

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: September 11, 2024 — 9:30 AM ET] Global equity markets are generally lower this morning. In Europe, the Euro Stoxx 50 is up 0.5% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.4%. Chinese markets were lower, with the Shanghai Composite down 0.8% from its previous close and the Shenzhen Composite down 0.1%. 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](#) (9/9/2024) (with associated [podcast](#)): “Prospects for the Dollar in a Fracturing World”
- [Asset Allocation Bi-Weekly](#) (8/26/2024) (with associated [podcast](#)): “Activist vs. Accommodative Treasury Issuance”
- [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.

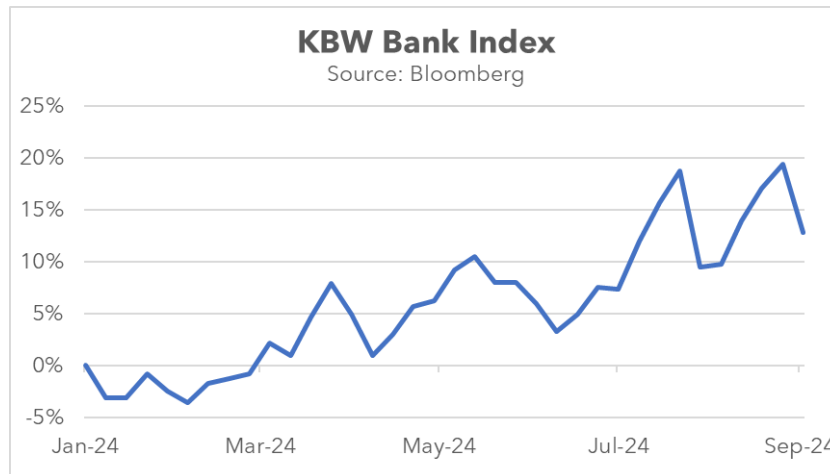
Good morning! The market is currently digesting the latest inflation data. In sports news, NBA Commissioner Adam Silver has hinted at the possibility of another expansion team. Today's *Comment* will explore why banks remain pessimistic about the future despite a recent regulatory win, how lower oil prices could weigh on the US dollar, and the key takeaways there from the second presidential debate. As always, our report will conclude with a roundup of domestic and international news releases.

Banks Are Less Optimistic: While banks received some good news on Wednesday, the outlook for the sector remains bleak.

- In response to pressure from the financial services industry, the Federal Reserve announced a reduction [in the proposed capital requirement increase on Tuesday, from 19% to 9%](#). While the initial proposals targeted banks with assets exceeding \$100 million, the revised version primarily applies to those with assets over \$250 million. The decision aims to alleviate concerns from banks about the potential impact the requirement

would have on their lending capacity. However, there are concerns that relaxed rules could leave the door open for another financial crisis.

- That said, concerns persist about the outlook for financial firms. JP Morgan Chase has cautioned [that anticipated earnings may be overly optimistic](#) and cited the Federal Reserve's expected interest rate cuts as a significant threat to net interest income, a key driver of its recent success. Meanwhile, auto lender Ally Financial has reported [higher-than-expected car loan delinquency rates](#), raising concerns about its ability to deliver strong returns. This weaker outlook coincides with growing fears of consumer backlash as households grapple with rising prices and a deteriorating labor market.

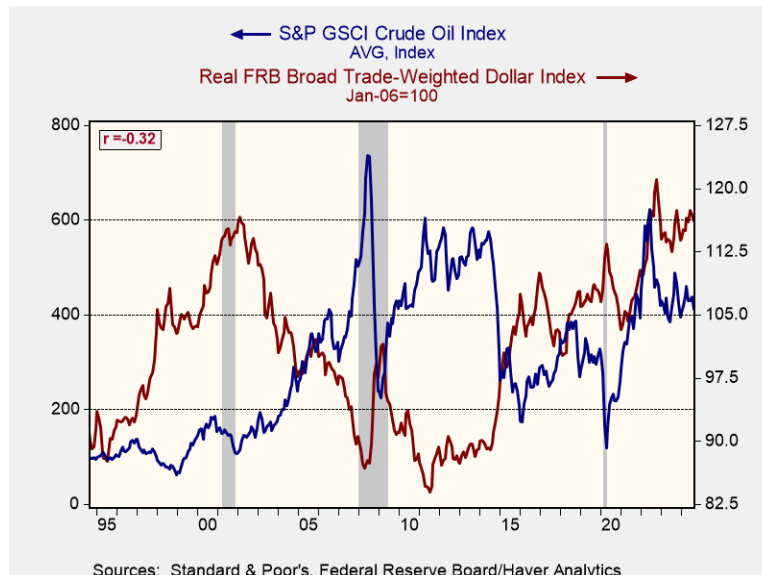


- Despite expectations that the Federal Reserve will ease monetary policy in the near future, the impact on banks remains uncertain. While lower interest rates generally encourage lending in a strong economy, banks may now be reluctant to extend credit due to concerns about future default risk. Moreover, the recent [Senior Loan Officer Opinion Survey \(SLOOS\)](#) suggests that financial institutions are already tightening their lending standards. If this trend persists, we anticipate a moderation in economic growth but not a recession.

Oil Gets Cheap: Concerns about insufficient demand have pushed oil prices to their lowest level in nearly three years.

- [Brent crude futures fell below \\$70](#) on Tuesday, driven by mounting global economic concerns. Weak economic data from China and a second [downward revision within two months by OPEC to its demand forecast](#) contributed to the drop. The oil-producing group now projects daily demand growth of around two million barrels, reducing its previous estimate by 80,000 barrels. This adjustment comes in the wake of reports indicating that [Chinese imports increased by just 0.5%](#) from the previous year, falling short of the anticipated 2% growth predicted by analysts.
- Declining oil prices could negatively impact the US dollar. In recent years, the United States has become a major exporter of natural gas and crude oil, a trend that accelerated after the war in Ukraine led to increased demand for alternatives to Russian oil. This shift has altered the US terms of trade, which measure the relative change in import to export

prices, as the country transitioned from a net oil importer to a net exporter. As a result, the US dollar and oil prices have flipped from a negative to a positive correlation.



- Nevertheless, the 2024 oil market has been characterized by a significant supply-demand imbalance. Lackluster GDP growth in China and Europe, coupled with slowing economic momentum in the United States, has reduced global oil demand. While OPEC has reduced production to bolster price levels, [increased output from Brazil, Canada, Guyana, and the United States](#) has offset much of the supply cuts. Consequently, the combination of robust production and weakening demand has led to a surplus of fuel inventories that has kept a lid on prices, which should weigh on the dollar.

Fireworks But No Substance: Republican and Democratic presidential candidates Donald Trump and Kamala Harris debated on Tuesday but offered few insights into their planned direction for the country.

- During the debate, neither candidate was willing to delve into the specifics of their plans for the country. Harris emphasized her intention to offer tax cuts for small businesses and provide a credit to first-time homebuyers to help them purchase their first home. Meanwhile, Trump reminded Americans of his plan to significantly strengthen border security to address the immigration surge. Beyond these points, the leaders engaged in a heated exchange of insults regarding their respective records in office, which was somewhat entertaining but ultimately unproductive.
- Despite both candidates' [enthusiasm for outlining their spending plans](#), neither has provided a clear explanation of how they intend to finance these initiatives. Trump has proposed extending previous tax cuts, exempting Social Security and tips from taxation, and lowering corporate tax rates. In contrast, Harris has pushed for a \$25,000 tax credit for first-time homebuyers, an extension of childcare tax credits, a \$6,000 bonus for newborns, and the elimination of taxes on tips. While both candidates claim to have deficit-reduction plans, neither was willing to discuss these strategies during the debate.

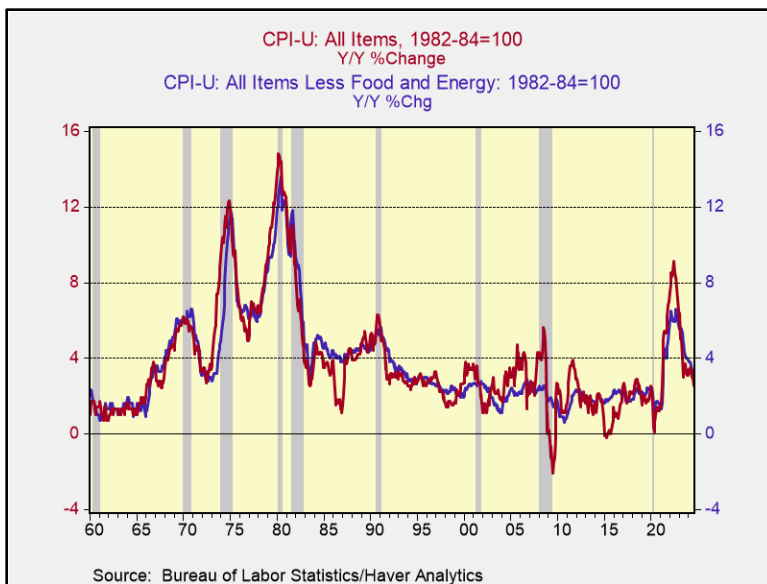


- While Trump previously secured a decisive victory over President Joe Biden in the first debate, [early assessments suggest that Harris](#) may have gained the upper hand in the second contest. The next debate is set to take place in three weeks between Ohio Senator JD Vance and Minnesota Governor Tim Walz. Meanwhile, the Harris and Trump campaigns are discussing the possibility of another debate. Current betting odds indicate that the race remains relatively close, with [Harris receiving a small bump](#) following last night’s performance.

In Other News: The US, for the first time, [accused China of directly supporting Russia's invasion of Ukraine](#). This decision reflects Washington's increasing efforts to rally European support for its isolation of China. Meanwhile, [lithium share prices have surged](#) following the closure of two Chinese mines by CATL. This event serves as a stark reminder of the volatile nature of commodity prices in a world that is becoming increasingly disconnected. Automaker [Volkswagen has decided to end its job security agreement](#) as it looks to chart a more profitable path forward.

US Economic Releases

The August *consumer price index (CPI)* rose by a seasonally adjusted 0.2%, which matches both the prior-month number and the expectation. Excluding the volatile food and energy components, the “*core*” *CPI* rose 0.3%, very slightly greater than the 0.2% of both the prior month and the expectation. The overall *CPI* in August rose 2.5% from the same month one year earlier, while the core *CPI* rose 3.2%, again matching expectations in both instances. These results, taken together with the pre-market reaction, suggest that expectations for a potential half-point Fed rate cut later this month are off the table, in favor of the more modest quarter-point cut. The chart below shows the year-over-year change in the *CPI* and the core *CPI* over time.



The Mortgage Bankers Association today said *mortgage applications* in the week ended September 7 rose 1.4%, compared to last week’s gain of 1.6%. Applications for home purchase mortgages rose 1.8%, and applications for refinancing mortgages rose 0.9%. According to the report, the average interest rate on a 30-year mortgage declined another 14 basis points to 6.29%, marking its lowest level since February of last year.

There are no economic releases or Fed events scheduled for the rest of the day.

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								
South Korea	Unemployment Rate	m/m	Aug	2.4%	2.5%	2.6%	***	Equity and bond neutral
EUROPE								
UK	Industrial Production	y/y	Jul	-1.2%	-1.4%	-0.1%	***	Equity bearish, bond bullish
	Manufacturing Production	y/y	Jul	-1.3%	-1.5%	-0.1%	**	Equity bearish, bond bullish
	Index of Services 3M/3M	m/m	Jul	0.60%	0.80%	0.60%	**	Equity and bond neutral
	Visible Trade Balance	m/m	Jul	£20003m	£18894m	£17950m	**	Equity and bond neutral
	Trade Balance GBP/Mn	m/m	Jul	£7514m	£5324m	£4700m	**	Equity and bond neutral
AMERICAS								
Mexico	Industrial Production NSA	y/y	Jul	2.1%	-0.7%	0.8%	***	Equity bullish, bond bearish
	Manufacturing Production	y/y	Jul	1.6%	-0.9%	1.1%	*	Equity and bond neutral
Brazil	IBGE Services Volume	y/y	Jul	4.3%	0.8%	2.5%	*	Equity bullish, bond bearish

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)	519	520	-1	Down
3-mo T-bill yield (bps)	484	484	0	Down
U.S. Sibor/OIS spread (bps)	493	494	-1	Down
U.S. Libor/OIS spread (bps)	490	491	-1	Down
10-yr T-note (%)	3.62	3.64	-0.02	Down
Euribor/OIS spread (bps)	346	346	0	Down
Currencies	Direction			
Dollar	Down			Down
Euro	Up			Up
Yen	Up			Up
Pound	Flat			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	\$70.77	\$69.19	2.28%	
WTI	\$67.42	\$65.75	2.54%	
Natural Gas	\$2.22	\$2.23	-0.63%	
12-mo strip crack	\$18.70	\$18.70	0.00%	
Ethanol rack	\$1.90	\$1.92	-0.58%	
Metals				
Gold	\$2,522.81	\$2,516.73	0.24%	
Silver	\$28.83	\$28.40	1.52%	
Copper contract	\$415.65	\$409.80	1.43%	
Grains				
Corn contract	\$406.50	\$404.25	0.56%	
Wheat contract	\$577.50	\$574.25	0.57%	
Soybeans contract	\$1,005.50	\$997.25	0.83%	
Shipping				
Baltic Dry Freight	1,941	1,958	-17	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		1.05		
Gasoline (mb)		0.00		
Distillates (mb)		0.28		
Refinery run rates (%)		-0.8%		
Natural gas (bcf)		48		

Weather

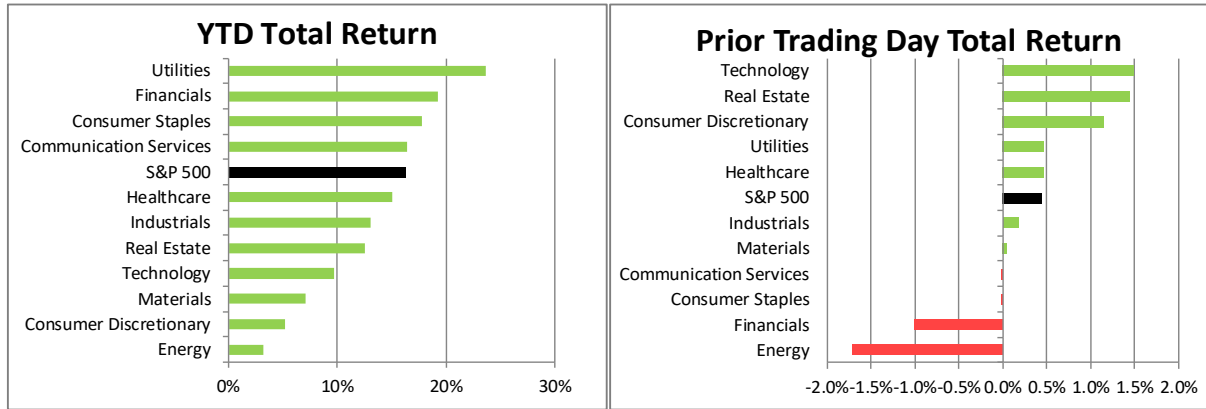
The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for most of the country, with cooler-than-normal temperatures west of the Continental Divide. The forecasts are calling for wetter-than-normal conditions for the northern two-thirds of the country west of the Mississippi and along the Atlantic Coast, with dry conditions in New England, the Great Lakes region, and the Desert Southwest.

Francine has now become a hurricane and continues to churn northward toward a projected landfall in Louisiana this evening. Varying degrees of life-threatening winds, torrential rainfall, and storm surges are expected to prevail from the eastern fringe of the Texas Gulf Coast to Pensacola through Thursday.

Three additional disturbances are traversing the mid-Atlantic Ocean. The lead disturbance, now approaching the Leeward Islands, has a 10% chance of developing into a cyclone over the next 48 hours, whilst a trailing disturbance, several hundred miles to the east, has a 30% chance of cyclonic development in the same period. A third disturbance has now formed in the vicinity of the Cape Verde islands, and it has a 50% chance of cyclonic formation in the next 48 hours.

Data Section

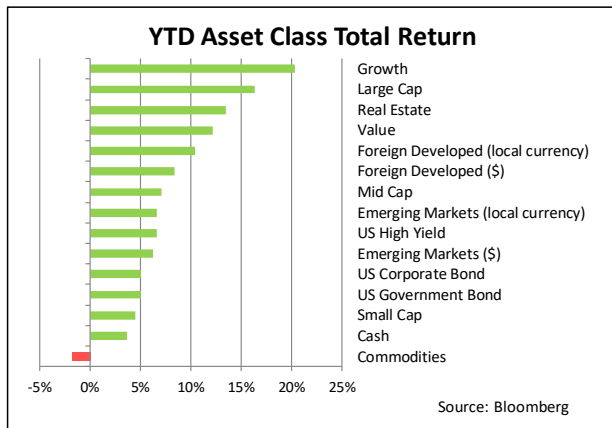
US Equity Markets – (as of 9/10/2024 close)



(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 9/10/2024 close)

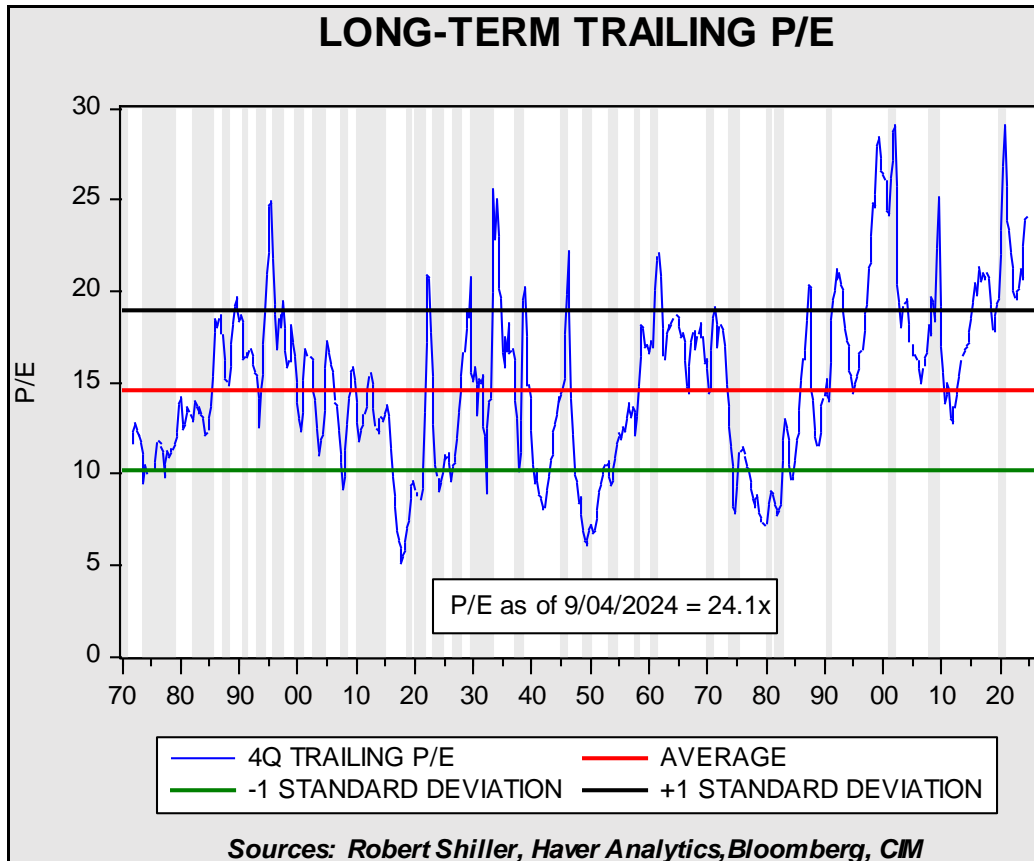


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

September 5, 2024



Based on our methodology,¹ the current P/E is 24.1x, rising 0.4 from our last report. The increase in the multiple was due to an increase in the stock price index and a decline in earnings.

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.