



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

[Posted: December 9, 2024 — 9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 closed up 0.2% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 1.0%. Chinese markets were lower, with the Shanghai Composite down 0.1% from its previous close and the Shenzhen Composite down 0.4%. 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 in bold:

Bi-Weekly Geopolitical Report	Asset Allocation Bi-Weekly	Asset Allocation Quarterly	Of Note
<u>Implications of North Korean Soldiers in the Ukraine War</u> (11/18/24) + podcast	<u>Household Cash Levels and the S&P 500</u> (12/9/24) + podcast	<u>Q4 2024 Report</u> <u>Q4 2024 Rebalance Presentation</u>	<u>Business Cycle Report</u>

Our *Comment* today opens with positive news that China may adopt more economic stimulus, along with the negative news that it has also opened an antitrust probe against Nvidia. We next review several other international and US developments with the potential to affect the financial markets today, including the latest on South Korea’s political chaos, the fall of Syrian dictator Assad, and assurances by President-elect Trump that he won’t try to fire Federal Reserve Chair Powell.

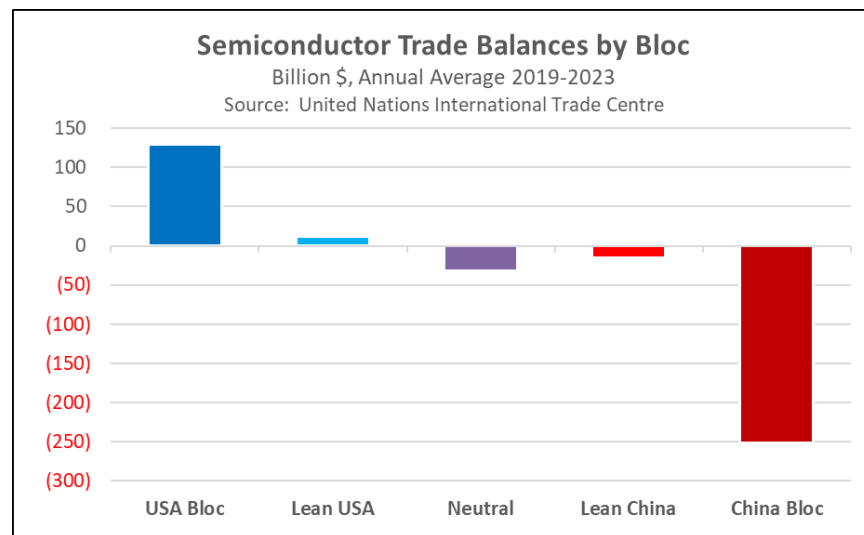
China: The Communist Party’s Politburo today [said China will adopt a “moderately loose” monetary policy and more proactive fiscal policy](#) to counter economic downturns. The statement is being interpreted to mean that policymakers at the annual legislative session in March will approve a bigger fiscal deficit and increased spending to boost domestic demand. At the party’s Central Economic Work Conference in a few days, policymakers will start to discuss their policy priorities and growth targets for 2025.

- Press reports say the language used in the Politburo statement is the most aggressive in years. As a result, some investors are hoping for a massive government spending program that will re-ignite fast growth and boost Chinese stock prices.

- All the same, General Secretary Xi and other top Communist leaders will likely remain ideologically opposed to anything like the consumer-led economies of the West, so there is a significant chance that any new stimulus program will be disappointing. It therefore seems much too early to think that China will again become the world’s economic growth engine that it once was.

China-United States: Chinese media today said the State Administration for Market Regulation [has opened an antitrust probe into US artificial-intelligence giant Nvidia](#). The regulator is also reviewing whether Nvidia met the commitments it made in its 2020 acquisition of Mellanox, an Israeli-American supplier of networking products. Meanwhile, four Chinese government-backed industry associations representing big semiconductor buyers issued a statement calling for firms to rethink their purchases of US computer chips, which they called “no longer safe or reliable.”

- As the US and its allies keep trying to crimp China’s military development by cutting off the country’s access to advanced US chips and related technology, the new Chinese actions suggest Beijing will push back by cutting US chipmakers out of the big, lucrative Chinese market.
- At one level, the US and allied strategy of blocking Chinese access to Western chips makes sense, as China and its bloc are heavily dependent on semiconductors from the US bloc. However, the flipside is that US and allied chipmakers derive lots of income from selling to China. The Chinese actions, therefore, will be threatening to big US technology firms. In response, stock prices for Nvidia and some other big US chipmakers are down sharply so far today.



South Korea: Parliament on Saturday [failed to impeach President Yoon for his aborted effort to impose martial law last week](#), but the vote failed only because most of Yoon’s conservative People Power Party (PPP) lawmakers boycotted it and prevented a quorum. The PPP is now looking for a way to ease Yoon out of office without giving up power to opposition parties. That effort has angered South Korean voters, most of whom reportedly support impeachment.

- It remains to be seen whether the PPP can hold on to power. Prosecutors [have reportedly opened a criminal probe into Yoon's declaration](#), and [they have already arrested former Defense Minister Kim Yong Hyun for advising Yoon to make it](#).
- South Korea is a key US ally in the Indo-Pacific region, so anything that weakens or distracts its military could conceivably tempt China, Russia, or North Korea to try to take advantage of the situation. As it turns out, South Korean military officers are reportedly livid at being drawn into politics and unsure about the chain of command now that the defense minister's post is vacant.
- We therefore expect South Korea to face weeks or more of political instability. That, in turn, is likely to weigh on the country's economy and financial markets. So far this morning, for example, the Korean won (KRW) is 0.4% weaker, trading at 1,431.98 per dollar (\$0.0007).

India: The government today said Shaktikanta Das, head of the Reserve Bank of India, [has been replaced by Revenue Secretary Sanjay Malhotra, who will serve a three-year term](#). The move comes after a period in which Das was seen as cutting interest rates too slowly, contributing to a slowdown in Indian economic growth. The move also could reflect political interference in India's monetary policy by Prime Minister Modi.

Syria: Little more than a week after launching their surprise offensive, the rebels who have been battling the Assad government for 13 years [swept into Damascus over the weekend and forced the dictator to flee](#). The rebels have reportedly taken over state television and are preparing to take control over eastern Syria as well. Assad's prime minister, who remained in Damascus, has vowed to cooperate with the rebels to hand the government over to them.

- The rebels say they will set up a broad governing council to help transition to a new government, but a key risk now is that the rebels may start fighting among themselves, leading to continued instability.
- The strongest rebel group is Hayat Tahrir al-Sham (HTS), a globally designated terrorist group that was formerly an affiliate of al-Qaeda. That means Syria could end up as a fundamentalist Islamic state hostile to Israel, Saudi Arabia, and other key regional governments.
- In any case, the collapse of the Assad government is a stain on its key allies, Russia and Iran. Their unwillingness or inability to help Assad fend off the rebel offensive likely reflects the distractions and resource constraints they face because of their ongoing wars in Ukraine and Lebanon.
- Finally, the quick resolution to the war may preclude the chance of another major wave of destabilizing refugee flows to other regional countries or Europe. If peace really does come to Syria, leaders throughout Europe are likely to breathe a sigh of relief.

Germany: With the February elections looming, the leader of the leftist Greens [has suggested a "green-black" coalition with the center-right Christian Democratic Union \(CDU\) and its partners](#)

to keep the surging far-right Alternative for Germany (AfD) party from forming a government. However, while the CDU and the Greens already govern together in some regions, national CDU leaders say they wouldn't form a coalition with the Greens because they see the party as being responsible for Germany's current economic stagnation.

Romania: The Constitutional Court on Friday [annulled the first-round presidential election held on November 24 due to concerns that it was tainted by a Russian influence campaign](#). As a result, the second round of voting scheduled for Sunday was postponed. Rescheduling the votes is now in limbo until a new government is formed. The winner of the annulled first round, pro-Russia nationalist Călin Georgescu, [has urged his supporters to rally around closed polling stations](#), raising the risk of mass protests that could destabilize the country.

- Western intelligence agencies and criminal investigators had turned up evidence of Russian election interference in the US, the European Union, and other countries. The Russian tactics include creating large numbers of fake social media accounts and paying off influencers to artificially amplify support for their favored candidates.
- Romania has now become the first democracy to cancel a national election because of the Russian interference. One key problem is that the cancellation will likely feed further distrust of the government among social groups that were already pre-disposed to support Russia over Western governments.

US Monetary Policy: President-elect Trump on Sunday [said he would not try to fire Fed Chair Powell before his term expires in May 2026](#). The statement appears to be a firmer commitment to Powell after Trump said during the summer that he wouldn't push him out if he did "the right thing," presumably referring to cutting interest rates. Trump's new statement suggests he is satisfied with the Fed's recent rate cuts. That should help ease investor concerns about volatile changes in monetary policy under the new administration.

US Economic Releases

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

Economic Releases						
ET	Indicator			Expected	Prior	Rating
10:00	Wholesale Inventories	m/m	Oct F	0.2%	0.2%	**
10:00	Wholesale Trade Sales	m/m	Oct		0.3%	*
11:00	NY Fed 1-Yr Inflation Expectations	m/m	Nov		2.9%	*
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	GDP SA	q/q	3Q F	0.30%	0.20%	0.30%	***	Equity and bond neutral
	GDP Deflator	q/q	3Q F	2.40%	2.50%	2.50%	***	Equity and bond neutral
	BoP Current Account Balance	m/m	Oct	¥2456.9b	¥1717.1b	¥2347.1b	***	Equity and bond neutral
	BoP Trade Balance	m/m	Oct	-¥155.7b	-¥315.2b	-¥295.0b	**	Equity and bond neutral
China	PPI	y/y	Nov	-2.5%	-2.9%	-2.8%	**	Equity and bond neutral
	CPI	y/y	Nov	0.2%	0.3%	0.4%	**	Equity and bond neutral
EUROPE								
Switzerland	Domestic Sight Deposits CHF	w/w	6-Dec	450.5b	450.9b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	6-Dec	458.8b	459.0b		*	Equity and bond neutral
AMERICAS								
Canada	Net Change in Employment	m/m	Nov	50.5k	14.5k	25.0k	***	Equity and bond neutral
	Unemployment Rate	m/m	Nov	6.8%	6.8%	6.6%	***	Equity and bond neutral
Mexico	CPI	y/y	Mar	4.55%	4.76%	4.60%	***	Equity and bond neutral
	Core CPI	y/y	Mar	3.58%	3.80%	3.60%	**	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)	430	429	1	Down
U.S. Sibor/OIS spread (bps)	439	439	0	Down
U.S. Libor/OIS spread (bps)	437	438	-1	Down
10-yr T-note (%)	4.17	4.15	0.02	Down
Euribor/OIS spread (bps)	287	288	-1	Down
Currencies	3 Mo			
Dollar	Up	US		Down
Euro	Down	Euro		Up
Yen	Down	Japan		Up
Pound	Down	UK		Up
Franc	Down	Switzerland		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.

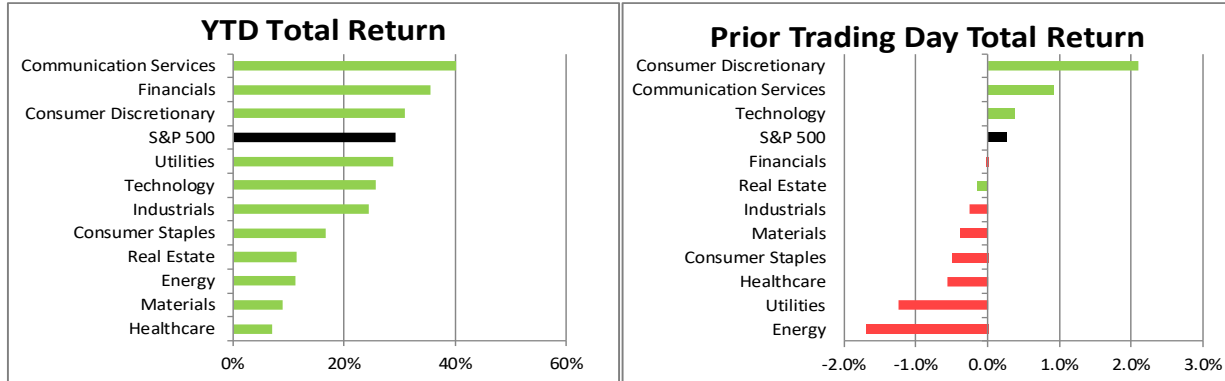
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$71.93	\$71.12	1.14%	
WTI	\$68.08	\$67.20	1.31%	
Natural Gas	\$3.20	\$3.08	4.13%	
Crack Spread	\$16.52	\$15.95	3.57%	
12-mo strip crack	\$19.76	\$19.38	1.97%	
Ethanol rack	\$1.76	\$1.76	0.04%	
Metals				
Gold	\$2,655.65	\$2,633.37	0.85%	
Silver	\$31.71	\$30.97	2.39%	
Copper contract	\$426.40	\$419.65	1.61%	
Grains				
Corn contract	\$440.00	\$440.00	0.00%	
Wheat contract	\$563.00	\$557.25	1.03%	
Soybeans contract	\$994.50	\$993.75	0.08%	
Shipping				
Baltic Dry Freight	1,167	1,160	7	

Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures throughout the entire country. The forecasts call for wetter-than-normal conditions in the Pacific Northwest, Midwest, and Texas, with dry conditions in the Southwest and Rocky Mountain regions.

Data Section

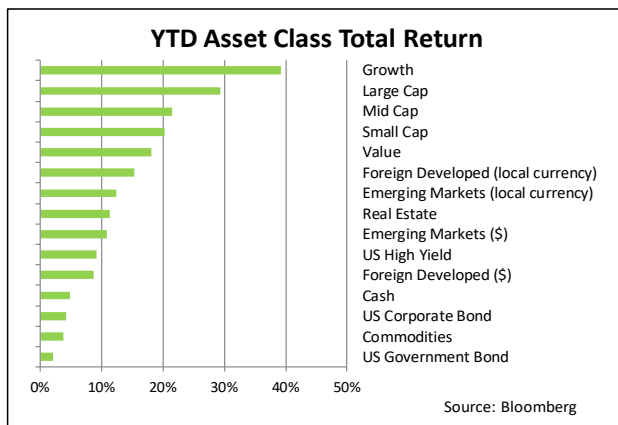
US Equity Markets – (as of 12/6/2024 close)



(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 12/6/2024 close)

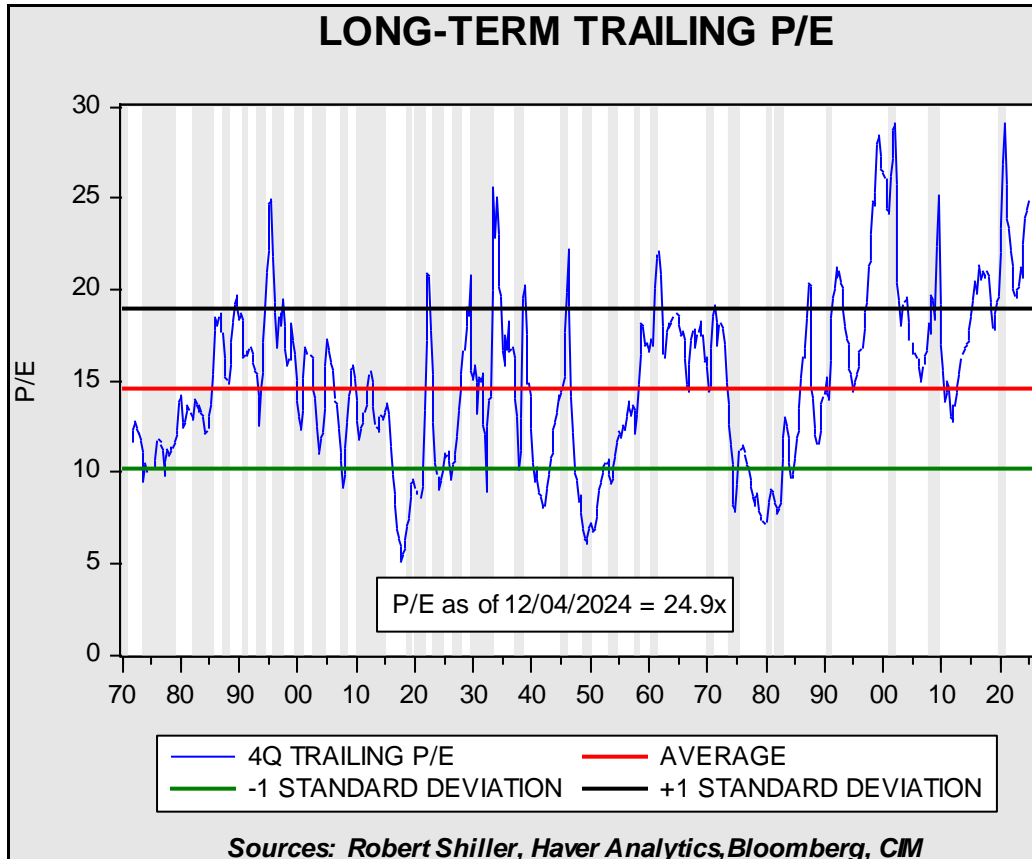


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

December 5, 2024



Based on our methodology,¹ the current P/E is 24.9x, up 0.3 from our last report. The increase in the multiple was driven by a decrease in earnings and a slight rise in the stock price index.

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.