

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 20, 2024 — 9:30 AM ET] Global equity markets are mixed 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 lower, with the Shanghai Composite down 0.9% from its previous close and the Shenzhen Composite down 1.40%. US equity index futures are signaling a higher open.

With 465 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, 80.2% have exceeded expectations while 15.3% 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](#) (8/19/2024) (no accompanying podcast for this report): “The Recent Iranian Election: Results & Implications”**
- [Asset Allocation Bi-Weekly](#) (8/12/2024) (no accompanying podcast for this report): “Is the Sahm 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 a potentially groundbreaking deal in which a Canadian firm is seeking to buy the Japanese company that owns the 7-Eleven chain of convenience stores. If successful, the deal would be the biggest-ever foreign takeover of a Japanese firm. We next review several other international and US developments with the potential to affect the financial markets today, including an interest-rate cut by Sweden’s central bank and a proposal by Vice President Harris to hike the US’s maximum corporate income-tax rate to 28%.

Japan: Seven & i Holdings, the Japanese firm that owns 7-Eleven, [has announced it is considering a friendly takeover offer from Canadian retailer Alimentation Couche-Tard](#), which has a controlling stake in the Circle-K chain. Any deal [would face US antitrust scrutiny](#), of

course. Nonetheless, if a transaction is concluded, it would be the biggest-ever foreign takeover of a Japanese company.

- If a deal can be concluded, it would also signal that Japan has made further progress in dismantling its prior protective, inflexible business culture and regulatory approach.
- To date, the progress on that front has already helped make Japan a darling of stock investors in recent years. If the proposed Seven & i deal is successful, it could unlock even more value in Japanese stocks.

Australia: The minutes of the Reserve Bank of Australia's latest policy meeting, which were released today, [showed that the central bank has ruled out any interest-rate cuts in the near term due to continued price pressures](#). With the Bank of Japan starting to hike rates and the RBA holding them steady, that makes the two Asia-Pacific central banks the most important holdouts against the broader trend toward rate cuts in major developed economies.

China: The Shanghai and Shenzhen stock markets [yesterday said they have cut the amount of data they will provide on foreign inflows into onshore shares](#), apparently to reduce the influence of foreign capital flows on the domestic markets. The move, which was likely made under pressure from Beijing, is another example of government intrusion into China's private markets, which we think is one reason for China's recent slowdown in economic growth.

Israel-Hamas Conflict: Hamas and Palestinian Islamic Jihad [said they were responsible for an attempted suicide bombing in Tel Aviv yesterday](#). The bomb detonated early, killing the attacker and slightly injuring just one bystander. Nevertheless, as Israel continues pummeling Gaza to destroy its Hamas-led government, the attack may signal that the Palestinians are shifting tactics back to the frequent suicide bombings that rocked Israel in the early 2000s. If successful, such tactics could leave Israel with prolonged security issues, even if Hamas is routed in Gaza.

Sweden: Citing "somewhat" weaker economic growth and roughly on-target consumer price inflation, the Riksbank today [cut its benchmark short-term interest rate by 25 basis points](#) to 3.50%. The central bank also signaled it will probably cut rates two or three more times before the end of the year if the inflation outlook doesn't worsen again. The move reflects the broad trend toward lower interest rates in key economies around the world (excluding Japan and Australia, as mentioned above).

Canada: Ahead of a railroad strike that could be launched as soon as Thursday, global shipping giant A. P. Moller-Maersk [said it will stop taking orders for Canada-bound cargoes that would have to be transferred to rail transport](#). More broadly, the threatened strike could significantly disrupt the operations of companies across North America, given how intertwined the US and Canadian economies are.

US Tax Policy: As the Democratic Party opened its national convention in Chicago yesterday, Vice President Harris's campaign office [said she now endorses hiking the maximum corporate income tax rate to 28% from today's 21%](#). The proposal sharpens the contrast between Harris and Republican nominee Donald Trump, who has proposed cutting the rate to 15%.

US Dollar: The greenback [weakened against a key basket of currencies again today](#), leaving the widely followed US Dollar Index down 4.1% from its most recent high in May and basically right where it was at the start of the year.

- The index is still historically high after the dollar’s long bull market that began more than a decade ago, but it has been stuck in a range between about 106 and 100 since the beginning of 2023.
- If the prospect of falling US interest rates now pushes the index below 100, it could potentially signal a longer-term downtrend for the greenback.
- Any potential bear market in the greenback would likely be positive for international stocks going forward.



(Source: Wall Street Journal)

US Economic Releases

There are no domestic releases scheduled today. The table below lists the Fed events scheduled for the rest of the day.

Economic Releases	
No economic releases for the rest of today	
Federal Reserve	
ET	Speaker or Event
13:35	Raphael Bostic on Innovating for Inclusion
14:45	Michael Barr Speaks on Cybersecurity
District or Position	
	President of the Federal Reserve Bank of Atlanta
	U.S. Federal Reserve Vice Chair for Supervision

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	Tokyo Condominiums for Sale	y/y	Jul	-42.3%	-12.8%		*	Equity bearish, bond bullish
New Zealand	REINZ House Sales	y/y	Jul	14.5%	-25.6%		**	Equity and bond neutral
	Trade Balance NZD	m/m	Jul	-963m	585m		**	Equity and bond neutral
	Exports NZD	m/m	Jul	6.15b	6.04b		**	Equity and bond neutral
	Imports NZD	m/m	Jul	7.11b	5.45b		**	Equity and bond neutral
South Korea	Consumer Confidence	m/m	Aug	100.8	103.6		*	Equity and bond neutral
EUROPE								
Eurozone	Current Account	m/m	Jun	50.5b	37.6b		*	Equity and bond neutral
	Construction Output	y/y	Jun	1.0%	-2.1%		*	Equity and bond neutral
	CPI	y/y	Jul F	2.6%	2.5%	2.6%	***	Equity and bond neutral
	Core CPI	y/y	Jul F	2.9%	2.9%	2.9%	**	Equity and bond neutral
Germany	PPI	y/y	Jul	-0.8%	-1.6%	-0.8%	**	Equity and bond neutral
Italy	Current Account Balance	m/m	Jun	4885m	2077m		*	Equity and bond neutral
Switzerland	Real Exports	m/m	Jul	-1.8%	-0.2%		*	Equity and bond neutral
	Real Imports	m/m	Jul	0.0%	0.8%		*	Equity and bond neutral
AMERICAS								
Mexico	Retail Sales	y/y	Jun	-3.9%	0.3%	-2.0%	***	Equity bearish, bond bullish

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)	503	504	-1	Down
U.S. Sibor/OIS spread (bps)	512	513	-1	Down
U.S. Libor/OIS spread (bps)	510	511	-1	Down
10-yr T-note (%)	3.87	3.87	0.00	Up
Euribor/OIS spread (bps)	355	356	-1	Down
Currencies	Direction			
Dollar	Flat			Down
Euro	Flat			Up
Yen	Up			Up
Pound	Up			Up
Franc	Up			Up
Central Bank Action	Current	Prior	Expected	
PBOC 1-Year Loan Prime Rate	3.350%	3.350%	3.350%	On Forecast
PBOC 5-Year Loan Prime Rate	3.850%	3.850%	3.850%	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.

DOE Inventory Report	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$77.60	\$77.66	-0.08%	
WTI	\$74.42	\$74.37	0.07%	
Natural Gas	\$2.26	\$2.24	0.98%	
12-mo strip crack	\$19.74	\$19.87	-0.67%	
Ethanol rack	\$1.96	\$1.96	0.09%	
Metals				
Gold	\$2,523.79	\$2,504.28	0.78%	
Silver	\$29.78	\$29.45	1.14%	
Copper contract	\$423.30	\$422.00	0.31%	
Grains				
Corn contract	\$399.25	\$400.25	-0.25%	
Wheat contract	\$550.50	\$552.25	-0.32%	
Soybeans contract	\$971.75	\$976.00	-0.44%	
Shipping				
Baltic Dry Freight	1,708	1,691	17	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-2.50		
Gasoline (mb)		-1.50		
Distillates (mb)		-0.25		
Refinery run rates (%)		-0.3%		
Natural gas (bcf)		1		

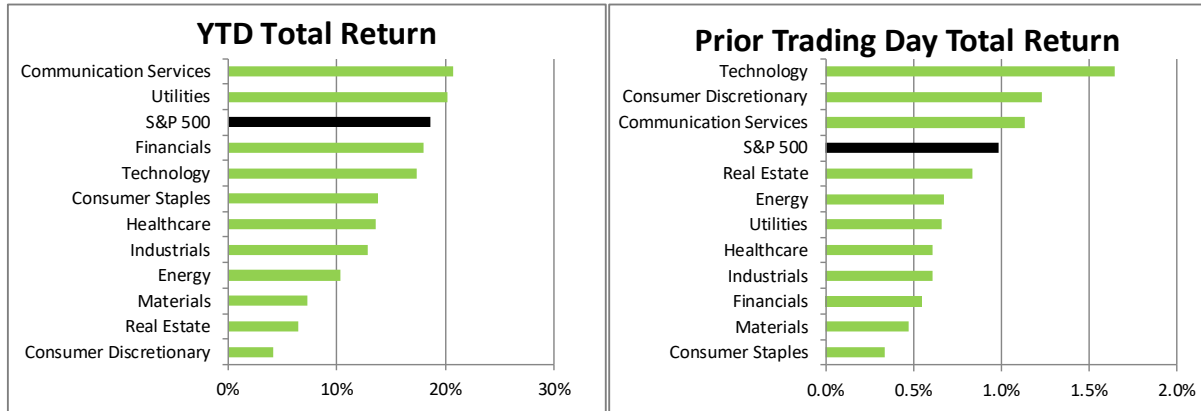
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures across most of the country, with the exception of a patch of normal temperatures in the northern Great Plains. The precipitation outlook predicts wetter-than-normal conditions in New England, southern Florida, southern Texas, and a patch extending from the northern California Coast into Utah, with dry conditions in a bubble extending from Kansas to Kentucky and Tennessee.

The Atlantic tropical weather scope is clean, except for Ernesto, which is now skirting the coast of the Canadian maritime provinces.

Data Section

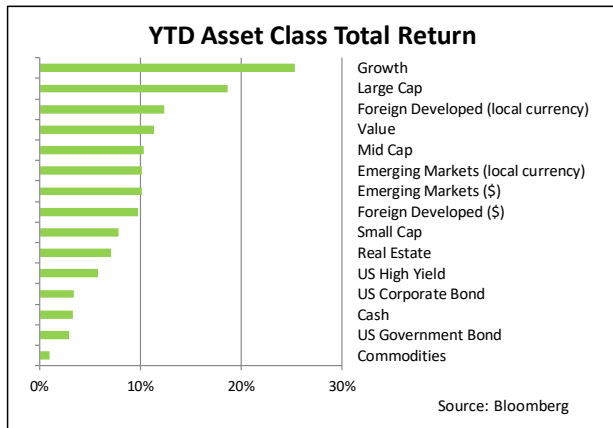
US Equity Markets – (as of 8/19/2024 close)



(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 8/19/2024 close)

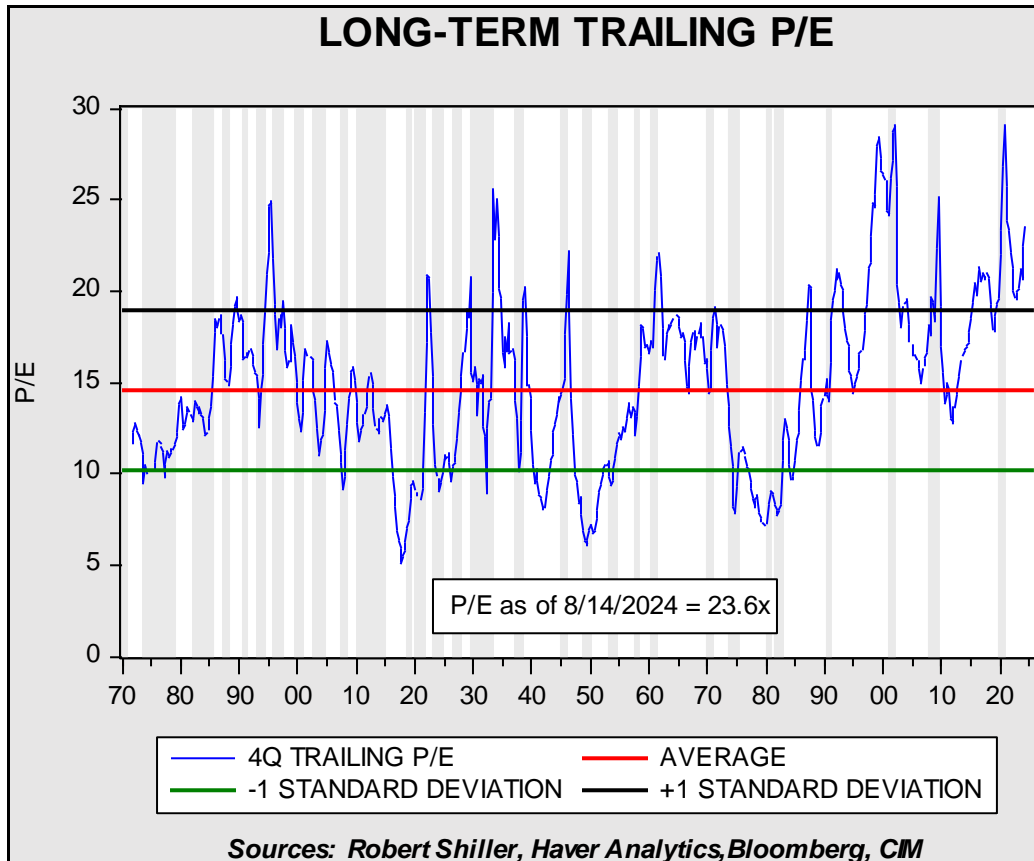


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.