

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 22, 2024 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 closed down 0.2% 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 0.5% from its previous close and the Shenzhen Composite up 0.9%. US equity index futures are signaling a lower open.

With 74 companies having reported so far, S&P 500 earnings for Q3 are running at \$60.00 per share, compared to estimates of \$60.44, which is up 4.2% from Q3 2023. Of the companies that have reported thus far, 74.3% have exceeded expectations while 14.9% 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 emphasized in bold:

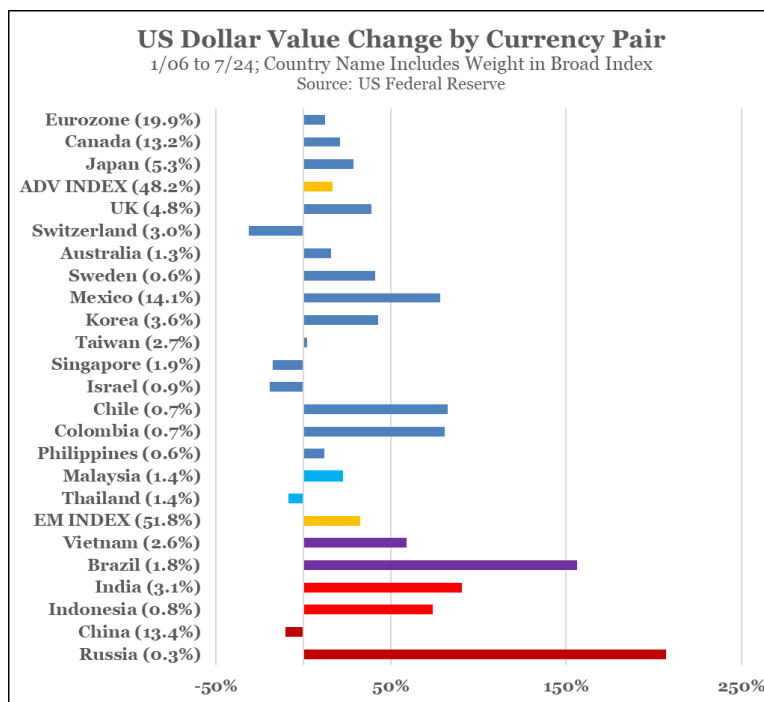
- **[Bi-Weekly Geopolitical Report](#) (10/21/2024) (with associated [podcast](#)): “Israel’s Paper Caper and Supply Chain Security”**
- [Asset Allocation Bi-Weekly](#) (10/14/2024) (with associated [podcast](#)): “The Yield Curve Un-Inverts”
- [Asset Allocation Quarterly – Q3 2024](#) (7/16/2024): Discussion 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 preview of the big BRICS summit of emerging-market nations such as China, Russia, and Iran. Since the group includes key countries in China’s geopolitical bloc, we’ll be looking to see how much General Secretary Xi dominates the meeting, despite it being hosted by Russian President Putin. We next review several other international and US developments that could affect the financial markets today, including an important new IPO on the Indian stock market and a court ruling that favors the US oil and gas industry.

BRICS Summit: A summit of the BRICS emerging-market countries [kicks off today](#) in Russia. While the group is led by Brazil, Russia, India, China, and South Africa (accounting for its

acronym), this will be the first summit since the group was expanded to include Saudi Arabia, Iran, the United Arab Emirates, Egypt, and Ethiopia. Importantly, leading countries in the group say the summit will discuss further steps to reduce use of the US dollar in international trade and develop a BRICS currency and non-dollar international payments system.

- The discussions on moving further away from the dollar and Western systems will likely play into investor concerns about the greenback’s value going forward. That could weigh on the dollar and boost gold prices in the coming days.
- Nevertheless, as we noted in our *Comment* yesterday, the effort by some countries to cut their use of the dollar hasn’t stopped it from appreciating against most other major currencies for the last decade and a half. The chart below shows how the greenback’s value has changed against each currency in the Federal Reserve’s broad dollar index since roughly the beginning of its long bull market.



China: According to market data provider Wind, share buybacks by companies listed on China’s domestic stock exchanges [have reached the equivalent of \\$33 billion for the year to date](#), almost double the record amount in all of 2022. The buybacks have been driven by a special lending facility that was part of last month’s economic stimulus program. If the strong buybacks continue, they could help buoy the market even as investors begin to question the efficacy of the overall stimulus program.

India: South Korean auto maker Hyundai Motors today [raised the equivalent of \\$3.3 billion by listing 18% of its local unit on India’s main stock exchanges](#). Even though the share price fell modestly by day’s end, the rich IPO valuation for the unit is expected to entice other global

companies to consider listing their Indian units as well. That prospect underscores India's attractiveness as one of the world's few large, fast-growing economies.

European Union: For the first time since Russia invaded Ukraine in 2022, leading to shortages of natural gas in the EU, we've noticed that media concerns about gas storage have fallen off sharply. Nevertheless, we think it's important to note that EU gas storage [is now more than 95% full](#), above the five-year average of around 92% for this time of year. That has kept a lid on EU gas prices and should help limit the damage if geopolitical events disrupt international supplies this winter.

United Kingdom: Bank of England Chief Economist Huw Pill has reportedly sent a private letter to the Office of National Statistics [complaining that the agency still hasn't fixed its problem with unreliable estimates regarding employment](#) and other aspects of the labor market. The episode shows how statistics agencies, including in the US, have struggled with falling survey response rates, which have led to big data revisions and called into question the accuracy of economic data. (Of course, the same dynamic [has rendered political polls less reliable](#).)

US Economic Policy: With exactly two weeks to go before the presidential election, we still consider the contest too close to call. Nevertheless, we're intrigued by an article in today's *Financial Times* [that looks at the possible economic policies of Vice President Harris if she were to win](#). The article is useful because, as we noted in our recent [Bi-Weekly Geopolitical Report](#) comparing US foreign policy under Trump versus Harris, the vice president's policy views are hard to read, based on her relatively low profile in the Biden administration and her own campaign strategy.

- The article claims Harris's most likely picks for Treasury Secretary would be current Deputy Treasury Secretary Wally Adeyemo, current Commerce Secretary Gina Raimondo, or current White House Chief of Staff Jeff Zients.
- The article says Harris might also consider Federal Reserve board member Lael Brainard as Treasury secretary, but she may prefer to have her replace Jerome Powell as Fed chair when his term expires in 2026.
- The article also notes that Harris has much closer ties to top business leaders than President Biden does. The article therefore suggests Harris would listen more closely to business concerns about the economy and move away from some of Biden's more progressive policies.

US Oil Industry: A federal judge yesterday [ruled that a regulation friendly to the offshore oil industry should remain in place until next May](#), rather than expiring as scheduled in December. The regulation exempts the industry from a rule protecting a nearly extinct whale species, and industry lobbyists had argued that if the exemption expires, all US oil rigs in the Gulf of Mexico would have to shut down. Environmentalists have argued that the industry position amounts to fear mongering.

US Spirits Industry: According to industry data provider IWSR, the volume of alcoholic spirits sold in the US from January through July [was down 3.0% from the same period one year earlier](#), accelerating from a 2.9% decline in full-year 2023 and a flat performance in 2022. For comparison, US spirits consumption had increased at an average annual rate of 2.6% per year in the two decades to 2019, and the growth rate nearly doubled in the pandemic years of 2020 and 2021. What’s unclear is whether the recent declines are structural or merely cyclical.

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	Richmond Fed Manufact. Index	m/m	Oct	-17.0	-21.0	**	
10:00	Richmond Fed Business Conditions	m/m	Oct		-3.0	*	
Federal Reserve							
ET	Speaker or Event	District or Position					
9:00	Mario Centeno Speaks in Washington	ECB Governing Council Member					
10:00	Patrick Harker Speaks at Fintech Conference	President of the Federal Reserve Bank of Philadelphia					
10:00	Patrick Harker Gives Opening Remarks	President of the Federal Reserve Bank of Philadelphia					

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								
New Zealand	Trade Balance NZD	m/m	Sep	-2108m	-2306m		**	Equity and bond neutral
	Exports NZD	m/m	Sep	5.01b	4.85b		**	Equity and bond neutral
	Imports NZD	m/m	Sep	7.12b	7.15b		**	Equity and bond neutral
South Korea	CPI	m/m	Sep	1.0%	1.6%		***	Equity and bond neutral
EUROPE								
Eurozone	EU27 New Car Registrations	y/y	Sep	-6.1%	-18.3%		***	Equity and bond neutral
UK	Public Finances (PSNCR)	m/m	Sep	-20.5b	5.0b		*	Equity and bond neutral
	Public Sector Net Borrowing	m/m	Sep	16.6b	13.0b	17.5b	*	Equity and bond neutral
	PSNB ex Banking Groups	m/m	Sep	16.6b	13b	17.5b	**	Equity and bond neutral
AMERICAS								
Mexico	Economic Activity IGAE	y/y	Aug	0.43%	3.78%	0.80%	**	Equity bearish, bond bullish

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)	449	450	-1	Down
U.S. Sibor/OIS spread (bps)	463	465	-2	Down
U.S. Libor/OIS spread (bps)	459	461	-2	Down
10-yr T-note (%)	4.20	4.20	0.00	Up
Euribor/OIS spread (bps)	314	320	-6	Down
Currencies	Direction			
Dollar	Down			Down
Euro	Flat			Up
Yen	Up			Up
Pound	Up			Up
Franc	Up			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	\$74.94	\$74.29	0.87%	
WTI	\$71.22	\$70.56	0.94%	
Natural Gas	\$2.34	\$2.31	1.34%	
12-mo strip crack	\$19.79	\$19.73	0.31%	
Ethanol rack	\$1.72	\$1.72	0.31%	
Metals				
Gold	\$2,732.25	\$2,719.85	0.46%	
Silver	\$34.40	\$33.79	1.81%	
Copper contract	\$440.15	\$435.95	0.96%	
Grains				
Corn contract	\$410.25	\$409.50	0.18%	
Wheat contract	\$567.50	\$572.25	-0.83%	
Soybeans contract	\$990.00	\$989.75	0.03%	
Shipping				
Baltic Dry Freight	1,546	1,576	-30	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		1.50		
Gasoline (mb)		-2.00		
Distillates (mb)		-2.50		
Refinery run rates (%)		-0.5%		
Natural gas (bcf)		80		

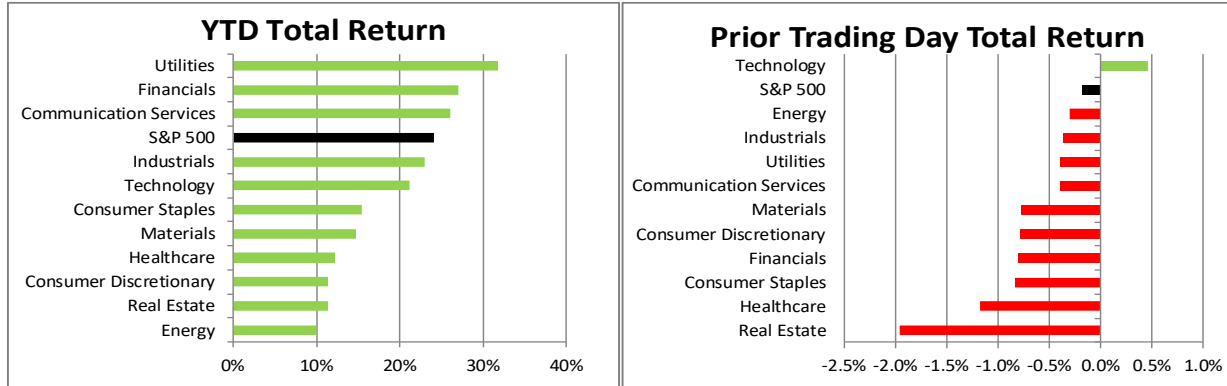
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures from the East Coast to the Rocky Mountains, with cooler temperatures in the Pacific Northwest. The precipitation outlook calls for wetter-than-normal conditions in the northern two thirds of the country from the Great Lakes to the Pacific Coast, with dry conditions along the East Coast from Maine to North Carolina.

Tropical Storm Oscar, the only current disturbance in the Atlantic, is transiting the southern Bahamas, after which it will move northeastward into open ocean.

Data Section

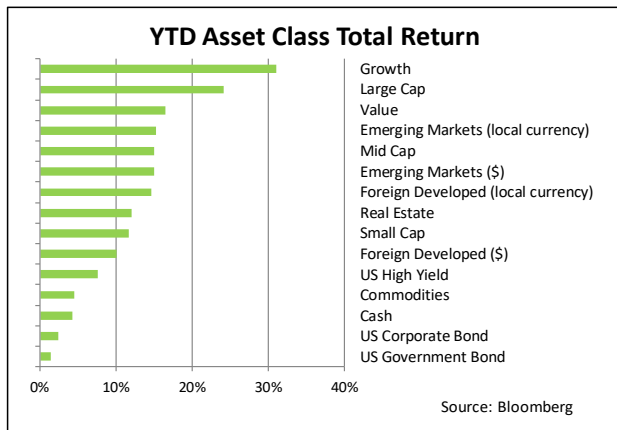
US Equity Markets – (as of 10/21/2024 close)



(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 10/21/2024 close)

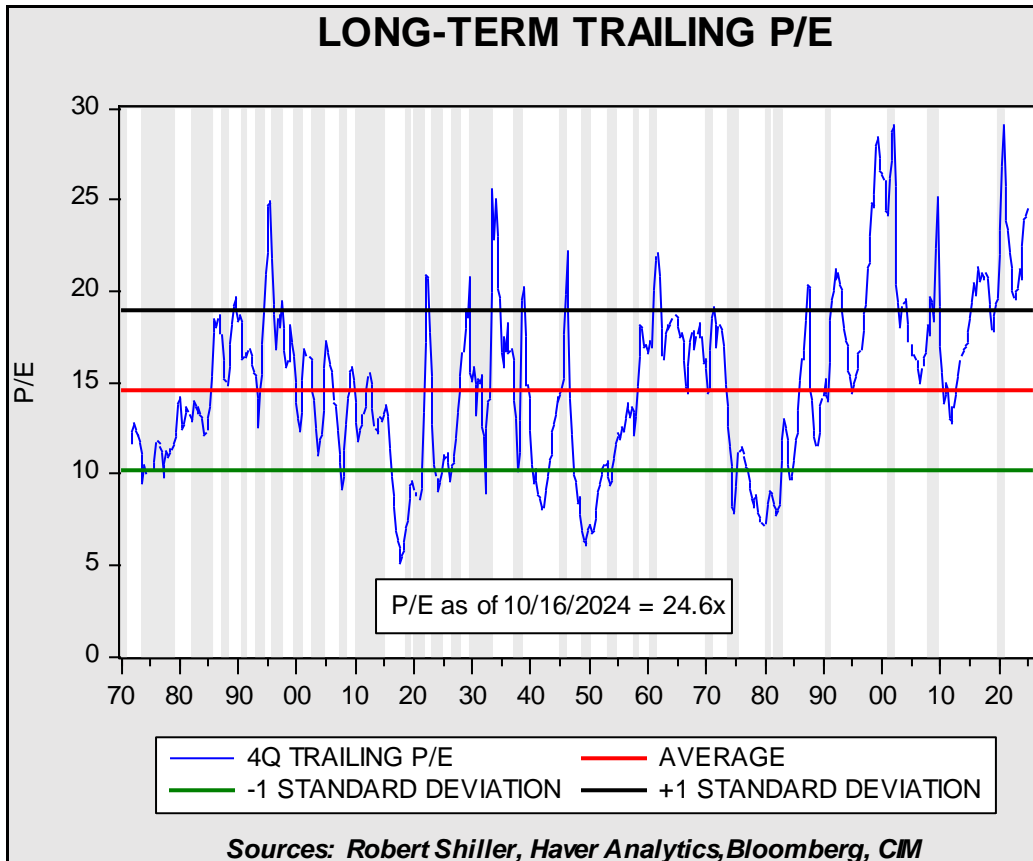


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 (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.