	$729.1b		***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	28-Nov	19.07t	19.14t		*	Equity and bond neutral
AMERICAS								
Mexico	Consumer Confidence	m/m	Nov	44.2	45.8	45.9	*	Equity bearish, bond bullish
Brazil	Trade Balance	m/m	Nov	$5842m	$6574m	$5577m	**	Equity and bond neutral
	Exports	m/m	Nov	$28515m	$31583m	$28800m	*	Equity and bond neutral
	Imports	m/m	Nov	$22673m	$25009m	$22673m	*	Equity and bond neutral
	FGV Inflation IGP-DI	y/y	Nov	-0.44%	0.73%	-0.27%	**	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)	361	363	-2	Down
U.S. Sibor/OIS spread (bps)	374	375	-1	Down
U.S. Libor/OIS spread (bps)	365	366	-1	Down
10-yr T-note (%)	4.09	4.06	0.03	Up
Euribor/OIS spread (bps)	203	204	-1	Down
Currencies	**Direction**			
Dollar	Flat			Up
Euro	Flat			Down
Yen	Flat			Down
Pound	Flat			Down
Franc	Flat			Down
Central Bank Action	**Actual**	**Prior**	**Expected**	
RBI Repurchase Rate	5.25%	5.50%	5.25%	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.

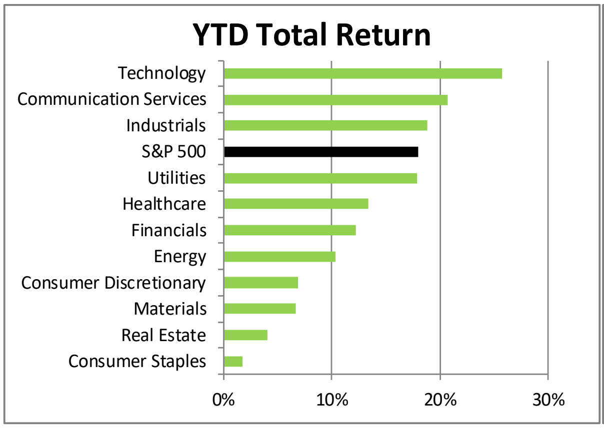
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$63.23	$63.26	-0.05%	
WTI	$59.59	$59.67	-0.13%	
Natural Gas	$5.05	$5.06	-0.20%	
Crack Spread	$24.18	$23.87	1.30%	
12-mo strip crack	$25.32	$25.14	0.75%	
Ethanol rack	$1.92	$1.92	0.00%	
Metals				
Gold	$4,225.14	$4,207.62	0.42%	
Silver	$58.18	$57.14	1.83%	
Copper contract	$543.25	$537.35	1.10%	
Grains				
Corn contract	$446.00	$447.25	-0.28%	
Wheat contract	$537.50	$540.25	-0.51%	
Soybeans contract	$1,115.75	$1,119.50	-0.33%	
Shipping				
Baltic Dry Freight	2,814	2,845	-31	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	0.57	-2.00	2.57	
Gasoline (mb)	4.52	1.00	3.52	
Distillates (mb)	2.06	0.93	1.13	
Refinery run rates (%)	0.2%	0.7%	-0.01	
Natural gas (bcf)	-12	-18	6	

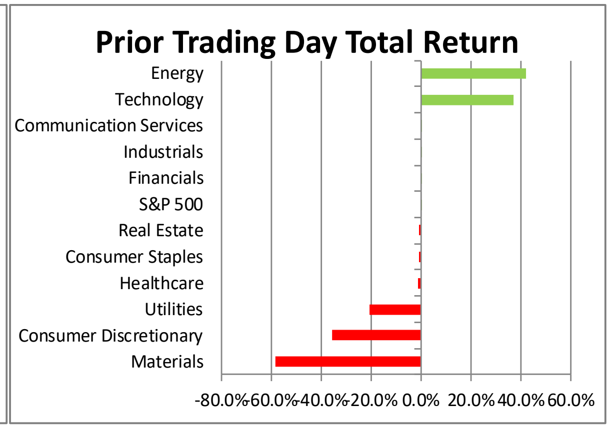
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for cooler-than-normal temperatures in the northern Great Plains, the Midwest, the Northeast, and the Southeast, with warmer-than-normal temperatures in the Far West and the southern Great Plains. The outlook calls for wetter-than-normal conditions in the northern one-third of the country, with dry conditions in the southern one-third.

Data Section

US Equity Markets – (as of 12/4/2025 close)

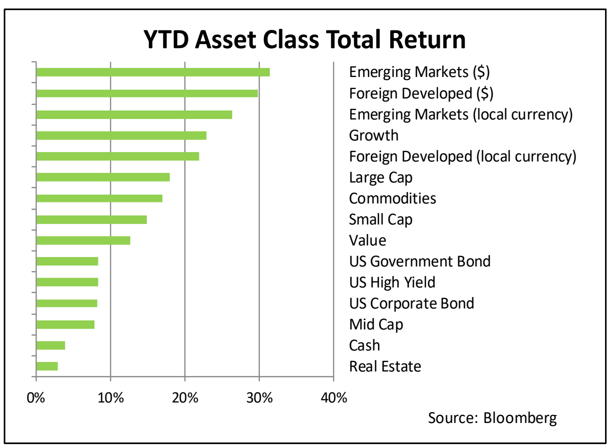




(Source: Bloomberg)

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 12/4/2025 close)

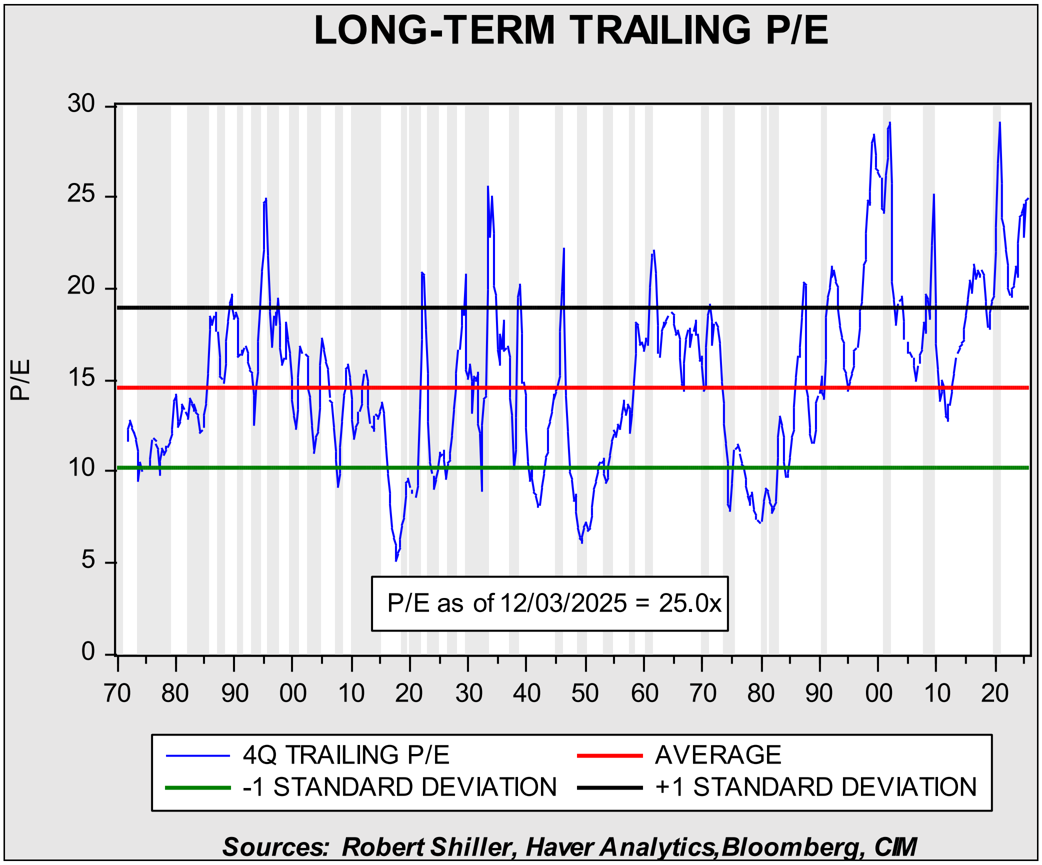


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 4, 2025



Based on our methodology,[1] the current P/E is 25.0x, which was unchanged from the previous report. The rise in the stock price index was offset by an 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.

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[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.