

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 23, 2024 — 9:30 AM ET] Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 is up 0.2% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.2%. Chinese markets were higher, with the Shanghai Composite up 0.4% from its previous close and the Shenzhen Composite up 0.1%. 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”

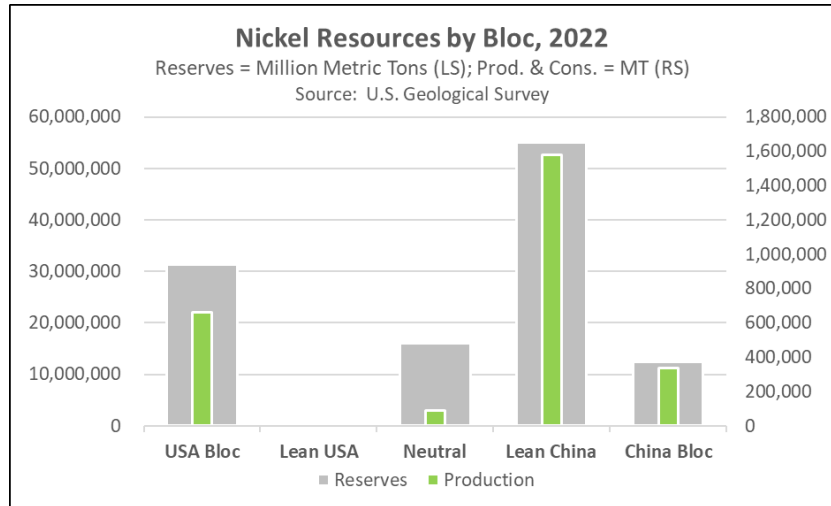
Our *Comment* today opens with news of a new Western alliance to help develop strategic mineral resources outside of China’s control. We next review several other international and US developments with the potential to affect the financial markets today, including a surprise win for the German ruling party in state elections yesterday and potential new US restrictions against automatic driving and vehicle communications technology from China and Russia.

Global Strategic Minerals Market: On the sidelines of the United Nations’ General Assembly in New York this week, the European Commission and 14 allied countries ranging from the US to Australia [will announce a new Minerals Security Partnership \(MSP\) to finance strategic mineral projects around the world](#). To reduce China’s near monopoly on the supply of many key minerals, MSP participants will direct their development finance and export credit agencies to work with private industry in support of projects such as a new nickel mine in Tanzania.

- Now that the US and rest of its bloc have come to perceive the military and economic threat from China over the last decade or so, they have increasingly imposed trade, capital, and technology restrictions against Beijing. As we have noted in the past, the

China bloc and the China-Leaning bloc will likely respond by weaponizing their chokehold on key minerals in the coming years.

- The US and allied governments recognize that threat and are working to reduce it. A key question for investors is whether those allied efforts will help shield Western companies from potential supply disruptions and/or create new opportunities in the basic materials or industrial sector.



United States-Japan-Australia-India: At the [“Quad” alliance summit over the weekend](#), the US, Japan, Australia, and India [approved a plan for joint coast guard patrols](#) in the Indo-Pacific region starting in early 2025. Under the plan, coast guard vessels from the Quad countries would be jointly manned by US, Japanese, Australian, and Indian personnel as they patrolled against illegal fishing in the region.

- Although the patrols would be ostensibly against illegal fishing, the focus almost certainly would be on Chinese vessels, which have been particularly aggressive and numerous in the Indo-Pacific fishing grounds.
- The joint crews are clearly meant to send a message to Beijing that if it continues its aggressive efforts to assert sovereignty over the region, it will have to deal with all four Quad members, rather than just one.
- The move, therefore, is likely to raise tensions with Beijing and lead to further decoupling between the US and Chinese blocs, with big risks for global investors.

United States-China-Russia: As early as today, the US Commerce Department is expected to [unveil new rules banning the use and testing of Chinese and Russian technology for automated driving or vehicle communications](#). The new restrictions aim to keep the Chinese and Russians from being able to track, spy on, or sabotage US drivers remotely — a concern heightened by Israel’s attack last week on Hezbollah militants using compromised pagers and walkie-talkies.

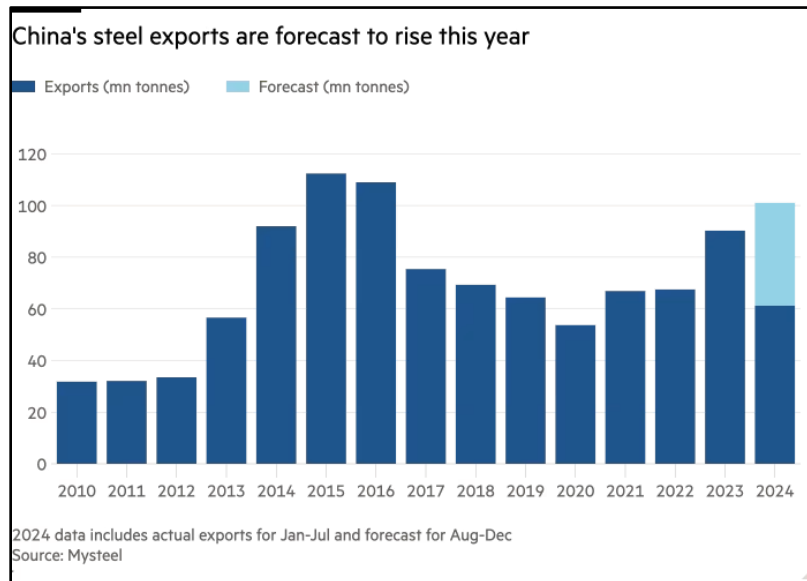
- The US and allied governments have long worried about China-bloc countries infiltrating internet-connected equipment, from port cranes to electrical-grid computers, to spy on the

West or be able to disable those systems in time of conflict. After the Israeli attack, it is now better understood that connected products, from cars and phones to refrigerators, can also be used for highly targeted kinetic attacks if their supply chains are compromised.

- In effect, Israel may have opened Pandora’s Box, which is now internet-connected. Having seen a successful kinetic attack using connected equipment whose supply chain was compromised, state and non-state actors around the world today are almost certainly exploring how they could do the same.
- In response, the US and other Western governments will impose even more restrictions on using connected goods or components from abroad. We suspect this will lead to further global fracturing as countries bring even more production back home or at least back to the friendly countries in their own geopolitical and economic bloc, despite the cost. As we have noted before, the result will be shortened, less efficient supply chains, higher and more volatile price inflation, and higher and more volatile interest rates.

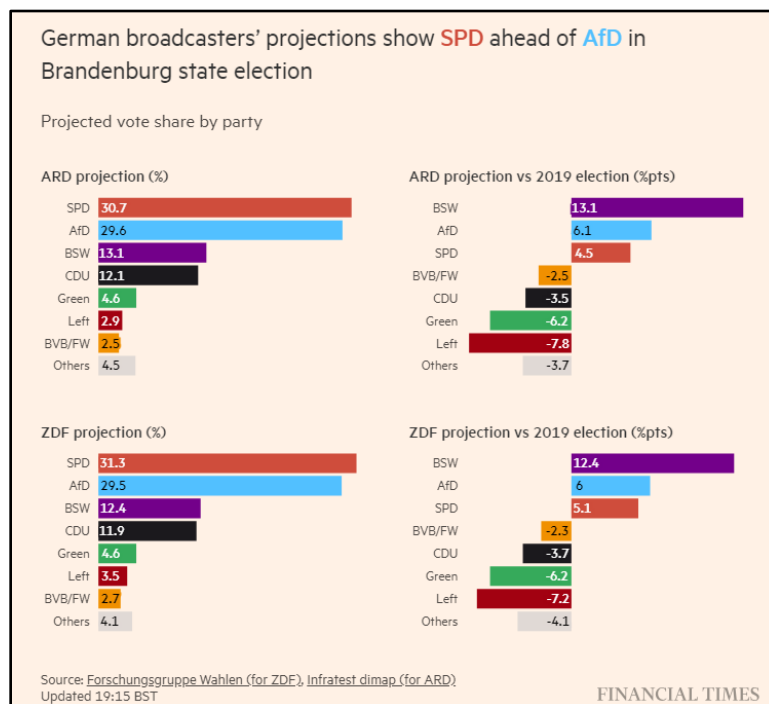
Israel-Hezbollah: Following Israel’s attacks on Hezbollah last week, the militants [dramatically increased their tempo of missile and drone strikes against Israel over the weekend](#). They also struck Israeli targets much farther to the south than they previously had and claimed the volley was only the beginning of a new phase. Israeli Prime Minister Netanyahu warned of even stronger attacks by Israel. In sum, there seems to be an increasing risk of a broader, more intense conflict in the region that could draw in the US and other regional powers and be highly destabilizing.

European Union-China: As the EU considers serious antidumping tariffs against the growing flood of Chinese electric vehicles, an EU industry group representing steelmakers [has appealed for protection against a growing wave of metal imports from China](#). If the appeal results in a new antidumping investigation by the EU or eventual tariffs, it would signal further EU-China trade tensions and increased risk of a trade war that could hurt companies on each side.



Eurozone-Italy-German: Italian lender UniCredit [said it has lifted its position in Germany's Commerzbank to 21%](#), up from the 9% that unsettled the German government when it was announced two weeks ago. UniCredit has also applied to the European Central Bank to increase its holding in Commerzbank to 29.9%. The moves signal that UniCredit may be prepping a hostile takeover, which, if successful, could spur a new round of bank consolidation in the eurozone.

Germany: In Brandenburg's state elections yesterday, the ruling center-left Social Democratic Party (SPD) [is on track to eke out a win](#), with a projected 31% of the ballots, just ahead of the right-wing populist Alternative for Germany (AfD) with 30%. The far-left BSW party appears to have jumped to 13% of the vote. If the SPD's win is ultimately confirmed, it would provide a reprieve for Chancellor Scholz and at least postpone new elections in the country.



Sri Lanka: In yesterday's general election, Marxist candidate Anura Kumara Dissanayake [won the presidency with about 42% of the vote, versus 33% for his closest rival](#). Dissanayake's win marks a major turnaround from his dismal showing in the 2019 election, partly reflecting the electorate's anger at traditional politicians who sparked an economic crisis in recent years. Going forward, however, the new president may have trouble pushing a fully leftist agenda, as he is required to name his cabinet from members of parliament, where his party has very few seats.

US Fiscal Policy: Republican and Democratic leaders in Congress yesterday [agreed to a stopgap spending bill to fund the federal government from the end of the current fiscal year next Monday to December 20](#). If passed into law as planned later this week, the deal would avert the risk of a

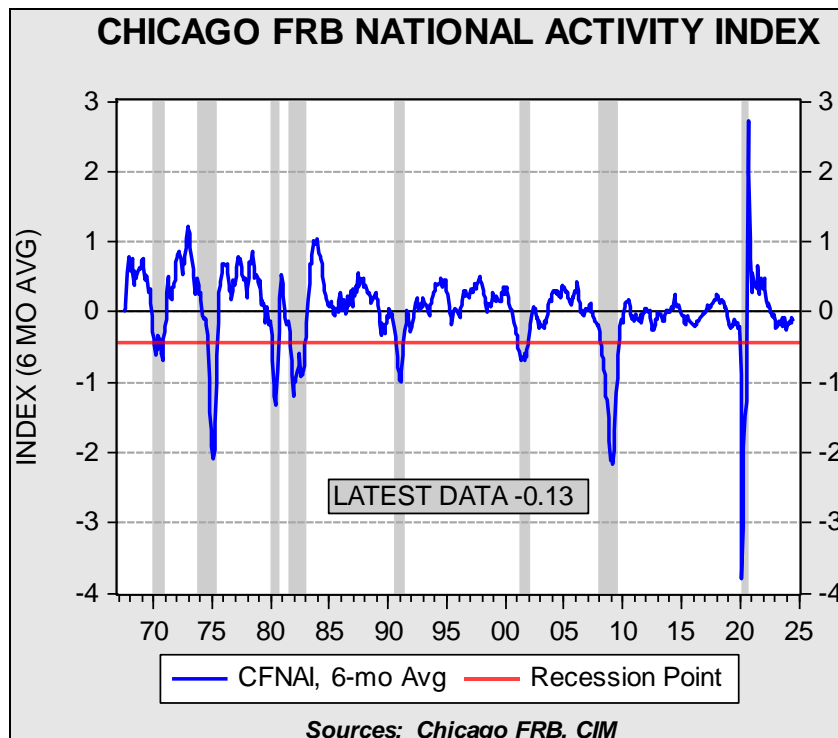
partial government shutdown right before the November election and give lawmakers more time to hash out spending plans for the remainder of Fiscal Year 2025.

US Nuclear Energy Industry: In a report Friday, Constellation Energy and Microsoft [reached a deal in which Constellation will invest \\$1.6 billion to bring its Three Mile Island nuclear plant back on-line](#) in return for Microsoft committing to a 20-year electricity purchase commitment to serve its artificial-intelligence efforts. The deal illustrates both the growing attractiveness of nuclear energy as a clean source of electricity and the rising electricity demands for AI.

- Those forces have already driven up electric utility stocks, and they could well continue doing so in the near term.
- After news of the deal, Constellation’s share price jumped 22.3% to close at \$254.98.

US Economic Releases

Economic activity picked up in August, according to an index tracked by the Federal Reserve Bank of Chicago. Its Chicago National Activity Index came in at +0.12, suggesting that the economy was expanding at above-trend growth. The reading was well above expectations of -0.60 and the previous report's reading of -0.34. While the overall index was positive, three of its four components — employment, sales, and personal consumption — contracted.



The chart above shows the six-month moving average of the Chicago National Activity Index. Last month, the moving average fell from -0.09 to -0.13.

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	S&P Global US Manufacturing PMI	m/m	Sep P	48.6	47.9	***
9:45	S&P Global US Services PMI	m/m	Sep P	55.2	55.7	***
9:45	S&P Global US Composite PMI	m/m	Sep P	54.3	54.6	***
Federal Reserve						
ET	Speaker or Event	District or Position				
8:00	Raphael Bostic Gives Speech on Economic Outlook	President of the Federal Reserve Bank of Atlanta				
8:10	Neel Kashkari on CNBC	President of the Federal Reserve Bank of Minneapolis				
10:15	Austan Goolsbee Speaks in Fireside Chat	President of the Federal Reserve Bank of Chicago				
13:00	Neel Kashkari Participates in Q&A on Childcare	President of the Federal Reserve Bank of Minneapolis				

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								
New Zealand	Trade Balance NZD	m/m	Aug	-2203m	-1016m		**	Equity and bond neutral
	Exports NZD	m/m	Aug	4.97b	609b		**	Equity and bond neutral
	Imports NZD	m/m	Aug	7.17b	7.10b		**	Equity and bond neutral
India	HSBC India PMI Mfg	m/m	Sep P	56.7	57.5		***	Equity and bond neutral
	HSBC India PMI Composite	m/m	Sep P	59.3	60.7		**	Equity and bond neutral
	HSBC India PMI Services	m/m	Sep P	58.9	60.9		**	Equity and bond neutral
EUROPE								
Eurozone	HCOB Eurozone Manufacturing PMI	m/m	Sep P	44.8	45.8	45.7	***	Equity and bond neutral
	HCOB Eurozone Services PMI	m/m	Sep P	50.5	52.9	52.3	**	Equity and bond neutral
	HCOB Eurozone Composite PMI	m/m	Sep P	48.9	51.0	50.5	*	Equity and bond neutral
	Consumer Confidence	m/m	Sep P	-12.9	-13.4	-13.2	**	Equity bullish, bond bearish
Germany	HCOB Germany Manufacturing PMI	m/m	Sep P	40.3	42.4	42.3	***	Equity and bond neutral
	HCOB Germany Services PMI	m/m	Sep P	50.6	51.2	51.0	**	Equity and bond neutral
	HCOB Germany Composite PMI	m/m	Sep P	47.2	48.4	48.2	**	Equity and bond neutral
France	HCOB France Manufacturing PMI	m/m	Sep P	44.0	43.9	44.2	***	Equity and bond neutral
	HCOB France Services PMI	m/m	Sep P	48.3	55.0	53.1	**	Equity bearish, bond bullish
	HCOB France Composite PMI	m/m	Sep P	47.4	53.1	51.5	**	Equity bearish, bond bullish
UK	S&P Global UK Manufacturing PMI	m/m	Sep P	51.5	52.5	52.2	***	Equity and bond neutral
	S&P Global UK Services PMI	m/m	Sep P	52.8	53.7	53.5	**	Equity and bond neutral
	S&P Global UK Composite PMI	m/m	Sep P	52.9	53.8	53.5	**	Equity and bond neutral
Switzerland	M3 Money Supply	y/y	Aug	1.1%	0.4%		**	Equity and bond neutral
	Domestic Sight Deposits CHF	w/w	20-Sep	457.2b	458.2b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	20-Sep	465.3b	466.8b		*	Equity and bond neutral
AMERICAS								
Canada	Retail Sales	m/m	Jul	0.9%	-0.3%	-0.2%	**	Equity bullish, bond bearish
	Retail Sales Ex-Autos	m/m	Jul	0.4%	0.3%	0.3%	**	Equity and bond neutral
	Industrial Product Price	m/m	Aug	-0.8%	0.0%	-0.1%	**	Equity bullish, bond bearish
	Raw Material Prices	m/m	Aug	-3.1%	0.7%	-2.2%	*	Equity bullish, bond bearish
Mexico	Retail Sales	y/y	Jul	-0.6%	-3.9%	-0.7%	***	Equity and bond neutral
	Economic Activity IGAE	y/y	Jul	3.78%	-0.60%	2.00%	**	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)	495	501	-6	Down
3-mo T-bill yield (bps)	456	455	1	Down
U.S. Sibor/OIS spread (bps)	466	467	-1	Down
U.S. Libor/OIS spread (bps)	463	464	-1	Down
10-yr T-note (%)	3.75	3.74	0.01	Up
Euribor/OIS spread (bps)	344	346	-2	Down
Currencies	Direction			
Dollar	Up			Down
Euro	Down			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	\$74.72	\$74.49	0.31%	
WTI	\$71.28	\$71.00	0.39%	
Natural Gas	\$2.49	\$2.43	2.10%	
12-mo strip crack	\$19.24	\$19.27	-0.13%	
Ethanol rack	\$1.78	\$1.79	-0.71%	
Metals				
Gold	\$2,623.04	\$2,621.88	0.04%	
Silver	\$30.72	\$31.18	-1.45%	
Copper contract	\$431.45	\$434.30	-0.66%	
Grains				
Corn contract	\$407.00	\$401.75	1.31%	
Wheat contract	\$578.00	\$568.50	1.67%	
Soybeans contract	\$1,024.50	\$1,012.00	1.24%	
Shipping				
Baltic Dry Freight	1,977	1,976	1	

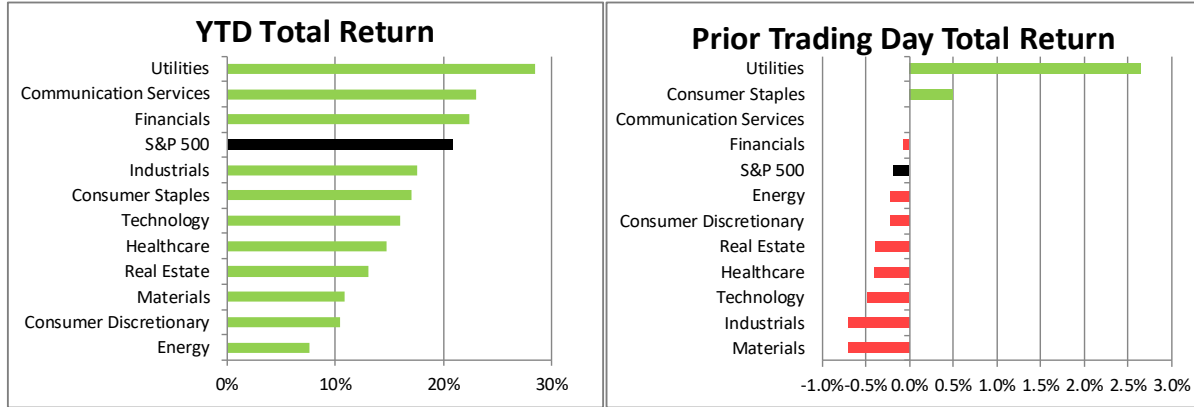
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures across the entire country. The forecasts call for wetter-than-normal conditions from the Mississippi River eastward, with dry conditions in the Far West and Great Plains.

There are now two atmospheric disturbances in the central Atlantic Ocean. One is located on the tip of the Yucatan peninsula and has a 40% chance of cyclone formation, while the other is off the coast of West Africa but only has a 20% chance.

Data Section

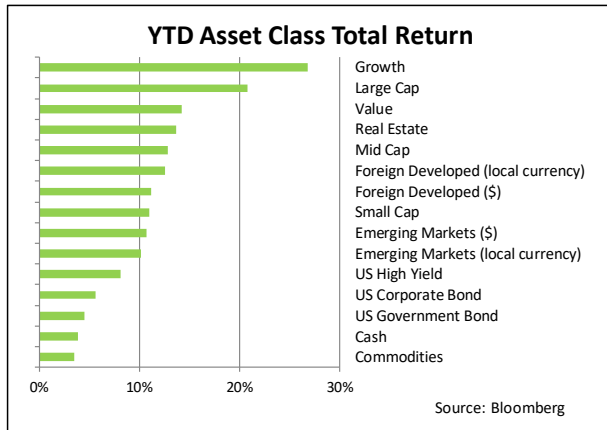
US Equity Markets – (as of 9/20/2024 close)



(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 9/20/2024 close)

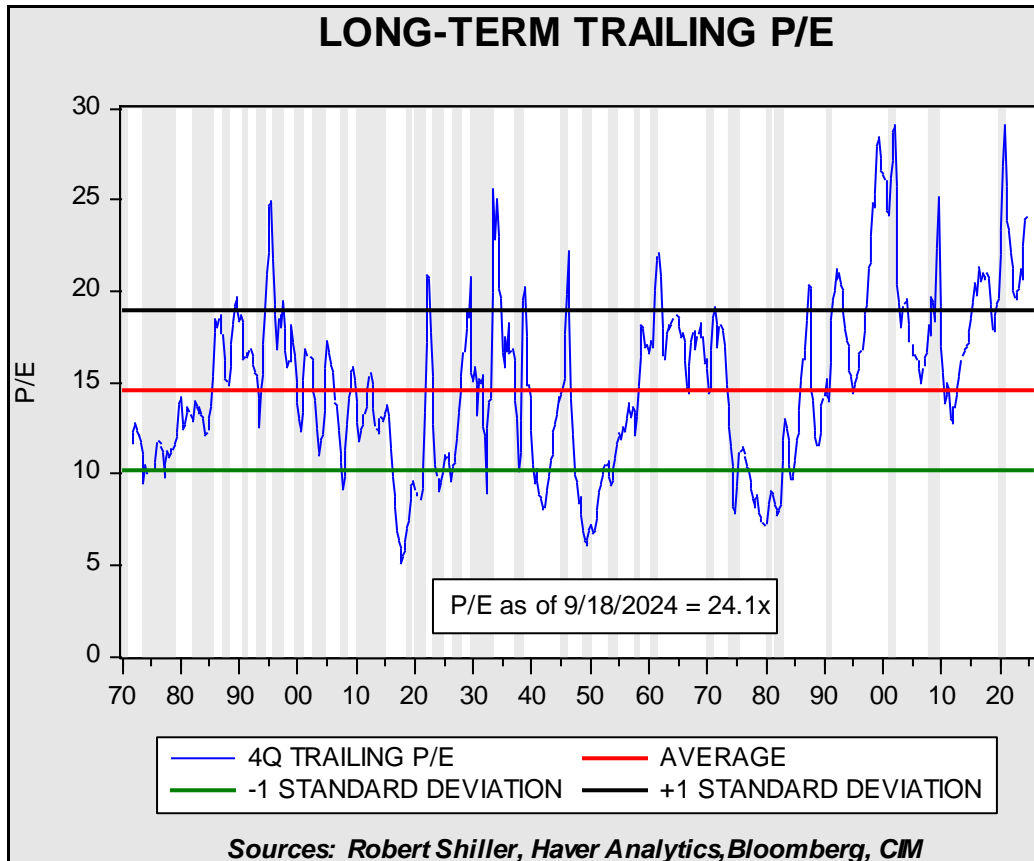


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.