

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 2, 2024—9:30 AM ET] Global equity markets are mostly lower this morning. In Europe, the Euro Stoxx 50 closed down 1.1% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.6%. Chinese markets were mixed, with the Shanghai Composite up 0.1% from its previous close and the Shenzhen Composite down 0.6%. US equity index futures are signaling a lower 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 \(7/1/2024\)](#) (with associated [podcast](#)): “The EU Parliamentary Elections: New Strength for the Right”**
- [Asset Allocation Quarterly – Q2 2024](#) (4/25/2024): Discussion of our asset allocation process, Q2 2024 portfolio changes, and our outlook for the markets.
- [Asset Allocation Q2 2024 Rebalance Presentation](#) (5/7/2024): Video presentation featuring the Asset Allocation Committee as they review the asset allocation strategies, recent portfolio changes, and the current macro environment.
- [Asset Allocation Bi-Weekly](#) (6/24/2024) (with associated [podcast](#)): “Small Caps and the Hope for a Soft Landing” (*Note: the next AABW report will be published 7/15/24*)
- [Confluence of Ideas podcast](#) (5/8/2024) “Reviewing the Asset Allocation Rebalance: Q2 2024”

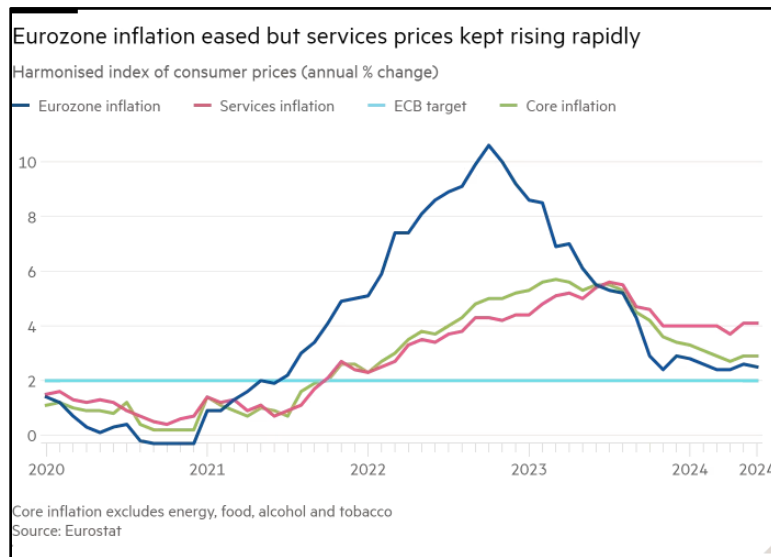
Our *Comment* today opens with news that China is continuing to build out its electronic spying facilities in Cuba, which will likely further exacerbate tensions with the US. We next review several other international and US developments with the potential to affect the financial markets today, including a further slowdown in consumer price inflation in the eurozone and a discussion of yesterday’s rout in the US bond market.

China-Cuba-United States: Commercial satellite imagery analyzed by the Center for Strategic and International Studies [shows China is continuing to expand its electronic eavesdropping facilities in Cuba](#), including a newly discovered site just 70 miles from the US military base at Guantanamo Bay. The facilities appear to be aimed mainly at spying on the US. The report is likely to add to the many geopolitical and economic tensions between the US and China, which continue to present risks for investors.

Russia: Reports say former Deputy Defense Minister Tatyana Shevtsova [has defected to France, just weeks after she resigned her position as chief of the Defense Ministry’s financial directorate.](#) Shevtsova reportedly helped investigate corruption among high-level generals after Andrei Belousov took over as defense minister in May, but it appears she also came under suspicion because of some extremely expensive real estate she owns. As the wife of Russia’s energy minister, she also reportedly owns interests in at least two coal companies.

- If Shevtsova has really defected, she will likely be interrogated by France and other NATO countries for insights into how the Kremlin is financing its invasion against Ukraine.
- If Shevtsova reveals or confirms that China is providing more direct support to Russia than previously known, tensions between the West and Beijing could worsen further.

Eurozone: The June consumer price index [was up just 2.5% from June 2023, matching expectations and decelerating from the 2.6% rise in the year to May.](#) However, the core CPI inflation (excluding food, energy, and tobacco) was unchanged at 2.9%, largely reflecting sticky service prices. The elevated core inflation and likely price pressures from this month’s Paris Olympic Games are expected to discourage the European Central Bank from matching last month’s interest-rate cut with another in July. The next cut is now expected late in the summer.



Germany: According to an article in today’s *Financial Times*, many German companies [are abandoning their long-held reluctance to produce military goods as they see growing defense orders](#) across Europe. At least some of the firms have seen a big jump in their stock price after announcing a shift to military production.

- That’s consistent to our often-stated view that rising defense budgets in the West will likely benefit not only traditional military contractors, but also technology firms and other producers of dual-use goods and services.

- The expansion into defense production may be especially pronounced in Europe, where sluggish economic activity, weak demographics, and cooling exports mean defense is one of the relatively few growth opportunities.

France: As far-left parties and President Macron’s centrists continue trying to coordinate to head off a far-right win in Sunday’s run-off parliamentary elections, Marine Le Pen of the far-right National Rally (RN) today [said her party would try to form a coalition government if it fails to win an outright majority](#). Previously, the party’s candidate for prime minister, Jordan Bardella, had insisted he would not rely on allies to govern. RN’s new openness to leading a coalition government likely increases the chance that it will take power in the Sunday vote.

- In last Sunday’s first-round voting for the 577 seats in parliament, RN came in first with 33% of the vote. The far-left New Popular Front (NFP) came in second with 28% and Macron’s centrist alliance came in third with 20%.
- But RN only achieved an outright majority in a relatively small number of constituencies. This coming Sunday, it will have to slug it out in a run-off against another party in hundreds of constituencies.
- In constituencies where French election rules would have sent three parties to a run-off (usually RN, NFP, and Macron’s centrists), NFP and Macron aim to drop their weakest candidate, increasing the odds that their remaining candidate could beat RN and lock it out of a majority.

Netherlands: In another example of increased far-right power in Europe, a coalition government that includes Geert Wilders’ nationalist, anti-Islam Freedom Party [took office today](#). The government will be headed by Prime Minister Dick Schoof, a political novice and former intelligence agency chief. The far-right Freedom Party will head five of the 15 ministries, including the ministries for migration and trade.

US Bond Market: Investors yesterday [dumped government bonds, pushing the yield on the benchmark 10-Year Treasury up to 4.479% by market close](#), versus only about 4.325% late last week. The action reportedly reflected investor reactions to last week’s debate and yesterday’s Supreme Court decision granting broad immunity to former President Trump for his official acts while in office.

- Those developments have increased the probability that Trump will be re-elected and have the chance to implement inflationary economic policies. The inflationary policies expected from Trump include big, across-the-board tariffs on imports, extension of the 2017 tax cuts, and populist spending programs.
- More generally, investors have become more concerned that Republicans will gain control of both the White House and Congress. Investors fear that having one party in control of both the executive and the legislative branches of government will lead to higher budget deficits.

US Technology Regulation: Also among the Supreme Court’s end-of-session decisions, the justices yesterday [refused to rule on the validity of state laws in Texas and Florida that attempt to](#)

[police social-media firms' content moderation policies](#). The action suggests those policies can be protected by the First Amendment, but the justices sent the challenges back to lower courts for further argument and analysis.

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			
No economic releases for the rest of today			
Federal Reserve			
ET	Speaker or Event	District or Position	
9:30	Jerome Powell Speaks in Sintra	Chairman 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	Monetary Base	y/y	Jun	0.6%	0.9%		**	Equity and bond neutral
	Monetary Base, End of Period	m/m	Jun	¥674.4t	¥675.7t		*	Equity and bond neutral
New Zealand	Building Permits	m/m	May	-1.7%	-2.1%		**	Equity and bond neutral
South Korea	CPI	m/m	Jun	2.4%	2.7%	2.6%	***	Equity and bond neutral
EUROPE								
Eurozone	CPI	y/y	Jun	2.5%	2.6%	2.5%	***	Equity and bond neutral
	Core CPI	y/y	Jun P	2.9%	2.9%	2.8%	**	Equity and bond neutral
	Unemployment Rate	m/m	May	6.4%	6.4%	6.4%	**	Equity and bond neutral
Italy	Unemployment Rate	m/m	May	6.8%	6.8%	6.9%	**	Equity and bond neutral
AMERICAS								
Mexico	S&P Global Mexico Manufacturing PMI	m/m	Jun	51.1	51.2		***	Equity and bond neutral
	Gross Fixed Investment	y/y	Apr	18.1%	2.6%	17.9%	**	Equity and bond neutral
Brazil	S&P Global Brazil Manufacturing PMI	m/m	Jun	52.5	52.1		***	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)	559	559	0	Up
3-mo T-bill yield (bps)	521	521	0	Up
U.S. Sibor/OIS spread (bps)	532	532	0	Up
U.S. Libor/OIS spread (bps)	532	533	-1	Up
10-yr T-note (%)	4.45	4.46	-0.01	Up
Euribor/OIS spread (bps)	371	371	0	Down
Currencies	Direction			
Dollar	Flat			Up
Euro	Down			Down
Yen	Down			Down
Pound	Flat			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	\$87.29	\$86.60	0.80%	
WTI	\$84.10	\$83.38	0.86%	
Natural Gas	\$2.46	\$2.48	-0.77%	
12-mo strip crack	\$23.45	\$22.97	2.07%	
Ethanol rack	\$2.21	\$2.20	0.32%	
Metals				
Gold	\$2,324.46	\$2,331.90	-0.32%	
Silver	\$29.36	\$29.45	-0.31%	
Copper contract	\$443.45	\$441.80	0.37%	
Grains				
Corn contract	\$422.75	\$420.50	0.54%	
Wheat contract	\$583.00	\$590.25	-1.23%	
Soybeans contract	\$1,118.25	\$1,111.00	0.65%	
Shipping				
Baltic Dry Freight	2,158	2,050	108	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-1.12		
Gasoline (mb)		0.61		
Distillates (mb)		-0.18		
Refinery run rates (%)		1.1%		
Natural gas (bcf)		52		

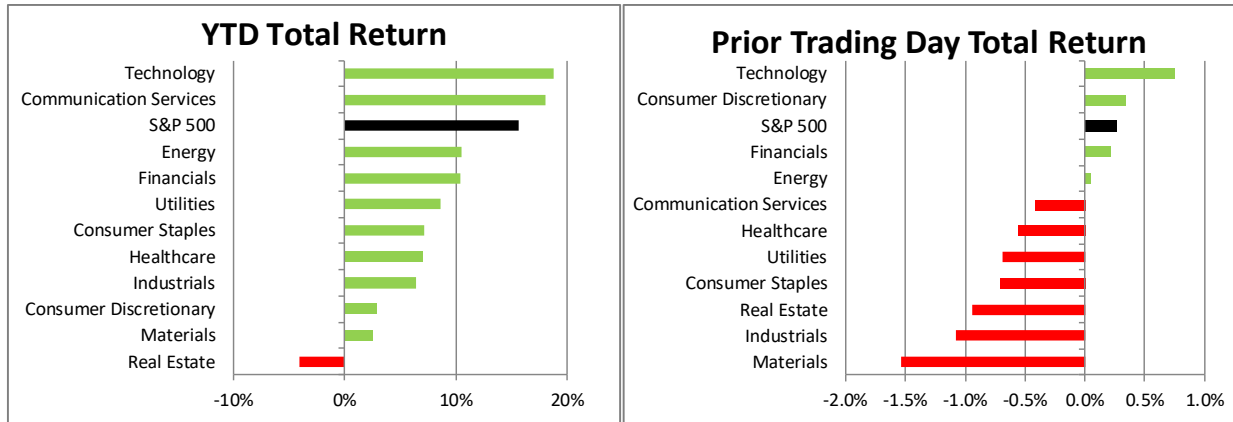
Weather

The 6-10 and 8-14 day forecasts call for warmer-than-normal temperatures throughout most of the country, with cooler-than-normal temperatures in the upper Mississippi valley. The forecasts call for wetter-than-normal conditions throughout the East and the southern tier, with dry conditions stretching from the Pacific Northwest to Minnesota.

There are two atmospheric disturbances in the Atlantic Ocean area. Hurricane Beryl is churning westward through the Caribbean Sea at 20 knots with maximum sustained winds of 145 knots. Jamaica will feel the full effects of the storm Wednesday, and the center of the storm will reach the Yucatan by Friday, before entering the southern Gulf of Mexico over the weekend. Meanwhile, a tropical wave with a 20% chance of developing into a cyclone over the next 48 hours is making its way across the Atlantic about 1,000 miles east of the Windward Islands.

Data Section

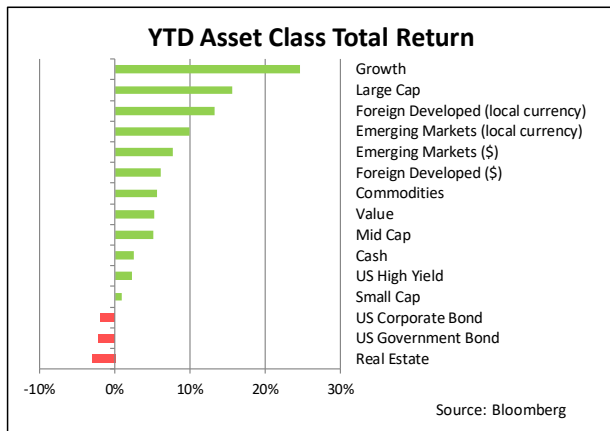
US Equity Markets – (as of 7/1/2024 close)



(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 7/1/2024 close)

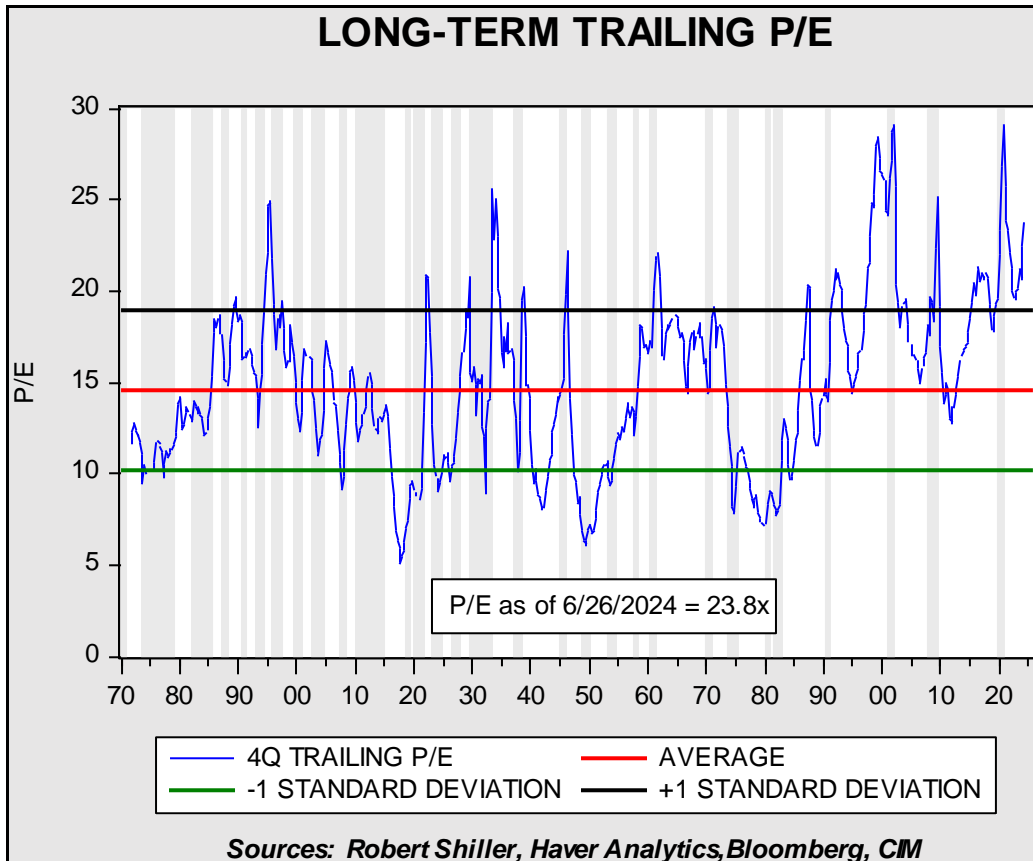


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

June 27, 2024



Based on our methodology,¹ the current P/E is 23.8x, up 0.1 from our last report. The increase in the multiple was due to an increase in the stock price index offsetting a slight 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.