

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 21, 2024 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 closed down 0.9% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.9%. Chinese markets were higher, with the Shanghai Composite up 0.2% from its previous close and the Shenzhen Composite up 1.6%. US equity index futures are signaling a lower open.

With 71 companies having reported so far, S&P 500 earnings for Q3 are running at \$60.30 per share, compared to estimates of \$60.44, which is up 4.2% from Q3 2023. Of the companies that have reported thus far, 76.1% have exceeded expectations while 15.5% have fallen short of expectations.

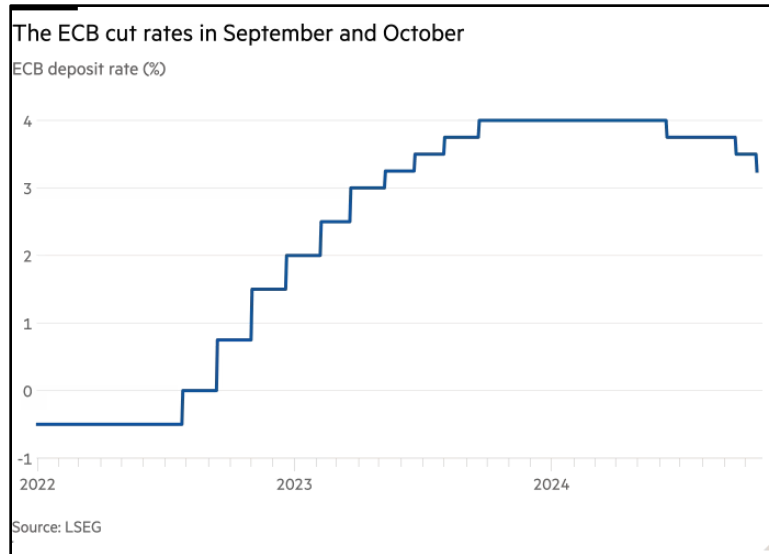
The Confluence macro team publishes a plethora of research reports and multimedia offerings on a weekly and quarterly basis, all available on our [website](#). We highlight recent publications below, with new items of the day emphasized in bold:

- [Bi-Weekly Geopolitical Report](#) (10/7/2024) (with associated [podcast](#)): “The US Presidential Election: Foreign Policy Implications”
- [Asset Allocation Bi-Weekly](#) (10/14/2024) (with associated [podcast](#)): “The Yield Curve Un-Inverts”
- [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)

Our *Comment* today opens with a statement from a European monetary policymaker that suggests the European Central Bank could cut its benchmark short-term interest rates more slowly than investors expect, just as we think the Federal Reserve could cut US rates more slowly than anticipated. We next review several other international and US developments with the potential to affect the financial markets today, including a new competitive threat from Chinese electric vehicle makers and a tentative deal to end the Boeing strike in the US.

Eurozone: Slovenian central bank governor Boštjan Vasle, who is also on the European Central Bank’s policy committee, has warned that the ECB’s back-to-back interest rate cuts in

September and October [do not necessarily portend further cuts at each upcoming policy meeting](#). European swap markets suggest investors expect an aggressive pace of cuts, but Vasle said the policymakers will need to be convinced by the economic data. The statement suggests that the ECB will cut rates only slowly from here, just as the Fed might do with US rates.



France: Economy Minister Armond yesterday [said state-investment bank Bpifrance will take a stake of about 1% in Sanofi's consumer health business](#) as part of its sale to a US private-equity firm. That will give the French government a seat on the health company's board and ensure it has influence over the unit's production, investment strategy, and employment policies. The move shows how the French government continues to prioritize maintaining control over what it considers strategic industries.

Moldova: In presidential elections yesterday, incumbent Maia Sandu [came in first but failed to win an outright majority](#). She will therefore compete in a run-off on November 3, facing main rival Alexandr Stoianoglo, whose candidacy was backed by the pro-Russia Socialist party. Also in the elections, voters only barely approved a referendum supporting future accession to the European Union. The disappointing results for Sandu followed weeks of reports that Russian operatives [were working to throw the elections into the Kremlin's favor](#).

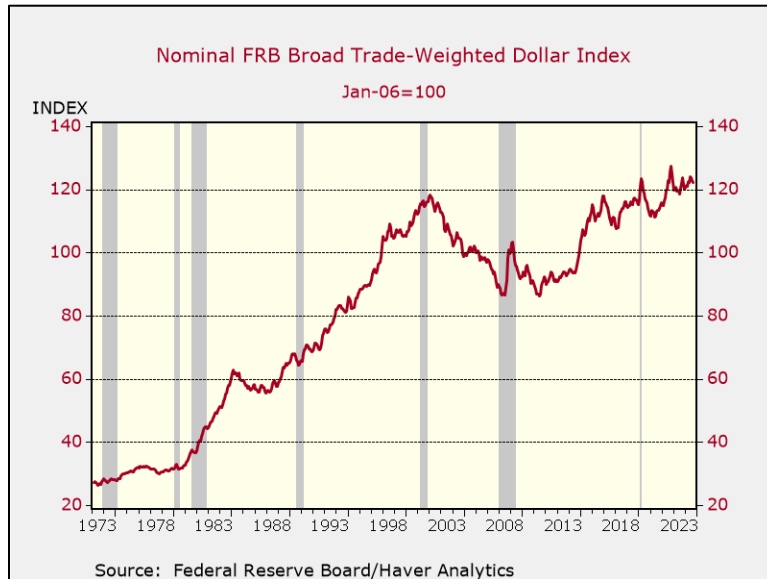
China: In a sign that China has expanded its lead in electric-vehicle technology, almost all major Chinese EV makers [have now developed or are starting to develop extended-range EVs](#). The new Chinese EREVs can go more than 600 miles on a single charge and cost about 10% less than regular EVs. They not only accommodate a power cable to recharge the battery, but they also have a small internal-combustion engine to generate electricity for the battery when needed.

- The new Chinese EREVs may be an additional competitive threat to traditional and electric vehicle manufacturers around the world.

- Therefore, they are likely to further spur protectionist measures against Chinese EVs in the US and the rest of its geopolitical and economic bloc.

China-India: Ahead of the big BRICS summit opening tomorrow, China and India [have reportedly reached a deal on military patrols along their disputed border in the Himalayan mountains](#). After deadly clashes along the “actual line of control” in 2020, tensions have been high in the area, raising the risk of a broader, more dangerous conflict between the countries. Although we haven’t yet seen any details on the deal, a solid agreement that cools tensions over the long term would therefore be a positive for global stability.

- We suspect the new deal was at least partly aimed at getting the BRICS summit off on the right foot. We also suspect Beijing might have made concessions to New Delhi to slow its growing ties to Washington, Tokyo, and Canberra.
- Separately, we note that the BRICS summit is due to discuss further de-dollarization efforts. So far today, the risk that the BRICS countries will further reduce their use of the greenback [is giving a boost to gold prices](#). Near gold futures today have reached a new record high and are currently trading at about \$2,752.40 per ounce.
- As a reminder, our [Bi-Weekly Geopolitical Report from September 9](#) discussed prospects for the dollar as the world fractures into relatively separate geopolitical and economic blocs. The report shows how the dollar has kept appreciating against most other fiat currencies even as some countries have tried to reduce their use of it, in large part because of continued strong capital flows into the US.



United States-Russia: More than 50 members of the US Congress from both parties [have written a letter to the Biden administration to protest SLB’s continued work in support of Russia’s oil industry](#). The letter to Secretary of State Blinken and Treasury Secretary Yellen

demands the administration tighten its sanction rules so that US firms aren't helping Russia earn oil revenues, which in turn can be used to finance its war against Ukraine.

- The move suggests SLB and other Western firms still operating in Russia could soon be forced to retreat from the market.
- Exemptions for oil service firms like SLB were initially put in place to avoid a collapse in Russian oil output. If Western oil service firms are forced to pull out of the country, there is some risk that Russian oil output could fall, pushing up global energy prices.

United States-Israel-Iran: Two classified US intelligence reports on Israeli preparations for a military strike against Iran [have reportedly been leaked and posted on pro-Iranian internet platforms](#). Based on press reports, the two reports appear to be relatively raw, first-cut analyses of spy-satellite imagery collected by the National Geospatial-Intelligence Agency last week.

- The intelligence summaries do not appear to be comprehensive, well-vetted discussions of Israel's attack plans. However, since they raise concerns about Israel's operational security, they could potentially prompt Israel to delay its attack.
- Some commentators will likely decry the reports as new evidence that the US spies on its allies, but we don't see that as a major story. More importantly, the reports may have been deliberately released by a lower-level employee in the US government or military who is disgruntled or seeking to undermine Israel. In that case, further embarrassing or damaging reports could be released in the coming days.

US Military: The Defense Department is reportedly [developing a new program in which chief technology officers and other senior tech professionals in the private sector could take positions in the reserves](#). The initiative would be similar to existing programs in which medical and legal professionals serve as part-time military officers. The tech reserve officers would help the armed services with short-term projects in cybersecurity, data analytics, and other areas, illustrating how the modern military is built around information processing and other advanced technologies.

US Labor Market: Over the weekend, Boeing and the International Association of Machinists and Aerospace Workers [reached a tentative deal for a new contract](#), potentially ending the union's month-long strike against the company. Under the deal, workers represented by the union would receive a 35% pay hike spread over four years, an up-front bonus of \$7,000, and increased company contributions to their retirement accounts.

- The workers are due to vote on the deal this Wednesday. If they vote to approve, Boeing could start producing its key airframes over the coming weeks and begin to stem the big financial losses it has incurred because of the strike.
- Settlement of the strike could also remove one important risk to US economic growth. Not only has Boeing shut down much of its production and announced layoffs, but key suppliers have started to do the same. If the new contract is approved, it could prevent any further production stoppages and layoffs in the key aerospace sector.

US Oil Services Industry: As it released a disappointing report on third-quarter revenue and profit growth last Friday, oilfield services giant SLB [warned that energy firms are becoming more cautious about spending both in the US and abroad](#). According to CEO Olivier Le Peuch, the spending restraint reflects low global oil prices, which he in turn attributed to weak economic growth in China and elsewhere, surging rising oil production outside the Organization of the Petroleum Exporting Countries, and uncertainty about OPEC+ supply releases.

US Economic Releases

There were no economic 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	Leading Index	m/m	Sep	-0.3%	-0.2%	***
Federal Reserve						
ET	Speaker or Event	District or Position				
8:55	Lorie Logan Speaks at SIFMA Annual Meeting	Member of the Board of Governors				
13:00	Neel Kashkari Participates in Townhall Event	President of the Federal Reserve Bank of Minneapolis				
17:05	Fed's Schmid Speaks on Economic and Monetary Policy Outlook	President of the Federal Reserve Bank of Kansas City				
18:40	Mary Daly Speaks in Moderated Discussion	President of the Federal Reserve Bank of San Francisco				

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	Tokyo Condominiums for Sale	y/y	Sep	-13.7%	-50.4%		*	Equity and bond neutral
EUROPE								
Germany	PPI	y/y	Sep	-1.4%	-0.8%	-1.1%	**	Equity and bond neutral
France	Retail Sales SA	y/y	Sep	-0.50%	0.10%		*	Equity and bond neutral
UK	Rightmove House Prices	y/y	Oct	1.00%	1.20%		**	Equity and bond neutral
Switzerland	Domestic Sight Deposits CHF	w/w	18-Oct	454.1b	459.4b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	18-Oct	462.3b	467.1b		*	Equity and bond neutral
	M3 Money Supply	y/y	Sep	2.0	1.2%		**	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)	452	452	0	Down
U.S. Sibor/OIS spread (bps)	463	462	1	Down
U.S. Libor/OIS spread (bps)	459	459	0	Down
10-yr T-note (%)	4.13	4.08	0.05	Up
Euribor/OIS spread (bps)	320	322	-2	Down
Currencies	Direction			
Dollar	Down			Down
Euro	Flat			Up
Yen	Up			Up
Pound	Up			Up
Franc	Up			Up
Central Bank Action	Current	Prior	Expected	
PBOC 1-Year Loan Prime Rate	3.100%	3.350%	3.150%	Below Forecast
PBOC 5-Year Loan Prime Rate	3.600%	3.850%	3.650%	Below 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	\$74.32	\$73.06	1.72%	
WTI	\$70.62	\$69.22	2.02%	
Natural Gas	\$2.30	\$2.26	1.73%	
12-mo strip crack	\$19.93	\$19.81	0.62%	
Ethanol rack	\$1.71	\$1.70	0.01%	
Metals				
Gold	\$2,733.88	\$2,721.46	0.46%	
Silver	\$34.01	\$33.72	0.88%	
Copper contract	\$442.75	\$438.45	0.98%	
Grains				
Corn contract	\$406.75	\$404.75	0.49%	
Wheat contract	\$574.00	\$572.75	0.22%	
Soybeans contract	\$977.00	\$970.00	0.72%	
Shipping				
Baltic Dry Freight	1,576	1,594	-18	

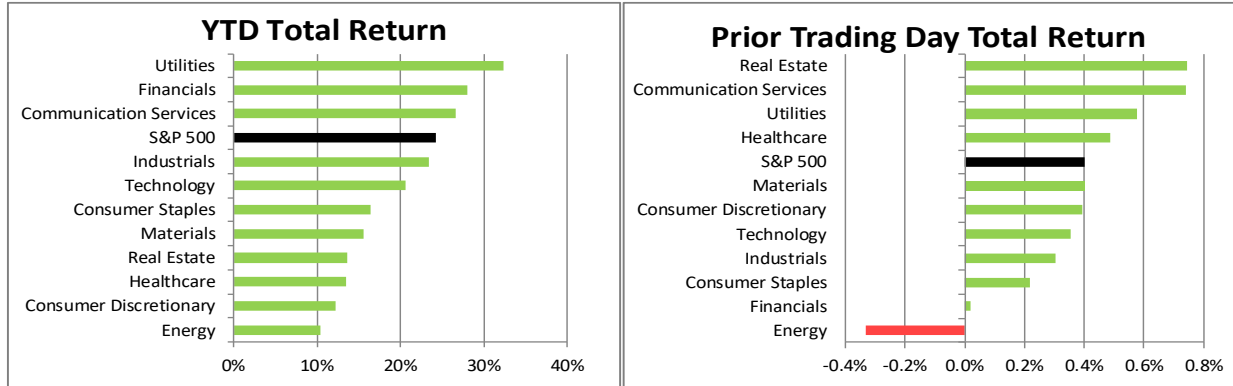
Weather

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 temperatures in the Pacific. The precipitation outlook calls for wetter-than-normal conditions in the Pacific Northwest to spread throughout the western half of the country, with dry conditions everywhere else.

Tropical Storm Oscar, the only current disturbance in the Atlantic, is making its way across Cuba and is expected to veer away from the Gulf Coast.

Data Section

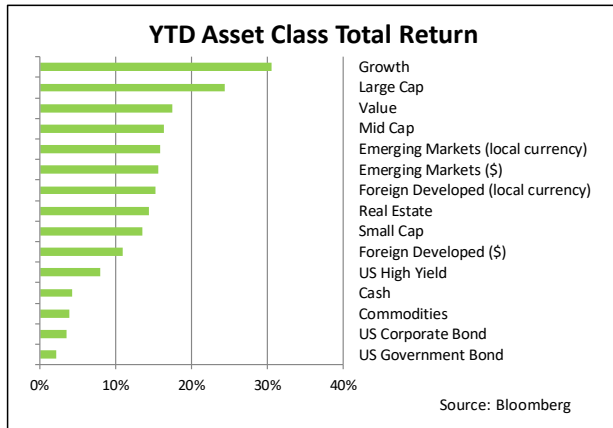
US Equity Markets – (as of 10/18/2024 close)



(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 10/18/2024 close)

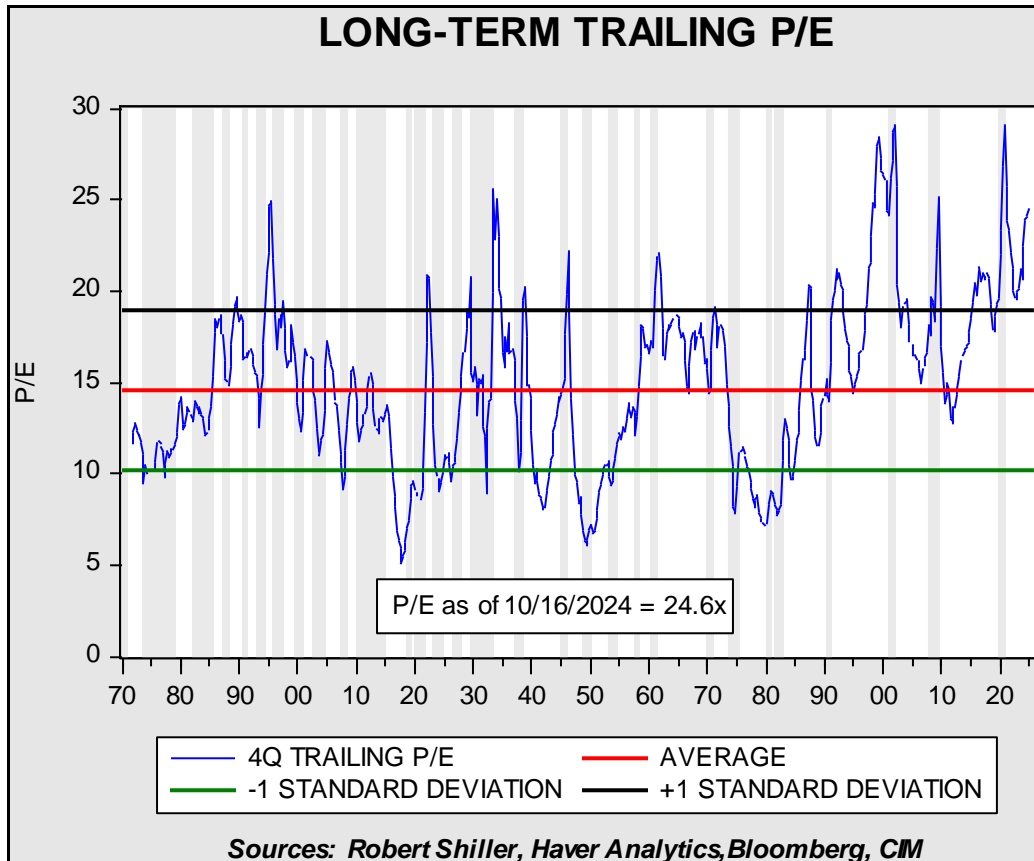


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 17, 2024



Based on our methodology,¹ the current P/E is 24.6x, up 1.0 from our last report. The stock price index increased last month, while earnings were revised downward.

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 (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.