Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: November 4, 2024 — 9:30 AM ET] Global equity markets are mostly higher this morning. In Europe, the Euro Stoxx 50 closed essentially unchanged from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.9%. Chinese markets were higher, with the Shanghai Composite up 1.2% from its previous close and the Shenzhen Composite up 2.0%. US equity index futures are signaling a higher open.

With 350 companies having reported so far, S&P 500 earnings for Q3 are running at $62.40 per share, compared to estimates of $60.44, which is up 4.2% from Q3 2023. Of the companies that have reported thus far, 75.1% have exceeded expectations while 16.9% 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
Israel's Pager Caper and Supply Chain Security	The Inflation Adjustment for Social Security Benefits in 2025	Q4 2024	Business Cycle Report

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Our *Comment* today opens with a few words on tomorrow's election, which we still consider a coin-flip. We next review several other international and US developments with the potential to affect the financial markets today, including an OPEC+ decision not to start boosting oil production as early as planned and an outlook for the Federal Reserve's latest monetary policy decision on Thursday.

US Elections: Election week is now upon us, and voters tomorrow will cast their ballots for president, senators, representatives, governors, state lawmakers, judges, county commissioners, referenda, initiatives, bond proposals, and probably even a local dog catcher or two. At least 65,000,000 voters have already cast advance ballots. In our view, the race for president and Congress remains too close to call and could go either way, from a landslide for the Republicans to a landslide for the Democrats.

- Our read of the situation is based on a broad, triangulated reading of the opinion polls, betting markets, analysis by reputable political observers, and insider commentary. No matter who you support in the election, we would caution against over confidence, since that could merely set you up for disappointment and anger.
- Supporting our view that the election could go either way, we note that a range of indicators point in different directions. For example, recent polls point to a rebound in support for former President Trump and betting markets suggest the odds are highly in his favor, but other data consistently shows that Vice President Harris enjoys higher enthusiasm among her supporters and out-sized support among women.
- In fact, a new poll suggests Harris could even win Iowa. The poll underscores a potential swing toward her, which has boosted bond prices, pushed down yields, and weighed on the dollar so far this morning. The benchmark 10-year Treasury yield has fallen this morning to 4.288%, and the US Dollar Index is down a sharp 0.6%.
- In any case, stock market performance has historically averaged about the same whether it was a Republican or a Democrat in the White House. The more important issue may be whether we end up with a unified or split government. Historically, the market has performed best in a split government, when one party has the White House and the other has at least one chamber of Congress. Given today's close division of support, we believe there is a good chance that we'll end up with a market-friendly split government.
- Finally, we note that emotions are high, and politicians and foreign agents alike appear to be prepping the ground for protests or even violence once the results are announced. We can't discount the possibility of political and legal uncertainty, protests, or even localized violence between Election Day and Inauguration Day. As of right now, however, we think any such developments would be relatively short-lived and contained.

Global Oil Market: In a notice posted Sunday by the Organization of the Petroleum Exporting Countries, Saudi Arabia and seven other oil-producing nations said they wouldn't implement their plan to gradually hike oil production until at least late December. The move likely reflects the current over-supply of oil amid strong US output, weak economic growth in China, and reduced demand for automotive gasoline as consumers buy more electric vehicles.

Global Wine Market: New data from the International Organization of Wine and Vine shows global wine consumption in 2023 fell to 221 million hectoliters, down a full 10.5% from 2017. The drop is the equivalent to about 3.5 billion bottles of wine per year, largely because reduced consumption by baby boomers isn't being offset by younger drinkers. The decline has led to excess supplies of both wine and grapes, which is starting to weigh on prices.

Germany: The fragile three-party coalition government was thrown into further disarray on Friday evening when someone leaked an economic position paper by Finance Minister Lindner, who heads the coalition's liberal Free Democratic Party. The paper argued for new tax and spending cuts, which are at odds with the policy proposals of the other coalition partners, the center-left Social Democratic Party, and the left-wing Greens. The disagreement could shatter the coalition and bring it down shortly after the US election, leading to a weak caretaker government.

United Kingdom: The Conservative Party on Saturday elected former Minister of Business and Trade Kemi Badenoch as its new leader. Badenoch, whose parents are Nigerian immigrants, has vowed to shift the party more aggressively to the right, with a focus on social issues such as further curbing immigration and combating "woke" culture. However, the more popular Labour Party is likely to remain in power until the next scheduled elections in summer 2029.

Moldova: In a run-off election yesterday, President Maia Sandu won a second term with 55.4% of the vote, beating the Russia-backed opposition candidate Alexandr Stoianoglo. The win by Sandu will help keep the small, Eastern European country oriented toward the West and focused on its effort to eventually join the European Union.

Australia: Fitch Ratings today reaffirmed Australia's stellar sovereign debt rating of AAA, with a stable outlook. The firm praised Australia's "high income per capita and sound medium-term growth outlook, as well as [its] strong institutions and an effective policy framework." Still, it also noted the budget deficit would likely widen to 2.6% of gross domestic product in fiscal year 2025, up from just 0.8% in FY 2023, largely because of tax cuts and fast spending hikes.

China: The Ministry of Commerce and the China Securities Regulatory Commission have announced easier rules on Qualified Foreign Institutional Investors (QFIIs) seeking to buy Chinese "A" shares, which trade only on the mainland and can't be directly purchased by foreign individuals. To qualify as a QFII, for example, the new rules require the institution to have capital of at least $50 million or assets under management of at least $300 million, down from the previous requirements of $100 million and $500 million, respectively.

- The move is consistent with the economic stimulus measures Beijing announced earlier in the autumn, which partly aimed to boost Chinese stock prices and give Chinese citizens a viable alternative way to build wealth as the country's residential housing market continues to struggle.
- The eased rules are also consistent with Beijing's newly adopted goal to make China a "financial superpower." However, even with the new changes, Beijing will still have tight control over cross-border inflows and outflows of capital. Those controls will likely keep acting as a disincentive to foreign investors and inhibit the renminbi from becoming a more viable reserve currency.

China-Peru-United States: The head of US Southern Command, Army Gen. Laura Richardson, has warned that a new China-funded megaport in Peru could be used by the Chinese navy. The new port, due to be inaugurated by General Secretary Xi this month, is the latest example of Beijing's strategy to build ostensibly civilian maritime facilities around the world, which it could then use for naval operations in a conflict. Since the Peru port could allow the Chinese navy to threaten the western approaches to the US, it could further worsen US-China tensions.

- On a related note, the head of US Space Force, Gen. B. Chance Saltzman, warned late last week that China is developing and launching space weapons at a "mind-boggling" pace. According to Gen. Saltzman, China and Russia are both demonstrating an ability to conduct warfighting in space, which he called "very threatening" to the US and its allies.
- To reiterate, the continued aggressive military buildup by China and Russia are likely to further exacerbate US-China tensions, creating continuing risks for investors.

US Monetary Policy: The Fed holds its latest monetary policy meeting this week, with its decision due to be released on Thursday at 2:00 PM ET. The policymakers are widely expected to cut the benchmark fed funds interest rate by 25 basis points to a range of 4.50% to 4.75%, and we agree with that assessment. However, because of the underlying strength in economic growth, relatively tight labor markets, and continued price pressures, we still think the pace and endpoint of future cuts could leave investors disappointed.

US Stock Market: Reflecting how fortunes have shifted for two of the country's key technology giants, Dow Jones late last week announced that Nvidia, the graphics processor maker turned artificial-intelligence darling, will replace Intel, the past king of central processing chips that is now struggling to compete, in the Dow Jones Industrial Average. The change will be effective prior to market opening on Friday, November 8.

US Economic Releases

There were no domestic releases prior to the publication of this report. The following table lists the economic releases or Fed events scheduled for the rest of the day.

Economic Releases						
ET	Indicator			Expected	Prior	Rating
10:00	Factory Orders	m/m	Sep	-0.5%	-0.2%	***
10:00	Factory Orders Ex Transportation	m/m	Sep		-0.1%	*
10:00	Durable Goods Orders	m/m	Sep F	-0.8%	-0.8%	***
10:00	Durable Goods Orders ex Transportation	m/m	Sep F	0.4%	0.4%	**
10:00	Cap Goods Orders Nondef Ex Air	m/m	Sep F		0.5%	*
10:00	Cap Goods Ship Nondef Ex Air	m/m	Sep F		-0.3%	*
Federal Reserve						
No Fed speakers or events for the rest of today						

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								
Australia	Melbourne Institute Inflation	y/y	Oct	3.0%	2.6%		***	Equity and bond neutral
India	HSBC India PMI Mfg	m/m	Oct F	57.5	57.4		***	Equity and bond neutral
EUROPE								
Eurozone	HCOB Eurozone Manufacturing PMI	m/m	Oct F	46.0	45.9	45.9	***	Equity and bond neutral
Germany	HCOB Germany Manufacturing PMI	m/m	Oct F	43.0	42.6	42.6	***	Equity and bond neutral
France	HCOB France Manufacturing PMI	m/m	Oct F	44.5	44.5	44.5	***	Equity and bond neutral
Italy	HCOB Italy Manufacturing PMI	m/m	Oct	46.9	48.3	48.5	***	Equity and bond neutral
Switzerland	Domestic Sight Deposits CHF	w/w	1-Nov	447.8b	449.4b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	1-Nov	456.6b	457.4b		*	Equity and bond neutral
AMERICAS								
Canada	S&P Global Canada Manufacturing PMI	m/m	Oct	51.1	50.4		***	Equity and bond neutral
Mexico	Gross Fixed Investment	y/y	Aug	-1.9%	6.6%	-2.0%	**	Equity and bond neutral
	Vehicle Domestic Sales	y/y	Oct	122051	116543		***	Equity and bond neutral
	Leading Indicators	y/y	Sep	-0.12	-0.13		**	Equity and bond neutral
Brazil	S&P Global Brazil Manufacturing PMI	m/m	Oct	52.9	53.2		***	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)	440	441	-1	Down
U.S. Sibor/OIS spread (bps)	453	454	-1	Down
U.S. Libor/OIS spread (bps)	449	450	-1	Down
10-yr T-note (%)	4.29	4.38	-0.09	Up
Euribor/OIS spread (bps)	309	306	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	$75.15	$73.10	2.80%	
WTI	$71.59	$69.49	3.02%	
Natural Gas	$2.61	$2.66	-2.10%	
12-mo strip crack	$20.54	$20.10	2.19%	
Ethanol rack	$1.75	$1.75	0.29%	
Metals				
Gold	$2,740.87	$2,736.53	0.16%	
Silver	$32.81	$32.49	0.99%	
Copper contract	$440.60	$437.15	0.79%	
Grains				
Corn contract	$418.25	$414.50	0.90%	
Wheat contract	$569.25	$568.00	0.22%	
Soybeans contract	$1,007.50	$993.75	1.38%	
Shipping				
Baltic Dry Freight	1,378	1,388	-10	

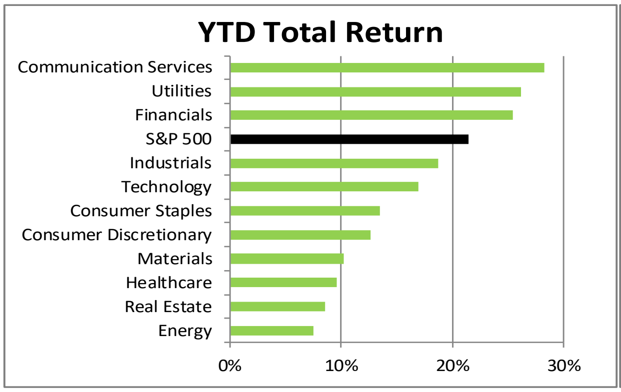
Weather

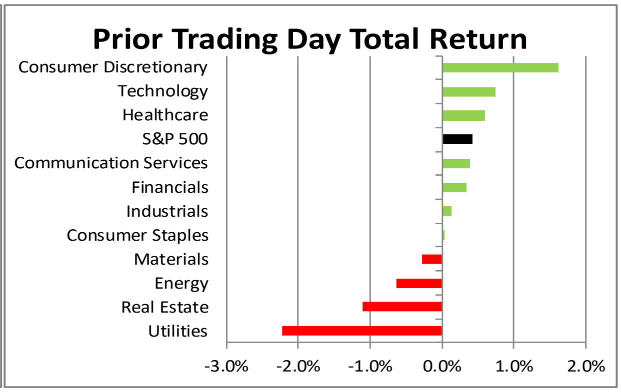
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for most of the country with cooler-than-normal temperatures in the Pacific and Rocky Mountain regions. The precipitation outlook calls for wetter-than-normal conditions throughout most states with normal conditions in the Southwest region.

Two tropical disturbances are currently active in the Atlantic Ocean. Tropical Storm Patty is headed towards the Iberian Peninsula, while another tropical cyclone is forming just south of Jamaica and is expected to make landfall in Cuba as a hurricane later this week.

Data Section

US Equity Markets – (as of 11/1/2024 close)

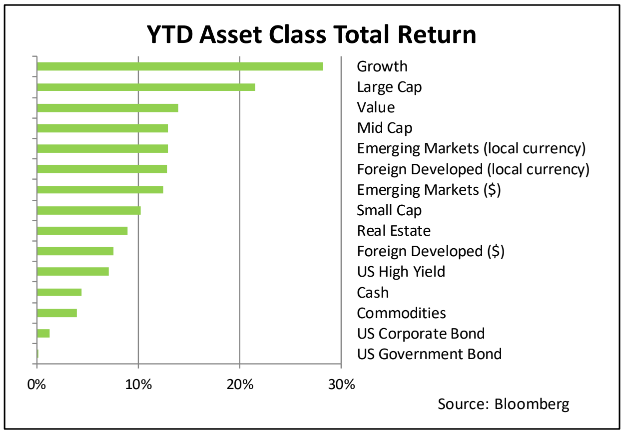




(Source: Bloomberg)

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 11/1/2024 close)

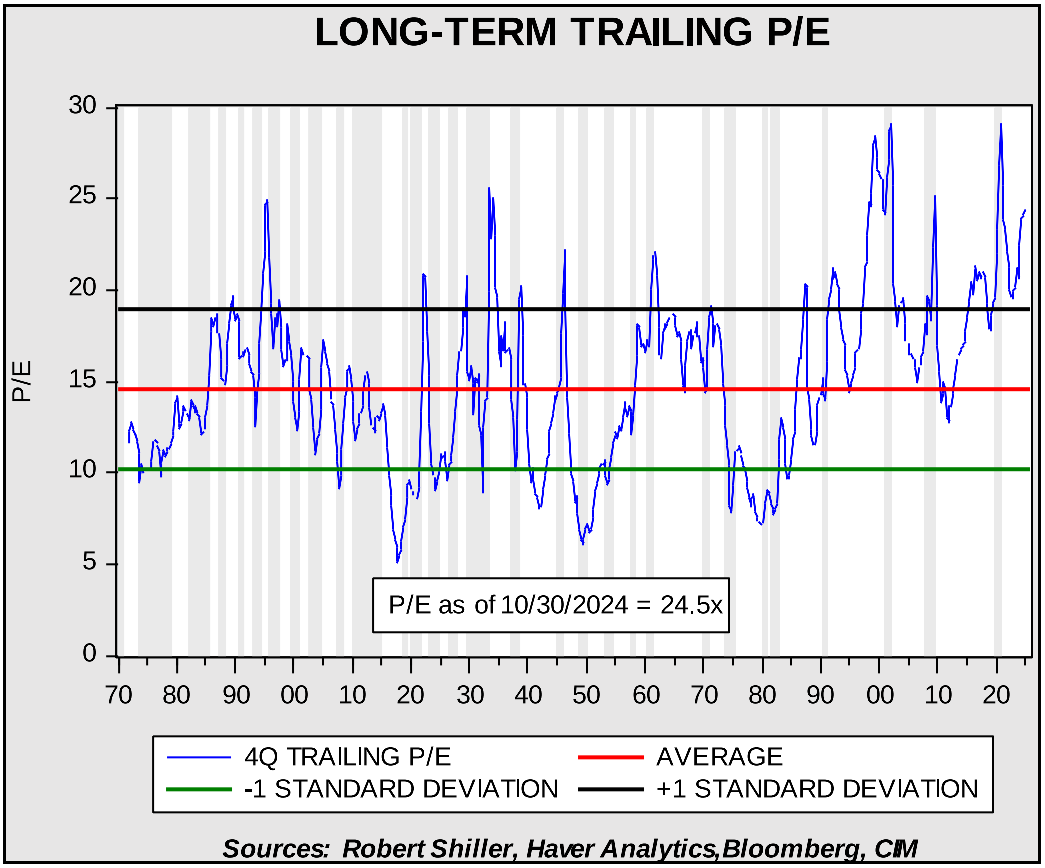


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

October 31, 2024



Based on our methodology,[1] the current P/E is 24.5x, down 0.1 from our last report. The stock price index increase was offset by a relatively larger increase 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 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.