

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: August 19, 2024 — 9:30 AM ET] Global equity markets are generally higher this morning. In Europe, the Euro Stoxx 50 is up 0.5% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.7%. Chinese markets were mixed, with the Shanghai Composite up 0.5% from its previous close and the Shenzhen Composite down 0.1%. US equity index futures are signaling a slightly higher open.

With 463 companies having reported so far, S&P 500 earnings for Q2 are running at \$61.40 per share, compared to estimates of \$58.94, which is up 8.0% from Q2 2023. Of the companies that have reported thus far, 80.1% have exceeded expectations while 15.4% have fallen short of expectations.

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:

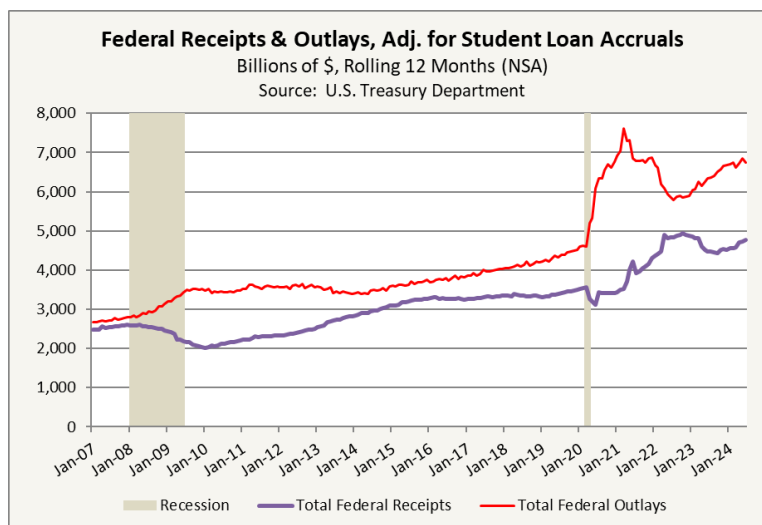
- **[Bi-Weekly Geopolitical Report](#)** (8/5/2024) (no accompanying podcast for this report): “The US Geopolitical and Economic Bloc as an Investment Region”
- [Asset Allocation Bi-Weekly](#) (8/12/2024) (no accompanying podcast for this report): “Is the Sahn Rule Right?”
- [Asset Allocation Quarterly – 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.

Our *Comment* today opens with some notes on Vice President Harris’s big economic speech on Friday, which appears to have fallen rather flat. (We also note that the Democratic Party opens its national convention in Chicago today.) We next review several other international and US developments with the potential to affect the financial markets today, including another move by China to weaponize its rare-earth mineral resources and a new statement by a Federal Reserve policymaker pointing to only cautious interest-rate cuts starting in September.

US Economic Policy: In a speech on Friday laying out her economic agenda if she were to win the presidency, Vice President Harris [proposed several populist measures aimed at cutting taxes and reducing living costs for working-class families](#). As with her proposal the previous week to

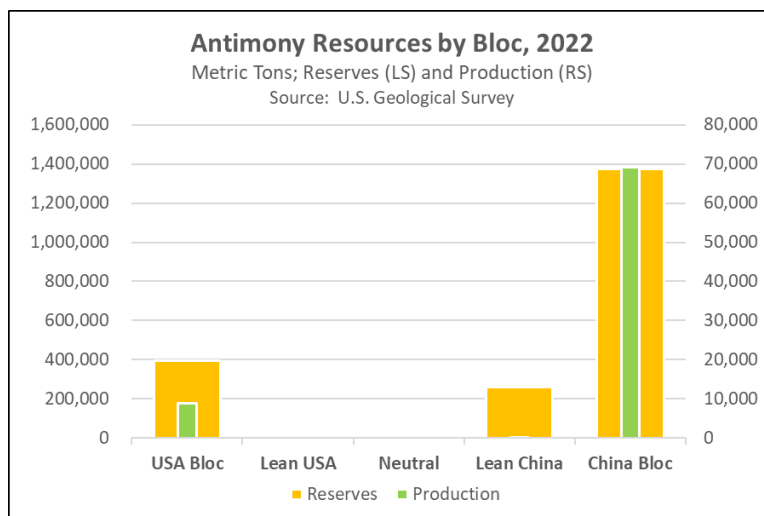
make tips to service and hospitality workers tax-exempt, some of her proposals [echoed the populist goals of the Republican ticket](#). As we've noted before, it appears the two sides are in a potentially expensive bidding war for working-class voters.

- Harris's proposals include re-instating the expanded child tax credit from the pandemic era, but she would raise it to \$6,000 until the child's first birthday. That [echoes a recent proposal by Sen. JD Vance, the Republican's vice presidential candidate, to hike the child tax credit](#) to \$5,000.
- To help bring down housing costs, Harris proposed tax incentives and subsidies aimed at encouraging homebuilders to construct more affordable homes. She laid out a goal of having three million new housing units built by the end of her term.
- Harris also proposed a series of regulatory actions to bring down prices, including moves to stop alleged "price gouging" by companies and negotiating lower prices for more drugs bought by the Medicare and Medicaid programs.
- In energy policy, Harris has adopted an ambiguous approach, even though she has stepped back from the idea of banning hydraulic fracturing to search for oil and gas on federal lands, which she had proposed in her 2019 run for president as she made a play for the progressive wing of the Democratic Party.
- Finally, in international trade policy, Harris criticized former President Trump's proposal for massive tariffs of 60% against imports from China and across-the-board tariffs of 10% or more on imports from other countries, saying those moves would raise prices for US consumers.
- Of course, even if Harris is elected, her ability to pass these economic ideas would largely depend on whether the Democrats or the Republicans control Congress. Nevertheless, the overall populist tenor of the two parties' proposals is consistent with our expectation that the US budget deficit, consumer price inflation, and interest rates will be higher in the coming years than over the last couple of decades.



China-United States: The government last week [said it will impose export controls on rare antimony metals, ores, and oxides, as well as equipment for processing superhard materials, starting September 15](#). Since antimony is critical to producing many advanced technologies, including armor-piercing ammunition, the new restrictions are being seen as retaliation for the recent US moves to block Chinese imports and investments and restrict China’s access to advanced US technologies.

- Given that the world continues to fracture into relatively separate geopolitical and economic blocs, a key question is whether China’s action will seriously crimp US access to antimony. As shown in the chart below, most of the world’s antimony reserves and output are in China’s bloc, meaning Beijing’s new measures could have a serious impact on the US and its allies.
- In our analysis of global fracturing, we have long expected the China bloc to weaponize its extensive commodity holdings to retaliate for the US’s recent trade, investment, and technology barriers. Besides antimony, Beijing and Russia (its junior partner) have already clamped down on natural gas and rare earths exports. Going forward, we believe the resulting risk to supplies will tend to boost commodity prices generally.



China-Philippines: According to Manila, Chinese coast guard ships [rammed at least two Philippine coast guard vessels this morning near a disputed shoal in the South China Sea](#). The incidents caused significant damage to the Philippine vessels, but they apparently caused no injuries. Nevertheless, as we’ve noted before, the new tensions around Sabina Shoal show there is still some risk of a conflict developing between China and the Philippines, despite a deal the two countries recently struck to ease tensions around a separate shoal in the area.

- The tensions between Beijing and Manila are especially dangerous because of the US-Philippine mutual defense treaty. In the event of a Chinese attack on the Philippines or Philippine vessels, the US could be obligated to come to Manila’s defense.
- The Philippine government has said that a key red line would be if aggressive Chinese action killed a Philippine citizen.

Thailand: King Maha Vajiralongkorn yesterday [endorsed Paetongtarn Shinawatra as Thailand's new prime minister, following her election by parliament last week](#). Paetongtarn is now the third member of the billionaire Shinawatra family to lead Thailand. Her elevation follows yet another power play by the country's conservative monarchists and their allies on the top court, which recently banned a key reformist party and forced out the previous prime minister. The incident shows that political instability remains an investment risk in Thailand.

Germany-Ukraine-Russia: Finance Minister Lindner, a member of the fiscally conservative Free Democrats Party, has reportedly sent a letter to the German ministries of foreign affairs and defense [saying he won't approve any new requests to send military aid to Ukraine unless new funding is identified to pay for it](#). Lindner was reportedly urged to write the letter by Chancellor Scholz, the leader of the center-left Social Democratic Party (SPD) who has been pressured by pacifists in his party to reduce involvement in the Russia-Ukraine war.

- To date, Germany has been the second-biggest donor of military aid to Ukraine, after the US. Any cut-off of German aid could have a significant impact on Kyiv's ability to keep fending off the invading Russians.
- Lindner's letter brings to light the fractious nature of Germany's ruling three-party coalition. In contrast with the Free Democrats and SPD, the Greens have been more supportive of Ukraine and the need to boost defense spending. Panning Lindner's letter, a Green lawmaker quipped, "One has the impression that it is about sacrificing peace and freedom, but remaining debt-free."
- More broadly, we continue to believe that growing tensions between the China/Russia geopolitical bloc and the US bloc will keep driving defense budgets higher over time. Being closer to the Russian threat and not facing the toxic budget politics of the US, the Europeans have made much progress in that direction, giving European defense stocks a big boost. However, the news of Lindner's letter has driven those stocks sharply lower so far today.

United Kingdom: Now that Prime Minister Starmer's new government has offered generous pay hikes to striking doctors and train drivers, unions representing other healthcare and transport workers [are reportedly considering going on strike to see what they can get](#). If the new strikes and pay hikes materialize, it would put further pressure on the UK's big budget deficit and may tempt Starmer's government to call for even bigger tax hikes than expected.

US Monetary Policy: In an interview with the *Financial Times*, San Francisco FRB President Daly said recent economic data has given her more confidence that inflation is coming under control, but she [said the Fed should still be "prudent" and cut interest rates only gradually](#) to make sure price pressures don't increase again. Coming just days before the Fed opens its annual Jackson Hole monetary policy conference, the statement helps confirm that investors had gotten ahead of themselves in recent weeks as they began to expect an aggressive rate cut in September.

US Art Market: New reporting shows auction prices for paintings and other artworks [have plunged over the last year, especially for the output of young, up-and-coming artists](#). The values of some celebrated paintings have plunged as much as 90% from their peak. Even though the art

market was at a record high just a few years ago, prices are now dropping in response to higher interest rates and moderating economic growth.

US Economic Releases

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

Economic Releases						
EST	Indicator			Expected	Prior	Rating
10:00	Leading Economic Indicators	m/m	Jul	-0.4%	-0.2%	***
Federal Reserve						
EST	Speaker or Event	District or Position				
9:15	Christopher Waller Gives Welcoming Remarks	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	Core Machine Orders	y/y	Jun	-1.7%	10.8%	1.1%	**	Equity bearish, bond bullish
EUROPE								
UK	Rightmove House Prices	y/y	Aug	0.80%	0.40%		**	Equity and bond neutral
Switzerland	Domestic Sight Deposits CHF	w/w	16-Aug	457.2b	455.5b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	16-Aug	464.9b	463.1b		*	Equity and bond neutral
AMERICAS								
Canada	Housing Starts	m/m	Jul	279.5k	241.7k	245.0k	**	Equity and bond neutral
	Manufacturing Sales	m/m	Jun	-2.1%	0.2%	-2.6%	**	Equity and bond neutral
	Int'l Securities Transactions	m/m	Jun	5.17b	21.07b		**	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)	539	536	3	Down
3-mo T-bill yield (bps)	507	508	-1	Down
U.S. Sibor/OIS spread (bps)	512	513	-1	Down
U.S. Libor/OIS spread (bps)	510	510	0	Down
10-yr T-note (%)	3.88	3.88	0.00	Down
Euribor/OIS spread (bps)	356	355	1	Down
Currencies	Direction			
Dollar	Down			Down
Euro	Up			Up
Yen	Up			Up
Pound	Flat			Up
Franc	Up			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.

DOE Inventory Report	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$79.09	\$79.68	-0.74%	
WTI	\$75.99	\$76.65	-0.86%	
Natural Gas	\$2.15	\$2.12	1.46%	
12-mo strip crack	\$20.18	\$20.42	-1.18%	
Ethanol rack	\$1.96	\$1.96	0.05%	
Metals				
Gold	\$2,490.87	\$2,508.01	-0.68%	
Silver	\$28.92	\$28.98	-0.19%	
Copper contract	\$421.60	\$418.10	0.84%	
Grains				
Corn contract	\$394.00	\$392.50	0.38%	
Wheat contract	\$546.50	\$552.50	-1.09%	
Soybeans contract	\$961.50	\$957.00	0.47%	
Shipping				
Baltic Dry Freight	1,691	1,692	-1	

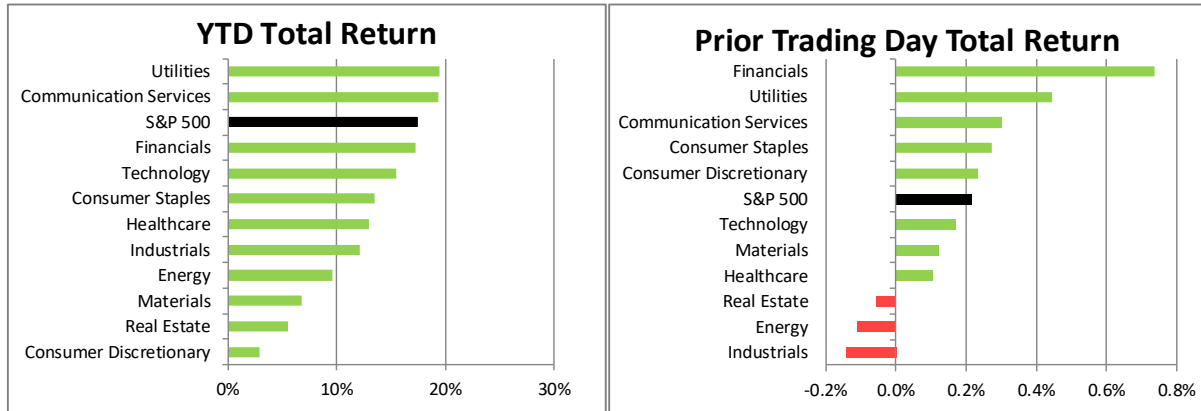
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures across most of the country with cooler temperatures expected in the Pacific region early in the period. The precipitation outlook predicts wetter-than-normal conditions in the Northern Pacific, Rocky Mountain, Southeast, and Great Plains regions. At the same time, dry conditions are anticipated in the Midwest, Mid-Atlantic, and New England.

Hurricane Ernesto is the only tropical storm moving throughout the Atlantic. It has moved away from the US East Coast and is expected to make its way to Newfoundland on Tuesday.

Data Section

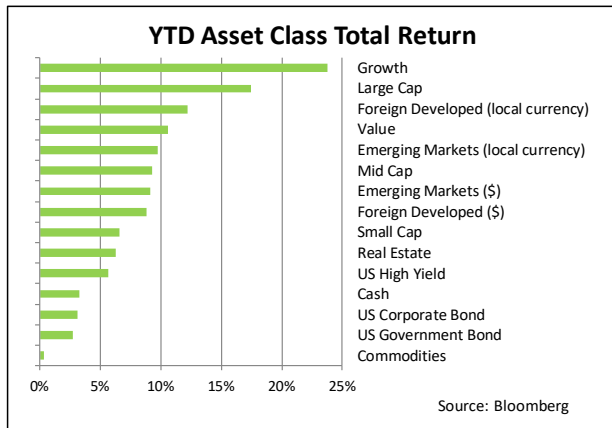
US Equity Markets – (as of 8/16/2024 close)



(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 8/15/2024 close)

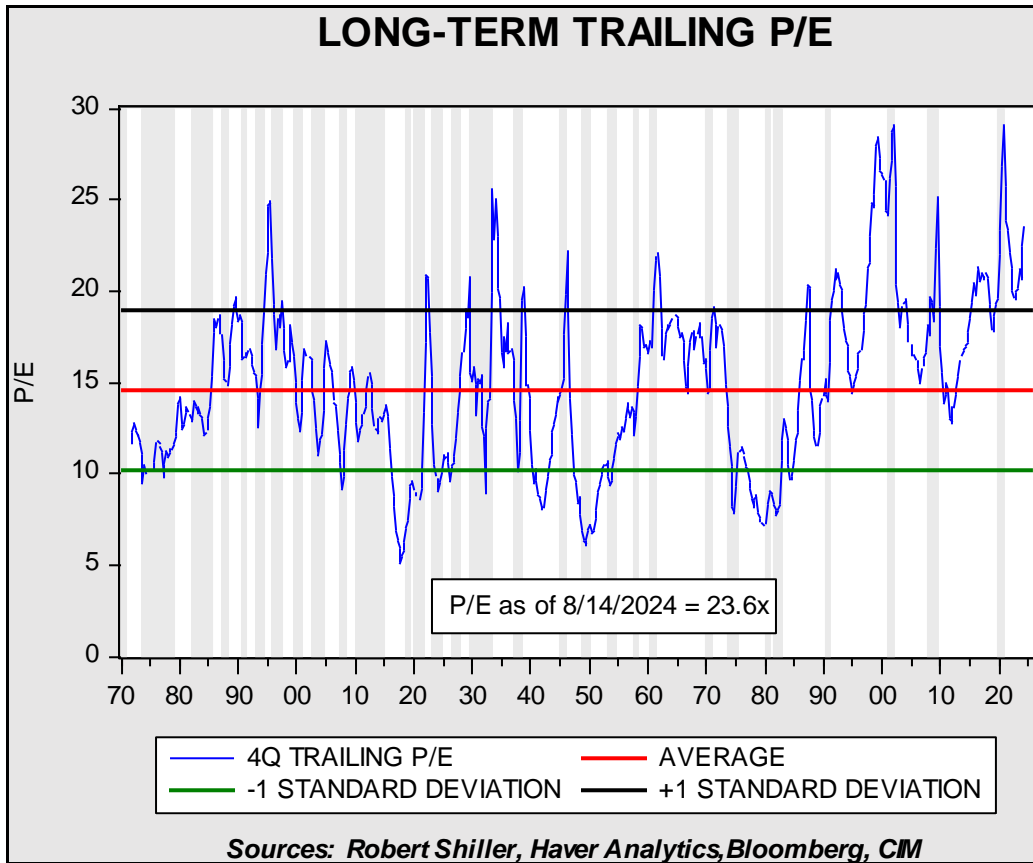


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

August 15, 2024



Based on our methodology,¹ the current P/E is 23.6x, down 0.4 from our last report. The drop in the multiple was due to a decrease in the stock price index, and a minor increase in earnings.

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.