

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 30, 2024 — 9:30 AM ET] Global equity markets are generally lower this morning. In Europe, the Euro Stoxx 50 is down 1.1% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.7%. Chinese markets were higher, with the Shanghai Composite up 8.1% from its previous close and the Shenzhen Composite up 10.9%. 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)
- [Business Cycle Report](#) (9/26/2024)

Our *Comment* today opens with a note on the enormous jump in Chinese stock prices today. We next review several other international and US developments with the potential to affect the financial markets today, including some observations on Japan’s new prime minister and a preview of the likely longshoremen’s strike that is expected to shut down major US ports along the East Coast and Gulf Coast starting at midnight tonight.

China: Chinese officials [unleashed more economic stimulus measures over the weekend, including eased home-purchase rules in major cities](#). Coupled with the slew of interest-rate cuts, stock market support, and other measures discussed in several of our *Comment* publications last week, today’s announcements helped spark a flurry of Chinese stock buying. Chinese stock indexes posted their biggest daily gain since 2008, bringing their rise in September to 17% and putting them in a bull market despite lingering questions about the measures’ effectiveness.

China-Philippines: Even though Beijing has said that it lifted a moratorium on fishing around the Scarborough Shoal in the South China Sea, Philippine fishermen [say numerous Chinese coast guard vessels are keeping them out of the area, to the detriment of their livelihoods](#). Beijing has long implemented seasonal moratoria in the disputed waters, ostensibly to protect fish stocks, but it hasn't strongly enforced them. The more aggressive tack now suggests China is ratcheting up its effort to seize control over the waters it claims in the area.

Japan: Over the weekends, former Defense Minister Shigeru Ishiba, who won the presidency of the ruling Liberal Democratic Party on Friday and will be made prime minister in a Diet vote on Tuesday, [took steps toward fleshing out his cabinet and policy agenda](#). So far, it appears Ishiba's cabinet will be stacked reassuringly with political veterans. For example, another former defense minister, Takeshi Iwaya, is expected to be named foreign minister, and former Chief Cabinet Secretary Katsunobu Katō is set to be named finance minister. Expected policy moves include:

- **Foreign Affairs and National Defense.** Ishiba has shown a keen awareness of the rising security threats from China and its geopolitical bloc, including Russia and North Korea. He has therefore [advocated forming an "Asian NATO"](#) with strong mutual defense treaties between Japan and its key regional allies. Ishiba has also called for making Japan a more equal partner in the US-Japan defense treaty, perhaps by giving Japan more responsibility to help defend the US in return for more access to US military bases.
- **Economic Policy.** Before winning the LDP presidency, Ishiba suggested that he supports the Bank of Japan's campaign to hike interest rates. He also called for higher corporate taxes to fund measures helping consumers hurt by high price inflation. News of his win, therefore, put strong upward pressure on the yen (JPY) and downward pressure on Japanese stocks. Ishiba yesterday tried to reverse the damage, [saying the BOJ should keep policy accommodative](#) for now, but Japanese stocks still fell 4.8% today.
- **Electoral Calendar.** Ishiba today said he [wants to hold new parliamentary elections on October 27 in order to have a popular mandate for his policies](#). That suggests Japan could go through a nearly one-month period of policy stagnation, political uncertainty, and volatile markets.

Israel-Hezbollah: After Israel's massive airstrike against the Hezbollah leadership in Beirut on Friday, the militant Islamist group [confirmed on Saturday that its leader for the last three decades, Hassan Nasrallah, had been killed](#), along with a high-ranking Iranian military officer who had been advising him. Although Israel's big offensive over the last two weeks has certainly weakened Hezbollah, there is a risk that its remaining leaders and their backers in Tehran will try to retaliate in force, potentially sparking a destabilizing regional war.

- Notably, however, Iranian Supreme Leader Ali Khamenei [suggested over the weekend that any retaliation would have to come from Hezbollah itself](#), with Iran merely playing a supportive role.
- The apparent Iranian reluctance to get more deeply involved is probably a key reason why the Israelis are now attacking Hezbollah so aggressively. All the same, it's not

entirely clear that Iran will continue to hold its fire, so we assess that the situation remains risky.

United Kingdom: The government [has reportedly bought a faltering semiconductor fabrication facility in northern England to ensure that the British military continues to have access](#) to its specialized computer chips. The purchase illustrates how Western governments are starting to think more creatively about how to ensure a secure, domestic supply of critical military goods.

- The purchase is also reminiscent to how the US mobilized its defense industry during World War II. Many people see that mobilization largely as a patriotic surge by private firms, but it was actually the US government that paid for and owned most of new defense production facilities built during the war. Private firms like General Motors then used the facilities to produce defense goods, generally being paid on a cost-plus-fixed-fee basis and receiving a \$1 purchase option on the facilities when the war ended.
- Many Western defense industry firms have been slow to boost output despite the current rise in demand as geopolitical tensions worsen. Reports suggest that in many cases, that's because defense firms fear investing in new facilities only to find that peace breaks out and they're left holding the bag financially. Direct government investment in new or existing factories could become more prevalent because it can help alleviate that risk.

Austria: In parliamentary elections yesterday, the far-right Freedom Party [came in first with about 29% of ballots cast, while the center-right ÖVP, which governs in coalition with the Greens, secured about 26%](#). The center-left Social Democrats took about 21%. The question now is which parties can stitch together a ruling coalition, since the ÖVP has signaled it is only interested in joining a centrist coalition.

US Monetary Policy: In a Friday interview with the *Financial Times*, St. Louis FRB President Musalem [said the Federal Reserve should now revert to “gradually” easing monetary policy](#) after its big 50-basis point cut in early September. Since Musalem will be on the Fed's policy-setting committee in 2025, the statement suggests the central bank may cut interest rates more slowly in the coming year compared with its initial cut this month. In other words, despite the jumbo cut in early September, the Fed could still keep rates “higher for longer” in 2025.

US Shipping Industry: The US [is now just one day away from a potential major strike at its East Coast and Gulf Coast ports](#). If the US Maritime Alliance, which represents carriers and marine terminal operators, and the International Longshoremen's Association can't agree on a new contract before the current one expires today, the resulting work stoppage would affect about 41% of the country's containerized shipping volume. Key issues in the dispute center on dockworker pay and the use of automation at the ports.

US Nuclear Energy Industry: The Department of Energy today [announced it has approved a \\$1.5-billion loan to help reopen the Holtec Palisades nuclear generating plant in Michigan](#). The plant would be the first mothballed nuclear facility to be brought back online. Coming just days after Constellation Energy and Microsoft agreed to a deal that will restart a Three Mile Island

reactor in Pennsylvania, the Palisades loan illustrates the burgeoning interest in developing new nuclear power as US electricity demand rises.

US Economic Releases

There were no domestic releases prior to the publication of this report. The following table lists the economic releases or Fed events scheduled for the rest of the day.

Economic Releases						
ET	Indicator			Expected	Prior	Rating
9:45	MNI Chicago PMI	m/m	Sep	46.0	46.1	***
10:30	Dallas Fed Manufacturing Activity	m/m	Sep	-10.0	-9.7	**
Federal Reserve						
ET	Speaker or Event	District or Position				
8:50	Michelle Bowman Speaks on Economic Outlook, Policy	Member of the Board of Governors				
13:55	Jerome Powell Speaks at NABE	Chairman 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	Industrial Production	y/y	Aug P	-4.9%	2.9%	-1.5%	***	Equity bearish, bond bearish
	Retail Sales	y/y	Aug	2.8%	2.7%	2.6%	**	Equity and bond neutral
	Depart. Store & Supermarket Sales	y/y	Aug	4.4%	1.1%		*	Equity bullish, bond bearish
	Housing Starts	y/y	Aug	-5.1%	-0.2%	-3.5%	**	Equity bearish, bond bearish
Australia	Private Sector Credit	y/y	Aug	5.7%	5.7%		**	Equity and bond neutral
New Zealand	ANZ Activity Outlook	m/m	Sep	45.3	37.1		*	Equity and bond neutral
	ANZ Business Confidence	m/m	Sep	60.9	50.6		**	Equity bullish, bond bearish
South Korea	Industrial Production	y/y	Aug	3.8%	5.5%	1.9%	***	Equity bullish, bond bearish
China	Official Composite PMI	m/m	Sep	50.4	50.1		*	Equity and bond neutral
	Official Manufacturing PMI	m/m	Sep	49.8	49.1	49.4	***	Equity and bond neutral
	Official Services PMI	m/m	Sep	50.0	50.3	50.4	**	Equity and bond neutral
	Caixin Composite PMI	m/m	Sep	50.3	51.2		**	Equity and bond neutral
	Caixin Manufacturing PMI	m/m	Sep	49.3	50.4	50.5	***	Equity bearish, bond bullish
	Caixin Services PMI	m/m	Sep	50.3	51.6	51.6	**	Equity and bond neutral
	BoP Current Account	q/q	2Q F	\$54.5b	\$54.9b		**	Equity and bond neutral
India	BoP Current Account	q/q	2Q	-\$9.7b	\$5.7b	-\$10.1b	*	Equity and bond neutral
EUROPE								
Germany	Import Price Index	y/y	Aug	0.2%	0.9%	0.0%	**	Equity bearish, bond bullish
	CPI	y/y	Sep P	1.6%	1.9%	1.7%	***	Equity bearish, bond bullish
	CPI, EU Harmonized	y/y	Sep P	1.8%	2.0%	1.8%	**	Equity and bond neutral
Italy	CPI, EU Harmonized	y/y	Sep P	1.2%	1.2%	0.9%	***	Equity and bond neutral
	CPI NIC Including Tobacco	y/y	Sep P	0.7%	1.1%	0.7%	**	Equity and bond neutral
UK	Nationwide House Price Index	y/y	Sep	3.2%	2.4%	2.7%	***	Equity and bond neutral
	Current Account Balance	q/q	2Q	-28.4b	-21.0b	-33.0b	***	Equity bearish, bond bullish
	GDP	q/q	2Q F	0.7%	0.9%	0.9%	***	Equity and bond neutral
	Exports	q/q	2Q F	-0.3%	0.8%	0.8%	*	Equity and bond neutral
	Imports	q/q	2Q F	6.3%	7.7%	7.7%	*	Equity and bond neutral
	Total Business Investment	y/y	2Q F	0.2%	-1.1%	-1.1%	*	Equity bullish, bond bearish
	Net Lending Sec. on Dwellings	m/m	Aug	2.9b	2.8b	2.8b	*	Equity and bond neutral
Switzerland	Mortgage Approvals	m/m	Aug	64.9k	62.0k	63.9k	***	Equity and bond neutral
	M4 Money Supply	y/y	Aug	1.7%	2.1%		*	Equity and bond neutral
	KOF Leading Indicator	m/m	Sep	105.5	101.6	101.0	**	Equity bullish, bond bearish
	Domestic Sight Deposits CHF	w/w	27-Sep	463.6b	457.2b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	27-Sep	472.2b	465.3b		*	Equity and bond neutral
AMERICAS								
Canada	GDP	y/y	Jul	1.5%	1.3%	1.4%	**	Equity and bond neutral
Brazil	Formal Job Creation	m/m	Aug	232513	190619	237500	**	Equity and bond neutral
	Primary Budget Balance	y/y	Aug	-21.4b	-21.3b	-21.0b	*	Equity and bond neutral
	Net Debt % GDP	m/m	Aug	62.0%	61.9%	62.1%	**	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	487	-2	Down
3-mo T-bill yield (bps)	450	449	1	Down
U.S. Sibor/OIS spread (bps)	461	459	2	Down
U.S. Libor/OIS spread (bps)	458	456	2	Down
10-yr T-note (%)	3.78	3.75	0.03	Up
Euribor/OIS spread (bps)	333	335	-2	Down
Currencies	Direction			
Dollar	Flat			Down
Euro	Up			Up
Yen	Down			Up
Pound	Up			Up
Franc	Down			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	\$71.65	\$71.98	-0.46%	
WTI	\$68.19	\$68.18	0.01%	
Natural Gas	\$2.89	\$2.90	-0.48%	
12-mo strip crack	\$19.27	\$19.22	0.27%	
Ethanol rack	\$1.80	\$1.80	0.14%	
Metals				
Gold	\$2,636.20	\$2,658.24	-0.83%	
Silver	\$31.21	\$31.57	-1.15%	
Copper contract	\$457.75	\$459.95	-0.48%	
Grains				
Corn contract	\$417.50	\$418.00	-0.12%	
Wheat contract	\$584.00	\$580.00	0.69%	
Soybeans contract	\$1,058.75	\$1,065.75	-0.66%	
Shipping				
Baltic Dry Freight	2,110	2,091	19	

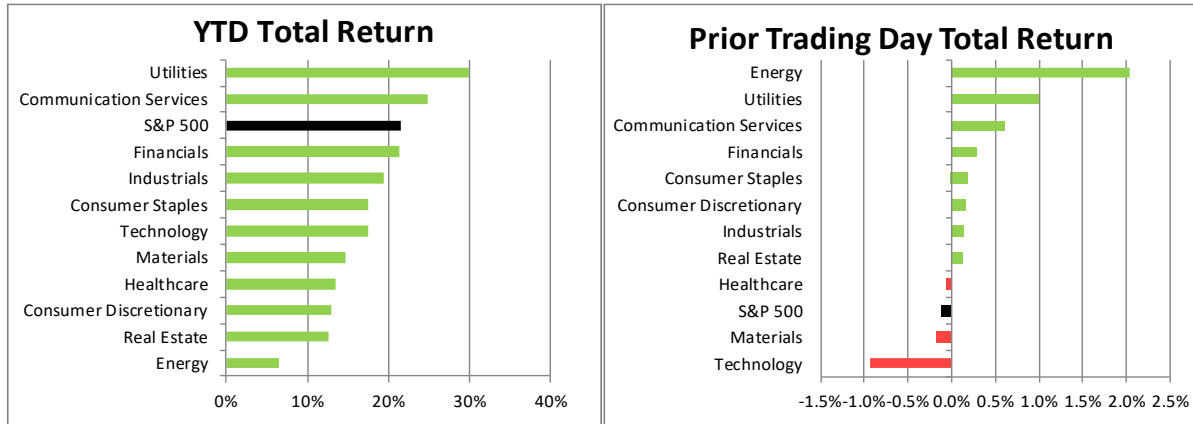
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures across the entire country, with near-to-cool temperatures in the Midwest. The forecasts call for wetter-than-normal conditions on the East Coast, with dry conditions for the rest of the country.

Five tropical disturbances are currently forming in the Atlantic Ocean. Of these, only one is anticipated to make landfall. Deep in the central Atlantic, Tropical Depressions Joyce and Twelve are expected to dissipate within the next two days. Tropical Storm Isaac has moved farther northeast. The remaining two disturbances are unlikely to develop into tropical cyclones within the next 48 hours. However, one of these disturbances is expected to strengthen as it approaches the coast of Nicaragua.

Data Section

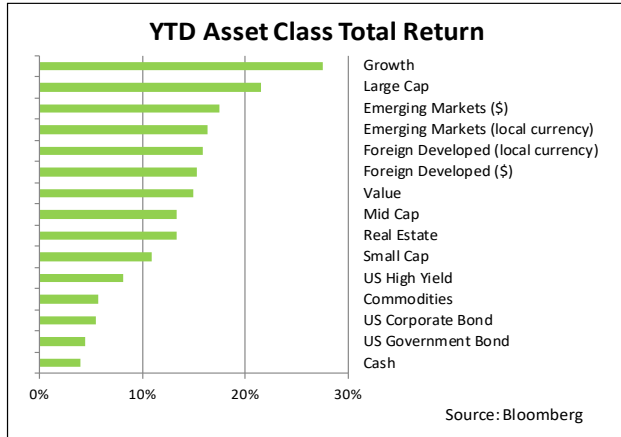
US Equity Markets – (as of 9/27/2024 close)



(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 9/27/2024 close)

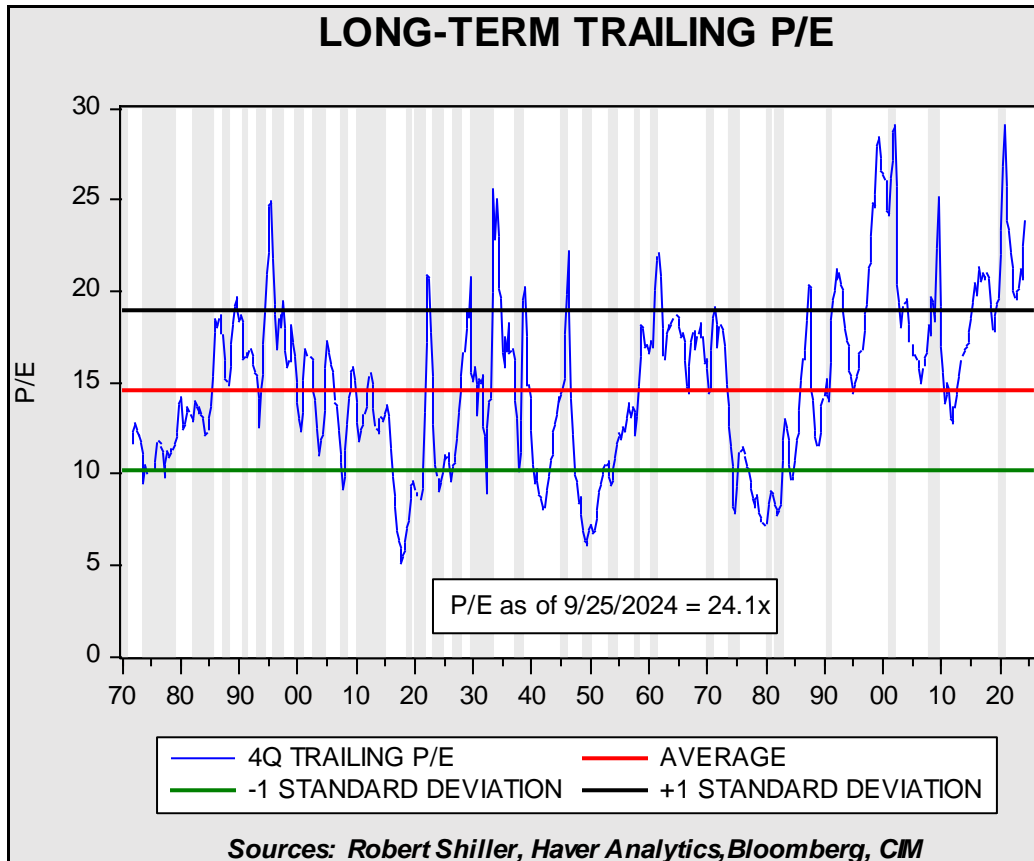


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 26, 2024



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