

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 19, 2024 — 9:30 AM ET] Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 is up 2.0% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 1.4%. Chinese markets were higher, with the Shanghai Composite up 0.7% from its previous close and the Shenzhen Composite up 1.6%. 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:

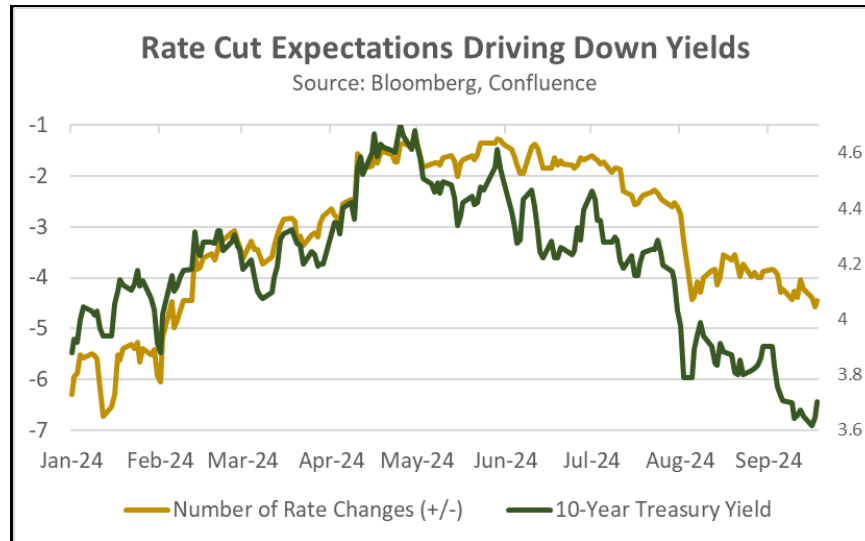
- [Bi-Weekly Geopolitical Report](#) (9/9/2024) (with associated [podcast](#)): “Prospects for the Dollar in a Fracturing World”
- [Asset Allocation Bi-Weekly](#) (9/16/2024) (with associated [podcast](#)): “The Benjamin Button Dividend”
- [Asset Allocation Quarterly – Q3 2024](#) (7/16/2024): Discussion 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”

Good morning! Markets are still digesting the Federal Reserve's latest interest rate decision. In sports news, Shohei Ohtani continues his historic season, aiming to become the first player to hit 50 home runs and steal 50 bases in a single year. Today's *Comment* will delve into the Fed's decision to cut rates, explore why the market is not sold on the economy, and provide an update on Germany. Our report will conclude with a roundup of international and domestic news.

Pivot Complete: The Fed launched its easing cycle with a jumbo rate cut but cautioned the market not to expect it to become a trend.

- The Federal Open Market Committee (FOMC) concluded its two-day meeting by [reducing its fed funds target rate by 50 basis points to 4.75%-5.00%](#). While policymakers expressed optimism about inflation's trajectory toward the 2% target, they also voiced concerns about the cooling labor market. In the subsequent press conference, Fed Chair Jerome Powell indicated that future rate cuts are likely to be smaller going forward, with a 25 bps rate cut expected over the next two meetings.
- Following the Fed's policy pivots, doubts emerged about the central bank's commitment to controlling inflation. The dot plot revealed lingering concerns among committee

members, with nearly half opposing more than one additional cut for the rest of year. Meanwhile, Michelle Bowman was the first governor since 2005 to dissent, having favored a smaller cut. These factors likely contributed to the slight steepening of the yield curve, with the 10-year Treasury yield rising more quickly than the two-year Treasury yield.



- Investors are shifting their attention from solely focusing on the Federal Reserve's interest rate policy to broader economic factors like growth, inflation, and the national debt. Furthermore, the timing of the Fed's exit from quantitative tightening could significantly influence bond yields due to its effect on the bond market supply. Despite these factors, we expect limited downward pressure on bond yields in the near term. In fact, upward pressure may emerge if economic indicators suggest rising inflation or stronger job growth.

Why the Gloom? The market offered mixed signals about the path forward for equities following the Fed's pivot.

- Despite the initial positive reaction to the Fed's rate decision, the S&P 500 and Nasdaq Composite indexes both closed slightly lower than the previous day, while the S&P 600 small cap price index experienced only minor gains. While some of this weakness can be attributed to profit-taking by investors who had bet on a specific outcome of the two-day meeting, [the overall sentiment suggests underlying skepticism about economic growth](#). While the central bank expressed optimism about the US economy, the big rate cut does suggest that it is ready to take more aggressive steps if needed.
- There is major concern that the labor market might be cooling more rapidly than the central bank realizes. [Since the Sahm Rule was triggered in July](#), there has been mounting evidence suggesting that firms are reducing their hiring. Recent payroll data reveals a significant slowdown in private-sector job creation, with the average for the past three months falling below 100,000 jobs — nearly half the rate that was observed in 2023.

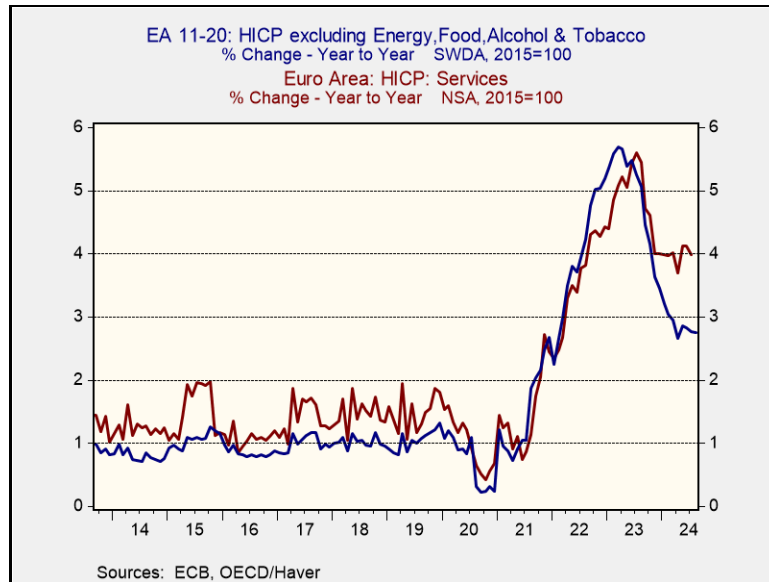
Additionally, the number of jobs available has also slipped, with the job vacancy rate falling to its lowest level since 2020.



- Despite recent economic concerns, there are positive signs. Jobless claims remain relatively low, indicating that firms are reluctant to lay off workers. Additionally, the [Atlanta Fed's GDPNow forecast has been revised upward from a week ago](#), suggesting a strengthening economic outlook. This strong growth suggests that businesses are well-positioned to maintain their current workforce. As a result, the central bank is likely still on track for the ever-elusive soft landing, but we will continue to monitor economic indicators closely.

Europe Growth Problems: The EU's largest economy is faltering, raising concerns about the region's overall economic health as it strives to maintain tight monetary policies and curb inflation.

- The [German economy may already be in recession](#), according to the Bundesbank, which warned that growth could "stagnate or decline slightly" in the third quarter. This grim outlook comes after the economy has narrowly avoided the label despite having economic contractions two of the last three quarters. Additionally, firms are struggling as this month [Volkswagen decided to halt production at some plants](#) and [BMW lowered its 2024 sales and earnings targets](#). Although the Bundesbank remains hopeful that the downturn won't be severe, it conceded that industrial activity remains a problem.
- Economic weakness in Germany could complicate the European Central Bank's (ECB) efforts to maintain tight monetary policy to bring inflation down to target. Although the region has taken successful steps to reduce price pressures, concerns are growing that this progress is stalling, particularly in the services sector. Overall inflation has fallen from a 2022 peak of over 10.0% to 2.1% in August 2024. However, much of this decline is driven by a slowdown in goods inflation, with services inflation remaining stubbornly high at around 4%.

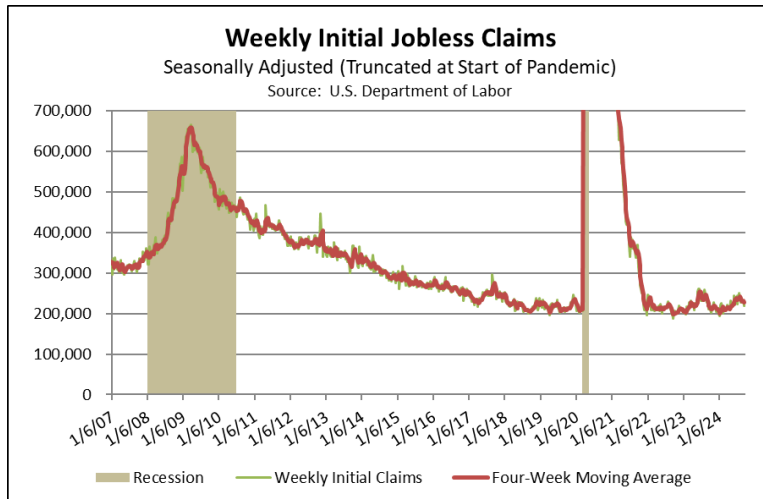


- The ECB must decide whether to prioritize containing inflation across the region or instead avoiding a severe economic downturn in Germany. Given Germany's economic weight and influence within the EU, a significant downturn could force the central bank to take more aggressive steps to ease monetary policy. The effectiveness of these measures in combating inflation will depend on whether wage pressures, a major contributor to services inflation, show signs of easing. If worker pay were to accelerate, it would likely put upward pressure on inflation and this could weigh on the euro.

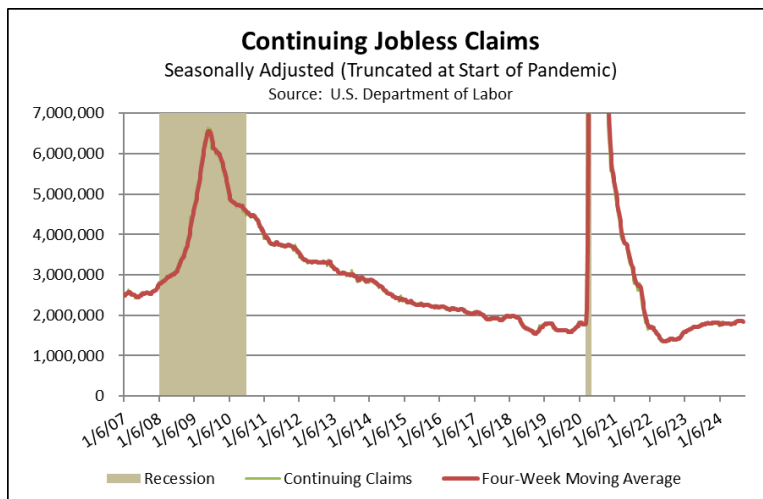
In Other News: Republican House Majority Leader Mike Johnson [failed to push through a stopgap funding bill on Wednesday](#), raising the risk of a government shutdown. The Teamsters union [announced it will not endorse any candidate in the upcoming election](#), signaling labor's potential shift toward the populist wing of the Republican Party. Meanwhile, [Taiwan expressed concerns that China's increasing military activities](#) are making it harder to detect signs of a possible invasion. The [Bank of England decided to keep its rates unchanged at 5.0%](#) for this month but signaled a willingness to ease policy gradually.

US Economic Releases

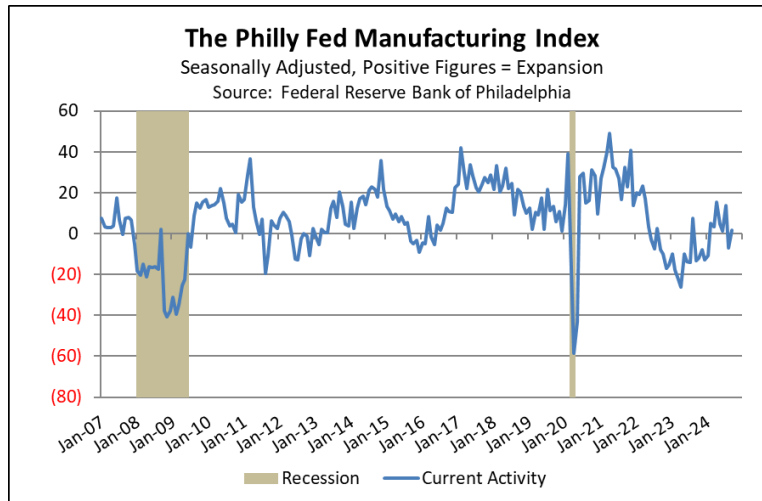
In the week ended September 14, *initial claims for unemployment benefits* fell to a seasonally adjusted 219,000, well below both the expected level of 230,000 and the prior week's revised level of 231,000. The four-week moving average of initial claims, which helps smooth out some of the volatility in the series, fell sharply to a three-month low of 227,500. Taken together, the figures suggest labor demand could be rising again after a soft spot during the summer. 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.



In the week ended September 7, the number of *continuing claims for unemployment benefits* (people continuing to draw benefits) fell to a seasonally adjusted 1.829 million, below the anticipated reading of 1.850 million and the previous week’s revised reading of 1.843 million. The four-week moving average of continuing claims fell to 1,844,250, reaching its lowest level since late June and further suggesting the labor market may be tightening again. 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.



Separately, the Philadelphia FRB said its September *Philly Fed Index* rose to a seasonally adjusted 1.7, beating the expected reading of 0.0 and marking a big improvement over the August reading of -7.0. The index, officially designated as the Philadelphia FRB Manufacturing Activity Index, is designed so that positive readings point to expanding factory activity in the mid-Atlantic region. At its current level, the index suggests mid-Atlantic manufacturing is growing slightly again after retrenching in August. The chart below shows how the index has fluctuated since just before the GFC.



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	Leading Economic Indicators	m/m	Aug	-0.3%	-0.6%	***
10:00	Existing Home Sales	m/m	Aug	3.90m	3.95m	**
Federal Reserve						
No Fed speakers or events for the rest of today						

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	Tokyo Condominiums for Sale	y/y	Aug	-50.4%	-42.3%		*	Equity and bond neutral
Australia	Employment Change	m/m	Aug	47.5k	48.9k	26.0k	***	Equity and bond neutral
	Unemployment Rate	m/m	Aug	4.2%	4.2%	4.2%	***	Equity and bond neutral
	Participation Rate	m/m	Aug	67.1%	67.1%	67.1%	**	Equity and bond neutral
New Zealand	GDP	y/y	2Q	-0.5%	0.5%	-0.6%	***	Equity and bond neutral
EUROPE								
Eurozone	EU27 New Car Registrations	y/y	Aug	-18.3%	0.2%		***	Equity and bond neutral
Eurozone	ECB Current Account SA	m/m	Jul	39.6b	50.5b		**	Equity and bond neutral
Italy	Current Account Balance	m/m	Jul	5371m	4885m		*	Equity and bond neutral
Switzerland	Real Exports	m/m	Aug	--	-1.8%		*	Equity and bond neutral
	Real Imports	m/m	Aug	-0.2%	-1.5%		*	Equity and bond neutral
Russia	PPI	y/y	Aug	10.2%	13.7%		***	Equity and bond neutral
AMERICAS								
Canada	Int'l Securities Transactions	m/m	Jul	10.98b	5.20b		**	Equity and bond neutral
Mexico	International Reserves Weekly	w/w	13-Sep	\$226109m	\$225427m		*	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)	508	512	-4	Down
3-mo T-bill yield (bps)	463	464	-1	Down
U.S. Sibor/OIS spread (bps)	470	473	-3	Down
U.S. Libor/OIS spread (bps)	467	469	-2	Down
10-yr T-note (%)	3.71	3.70	0.01	Up
Euribor/OIS spread (bps)	346	348	-2	Down
Currencies	Direction			
Dollar	Flat			Down
Euro	Up			Up
Yen	Down			Up
Pound	Up			Up
Franc	Down			Up
Central Bank Action	Current	Prior	Expected	
FOMC Rate Decision (Lower Bound)	4.750%	5.250%	5.000%	Below Forecast
FOMC Rate Decision (Upper Bound)	5.000%	5.500%	5.250%	Below Forecast
Bank of England Bank Rate	5.000%	5.000%	5.000%	On Forecast
Brazil Selic Rate	10.750%	10.500%	10.750%	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	\$74.31	\$73.65	0.90%	
WTI	\$71.50	\$70.91	0.83%	
Natural Gas	\$2.27	\$2.28	-0.70%	
12-mo strip crack	\$19.02	\$18.95	0.34%	
Ethanol rack	\$1.86	\$1.86	-0.02%	
Metals				
Gold	\$2,589.79	\$2,558.91	1.21%	
Silver	\$31.21	\$30.08	3.74%	
Copper contract	\$435.75	\$429.90	1.36%	
Grains				
Corn contract	\$409.75	\$412.75	-0.73%	
Wheat contract	\$567.50	\$575.75	-1.43%	
Soybeans contract	\$1,008.00	\$1,014.00	-0.59%	
Shipping				
Baltic Dry Freight	1,890	1,901	-11	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)	-1.63	-0.10	-1.53	
Gasoline (mb)	0.07	1.00	-0.93	
Distillates (mb)	0.13	1.00	-0.88	
Refinery run rates (%)	-0.7%	-1.1%	0.4%	
Natural gas (bcf)		54		

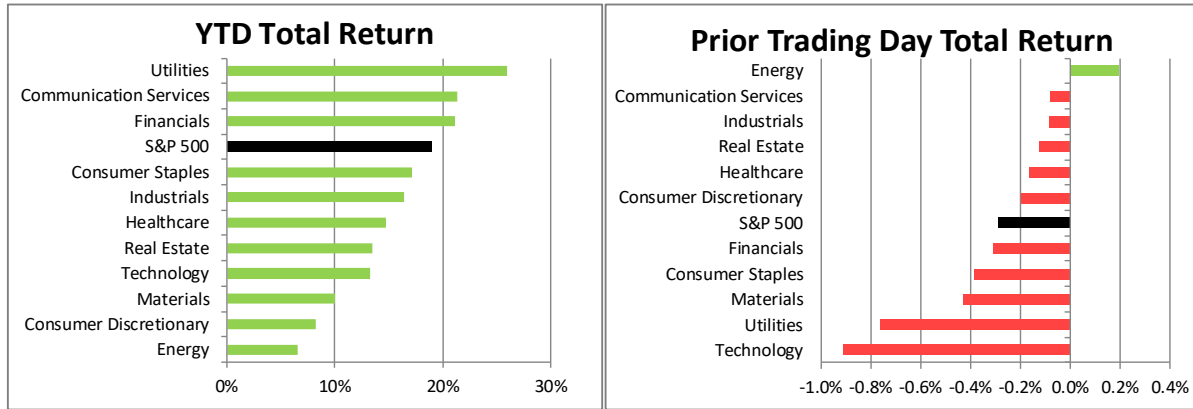
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures across the entire country except for the East Coast, where temperatures are expected to be near normal. The forecasts call for wetter-than-normal conditions in the Deep South and Mid-Atlantic states, with dry conditions throughout the Far West and the Great Plains.

There are now two atmospheric disturbances in the central Atlantic Ocean, but both are assessed to have only a small chance of cyclonic formation within the next 48 hours.

Data Section

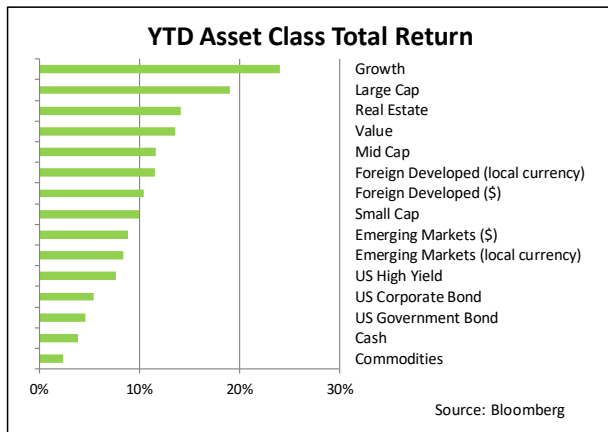
US Equity Markets – (as of 9/18/2024 close)



(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 9/18/2024 close)

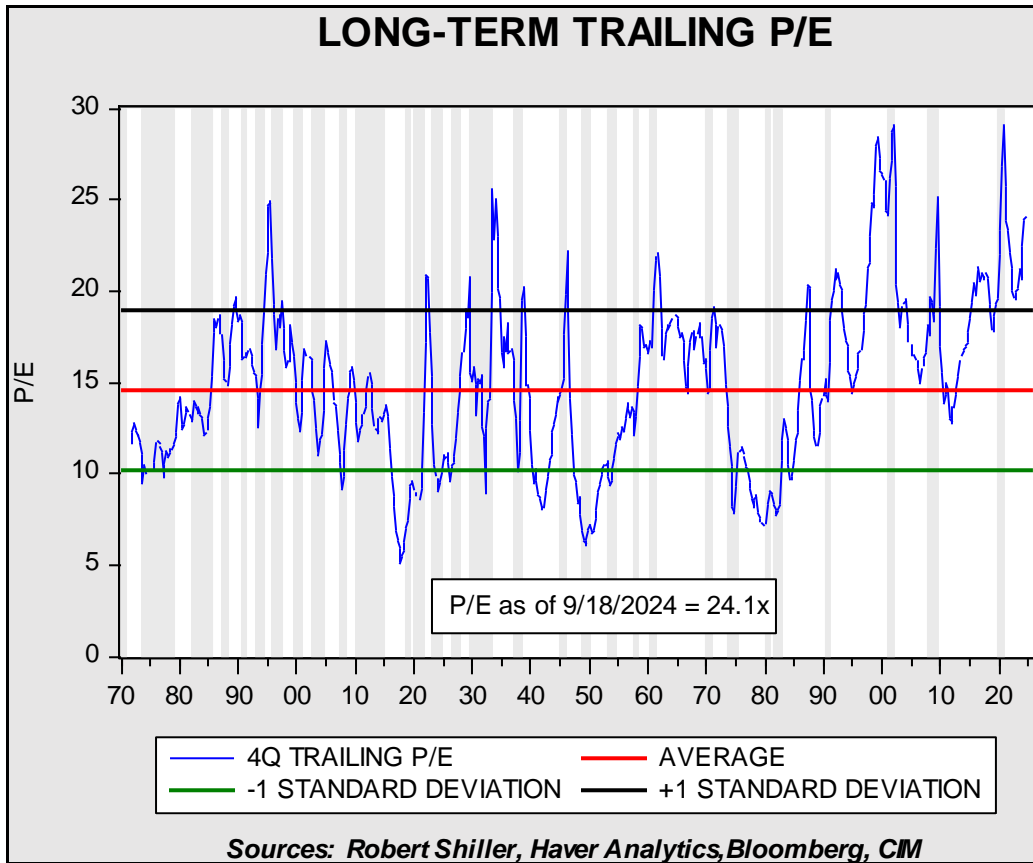


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 19, 2024



Based on our methodology,¹ the current P/E is 24.1x, unchanged from our last report. Both the stock price index and 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.