Daily Comment

By Patrick Fearon-Hernandez, CFA,
and Thomas Wash

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 3, 2024 — 9:30 AM ET] Global equity markets are lower this morning. In Europe, the Euro Stoxx 50 is down 0.6% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 1.2%. Chinese markets are closed for Golden Week. US equity index futures are signaling a lower 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:
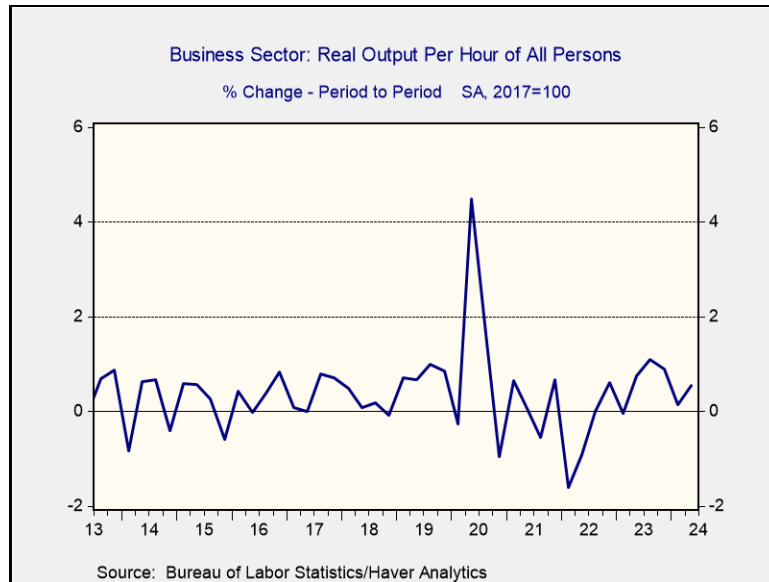
- *[Bi-Weekly Geopolitical Report]()* (9/23/2024) (with associated [podcast]()): "Eight Megatrends Every Investor Should Know"
- *[Asset Allocation Bi-Weekly]()* (9/30/2024) (with associated [podcast]()): "Presidential Cycles and Stock Performance"
- *[Asset Allocation Quarterly – Q3 2024]()* (7/16/2024): 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)

Good morning! The market is currently awaiting the release of the jobs report data and Israel's response to Iran. In sports news, Lionel Messi's Inter Miami has won the 2024 Supporters' Shield for the second year in a row. Today's *Comment* will discuss the ongoing dockworkers' strike, how hurricanes can impact inflation, and the implications of the French government's debt plan. As usual, the report concludes with a roundup of international and domestic data releases.

Union Tension with AI: The ongoing dockworkers' strike may be a prelude to future disputes over AI and automation.

- US [dockworkers have gone on strike at both East and Gulf Coast cargo facilities](), demanding higher wages and a ban on automation for certain jobs. The strike is in its early stages, but it appears that workers have the upper hand. President Joe Biden [has warned that if employers fail to reach an agreement with workers](), it could lead to a man-made disaster. Meanwhile, both [Vice President Kamala Harris]() and [former President Donald Trump]() have expressed sympathy for the workers' demand for higher wages to offset the rising cost of living.

- One of the most overlooked issues in this strike is the role of automation and AI. While lawmakers have primarily focused on immigration as a means of protecting workers, few have specifically addressed the potential for technology to displace them. Politicians' reluctance to discuss the impact of automation on the job market is linked to the hope that new technology will be crucial in boosting productivity, which can not only help lower inflation but also increase profit margins.
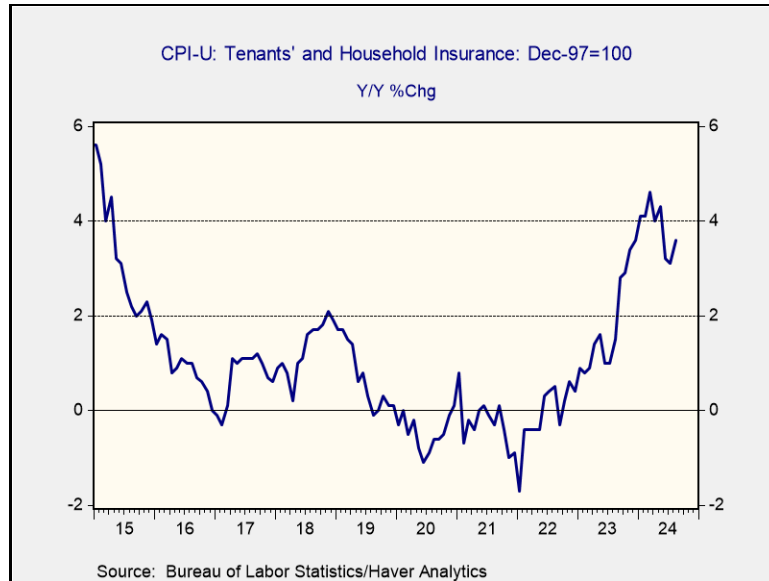
Business Sector: Real Output Per Hour of All Persons

% Change - Period to Period   SA, 2017=100

Source: Bureau of Labor Statistics/Haver Analytics

- While the overall impact of AI on jobs may be overstated, the fear is real. According to a study by MIT professor Daron Acemoglu, AI is currently capable of doing only about 5% of jobs. Although this offers some reassurance to workers, it's unlikely to quell their anxieties as 38% of workers think AI will hurt their jobs. Consequently, resistance to AI integration is likely to intensify in the coming years. This growing opposition could hinder firms' efforts to increase productivity through AI, potentially leading to a reevaluation of AI's promise and contributing to future inflationary pressures.

Insurance Costs: The estimate for the damage from Hurricane Helene is increasing, but this might not have as significant of an impact on insurance premiums as many would expect.

- The storm's total economic losses are expected to reach approximately $35 billion. However, insurance companies are not anticipated to incur significant losses. Unfortunately for most homeowners, the majority of the damage caused by the storm was due to flooding, which is typically underinsured, as most policies only cover large-scale wind damage. Insurance companies in Florida, a region prone to hurricanes, are expecting damages from Helene to result in moderate losses compared to the devastation caused by Hurricane Ian in 2022 and Hurricane Michael in 2018.

- Although overall price pressures have eased this year, insurance costs remain persistently high. This inflationary trend is largely attributable to several factors: pandemic-related restrictions, rising operational expenses, and escalating repair costs. Unlike many other

businesses, insurance companies cannot immediately adjust premiums to offset losses, as policies are typically locked in for a set term. Consequently, they are forced to wait until the renewal period to implement pricing changes that reflect the growing risks in the market, which is why insurance inflation can rise even as other prices are moderating.

CPI-U: Tenants' and Household Insurance: Dec-97=100
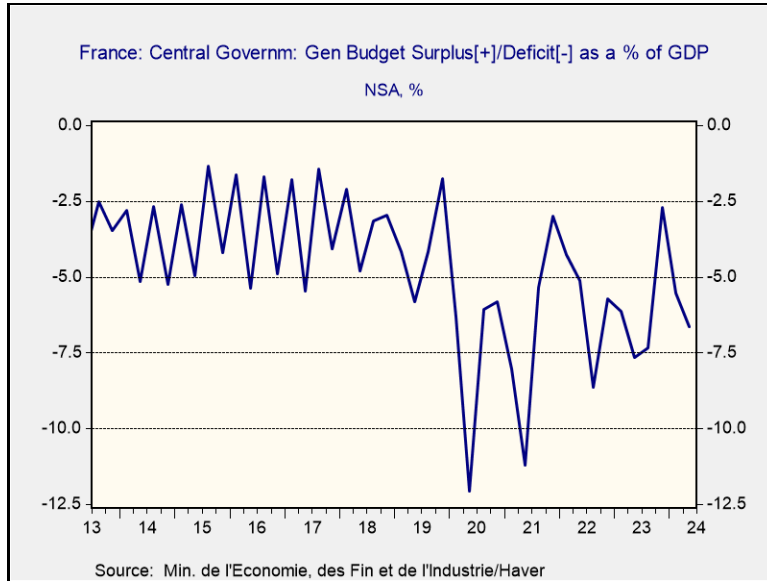Y/Y %Chg
Source: Bureau of Labor Statistics/Haver Analytics

- Insurance serves as a poignant reminder of the capricious nature of inflation. Certain factors can dramatically influence price levels without warning, underscoring the necessity for investors to be cognizant of the potential inflation volatility in the years ahead. Economic shocks stemming from natural disasters, geopolitical events, and pandemics are particularly concerning. While Hurricane Helene is not anticipated to influence inflation for the upcoming year, the likelihood of other events affecting it remains elevated, especially as the world transitions away from globalization.

Tackling the Budget: After pressure from Brussels to rein in its budget, it looks like France is finally doing something about it.

- French President Emmanuel Macron has endorsed raising taxes on the country's largest companies. His shift from his typical pro-business stance comes amid calls for the government to get its fiscal house in order. The government is expected to make around 60 billion EUR ($66 billion) in spending cuts and tax increases for the next budget year. Much of the increased tax revenue will be targeted toward wealthy individuals, large corporations, and activities that are harmful to the environment. Meanwhile, two-thirds of the savings are expected to come from cuts to ministries, local authorities, and the social security system.

- The shift to reduce its deficits comes as France has pushed to extend the deadline for meeting EU deficit targets. The French government is expected to lower its deficit from its current rate of 6% of GDP to 5% of GDP by 2025, with an overall goal of bringing the deficit below the 3% fiscal ceiling by 2029, two years later than it had anticipated. While

the plan is not considered ideal, EU officials seem satisfied with the proposal, provided the government can enact the necessary reforms to lend it credibility.

France: Central Governm: Gen Budget Surplus[+]/Deficit[-] as a % of GDP
NSA, %

Source: Min. de l'Economie, des Fin et de l'Industrie/Haver

- The shift to make the wealthy primarily responsible for repaying debt shows that governments are becoming less willing to impose austerity measures on the general population. This is a significant change from a few years ago when France increased taxes on the lower and middle classes, leading to the Yellow Vest protests. Targeting the wealthy and corporations may result in capital outflows to countries with more favorable tax policies and could lead to increased resistance to green initiatives in Europe.

In Other News: Microsoft-backed startup OpenAI has asked its investors not to support rival xAI as it looks to ensure dominance within the space. New Japanese Prime Minister Shigeru Ishiba downplayed the need for another rate hike due to the state of the economy, which has weighed on the yen (JPY). Additionally, Bank of England Governor Andrew Bailey has suggested that the central bank may favor cutting rates aggressively if inflation shows signs of improving.

US Economic Releases

In the week ended September 28, *initial claims for unemployment benefits* rose to a seasonally adjusted 225,000, above both the expected level of 221,000 and the prior week's revised level of 219,000. However, the four-week moving average of initial claims, which helps smooth out some of the volatility in the series, fell to a four-month low of 224,250. The chart below shows how initial jobless claims have fluctuated since just before the Great Financial Crisis. The chart is truncated through much of the pandemic period because of the extremely high level of claims at that time.

Weekly Initial Jobless Claims
Seasonally Adjusted (Truncated at Start of Pandemic)
Source: U.S. Department of Labor
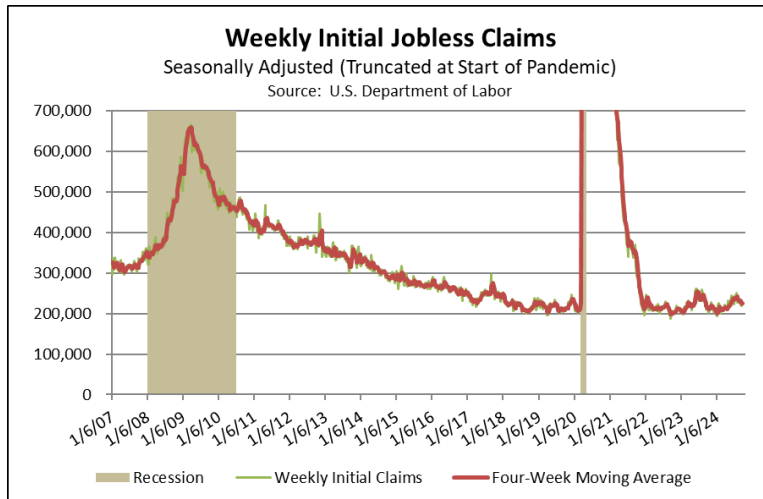
In the week ended September 21, the number of ***continuing claims for unemployment benefits*** (people continuing to draw benefits) fell to a seasonally adjusted 1.826 million, below both the anticipated reading of 1.830 million and the previous week's revised reading of 1.827 million. The four-week moving average of continuing claims fell to 1,829,250, reaching its lowest level since mid-June. Taken together, the initial and continuing claims data suggest labor demand has strengthened again, potentially setting the stage for a strong September employment report tomorrow. The chart below shows how continuing claims have fluctuated since the GFC. It is also truncated during the pandemic period because of the high level of claims at the time.

Continuing Jobless Claims
Seasonally Adjusted (Truncated at Start of Pandemic)
Source: U.S. Department of Labor
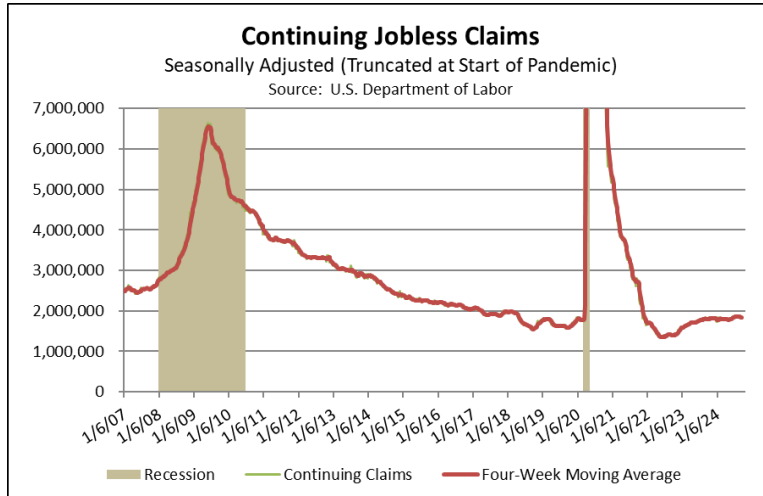
The following table lists the economic releases or Fed events scheduled for the rest of the day.

Economic Releases						
9:45	S&P Global US Services PMI	m/m	Sep F	55.4	55.4	***
9:45	S&P Global US Composite PMI	m/m	Sep F	54.4	54.4	***
10:00	Factory Orders	m/m	Aug	0.1%	5.0%	***
10:00	Factory Orders Ex Transportation	m/m	Aug	0.2%	0.4%	*
10:00	Durable Goods Orders	m/m	Aug F	0.0%	0.0%	***
10:00	Durable Goods Orders ex Transportation	m/m	Aug F	0.5%	0.5%	**
10:00	Cap Goods Orders Nondef Ex Air	m/m	Aug F	0.2%	0.2%	*
10:00	Cap Goods Ship Nondef Ex Air	m/m	Aug F	--	0.1%	*
10:00	ISM Services Index	m/m	Sep	51.7	51.5	***
10:00	ISM Services Prices Paid	m/m	Sep	56.0	57.3	*
10:00	ISM Services Employment	m/m	Sep	50.0	50.2	*
10:00	ISM Services New Orders	m/m	Sep	52.5	53.0	*
Federal Reserve						
10:00	Jeffrey Schmid Gives Welcome Remarks	President of the Federal Reserve Bank of Kansas City				
10:40	Neel Kashkari Moderates Chat with Raphael Bostic on Economy	Presidents of the FRB Minneapolis and FRB Atlanta				

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	Jibun Bank Services PMI	m/m	Sep F	53.1	53.9		**	Equity and bond neutral
	Jibun bank Composite PMI	m/m	Sep F	52.0	52.5		*	Equity and bond neutral
Australia	Trade Balance	m/m	Aug	A$5644m	A$6009m	A$5500m	***	Equity bullish, bond bearish
	Exports	m/m	Aug	-0.2%	0.7%	0.3%	*	Equity and bond neutral
	Imports	m/m	Aug	-0.2%	-0.8%	-0.6%	*	Equity and bond neutral
New Zealand	ANZ Commodity Price	m/m	Sep	1.8%	2.1%		**	Equity and bond neutral
EUROPE								
Eurozone	HCOB Eurozone Services PMI	m/m	Sep F	51.4	50.5	50.5	**	Equity bullish, bond bearish
	HCOB Eurozone Composite PMI	m/m	Sep F	49.6	48.9	48.9	*	Equity bullish, bond bearish
	PPI	y/y	Aug	-2.3%	-2.1%	-2.2%	**	Equity and bond neutral
Germany	HCOB Germany Services PMI	m/m	Sep F	50.6	50.6	50.6	**	Equity and bond neutral
	HCOB Germany Composite PMI	m/m	Sep F	47.5	47.2	47.2	**	Equity and bond neutral
France	HCOB France Services PMI	m/m	Sep F	49.6	48.3	48.3	**	Equity bullish, bond bearish
	HCOB France Composite PMI	m/m	Sep F	48.6	47.4	47.4	**	Equity bullish, bond bearish
Italy	HCOB Italy Composite PMI	m/m	Sep	49.7	50.8	50.2	**	Equity bearish, bond bullish
	HCOB Italy Services PMI	m/m	Sep	50.5	51.4	51.1	**	Equity bearish, bond bullish
UK	Official Reserves Changes	m/m	Sep	$2133m	$3618m	--	*	Equity and bond neutral
	S&P Global UK Services PMI	m/m	Sep F	52.4	52.8	52.8	**	Equity and bond neutral
	S&P Global UK Composite PMI	m/m	Sep F	52.6	52.9	52.9	**	Equity and bond neutral
Switzerland	CPI	y/y	Sep	0.8%	1.1%	1.0%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Sep	0.9%	1.0%	--	*	Equity and bond neutral
	Core CPI	y/y	Sep	1.0%	1.1%	1.1%	*	Equity and bond neutral
Russia	Real Retail Sales	y/y	Aug	5.1%	6.1%	5.5%	***	Equity and bond neutral
	Unemployment Rate	m/m	Aug	2.4%	2.4%	2.4%	***	Equity and bond neutral
	GDP	y/y	2Q F	4.1%	4.1%	4.1%	**	Equity and bond neutral
	S&P Global Russia Composite PMI	m/m	Sep	49.4	52.1	--	**	Equity and bond neutral
	S&P Global Russia Services PMI	m/m	Sep	50.5	52.3	51.5	**	Equity and bond neutral
AMERICAS								
Mexico	S&P Global Mexico Manufacturing PMI	m/m	Sep	47.3	48.5		***	Equity bearish, bond bullish
	Remittances Total	m/m	Aug	$6087.3m	$5613.6m	$5712.9m	*	Equity and bond neutral
	International Reserves Weekly	w/w	27-Sep	$226846m	$226465m		*	Equity and bond neutral
	Leading Indicators	y/y	Aug	-0.14	-0.12	--	**	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)	447	448	-1	Down
U.S. Sibor/OIS spread (bps)	458	460	-2	Down
U.S. Libor/OIS spread (bps)	455	457	-2	Down
10-yr T-note (%)	3.81	3.78	0.03	Up
Euribor/OIS spread (bps)	325	325	0	Down
Currencies	**Direction**			
Dollar	Up			Down
Euro	Flat			Up
Yen	Down			Up
Pound	Down			Up
Franc	Flat			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.

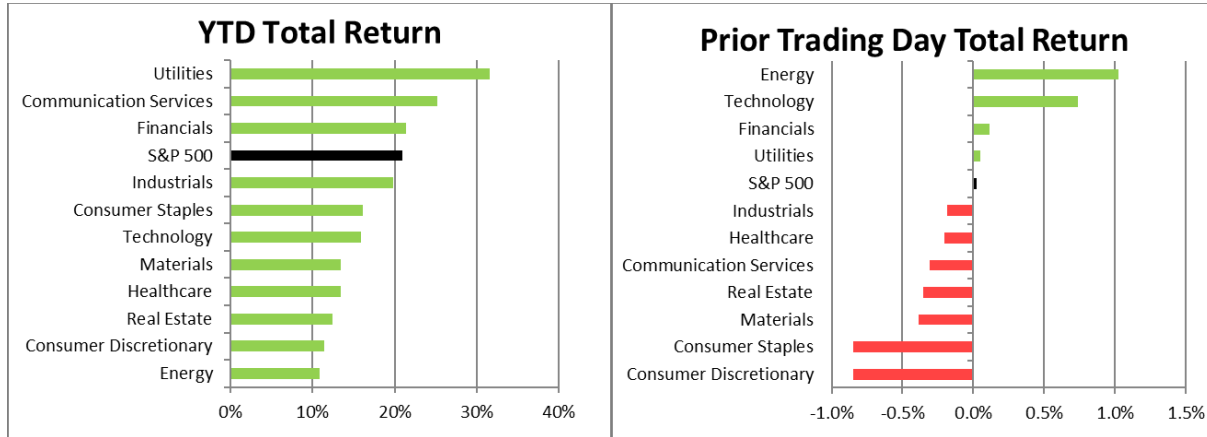|	Price	Prior	Change	Explanation
Energy Markets				
Brent	$75.26	$73.90	1.84%	
WTI	$71.53	$70.10	2.04%	
Natural Gas	$2.91	$2.89	0.87%	
12-mo strip crack	$19.78	$19.77	0.09%	
Ethanol rack	$1.79	$1.81	-0.70%	
Metals				
Gold	$2,648.84	$2,658.69	-0.37%	
Silver	$31.52	$31.83	-0.99%	
Copper contract	$458.50	$464.90	-1.38%	
Grains				
Corn contract	$430.25	$432.50	-0.52%	
Wheat contract	$612.25	$615.25	-0.49%	
Soybeans contract	$1,045.00	$1,056.00	-1.04%	
Shipping				
Baltic Dry Freight	1,978	2,030	-52	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)	3.89	-1.43	5.32	
Gasoline (mb)	1.12	0.20	0.92	
Distillates (mb)	-1.28	-2.00	0.72	
Refinery run rates (%)	-3.3%	-0.7%	-2.6%	
Natural gas (bcf)		57		

Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures throughout the entire country west of the Mississippi River, with cooler-than-normal temperatures along the East Coast. The forecasts call for wetter-than-normal conditions in Florida, with dry conditions in the northern Rocky Mountains, the Great Plains, the Midwest, the Mississippi Valley, and along the East Coast.

Hurricane Kirk is currently moving northward through the central Atlantic Ocean, but it is not expected to make landfall anywhere. Tropical Storm Leslie is off the western coast of Africa and moving to the northwest, but it also is not expected to make landfall.
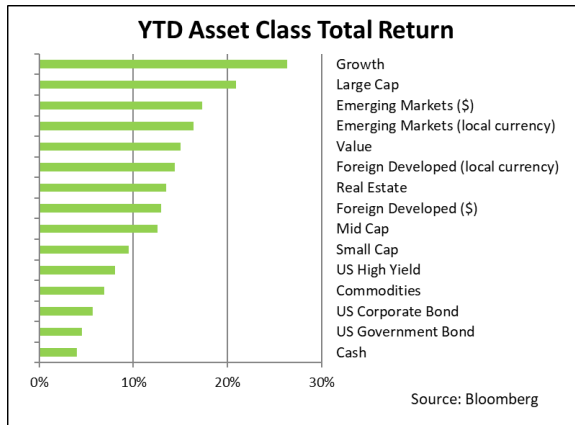
Data Section

US Equity Markets – (as of 10/2/2024 close)

YTD Total Return

Sector	
Utilities	~32%
Communication Services	~25%
Financials	~21%
S&P 500	~21%
Industrials	~20%
Consumer Staples	~16%
Technology	~16%
Materials	~13%
Healthcare	~13%
Real Estate	~12%
Consumer Discretionary	~11%
Energy	~10%

Prior Trading Day Total Return

Sector	
Energy	~1.0%
Technology	~0.7%
Financials	~0.1%
Utilities	~0.05%
S&P 500	~0.0%
Industrials	~-0.3%
Healthcare	~-0.3%
Communication Services	~-0.3%
Real Estate	~-0.35%
Materials	~-0.4%
Consumer Staples	~-0.8%
Consumer Discretionary	~-0.8%

(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 10/2/2024 close)

YTD Asset Class Total Return

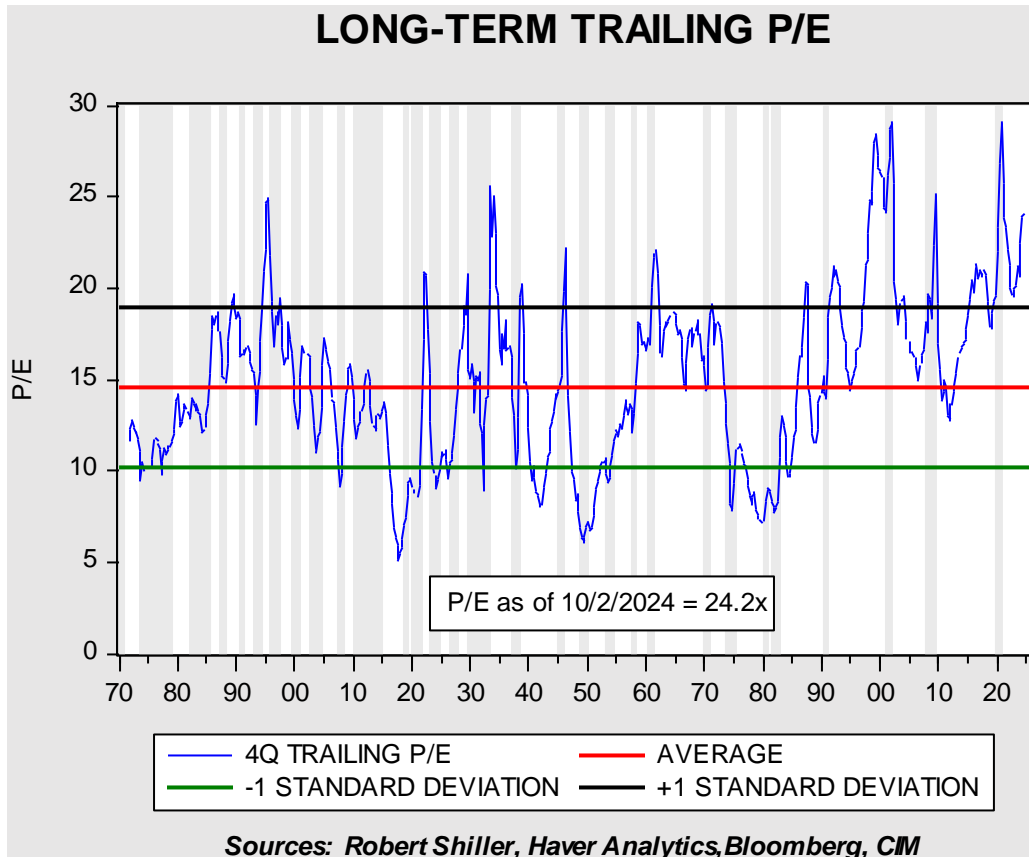| Asset Class	
Growth	~27%
Large Cap	~21%
Emerging Markets ($)	~17%
Emerging Markets (local currency)	~16%
Value	~14%
Foreign Developed (local currency)	~13%
Real Estate	~13%
Foreign Developed ($)	~13%
Mid Cap	~12%
Small Cap	~9%
US High Yield	~8%
Commodities	~7%
US Corporate Bond	~5%
US Government Bond	~4%
Cash	~4%

Source: Bloomberg

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 3, 2024

LONG-TERM TRAILING P/E

P/E as of 10/2/2024 = 24.2x

Legend: 4Q TRAILING P/E — AVERAGE — -1 STANDARD DEVIATION — +1 STANDARD DEVIATION

Sources: Robert Shiller, Haver Analytics, Bloomberg, CIM

Based on our methodology,[1] the current P/E is 24.2x, up 0.1 from our last report. The stock price index increased due to a transition to a new quarter, 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.

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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.