



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

**[Posted: December 9, 2025 — 9:30 AM ET]** Global equity markets are mostly lower this morning. In Europe, the Euro Stoxx 50 is down 0.2% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 1.0%. Chinese markets were lower, with the Shanghai Composite down 0.4% and the Shenzhen Composite down 0.5%. Conversely, 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
<a href="#">“Meet Sanae Takaichi”</a> (11/10/25) + <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="#">Confluence Mailbag podcast</a>  <a href="#">Value Equities Quarterly Video Update</a>

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](mailto:mailbag@confluenceim.com).

Our *Comment* today opens with changes to Washington’s policy limiting Chinese access to advanced US computer chips and what the changes say about power dynamics in the US and between the US and China. We next review several other international and US developments that could affect the financial markets today, including a shift in investor expectations regarding foreign interest rates and an update in US artificial intelligence policy.

**United States-China:** President Trump yesterday said his administration [will lift its ban on Nvidia selling its nearly cutting-edge H200 artificial-intelligence computer chips to China](#). In return, the US will get a 25% cut on all Chinese revenue from the H200s. The deal marks the federal government’s latest extraordinary intervention into private markets and suggests the administration is continuing to favor the “tech bros” element of its political coalition over its “China hawks” element.

- Nevertheless, reports this morning [say Beijing plans to limit access to the H200 chips as it focuses on achieving self-sufficiency in semiconductor production](#). Sources say

Chinese firms will likely have to apply to the government to buy the chips and show why they can't rely on domestic semiconductors.

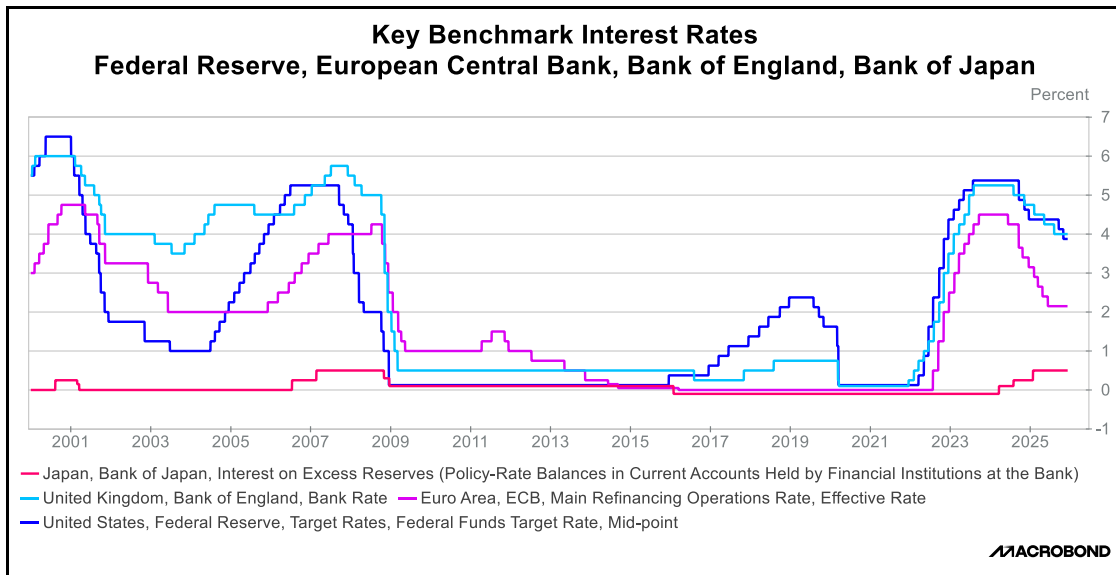
- Taken together, these developments illustrate a changing, complex balance of power within and between the US and China. Domestically, the US government is sharply expanding its power over the private sector and has become much more willing to flex its muscles. Internationally, however, the US this year has often discovered that it has less leverage against China than it thought, and that China is less dependent on US goods and technology than previously expected.

**European Union Immigration Policy:** The EU's national internal affairs ministers yesterday [signed off on a dramatic tightening of the bloc's immigration policy](#), making it easier to deny asylum claims and allowing failed asylum seekers to be detained and deported to "return hubs" outside the EU. The modifications still must be negotiated with, and approved by, the European Parliament. However, whatever their final form, they are likely to herald much tighter immigration into the EU, despite the region's low birth rates and weak population growth.

**European Union Environmental Policy:** EU officials early today [agreed to sharply curtail the bloc's controversial supply-chain regulations](#), which aimed to address environmental and social concerns throughout supply chains touching the EU. The changes will sharply limit the rules to a relatively small number of huge enterprises that will be more able to absorb their costs. As we note in our upcoming *Geopolitical Outlook for 2026*, the shift reflects a nascent, politically driven trend toward deregulation in the EU that could help boost the region's economic growth.

**Eurozone Monetary Policy:** For the first time, swap market trading [suggests investors now think the European Central Bank is more likely to hike its benchmark interest rate in 2026 than to cut it](#). Investors also expect the Canadian and Australian central banks to start hiking their rates next year, while the Bank of England is expected to stop cutting its rate by mid-2026. The change in sentiment reflects less pessimism about economic growth and more concern about price inflation and debt. The Bank of Japan began slowly hiking its interest rates in early 2024.

- Even if the key foreign central banks do start hiking their interest rates, we continue to believe the Fed will cut its benchmark fed funds rate more aggressively in 2026 than in 2025 as it faces a softening US labor market and outside political pressure.
- Any rise in foreign interest rates while US rates are falling would likely put additional downward pressure on the dollar. As we have noted many times in the past, periods when the greenback is depreciating have typically led to better returns for foreign stocks than for US stocks.



**US Monetary Policy:** The Fed today [begins its latest policy meeting](#), with its decision due tomorrow 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 Artificial Intelligence Policy:** President Trump yesterday [said he will sign an executive order this week to prevent US states from imposing their own regulations on the AI industry](#). Instead, the order will give the federal government the sole right to impose a uniform set of regulations, with the goal of fostering a rapid build-out of the industry.

- The order will be further evidence that the administration is favoring the tech industry over other interests, including states’ rights.
- The administration’s preference for the tech industry is probably one reason why tech stocks have performed so well this year.

**US Energy Policy:** A district court judge in Massachusetts yesterday [nixed President Trump’s January order freezing federal approvals of new wind energy projects](#), arguing that the order was “arbitrary and capricious.” Despite the setback, however, the order is likely to be appealed, and the ban could well be reinstated. In other words, the court decision doesn’t definitively clear the road for further green energy projects in the US.

**US Agriculture Industry:** President Trump yesterday [announced a \\$12-billion federal bailout of US farmers, who have been struggling with low prices](#) due to record production and weaker purchases by China. According to the American Farm Bureau Federation, more than half of US farmers are currently losing money. The new aid will likely help buoy demand for a range of agricultural inputs and help support the stock prices of firms ranging from agricultural equipment manufacturers to seed and fertilizer producers.

**US Stock Market Strategy:** According to the *Wall Street Journal* yesterday, banking giant JPMorgan Chase has not only launched its \$1.5-trillion fund to invest in US defense firms and other enterprises building US innovation and resiliency, but it [has also formed a panel of outside advisors for the fund](#) ranging from Amazon CEO Jeff Bezos to former US Secretary of State Condoleezza Rice.

- We at Confluence have long argued that the growing US-China rivalry and global fracturing will create investment opportunities in defense firms and companies related to economic resiliency.
- JPMorgan's establishment of a large fund dedicated to the theme, along with an advisory board stocked with high-level executives and national security experts, is evidence that the opportunities are finally being recognized even by big, traditional financial firms.

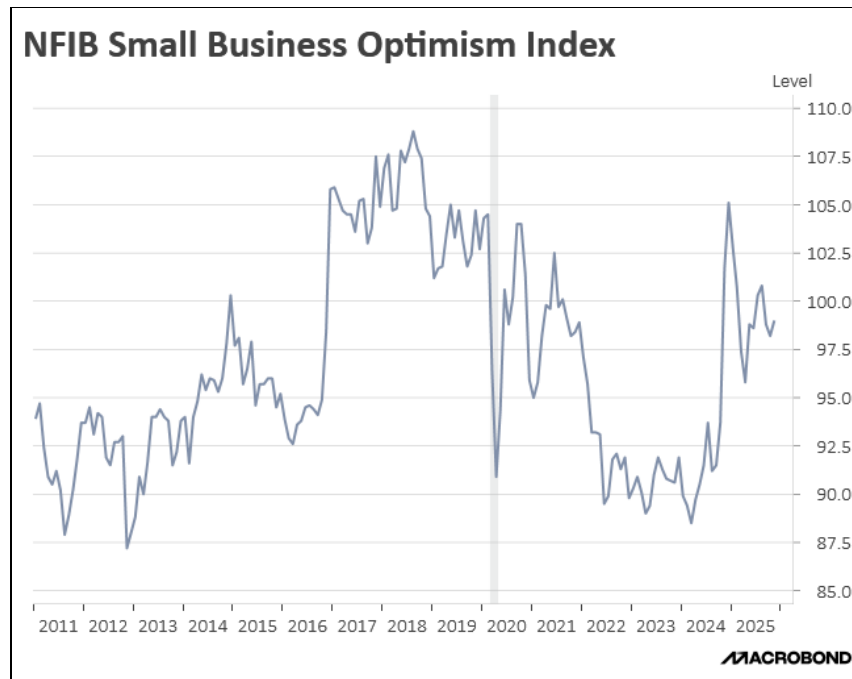
**Global Energy Market:** According to the chief economist at commodities trading giant Trafigura, the global oil market [could face a "super glut" in 2026 as huge new supplies arrive and global demand weakens](#). For example, the economist cited the completion of big, new production projects in Brazil and Guyana but slowing demand growth in China as it relies more heavily on electric vehicles.

- The top oil trader at Trafigura recently said that he expects Brent crude prices to fall below \$60 per barrel in the near term, versus about \$62.50 today and more than \$80 in early 2025.
- If the current oil glut does worsen as Trafigura expects, it would naturally help hold down consumer price inflation, but it would also weigh on global energy equities.

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## US Economic Releases

The NFIB Small Business Optimism Index rose slightly in November, climbing from 98.2 to 99.0, exceeding expectations of 98.4. The uptick reflects growing confidence among business owners, driven by higher sales expectations and plans to increase employment. The improvement was driven by firm expectations of improving financial conditions as well as tax incentives.



As the chart above illustrates, the index has experienced fluctuations since 2011, but the latest reading shows that upward momentum remains as firms gain greater confidence in the overall economy.

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
12/9	10:00	JOLTS Job Openings	m/m	Oct	7117k		**
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%	*
12/08/2025-12/19/2025	TBD	New Home Sales	m/m	Sep	709k	800k	*
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 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	Expected
<b>ASIA-PACIFIC</b>								
Japan	Money Stock M2	y/y	Nov	1.8%	1.6%	--	**	Equity and bond neutral
	Money Stock M3	y/y	Nov	1.2%	1.0%	--	**	Equity and bond neutral
	Machine tool orders	y/y	Nov P	14.2%	17.1%	--	**	Equity and bond neutral
Australia	NAB Business Confidence	m/m	Nov	1	6		***	Equity and bond neutral
	NAB Business Conditions	m/m	Nov	7	10		***	Equity and bond neutral
<b>EUROPE</b>								
Germany	Trade Balance	m/m	Oct	16.9b	15.3b	15.2b	*	Equity and bond neutral
	Exports	m/m	Oct	0.1%	1.5%	0.4%	*	Equity and bond neutral
	Imports	m/m	Oct	-1.2%	3.1%	-0.2%	*	Equity bearish, bond bullish
<b>AMERICAS</b>								
Mexico	CPI	y/y	Nov	3.80%	3.57%	3.70%	***	Equity and bond neutral
	Core CPI	y/y	Nov	4.43%	4.28%	4.33%	**	Equity and bond neutral
Mexico	Vehicle Production	y/y	Nov	322205	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	374	0	Down
U.S. Libor/OIS spread (bps)	364	365	-1	Down
10-yr T-note (%)	4.16	4.17	-0.01	Up
Euribor/OIS spread (bps)	207	208	-1	Up
<b>Currencies</b>	<b>Direction</b>			
Dollar	Flat			Up
Euro	Flat			Down
Yen	Up			Down
Pound	Flat			Down
Franc	Flat			Down
<b>Central Bank Action</b>	<b>Actual</b>	<b>Prior</b>	<b>Expected</b>	
RBA Cash Rate Target	3.60%	3.60%	3.60%	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	\$62.64	\$62.49	0.24%	
WTI	\$59.05	\$58.88	0.29%	
Natural Gas	\$4.75	\$4.91	-3.22%	oversupply and soft demand
Crack Spread	\$23.56	\$23.65	-0.35%	
12-mo strip crack	\$24.92	\$24.89	0.11%	
Ethanol rack	\$1.90	\$1.91	-0.35%	
<b>Metals</b>				
Gold	\$4,203.76	\$4,190.66	0.31%	
Silver	\$58.68	\$58.16	0.90%	
Copper contract	\$536.90	\$544.45	-1.39%	
<b>Grains</b>				
Corn contract	\$444.75	\$443.75	0.23%	
Wheat contract	\$532.50	\$534.75	-0.42%	
Soybeans contract	\$1,088.00	\$1,093.75	-0.53%	
<b>Shipping</b>				
Baltic Dry Freight	2,694	2,727	-33	
<b>DOE Inventory Report</b>				
	Actual	Expected	Difference	
Crude (mb)		-0.30		
Gasoline (mb)		2.04		
Distillates (mb)		1.15		
Refinery run rates (%)		0.2%		
Natural gas (bcf)		-170		

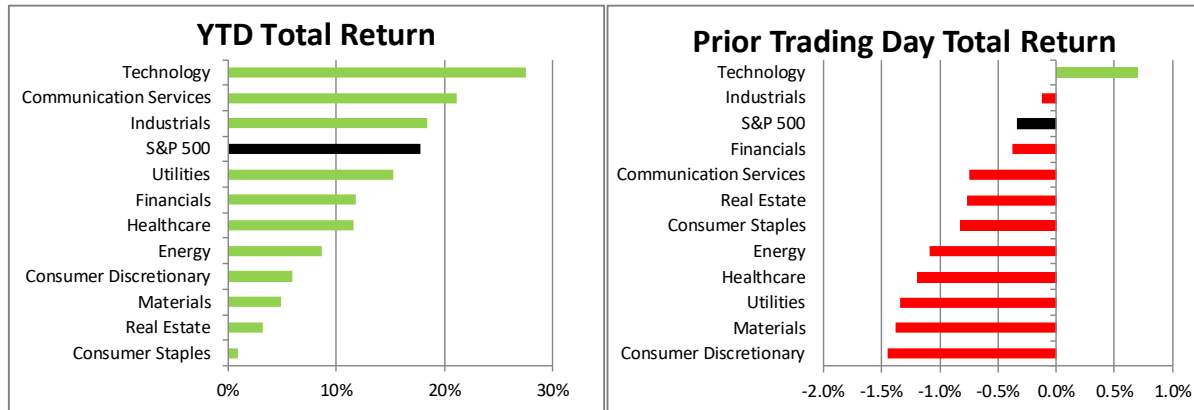
## Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for most of the country, with cooler-than-normal temperatures in the Northeast and Midwest. The outlook calls for wetter-than-normal conditions in the Pacific Northwest and along the Canadian border, with dry conditions expected in the Southwest.



## Data Section

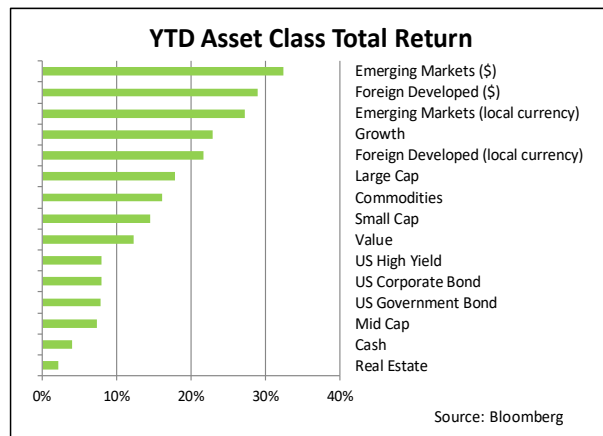
### US Equity Markets – (as of 12/8/2025 close)



(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 12/8/2025 close)



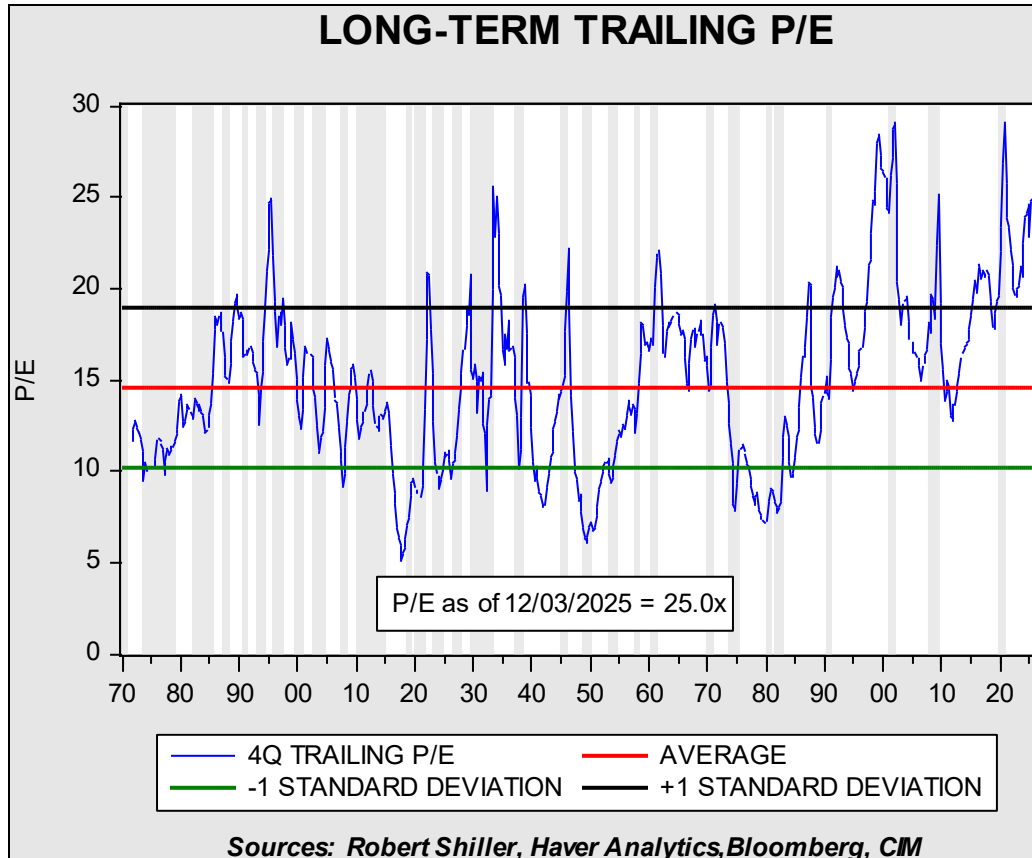
This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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,<sup>1</sup> 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.*

<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.