



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: December 2, 2024 — 9:30 AM ET] Global equity markets are generally higher this morning. In Europe, the Euro Stoxx 50 closed up 0.6% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 1.1%. Chinese markets were higher, with the Shanghai Composite up 1.1% from its previous close and the Shenzhen Composite up 1.8%. Conversely, US equity index futures are signaling a lower open.

With 483 companies having reported so far, S&P 500 earnings for Q3 are running at \$63.10 per share compared to estimates of \$60.44, which is up 4.2% from Q3 2023. Of the companies that have reported thus far, 75.3% have exceeded expectations, while 17.8% 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 (*there will be no Geopolitical Report published this week*):

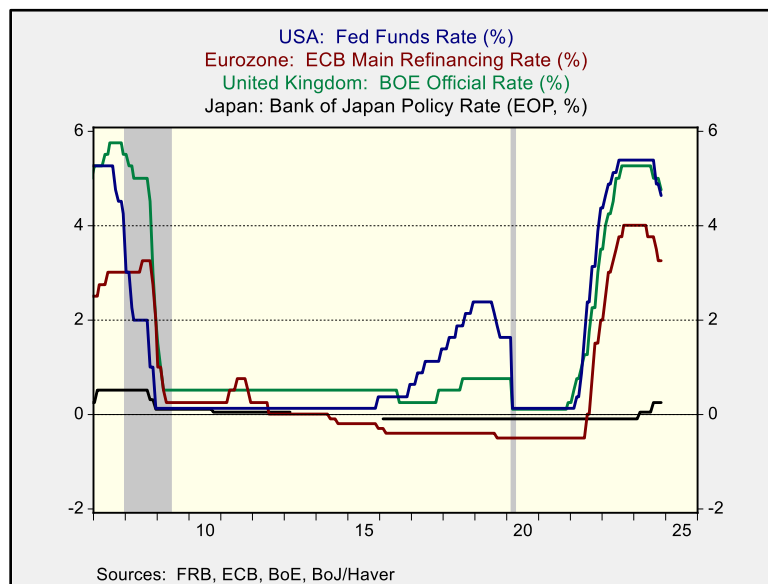
Bi-Weekly Geopolitical Report	Asset Allocation Bi-Weekly	Asset Allocation Quarterly	Of Note
<u>Implications of North Korean Soldiers in the Ukraine War</u> (11/18/24) + podcast	<u>Bonds and the Post-Election Environment</u> (11/25/24) + podcast	<u>Q4 2024 Report</u> <u>Q4 2024 Rebalance Presentation</u>	<u>Confluence of Ideas Podcast</u> <u>The Q4 Asset Allocation Rebalance</u>

Our *Comment* today opens with further evidence that the Bank of Japan is likely to hike its benchmark interest rate again later this month. We next review several other international and US developments with the potential to affect the financial markets today, including an effort by the European Parliament’s biggest political group to scrap the EU’s ban on selling autos with internal combustion engines by 2035 and President-elect Trump’s weekend threat to impose 100% tariffs against countries that try to stop using the US dollar for trade.

Japan: In an interview published Saturday, Bank of Japan Governor Ueda [hinted that the central bank could hike its benchmark short-term interest rate again when its policy board next meets](#) on December 18-19. According to Ueda, the timing of the next rate hike is "approaching" as the data on Japanese wage growth, consumer spending, and price inflation continues to move in line

with the central bank's forecasts. The statement will act as confirmation for the modest majority of market participants who already expected a rate hike this month.

- The BOJ's benchmark interest rate currently stands at just 0.25%. If the central bank hikes rates in December, it would be the first policy change since a rate hike in July.
- The BOJ's slow pace of rate hikes and the continuing wide disparity between Japanese rates and the major Western rates have weighed on the yen (JPY) over the last couple of months. Despite Ueda's statement, the currency has weakened about 0.2% today and is currently trading at 150.00 per dollar (\$0.0067).



China: The yield on long-term Chinese bonds [fell below Japanese yields for the first time](#) on Friday. China's 30-year government bond declined to just 2.21% versus 2.27% on 30-year JGBs. The fall in Chinese yields reflects investor concerns that China faces years of slow economic growth, deflation, and ultralow interest rates similar to what Japan faced starting around 1990. The concern is generally consistent with our view that the Chinese economy has hit several big structural headwinds, such as high debt and poor demographics.

- Despite the Chinese economy's unfavorable long-term outlook, the government's recent modest stimulus program has given a small boost to the factory sector.
- The government on Saturday [said its official November purchasing managers' index for manufacturing rose to a seasonally adjusted 50.3](#), up from 50.1 in October. Like most major PMIs, the Chinese one is designed so that readings over 50 indicate expanding activity. The figures therefore suggest China's factory sector has now grown modestly for two straight months. Before that, however, the index had shown that the sector had declined for five straight months.

European Union: On Friday, the *Financial Times* scooped that the largest political group in the European Parliament, the center-right European People's Party, is [working to scrap the EU's planned 2035 ban on selling automobiles with internal combustion engines](#). Working with aligned national leaders, it also wants to reverse the EU's interim rules imposing fines on carmakers that exceed certain emissions limits.

- The auto industry is a huge part of the EU economy, but it is struggling with challenges ranging from threatened US import tariffs and electric-vehicle dumping by China to high energy costs and the EU's own stringent regulations.
- The new initiative to soften the regulatory burden likely stems at least in part from the recent political shift to the right in the US and the EU. Since the regulatory burden isn't the only headwind for Europe's automakers, the EPP initiative isn't a silver bullet. However, if successful, it could ease some of the pressure on the auto industry.

France: Prime Minister Barnier's minority government today is on the brink of collapse after the far-right populist National Rally (RN) [signaled it might trigger a no-confidence vote over the austerity policies in the proposed 2025 budget](#). Barnier is desperately trying to control France's ballooning budget deficit, which has started to spook investors, but he responded to RN by dumping a proposed hike in electricity taxes. Now, RN insists that he restore cost-of-living adjustments for pensions and reverse other spending cuts, which may be a bridge too far for Barnier.

- On a more positive note, President Macron on Friday [was given a tour of Notre Dame](#) cathedral, which has finally been repaired and refurbished after its 2019 fire. Initial reports say the new stonework and cleaned older stone have brightened its interior, giving viewers a sense of what it must have been like when it first opened in 1260.
- The cathedral is [due to be reopened to the public on December 7](#).

Ireland: After elections on Friday, centrist party Fianna Fáil [appears on track to win the largest number of seats in parliament and continue its coalition with the center-right Fine Gael](#). To gain a majority, however, it will have to strike a deal with some small parties and independents after the Greens, a former coalition partner, suffered a dramatic loss of support. The results make Ireland a rare island of relative political stability in Europe.

Romania: In yesterday's parliamentary elections, initial tallies suggest the center-left PSD party [came in first with about 22.5% of the vote](#), while two center-right parties got about 15% each. The nationalist far-right AUR group garnered 18%, and another far-right group, SOS Romania, got about 5%. If confirmed, the results mean Romania will also continue to be governed by mainstream parties, despite a populist right-wing nationalist winning the first round of the presidential election last week.

- The parliamentary election came exactly one week after pro-Russia, NATO-skeptic candidate Călin Georgescu came out of nowhere to win the first round of the presidential election. Liberal candidate Elena Lasconi came in second.

- Under law, Georgescu and Lasconi would normally compete in the presidential run-off election scheduled for next Sunday. However, the run-off election is now in limbo after the country's top court on Thursday ordered a recount of the first round.
- The court and election officials [are suspicious of Georgescu's sudden rise from obscurity after only campaigning on the Chinese-owned social media platform TikTok](#). The authorities are probing whether Georgescu's first-round win was the result of a covert Russian interference operation utilizing thousands of fake TikTok accounts, perhaps with the connivance of TikTok's Chinese owners and/or the Chinese government.
- There are also suspicions that widely followed social media influencers in Romania were paid off to channel viewers to Georgescu's posts. Several influencers had reportedly admitted to being paid for those services. However, Georgescu's campaign filings have shown no expenses whatsoever.
- Officials from the European Union have also been brought in to investigate whether TikTok violated its new Digital Services Act, which requires big social media platforms to take action against disinformation and electoral interference.

Georgia: In another sign that Russia is managing to bring some Eastern European countries back into its orbit, Prime Minister Irakli Kobakhidze on Thursday [said he will suspend Georgia's process of EU accession until 2028 and decline all grants from the bloc](#). The announcement has sparked mass protests and clashes with police in the capital of Tbilisi every night since then.

Russia-Ukraine: While it's now widely acknowledged that the Kremlin's forces are gradually reducing the Ukrainians' salient in the Russian region of Kursk, new reporting shows the Russians [have also suddenly started to take more territory in eastern Ukraine](#). The Russian momentum will likely put further pressure on Kyiv to start peace negotiations, even beyond the pressure that is likely to come from the US once President-elect Trump is back in office.

Syria-Russia-Turkey: The rebels who have been battling the Assad government for years [staged a surprise offensive over the weekend, capturing much of the major city of Aleppo](#) and wide swaths of western and northwestern Syria. Underlining the international dimension of the civil war, the rebels are reportedly being aided by Turkish-backed fighters. In return, the Assad government and its Russian allies [are fighting back with airstrikes](#), and Iran has sent its foreign minister to Damascus in a show of support.

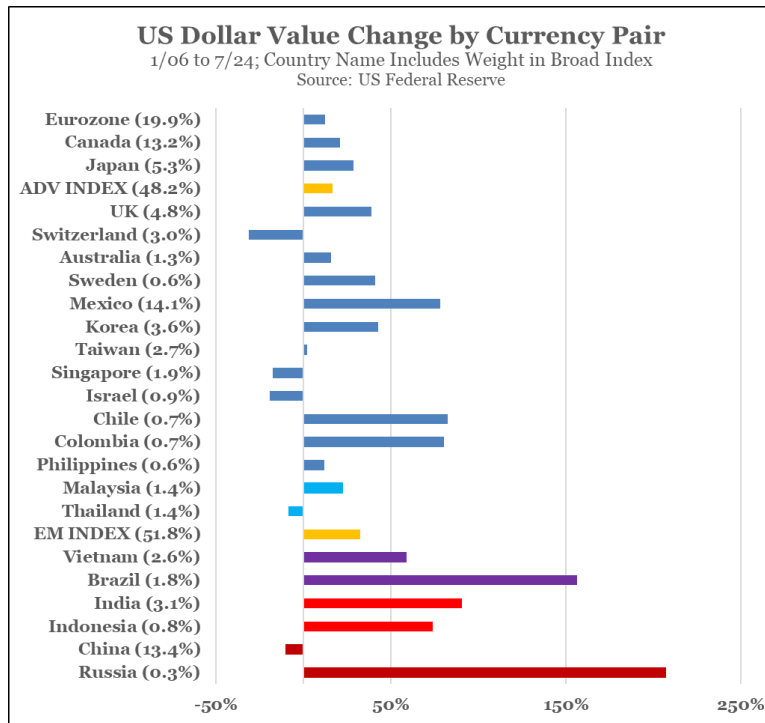
- The offensive is yet another spark that could lead to a broader conflict in the Middle East and threaten its energy output.
- Importantly, the meddling by outside powers such as Russia, Iran, and Turkey has the potential to spark fighting between major powers.

United States-China: The outgoing Biden administration today [imposed new restrictions on sending advanced semiconductors and related equipment to China](#). Under the new initiative, the US's previous export curbs will be extended to cover memory chips used in artificial-intelligence applications and certain types of chipmaking equipment. The move also adds 140 Chinese

companies to the US export blacklist. Even though the administration has taken a flexible approach to applying the rules, the new move is likely to further exacerbate US-China tensions.

US Trade and Currency Policy: President-elect Trump on Saturday [warned the BRICS group of developing countries that he will impose 100% import tariffs against them](#) if they keep trying to create their own currency to use in place of the dollar. The warning appears to reflect concerns that reduced use of the greenback for trade would undermine its value or its role as the world's reserve currency. However, Trump and his advisors have also floated the idea of weakening the dollar to help eliminate the US trade deficit.

- As we noted in our [Bi-Weekly Geopolitical Report from September 9, 2024](#), the dollar's share in global central bank currency reserves has been falling gradually for more than two decades as countries make greater use of non-dollar currencies in trade. Nevertheless, the dollar remains in a bull market and is trading close to a record high. It has appreciated the most against major BRICS currencies, even as those countries try to reduce their use of the greenback.
- In our view, the value of the dollar is more driven by international capital flows than by its use in trade. Given the US economy's superior growth, deep and well-regulated financial markets, and better protections for private property, capital flows into the US are likely to keep supporting the dollar in the near term.
- All the same, some public policy observers note that the strong dollar exacerbates the US trade deficit by making US exports more expensive and imports less expensive. That's probably why some politicians have suggested taking steps to weaken the dollar, perhaps by imposing a tax on foreign capital inflows. Trump now appears to be siding with the strong-dollar advocates, which may make it harder to achieve his goal of bringing US trade back into balance.



US Postal System: The US Postal Service [has finally started rolling out its new delivery trucks](#), and initial reports suggest mail carriers are happy with them. The new trucks, which will replace the current boxy vehicles introduced in the 1980s, are not only electrified, but they also finally have air conditioning and are designed for better access to parcels stored in the back. Sadly, however, they're also being panned as extremely ugly!



(Source: US Postal Service)

US Economic Releases

There were no economic releases prior to publication time. The following table lists the economic releases and Fed events scheduled for the rest of today.

No economic releases for the rest of today						
ET	Indicator			Expected	Prior	Rating
9:45	S&P Global US Manufacturing PMI	m/m	Nov F	49	48.8	***
10:00	Construction Spending MoM	m/m	Oct	0.20%	0.10%	*
10:00	ISM Manufacturing	m/m	Nov	47.6	46.5	**
10:00	ISM Prices Paid	m/m	Nov	56	54.8	**
10:00	ISM New Orders	m/m	Nov		47.1	**
10:00	ISM Employment	m/m	Nov		44.4	*
Federal Reserve						
No Fed speakers or events for the rest of today						
ET	Speaker or Event	District or Position				
15:15	Christopher Waller Gives Keynote at Fed Framework Conference	Member of the Board of Governors				
16:30	John Williams Takes Gives Keynote Remarks	President of the Federal Reserve Bank of New York				

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	Housing Starts	y/y	Oct	-2.9%	-0.6%	-2.0%	**	Equity bearish, bond bullish
	Annualized Housing Starts	y/y	Oct	0.779m	0.800m	0.789m	*	Equity and bond neutral
	Capital Spending	y/y	3Q	6.7%	7.4%	7.0%	**	Equity and bond neutral
Australia	S&P Global Australia Manufacturing PMI	m/m	Nov F	49.4	49.4		***	Equity and bond neutral
	Melbourne Institute Inflation	y/y	Nov	2.9%	3.0%		***	Equity and bond neutral
	Building Approvals	m/m	Oct	4.2%	5.8%	1.3%	***	Equity bullish, bond bearish
	Retail Sales	m/m	Oct	0.6%	0.1%	0.4%	***	Equity and bond neutral
New Zealand	Building Permits	m/m	Oct	-5.2%	2.4%		**	Equity and bond neutral
South Korea	Trade Balance	m/m	Nov	\$5610m	\$3153m	\$5050m	*	Equity and bond neutral
	Exports	y/y	Nov	1.4%	4.6%	2.8%	***	Equity bearish, bond bullish
	Imports	y/y	Nov	-2.4%	1.7%	-0.9%	**	Equity bearish, bond bullish
	S&P Global South Korea PMI Manufacturing	m/m	Nov	50.6	48.3		***	Equity and bond neutral
China	Official Composite PMI	m/m	Nov	50.8	50.8		*	Equity and bond neutral
	Official Manufacturing PMI	m/m	Nov	50.3	50.1	50.2	***	Equity and bond neutral
	Official Services PMI	m/m	Nov	50.0	50.2	50.3	**	Equity and bond neutral
	Caixin Manufacturing PMI	m/m	Nov	51.5	50.3	50.6	***	Equity and bond neutral
India	HSBC India PMI Mfg	m/m	Nov F	56.5	57.3		***	Equity and bond neutral
	GDP	y/y	3Q	5.4%	6.7%	6.5%	***	Equity bearish, bond bullish
EUROPE								
Eurozone	CPI	y/y	Nov P	2.3%	2.0%	2.3%	***	Equity and bond neutral
	Core CPI	y/y	Nov P	2.7%	2.7%	2.8%	**	Equity and bond neutral
	HCOB Eurozone Manufacturing PMI	m/m	Nov F	45.2	45.2	45.2	***	Equity and bond neutral
	Unemployment Rate	m/m	Nov F	6.3%	6.3%	6.3%	**	Equity and bond neutral
Germany	Import Price Index	y/y	Oct	-0.8%	-1.3%	-1.2%	**	Equity and bond neutral
	Retail Sales	y/y	Oct	3.6%	1.4%	3.3%	*	Equity and bond neutral
	HCOB Eurozone Germany PMI	m/m	Nov F	43.0	43.2	43.2	***	Equity and bond neutral
	Unemployment Change	m/m	Nov	7.0k	26.0k	20.0k	***	Equity bullish, bond bearish
	Unemployment Claims Rate	m/m	Nov	6.1%	6.1%	6.1%	**	Equity and bond neutral
France	Consumer Spending	y/y	Oct	0.4%	-0.1%		*	Equity and bond neutral
	CPI, EU Harmonized	y/y	Nov P	1.7%	1.6%	1.8%	**	Equity and bond neutral
	CPI	y/y	Nov P	1.3%	1.2%	1.4%	***	Equity and bond neutral
	GDP	y/y	3Q F	1.2%	1.3%	1.3%	**	Equity and bond neutral
	PPI	y/y	Oct	-5.7%	-6.90%		*	Equity and bond neutral
	HCOB France Manufacturing PMI	m/m	Nov F	43.1	43.2	43.2	***	Equity and bond neutral
Italy	Industrial Sales WDA	y/y	Sep	-5.7%	-4.9%		*	Equity and bond neutral
	CPI, EU Harmonized	y/y	Nov P	1.6%	1.0%	1.4%	***	Equity and bond neutral
	CPI NIC Including Tobacco	y/y	Nov P	1.4%	0.9%	1.4%	**	Equity and bond neutral
	HCOB Italy Manufacturing PMI	m/m	Nov	44.5	46.9	46.0	***	Equity and bond neutral
	Unemployment Rate	m/m	Oct	5.8%	6.0%	6.1%	**	Equity and bond neutral
	GDP WDA	y/y	3Q F	0.4%	0.4%	0.4%	**	Equity and bond neutral
UK	Net Lending Sec. on Dwellings	m/m	Oct	3.4b	2.6b	2.7b	*	Equity and bond neutral
	Mortgage Approvals	m/m	Oct	68.3k	66.1k	64.5k	***	Equity and bond neutral
	M4 Money Supply	y/y	Oct	3%	4%		*	Equity and bond neutral
	Nationwide House Price Index	y/y	Nov	1.2%	2.4%	2.4%	***	Equity bullish, bond bearish
	S&P Global UK Manufacturing PMI	m/m	Nov F	48.0	48.6	48.6	***	Equity and bond neutral
Switzerland	GDP	y/y	3Q	2.0%	1.5%	1.8%	**	Equity and bond neutral
	Real Retail Sales	y/y	Oct	1.4%	1.8%		**	Equity and bond neutral
	PMI Manufacturing	m/m	Nov	48.5	49.9	49.5	***	Equity and bond neutral
	PMI Services	m/m	Nov	51.8	51.8		*	Equity and bond neutral
	Domestic Sight Deposits CHF	w/w	29-Nov	450.9b	451.0b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	29-Nov	459.0b	459.4b		*	Equity and bond neutral
Russia	Money Supply, Narrow Definition	w/w	22-Nov	18.27t	18.34t		*	Equity and bond neutral
	S&P Global Russia Manufacturing PMI	m/m	Nov	51.3	50.6		***	Equity and bond neutral
AMERICAS								
Canada	GDP	y/y	Sep	1.6%	1.3%	1.6%	**	Equity and bond neutral
Brazil	Net Debt % GDP	m/m	Oct	62.1%	62.4%	62.4%	**	Equity and bond neutral
	National Unemployment Rate	m/m	Oct	6.2%	6.4%	6.2%	*	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 Libor yield (bps)	485	485	0	Down
3-mo T-bill yield (bps)	437	438	-1	Down
U.S. Sibor/OIS spread (bps)	447	447	0	Down
U.S. Libor/OIS spread (bps)	445	445	0	Down
10-yr T-note (%)	4.21	4.17	0.04	Down
Euribor/OIS spread (bps)	293	294	-1	Down
Currencies	3 Mo			
Dollar	Down	US		Down
Euro	Down	Euro		Up
Yen	Up	Japan		Up
Pound	Up	UK		Up
Franc	Up	Switzerland		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.

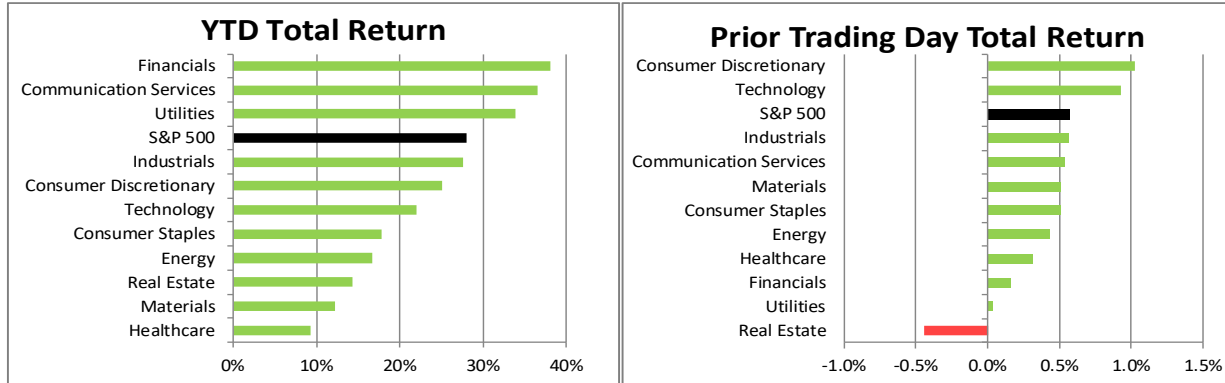
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$72.56	\$71.84	1.00%	
WTI	\$68.69	\$68.00	1.01%	
Natural Gas	\$3.16	\$3.36	-6.10%	Supply Optimism
Crack Spread	\$16.12	\$15.72	2.59%	
12-mo strip crack	\$19.34	\$18.93	2.17%	
Ethanol rack	\$1.74	\$1.74	0.00%	
Metals				
Gold	\$2,639.19	\$2,643.15	-0.15%	
Silver	\$30.36	\$30.63	-0.85%	
Copper contract	\$412.25	\$414.00	-0.42%	
Grains				
Corn contract	\$431.25	\$433.00	-0.40%	
Wheat contract	\$544.25	\$548.00	-0.68%	
Soybeans contract	\$987.00	\$989.50	-0.25%	
Shipping				
Baltic Dry Freight	1,354	1,419	-65	

Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures west of the Mississippi River, with cooler-than-normal temperatures in the Mid-Atlantic. The precipitation outlook calls for wetter-than-normal conditions in the Northern Rockies, with dry conditions on the Pacific Coast.

Data Section

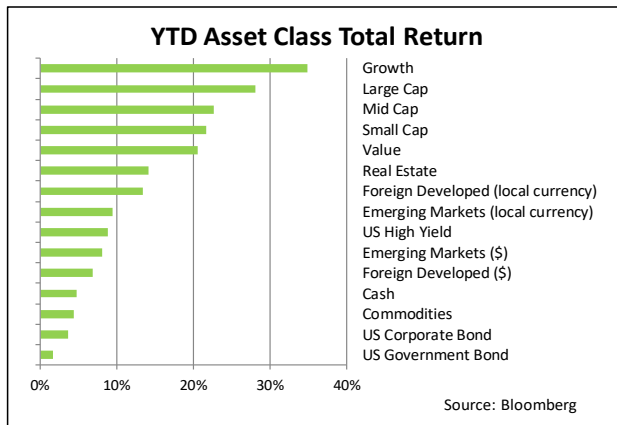
US Equity Markets – (as of 11/29/2024 close)



(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 11/29/2024 close)

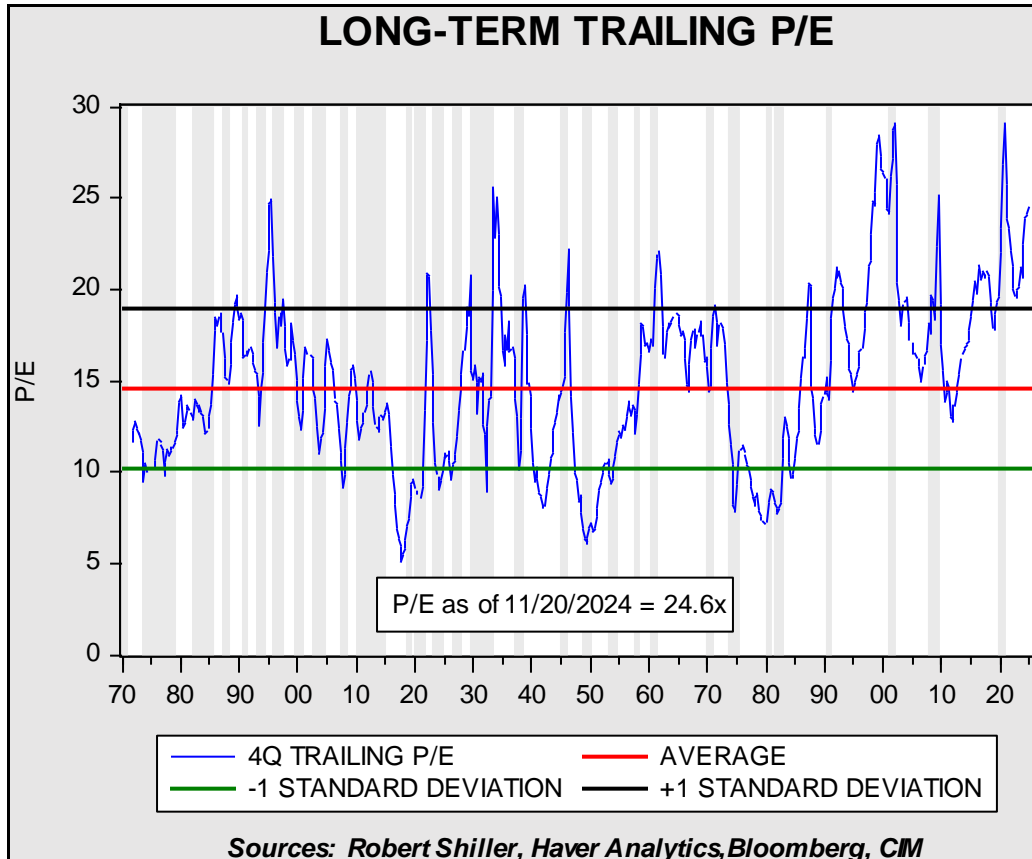


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 21, 2024



Based on our methodology,¹ the current P/E is 24.6x, up 0.1 from our last report. The increase in the multiple was driven by an increase in the stock price index.

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 and Q3) and one estimate (Q2). 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.