Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: November 8, 2024 — 9:30 AM ET] Global equity markets are lower this morning. In Europe, the Euro Stoxx 50 closed down 0.6% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.3%. Chinese markets were lower, with the Shanghai Composite down 0.5% from its previous close and the Shenzhen Composite down 0.3%. US equity index futures are signaling a lower open.

With 449 companies having reported so far, S&P 500 earnings for Q3 are running at $62.70 per share, compared to estimates of $60.44, which is up 4.2% from Q3 2023. Of the companies that have reported thus far, 75.2% 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:

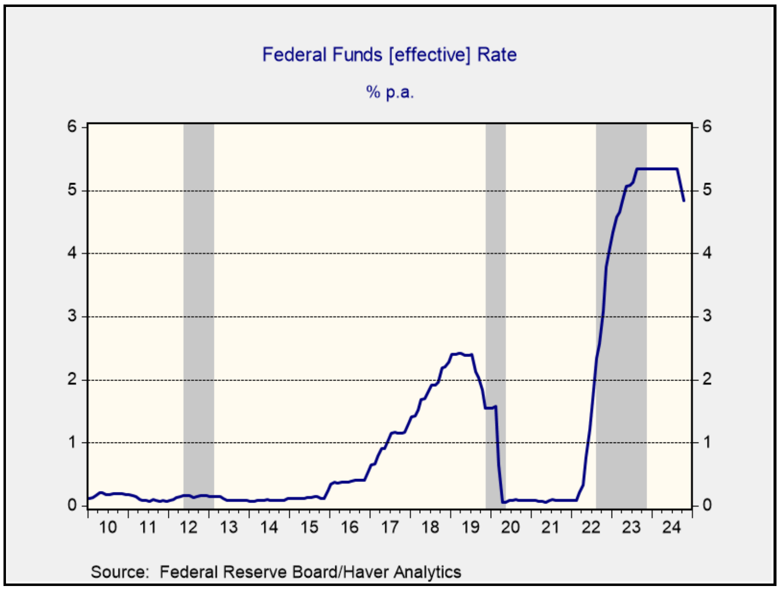
Bi-Weekly Geopolitical Report	Asset Allocation Bi-Weekly	Asset Allocation Quarterly	Of Note
Rising US & Global Debt: A Perspective Check	The Inflation Adjustment for Social Security Benefits in 2025	Q4 Report Q4 Rebalance Presentation	**Value Equities Quarterly Update**

Good morning! Today, the market is closely watching to see if the Republicans can gain enough seats to take control of the House of Representatives. In sports news, the Baltimore Ravens made a remarkable comeback to defeat the Cincinnati Bengals. Today's *Comment* will cover the latest FOMC meeting, Trump's plans to refocus industrial policy, and the adjustments that the EU intends to make for a Trump presidency. As always, our report will also include a roundup of both international and domestic data releases.

Policy Path Uncertainty: The FOMC decided to lower its policy rate as expected but was very vague about the path of future cuts.

- The Federal Reserve lowered its benchmark interest rate by 25 basis points on Thursday, setting the target range at 4.50%-4.75%. This decision was influenced by recent economic indicators, including October's inflation and employment data, which suggested a potential slowdown in economic activity. While Fed officials acknowledged the possibility of near-term inflationary pressures, they expressed optimism about a potential decline in January. However, they cautioned that uncertainty surrounding certain economic policy changes has complicated efforts to project cuts going into next year.

- The central bank's reluctance to provide a clear interest rate path suggests a cautious stance, likely shaped by the recent election's policy implications. In particular, concerns persist that the president-elect's proposed tax cuts might intensify inflationary pressures. While Fed Chair Jerome Powell avoided directly commenting on fiscal policy proposals, he did describe the current deficit as being unsustainable. He further emphasized the central bank's commitment to data-driven decision-making, stating that it "does not guess, does not speculate, and does not assume" about future policy shifts.

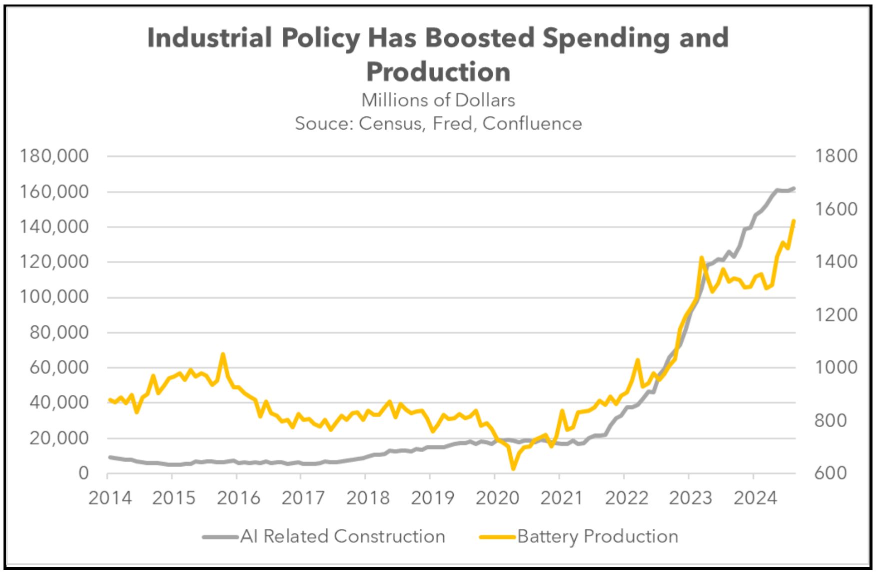


- Next month's FOMC meeting will offer markets key insights into the Fed officials' views on the inflationary impact of potential Trump administration policies. A more hawkish shift could set the Fed on a collision course with the incoming administration. Although there is speculation that Trump might seek to replace Fed officials with loyalists, such a move could backfire by sparking a sell-off in long-term bonds, which could drive up borrowing costs for the consumers he aims to support. A compromise is more probable, with Trump potentially making spending concessions in exchange for lower policy rates.

What's Next for Build Back Better? Trump's ascension into the White House will likely refocus but not fundamentally change the direction of policy.

- The president-elect is expected to shift US priorities from using stimulus to incentivize foreign investment in the US to relying on tariffs as the primary tool. Last month, [Trump criticized the Biden administration's spending on stimulus and tax incentives] to attract foreign businesses, calling it too costly and suggesting tariffs as a more effective alternative. He has also pledged to cut much of the unspent funding for climate initiatives in the Inflation Reduction Act, aiming to reduce the deficit and refocus the country by expanding fossil fuel production.

- Despite his lack of interest in the two spending bills passed by the Biden administration, Trump is unlikely to reverse most of these changes. The domestic industrialization strategy has driven a sharp increase in spending, fueling a surge in the construction of chip facilities, data centers, and battery production sites. Additionally, the bill was designed to create jobs in key Republican strongholds, making it even more complex to dismantle these initiatives, which may explain why House Speaker Mike Johnson walked back plans to repeal the CHIPS act.

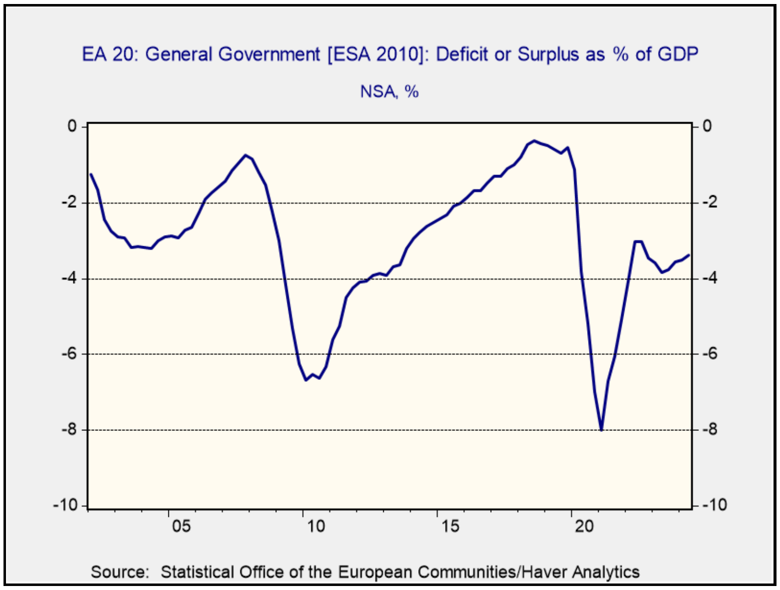


- We expect the next administration to let market forces shape the direction of clean energy initiatives, while largely leaving chip production efforts intact for now. The reluctance to aggressively reverse these policies stems from the Republican party's need to prioritize its anticipated tax proposals, which will likely face significant scrutiny due to their budgetary impact. Following this, Republicans will also focus on advancing a tariff bill which should also meet some pushback. While some adjustments to the CHIPS and Inflation Reduction bills may occur, we do not expect these to be top priorities.

EU Faces Reality: European unity is poised to be severely tested as the US pursues a strategic realignment that could upend the longstanding relationship.

- European leaders are strategizing on how to approach President-elect Donald Trump while preserving unity within their coalitions. During his campaign, Trump pledged to scale back US support for NATO members that fall short of defense spending targets, pushed for a swift resolution to the Ukraine conflict, and threatened tariffs on all European goods. Although these threats are not new — Trump raised similar issues in his first term — the urgency to address these vulnerabilities has intensified, as they pose a further risk to the bloc's growth prospects.

- A core challenge for the EU is reducing its dependence on the US for security and trade. Former ECB President Mario Draghi has proposed establishing a unified approach, which he estimates would require a public fund of 800 billion EUR ($861 billion) in additional annual investments. Meanwhile, French President Emmanuel Macron is advocating for the bloc to assert its sovereignty by boosting investment in its domestic defense industry, with a special focus on advancing technologies in artificial intelligence, quantum computing, space, biotechnology, and renewable energy.



- The EU's ability to counterbalance a more assertive US will depend on its capacity for unity. By overcoming internal divisions and fostering deeper cooperation — potentially through a fiscal union — the EU could improve its access to capital markets through collective borrowing. This will not be an easy process, especially with individual countries struggling to meet deficit targets following the pandemic, but it is likely something the bloc will explore in the coming years. One potential approach could be the issuance of another joint EU bond to fund special projects.

In Other News: Israel is preparing to deepen its war efforts in Lebanon and Gaza in another sign that the conflict is unlikely to end until next year. The Trump team is considering ways to scale back some of the tax promises made during the campaign to facilitate the passage of legislation. Meanwhile, China approved a $1.4 trillion spending program on Thursday, which aims to help bail out local governments. However, there are concerns that this amount of spending may still be insufficient to effectively revive the economy.

US Economic Releases

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

Economic Releases						
ET	Indicator			Expected	Prior	Rating
10:00	U. of Michigan Consumer Sentiment	m/m	Nov P	71.0	70.5	***
10:00	U. of Michigan Current Conditions	m/m	Nov P	65.5	64.9	**
10:00	U. of Michigan Future Expectations	m/m	Nov P	75.0	74.1	**
10:00	U. of Michigan 1-Year Inflation Expectation	m/m	Nov P	2.7%	2.7%	*
10:00	U. of Michigan 5-10 Year Inflation Expectation	m/m	Nov P	3.0%	3.0%	*
Federal Reserve						
ET	Speaker or Event	District or Position				
11:00	Michelle Bowman Speaks on Banking Topics	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	Household Spending	y/y	Sep	-1.1%	-1.9%	-1.8%	**	Equity bullish, bond bearish
	Japan Buying Foreign Bonds	w/w	1-Nov	-¥4457.9b	-¥897.1b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	1-Nov	-¥1173.6	-¥397.6b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	1-Nov	¥42.6	¥277.9b		*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	1-Nov	¥139.4b	¥10.3b		*	Equity and bond neutral
	Leading Economic Index	m/m	Sep P	109.4	106.9	109.0	**	Equity and bond neutral
	Coincident Index	y/y	Sep P	115.7	114.0	115.5	**	Equity and bond neutral
China	BoP Current Account	q/q	3Q P	$146.9b	$54.5b		**	Equity and bond neutral
EUROPE								
France	Current Account Balance	m/m	Sep	-2.1b	-1.2bb		*	Equity and bond neutral
	Trade Balance	m/m	Sep	-8266m	-7371m		*	Equity and bond neutral
Italy	Industrial Production WDA	y/y	Sep	-4.0%	-3.2%	-3.5%	***	Equity and bond neutral
	Retail Sales	y/y	Sep	0.7%	0.9%	0.5%	**	Equity and bond neutral
Russia	Money Supply, Narrow Definition	w/w	1-Nov	18.29t	18.36t		*	Equity and bond neutral
	Gold and Forex Reserves	m/m	1-Nov	$631.6b	$628.5b		***	Equity and bond neutral
AMERICAS								
Brazil	IBGE Inflation IPCA	m/m	Oct	4.74%	4.42%	4.74%	***	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	443	-2	Down
U.S. Sibor/OIS spread (bps)	451	451	0	Down
U.S. Libor/OIS spread (bps)	448	448	0	Down
10-yr T-note (%)	4.30	4.33	-0.03	Up
Euribor/OIS spread (bps)	303	305	-2	Down
Currencies	**3 Mo**			
Dollar	Down	US		Down
Euro	Down	Euro		Up
Yen	Up	Japan		Up
Pound	Up	UK		Up
Franc	Up	Switzerland		Up
Central Bank Action	**Actual**	**Prior**	**Expected**	
FOMC Rate Decision (Lower Bound)	4.500%	4.750%	4.500%	On Forecast
FOMC Rate Decision (Upper Bound)	4.750%	5.000%	4.750%	On Forecast
FOMC Rate on Reserve Balances	4.650%	4.900%	4.650%	On Forecast

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	$74.62	$75.63	-1.34%	
WTI	$71.18	$72.36	-1.63%	
Natural Gas	$2.72	$2.69	0.93%	
Crack Spread	$17.39	$17.19	1.18%	
12-mo strip crack	$20.39	$20.41	-0.13%	
Ethanol rack	$1.75	$1.75	-0.11%	
Metals				
Gold	$2,692.69	$2,706.71	-0.52%	
Silver	$31.52	$32.03	-1.59%	
Copper contract	$433.20	$443.15	-2.25%	
Grains				
Corn contract	$429.00	$427.50	0.35%	
Wheat contract	$572.25	$571.50	0.13%	
Soybeans contract	$1,023.00	$1,026.25	-0.32%	
Shipping				
Baltic Dry Freight	1,451	1,427	24	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)	2.15	-0.09	2.24	
Gasoline (mb)	0.41	-0.52	0.93	
Distillates (mb)	2.95	-0.50	3.44	
Refinery run rates (%)	1.4%	0.6%	0.9%	
Natural gas (bcf)	69	68	1	

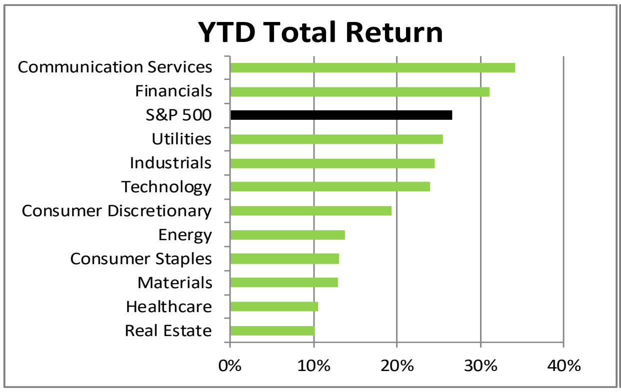
Weather

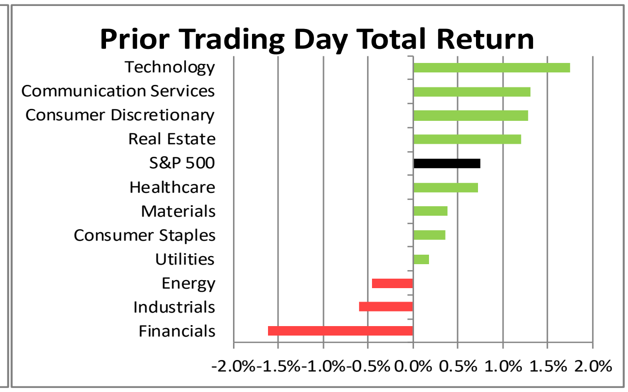
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures from the Great Plains eastward, with cooler-than-normal temperatures in the Far West. The forecasts call for wetter-than-normal conditions from the West Coast to the Mississippi River, with dry conditions in the Southeast.

Hurricane Rafael is currently churning around the central Gulf of Mexico. It is not expected to make landfall in the coming days, and it is unclear whether it will threaten oil production facilities farther north. A second tropical disturbance is northwest of Puerto Rico, but it is assessed to have only a 20% chance of cyclonic formation within the next 48 hours.

Data Section

US Equity Markets – (as of 11/7/2024 close)

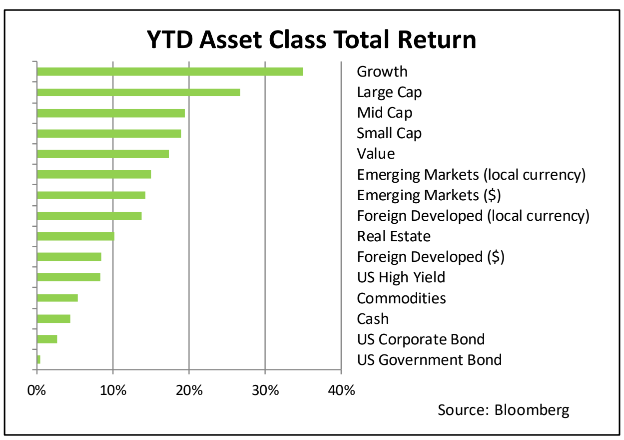




(Source: Bloomberg)

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 11/7/2024 close)

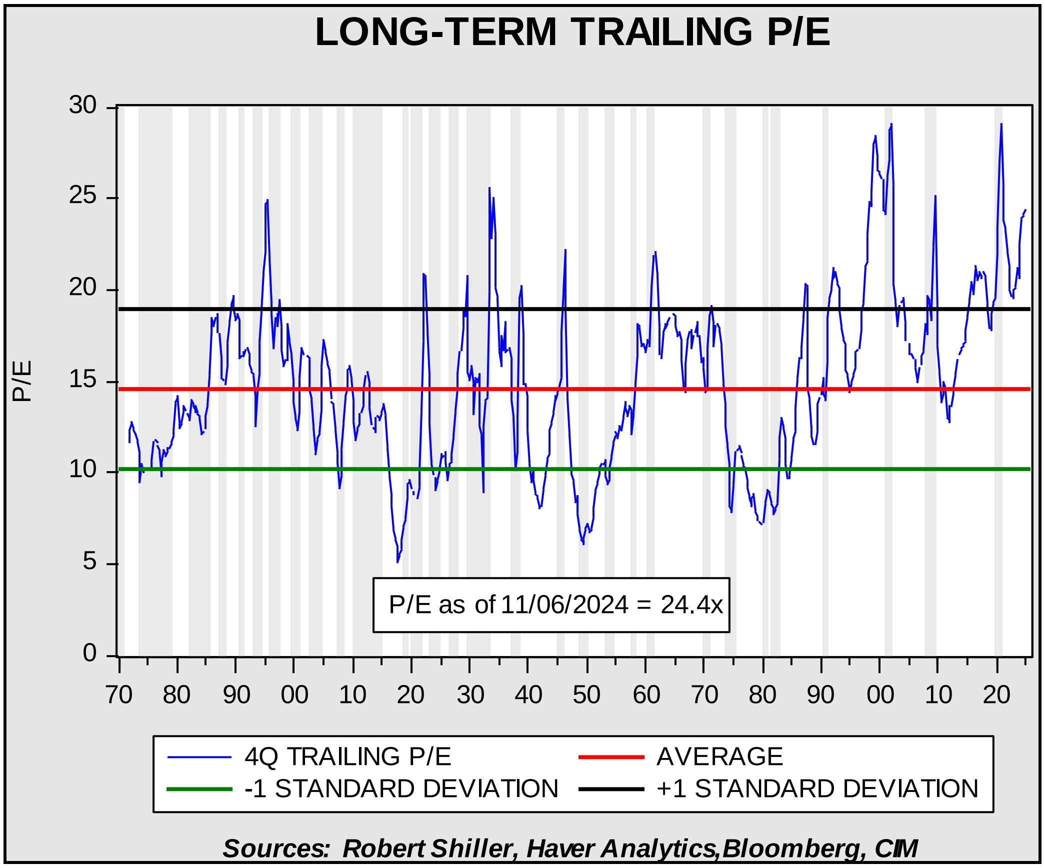


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 7, 2024



Based on our methodology,[1] the current P/E is 24.4x, 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.

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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.