



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

The Daily Comment will go on hiatus beginning Wednesday, November 27, and will return on Monday, December 2. Confluence wishes everyone a Happy Thanksgiving!

[Posted: November 26, 2024 – 9:30 AM ET] Global equity markets are generally lower this morning. In Europe, the Euro Stoxx 50 closed down 0.3% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.4%. Chinese markets were lower, with the Shanghai Composite down 0.1% from its previous close and the Shenzhen Composite down 1.0%. Conversely, US equity index futures are signaling a higher open.

With 477 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 17.9% 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
<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 President-elect Trump's latest vow to impose steep import tariffs on key trade partners once he is inaugurated to his new term. We next review several other international and US developments with the potential to affect the financial markets today, including signs that Germany may be ready to relax its government debt rules to spur economic growth and a few observations on the recent surge in US small cap stock prices.

United States-Canada-Mexico-China: President-elect Trump yesterday [said he'll impose 25% tariffs on all imports from Canada and Mexico on his first day in office](#) to push them to crack down on illegal immigrants and drugs crossing their borders into the US. He also said he would

impose an additional 10% tariff on imports from China, on top of existing levies. The threats are likely to deepen concerns that foreign countries, including key US allies, could face devastating tariffs once Trump is inaugurated, and not just for economic or protectionist reasons.

- In response, both the Canadian dollar (CAD) and the Mexican peso (MXN) [are trading down about 0.8%](#) versus the greenback so far today.
- Canadian and Mexican stock price indexes are also lower today. In addition, stock values for major foreign exporters to the US are also trading down, including Japanese automakers.

China: New reports based on satellite imagery and public documents suggest the Chinese military [has built a prototype nuclear reactor to power its upcoming aircraft carriers](#). That means the country's fourth carrier, under development now, could be its first to have the advantages of nuclear propulsion, including global range, faster speeds, greater capacity for carrying aircraft and munitions, and faster aircraft launch tempos — all of which would help make the Chinese navy an even greater challenge for Western naval forces.

China-United States: Apple CEO Tim Cook is in China today for the third time this year as he seeks government approval to add artificial-intelligence to the iPhone offerings in the country. However, a high-ranking government official [has warned that Apple and other foreign firms wanting to bring AI to China would face long and complex approval processes](#) if they don't partner with a local company. The statement suggests China is turning back to a technology-transfer tactic it previously used to steal innovations from foreign firms.

Russia-North Korea: South Korean security officials say Russia [has delivered advanced air defense systems to North Korea in return for the 10,000 or more troops](#) and other military aid that Pyongyang has sent to Russia for its war against Ukraine. The air defense systems and potentially other military goods are on top of the energy and food deliveries that Russia has also reportedly sent to North Korea to pay for its aid. North Korea [is also expanding a key factory that produces missiles for itself and Russia](#), possibly with Russian financing.

- The air-defense transfers illustrate the growing internationalization of the Russia-Ukraine conflict. They also reflect the increasing cooperation and coordination among the major countries in the China-led geopolitical and economic bloc, including China itself, Russia, Iran, and North Korea.
- As we've noted before, we think the trend of growing cooperation and coordination in the China-led bloc will become increasingly evident in 2025. Indeed, the commander of US forces in the Indo-Pacific region last week [warned that Russia is likely to transfer critical submarine technology to China](#), helping make its naval forces an even bigger threat. The trend will likely strengthen the China-led bloc, sharpening tensions with the US-led bloc.

Germany: Former Chancellor Angela Merkel, who helped introduce the country's controversial "debt brake" into the constitution in 2009, [has written in her memoir that she now thinks it should be relaxed](#). The news comes just days after Friedrich Merz, now the leader of Merkel's

center-right Christian Democratic Union, said he could support making the rule more flexible. Since the CDU is currently in the pole position to win February's parliamentary elections, the statements suggest the politics are moving toward a change in the brake in 2025.

- The debt brake caps new borrowing by the federal government at 0.35% of GDP, adjusted for the economic cycle. It also bars Germany's 16 individual states from taking on any new debt at all.
- The debt brake has come to be seen as shackling the German economy. For example, some economists believe it has inhibited needed investment in high-return public goods such as infrastructure. Amending the rule could help reinvigorate German economic growth, which in turn would likely give a boost to the broader European Union economy.

Italy: Banking giant UniCredit yesterday [launched an all-stock, 10.1 billion EUR \(\\$10.6 billion\) takeover bid for domestic rival Banco BPM](#). If successful, the takeover would create Europe's third-largest lender by market capitalization. It could also potentially spark a wave of much needed consolidation and efficiency gains in the sector. The takeover bid comes as UniCredit's effort to buy German lender Commerzbank has gotten a frosty reception.

US Stock Market: The Russell 2000 price index of small capitalization stocks yesterday [jumped to a new record for the first time in three years](#), closing at 2,442.03. The index is now up 10.1% since election day and 20.5% for the year-to-date. The recent jump largely reflects optimism over the future impact of President-elect Trump's likely economic policies. As we have argued in the past, we also think small caps are benefiting as the world fractures into relatively separate geopolitical and economic blocs — a trend that is fostering US re-industrialization.

US Economy: The American Farm Bureau [has released its annual estimate of the cost of a Thanksgiving dinner for 10 people, and the figure comes to just \\$58.08](#), down 5% from last year. Adjusted for inflation, that's one of the cheapest Thanksgiving dinners since 1982. The estimate assumes a dinner of turkey, cranberries, sweet potatoes, pumpkin pie mix, and more. Apparently, the estimate doesn't include the nice wine, like a Zinfandel or German Riesling, that this author will be sipping alongside his turkey and stuffing!

Global Health: New research shows global rates of HIV infections and deaths related to the virus [dropped sharply between 2010 and 2021](#). New infections fell almost 22% globally in the period, to 1.65 million, and HIV-related deaths decreased nearly 40%, to 718,000. The declines are largely attributable to new drugs and better prevention methods against the disease, which has killed some 40 million people since 1980 and was once seen as a virtual death sentence.

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.

Economic Releases						
ET	Indicator			Expected	Prior	Rating
10:00	New Home Sales	m/m	Oct	725k	738k	***
10:00	New Home Sales MoM	m/m	Oct	-1.8%	4.1%	**
10:00	Richmond Fed Manufact. Index	m/m	Nov	-11.0	-14.0	**
10:00	Conf. Board Consumer Confidence	m/m	Nov	111.8	108.7	***
Federal Reserve						
ET	Speaker or Event	District or Position				
14:00	U.S. Federal Reserve Releases Meeting Minutes	Federal Reserve Board				

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	PPI Services	y/y	Oct	2.9%	2.8%	2.5%	*	Equity and bond neutral
South Korea	Consumer Confidence	m/m	Nov	100.7	101.7		*	Equity and bond neutral
	Retail Sales	y/y	Oct	6.7%	6.7%		**	Equity and bond neutral
	Depart. Store Sales	y/y	Oct	-2.6%	0.3%		*	Equity and bond neutral
	Discount Store Sales	y/y	Oct	-3.4%	-6.5%		*	Equity and bond neutral
AMERICAS								
Mexico	Current Account Balance	q/q	3Q	\$733m	\$2854m	-\$911m	*	Equity and bond neutral
Brazil	IBGE Inflation IPCA-15	m/m	Nov	4.77%	4.47%	4.64%	***	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	440	0	Down
U.S. Sibor/OIS spread (bps)	450	451	-1	Down
U.S. Libor/OIS spread (bps)	447	449	-2	Down
10-yr T-note (%)	4.28	4.28	0.00	Down
Euribor/OIS spread (bps)	299	302	-3	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	\$73.54	\$73.01	0.73%	
WTI	\$69.46	\$68.94	0.75%	
Natural Gas	\$3.40	\$3.37	1.04%	
Crack Spread	\$17.40	\$17.15	1.44%	
12-mo strip crack	\$20.34	\$20.17	0.82%	
Ethanol rack	\$1.74	\$1.74	-0.21%	
Metals				
Gold	\$2,632.82	\$2,625.01	0.30%	
Silver	\$30.55	\$30.30	0.82%	
Copper contract	\$416.15	\$415.90	0.06%	
Grains				
Corn contract	\$433.50	\$433.00	0.12%	
Wheat contract	\$563.00	\$555.75	1.30%	
Soybeans contract	\$990.00	\$985.75	0.43%	
Shipping				
Baltic Dry Freight	1,529	1,537	-8	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-1.50		
Gasoline (mb)		-0.10		
Distillates (mb)		0.30		
Refinery run rates (%)		0.2%		
Natural gas (bcf)		1		

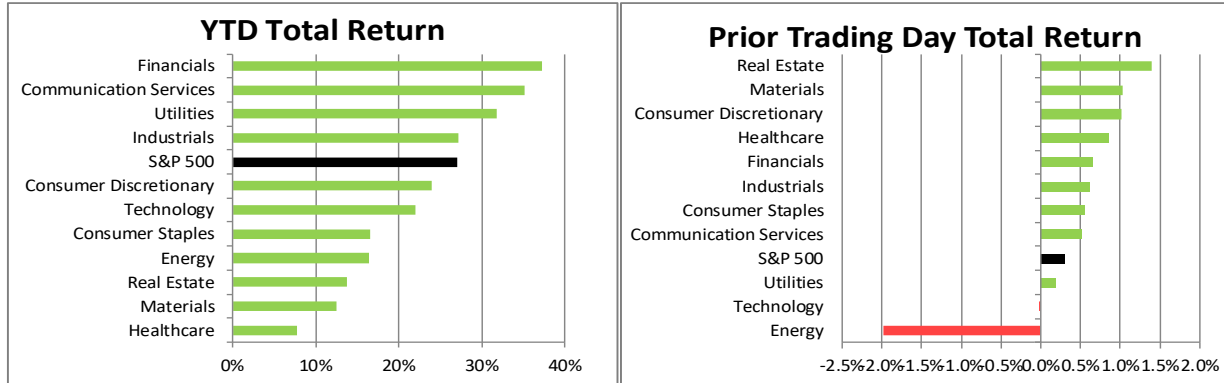
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures from the Rocky Mountains westward, with cooler-than-normal temperatures in the eastern half of the country. The forecasts call for wetter-than-normal conditions along the Gulf Coast in Texas and Louisiana and in northern Montana and North Dakota, with dry conditions prevailing in most of the rest of the country.

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

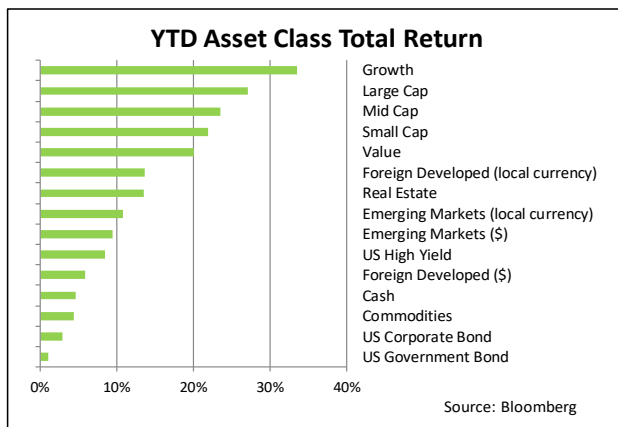
US Equity Markets – (as of 11/25/2024 close)



(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 11/25/2024 close)

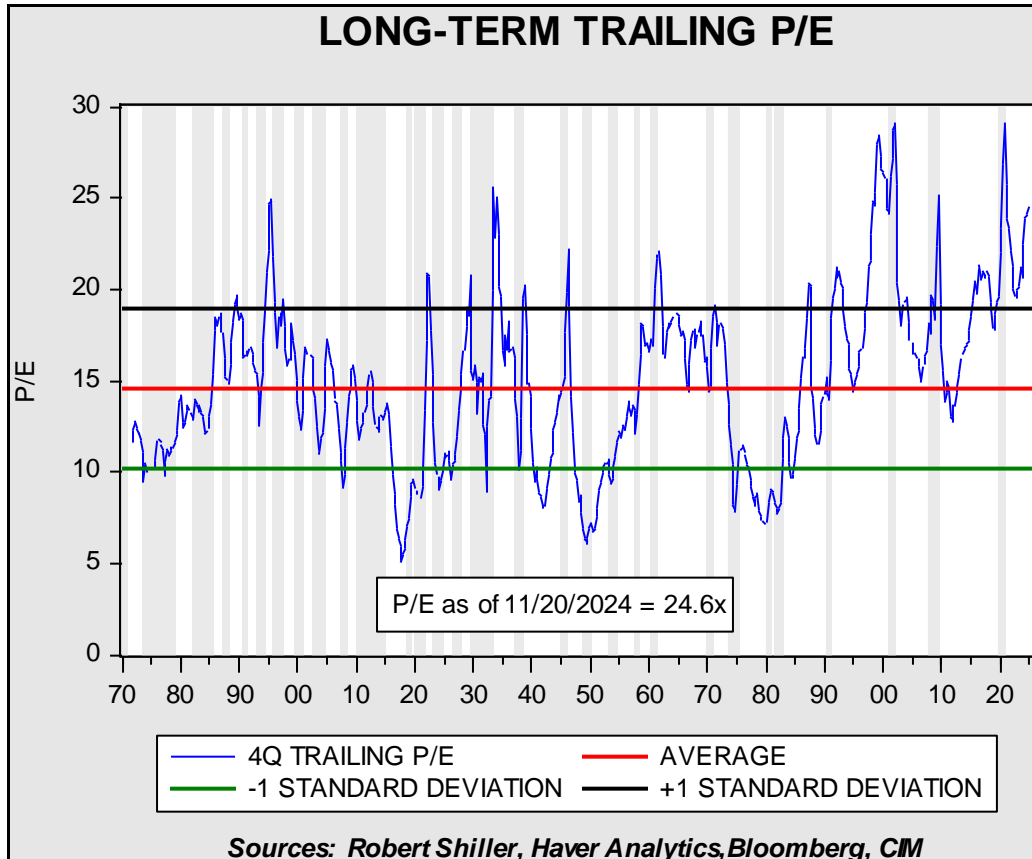


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.