

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 3, 2024—9:30 AM ET]** Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 closed up 1.4% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 1.2%. Chinese markets were lower, with the Shanghai Composite down 0.5% from its previous close and the Shenzhen Composite down 0.8%. 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 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*)

**Please note: Due to the Fourth of July holiday, we will not publish a Daily Comment on Friday, July 5. We will resume publication on Monday, July 8. Have a Happy Fourth!**

Our *Comment* today opens with some good news on the dangerous Chinese-Philippine tensions in the South China Sea. At last, the two sides have held talks aimed at diffusing the situation. We next review several other international and US developments with the potential to affect the financial markets today, including the latest on the French elections, a preview of tomorrow’s elections in the United Kingdom, and a new effort by the US government to block a proposed merger on competition concerns.

**China-Philippines:** Beijing and Manila yesterday [held emergency talks aimed at reducing tensions over their conflicting territorial claims in the South China Sea](#). According to Philippine officials, the two sides made “substantial progress” in cooling the situation. However, the officials also stressed Manila’s intention to remain “relentless” in protecting its sovereignty over the disputed areas. With China emboldened by its recent activities in the area, that suggests to us that the situation remains dangerous.

**European Union-China:** According to insiders, the European Commission [will soon propose scrapping its €150 threshold under which items can be imported duty free](#). The move will be aimed mostly at Chinese purveyors of cheap goods, such as Temu, AliExpress, and Shein. We suspect Beijing will see the move as another form of trade protectionism aimed against China, on

top of the EU's new tariffs against Chinese electric vehicles. As a result, the move could further worsen EU-China trade tensions.

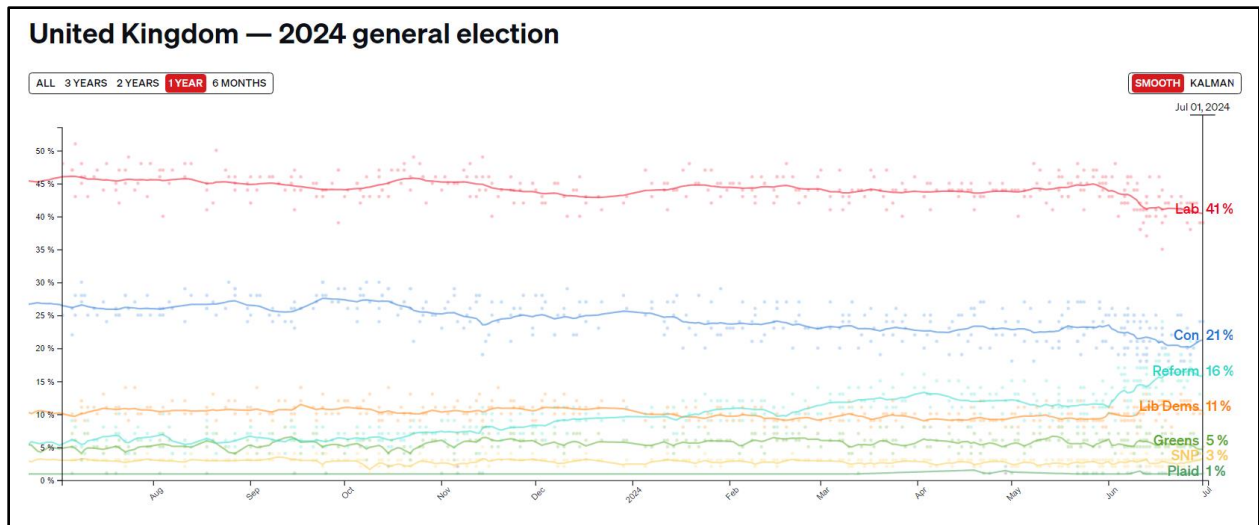
- Cheap e-commerce imports into the EU below the duty-free threshold reportedly topped 2.3 billion items last year. They are on pace to double this year to about two deliveries per every household in the EU.
- Because of the EU's subsidized postage rates, Chinese firms find it cost effective to export to the region, but the shipments impose a cost on the EU.

**France:** In their effort to deny the far-right National Rally (RN) a parliamentary majority in Sunday's run-off elections, cooperating far-left and centrist parties [pulled their weakest candidate from more than 200 constituencies where they otherwise would have split the anti-RN vote](#). In those districts, a single far-left or centrist candidate will now compete, increasing the odds of beating the RN candidate and keeping the far-right party from an outright majority.

- However, all signs suggest RN will still win the largest number of seats in parliament, which would give it unprecedented power in France.
- Besides, RN has now said it is open to forming a coalition government, which would help ensure it has increased influence in French government going forward.
- Another key risk is that France could end up with a "hung" parliament, in which no party or group of parties can form a majority. That would leave France in political limbo, potentially for a long time.

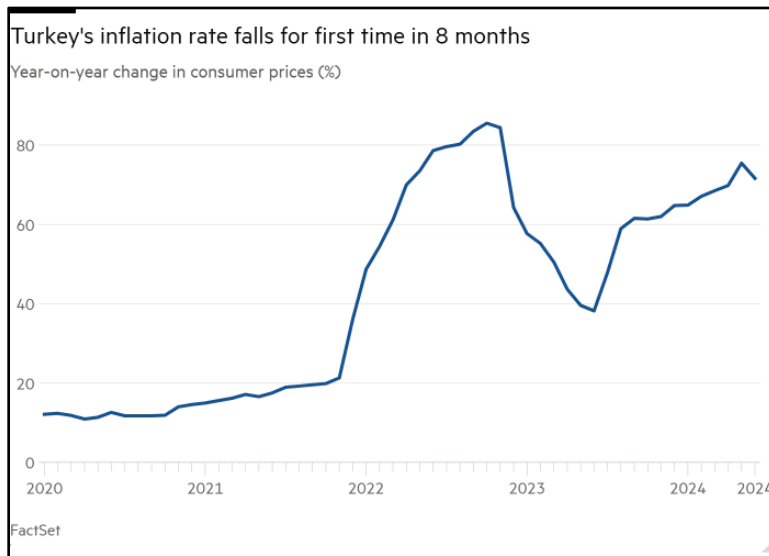
**United Kingdom:** In other European political news, Britain [will hold parliamentary elections tomorrow, with the opposition Labour Party still looking set to win in a landslide](#). According to the latest polls, [support for Labour remains about 20 percentage points above the support for the ruling Conservative Party](#).

- Even though Labour leader Sir Keir Starmer has managed to moderate the party's past "tax, spend, and regulate" policies, investors are increasingly concerned about how they would be treated under a new government.
- Recent reports say rich Britons [are already dumping stocks and real estate in anticipation that Labour will raise the capital gains tax](#).



(Source: Politico.com)

**Turkey:** The June consumer price index [was up 71.6% from the same month one year earlier](#). As bad as that was, the increase was less than expected, and it marked a welcome deceleration from the 75.5% rise in the year to May. The data also marked the first slowing in consumer price inflation in eight months, raising hopes that the government’s pivot away from President Erdogan’s unorthodox economic policies a year ago may finally be bearing fruit.



**Jamaica:** As noted in our weather section below, Hurricane Beryl continues to “barrel” through the Caribbean and [is expected to hit or skirt Jamaica later this afternoon](#). After becoming the earliest-ever Category 5 storm, Beryl has now been downgraded to Category 4. Nevertheless, it has already caused extensive damage in Grenada and other Caribbean islands, and it could still cause extensive damage in Mexico later this week.

**US Politics:** Democratic lawmakers, party leaders, and donors [are reportedly becoming increasingly angry at President Biden and the White House staff for not addressing their concerns about the president’s age and weak performance](#) in his first debate against former

President Trump in June. Now that several Democratic lawmakers have publicly called for Biden to give up his re-election bid, we see an increasing chance that the president could ultimately capitulate, prompting the Democrats to scramble to choose a replacement candidate.

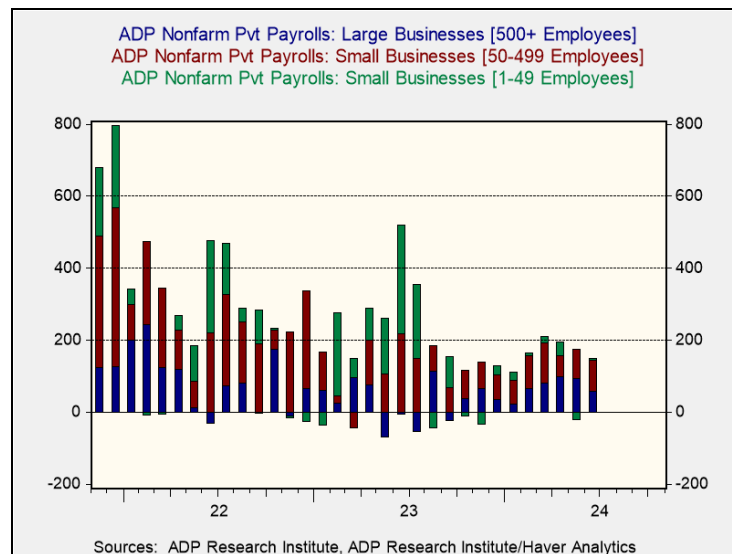
- Ironically, Democratic leaders say the issue now is more about the White House stonewalling their demand for answers and lack of concern for the impact on congressional candidates, rather than the signs that Biden’s age is catching up to him.
- As we have noted previously, both Biden and Trump are old enough and have other issues that it would not be a surprise if either or both were not on the ballot by November. For now, the odds still seem to favor Trump in the election, but anything could still happen.

**US Antitrust Policy:** The Federal Trade Commission yesterday [voted unanimously to file a lawsuit against mattress maker Tempur Sealy’s proposed acquisition of giant bedding retailer Mattress Firm](#). According to the FTC, the combination would allow Tempur Sealy to restrict rivals’ access to an important retail chain, allowing it to boost prices. The lawsuit shows how the FTC has become much more aggressive in challenging potentially anticompetitive behavior.

### US Economic Releases

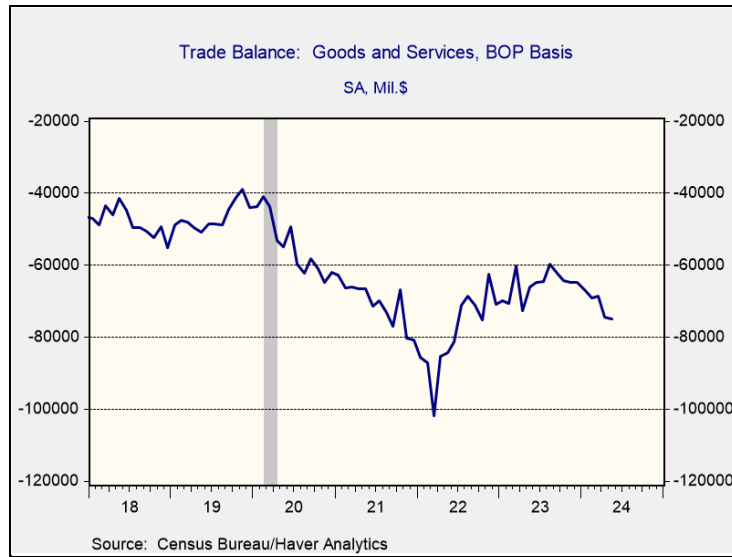
Home loan demand slowed last week as borrowing costs made their biggest jump since mid-April. According to the Mortgage Bankers Association (MBA), mortgage applications fell 2.6% in the week ending June 28. This decline coincided with an increase in interest rates, with the average 30-year fixed-rate mortgage rising 10 basis points to 7.03%. As a result, the MBA's purchase tracker fell 3.3% from the prior week, while the refinance tracker fell 1.5%.

The US job market shows signs of further cooling. According to the private payroll data collected by ADP, there were 150,000 jobs created in June. The figure falls below both the previous month's reading of 157,000 and the estimate of 160,000 jobs.



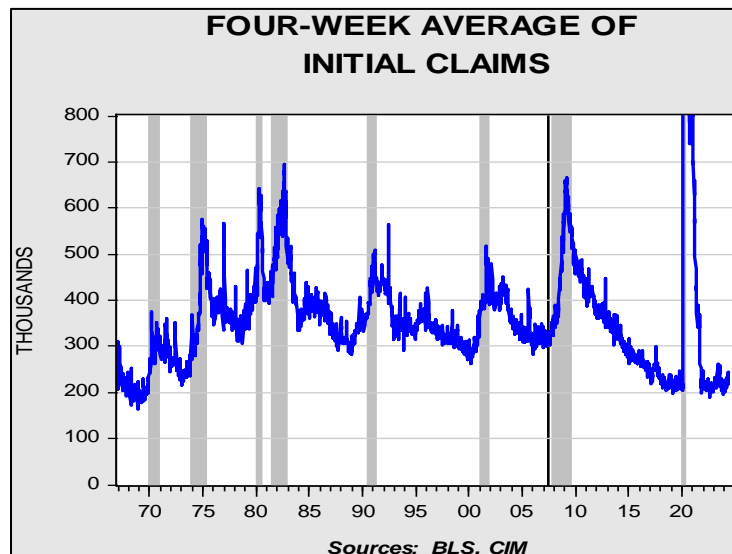
The chart above illustrates the month-to-month change in employment levels by firm size. Small firms exhibited the lowest job creation, adding 5,000 positions. Meanwhile, medium-sized and large firms created 88,000 and 58,000 jobs, respectively.

Separately, the US trade deficit widened more than expected in June, according to the US Commerce Department. The US trade gap in goods and services widened from \$74.6 billion to \$75.1 billion. Last month, the value of imports fell from \$338.2 billion to \$336.7 billion, while exports fell from \$263.7 billion to \$261.7 billion.



The chart above shows the level of the trade balance.

Lastly, initial jobless claims edged up slightly last week. The Department of Labor reported that initial claims increased from a revised 234,000 to 238,000 in the week ending June 29.



The chart above shows the four-week moving average for initial claims. The moving average rose from 236,250 to 238,500.

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	Factory Orders	m/m	May	0.2%	0.7%	***
10:00	ISM Services Index	m/m	Jun	52.6	53.8	**
10:00	ISM Services Prices Paid	m/m	Jun	56.7	58.1	*
10:00	ISM Services Employment	m/m	Jun	49.0	47.1	**
10:00	ISM Services New Orders	m/m	Jun	53.6	54.1	**
10:00	Durable Goods Orders	m/m	May F	0.1%	0.1%	***
10:00	Durable Goods Orders ex Transportation	m/m	May F	-0.1%	-0.1%	**
10:00	Cap Goods Orders Nondef Ex Air	m/m	May F	-0.6%	-0.6%	*
10:00	Cap Goods Ship Nondef Ex Air	m/m	May F		-0.5%	*
Federal Reserve						
ET	Speaker or Event	District or Position				
14:00	FOMC Meeting Minutes	Federal Reserve Board				

## 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.

ASIA-PACIFIC								
Japan	Jibun bank Composite PMI	m/m	Jun F	49.7	50.0		*	Equity and bond neutral
	Jibun Bank Services PMI	m/m	Jun F	49.4	49.8		**	Equity and bond neutral
Australia	Retail Sales	m/m	May	0.6%	0.1%	0.3%	***	Equity and bond neutral
	Building Approvals	m/m	May	5.5%	1.9%	1.6%	***	Equity bullish, bond bearish
New Zealand	ANZ Commodity Price	m/m	Jun	1.5%	1.1%		**	Equity and bond neutral
South Korea	Foreign Reserves	m/m	Jun	412.2	\$412.83b		**	Equity and bond neutral
China	Caixin Composite PMI	m/m	Jun	52.8	54.1		**	Equity and bond neutral
	Caixin Services PMI	m/m	Jun	51.2	54.0	53.4	**	Equity bearish, bond bullish
India	HSBC India PMI Composite	m/m	Jun F	60.9	60.9		**	Equity and bond neutral
	HSBC India PMI Services	m/m	Jun F	60.5	60.4		**	Equity and bond neutral
EUROPE								
Eurozone	HCOB Eurozone Services PMI	m/m	Jun F	52.8	52.6	52.6	**	Equity and bond neutral
	HCOB Eurozone Composite PMI	m/m	Jun F	50.9	50.8	50.8	*	Equity and bond neutral
	PPI	y/y	May	-4.2%	-5.7%	-4.1%	**	Equity and bond neutral
Germany	HCOB Germany Services PMI	m/m	Jun F	53.1	53.5	53.5	**	Equity and bond neutral
	HCOB Germany Composite PMI	m/m	Jun F	50.4	50.6	50.6	**	Equity and bond neutral
France	HCOB France Services PMI	m/m	Jun F	49.6	48.8	48.8	**	Equity and bond neutral
	HCOB France Composite PMI	m/m	Jun F	48.8	48.2	48.2	**	Equity and bond neutral
Italy	HCOB Italy Composite PMI	m/m	Jun	51.3	52.3	51.5	**	Equity and bond neutral
	HCOB Italy Services PMI	m/m	Jun	53.7	54.2	53.8	**	Equity and bond neutral
UK	Official Reserves Changes	m/m	Jun	-\$136m	\$1647m		*	Equity and bond neutral
	S&P Global UK Services PMI	m/m	Jun F	52.1	51.2	51.2	**	Equity and bond neutral
	S&P Global UK Composite PMI	m/m	Jun F	52.3	51.7	51.7	**	Equity and bond neutral
Russia	S&P Global Russia Composite PMI	m/m	Jun	49.8	51.4		**	Equity and bond neutral
	S&P Global Russia Services PMI	m/m	Jun	47.6	49.8		**	Equity and bond neutral
AMERICAS								
Canada	S&P Global Canada Manufacturing	m/m	Jun	49.3	49.3		***	Equity and bond neutral
Mexico	International Reserves Weekly	w/w	28-Jun	\$219997m	\$220045m		*	Equity and bond neutral
	Vehicle Domestic Sales	y/y	Jun	122929	119985		***	Equity and bond neutral
Brazil	Industrial Production	y/y	May	-1.0%	8.4%	-1.7%	***	Equity bullish, bond bearish

## 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)	558	559	-1	Up
3-mo T-bill yield (bps)	522	521	1	Up
U.S. Sibor/OIS spread (bps)	531	532	-1	Up
U.S. Libor/OIS spread (bps)	532	532	0	Flat
10-yr T-note (%)	4.44	4.43	0.01	Up
Euribor/OIS spread (bps)	371	371	0	Down
Currencies	Direction			
Dollar	Flat			Up
Euro	Up			Down
Yen	Down			Down
Pound	Up			Up
Franc	Flat			Flat

## 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
<b>Energy Markets</b>				
Brent	\$86.33	\$86.24	0.10%	
WTI	\$82.84	\$82.81	0.04%	
Natural Gas	\$2.43	\$2.44	-0.25%	
12-mo strip crack	\$22.84	\$23.27	-1.82%	
Ethanol rack	\$2.18	\$2.19	-0.44%	
<b>Metals</b>				
Gold	\$2,343.98	\$2,329.46	0.62%	
Silver	\$30.14	\$29.53	2.09%	
Copper contract	\$449.15	\$441.90	1.64%	
<b>Grains</b>				
Corn contract	\$420.25	\$421.25	-0.24%	
Wheat contract	\$582.00	\$581.00	0.17%	
Soybeans contract	\$1,117.25	\$1,113.00	0.38%	
<b>Shipping</b>				
Baltic Dry Freight	2,179	2,158	21	
<b>DOE Inventory Report</b>				
	<b>Actual</b>	<b>Expected</b>	<b>Difference</b>	
Crude (mb)		-0.55		
Gasoline (mb)		-0.39		
Distillates (mb)		-0.15		
Refinery run rates (%)		0.9%		
Natural gas (bcf)		29		

## Weather

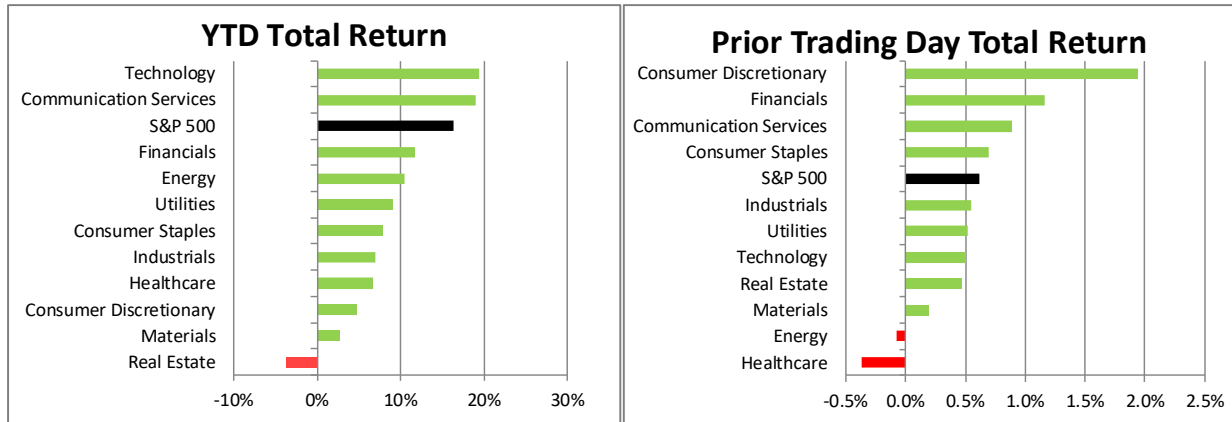
The 6-10 and 8-14 day forecasts call for warmer-than-normal temperatures throughout most of the country, with cooler-than-normal temperatures in the Upper Mississippi Valley. The forecasts call for wetter-than-normal conditions throughout the eastern and southern tiers, with dry conditions stretching 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 10% chance of developing into a cyclone over the next 48 hours is making its way across the Atlantic about 200 miles east of the Windward Islands.



**Data Section**

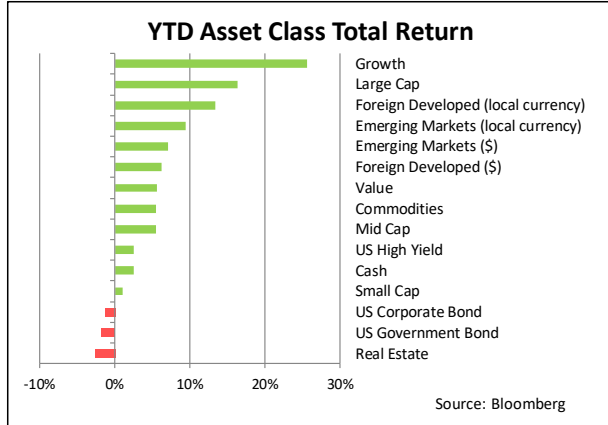
**US Equity Markets – (as of 7/2/2024 close)**



(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 7/2/2024 close)**

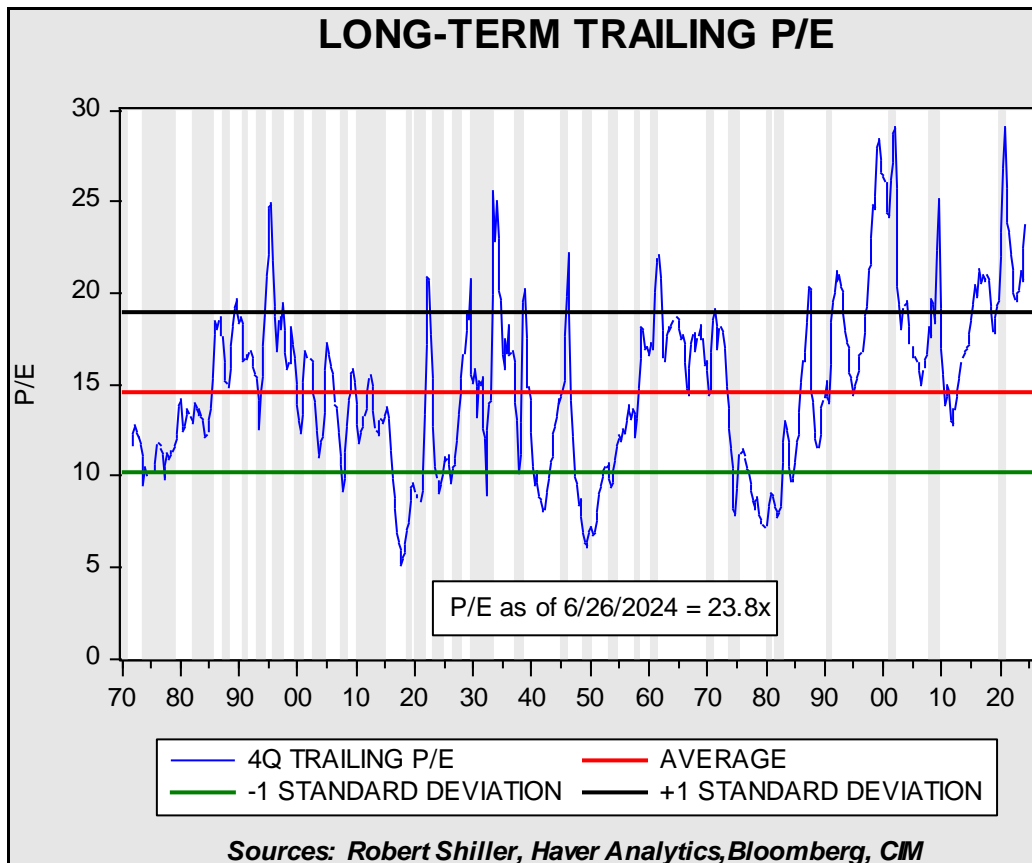


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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,<sup>1</sup> 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.*

<sup>1</sup> 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.