

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: July 23, 2024—9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 closed up 1.0% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 1.1%. Chinese markets were lower, with the Shanghai Composite down 1.7% from its previous close and the Shenzhen Composite down 2.6%. US equity index futures are signaling a higher open.

With 79 companies having reported so far, S&P 500 earnings for Q2 are running at \$59.60 per share, compared to estimates of \$58.94, which is up 8.0% from Q2 2023. Of the companies that have reported thus far, 82.3% have exceeded expectations while 12.7% 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 \(7/22/2024\)](#) (with associated [podcast](#)): “Meet Ferdinand Marcos Jr., President of the Philippines”**
- [Asset Allocation Bi-Weekly \(7/15/2024\)](#) (with associated [podcast](#)): “A New Factor for Gold Prices”
- [Asset Allocation Quarterly – Q3 2024 \(7/16/2024\)](#): Discussion of our asset allocation process, Q3 2024 portfolio changes, and our outlook for the markets.

Our *Comment* today opens with a new update on the Summer Olympic Games, which begin on Friday. Importantly, there are reportedly *hundreds of thousands* of tickets still available. We next review several other international and US developments with the potential to affect the financial markets today, including hints that Mexico is getting ready to crack down on its unbalanced trade relationship with China and several notes on US industry developments.

France: Four days before the opening ceremonies of the Summer Olympic Games in Paris, unwanted tickets posted for resale online [have topped 250,000](#), up from just 180,000 one week ago. Although a record 8.8 million tickets have been sold outright, hundreds of thousands are still available through the initial and resale channels, even for prestigious events such as Friday’s opening ceremonies (starting at 900 EUR) and the 100-meter sprint (ranging from 295 to 980 EUR).

United Kingdom: The new center-left government of Prime Minister Keir Starmer [said it will ease and reform certain environmental-protection rules seen as inhibiting home construction](#) and contributing to the UK's chronic housing shortages. However, homebuilders say they haven't yet seen details of the plan. It remains unclear whether the changes will indeed lead to greater homebuilding and, eventually, lower housing costs.

Mexico-China: At an event with top officials on Saturday, Mexican Finance Minister Rogelio Ramírez de la O [complained that China-Mexico trade has become extremely unbalanced](#), with China exporting more than 10 times as much to Mexico as Mexico exports to China. The statement was echoed by incoming Economy Minister Marcelo Ebrard, who will take office in October when President-Elect Claudia Sheinbaum is inaugurated.

- The complaints by Ramírez de la O and Ebrard show how even less-developed countries have become alarmed by “China Shock 2.0,” in which Beijing has rechanneled massive resources into manufacturing, effectively flooding the world with exports at disruptive, fire-sale prices.
- Importantly, Ramírez de la O hinted that the Mexican government is considering changes to its foreign investment rules to address the risk that Chinese firms will set up shop in the country merely to export tariff-free to the US — at the expense of Mexican firms.

US Politics: New reports say Vice President Kamala Harris [has gained voting commitments from more than half the delegates to the Democratic Party convention in August](#), putting her on track to lock down her nomination as the party's official presidential candidate. Separately, the *Financial Times* today carries an interesting article [predicting President Biden, now a lame duck, will use his remaining six months in office to focus on cementing his legacy in foreign policy](#), with a focus on the Middle East and Ukraine.

US Artificial Intelligence Industry: Nvidia, the AI chipmaker darling, [said it is developing a new chip designed to be sold in China without violating the increasingly stringent US export controls](#) against such sales. Nvidia has already designed several chips for the Chinese market, but its sales in China nevertheless dropped to 17% of total revenue in the year to January, versus 26% two years earlier. The new chip aims to boost the company's Chinese sales, but ever-tighter export rules from the US could derail those plans.

US Cryptocurrency Industry: The Securities and Exchange Commission yesterday afternoon [approved the first exchange-traded funds for spot ether](#), the second-biggest crypto token after bitcoin. The new ether ETFs are expected to be available as early as today.

US Healthcare Industry: The House Committee on Oversight and Accountability [has issued a report showing pharmacy-benefit managers steer patients toward higher-priced medicines and affiliated pharmacies](#), even though they're supposed to help consumers cut drug costs. The report, issued after a 32-month investigation, will be followed today by a committee hearing on the matter at which top PBM officials will testify.

- The report and hearing suggest Congress could eventually pass new regulations on PBMs.

- That could weigh on the stocks of top healthcare companies, such as UnitedHealthcare, Cigna, and CVS, which have large PBM businesses.

US Auto Industry: According to data firm Motor Intelligence, the average incentive package on a new vehicle sold in June [was up 53% from the same month one year earlier](#). JD Power also said only about 17% of new cars sold above the manufacturer’s suggested retail price in June, versus 35% a year earlier. The weakening price dynamics for new vehicles suggest demand is waning in the face of high prices, high interest rates, and a weaker job market. The bright side is that weaker auto prices should eventually feed into lower inflation and interest-rate cuts.

US Economic Releases

There were no domestic releases 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						
ET	Indicator			Expected	Prior	Rating
10:00	Richmond Fed Manufact. Index	m/m	Jul	-6.0	-10.0	**
10:00	Richmond Fed Business Conditions	m/m	Jul		-11.0	*
10:00	Existing Home Sales	m/m	Jun	3.99m	4.11m	***
10:00	Existing Home Sales MoM	m/m	Jun	-3.0%	-0.7%	*
Federal Reserve						
No Fed speakers or events for the rest of today						

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	Machine tool orders	y/y	Jun F	9.7%	9.7%		**	Equity and bond neutral
South Korea	PPI	y/y	Jun	2.5%	2.3%		**	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)	554	554	0	Down
3-mo T-bill yield (bps)	517	518	-1	Up
U.S. Sibor/OIS spread (bps)	528	529	-1	Down
U.S. Libor/OIS spread (bps)	526	527	-1	Down
10-yr T-note (%)	4.23	4.25	-0.02	Up
Euribor/OIS spread (bps)	371	370	1	Down
Currencies	Direction			
Dollar	Up			Down
Euro	Down			Up
Yen	Up			Down
Pound	Down			Up
Franc	Down			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	\$82.15	\$82.40	-0.30%	
WTI	\$78.17	\$78.40	-0.29%	
Natural Gas	\$2.24	\$2.25	-0.71%	
12-mo strip crack	\$22.03	\$21.81	1.01%	
Ethanol rack	\$2.04	\$2.03	0.63%	
Metals				
Gold	\$2,408.85	\$2,396.59	0.51%	
Silver	\$29.08	\$29.13	-0.16%	
Copper contract	\$417.40	\$419.75	-0.56%	
Grains				
Corn contract	\$414.25	\$415.00	-0.18%	
Wheat contract	\$542.25	\$548.00	-1.05%	
Soybeans contract	\$1,071.75	\$1,068.75	0.28%	
Shipping				
Baltic Dry Freight	1,896	1,902	-6	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-2.92		
Gasoline (mb)		1.20		
Distillates (mb)		1.27		
Refinery run rates (%)		-0.4%		
Natural gas (bcf)		26		

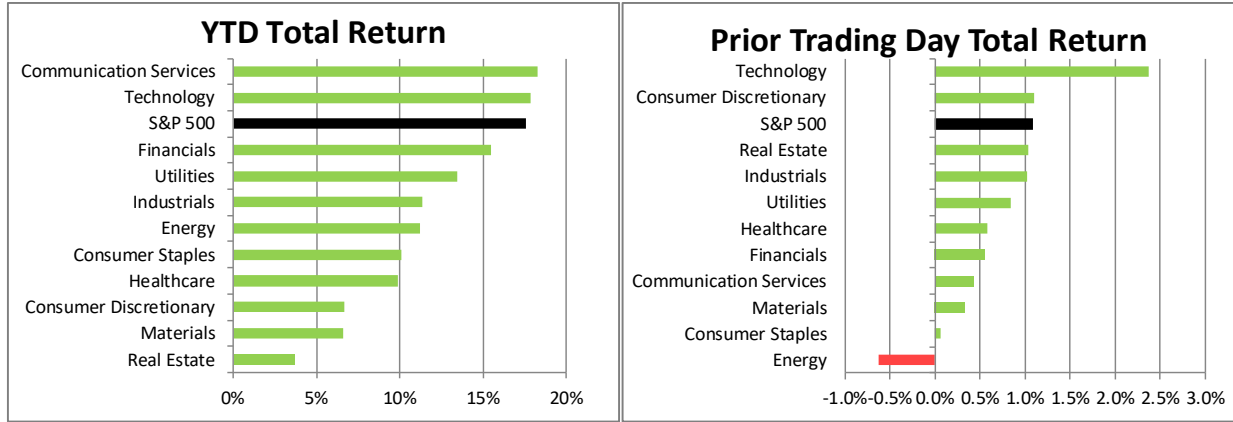
Weather

The 6-10 and 8-14 day forecasts currently call for warmer-than-normal temperatures to prevail across all of the country except for the West Coast and a swath of the South from Texas to the Carolina coast, with cooler-than-normal temperatures in southern Texas and the Los Angeles area. The precipitation outlook calls for wetter-than-normal conditions in the eastern third of the country and the extreme Pacific Northwest, with dry conditions expected in a bubble encapsulating Nevada, the Rocky Mountains, and the northern Great Plains.

There is no cyclone activity expected in the Atlantic Ocean region within the next 48 hours.

Data Section

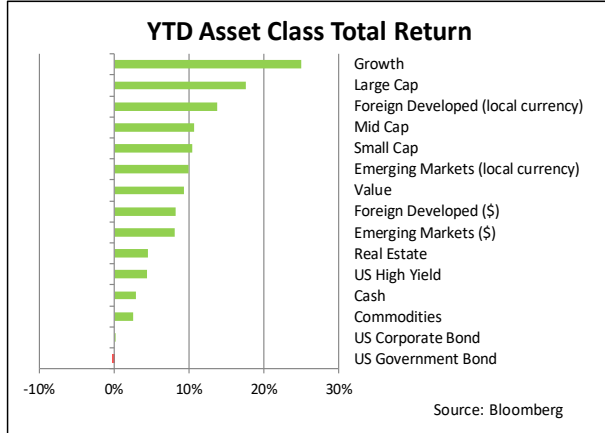
US Equity Markets – (as of 7/22/2024 close)



(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 7/22/2024 close)

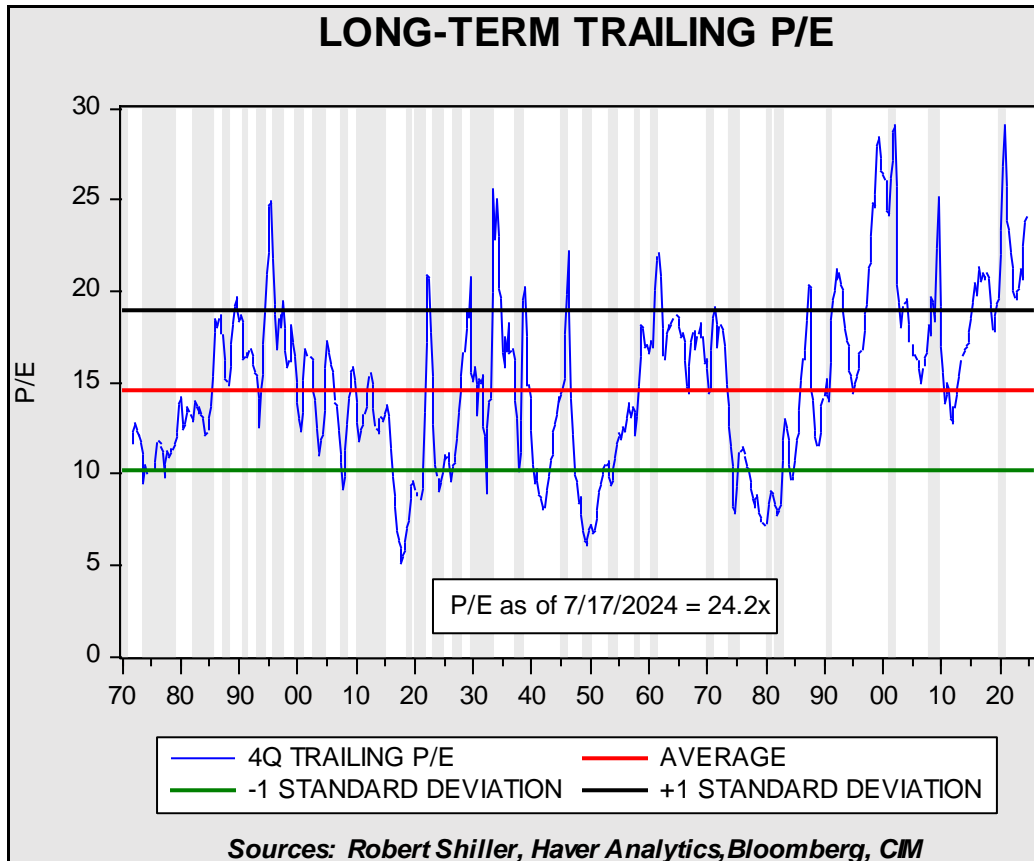


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

July 18, 2024



Based on our methodology,¹ the current P/E is 24.2x, up 0.2 from our last report. The increase in the multiple was due to an increase in the stock price index and a slight decrease 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.