

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 9, 2024 — 9:30 AM ET]** Global equity markets are mostly lower this morning. In Europe, the Euro Stoxx 50 is up 0.1% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.1%. Chinese markets were lower, with the Shanghai Composite down 6.6% from its previous close and the Shenzhen Composite down 8.7%. 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](#) (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)

Good morning! The market is currently processing the latest comments from Fed officials as it looks for further evidence of a soft landing. In sports news, the Minnesota Lynx were able to knock out the Connecticut Sun to make it to the WNBA finals. Today’s *Comment* will discuss the growing crackdown on US tech firms, why lower rates may not be enough to boost economic optimism, and signs of easing in the Middle Eastern and European conflicts. As usual, our report will conclude with a roundup of domestic and international data releases.

**Breakup of Big Tech:** US officials are considering Google as a potential target for antitrust action as they seek to take a stronger stance against monopolies.

- The [US Department of Justice is contemplating asking for court approval to compel Google to divest portions of its business](#). This potential breakup aims to curb the company's dominance in web search and could require Google to share the underlying data used for its search engines and other AI products. The DOJ's action follows an August court ruling that found [Google guilty of monopolizing online search markets](#).

While Google is expected to appeal the decision, the judge has allowed the DOJ to proceed with potential remedies for the violation.

- The crackdown on Google is part of a broader effort by US regulatory agencies to increase competition among Big Tech companies. The [Department of Justice is also suing Apple for allegedly imposing restrictions on software and hardware](#) to hinder rival competition and discourage consumers from switching phones. Additionally, [the Federal Trade Commission has been granted permission to proceed with its case against Amazon](#), accusing the company of using its monopoly power to charge consumers higher prices both on and off its platforms.

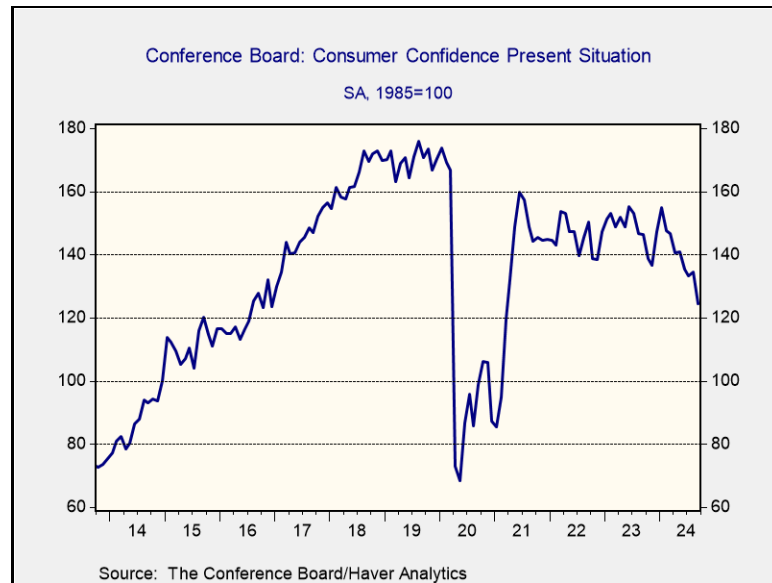


- Regulatory scrutiny of Big Tech companies is likely to persist in the coming years, as these firms increasingly resemble the Wall Street banks of the previous decade. Although we don't anticipate a major upheaval among the top tech names, regulatory compliance may necessitate changes in business practices. These changes could hinder efforts to maintain a competitive edge and weigh on earnings growth. While it's premature to completely abandon Big Tech stocks since these court cases are far from resolved, investors may find it useful to explore other opportunities.

**Rainy Day Savings:** The decision to ease policy has helped protect household balance sheets, but time will tell if it will lead to further economic stimulus.

- The decrease in mortgage rates led to a significant increase in refinancing activity last month, according to the mortgage automation company Optimal Blue. Homeowners drove the surge, with [rate-and-term refinance loans increasing by a remarkable 700%](#) from the previous year, while cash-out refinancing rose by 50% in the same period. Borrowers used the drop in interest rates to lower their mortgage payments and consolidate some of their debt. In the same month that refinancing jumped, [revolving credit experienced the most significant monthly drop](#) since March 2021.

- The improvement in household debt levels is encouraging, but it may also indicate economic concerns. According to the latest Conference Board Consumer Confidence report, [consumers have become more pessimistic about the labor market](#). A large number of survey participants mentioned that they were having a harder time finding jobs, and fewer people said that there were plenty of job opportunities available. These worries about the job market caused consumers' confidence in their current situations to decrease to the lowest level since the beginning of the pandemic.

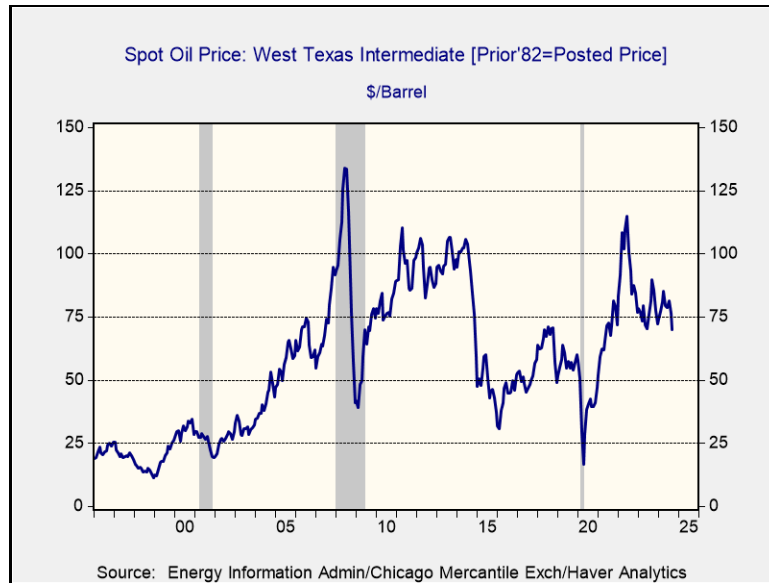


- The impact of the Fed rate cuts will depend on consumer confidence in the economy. If households believe that the economy is strong, then they will likely increase consumption using their improved financial position. However, if they think the economy is starting to stall or weaken, then they may be more inclined to wait until everything improves before increasing their spending. As a result, it may take some time before the easing starts to have an effect on the economy. Nevertheless, the robust September jobs report suggests that the Fed rate cut may have come in time to prevent an outright recession.

**Tensions are Easing:** There are indications that the warring countries in Europe and the Middle East may be open to reaching a settlement.

- On Tuesday, [it was reported that Ukrainian President Volodymyr Zelensky may be open to coming to the negotiating table](#) to discuss an end to the war with Russia. The report comes as Ukraine tries to keep Russian troops at bay in the east, while also trying to hold onto Russian territory in its border region. In the Middle East, [Hezbollah has dropped its demand for a truce in Gaza as a condition of any ceasefire](#). This decision comes after it was reported that Israel had killed the group's leader Hassan Nasrallah as well as his successor.
- A resolution to the ongoing conflicts could potentially lead to a decline in commodity prices, especially crude oil. A ceasefire between Israel and Hezbollah could reduce the

likelihood of an Iranian attack on oil facilities, which has been a major concern following Iran's recent missile barrage. Additionally, ending the conflict in Ukraine could enable Russia to resume selling its crude oil on the global market without sanctions. As a result, optimism about a reduction in tensions has already led to a pullback in crude prices, which fell by 5.3% on the day.



- While both outcomes are desirable, the resolution of the Ukrainian conflict appears to be more likely. Unlike Israel, Ukraine is not negotiating from a position of strength. It has likely maximized its gains from the conflict with Russia and should therefore engage in talks while it still has leverage. In contrast, Israel may be more inclined to demand further concessions from its adversaries as it continues to pressure them. However, the United States is likely to urge both parties to negotiate at some point, suggesting that the conflict may not extend significantly into 2025.

**In Other News:** Federal Reserve Vice Chair [Philip Jefferson mentioned that the risk to the labor market and inflation remains balanced](#). This indicates that the central bank may be shifting its focus away from inflation and toward preventing an undesirable increase in the unemployment rate. US [Secretary of State Antony Blinken is heading to Laos for the ASEAN summit](#). The White House aims to reassure its Asian allies of its commitment to their security, even as China continues to escalate tensions in the South China Sea.

## US Economic Releases

The Mortgage Bankers Association today said *mortgage applications* in the week ended October 4 fell 5.1%, compared to last week's decline of 1.3%. Applications for home purchase mortgages fell 0.1%, marking the second consecutive weekly decline. Applications for refinancing mortgages fell 9.3%, also a second consecutive decline. According to the report, the average interest rate on a 30-year mortgage rose 22 basis points to 6.36%. This rise halted what had been

a monthslong slide that had been helping to reinvigorate housing activity, marking the largest one-week increase since July 2023.

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	Wholesale Inventories	m/m	Aug F	0.2%	0.2%	**
10:00	Wholesale Trade Sales	m/m	Aug	0.4%	1.1%	*
Federal Reserve						
ET	Speaker or Event	District or Position				
8:00	Raphael Bostic Gives Welcome Remarks	President of the Federal Reserve Bank of Atlanta				
9:15	Lorie Logan Speaks at Houston Energy Conference	President of the Federal Reserve Bank of Dallas				
10:30	Austan Goolsbee Gives Opening Remarks at Payments Conference	President of the Federal Reserve Bank of Chicago				
12:30	Philip Jefferson Speaks on Discount Window	Vice-Chair of the Board of Governors				
14:00	FOMC Meeting Minutes	Federal Reserve Board				
17:30	Susan Collins Speaks at Worcester Event	President of the Federal Reserve Bank of Boston				
18:00	Mary Daly Speaks in Moderated Conversation	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	Machine tool orders	y/y	Sep P	-6.5%	-3.5%		**	Equity and bond neutral
EUROPE								
Germany	Trade Balance	m/m	Aug	22.5b	16.9b	18.5b	*	Equity and bond neutral
	Exports	m/m	Aug	1.3%	1.7%	-1.0%	*	Equity and bond neutral
	Imports	m/m	Aug	-3.4%	5.3%	-2.0%	*	Equity and bond neutral
AMERICAS								
Canada	Int'l Merchandise Trade	m/m	Aug	-1.1%	-0.3%	-0.50b	**	Equity bearish, bond bullish
Mexico	CPI	y/y	Sep	4.58%	4.99%	4.64%	***	Equity and bond neutral
	Core CPI	y/y	Sep	3.91%	4.00%	3.94%	**	Equity and bond neutral
Mexico	International Reserves Weekly	w/w	4-Oct	\$226318m	\$226846m		*	Equity and bond neutral
Brazil	IBGE Inflation IPCA	y/y	Sep	4.42%	4.24%	4.44%	***	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)	466	467	-1	Down
U.S. Libor/OIS spread (bps)	462	464	-2	Down
10-yr T-note (%)	4.03	4.01	0.02	Up
Euribor/OIS spread (bps)	327	327	0	Down
Currencies	Direction			
Dollar	Down			Down
Euro	Flat			Up
Yen	Up			Up
Pound	Up			Up
Franc	Up			Up
Central Bank Action	Current	Prior	Expected	
RBI Cash Reserve Ratio	4.500%	4.500%	4.500%	On Forecast
RBI Repurchase Rate	6.500%	6.500%	6.500%	On Forecast
RBNZ Official Cash Rate	4.750%	5.250%	4.750%	On 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	\$76.74	\$77.18	-0.57%	
WTI	\$73.10	\$73.57	-0.64%	
Natural Gas	\$2.69	\$2.73	-1.50%	
12-mo strip crack	\$20.11	\$20.34	-1.15%	
Ethanol rack	\$1.76	\$1.76	-0.45%	
Metals				
Gold	\$2,618.51	\$2,621.83	-0.13%	
Silver	\$30.68	\$30.67	0.03%	
Copper contract	\$440.10	\$445.65	-1.25%	
Grains				
Corn contract	\$423.00	\$420.75	0.53%	
Wheat contract	\$603.00	\$594.75	1.39%	
Soybeans contract	\$1,021.25	\$1,016.25	0.49%	
Shipping				
Baltic Dry Freight	1,860	1,907	-47	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		1.60		
Gasoline (mb)		-1.00		
Distillates (mb)		-1.75		
Refinery run rates (%)		0.0%		
Natural gas (bcf)		74		

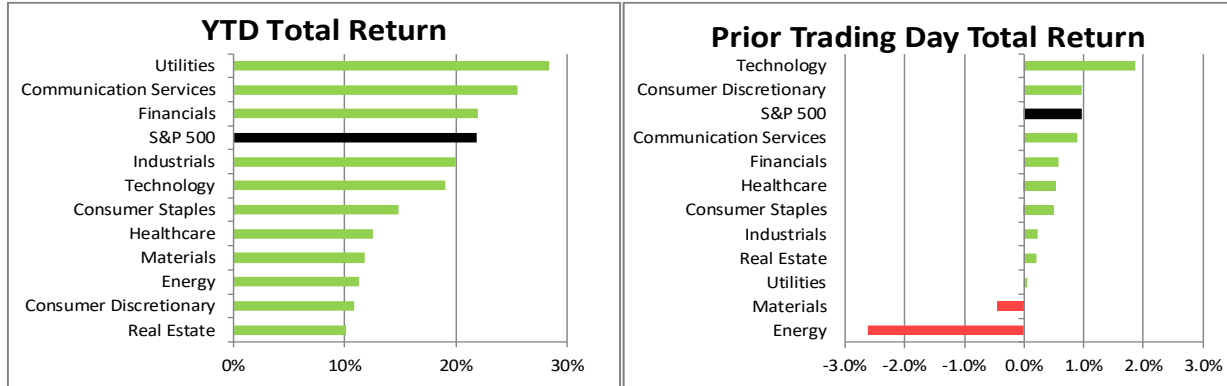
## **Weather**

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures to prevail across the western half of the country, with cooler-than-normal temperatures in the southeastern 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, which currently remains a category 4 storm, will make landfall between Tampa and Fort Meyers tonight, bringing potentially deadly winds, rain, flooding, and storm surges. Hurricane Leslie, located in the central Atlantic, looks likely to make a hooking movement northeastward and well away from land. A disturbance that recently formed in the vicinity of the Bahamas has tracked northeastward into the open Atlantic. Although it shows a 40% chance of cyclonic formation, it is not on course for landfall. A new tropical wave is forming over the west coast of Africa that will soon begin its movement across the Atlantic Ocean.

**Data Section**

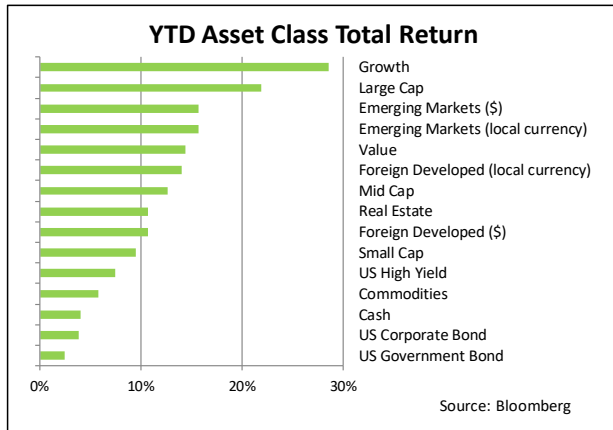
**US Equity Markets – (as of 10/8/2024 close)**



(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 10/8/2024 close)**



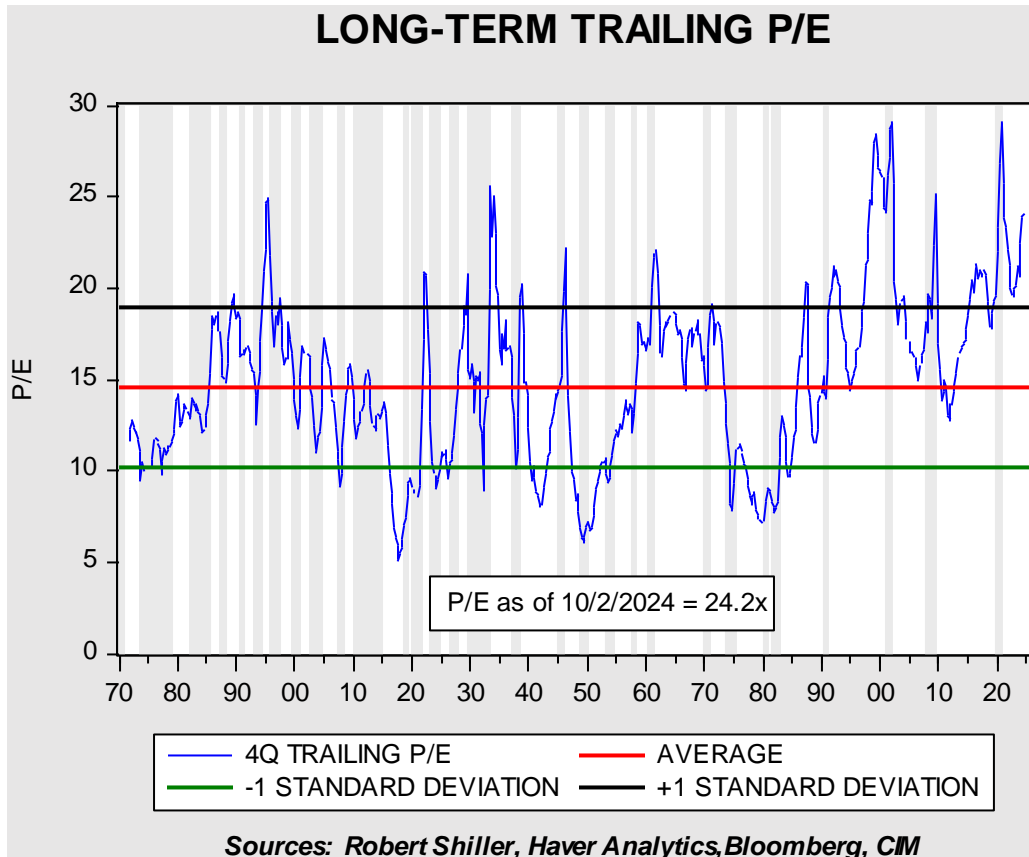
This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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,<sup>1</sup> 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.*

<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.