Daily Comment

Confluence Investment Management

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[Posted: November 22, 2024 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 closed up 0.2% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.3%. Chinese markets were lower, with the Shanghai Composite down 3.1% from its previous close and the Shenzhen Composite down 3.5%. US equity index futures are signaling a lower open.

With 472 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, 75.4% have exceeded expectations, while 18.0% 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
Implications of North Korean Soldiers in the Ukraine War (11/18/24) + 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*

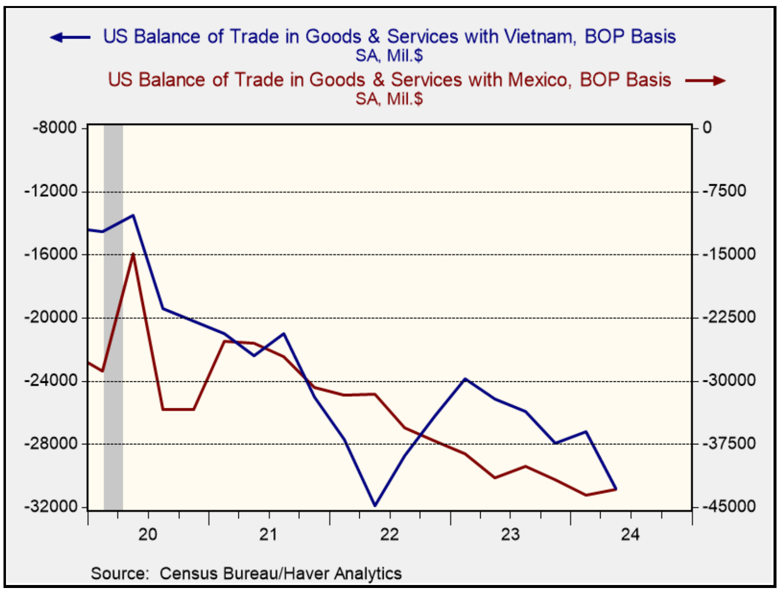
Good morning! The market is eagerly awaiting fresh consumer sentiment data to assess the strength of the US economy post-election. In sports, Shohei Ohtani of the Los Angeles Dodgers and Aaron Judge of the New York Yankees have been named MVPs of their respective leagues. Today's *Comment* begins with an overview of Trump's supply-side economics. We then provide an analysis of regulators' increasing scrutiny of Big Tech and take a look at Mexico's sudden policy shift. As always, the report concludes with a roundup of key international and domestic data releases.

Trumpian Supply Side: The Trump administration plans to reshape supply-side economics to align with a more populist agenda.

- The incoming administration intends to stimulate economic growth through a series of tax cuts and deregulation. Businesses anticipate a corporate tax rate reduction from 21%

to 15%, while individual taxpayers also expect tax relief. As far as deregulation is concerned, the financial industry, in particular, has already seen some benefits. In preparation for the transition, federal regulators under President Biden announced on Thursday that they would not finalize any new bank capital rules. Additionally, SEC Chair Gary Gensler, a villain in cryptocurrency circles, has also agreed to resign from his position.

- A key distinction between the original supply-side economists and their contemporary counterparts lies in their approach to trade policy. The current group advocates for the imposition of trade barriers, arguing that this strategy will attract more foreign direct investment. By erecting barriers to trade, they believe that foreign firms will be compelled to establish operations within the US to avoid tariffs, thereby facilitating the transfer of goods into the country duty-free. Japanese automakers used this strategy to avoid tariffs (also called "tariff jumping") in the 1980s by building factories across the southern US.

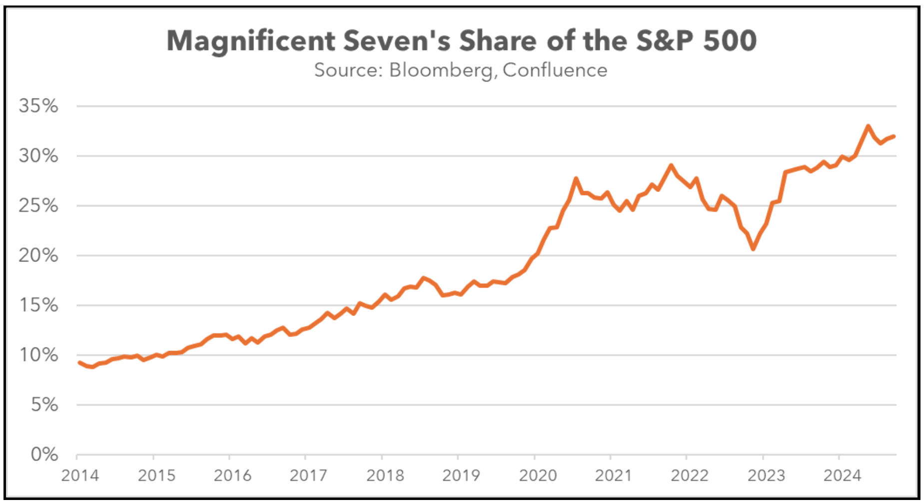


- While tariff jumping can stimulate domestic manufacturing, it often leads manufacturers to prioritize countries with US free trade agreements. Mexico and Vietnam are prime examples of this, and could benefit significantly from increased US-China trade tensions. This trend may explain the support for blanket tariffs to prevent any country from exploiting loopholes. However, given the administration's other priorities — tax cuts for households and businesses and deregulation — a broad-based tariff policy may not take precedence.

Google Breakup: US regulators have requested that the court force Google to sell its Chrome web browser business.

- Following a court ruling that found the company guilty of monopolizing the search engine industry, the Department of Justice has requested that it sell its Chrome browser business. The DOJ had sued the tech giant, alleging that it used unfair trade practices to harm competitors. While the Android business was also considered for divestiture, regulators ultimately decided against it. They reasoned that the threat of future divestiture could be sufficient to deter the company from further anti-competitive behavior.

- If successful, this would mark the first time a major company has been forced to undergo an antitrust breakup since AT&T in 1982. Over the past three to four decades, the court system has adopted the so-called "Bork standard," which allows companies to form monopolies as long as they can demonstrate consumer benefits. In essence, the government has permitted major companies, particularly in the tech industry, to consolidate, provided that it leads to increased efficiency. This shift played a role in the disinflationary trend we have seen in recent decades as it forced many firms to prioritize cost leadership.

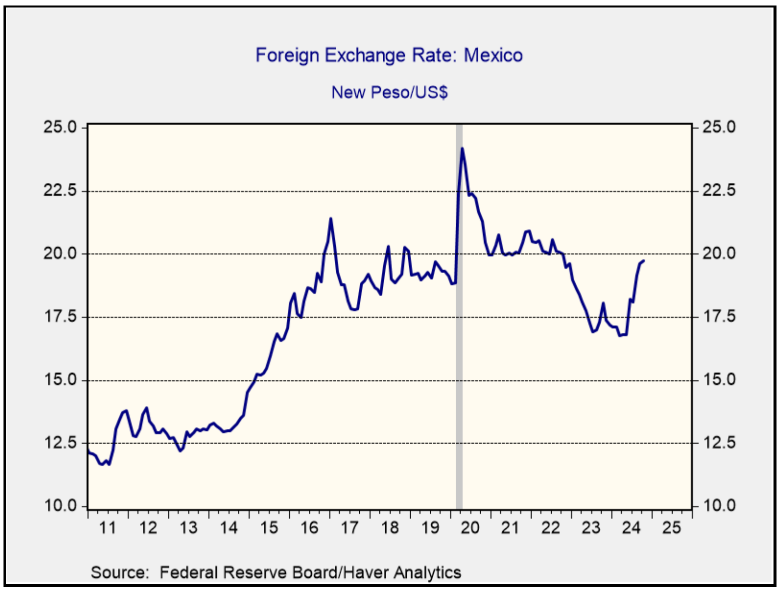


- The "Bork Standard," a once-dominant antitrust framework, has increasingly become outdated. In today's tech-driven economy, mature, inefficient firms are rare. Now, mergers and acquisitions often target innovative startups or smaller competitors. This trend can lead to heightened market concentration, stifling competition, and ultimately harming consumers. While we expect Google to appeal the recent antitrust ruling, both Google and other tech giants may face intensified regulatory scrutiny. As a result, the Magnificent 7 remain vulnerable to antitrust risks.

Mexico Backtracks: Mexico's recent court system reforms may face implementation delays as the government seeks to temper potential backlash from both investors and the US.

- To ensure compliance with the USMCA agreement, the lower house of Congress has proposed modifying recent reforms. These changes that originally aimed to dismantle multiple regulatory bodies, including the transparency institute, the antitrust body, and the telecom overseer, have faced significant scrutiny. The elimination of the telecom overseer, in particular, has been identified as a potential violation of the agreement. To address this issue, lawmakers propose merging the antitrust and telecom regulators into a single entity, which has been viewed positively by investors.

- The Mexican peso (MXN) has depreciated 7% against the dollar over the past three months. Investors are increasingly concerned about the country's recent constitutional reforms, which would empower the ruling Morena party to appoint favorable judges. This has raised fears of unchecked power and potential policy overreach. Additionally, the incoming US administration's increased scrutiny of Mexico's policies, particularly its openness to Chinese investment, has added to investor worries. Last week, Moody's downgraded Mexico's outlook from stable to negative, citing these policy concerns.



- The market will be closely watching the relationship between the new US and Mexican presidents in the coming years. With the USMCA up for review in 2026, Trump is expected to push for changes to protect US interests from Mexico's constitutional reforms and to close loopholes that allow other countries to bypass tariffs by operating in Mexico to export to the US. However, Mexican President Claudia Sheinbaum has yet to signal her stance on Trump's concerns. This uncertainty surrounding potential revisions to the agreement is likely to introduce volatility to the Mexican peso and equity markets.

In Other News: NATO and Ukraine will convene emergency talks to discuss the use of Russian hypersonic missiles as concerns grow over escalating tensions. Meanwhile, President-elect Donald Trump's nominee for Attorney General, Matt Gaetz, has withdrawn from consideration, highlighting resistance from Republican senators to some of the president's appointees.

US Economic Releases

No major US reports have been released so far this morning. The table below lists the economic releases and Fed events scheduled for the rest of the day.

Economic Releases						
ET	**Indicator**			**Expected**	**Prior**	**Rating**
9:45	S&P Global US Manufacturing PMI	m/m	Nov P	48.9	48.5	***
9:45	S&P Global US Services PMI	m/m	Nov P	55	55	***
9:45	S&P Global US Composite PMI	m/m	Nov P	54.3	54.1	***
10:00	U. of Michigan Consumer Sentiment	m/m	Nov F	73.9	73.0	***
10:00	U. of Michigan Current Conditions	m/m	Nov F	64.4	64.4	**
10:00	U. of Michigan Future Expectations	m/m	Nov F	79.0	78.5	**
10:00	U. of Michigan 1-Year Inflation Expectation	m/m	Nov F	2.7%	2.6%	*
10:00	U. of Michigan 5-10 Year Inflation Expectation	m/m	Nov F	3.1%	3.1%	*
11:00	Kansas City Fed Manfacturing Index	m/m	Nov		5	*
Federal Reserve						
ET	**Speaker or Event**	**District or Position**				
18:15	Michelle Bowman Speaks on AI	Member of the Board of Governors				

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	National CPI	y/y	Oct	2.3%	2.5%	2.3%	***	Equity and bond neutral
	National CPI Ex-Fresh Food	y/y	Oct	2.3%	2.4%	2.2%	**	Equity and bond neutral
	National CPI Ex-Fresh Food & Energy	y/y	Oct	2.3%	2.1%	2.2%	*	Equity and bond neutral
	Jibun Bank Manufacturing PMI	m/m	Nov P	49.0	49.2		***	Equity and bond neutral
	Jibun Bank Services PMI	m/m	Nov P	50.2	49.7		**	Equity and bond neutral
	Jibun bank Composite PMI	m/m	Nov P	49.8	49.6		*	Equity and bond neutral
Australia	S&P Global Australia Composite PMI	m/m	Nov P	49.4	50.2		*	Equity and bond neutral
	S&P Global Australia Manufacturing PMI	m/m	Nov P	49.4	47.3		***	Equity and bond neutral
	S&P Global Australia Services PMI	m/m	Nov P	49.6	51.0		**	Equity and bond neutral
India	HSBC India PMI Mfg	m/m	Nov P	57.3	57.5		***	Equity and bond neutral
	HSBC India PMI Composite	m/m	Nov P	59.5	59.1		**	Equity and bond neutral
	HSBC India PMI Services	m/m	Nov P	59.2	58.5		**	Equity and bond neutral
EUROPE								
Eurozone	Consumer Confidence	m/m	Sep	-13.7	-12.5	-12.2	**	Equity bearish, bond bullish
	HCOB Eurozone Manufacturing PMI	m/m	Nov P	45.2	46.0	46.0	***	Equity bearish, bond bullish
	HCOB Eurozone Services PMI	m/m	Nov P	49.2	51.6	51.6	**	Equity bearish, bond bullish
	HCOB Eurozone Composite PMI	m/m	Nov P	48.1	50.0	50.0	*	Equity bearish, bond bullish
Germany	GDP NSA	y/y	3Q F	0.1%	0.2%	0.2%	**	Equity and bond neutral
	GDP WDA	y/y	3Q F	-0.3%	-0.2%	-0.2%	**	Equity and bond neutral
	HCOB Germany Manufacturing PMI	m/m	Nov P	43.2	43.0	43.0	***	Equity and bond neutral
	HCOB Germany Services PMI	m/m	Nov P	49.4	51.6	51.7	**	Equity bearish, bond bullish
	HCOB Germany Composite PMI	m/m	Nov P	47.3	48.6	48.7	**	Equity bearish, bond bullish
France	HCOB France Manufacturing PMI	m/m	Nov P	43.2	44.5	44.5	***	Equity bearish, bond bullish
	HCOB France Services PMI	m/m	Nov P	45.7	49.2	49.0	**	Equity bearish, bond bullish
	HCOB France Composite PMI	m/m	Nov P	44.8	48.1	48.3	**	Equity bearish, bond bullish
UK	Retail Sales	y/y	Oct	2.4%	3.2%	3.4%	***	Equity bearish, bond bullish
	Retail Sales Ex-Auto Fuel	y/y	Oct	2.0%	3.2%	3.3%	**	Equity bearish, bond bullish
	GfK Consumer Confidence	m/m	Nov	-18	-21	-22	***	Equity and bond neutral
	S&P Global UK Manufacturing PMI	m/m	Nov P	48.6	49.9	50.0	***	Equity bearish, bond bullish
	S&P Global UK Services PMI	m/m	Nov P	50.0	52.0	52.0	**	Equity bearish, bond bullish
	S&P Global UK Composite PMI	m/m	Nov P	49.9	51.8	51.7	**	Equity bearish, bond bullish
Russia	Gold and Forex Reserves	m/m	15-Nov	$611.6b	$620.8b		***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	15-Nov	18.34t	18.30t		*	Equity and bond neutral
AMERICAS								
Canada	Industrial Product Price	m/m	Oct	1.2%	-0.8%	0.9%	**	Equity bearish, bond bullish
	Raw Material Prices	m/m	Oct	3.8%	-3.2%	2.5%	*	Equity bearish, bond bullish
Mexico	GDP NSA	y/y	3Q F	1.6%	1.5%	1.5%	***	Equity and bond neutral
	Economic Activity IGAE	y/y	Sep	0.29%	0.72%	0.45%	**	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)	441	442	-1	Down
U.S. Sibor/OIS spread (bps)	451	452	-1	Down
U.S. Libor/OIS spread (bps)	448	449	-1	Down
10-yr T-note (%)	4.40	4.42	-0.02	Down
Euribor/OIS spread (bps)	301	300	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	$73.87	$74.23	-0.48%	
WTI	$69.72	$70.10	-0.54%	
Natural Gas	$3.26	$3.34	-2.40%	
Crack Spread	$17.75	$17.75	0.01%	
12-mo strip crack	$20.60	$20.65	-0.21%	
Ethanol rack	$1.76	$1.76	-0.25%	
Metals				
Gold	$2,702.77	$2,669.72	1.24%	
Silver	$31.35	$30.79	1.82%	
Copper contract	$411.35	$416.40	-1.21%	
Grains				
Corn contract	$438.50	$436.25	0.52%	
Wheat contract	$569.75	$569.50	0.04%	
Soybeans contract	$976.25	$977.75	-0.15%	
Shipping				
Baltic Dry Freight	1,576	1,616	-40	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	0.55	-0.85	1.40	
Gasoline (mb)	2.05	0.75	1.30	
Distillates (mb)	-0.11	0.40	-0.51	
Refinery run rates (%)	-1.2%	0.1%	-1.3%	
Natural gas (bcf)	-3	1	-4	

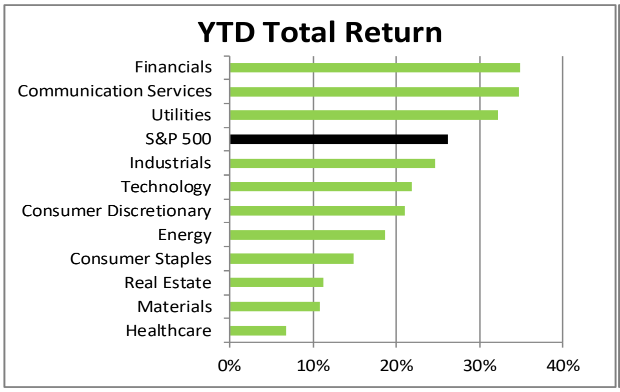
Weather

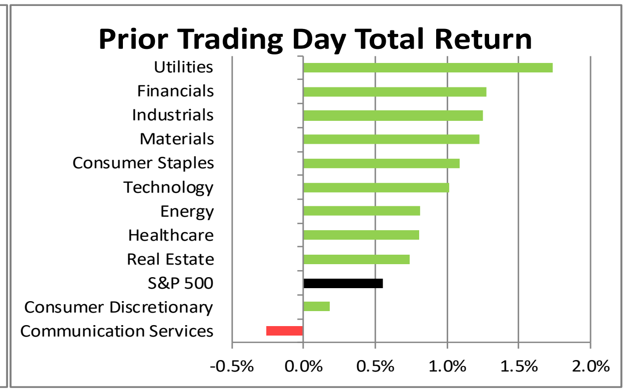
The 6-to-10-day and 8-to-14-day forecasts currently call for cooler-than-normal temperatures throughout the entire country other than the Gulf Coast, with warmer-than-normal temperatures in Florida. The forecasts call for wetter-than-normal conditions in the northern Rocky Mountain region, the northern Great Plains, and the Carolinas, with dry conditions along the West Coast and in the Desert Southwest.

There are currently no major atmospheric disturbances in the Atlantic Ocean area. We will discontinue our regular tropical storm updates once we reach the end of the Atlantic hurricane season on November 30.

Data Section

US Equity Markets – (as of 11/21/2024 close)

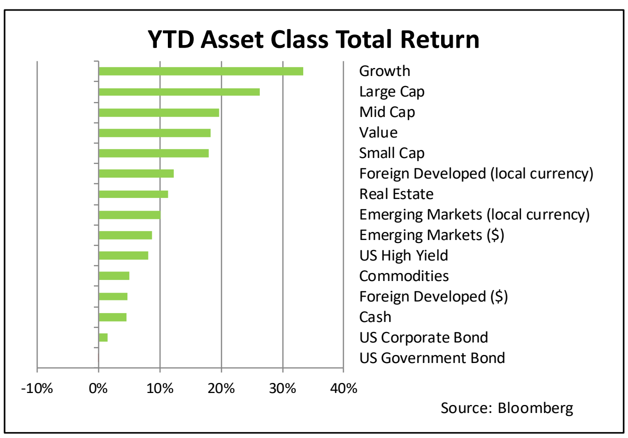




(Source: Bloomberg)

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 11/21/2024 close)

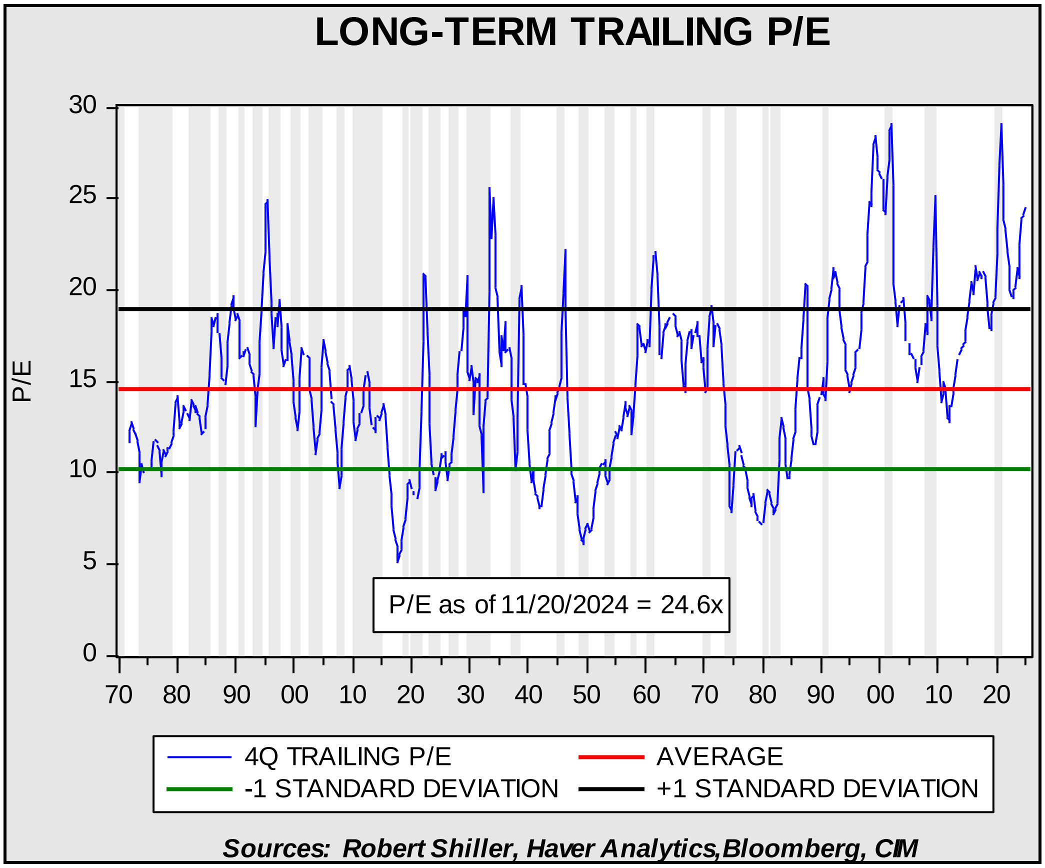


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.

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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.