

Looking for something to read? See our [Reading List](#); these books, separated by category, are ones we find interesting and insightful. We will be adding to the list over time.

**[Posted: October 1, 2024 — 9:30 AM ET]** Global equity markets are generally higher this morning. In Europe, the Euro Stoxx 50 is up 0.2% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.1%. Chinese markets are closed for Golden Week. US equity index futures are signaling a flat open.

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 emphasized in bold:

- [Bi-Weekly Geopolitical Report](#) (9/23/2024) (with associated [podcast](#)): “Eight Megatrends Every Investor Should Know”
- [Asset Allocation Bi-Weekly](#) (9/30/2024) (with associated [podcast](#)): “Presidential Cycles and Stock Performance”
- [Asset Allocation Quarterly – Q3 2024](#) (7/16/2024): Discussion of our asset allocation process, Q3 2024 portfolio changes, and our outlook for the markets.
- [Asset Allocation Q3 2024 Rebalance Presentation](#) (8/6/2024): Video presentation featuring the Asset Allocation Committee as they review the asset allocation strategies, recent portfolio changes, and the current macro environment.
- [Confluence of Ideas podcast](#) (9/11/2024) “Reviewing the Asset Allocation Rebalance: Q3 2024”
- [Fixed Income Quarterly](#) (September 2024)
- [Business Cycle Report](#) (9/26/2024)

Our *Comment* today opens with news that consumer price inflation in the eurozone is now below the European Central Bank’s target of 2% for the first time in three years — a development that portends further interest-rate cuts and potentially renewed depreciation of the euro. We next review several other international and US developments with the potential to affect the financial markets today, including the inauguration of a new president in Mexico and a statement by Federal Reserve Chair Powell suggesting US interest rates will fall only gradually going forward.

**Eurozone:** In an initial estimate, the September consumer price index [was up just 1.8% from the same month one year earlier, after a 2.2% gain in the year to August](#). That means price inflation is now below the European Central Bank’s target of 2.0% for the first time in three years. The continued cooling in inflation, which stems in part from weakening economic activity, will likely encourage the ECB to keep cutting interest rates at its next policy meeting later this month. As a result, the euro so far today is trading about 0.5% lower to \$1.1079.

**Japan:** The Bank of Japan's third-quarter "tankan" index of major manufacturers' sentiment [came in at a relatively subdued +13](#), matching the second-quarter figure. The third-quarter reading suggests Japanese manufacturers remain cautious as they face slowing economic growth in China and an appreciating yen (JPY). As we mentioned in our *Comment* yesterday, they are also now dealing with a new prime minister, Shigeru Ishiba, who was confirmed by the Diet today.

**Russia-Ukraine:** The Russian government's proposed budget for 2025 [envisions defense outlays jumping to the equivalent of \\$145 billion, up 25% from 2024](#). According to the government, the proposed military budget is necessary to ensure victory in the invasion of Ukraine. The huge increase also suggests President Putin is comfortable with the massive economic stimulus that has come with increased defense spending.

- The proposed defense budget would equal almost 7% of Russian gross domestic product, as forecasted by the International Monetary Fund. As we've noted before, higher defense spending tends to correlate with higher economic growth, so long as the "defense burden" remains below about 10.0% of GDP.
- However, given that the Russian military retains so many Soviet-style habits and operational approaches, it would not be surprising if Russia was hiding some defense spending in ostensibly civilian budget accounts or off budget. If so, Russia's total defense spending could be above 10% of GDP, in which case it could soon start to weigh on the country's economy.

**Israel-Hezbollah:** The Israeli military last night [began what it called "limited, localized" ground raids against Hezbollah positions in southern Lebanon](#), marking Israel's latest step in its nearly year-long war to eliminate the threats from Iran-backed Islamist militants. Israel's increasingly aggressive moves suggest Prime Minister Netanyahu senses his country's huge preponderance of power versus Hamas, Hezbollah, and Iran and is looking to defang them while he can.

- The risk, of course, is that Netanyahu could go too far, perhaps by attacking Iran directly to try to eliminate its nuclear program.
- Such a scenario could prompt Iran to retaliate against Israel or other regional countries with whatever weapons it can muster, leading to further destruction and potential economic disruptions across the region.

**Mexico:** Claudia Sheinbaum of the leftist Morena Party [will be inaugurated today](#) as the country's new president. However, all signs suggest outgoing President Andrés Manuel López Obrador, the founder of Morena, will remain closely involved in governance and constrain Sheinbaum's actions as she manages problems such as Mexico's expanding budget deficit and high crime rate. Both those problems have hurt Mexico's ability to benefit from global fracturing and the shifting of production toward the US from China.

**US Politics:** Republican vice presidential candidate JD Vance and his Democratic counterpart, Tim Walz, [will square off in their only debate of the campaign season tonight at 9:00 PM ET](#). Vice presidential debates typically get somewhat less television viewership and attention than

presidential debates. However, given how close this year’s race is, the success or failure of either vice presidential candidate could have a meaningful impact on who wins the presidency.

**US Monetary Policy:** At a conference yesterday, Fed Chair Powell [said that the monetary policymakers are aiming to cut interest rates only to the “neutral” level](#), and that the course to get there is not pre-set. Rather, Powell said the path of rate cuts could still be gradual, depending on how the economic data comes in. In other words, Powell seemed to be suggesting that the Fed could cut rates more slowly than some investors still expect.

**US Shipping Industry:** As expected, the International Longshoremen’s Association today [launched its big strike at East Coast and Gulf Coast ports](#). The affected ports typically account for about 41% of US containerized shipping volume, so the work stoppage is anticipated to have a major impact on the country’s exports and imports for as long as it lasts. Importantly, the disruption to imports could spark a new round of price inflation. As we’ve noted before, key issues in the dispute center on dockworker pay and the use of automation at the ports.



**US Storm Damage:** Authorities [are still assessing the damage caused by Hurricane Helene](#) as it moved across Florida, Georgia, and the Carolinas over the weekend, but it now appears the storm killed more than 100 people. In addition, Moody’s has estimated the massive hurricane caused at least \$15 billion in property damage, and Fitch Ratings puts insurable losses between \$5 billion and \$10 billion.

## 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
9:45	S&P Global US Manufacturing PMI	m/m	Sep F	47	47	***
10:00	Construction Spending MoM	m/m	Aug	0.20%	-0.30%	*
10:00	JOLTS Job Openings	m/m	Aug	7650k	7673k	**
10:00	ISM Manufacturing	m/m	Sep	47.6	47.2	**
10:00	ISM Prices Paid	m/m	Sep	53.8	54	**
10:00	ISM New Orders	m/m	Sep	--	44.6	**
10:00	ISM Employment	m/m	Sep	--	46	*
10:30	Dallas Fed Services Activity	m/m	Sep	--	-7.7	**
	Wards Total Vehicle Sales	m/m	Sep	15.64m	15.13m	***
Federal Reserve						
ET	Speaker or Event	District or Position				
11:00	Raphael Bostic Gives Opening Remarks	President of the Federal Reserve Bank of Atlanta				
11:10	Raphael Bostic Moderates Conversation with Lisa Cook	Atlanta Fed President and Member of the Board of Governors				
14:00	Raphael Bostic, Thomas Barkin, and Susan Collins on Moderated	Presidents of Federal Reserve Banks of Atlanta, Richmond, and Boston				

## 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
<b>ASIA-PACIFIC</b>								
Japan	Jobless Rate	m/m	Aug	2.5%	2.7%	2.6%	***	Equity bullish, bond bearish
	Job-To-Applicant Ratio	m/m	Aug	1.23	1.24	1.24	***	Equity bullish, bond bearish
	Tankan Large Manufacturing Index	q/q	3Q	13	13	12	***	Equity and bond neutral
	Tankan Large Manufacturing Outlook	q/q	3Q	14	14	12	***	Equity bullish, bond bearish
	Tankan Large Non-Manufacturing Index	q/q	3Q	34	33	32	***	Equity bullish, bond bearish
	Tankan Large Non-Manufacturing Outlook	q/q	3Q	28	27	30	***	Equity and bond neutral
	Tankan Large All-Industry Capex	q/q	3Q	10.6%	11.1%	11.9%	***	Equity and bond neutral
	Jibun Bank Manufacturing PMI	m/m	Sep F	49.7	49.6		***	Equity bearish, bond bullish
Australia	Building Approvals	m/m	Aug	-6.1%	10.4%	-4.3%	***	Equity bearish, bond bullish
	Retail Sales	m/m	Aug	0.7%	0.0%	0.4%	***	Equity and bond neutral
New Zealand	Building Permits	m/m	Aug	-5.3%	26.2%		**	Equity bearish, bond bullish
South Korea	Exports	y/y	Sep	7.2%	11.2%	6.8%	***	Equity and bond neutral
	Trade Balance	m/m	Sep	\$660m	\$3770m	\$5000m	*	Equity bullish, bond bearish
	Imports	y/y	Sep	2.2%	6.0%	5.0%	**	Equity and bond neutral
India	HSBC India PMI Mfg	m/m	Sep F	56.5	56.7		***	Equity and bond neutral
<b>EUROPE</b>								
Eurozone	HCOB Eurozone Manufacturing PMI	m/m	Sep F	45.0	44.8	44.8	***	Equity bearish, bond bullish
	CPI	y/y	Sep	1.8%	2.2%	1.9%	***	Equity and bond neutral
	Core CPI	y/y	Sep P	2.7%	2.8%	2.7%	**	Equity and bond neutral
Germany	HCOB Germany Manufacturing PMI	m/m	Sep F	40.6	40.3	40.3	***	Equity bearish, bond bullish
France	HCOB France Manufacturing PMI	m/m	Sep F	44.6	44.0	44.0	***	Equity bearish, bond bullish
Italy	HCOB Italy Manufacturing PMI	m/m	Sep	48.3	49.4	49.0	***	Equity bearish, bond bearish
UK	S&P Global UK Manufacturing PMI	m/m	Sep F	51.5	51.5	51.5	***	Equity and bond neutral
Switzerland	Real Retail Sales	y/y	Aug	3.2%	2.7%		**	Equity and bond neutral
	PMI Manufacturing	m/m	Sep	49.9	49	47.8	**	Equity and bond neutral
Russia	S&P Global Russia Manufacturing PMI	m/m	Sep	49.5	52.1		***	Equity bearish, bond bearish

## 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	487	-2	Down
3-mo T-bill yield (bps)	449	445	4	Down
U.S. Sibor/OIS spread (bps)	462	463	-1	Down
U.S. Libor/OIS spread (bps)	458	459	-1	Down
10-yr T-note (%)	3.73	3.78	-0.05	Up
Euribor/OIS spread (bps)	328	333	-5	Down
Currencies	Direction			
Dollar	Up			Down
Euro	Down			Up
Yen	Down			Up
Pound	Down			Up
Franc	Down			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
<b>Energy Markets</b>				
Brent	\$70.83	\$71.70	-1.21%	Return of Libyan Supply
WTI	\$67.23	\$68.17	-1.38%	
Natural Gas	\$2.88	\$2.92	-1.40%	
12-mo strip crack	\$18.95	\$19.29	-1.73%	
Ethanol rack	\$1.81	\$1.81	0.22%	
<b>Metals</b>				
Gold	\$2,650.46	\$2,634.58	0.60%	
Silver	\$31.44	\$31.16	0.91%	
Copper contract	\$460.10	\$455.30	1.05%	
<b>Grains</b>				
Corn contract	\$422.75	\$424.75	-0.47%	
Wheat contract	\$584.50	\$584.00	0.09%	
Soybeans contract	\$1,046.25	\$1,057.00	-1.02%	
<b>Shipping</b>				
Baltic Dry Freight	2,084	2,110	-26	
<b>DOE Inventory Report</b>				
	<b>Actual</b>	<b>Expected</b>	<b>Difference</b>	
Crude (mb)		-1.47		
Gasoline (mb)		-0.40		
Distillates (mb)		-2.17		
Refinery run rates (%)		-0.9%		

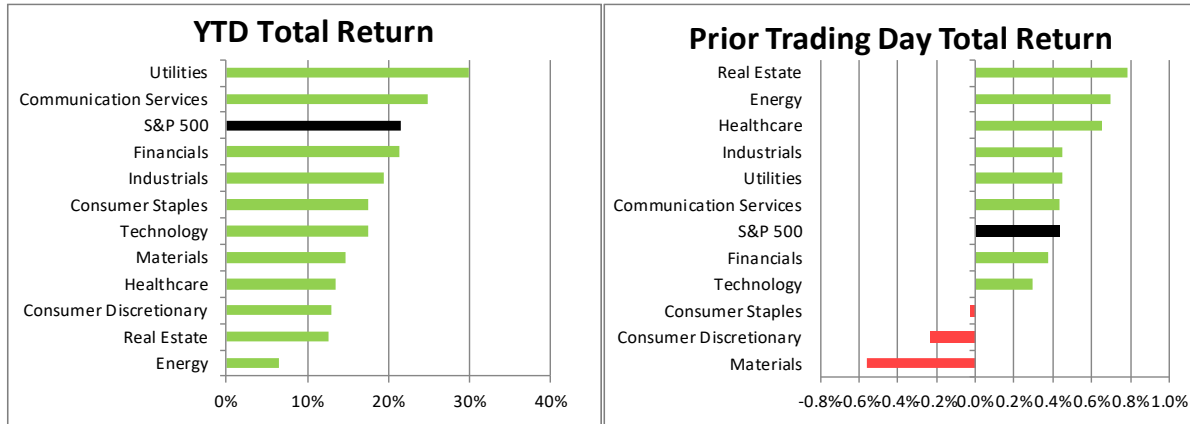
## Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in Florida and from the Great Lakes and Mississippi River westward, with normal temperatures in the rest of the country. The forecasts call for wetter-than-normal conditions in Maine and Florida, with dry conditions prevailing in most of the rest of the country.

There are currently three disturbances in the Atlantic Ocean. Off the coast of Panama is a mild disturbance with a 10% chance of cyclonic formation. Several hundred miles west of the Cape Verde islands, Tropical Storm Kirk is charting a northwesterly course well-distant from land. Just south of the Cape Verdes, a tropical depression is showing an 80% chance of cyclonic formation.

**Data Section**

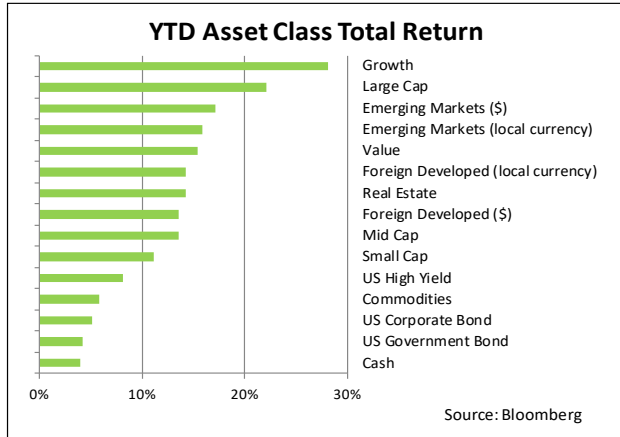
**US Equity Markets – (as of 9/30/2024 close)**



(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 9/30/2024 close)**



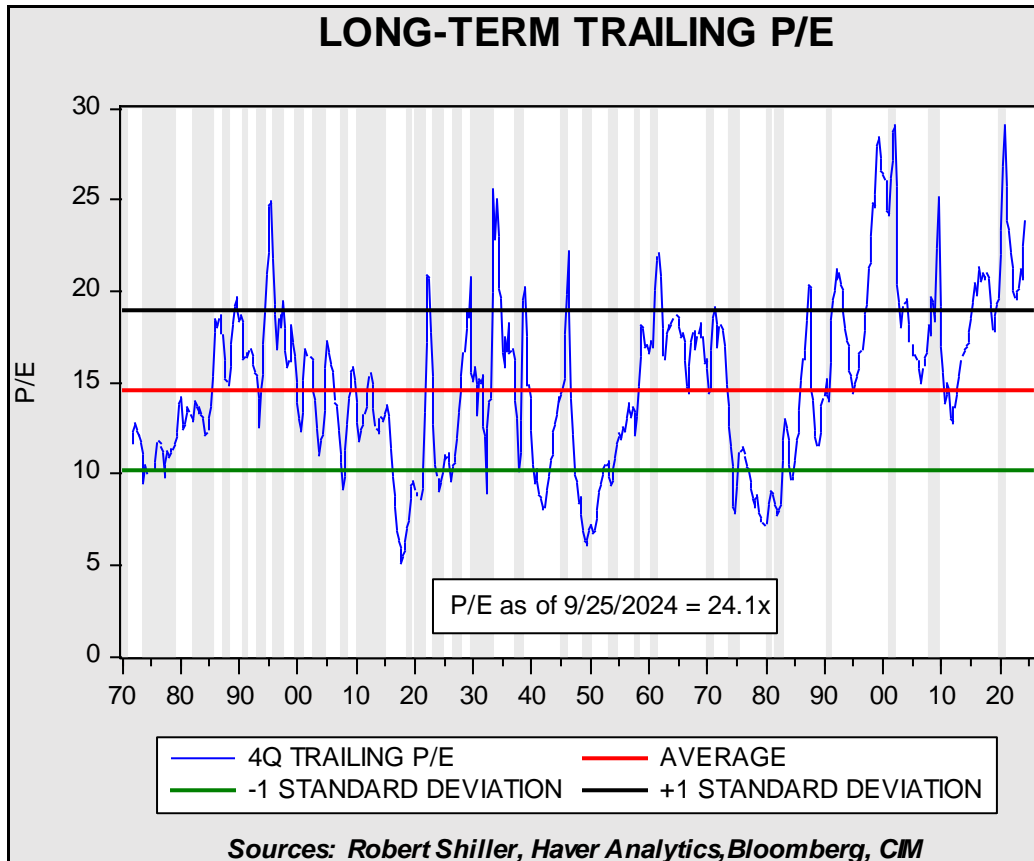
This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

September 26, 2024



Based on our methodology,<sup>1</sup> the current P/E is 24.1x, unchanged from our last report. The stock price index improved slightly, while earnings were little changed from the previous week.

*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.*

<sup>1</sup> 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 (Q4). 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.