Daily Comment

Confluence Investment Management

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[Posted: November 21, 2025 — 9:30 AM ET] Global equity markets are generally lower this morning. In Europe, the Euro Stoxx 50 is down 0.8% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 3.6%. Chinese markets were lower, with the Shanghai Composite down 2.5% and the Shenzhen Composite down 3.4%. Conversely, US equity index futures are signaling a higher open.

With 474 companies having reported so far, S&P 500 earnings for Q3 are running at $72.50 per share compared to estimates of $68.15, which is up 8.0% from Q3 2024. Of the companies that have reported thus far, 81.6% have exceeded expectations, while 14.3% have fallen short of expectations.

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	"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 news that the US is now slowing down its plans to impose big, new tariffs on foreign semiconductors to avoid spoiling the US-China trade truce. We next review several other international and US developments that could affect the financial markets today, including a new speech by European Central Bank President Lagarde on what's causing Europe's slow economic growth and a hawkish forecast of Federal Reserve interest-rate cuts by the head of Vanguard's fixed-income investing.

United States-China: According to Reuters, several officials have said the administration is slow walking the 100% tariffs on foreign semiconductor imports that it announced in August, largely to avoid provoking China into another clampdown on its critical minerals exports. The officials say the administration could still announce the tariffs at any time, but for now, the new imposts are on hold.

- President Trump said in August that the US would impose a tariff of about 100% on imports of semiconductors but exempted companies that are manufacturing in the US or have committed to do so.
- The decision to put the tariffs on ice to avoid another cutoff of Chinese critical minerals illustrates how the trade war earlier this year revealed the immense leverage China has gained from its near monopoly on key minerals and products made from them.
- In our view, that realization has helped convince many US leaders that China's comprehensive power — military, diplomatic, economic, and technological — has now increased to the point where it is essentially on par with that of the US.
- We think that has forced the US to become more circumspect in its competition with China, possibly heralding the end of the long era of sole US hegemony. On the other hand, the more-or-less equal balance of power could force a coexistence deal that would reduce US-China tensions and potentially give a boost to US and Chinese stocks.

United States-Russia-European Union-Ukraine: As flagged in our *Comment* yesterday, the US's new proposed peace deal to end the war in Ukraine is generating intense resistance from leaders in Europe. The Ukrainian government has been more circumspect, but after text of the proposal was leaked yesterday, the major concessions it requires from Kyiv would suggest there is little chance that President Zelensky's government would approve it. Even though financial markets were buoyed by news of the plan, we now suspect it will be another false dawn.

United States-Argentina: According to reports late yesterday, major US banks including JPMorgan Chase, Bank of America, and Citigroup have shelved an administration-driven plan to provide a $20 billion bailout to the Argentine government. Instead, the banks will just help Buenos Aires handle a $4-billion debt payment in January. The US's separate currency swap of $20 billion for Argentina remains in place, but since President Milei's party scored a decisive victory in Argentina's recent Congressional elections, the private funding is no longer needed.

United States-Brazil: President Trump yesterday lifted a 40% import tariff against certain Brazilian food products, including coffee, beef, and nuts, citing "initial progress" in trade negotiations with the country's leftist government. The move comes less than a week after the president cut import tariffs on a wide range of food imports in an effort to bring down prices and diffuse criticism that he hasn't done enough to reduce the cost of living. The move should be beneficial to a range of Brazilian food exporters.

US Monetary Policy: Sara Devereux, the chief of Vanguard's $2.8-trillion fixed-income portfolio, warned in an interview with the *Financial Times* earlier today that the Fed probably won't cut US interest rates as aggressively as investors expect over the coming year. Devereux said she expects only one or two more 25-basis-point cuts from the Fed over the next year, while investors generally expect four or five.

- Devereux's forecast largely reflects her expectation from continued good economic growth in the US, driven by AI investment.
- In contrast, we continue to believe that strong political pressure and the replacement of current Fed officials with more dovish policymakers argues for faster rate cuts in 2026 than in 2025.

Eurozone: In a scathing speech today, ECB President Lagarde accused European leaders of being too wedded to an export-driven economic model at a time of global fracturing with more competitive exporters elsewhere. Instead, Lagarde urged European officials to focus on boosting the bloc's domestic economy, which she said has plenty of latent strengths and could grow faster with fewer hurdles to internal trade.

- Coupled with former ECB President Draghi's big report last year, which tied Europe's lethargic economy largely to investment hurdles, Lagarde's major new speech adds to the expanding body of major analyses aimed at sparking faster growth in the region. However, her focus on easing domestic trade suggests there still isn't a strong consensus on what's causing the problem.
- As we've noted before, the geopolitical threat from Russia over the last three years has spurred stronger defense spending, which has helped encourage looser fiscal policy more generally and even some modest steps toward deregulation. Combined with the decline in the value of the dollar, that has given a boost to European stocks so far this year.
- All the same, we're still looking for deeper, more fundamental economic reforms before we can be certain that Europe is on the path to faster growth and better stock performance over the longer term.

United Kingdom: The November GfK consumer confidence index dropped to -19.0, worse than both the expected reading of -18.0 and the October reading of -17.0. The figure was also far worse than the 2014-2019 average of -5.6. The reading suggests British consumers are worried about their prospects amid continued high inflation and expectations that the Labour government of Prime Minister Starmer is about to announce a new round of tax hikes.

Japan: As the government continues to reopen nuclear power plants shut down after the Fukushima disaster of 2011, today it approved the restart of Tokyo Electric Power's enormous Kashiwazaki-Kariwa nuclear plant in Niigata prefecture. The plant is the world's largest facility for generating electricity from nuclear power. Japan has now approved restarting 14 of the 54 nuclear generating stations shut down after Fukushima, with four more awaiting approval by local governments and eight awaiting national regulatory approval.

- Japan's re-embrace of stable, affordable nuclear power is increasingly giving it an economic advantage over Europe. Coupled with the weaker dollar and the likelihood of more stimulative economic policies under the new prime minister, that helps explain the good returns from Japanese stocks over the last year or more. The re-embrace of nuclear energy is probably also a positive for uranium and uranium miners.

- Regarding Prime Minister Takaichi's economic program, her government today unveiled a massive fiscal stimulus package worth the equivalent of $135.4 billion, consisting largely of tax cuts, increased public investment in national security and infrastructure, cash handouts to parents, and gas and electricity subsidies for consumers. The package isn't quite as big as some bond investors feared, so Japanese government bonds have rallied modestly so far today, driving the yield on 10-year JGBs down to 1.788%.

US Economic Releases

No major 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**
11/21/2025-12/19/2025	**TBD**	Housing Starts	m/m	Sep	1329k	1307k	***
11/21/2025-12/19/2025	**TBD**	Building Permits	m/m	Sep P	1347k	1330k	**
11/21/2025-11/24/2025	**TBD**	Federal Budget Balance	m/m	oct	-$230.0b	-$275.5b	***
11/21/2025-12/19/2025	**TBD**	New Home Sales	m/m	Sep			***
11/21/2025-12/19/2025	**TBD**	New Home Sales MoM	m/m	Sep			*
11/21/2025	**9:45**	S&P Global US Manufacturing PMI	m/m	Nov P	52.0	52.5	***
11/21/2025	**9:45**	S&P Global US Services PMI	m/m	Nov P	54.6	44.1	***
11/21/2025	**9:45**	S&P Global US Composite PMI	m/m	Nov P	54.5	54.6	***
11/21/2025	**10:00**	U. of Michigan Consumer Sentiment	m/m	Nov F	50.6	50.3	***
11/21/2025	**10:00**	U. of Michigan Current Conditions	m/m	Nov F		52.3	**
11/21/2025	**10:00**	U. of Michigan Future Expectations	m/m	Nov F		49.0	**
11/21/2025	**10:00**	U. of Michigan 1-Year Inflation Expectation	m/m	Nov F	4.7	4.7%	*
11/21/2025	**10:00**	U. of Michigan 5-10 Year Inflation Expectation	m/m	Nov F	3.6%	3.6%	*
11/21/2025	**10:00**	Wholesale Inventories	m/m	Aug F		-0.2	**
11/21/2025	**10:00**	Wholesale Trade Sales	m/m	Aug		1.4	*
11/21/2025	**11:00**	Kansas City Fed Services Index	m/m	Nov		-5	*
Federal Reserve							
11/21/2025	**7:30**	John Williams Delivers Keynote Speech	President of the Federal Reserve Bank of New York				
11/21/2025	**8:00**	Susan Collins on CNBC	President of the Federal Reserve Bank of Boston				
11/20/2025	**8:30**	Stephen Miran Appears on Bloomberg TV	Members of the Board of Governors				
11/21/2025	**8:30**	Michael Barr Gives Welcoming Remarks at the College Fed Challenge	Members of the Board of Governors				
11/21/2025	**8:45**	Philip Jefferson Speaks on Financial Stability	Vice-Chair of the Board of Governors				
11/21/2025	**9:00**	Lorie Logan Speaks at Conference in Switzerland	President of the Federal Reserve Bank of Dallas				

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.

Japan	National CPI	y/y	Oct	3.0%	2.9%	3.0%	***	Equity and bond neutral
	National CPI Ex-Fresh Food	y/y	Oct	3.0%	2.9%	3.0%	**	Equity and bond neutral
	National CPI Ex-Fresh Food & Energy	y/y	Oct	3.1%	3.0%	3.1%	*	Equity and bond neutral
	Trade Balance	y/y	Oct	-¥231.8b	-¥234.6b	-¥284.2b	**	Equity and bond neutral
	Exports	y/y	Oct	3.6%	4.2%	1.1%	*	Equity bullish, bond bearish
	Imports	y/y	Oct	0.7%	3.3%	-1.0%	*	Equity bullish, bond bearish
	S&P Global Japan Composite PMI	m/m	Nov P	52.0	51.5		*	Equity and bond neutral
	S&P Global Japan Manufacturing PMI	m/m	Nov P	48.8	48.2		***	Equity and bond neutral
	S&P Global Japan Services PMI	m/m	Nov P	53.1	53.1		*	Equity and bond neutral
Australia	S&P Global Australia Composite PMI	m/m	Nov P	52.6	52.1		*	Equity and bond neutral
	S&P Global Australia Manufacturing PMI	m/m	Nov P	51.6	49.7		***	Equity and bond neutral
	S&P Global Australia Services PMI	m/m	Nov P	52.7	52.5		*	Equity and bond neutral
New Zealand	Exports NZD	m/m	Oct	6.5	5.82b		**	Equity and bond neutral
	Imports NZD	m/m	Oct	8.04	7.18b		**	Equity and bond neutral
	Trade Balance NZD	m/m	Oct	-1542m	1384m		**	Equity and bond neutral
South Korea	PPI	y/y	Oct	1.5%	1.2%		**	Equity and bond neutral
India	HSBC India PMI Composite	m/m	Nov P	59.9	60.4		**	Equity and bond neutral
	HSBC India PMI Mfg	m/m	Nov P	57.4	59.2		***	Equity and bond neutral
	HSBC India PMI Services	m/m	Nov P	59.5	58.9		**	Equity and bond neutral
EUROPE								
Eurozone	Consumer Confidence	m/m	Nov P	-14.2	-14.2	-14.0	**	Equity and bond neutral
	HCOB Eurozone Manufacturing PMI	m/m	Nov P	49.7	45.7	50.1	***	Equity bearish, bond bullish
	HCOB Eurozone Services PMI	m/m	Nov P	53.1	53.3	52.8	**	Equity and bond neutral
	HCOB Eurozone Composite PMI	m/m	Nov P	52.4	51.7	52.5	*	Equity and bond neutral
Germany	HCOB Germany Manufacturing PMI	m/m	Nov P	48.4	49.6	49.8	***	Equity bearish, bond bullish
	HCOB Germany Services PMI	m/m	Nov P	52.7	54.6	54.0	**	Equity bearish, bond bullish
	HCOB Germany Composite PMI	m/m	Nov P	52.1	53.9	53.5	**	Equity bearish, bond bullish
France	Business Confidence	m/m	Nov	98	97	97	**	Equity and bond neutral
	Manufacturing Confidence	m/m	Nov	98	101	100	*	Equity and bond neutral
	HCOB France Manufacturing PMI	m/m	Nov P	47.8	48.8	49.0	***	Equity bearish, bond bullish
	HCOB France Services PMI	m/m	Nov P	50.8	48.0	48.5	**	Equity bullish, bond bearish
	HCOB France Composite PMI	m/m	Nov P	49.9	47.7	48.2	**	Equity bullish, bond bearish
UK	Public Finances (PSNCR)	m/m	Oct	20.8b	-10.8b		*	Equity and bond neutral
	Public Sector Net Borrowing	m/m	Oct	17.4b	19.9b	15.0b	*	Equity and bond neutral
	PSNB ex Banking Groups	m/m	Oct	17.4b	19.9b		**	Equity and bond neutral
UK	GfK Consumer Confidence	m/m	Nov	-19	-17	-18	***	Equity and bond neutral
	Retail Sales	y/y	Oct	0.2%	1.0%	1.4%	***	Equity bearish, bond bullish
	Retail Sales Ex-Auto Fuel	y/y	Oct	1.2%	1.7%	2.5%	**	Equity bearish, bond bullish
	S&P Global UK Services PMI	m/m	Nov P	50.5	52.3	52.0	**	Equity bearish, bond bullish
	S&P Global UK Manufacturing PMI	m/m	Nov P	50.2	49.7	49.2	***	Equity bullish, bond bearish
	S&P Global UK Composite PMI	m/m	Nov P	50.5	52.2	51.8	**	Equity bearish, bond bullish
Switzerland	M3 Money Supply	y/y	Oct	4.8%	4.0%		**	Equity and bond neutral
Russia	Gold and Forex Reserves	m/m	14-Nov	$734.1b	$719.8b		***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	14-Nov	19.13t	19.04t		*	Equity and bond neutral
AMERICAS								
Canada	Industrial Product Price	m/m	Oct	1.5%	1.0%	0.3%	**	Equity bullish, bond bearish
	Raw Material Prices	m/m	Oct	1.6%	1.7%	0.6%	*	Equity bullish, bond bearish
Mexico	GDP NSA	y/y	3Q F	-0.1%	-0.2%	-0.2%	***	Equity and bond neutral
	Economic Activity IGAE	y/y	Sep	0.67%	-0.52%	0.95%	**	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)	374	378	-4	Down
U.S. Sibor/OIS spread (bps)	383	388	-5	Down
U.S. Libor/OIS spread (bps)	373	378	-5	Down
10-yr T-note (%)	4.05	4.09	-0.04	Down
Euribor/OIS spread (bps)	205	207	-2	Up
Currencies	**Direction**			
Dollar	Flat			Up
Euro	Flat			Down
Yen	Down			Down
Pound	Flat			Down
Franc	Flat			Up

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.

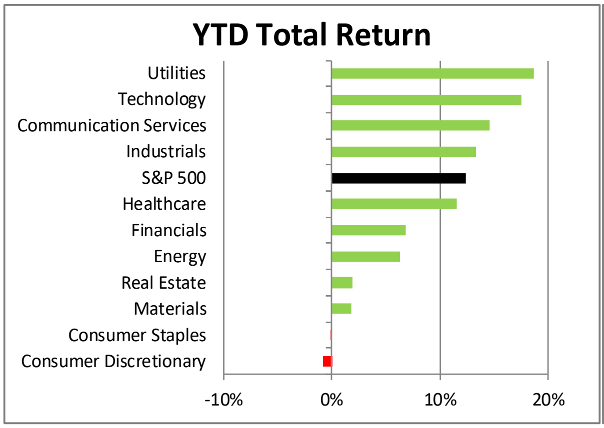
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$62.93	$63.38	-0.71%	
WTI	$58.44	$59.00	-0.95%	
Natural Gas	$4.51	$4.47	0.69%	
Crack Spread	$26.66	$30.28	-11.94%	Rolling Contracts
12-mo strip crack	$26.01	$27.05	-3.85%	
Ethanol rack	$2.01	$1.99	0.66%	
Metals				
Gold	$4,070.58	$4,077.19	-0.16%	
Silver	$49.60	$50.66	-2.09%	
Copper contract	$504.60	$504.85	-0.05%	
Grains				
Corn contract	$436.25	$437.75	-0.34%	
Wheat contract	$536.50	$540.75	-0.79%	
Soybeans contract	$1,118.25	$1,122.50	-0.38%	
Shipping				
Baltic Dry Freight	2,270	2,260	10	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	-3.43	-1.70	-1.73	
Gasoline (mb)	2.33	0.05	2.28	
Distillates (mb)	0.17	-1.14	1.32	
Refinery run rates (%)	0.1%	0.9%	-0.01	
Natural gas (bcf)	-14	-15	1	

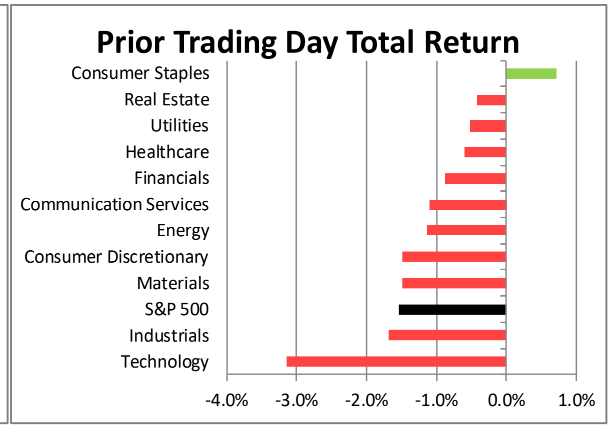
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in California and the Southwest, southern Texas, and Florida, with cooler-than-normal temperatures in the northern Rocky Mountains and the northern and central Great Plains. The outlook calls for wetter-than-normal conditions in the northern Rocky Mountains, the Great Plains, the Midwest, and the Northeast, with dry conditions in California.

Data Section

US Equity Markets – (as of 11/20/2025 close)

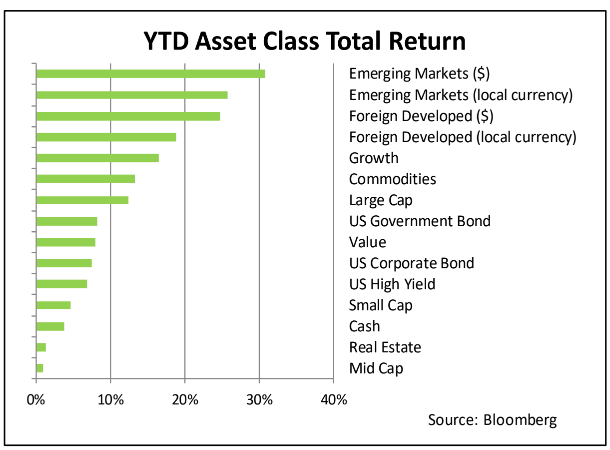




(Source: Bloomberg)

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 11/20/2025 close)

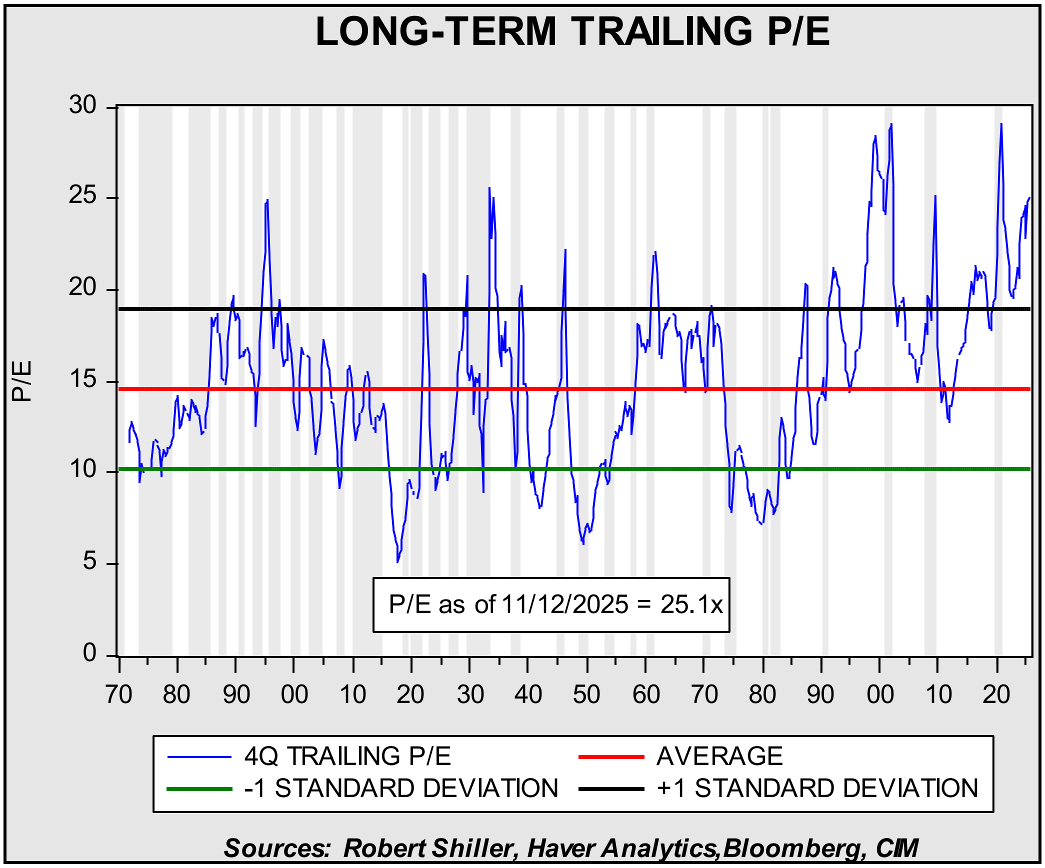


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 13, 2025



Based on our methodology,[1] the current P/E is 25.1x, which is unchanged from the previous report. The slight rise in the stock price index was offset by a rise 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.