Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: November 18, 2024 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 closed down 0.5% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.2%. Chinese markets were lower, with the Shanghai Composite down 0.2% from its previous close and the Shenzhen Composite down 2.2%. US equity index futures are signaling a higher open.

With 461 companies having reported so far, S&P 500 earnings for Q3 are running at $62.80 per share compared to estimates of $60.44, which is up 4.2% from Q3 2023. Of the companies that have reported thus far, 75.4% 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:

Bi-Weekly Geopolitical Report	Asset Allocation Bi-Weekly	Asset Allocation Quarterly	Of Note
Rising US & Global Debt: A Perspective Check (11/4/24) + podcast	*Let's Talk About Tariffs!* (11/11/24) + podcast	Q4 2024 Report Q4 2024 Rebalance Presentation	Confluence of Ideas Podcast *The Q4 Asset Allocation Rebalance*

Our *Comment* today opens with further evidence that factors such as high energy costs and heavy regulation are stifling European economic activity. We next review several other international and US developments with the potential to affect the financial markets today, including a warning by the UK government that it could force British pension funds to invest more domestically and new signs that President-elect Trump is committed to big tariff increases once he is inaugurated.

European Union: In a new sign of Europe's declining competitiveness, industry association Plastics Europe said the Continent's production of virgin plastics fell 8.3% in 2023, even as global output rose 3.4%. Mechanical plastics recycling in Europe also fell last year for the first time since 2018. The fall in output largely stems from broader challenges identified by former

European Central Bank chief Draghi in his recent report on European competitiveness, i.e., high energy prices, restrictive regulations, and lower production costs abroad.

United Kingdom: In an interview with the *Financial Times*, Pension Minister Emma Reynolds warned that the government may force pension funds to invest more in British assets if the reform proposals it made last week don't channel enough funding to UK infrastructure and companies. The proposals called for the country's 86 local-government pension schemes to transfer their assets into one of eight pools.

- Expanding the eight pools into larger, more professionally managed pension funds is expected to channel more resources to local assets.

- Currently, Britons invest very little at home. For example, the existing local-government pension funds only invest about 10% of their portfolios in UK stocks or infrastructure.

Japan: Bank of Japan Governor Ueda today said the central bank remains open to further interest-rate hikes, despite uncertainties regarding the global, US, and Japanese economies. Because of the yen's (JPY) sharp depreciation following the US election earlier this month, we think the BOJ could well hike interest rates again at its next policy meeting on December 18-19.

China: In a mass stabbing attack on Saturday, a disgruntled former student killed eight people and injured 17 others at a vocational school in Jiangsu province. That marked China's second mass killing in less than a week, after a man killed 35 people by deliberately driving his car into a crowd outside a stadium. General Secretary Xi himself has decried the attacks and ordered local officials to identify such risks earlier and take steps to stop them.

- Given Xi's longstanding effort to strengthen the Communist Party's ideological work, including by emphasizing its responsibility to clamp down on dissidents and social disrupters, then the spate of mass killings over the last year is likely to prompt stronger surveillance, proactive arrests, and other social-control initiatives.

- Since some of the recent attackers seem to have been motivated by economic and social frustrations, there is also some chance that the attacks could convince Xi to adopt stronger economic stimulus measures than he has been willing to accept so far.

United States-Ukraine-Russia: According to administration officials, President Biden has finally authorized Ukraine to use its US-supplied long-range missiles for strikes within Russia. The decision was reportedly spurred by the Kremlin's decision to supplement its forces with troops from North Korea.

- The missiles, known as the Army Tactical Missile System, or ATACMS, will initially be used by Ukrainian forces to defend their salient in the Russian region of Kursk. The missiles could be used against both Russian and North Korean troops, in part as a warning to Pyongyang not to insert more military resources into the fight.

- The decision runs the risk of spurring a stronger response against the US or its NATO allies in the weeks running up to President-elect Trump's inauguration in January. For

example, it could prompt the Kremlin to ramp up its on-going sabotage operations against NATO countries in Europe — a move that could potentially spark a destabilizing security crisis and drive down asset prices.

US Economic Policy: As President-elect Trump continues to mull his nominee for Treasury Secretary, reports indicate that hedge-fund manager Scott Bessent and Cantor Fitzgerald co-chair Howard Lutnick remain at the top of the list. Officials with the presidential transition say they have sought assurances from both Bessent and Lutnick that they would fully implement Trump's proposed import tariffs of 60% against China and up to 20% against other nations.

- The demand suggests that full support for the tariffs has become a litmus test for Trump's economic nominees. The demand was probably targeted mostly at Bessent, who has panned the 60% and 20% figures as merely "maximalist" goals.

- Trump observers and supporters often assume his more far-reaching policy proposals are merely negotiating ploys. However, just because a proposal is far-reaching and outside the norm of what other politicians might propose, that doesn't necessarily mean it's just a ploy. It could well be that Trump sees his proposed import rates as bottom-line figures, especially after insisting on them so often and consistently on the campaign trail.

US Transportation Policy: Reports this morning say advisors to President-elect Trump are preparing regulatory changes that would make it easier to introduce self-driving autos. The changes are expected to be a boon to electric-vehicle giant Tesla, which is controlled and run by Trump advisor Elon Musk. In response, Tesla shares have surged some 8% in pre-market trading so far today.

US Immigration Policy: As the presidential transition team continues to signal that President-elect Trump will launch mass deportations of illegal immigrants, businesses ranging from food producers and manufacturers to hotels are reportedly hiring lawyers to audit their staffs and train them on how to handle visits from immigration authorities. Industry associations are also warning that large-scale deportations and tighter restrictions on legal immigration will worsen labor shortages, force some businesses to close, and drive up prices.

US Economic Releases

There were no domestic 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					Expected	Prior	Rating
ET	**Indicator**				**Expected**	**Prior**	**Rating**
10:00	NAHB Housing Market Index	m/m	Nov		42.0	43.0	*
16:00	Total Net TIC Flows	m/m	Sep			$79.2b	**
16:00	Net Long-Term TIC Flows	m/m	Sep			$111.4b	**
Federal Reserve							
ET	**Speaker or Event**		**District or Position**				
10:00	Austan Goolsbee Gives Welcome Remarks		President of the Federal Reserve Bank of Chicago				

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	Core Machine Orders	y/y	Sep	-4.8%	-3.4%	1.8%	**	Equity bearish, bond bullish
EUROPE								
Eurozone	Trade Balance SA	m/m	Sep	13.6b	10.8b	7.7b	**	Equity and bond neutral
UK	Rightmove House Prices	y/y	Nov	1.20%	1.00%		**	Equity and bond neutral
Switzerland	Industrial Output WDA	y/y	3Q	3.5%	7.0%		*	Equity and bond neutral
	Domestic Sight Deposits CHF	w/w	15-Nov	455.0b	455.4b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	15-Nov	463.4b	463.5b		*	Equity and bond neutral
AMERICAS								
Canada	Manufacturing Sales	m/m	Sep	-0.5%	-1.3%	-0.8%	**	Equity and bond neutral
	Wholesale Sales ex Petroleum	m/m	Sep	0.8%	-0.9%	0.90	**	Equity and bond neutral
Brazil	FGV CPI IPC-S	y/y	15-Nov	0.15%	0.32%		**	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)	440	439	1	Down
U.S. Sibor/OIS spread (bps)	452	452	0	Down
U.S. Libor/OIS spread (bps)	449	449	0	Down
10-yr T-note (%)	4.48	4.44	0.04	Up
Euribor/OIS spread (bps)	300	301	-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.

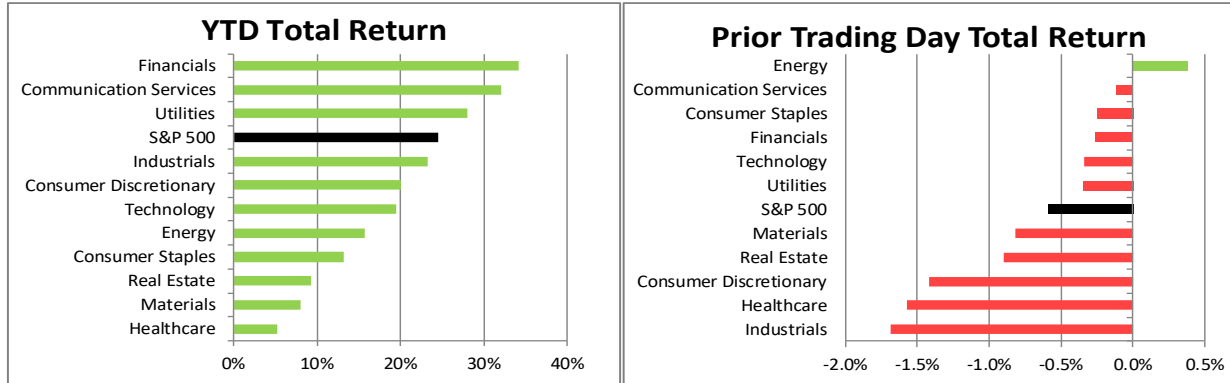|	Price	Prior	Change	Explanation
Energy Markets				
Brent	$71.47	$71.04	0.61%	
WTI	$67.35	$67.02	0.49%	
Natural Gas	$2.88	$2.82	2.02%	
Crack Spread	$18.34	$17.99	1.99%	
12-mo strip crack	$20.61	$20.42	0.95%	
Ethanol rack	$1.77	$1.76	0.20%	
Metals				
Gold	$2,594.98	$2,563.25	1.24%	
Silver	$30.83	$30.27	1.83%	
Copper contract	$412.00	$410.90	0.27%	
Grains				
Corn contract	$434.25	$435.25	-0.23%	
Wheat contract	$556.75	$554.00	0.50%	
Soybeans contract	$992.50	$998.50	-0.60%	
Shipping				
Baltic Dry Freight	1,785	1,692	93	

Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures throughout most of the country, with cooler temperatures in the northern Rocky Mountains. The precipitation outlook calls for wetter-than-normal conditions for most of the Pacific and Mountain states, with drier conditions expected on the East Coast and southern Great Plains.

There is no cyclone formation expected within the next 48 hours. As we approach the end of the Atlantic hurricane season on November 30, we will discontinue our regular tropical storm updates.
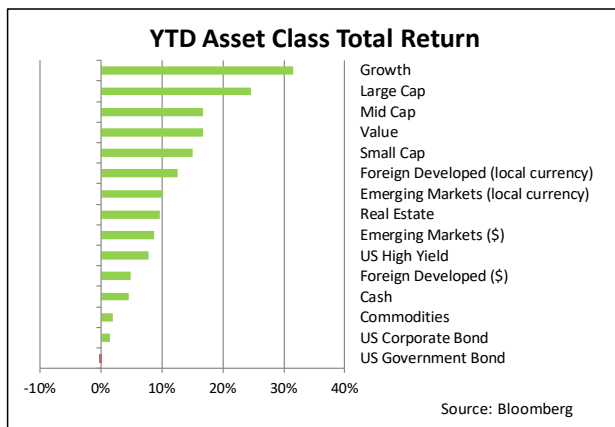
Data Section

US Equity Markets – (as of 11/15/2024 close)

YTD Total Return

Sector	
Financials	
Communication Services	
Utilities	
S&P 500	
Industrials	
Consumer Discretionary	
Technology	
Energy	
Consumer Staples	
Real Estate	
Materials	
Healthcare	

Prior Trading Day Total Return

Sector	
Energy	
Communication Services	
Consumer Staples	
Financials	
Technology	
Utilities	
S&P 500	
Materials	
Real Estate	
Consumer Discretionary	
Healthcare	
Industrials	

(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 11/15/2024 close)

YTD Asset Class Total Return

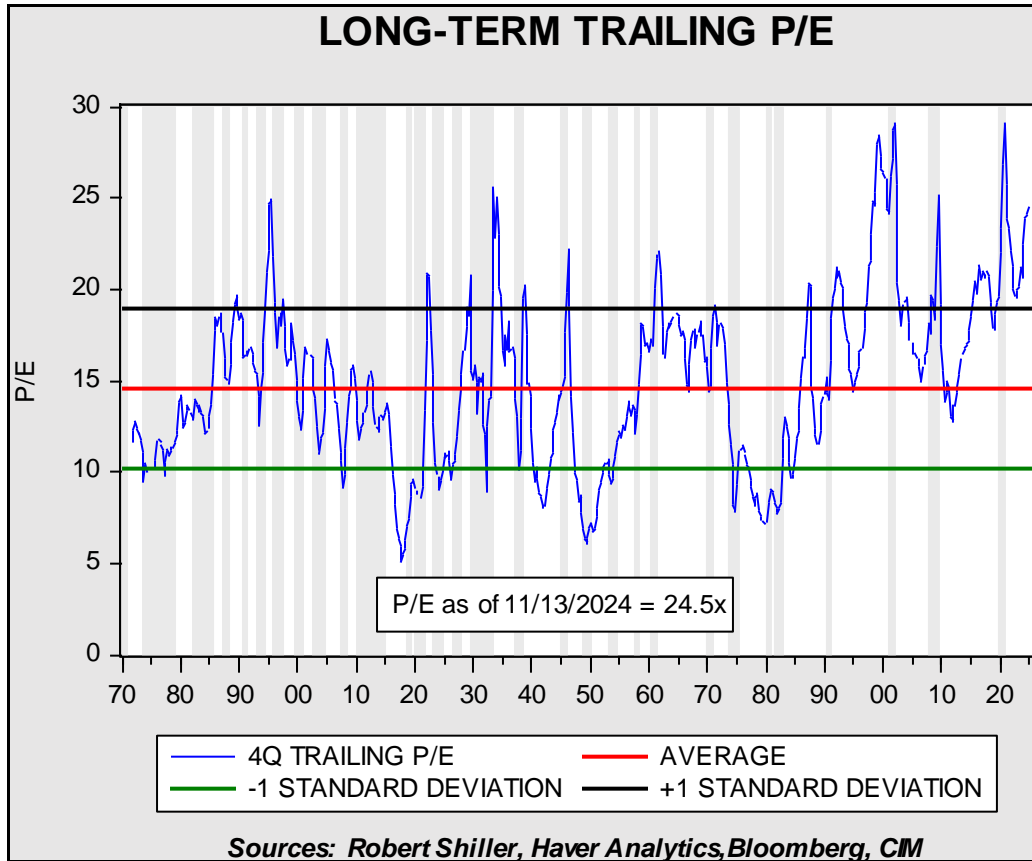| Asset Class	
Growth	
Large Cap	
Mid Cap	
Value	
Small Cap	
Foreign Developed (local currency)	
Emerging Markets (local currency)	
Real Estate	
Emerging Markets ($)	
US High Yield	
Foreign Developed ($)	
Cash	
Commodities	
US Corporate Bond	
US Government Bond	

Source: Bloomberg

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 14, 2024

LONG-TERM TRAILING P/E

P/E as of 11/13/2024 = 24.5x

Legend: 4Q TRAILING P/E — AVERAGE — -1 STANDARD DEVIATION — +1 STANDARD DEVIATION

Sources: Robert Shiller, Haver Analytics, Bloomberg, CIM

Based on our methodology,[1] the current P/E is 24.5x, up 0.1 from our last report. The increase is 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.

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[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.