

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

With 475 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, 80.6% have exceeded expectations, while 15.0% have fallen short of expectations.

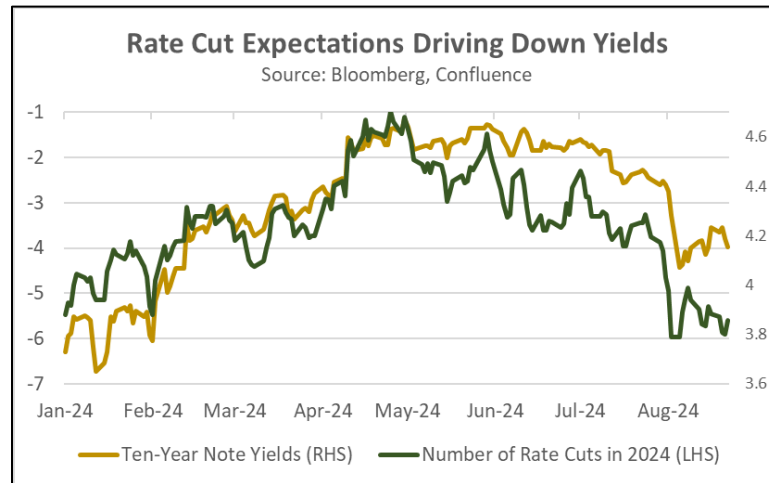
The Confluence macro team publishes a plethora of research reports and multimedia offerings on a weekly and quarterly basis, all available on our [website](#). We highlight recent publications below, with new items of the day emphasized in bold:

- [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.

Good morning! The market is still anxiously awaiting clues on the Federal Reserve's next move. In sports news, Hideki Matsuyama continued his impressive run at the BMW Championship with a remarkable 73-yard putt for his third consecutive birdie. Today's *Comment* will discuss our views on interest rate expectations and long-term bond rates, the persistent threat that unions pose to controlling inflation, and our early impressions of the two leading presidential candidates. As always, our report includes an overview of domestic and international news.

After the Fed Cuts: While investors eagerly await Powell's speech for hints about the Federal Reserve's September moves, we contend that monetary policy's sway over the market is waning.

- Before his speech, several Federal Reserve officials have been working to temper market expectations. On Thursday, Boston Fed President Susan Collins and Philadelphia Fed President Patrick Harker both [indicated a willingness to consider rate cuts at the Fed's upcoming meeting but advocated for a cautious approach](#). However, there is noticeable hesitation about easing policy. Kansas City Fed President Jeffrey Schmid [expressed that he would like to see more data](#) before endorsing a rate cut, a sentiment shared [by Fed Governor Michelle Bowman](#).
- Historically, Fed expectations have been a strong predictor of long-term interest rates. However, this year, the correlation between these two factors has become less pronounced. This divergence is likely attributable to concerns that the Fed may not be as aggressive in cutting rates as it has been in past cycles. The FOMC's latest economic projections indicate that members anticipate the long-run rate to reach 2.8%, which is above the 20-year average by 100 basis points. This suggests that the market may be looking past the first rate cut.



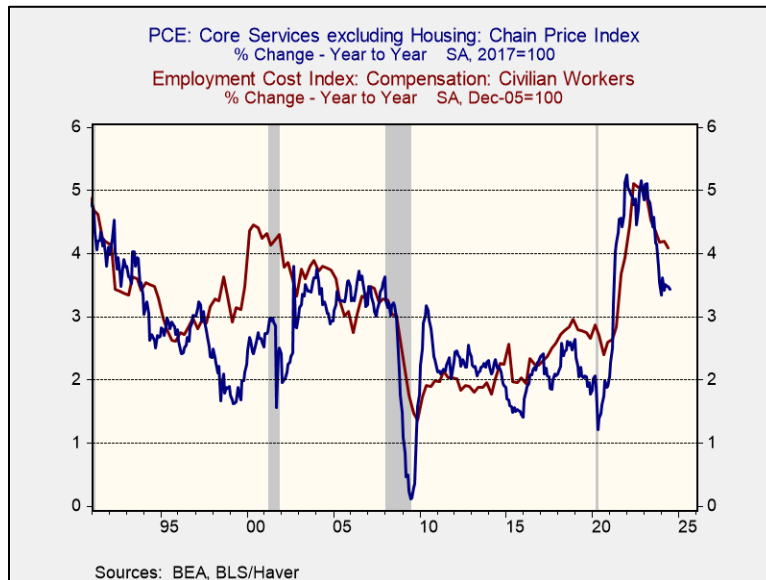
- While the market may be looking to Powell's Jackson Hole speech for signals of a potential 50 basis point rate cut at the September FOMC meeting, we believe such a move is unlikely. Even if we are mistaken, we would expect the effect on long-term rates to be minimal because the market has likely already priced in most of the expected rate cuts for the coming year, leaving little room for further declines. Consequently, other factors such as the widening fiscal deficit, aging demographics, and economic growth are more likely to influence long-term rates in the coming months.

Supply Chain Mayhem: The threat of disruptions to shipments has increased as Canadian railway workers continue their strike and US East and Gulf Coast port workers consider similar actions.

- North American supply chains will likely cope with twin strikes. In Canada, the [government has intervened in the ongoing rail strike](#). The labor board has been ordered to end the shutdown that has halted freight traffic for the past two days. Two railway unions

went on strike following failed contract negotiations with Canadian National Railway and Canadian Pacific Kansas City regarding railway schedules, safety, and time management. Meanwhile, US port workers are also threatening a strike in October. Negotiations have stalled over the use of automation for processing trucks without human labor.

- The threat of strikes arrives at a politically charged moment. Since the pandemic, unions have experienced a resurgence, with the percentage of US workers belonging to unions [reaching its highest point since the mid-1960s](#). The shift in sentiment has occurred as union leaders have been able to leverage a shortage of labor supply to demand higher wages for workers. Over the past four years, worker compensation has risen at the fastest pace since the early 2000s, though recent data suggests a slowdown.



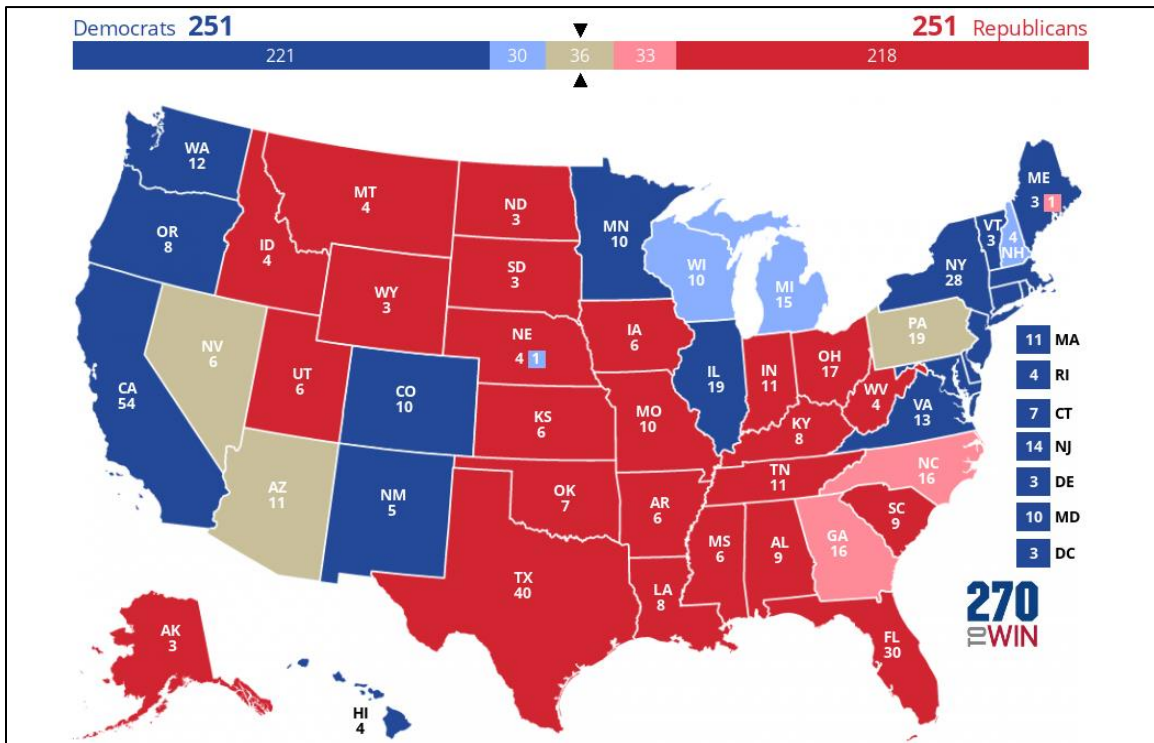
- Unit labor costs are arguably the most reliable indicators of long-term inflation. As marginal production costs rise, firms are more likely to pass these costs on to consumers. Consequently, the resurgence of labor unions could hinder the Federal Reserve's efforts to achieve its 2% inflation target. As the chart above demonstrates, worker compensation has been a primary driver of core PCE services, a key inflation metric closely watched by the Fed. While rising productivity has thus far helped offset increased wage bills, a reversal of this trend could significantly complicate inflation control efforts.

First Impressions: With the major parties having officially selected their presidential nominees, it's time to summarize their key ideas.

- The Republican presidential candidate, Donald Trump, a supply-sider with a populist edge, advocates for expanding domestic production through deregulation and incentives to bring manufacturing back to the US. He has pledged [to lower taxes and eliminate restrictions on energy production](#). In contrast, the Democratic nominee, Kamala Harris, a traditional Keynesian, supports using subsidies and regulation to achieve her policy

goals. She has endorsed [price controls on medication, rent, and food](#) and has proposed [grants for first-time homebuyers](#).

- While the president plays a key role, the primary arena for policy battles is Congress. In recent decades, rising partisanship has hindered both parties' ability to pass legislation as groups have become increasingly focused on obstructing the other rather than passing laws. A prime example of this is the reliance on continuing resolutions, which avoid [government shutdowns but fail to address the deficit](#). Although controlling both houses of Congress increases the chances of passing legislation, it has also made it easier for fringe groups to derail the process.



(Based on Polymarket Odds by State as of August 23, 2024)

- The betting odds indicate a closely contested election. On PredictIt, Kamala Harris holds a slight lead of 55% to 48%, while Polymarket shows Donald Trump ahead at 51% to 47%. However, bettors are leaning toward a split in Congress. Polymarket suggests a 72% chance that Republicans will regain the Senate, while Democrats have a 62% chance of regaining the House. With plenty of time before Election Day, these odds are subject to change. That said, if they hold, both candidates will face challenges in fulfilling their campaign pledges.

In Other News: Hamas rejected the latest ceasefire agreement over [demand to have troops in Gaza](#). The rejection is a reminder of how hard it will be for the two sides to end the conflict within a short time. [An oil tanker was attacked in the Red Sea](#), another indication of the threat that geopolitical tensions pose to supply chains. Separately, [RFK Jr. is widely expected to](#)

[step down from presidential contention](#) and is rumored to be endorsing President Trump in exchange for a potential role in his administration, possibly as the [head of the National Institutes of Health](#) or [as Spy Chief](#).

US Economic Releases

No major US reports have been released so far today. The table below lists the economic releases and Fed events scheduled for the rest of the day.

Economic Releases						
ET	Indicator			Expected	Prior	Rating
10:00	New Home Sales	m/m	Jul	623k%	617k%	***
10:00	New Home Sales MoM	m/m	Jul	1.0%	-0.6%	**
11:00	Kansas City Fed Services Index	m/m	Apr		-4	*
Federal Reserve						
ET	Speaker or Event	District or Position				
9:00	Raphael Bostic Speaks on Bloomberg Television	President of the Federal Reserve Bank of Atlanta				
10:00	Jerome Powell Speaks on Economic Outlook	Chairman of the Board of Governors				
11:00	Patrick Harker Speaks on Bloomberg Television	President of the Federal Reserve Bank of Philadelphia				
12:30	Austan Goolsbee Speaks on CNBC	President of the Federal Reserve Bank of Chicago				
13:45	Austan Goolsbee Speaks on Fox Business	President of the Federal Reserve Bank of Chicago				
14:15	Austan Goolsbee on Bloomberg TV	President of the Federal Reserve Bank of Chicago				

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	National CPI	y/y	Jul	2.8%	2.8%	2.7%	***	Equity and bond neutral
	National CPI Ex-Fresh Food	y/y	Jul	2.7%	2.6%	2.7%	**	Equity and bond neutral
	National CPI Ex-Fresh Food & Energy	y/y	Jul	1.9%	2.2%	1.9%	*	Equity and bond neutral
New Zealand	Retail Sales Ex Inflation	q/q	2Q%	-1.20%	0.40%	-0.90%	***	Equity and bond neutral
EUROPE								
Eurozone	Consumer Confidence	m/m	Aug P	-13.4	-13.0	-13.6	**	Equity bearish, bond bullish
	CPI	y/y	Jul F	--	2.6%	2.6%	***	Equity and bond neutral
	Core CPI	y/y	Jul F	--	2.9%	2.9%	**	Equity and bond neutral
France	Manufacturing Confidence	m/m	Aug	99	95	96	*	Equity bullish, bond bearish
Russia	Gold and Forex Reserves	m/m	16-Aug	\$609.9b	\$604.0b		***	Equity and bond neutral
Russia	Money Supply, Narrow Definition	w/w	16-Aug	18.37t	18.33t		*	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)	536	538	-2	Down
3-mo T-bill yield (bps)	502	503	-1	Down
U.S. Sibor/OIS spread (bps)	508	509	-1	Down
U.S. Libor/OIS spread (bps)	505	507	-2	Down
10-yr T-note (%)	3.85	3.85	0.00	Down
Euribor/OIS spread (bps)	354	354	0	Down
Currencies	Direction			
Dollar	Flat			Down
Euro	Flat			Up
Yen	Up			Up
Pound	Up			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	\$78.39	\$77.22	1.52%	
WTI	\$74.23	\$73.01	1.67%	
Natural Gas	\$2.03	\$2.05	-1.32%	
12-mo strip crack	\$20.05	\$20.04	0.05%	
Ethanol rack	\$1.95	\$1.95	-0.18%	
Metals				
Gold	\$2,499.34	\$2,484.75	0.59%	
Silver	\$29.43	\$28.99	1.53%	
Copper contract	\$421.15	\$418.60	0.61%	
Grains				
Corn contract	\$393.75	\$393.50	0.06%	
Wheat contract	\$531.00	\$535.50	-0.84%	
Soybeans contract	\$966.00	\$961.50	0.47%	
Shipping				
Baltic Dry Freight	1,768	1,759	9	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)	-4.65	-2.20	-2.45	
Gasoline (mb)	-1.61	-1.80	0.19	
Distillates (mb)	-3.31	-1.00	-2.31	
Refinery run rates (%)	0.8%	0.3%	0.5%	
Natural gas (bcf)	35	25	10	

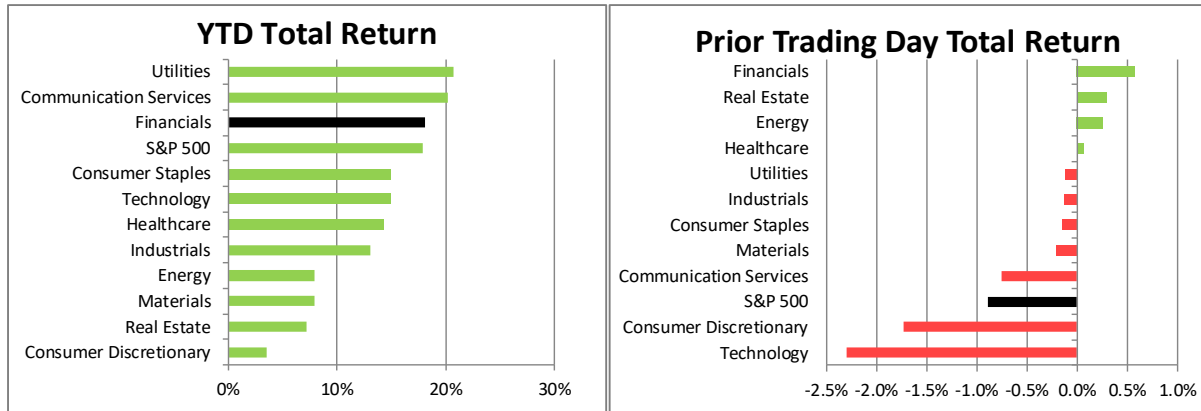
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures across the entire country except for the northern and central Rocky Mountains, where temperatures will be normal or below normal. The forecasts call for wetter-than-normal conditions in the southern and central Rocky Mountains, southern Texas, and Florida, with dry conditions in the Pacific Northwest and the Midwest.

There are currently no atmospheric disturbances in the Atlantic Ocean region.

Data Section

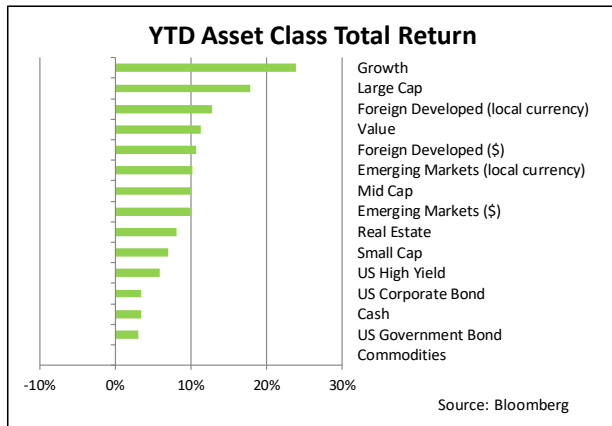
US Equity Markets – (as of 8/22/2024 close)



(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 8/22/2024 close)

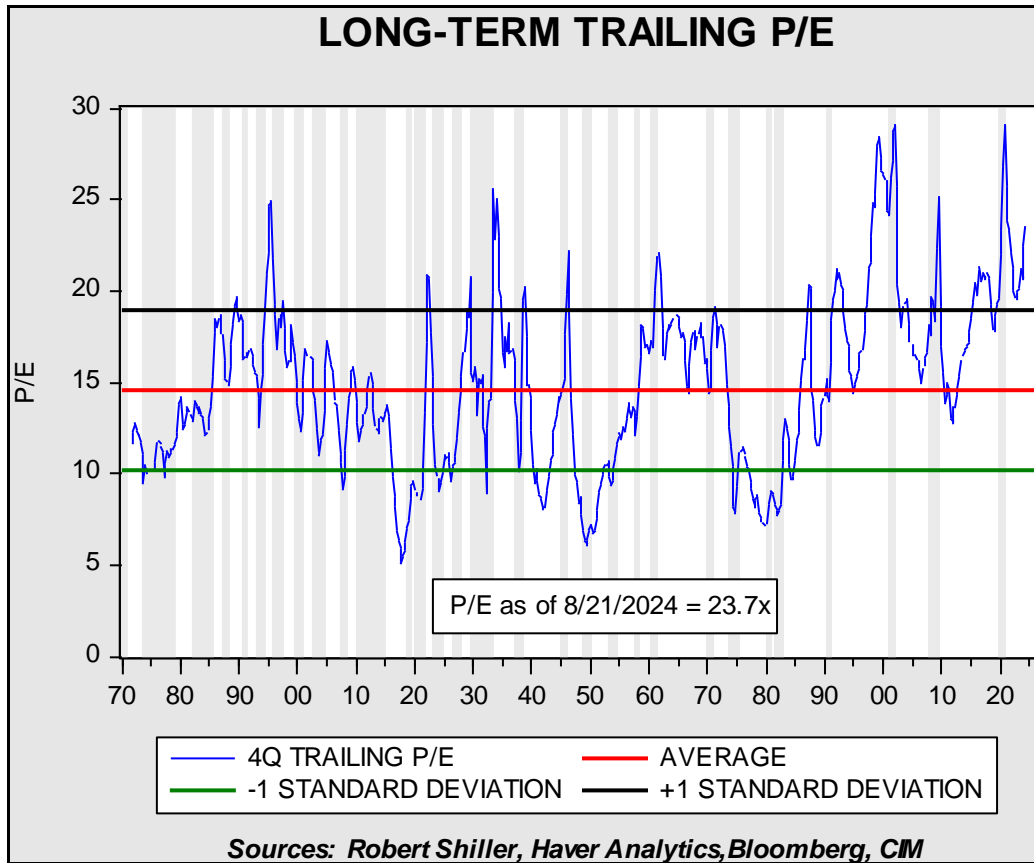


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 22, 2024



Based on our methodology,¹ the current P/E is 23.7x, up 0.1 from our last report. The increase in the multiple was due to a slight pickup 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.