

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 24, 2024 — 9:30 AM ET] Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 is up 1.1% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 2.1%. Chinese markets were higher, with the Shanghai Composite up 4.2% from its previous close and the Shenzhen Composite up 4.0%. 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](#) (9/23/2024) (with associated [podcast](#)): “Eight Megatrends Every Investor Should Know”**
- [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”
- **[Fixed Income Quarterly](#) (September 2024)**

Our *Comment* today opens with news of a new economic stimulus program in China, although economists are already panning it as insufficient to significantly boost growth. We next review several other international and US developments with the potential to affect the financial markets today, including signs of stable interest rates in Japan and Australia and an update on the threat of a major strike at the US’s East Coast and Gulf Coast ports in just one week.

Chinese Economy: In a new effort to boost flagging economic growth, the Chinese government today [unveiled a large package of stimulus measures](#). For example, the People’s Bank of China cut its benchmark interest rate and reduced bank reserve requirements to free up cash for lending. The central bank will also provide the equivalent of about \$70 billion to funds, brokers, and insurers to buy Chinese stocks, along with about \$40 billion to banks to finance stock buybacks by listed firms. For consumers, interest rates on existing mortgagees will be reduced.

- While today’s stimulus package is bigger than recent ones, economists so far are dubious that it will be enough to offset the strong structural impediments to growth in China, such

as weak consumer demand, poor demographics, and excess capacity and debt. The central government's crackdown on excessive housing investment and the poor state of provincial and local government finances are especially problematic.

- If the new measures fail to spur much growth, China's economic slowdown will continue to weigh on the global economy and geopolitics. For example, weak Chinese demand would weigh on imports and put additional downward pressure on many commodity prices. It would also incentivize Beijing to spur more factory investment and boost exports, leading to protectionist measures abroad and new trade tensions.
- All the same, the broad stimulus package and the stock-specific measures in particular have given a strong boost to Chinese stocks so far today.

Chinese Military: Illustrating China's rapid military buildup, Beijing this week [had three aircraft carriers underway simultaneously for the first time in history](#). The fully commissioned *Liaoning* and her battle group are operating east of the Philippines, while the *Shandong* and her battle group are in the South China Sea. Meanwhile, China's newest and most technologically advanced carrier, the *Fujian*, is on her fourth sea trial in the Yellow Sea. The only US carrier in the region, the *Theodore Roosevelt*, is operating east of the Philippines.

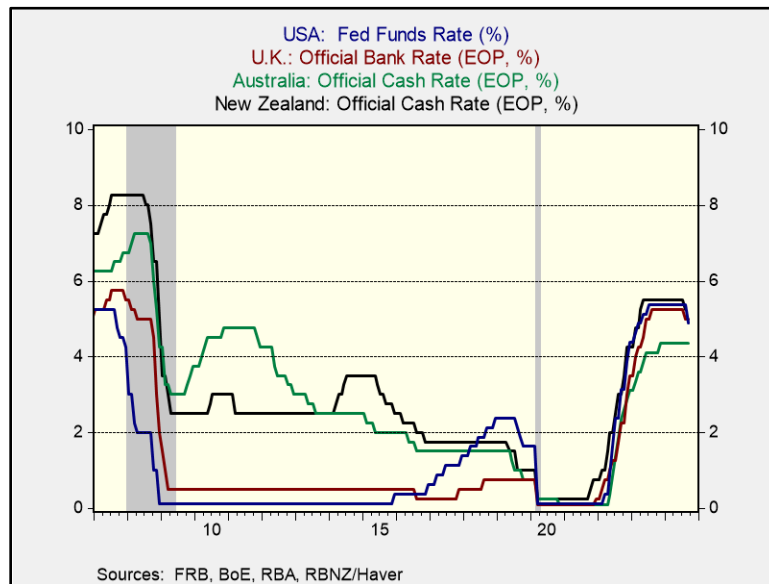


Israel-Hezbollah: Over the last day, Israel [has unleashed a massive campaign of air attacks against Hezbollah targets in Lebanon](#), destroying large numbers of Hezbollah missile launchers, weapons caches, and other military equipment. However, the campaign has also resulted in the

deaths of almost 500 people. The escalating violence continues to present the risk of a wider, highly destabilizing regional war that could draw in the US.

Japan: Despite investor expectations for another interest-rate hike next month, Bank of Japan Governor Ueda [said in a speech today that the policymakers can wait to gather more data on economic developments](#). Importantly, he stressed that the yen's (JPY) recent appreciation could help hold down import prices and overall inflation. The statement suggests the BOJ may hold rates steady at its October policy meeting, just as it did at its meeting last week. In response, the yen has weakened by about 0.3% so far today to trade at 144.01 per dollar (\$0.0069).

Australia: The Reserve Bank of Australia today [held its benchmark short-term interest rate unchanged at 4.35%, as expected](#). The decision reflects how Australian policymakers remain wary about the country's tight labor market and still-elevated price inflation. It also makes Australia an outlier among major central banks other than the BOJ, most of which have now begun to cut rates. As a result, the Australian dollar (AUD) today has strengthened 0.2% to \$0.6855.



France: The new French government, which is under an “excessive deficit” procedure by the European Union, [has reportedly asked Brussels for two extra weeks to deliver its plan for reducing its budget shortfall](#) and bringing its debt under control. If approved, the new deadline would be October 31. The French deficit procedure is being seen as a test of how strongly Brussels will act to enforce fiscal discipline among EU member countries.

- Reflecting investor concern about France's debt levels, the country's 10-year government bond yield of 2.98% [is now as high as Spain's for the first time since 2008](#).
- French government bond yields are also now trading at a spread of 0.79% over the benchmark German yield.

United States-Turkey: Washington and Ankara [are reportedly close to a deal in which Turkey will end its acquisition of Russian-made S-400 air defense systems](#) in return for the US allowing it back into the F-35 fighter program, both as a purchaser and a components producer. The deal would also transfer the S-400 systems already acquired to the US sector of the Incirlik Air Base, where the US military could presumably test them and figure out how to defeat them.

- Until now, Turkish President Erdoğan had exemplified the “border lands” leader who tried to play the US and its bloc off against the China/Russia bloc.
- It now appears the US was able to bring Turkey to heel by cutting it off from acquiring or helping to manufacture the F-35, which is widely recognized as the world’s most advanced jet fighter. If so, the incident highlights how the US is likely to leverage access to its advanced technologies to keep allies in line or punish its adversaries.

US Politics: At a campaign rally in Pennsylvania yesterday, former President Trump warned farm equipment maker Deere & Co. that, if elected in November, he [would impose 200% tariffs on any of the firm’s made-in-Mexico equipment that had previously been made in the US](#). While it is unclear whether US law would allow for such a tariff hike on a single company, the threat illustrates how protectionism in the interest of preserving US jobs has become accepted policy for both Republicans and Democrats.

US Shipping Industry: The US [is now just one week away from a potential major strike at dozens of East Coast and Gulf Coast ports](#). If the US Maritime Alliance, which represents carriers and marine terminal operators, and the International Longshoremen’s Association do not agree on a new contract before the current one expires on September 30, the resulting work stoppage would affect about 41% of the country’s containerized shipping volume.

US Economic Releases

There were no economic releases prior to 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
10:00	Conf. Board Consumer Confidence	m/m	Sep	104.0	103.3	***
10:00	Richmond Fed Manufact. Index	m/m	Sep	-12.0	-19.0	**
Federal Reserve						
ET	Speaker or Event	District or Position				
9:00	Michelle Bowman Speaks at Kentucky Bankers' Association	Member 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	Jibun bank Composite PMI	m/m	Sep P	52.5	52.9		*	Equity and bond neutral
	Jibun Bank Manufacturing PMI	m/m	Sep P	49.6	49.8		***	Equity and bond neutral
	Jibun Bank Services PMI	m/m	Sep P	53.9	53.7		**	Equity and bond neutral
South Korea	PPI	y/y	Aug	1.6%	2.6%		**	Equity and bond neutral
	Depart. Store Sales	y/y	Aug	4.4%	-6.4%		*	Equity and bond neutral
	Discount Store Sales	y/y	Aug	5.9%	-7.9%		*	Equity and bond neutral
EUROPE								
Germany	Ifo Business Climate	m/m	Sep	85.4	86.6	86.0	***	Equity and bond neutral
	Ifo Current Assessment	m/m	Sep	84.4	86.4	86.0	**	Equity and bond neutral
	Ifo Expectations	m/m	Sep	86.3	86.8	86.4	**	Equity and bond neutral
AMERICAS								
Brazil	FGV Consumer Confidence	m/m	Sep	93.7	93.2		*	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)	495	501	-6	Down
3-mo T-bill yield (bps)	450	449	1	Down
U.S. Sibor/OIS spread (bps)	466	466	0	Down
U.S. Libor/OIS spread (bps)	462	462	0	Down
10-yr T-note (%)	3.80	3.75	0.05	Up
Euribor/OIS spread (bps)	343	344	-1	Down
Currencies	Direction			
Dollar	Flat			Down
Euro	Up			Up
Yen	Down			Up
Pound	Up			Up
Franc	Flat			Up
Central Bank Action	Current	Prior	Expected	
RBA Cash Rate Target	4.350%	4.350%	4.350%	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	\$75.58	\$73.90	2.27%	
WTI	\$72.11	\$70.37	2.47%	
Natural Gas	\$2.62	\$2.61	0.42%	
12-mo strip crack	\$18.97	\$18.95	0.08%	
Ethanol rack	\$1.79	\$1.79	-0.09%	
Metals				
Gold	\$2,625.94	\$2,628.72	-0.11%	
Silver	\$30.83	\$30.69	0.46%	
Copper contract	\$445.50	\$434.75	2.47%	
Grains				
Corn contract	\$413.75	\$413.50	0.06%	
Wheat contract	\$581.75	\$582.50	-0.13%	
Soybeans contract	\$1,042.25	\$1,039.25	0.29%	
Shipping				
Baltic Dry Freight	1,999	1,977	22	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-0.10		
Gasoline (mb)		1.00		
Distillates (mb)		1.00		
Refinery run rates (%)		-1.1%		
Natural gas (bcf)		53		

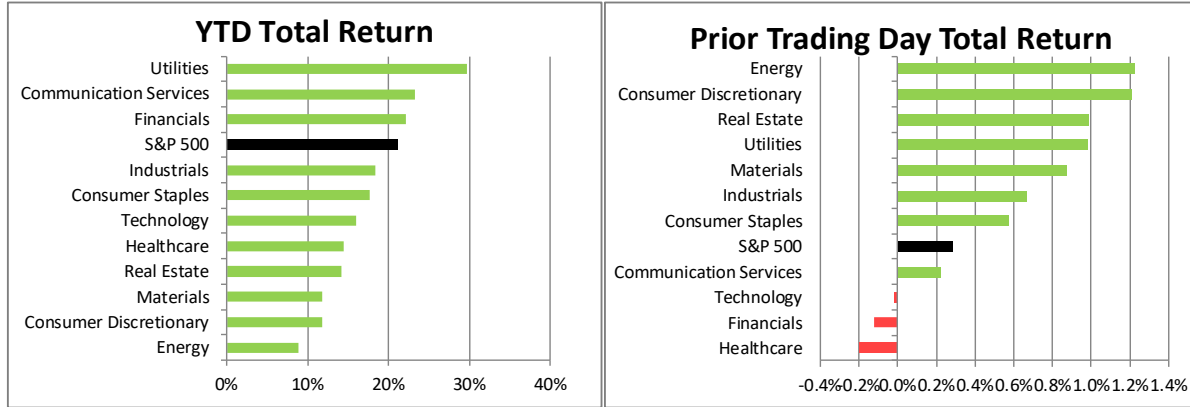
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures across the entire country, except for a bubble surrounding Arkansas. The forecasts call for wetter-than-normal conditions in the Southeast and the Ohio Valley, with dry conditions in the western half of the country.

Tropical Depression Nine is churning through the western Caribbean Sea on a northward course. It is projected to continually strengthen over the course of the week and become a major hurricane by the time it makes landfall in the Florida Panhandle Thursday. Meanwhile, a tropical wave is transiting the Cape Verde Islands off the coast of Africa, on a westward course with a 40% chance of cyclonic formation within the next 48 hours.

Data Section

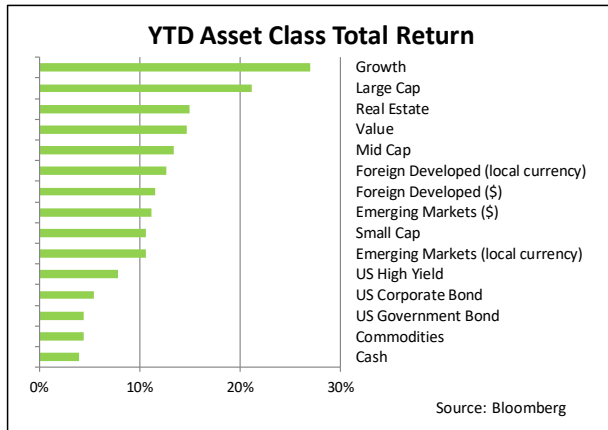
US Equity Markets – (as of 9/23/2024 close)



(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 9/23/2024 close)

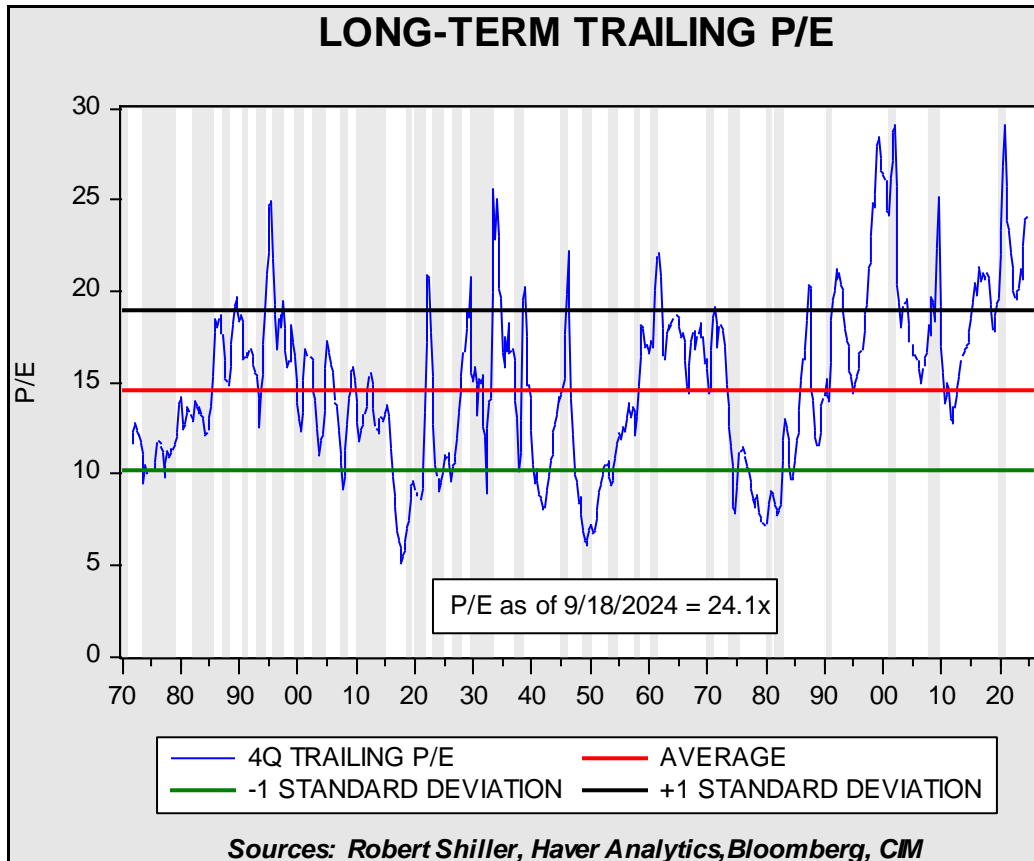


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.