



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

**[Posted: January 5, 2026 — 9:30 AM ET]** Global equity markets are decidedly higher this morning. In Europe, the Euro Stoxx 50 is up 0.6% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 2.3%. Chinese markets were higher, with the Shanghai Composite up 1.4% and the Shenzhen Composite up 2.0%. 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="#">“Geopolitical Outlook for 2026”</a> (12/15/25) + <a href="#">podcast</a>	<a href="#">“America’s AI Buildout and Its Market Risks”</a> <b>(1/5/26)</b>	<a href="#">Q4 2025 Report</a> <a href="#">Q4 2025 Rebalance Presentation</a>	<a href="#">The 2026 Outlook</a> <a href="#">Confluence of Ideas Podcast</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 some observations on the US seizure of Venezuelan President Maduro on Saturday. We next review several other international and US developments with the potential to affect the financial markets today, including the latest sign that economic decoupling between the US and China continues and indications that China’s aggressive effort to build up its inventories of critical minerals is having a negative impact on Europe’s economy.

**United States-Venezuela:** By now, the US’s early-Saturday capture of Venezuelan President Maduro has been heavily reported, so we won’t go into a detailed discussion of it. Rather, we will make a few observations about the geopolitical implications for investors going forward. Our bottom line is that the actual implications for Venezuela and its enormous oil reserves remain in question at this moment. What is clear is that the US administration has provided a very direct signal as to how it intends to approach foreign policy going forward.

- Despite President Trump’s assertion that the US would “run” Venezuela until a transition of power could be implemented, Secretary of State Rubio [has sketched out a relationship that is more like a US guardianship](#), in which the US would oversee and exert pressure on

the Venezuelan government to transition toward democracy and capitalism. The extent of US involvement in the Venezuelan government is a key question going forward.

- Just as important, the fact that China, Russia, and other adversary countries could only offer rhetorical support to Maduro will likely undermine their geopolitical power. China has recently been able to flex its geopolitical muscles based on its control of key mineral and technological supplies — and may do so again here to retaliate — but the US operation against Venezuela has underscored how China still can't project military power to force the US to back down in Latin America.
- In any case, the US action underscores the administration's focus on dominating the Western Hemisphere, as it laid out in its National Security Strategy in December. Officials have presented several different justifications for the action in Venezuela, from fighting drug trafficking and terrorism to re-establishing democracy and punishing Maduro for nationalizing US energy assets. That's consistent with the National Security Strategy's focus on economic relations, which we'll delve more into in future reports.
- Beyond seizing Maduro and subjecting him to the US justice system, the action is a [signal to other left-wing governments in Latin America, especially Bogota, Managua, and Havana](#). The implication for Cuba is especially stark. If the US now forces Venezuela to restrict its energy exports to Cuba, its regime would become increasingly fragile, and that could set up a similar operation against Cuba. If you've been wanting to visit Havana, it would be no surprise if you could do so visa-free a year from now.
- The move against Venezuela also signals that the US will be prepared to pressure other Latin American countries to align their economic policies with those of the US. In the near term, that could force deregulation and other improved policies on governments in the region, potentially providing a boost to Latin American stock markets.
- In terms of market reactions, global oil prices as of this writing [are down less than 1%](#), consistent with an expectation for an eventual rise in Venezuelan oil production and exports, but no appreciable change in the near term. On the other hand, major US energy stocks [are surging](#), probably reflecting optimism about compensation for Venezuela's past nationalization of their assets and future work rebuilding the country's oil infrastructure.

**United States-China:** President Trump on Friday [signed an executive order forcing HieFo Corp., a Delaware-registered firm, to divest its holdings of US semiconductor assets](#), on the basis that HieFo's ownership by a Chinese citizen could endanger US national security. The move shows that US-China decoupling in terms of capital flows and foreign ownership remains in place, presenting risks for investors.

**China-European Union:** A top official with Novelis, the EU's top aluminum recycler, [has warned that China is aggressively buying up scrap aluminum from the EU's recycling system](#) and using it as a low-cost input for aluminum products that it then sends back to the EU. Now that the EU has essentially lost its primary aluminum production, the official warns that the Chinese action could also destroy the bloc's scrap production industry.

- The situation illustrates how the EU is increasingly concerned about the risks from China's aggressive economic policies.
- More broadly, a range of recent reports has shown that China is rapidly building up its reserves of critical minerals and industrial inputs, from oil to copper. Today's report suggests it may also be bulking up its inventories of aluminum. Some observers speculate that the inventory buildup aims to set the stage for a potential war over Taiwan.
- Broader still, such commodity hoarding is what we have long expected as the US steps back from its traditional role as the global hegemon and the world fractures into relatively separate geopolitical and economic blocs or spheres of influence. That should buoy the prices of hoarded commodities and is a key reason why Confluence launched its Global Hard Assets portfolio many years ago.

**United Kingdom-European Union:** UK Prime Minister Starmer yesterday [declared that it is in his country's national interest to align more closely with the EU](#), although he stopped short of calling for a reversal of Brexit or rejoining the EU's common market. Starmer's statement comes as he struggles to re-invigorate British economic growth and bring down elevated consumer prices. Lacking progress on those efforts, his ruling Labour Party continues to bleed public support.

**Germany:** The share price of banking giant Deutsche Bank today [rose above the firm's book value for the first time since 2008](#), marking not only the slow improvement in Europe's banking environment since the Great Financial Crisis but also the institution's long struggle to put its legal and operational struggles behind it.

**France:** The *Financial Times* today carries an article discussing how French business leaders [have now become much more comfortable meeting with politicians from the resurgent far-right National Rally party](#). Such meetings were once considered taboo, but now that the Rally looks like it could take the presidency in the 2027 elections, business leaders want to influence it. While far-right parties often support populist economic policies, the Rally's engagement with business could potentially lead to further deregulation if it does take power.

**Russia-Baltics:** Officials from countries around the Baltic Sea [have reported damage to undersea communications cables six times in the last six days](#), prompting fears that Russia has launched a new campaign of sabotage against the North Atlantic Treaty Organization. Such cable sabotage had stopped for most of the last year since NATO launched its "Baltic Sentry" program of enhanced naval patrols.

- If they really are attributed to Russia, the new attacks could reflect Kremlin efforts to scuttle the US-backed effort to reach a peace deal in Ukraine.
- In any case, the incidents serve as a reminder that pressure from Russia and the continuing Russia-Ukraine war are still important risks to the global investment environment.

## US Economic Releases

There were no economic 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	Indicator			Expected	Prior	Rating
10:00	ISM Manufacturing	m/m	Dec	48.4	48.2	**
10:00	ISM Prices Paid	m/m	Dec	58.7	58.5	**
10:00	ISM New Orders	m/m	Dec		47.4	**
10:00	ISM Employment	m/m	Dec		44	*
10:00	Wards Total Vehicle Sales	m/m	Dec	15.75m	15.60m	*
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	Market Impact
<b>ASIA-PACIFIC</b>								
Japan	S&P Global Japan Manufacturing PMI	m/m	Dec F	50.0	49.7		***	Equity and bond neutral
China	RatingDog China PMI Composite	m/m	Dec	51.3	51.2		**	Equity and bond neutral
	RatingDog China PMI Services	m/m	Dec	52.0	52.1	52.0	**	Equity and bond neutral
India	HSBC India PMI Mfg	m/m	Dec F	55.0	55.7		***	Equity and bond neutral
<b>EUROPE</b>								
Eurozone	HCOB Eurozone Manufacturing PMI	m/m	Dec F	48.8	49.2	49.2	***	Equity and bond neutral
	M3 Money Supply	y/y	Dec	3.0%	2.8%	2.7%	***	Equity and bond neutral
Germany	HCOB Germany Manufacturing PMI	m/m	Dec F	47.0	47.7	47.7	***	Equity and bond neutral
France	HCOB France Manufacturing PMI	m/m	Dec F	50.7	50.6	50.6	***	Equity and bond neutral
Italy	HCOB Italy Manufacturing PMI	m/m	Dec	47.9	50.6	50.1	***	Equity bearish, bond bullish
	Budget Balance	m/m	Dec	11.7b	-6.9b		*	Equity and bond neutral
	New Car Registrations	y/y	Dec	2.2%	-0.04%		*	Equity and bond neutral
UK	Nationwide House Price Index	y/y	Dec	0.6%	1.8%	1.2%	***	Equity bearish, bond bullish
	S&P Global UK Manufacturing PMI	m/m	Dec F	50.6	51.2	51.2	***	Equity bearish, bond bullish
	Net Lending Sec. on Dwellings	m/m	Nov	4.5b	4.2b	4.1b	*	Equity and bond neutral
	Mortgage Approvals	m/m	Nov	64.5k	65.0k	64.0k	***	Equity and bond neutral
	M4 Money Supply	y/y	Nov	4.3%	3.5%		*	Equity and bond neutral
Switzerland	Real Retail Sales	y/y	Nov	2.3%	2.2%		**	Equity and bond neutral
	PMI Manufacturing	m/m	Dec	45.8	49.7	49.6	***	Equity and bond neutral
	PMI Services	m/m	Dec	52.1	45.3		*	Equity and bond neutral
	Domestic Sight Deposits CHF	w/w	2-Jan	426.4b	439.6b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	2-Jan	452.4b	458.3b		*	Equity and bond neutral
<b>AMERICAS</b>								
Canada	S&P Global Canada Manufacturing PMI	m/m	Dec	48.6	48.4		***	Equity and bond neutral
Mexico	S&P Global Mexico Manufacturing PMI	m/m	Dec	46.1	47.6		***	Equity and bond neutral
	IMEF Manufacturing Index SA	m/m	Dec	46.2	45.8		*	Equity and bond neutral
	IMEF Non-Manufacturing Index SA	m/m	Dec	49.5	50.3		*	Equity and bond neutral
Brazil	S&P Global Brazil Manufacturing PMI	m/m	Dec	47.6	48.8		***	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)	353	354	-1	Down
U.S. Sibor/OIS spread (bps)	364	365	-1	Down
U.S. Libor/OIS spread (bps)	360	360	0	Down
10-yr T-note (%)	4.17	4.19	-0.02	Up
Euribor/OIS spread (bps)	203	203	0	Up
<b>Currencies</b>	<b>Direction</b>			
Dollar	Up			Up
Euro	Down			Down
Yen	Down			Down
Pound	Flat			Down
Franc	Up			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.

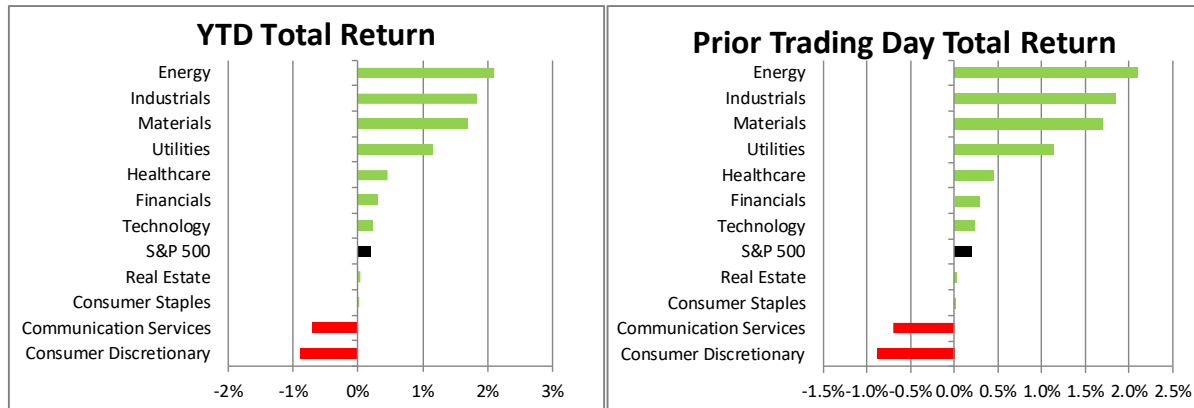
	Price	Prior	Change	Explanation
<b>Energy Markets</b>				
Brent	\$61.03	\$60.75	0.46%	
WTI	\$57.65	\$57.32	0.58%	
Natural Gas	\$3.48	\$3.62	-3.92%	
Crack Spread	\$19.92	\$19.89	0.15%	
12-mo strip crack	\$22.65	\$22.49	0.72%	
Ethanol rack	\$1.78	\$1.79	-0.34%	
<b>Metals</b>				
Gold	\$4,415.81	\$4,332.29	1.93%	
Silver	\$75.06	\$72.82	3.08%	
Copper contract	\$586.70	\$569.15	3.08%	
<b>Grains</b>				
Corn contract	\$439.75	\$437.50	0.51%	
Wheat contract	\$508.00	\$506.50	0.30%	
Soybeans contract	\$1,052.50	\$1,045.75	0.65%	
<b>Shipping</b>				
Baltic Dry Freight	1,882	1,877	5	

## 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 near normal temperatures everywhere else. The precipitation outlook calls for wetter-than-normal conditions on the Canadian border along the Great Lakes, with dry conditions expected in most of the western half of the country as well as parts of the Midwest.

## Data Section

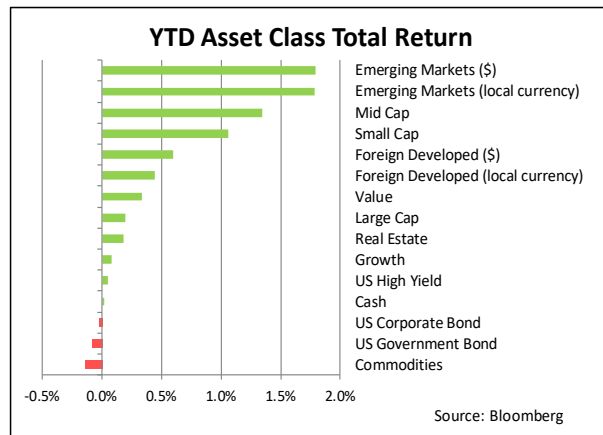
### US Equity Markets – (as of 1/2/2026 close)



(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 1/2/2026 close)



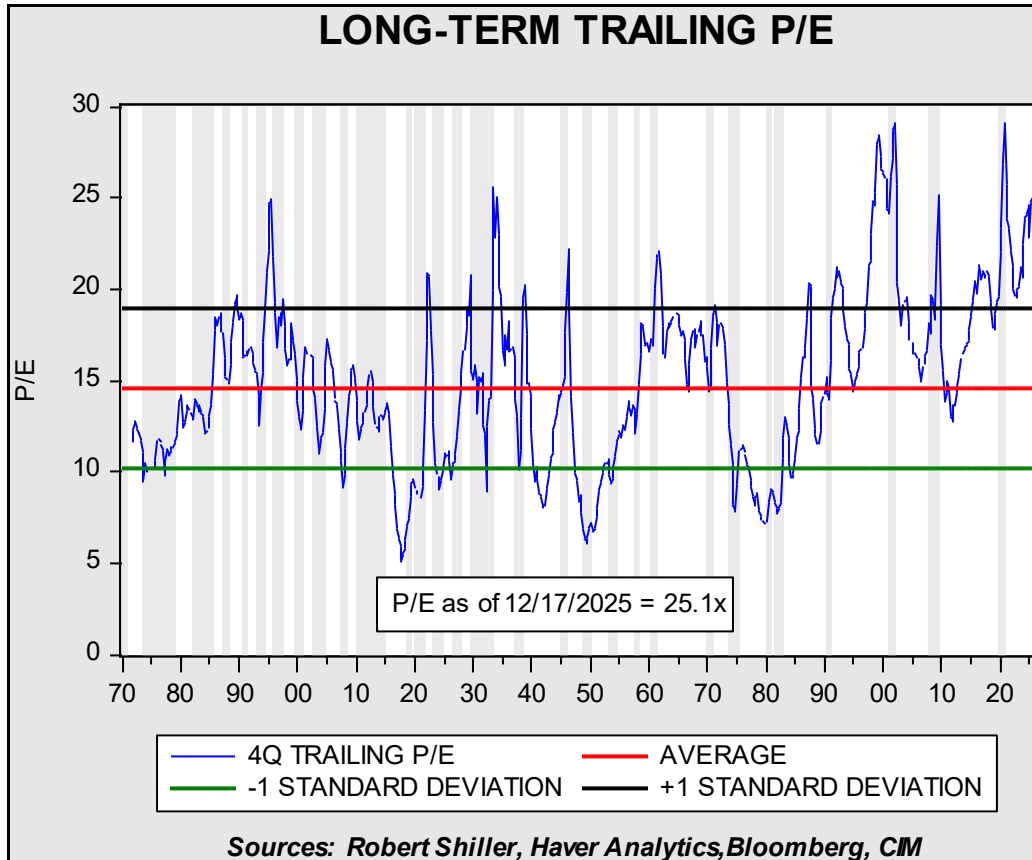
This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 18, 2025



Based on our methodology,<sup>1</sup> the current P/E is 25.1x, unchanged from the previous report. The stock price index and earnings were little changed from the previous month.

*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.