

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 8, 2024 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is down 0.4% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 4.1%. Chinese markets were higher, with the Shanghai Composite up 5.9% from its previous close and the Shenzhen Composite up 4.6%. US equity index futures are signaling a higher 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](#) (10/7/2024) (with associated [podcast](#)): “The US Presidential Election: Foreign Policy Implications”**
- [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)

Our *Comment* today opens with disappointment over the Chinese government’s failure to announce more economic stimulus, which has created extreme volatility in Chinese markets. We next review several other international and US developments with the potential to affect the financial markets today, including new Chinese tariffs on European brandy and a statement by the New York FRB leader that suggests US interest rates may continue to fall at a slower pace than some investors expect.

China: At a highly anticipated news conference earlier today, the chief of the National Development and Reform Commission [failed to announce the kind of big, new economic stimulus measures investors expected](#). Instead, he merely summarized the thrust of existing plans, such as issuing more special government bonds to finance targeted sectors and repeated assurances that Chinese economic growth this year will achieve the government’s target of about 5.0%.

- After weeks of new stimulus measures being announced on an almost daily basis, the NDRC announcement was a splash of cold water for investors.
- Chinese equity prices whipsawed throughout the day. At first, prices surged as investors got their first chance to buy following a week-long holiday. Then, however, prices pulled back sharply as investors understood that the package of stimulus measures may not go beyond what has already been announced.
- By day's end, Chinese stock indexes [still posted strong gains, but the increases were only about half as big as their intraday jump](#). Hong Kong stock indexes plunged more than 9% since that market wasn't closed for the long holiday and therefore already reflected optimism over the previously announced stimulus measures.
- The lack of new stimulus measures also has implications for the global economy, [especially in terms of commodity demand](#). For example, copper prices, so far today, have fallen 1.9% to \$9,758 per ton and aluminum prices are down 2.5% to \$2,586.50 per ton. Oil prices are also lower, with WTI down 2.1% to \$75.38 per barrel and Brent down 2.2% to \$79.20 per barrel.

China-European Union: In retaliation for the EU's vote on Friday to impose big antidumping tariffs against Chinese electric vehicles, Beijing today [said it will impose tariffs against EU brandy](#). The announcement [has already pushed the stock prices of major European distillers and luxury goods producers sharply lower today](#). More broadly, the Chinese action is being seen as perhaps just the first shot in an EU-China trade war.

- With Chinese economic growth in the doldrums and the government reluctant to offer further stimulus measures, Beijing is leaning heavily on new factory investment and export promotion to goose growth.
- In turn, surging Chinese exports have generated pushback from the US, the EU, and even many emerging countries that fear their domestic industries will be hurt by an onslaught of cheap Chinese goods.

United Kingdom: New data shows that the UK's population [grew to 68.3 million as of mid-2023](#). The figure was up 1% from mid-2022, marking the country's fastest population growth since 1971. Notably, however, the number of births was slightly lower than the number of deaths, meaning the entire population increase came from immigration, despite the public's desire to clamp down on new arrivals and government efforts to restrict them.

- Going forward, the UK's plunging birth rates mean that population growth will probably continue to depend on migration.
- That will likely create tricky political problems for the government as it tries to maintain economic growth while also responding to popular demands for less immigration.

Mexico: The administration of newly inaugurated President Sheinbaum [has reportedly asked major manufacturers to identify foreign-made parts and subcomponents that could be made in Mexico](#). The government is reportedly focusing on inputs from China that could be made at

home to make Mexico's supply chain more resilient. The government probably also fears that US animosity toward Chinese content could put Mexican sales north of the border at risk.

- The Mexican initiative illustrates how the fracturing of the world into different geopolitical and economic blocs is shortening supply chains.
- The initiative could also address a broader, long-standing problem with Mexico's economic development. Since the *maquiladora* system of doing final assembly of US-bound goods at factories close to the border has traditionally relied heavily on parts and subcomponents from abroad, Mexico has a relatively underdeveloped base of parts manufacturers. The Sheinbaum initiative could conceivably lead the government to take steps to build out the country's supplier base and create more factory jobs.

US Weather: As noted in our Weather section later in this report, Hurricane Milton [is traveling northeasterly across the Gulf of Mexico today and is expected to slam into the Florida coast on Thursday](#). The strong storm is expected to cause extensive damage from wind and flooding and potentially noticeable economic disruptions in the near term. Insured losses are likely to be high.

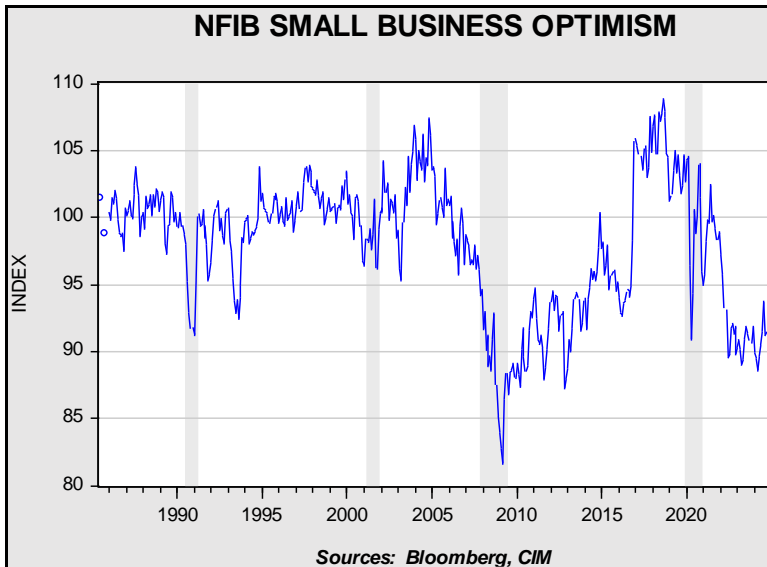
US Politics: Intelligence officials yesterday [warned that China, Russia, and other authoritarian countries intend to unleash covert disinformation campaigns after the November election](#) to undermine US citizens' faith in the outcome. According to the officials, the covert influence campaigns will be designed to amplify citizens' own concerns about election integrity and manufacture entirely false narratives about the electoral results. The announcement is a reminder that electoral uncertainty and anger could continue even after the balloting finishes.

US Monetary Policy: In an interview with the *Financial Times*, New York FRB President Williams [said the "very good" jobs report for September confirms that the US economy remains healthy even as inflation eases](#). According to Williams, that has left the Fed "well positioned" to achieve a soft landing if it pursues something like the two 25-basis point interest-rate cuts before the end of the year implied in the Fed's latest dot-plot economic projections. The statement suggests Williams is looking for only moderate rate cuts going forward.

US Inflation: Managers of the popular lottery game Mega Millions [said they will raise the price of a ticket to \\$5 in April, compared with \\$2 today](#). That will mark the game's first price hike since 2017, but the managers said the increased ticket price will allow bigger jackpots and improved odds.

US Economic Releases

The National Federation of Independent Business' *Small Business Optimism Index* for September rose to 91.5 from 91.2 the prior month, although it fell slightly short of the expected value of 92.0. The components were little changed, reflecting hesitancy and uncertainty ahead of the presidential election. The following chart shows the course of the index through time.



In a separate report today, the August *trade balance* showed a seasonally adjusted deficit of \$70.4 billion, which essentially matches the expected deficit of \$70.5 billion. This was the narrowest deficit in five months, due to a larger services surplus and an increase in merchandise exports, primarily capital goods, and motor vehicles. According to the data, total *exports* rose 2%, while *imports* fell 0.9%. Compared with the same month one year earlier, exports in August were up 5.13%, while imports were up 7.56%. The chart below shows the year-over-year change of US exports and imports since just before the Global Financial Crisis.



The following table lists the economic releases or Fed events scheduled for the rest of the day.

Economic Releases						
ET	Indicator			Expected	Prior	Rating
14:00	Monthly Budget Statement	m/m	Sep	-21.5b	-\$380.1b	**
Federal Reserve						
ET	Speaker or Event	District or Position				
12:45	Raphael Bostic Speaks on the Economic Outlook	President of the Federal Reserve Bank of Atlanta				
16:00	Susan Collins Speaks at Community Banking Conference	President of the Federal Reserve Bank of Boston				
19:30	Philip Jefferson Speaks on Discount Window	Vice-Chair 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	Labor Cash Earnings	y/y	Aug	3.0%	3.4%	2.9%	**	Equity and bond neutral
	Real Cash Earnings	m/m	Aug	-0.6%	0.3%	-0.5%	*	Equity and bond neutral
	Household Spending	m/m	Aug	-1.9%	0.1%	-2.6%	***	Equity and bond neutral
	BoP Current Account Balance	m/m	Aug	¥3803.6b	¥3193.0b	¥2995.9b	***	Equity and bond neutral
	BoP Trade Balance	m/m	Aug	-¥377.9b	-¥482.7b	-¥532.4b	**	Equity and bond neutral
Australia	Westpac Consumer Conf Index	m/m	Oct	89.8	84.6		**	Equity and bond neutral
	Westpac Consumer Conf SA	m/m	Oct	6.2%	-0.5%		**	Equity and bond neutral
	NAB Business Confidence	m/m	Sep	-2	-5		***	Equity and bond neutral
	NAB Business Conditions	m/m	Sep	7	4		***	Equity and bond neutral
South Korea	BoP Current Account Balance	m/m	Aug	\$6595.3m	\$8966.0m		**	Equity and bond neutral
	BoP Goods Balance	m/m	Aug	\$6595.3m	\$8966.0m		*	Equity and bond neutral
EUROPE								
Germany	Industrial Production WDA	y/y	Aug	-2.7%	-5.6%	-3.8%	**	Equity bullish, bond bearish
France	Trade Balance	m/m	Aug	-7371m	-6042m		*	Equity and bond neutral
	Current Account Balance	m/m	Aug	-0.6b	-0.0b		*	Equity and bond neutral
Russia	Official Reserve Assets	m/m	Sep	633.7b	613.7b		*	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)	451	451	0	Down
U.S. Sibor/OIS spread (bps)	467	468	-1	Down
U.S. Libor/OIS spread (bps)	464	464	0	Down
10-yr T-note (%)	4.03	4.03	0.00	Up
Euribor/OIS spread (bps)	327	325	2	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	\$79.46	\$80.93	-1.82%	
WTI	\$75.67	\$77.14	-1.91%	
Natural Gas	\$2.76	\$2.75	0.58%	
12-mo strip crack	\$20.57	\$20.89	-1.55%	
Ethanol rack	\$1.77	\$1.76	0.42%	
Metals				
Gold	\$2,651.60	\$2,642.59	0.34%	
Silver	\$31.40	\$31.69	-0.91%	
Copper contract	\$445.55	\$456.65	-2.43%	
Grains				
Corn contract	\$423.25	\$426.00	-0.65%	
Wheat contract	\$592.00	\$592.50	-0.08%	
Soybeans contract	\$1,019.50	\$1,034.00	-1.40%	
Shipping				
Baltic Dry Freight	1,907	1,928	-21	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-1.43		
Gasoline (mb)		0.20		
Distillates (mb)		-2.00		
Refinery run rates (%)		-0.7%		
Natural gas (bcf)		56		

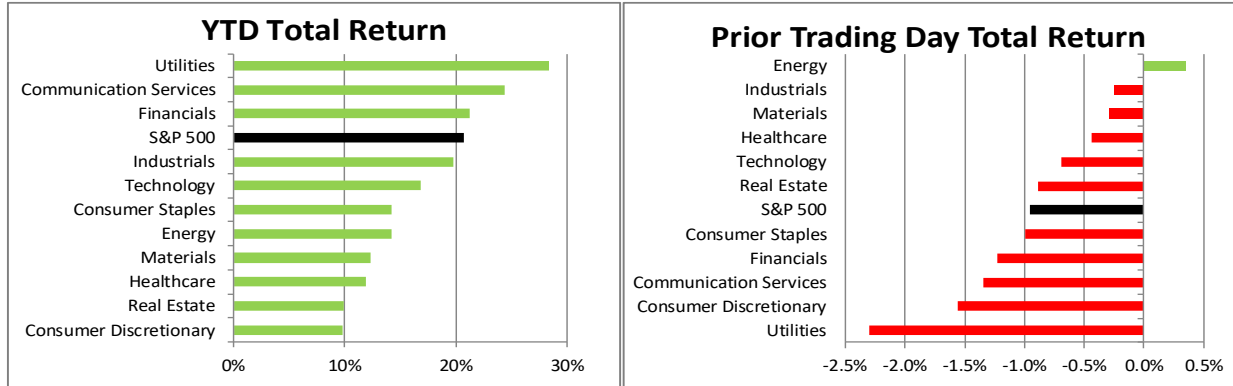
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures from the Mississippi westward, with cooler-than-normal temperatures in eastern quarter of the country. The precipitation outlooks show drier-than-normal conditions for most of the country with wet conditions in Washington state and Florida.

Hurricane Milton is moving through the Gulf and is expected to make landfall in Florida mid-week. It is rapidly strengthening and might remain as a category 4 storm at landfall. Hurricane Leslie, located in the central Atlantic, is not expected to make landfall. Meanwhile, a new disturbance is taking form near the Bahamas; however, it is moving northeastward away from land, with only a slight chance of near-term cyclonic formation.

Data Section

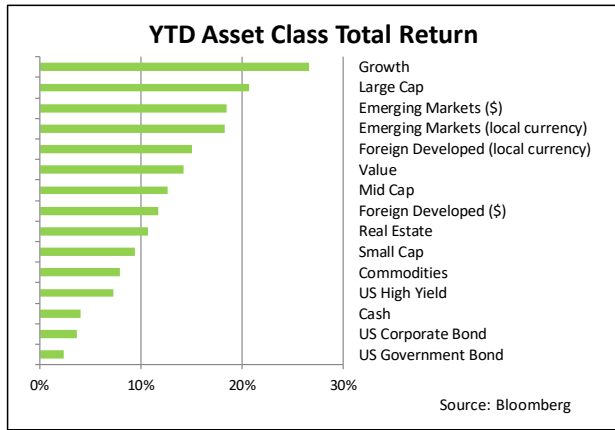
US Equity Markets – (as of 10/7/2024 close)



(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 10/7/2024 close)

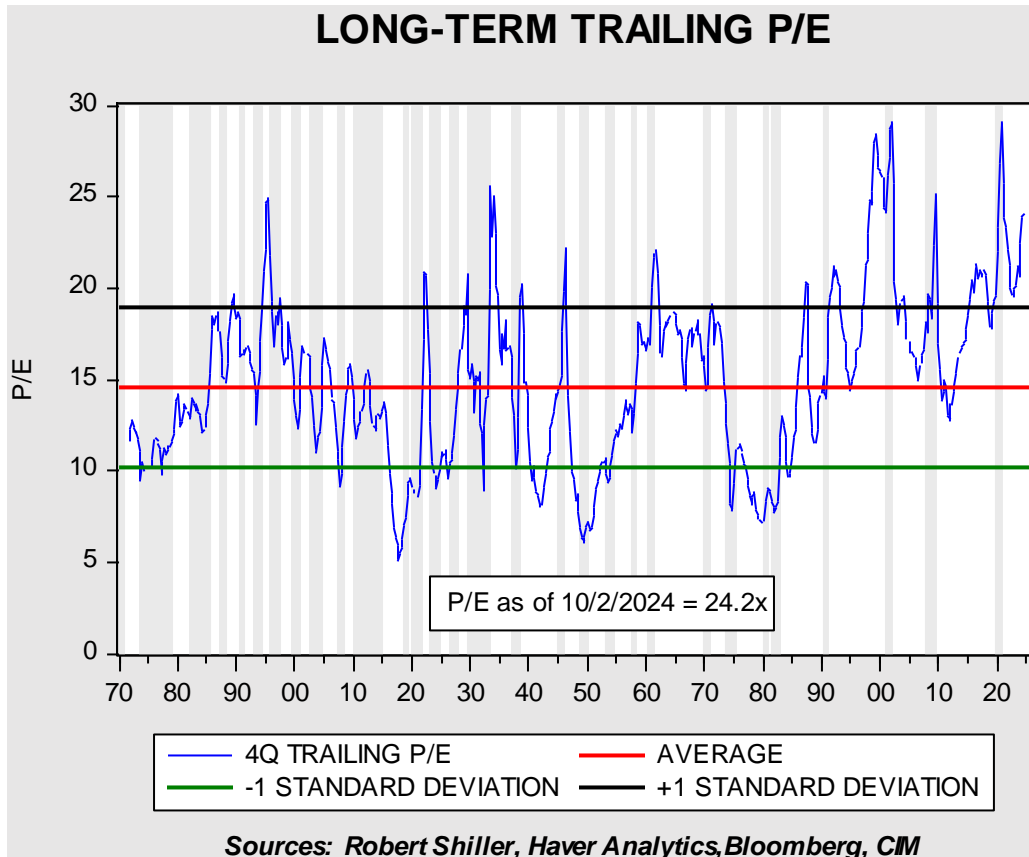


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

October 3, 2024



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.

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.