Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: December 8, 2025 — 9:30 AM ET] Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 is up 0.1% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.7%. Chinese markets were higher, with the Shanghai Composite up 0.6% 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.

Bi-Weekly Geopolitical Report	Asset Allocation Bi-Weekly	Asset Allocation Quarterly	Of Note
"Meet Sanae Takaichi" (11/10/25) + podcast	**"What Catch-Up Economic Reports Say About the AI Boom" (12/8/25) + podcast**	Q4 2025 Report Q4 2025 Rebalance Presentation	Confluence Mailbag podcast Value Equities Quarterly Video Update

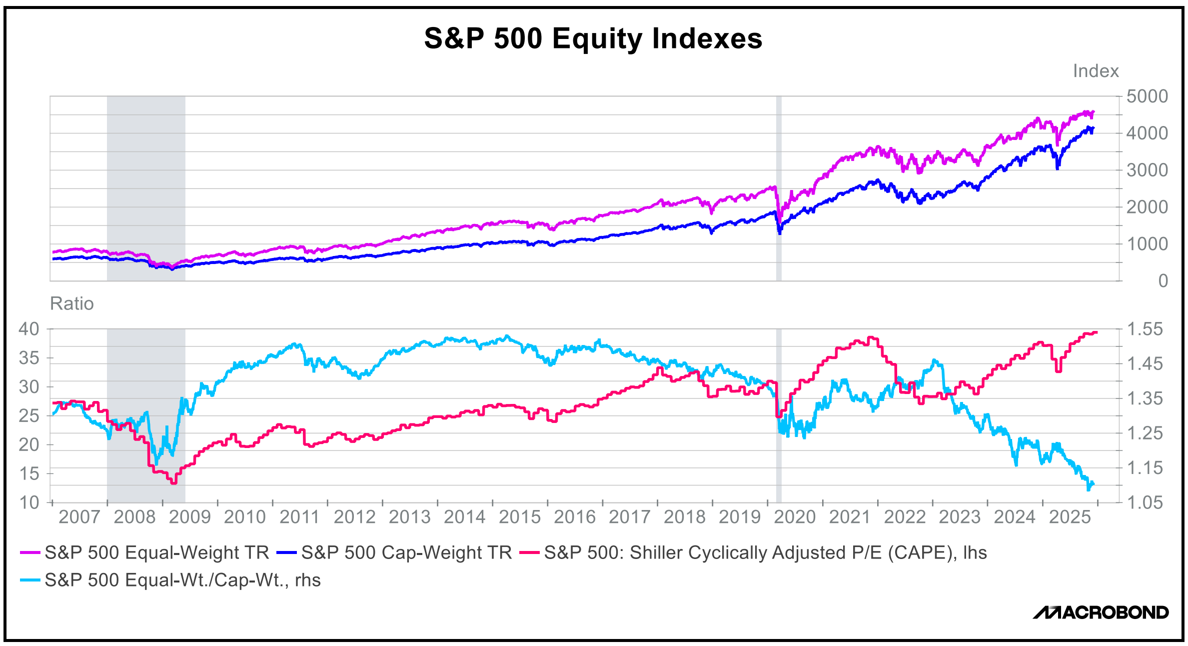
Have a question on the economy, markets, geopolitics, or other important topics? You can submit your queries to our new monthly podcast, *Confluence Mailbag*! Submit your question to mailbag@confluenceim.com.

Our *Comment* today opens with new developments regarding the global and US equity markets, as well as gold. We next review several other international and US developments that could affect the financial markets today, including a dangerous military standoff between Japan and China northeast of Taiwan and a preview of the Federal Reserve's latest policy meeting coming up this week.

Global Public and Private Equity Markets: Reflecting the push to allow everyday investors to take positions in private equity markets, MSCI has launched a new index to track the returns on a combined portfolio of global stocks and private equity funds. The new MSCI All-Country Public + Private Equity Index blends stocks and unlisted assets into a single benchmark, with unlisted assets set at 15% of the portfolio. The new index could further fuel investors' interest in private equity and debt investments and new funds to meet that interest.

US Stock and Precious Metals Markets: The Bank for International Settlements, often called the "central banks' central bank," today issued a report warning that both US stocks and gold are showing signs of being in a bubble. The report notes that the current period is the only instance in the last 50 years when both US stocks and gold have appreciated rapidly at the same time. Of note, the BIS said its research shows the rapid price gains are being driven by "exuberance" among retail investors.

- Clearly, US stock and gold prices are very high and are trading at extraordinarily high valuations. Whether or not they are in a bubble, there is probably a growing risk of a sharp re-pricing at some point in the coming year or two. In addition, US stock prices would be at risk of a correction if corporate profits begin to falter in the face of issues such as tariff disputes, supply chain disruptions, excess investment, or consumer caution.
- We discuss all these issues in our Economic and Financial Market Outlook for 2026, which we expect to publish this week.



China-Japan: Amid the growing tensions over Prime Minister Takaichi's recent comments that a Chinese blockade of Taiwan would prompt Japan to intervene militarily, Tokyo said Chinese jet fighters on Saturday twice locked their fire-control radars on Japanese fighters northeast of Taiwan. The radar locks could have potentially been a prelude to firing missiles at the Japanese jets. Beijing responded on Sunday by saying the Japanese planes had come too close to a Chinese aircraft carrier.

- Beijing's responses to Takaichi's statements so far have focused on sharp rhetoric and various trade and travel restrictions, but it has avoided deploying its most powerful economic sanctions and has kept a lid on military responses.
- Nevertheless, the incident on Saturday is a reminder that the current tensions carry a risk of boiling over. Investors have seemed complacent over the China-Japan tensions, but they should remember that it would only take a small miscalculation or accident to spark

a more serious crisis or even conflict between the two nations, which would almost certainly disrupt the global economy and financial markets.

- As the US continues to shift its foreign policy away from the global hegemony it practiced for decades, and as the rise of revisionist states such as China and Russia continues to spur global fracturing, we have long asserted that geopolitical tensions will worsen over time. This new, tension-filled backdrop to the global investment environment is a key reason we favor assets such as Asian and European defense stocks and gold.

Japan-Australia: Underscoring the geopolitical tensions mentioned above, the Japanese and Australian defense ministers announced a new "framework for strategic defense coordination" between their respective countries on Sunday. Although short of a full mutual defense treaty, the new program aims to boost national security coordination between Japan and Australia as the two countries face the challenge of China's rising geopolitical aggressiveness and a cooler commitment from the US.

China-Southeast Asia: Research by the *Financial Times* shows that Chinese exports to the Southeast Asian countries of Indonesia, Singapore, Malaysia, Thailand, Vietnam, and the Philippines in the first nine months of 2025 were up 23.5% from the same period one year earlier, about double the growth rate in the previous four years. The figures suggest the new US import tariffs against China are indeed prompting Chinese firms to dump or reroute their goods to nearby countries, which could weigh on those nations' economies and firms.

Thailand-Cambodia: The Thai military today launched airstrikes against positions in Cambodia, claiming Cambodian troops had fired across the disputed border in violation of a truce brokered by the US in July. Thailand has evolved in recent decades as an important manufacturing hub in the region, and China is now routing many final goods and manufacturing components to it (see discussion immediately above). The fighting therefore has the potential to disrupt local and international supply chains, possibly affecting Thailand's economy and stock market.

US Monetary Policy: The Fed holds its latest policy meeting this week starting on Tuesday, with its decision due on Wednesday at 2:00 PM ET. This meeting will also include the policy committee's updated economic and financial projects (the "dot plots"). Based on futures prices, investors are virtually unanimous in expecting the policymakers to cut their benchmark fed funds short-term interest rate by 25 basis points to a range of 3.50% to 3.75%.

US National Security Policy: In a speech to the Ronald Reagan Defense Forum in California on Saturday, Secretary of Defense Hegseth said the US government is now prioritizing defense of the homeland and the Americas region. The statement is consistent with the administration's new National Security Strategy released last week, which de-emphasized the military threats from Great Powers such as China and Russia or rogue nuclear states such as Iran and North Korea.

- The new, regionally focused security strategy likely implies major changes in the size of the US armed forces, what weapons the armed forces buy, and how they operate.

- For example, prioritizing the interdiction of drug-running boats or immigrants close to US shores while maintaining a smaller deterrent force for non-regional threats could potentially require fewer troops, less expensive operating tempos, and fewer major weapons systems. That is one reason why we think foreign defense stocks may offer better returns than US defense firms in the coming years.

US Food Industry: Amid rising political pressure over the cost of living, President Trump yesterday signed an order creating task forces to probe price-fixing and other anticompetitive behaviors in the food supply chain. The order calls for a particular focus on the market behavior of foreign-controlled companies. We suspect such an effort will have little direct effect on food prices. However, it could present regulatory risks for consumer staples firms, especially if they are headquartered abroad.

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**	**Indicator**			**Expected**	**Prior**	**Rating**
12/08/2025-12/12/2025	**TBD**	Housing Starts	m/m	Sep	1329k	1307k	***
12/08/2025-12/24/2025	**TBD**	Leading Index	m/m	Sep	-0.3%		***
12/08/2025-12/31/2025	**TBD**	Personal Income	m/m	Sep P		0.4	**
12/08/2025-12/12/2025	**TBD**	Building Permits	m/m	Sep P	1350k	1330k	***
12/08/2025-12/31/2025	**TBD**	Personal Spending	m/m	Oct		0.3%	***
12/08/2025-12/12/2025	**TBD**	Construction Spending	m/m	Sep	0.1%	0.2%	**
12/08/2025-12/31/2025	**TBD**	PCE Price Index	y/y	Oct		2.8%	***
12/08/2025-12/31/2025	**TBD**	Core PCE Price Index	y/y	Oct		2.8%	*
12/08/2025-12/20/2025	**TBD**	PPI Ex Food and Energy	m/m	Oct	0.2%	0.1%	***
12/08/2025-12/19/2025	**TBD**	New Home Sales	m/m	Sep	709k	800k	*
12/08/2025-12/20/2025	**TBD**	PPI Final Demand	y/y	Oct	2.6%	2.7%	***
12/08/2025-12/19/2025	**TBD**	Export Price Index	y/y	Oct		3.8%	*
12/08/2025-12/20/2025	**TBD**	PPI Ex Food and Energy	y/y	Oct		2.6%	**
12/08/2025-12/20/2025	**TBD**	PPI Ex Food, Energy, Trade	y/y	Oct		0.0	**
12/08/2025-12/19/2025	**TBD**	Import Price Index	y/y	Oct		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	Labor Cash Earnings	y/y	Oct	2.6%	1.9%	2.2%	**	Equity and bond neutral
	Real Cash Earnings	m/m	Oct	-0.7%	-1.4%	-1.2%	*	Equity and bond neutral
	GDP SA	q/q	3Q F	-0.60%	-0.40%	-0.50%	***	Equity and bond neutral
	GDP Deflator	q/q	3Q F	3.40%	2.80%	2.80%	***	Equity and bond neutral
	BoP Current Account Balance	m/m	Oct	¥2833.5b	¥4483.3b	¥3129.9b	***	Equity and bond neutral
	BoP Trade Balance	m/m	Oct	¥98.3b	¥236.0b	¥200.5b	**	Equity and bond neutral
China	Foreign Reserves	m/m	Nov	$3346.37b	$3343.3b	$3356.5b	*	Equity and bond neutral
China	Exports	y/y	Nov	5.9%	-1.1%	4.0%	**	Equity bullish, bond bearish
	Imports	y/y	Nov	1.9%	1.0%	3.0%	**	Equity bearish, bond bullish
	Trade Balance	m/m	Nov	$111.68b	$90.07b	$103.10b	***	Equity and bond neutral
EUROPE								
Germany	Industrial Production WDA	y/y	Oct	0.8%	-1.0%	-0.4%	**	Equity and bond neutral
Switzerland	Domestic Sight Deposits CHF	w/w	5-Dec	440.5b	437.3b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	5-Dec	461.9b	458.5b		*	Equity and bond neutral
AMERICAS								
Canada	Net Change in Employment	m/m	Nov	53.6k	66.6k	-2.5k	***	Equity and bond neutral
	Unemployment Rate	m/m	Nov	6.5%	6.9%	7.0%	***	Equity and bond neutral
	Participation Rate	m/m	Nov	65.1%	65.3%	65.3%	*	Equity and bond neutral
Mexico	Vehicle Production	y/y	Nov		367870		*	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)	360	362	-2	Down
U.S. Sibor/OIS spread (bps)	374	375	-1	Down
U.S. Libor/OIS spread (bps)	365	365	0	Down
10-yr T-note (%)	4.16	4.14	0.02	Up
Euribor/OIS spread (bps)	208	206	2	Up
Currencies	**Direction**			
Dollar	Flat			Up
Euro	Flat			Down
Yen	Up			Down
Pound	Flat			Down
Franc	Flat			Down

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.

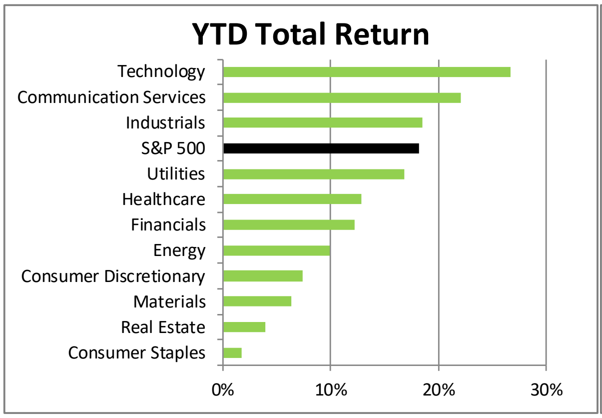
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$63.13	$63.75	-0.97%	
WTI	$59.45	$60.08	-1.05%	
Natural Gas	$5.08	$5.29	-3.88%	Bearish supply-demand dynamics
Crack Spread	$24.20	$24.36	-0.66%	
12-mo strip crack	$25.15	$25.23	-0.32%	
Ethanol rack	$1.92	$1.92	-0.21%	
Metals				
Gold	$4,206.08	$4,197.78	0.20%	
Silver	$58.43	$58.34	0.15%	
Copper contract	$544.80	$546.20	-0.26%	
Grains				
Corn contract	$444.50	$444.75	-0.06%	
Wheat contract	$536.50	$535.75	0.14%	
Soybeans contract	$1,097.75	$1,105.25	-0.68%	
Shipping				
Baltic Dry Freight	2,727	2,814	-87	

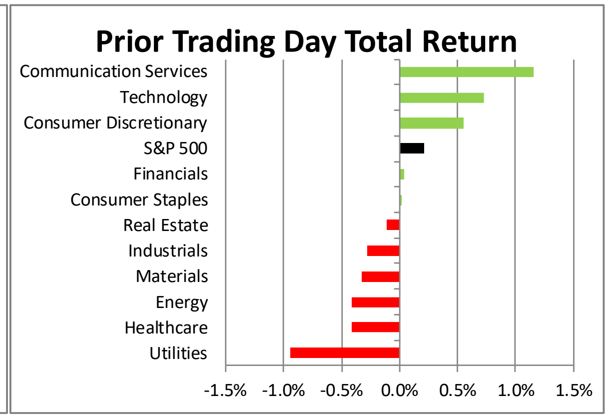
Weather

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 Pacific Northwest and along the Canadian border, with dry conditions for the rest of the country.

Data Section

US Equity Markets – (as of 12/5/2025 close)

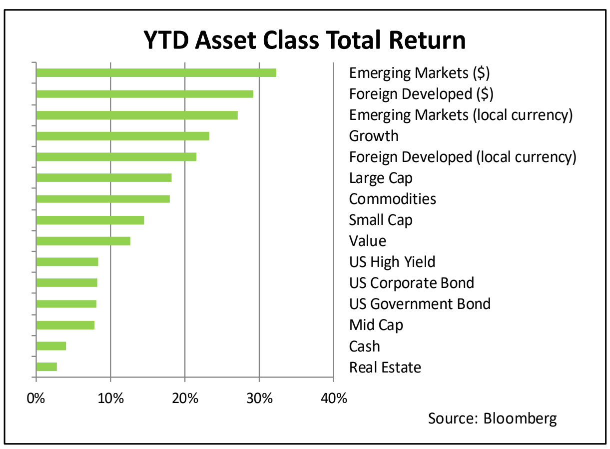




(Source: Bloomberg)

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 12/5/2025 close)

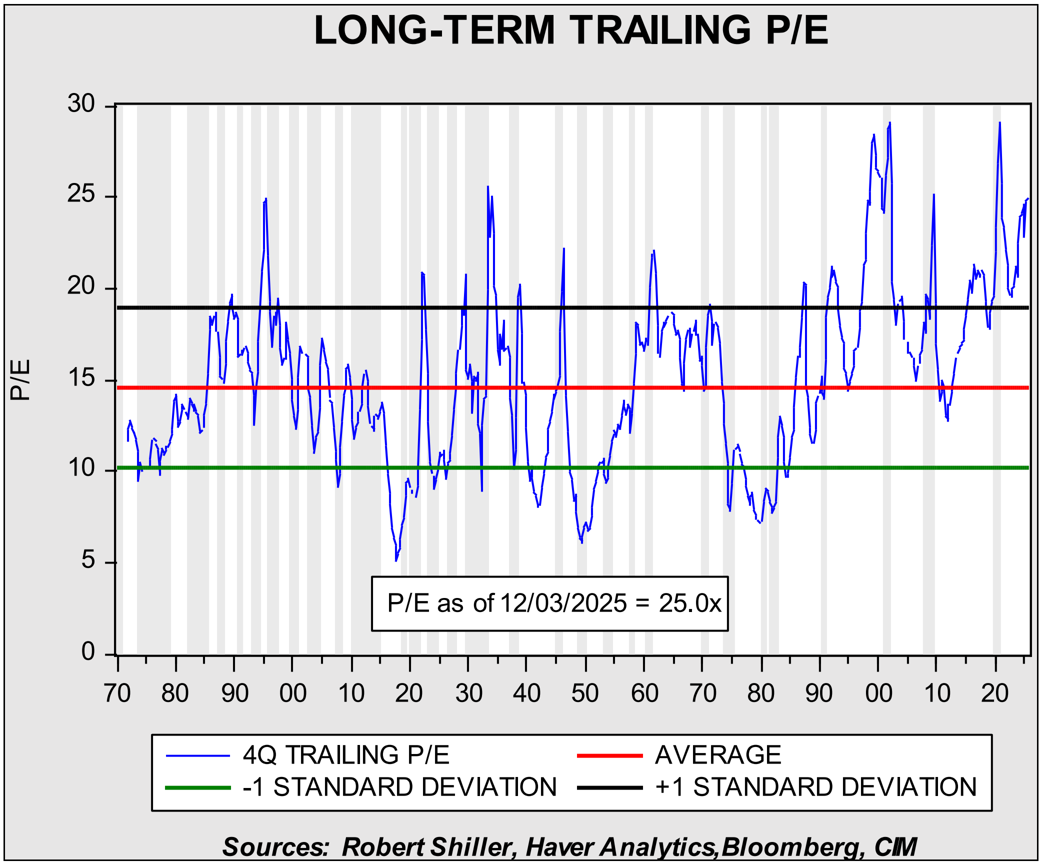


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.

[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.