

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 9, 2024—9:30 AM ET] Global equity markets are mostly higher this morning. In Europe, the Euro Stoxx 50 closed down 0.5% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.4%. Chinese markets were higher, with the Shanghai Composite up 1.3% from its previous close and the Shenzhen Composite up 1.7%. US equity index futures are signaling a higher 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*)

Our *Comment* today opens with new color on the dangerous China-Philippines standoff in the South China Sea. We next review several other international and US developments with the potential to affect the financial markets today, including an impending shift in investment strategy by a major Japanese pension fund and several notes on US politics and economic policy.

China-Philippines: Amid the worsening tensions between China and the Philippines over disputed territory in the South China Sea, we are increasingly struck by the strong domestic political winds that appear to be pushing on Philippine President Ferdinand Marcos Jr. Popular opinion appears to be pushing Marcos to be more assertive against Beijing. Still, the president’s sister, Imee Marcos, [in recent days has warned that her brother’s growing closeness to the US and strong moves against China could prompt Beijing to attack](#).

- Imee Marcos is a senator in the Philippine legislature. She is known to be close to Sara Duterte, the daughter of former President Rodrigo Duterte, whose foreign policy was initially much more deferential to China and uncooperative with the US.
- Rodrigo Duterte and Ferdinand Marcos Jr. eventually became allies in the country’s 2022 elections. When Marcos won the presidency, Sara Duterte was named as his vice president. Since then, former President Rodrigo Duterte has continued to express a view that the country must be stronger in protecting its sovereignty against China.
- However, it now appears Imee Marcos and Sara Duterte may be trying to undermine President Marcos’s stronger alliance with the US and efforts to bolster Philippine

sovereignty, which has included a new defense cooperation agreement with the US in which Washington gained expanded access to Philippine military bases.

- Last week, Philippine Armed Forces Chief Gen. Romeo Brawner [claimed the US offered to aid his country in its dispute with China](#), implying US willingness to help resupply the Philippine marines posted on a disputed shoal in the South China Sea. However, Brawner insisted Manila turned down the offer. Given the Biden administration's extreme caution, Brawner could well be blowing smoke. Still, if his claim is true, it implies President Marcos may be sensitive to charges that he is getting too close to the US.
- Even if Imee and Sara have helped retard President Marcos's embrace of the US so far, it isn't clear that they can soften the broader public's strong support for a more aggressive stance toward Beijing. That would keep alive the risk of a Philippine miscalculation that could draw the US into a direct conflict with China.



Hungary-Ukraine-Russia-China: Just a week into Hungary's six-month stint chairing the Council of the European Union, Prime Minister Orban [has ruffled feathers in Brussels with trips to Kyiv, Moscow, and Beijing, ostensibly seeking to facilitate peace talks](#) between Russia and Ukraine. As noted in our [Bi-Weekly Geopolitical Report from July 1](#), the chair of the Council has no authority to represent the EU in international affairs. Therefore, Orban's theatrics appear aimed at bolstering his own image, embarrassing the EU, or both.

Japan: As the massive Government Pension Investment Fund starts prepping for its regular five-year strategy review in 2025, analysts say the recently improved performance of domestic assets [implies a substantial shift back into Japanese stocks and bonds](#). Since the fund has more than \$1.5 trillion in assets, any such shift could push prices for those assets upward, while taking some air out of the US and other foreign stocks or bonds to be sold. Analysts think the likely shift could also buoy the weak yen.

United Kingdom: In her first speech since the Labour Party took power, Chancellor Rachel Reeves [said she had already seen data suggesting the UK is now in its worst fiscal position since World War II](#). She also announced that she has directed the Treasury to launch a review of the UK budget position, a move many observers fear could be a prelude to tax hikes when the new budget is introduced in the autumn.

United States-China: At the Hudson Institute yesterday, Republican Speaker of the House Johnson [vowed his chamber would soon pass a series of new bills empowering the government to take even stronger economic measures against China](#). For example, Johnson said the House would vote on bills imposing new curbs on US investment in China and imposing tariffs on low-value imports that currently enter the US duty-free. Johnson's vow is consistent with our view that US-China relations will likely continue to spiral in the near term.

US Fiscal and Trade Policy: Following up on Johnson's remarks, the Republican Party yesterday [released its platform for the November elections](#). The [document](#) clearly indicates the party would continue to pursue former President Trump's "America First" foreign policy, protectionist trade policies, tax cuts, and deregulation. For example, the platform says the Republicans would:

- Impose base-line tariffs on foreign goods, using the income raised to cut taxes;
- Punish foreign countries that practice unfair trade;
- Revoke China's "Most Favored Nation" trade status;
- Revive the US auto industry by cutting regulations; and
- Ban imports of Chinese vehicles.

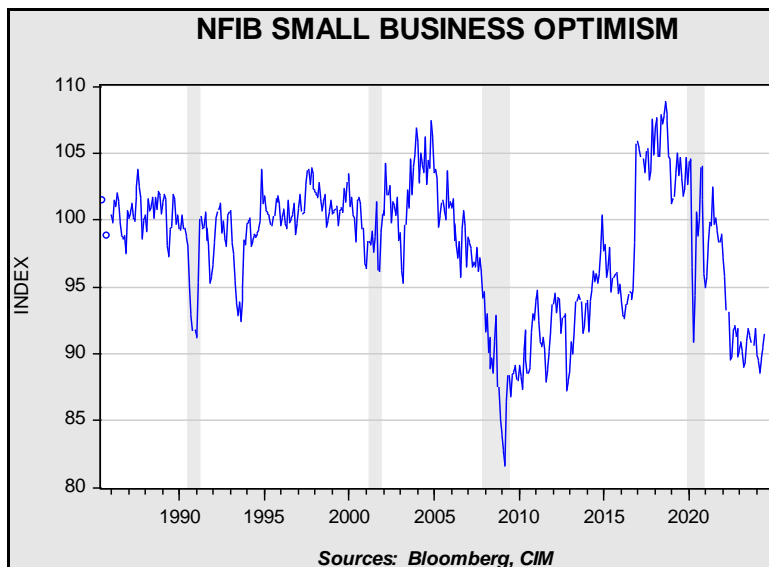
US Politics: As many in the Democratic Party keep trying to convince President Biden to end his re-election bid because of his age, a new poll [shows Biden's national support down to 42% versus 43% for former President Trump](#). In a head-to-head matchup, the poll also puts Vice President Harris's support at 42% versus 41% for Trump. Even though former Secretary of State Hillary Clinton isn't being seriously considered, the poll puts her support at 43% versus 41% for Trump, while a hypothetical Harris-Clinton ticket would have the advantage at 43% versus 40%.

US Monetary Policy: Federal Reserve Chair Powell today [begins his semiannual testimony to Congress](#). At 10:00 ET today, he addresses the Senate Banking Committee, and at the same time tomorrow, he'll address the House Financial Services Committee. Powell is expected to say that while progress has been made in bringing down consumer price inflation, policymakers want to be more certain that price pressures are under control before they start cutting interest rates.

US Artificial Intelligence Frenzy: Corning, the maker of glass screens for televisions and smartphones, [saw its stock price jump approximately 12% yesterday after boosting its guidance for second quarter revenues and profits](#). A key reason for the upward shift was good uptake of the company’s new optical connectivity products for generative artificial intelligence. The jump in the stock price suggests investors remain excited about AI and are still looking for new ways to participate in the frenzy.

US Economic Releases

The National Federation of Independent Business’ Small Business Optimism Index for June rose from 90.5 to 91.5, solidly exceeding the expectation of 90.2. Although the index remains well below its long-term average of 98 and within the downtrend that began before COVID, this marks the third consecutive monthly increase and carries the index to its 2024 high. While the gauge remains in pessimistic territory, the percentage of respondents with a negative view is now the smallest it has been in three years. This reading could provide positive support to markets. The following chart shows the course of the index through time.



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	
9:15	Michael Barr Speaks on Financial Inclusion	U.S. Federal Reserve Vice Chair for Supervision	
10:00	Jerome Powell Testifies to Senate Banking	Chair of the Board of Governors	
13:30	Michelle Bowman Speaks on Promoting Inclusive Financial System	Member 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	Machine tool orders	y/y	Jun P	9.7%	4.2%		**	Equity and bond neutral
	Money Stock M3	y/y	Jun	1.0%	1.3%		**	Equity and bond neutral
	Money Stock M2	y/y	Jun	1.5%	1.9%		**	Equity and bond neutral
Australia	Westpac Consumer Conf SA	m/m	Jul	-1.1%	1.7%		**	Equity and bond neutral
	Westpac Consumer Conf Index	m/m	Jul	82.7	83.6		**	Equity and bond neutral
	NAB Business Confidence	m/m	Jun	4	-2		***	Equity and bond neutral
	NAB Business Conditions	m/m	Jun	4	6		***	Equity and bond neutral
AMERICAS								
Mexico	CPI	y/y	Jun	4.98%	4.69%	4.86%	***	Equity and bond neutral
	Core CPI	y/y	Jun	4.13%	4.21%	4.14%	**	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)	557	558	-1	Up
3-mo T-bill yield (bps)	521	520	1	Up
U.S. Sibor/OIS spread (bps)	531	531	0	Up
U.S. Libor/OIS spread (bps)	531	531	0	Flat
10-yr T-note (%)	4.30	4.28	0.02	Down
Euribor/OIS spread (bps)	370	371	-1	Down
Currencies	Direction			
Dollar	Up			Up
Euro	Flat			Down
Yen	Down			Down
Pound	Flat			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.

DOE Inventory Report	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$85.46	\$85.75	-0.34%	
WTI	\$82.01	\$82.33	-0.39%	
Natural Gas	\$2.34	\$2.37	-0.93%	
12-mo strip crack	\$22.58	\$22.64	-0.29%	
Ethanol rack	\$2.15	\$2.15	0.22%	
Metals				
Gold	\$2,359.80	\$2,359.13	0.03%	
Silver	\$31.01	\$30.76	0.79%	
Copper contract	\$461.65	\$461.80	-0.03%	
Grains				
Corn contract	\$408.00	\$407.75	0.06%	
Wheat contract	\$570.50	\$570.50	0.00%	
Soybeans contract	\$1,094.50	\$1,099.50	-0.45%	
Shipping				
Baltic Dry Freight	1,940	1,966	-26	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-1.00		
Gasoline (mb)		-1.00		
Distillates (mb)		-0.80		
Refinery run rates (%)		0.8%		
Natural gas (bcf)		31		

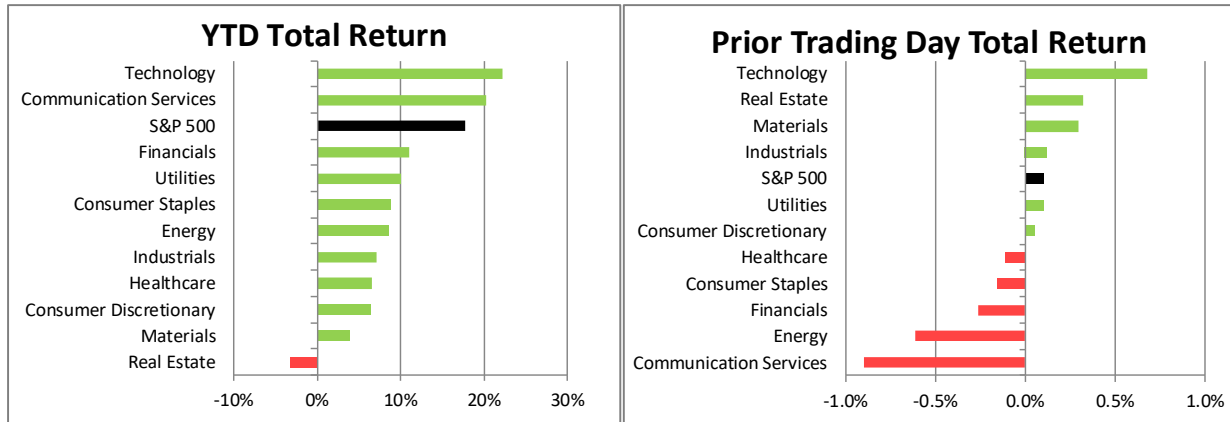
Weather

The 6-10 and 8-14 day forecasts call for warmer-than-normal temperatures across the entire continental United States. The precipitation outlook calls for wetter-than-normal conditions throughout the East Coast, Ohio Valley, and Desert Southwest, with dry conditions in Montana.

With the exception of the remnants of Hurricane Beryl, which continue to drench eastern Texas before tracking northward through Arkansas and the Ohio Valley over the course of the week, the Atlantic tropical storm scope is clean.

Data Section

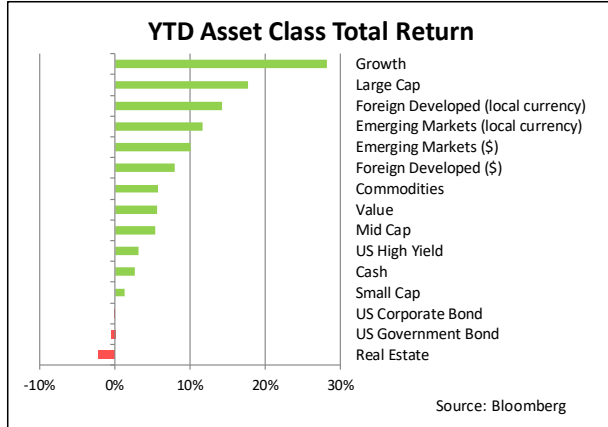
US Equity Markets – (as of 7/8/2024 close)



(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 7/8/2024 close)

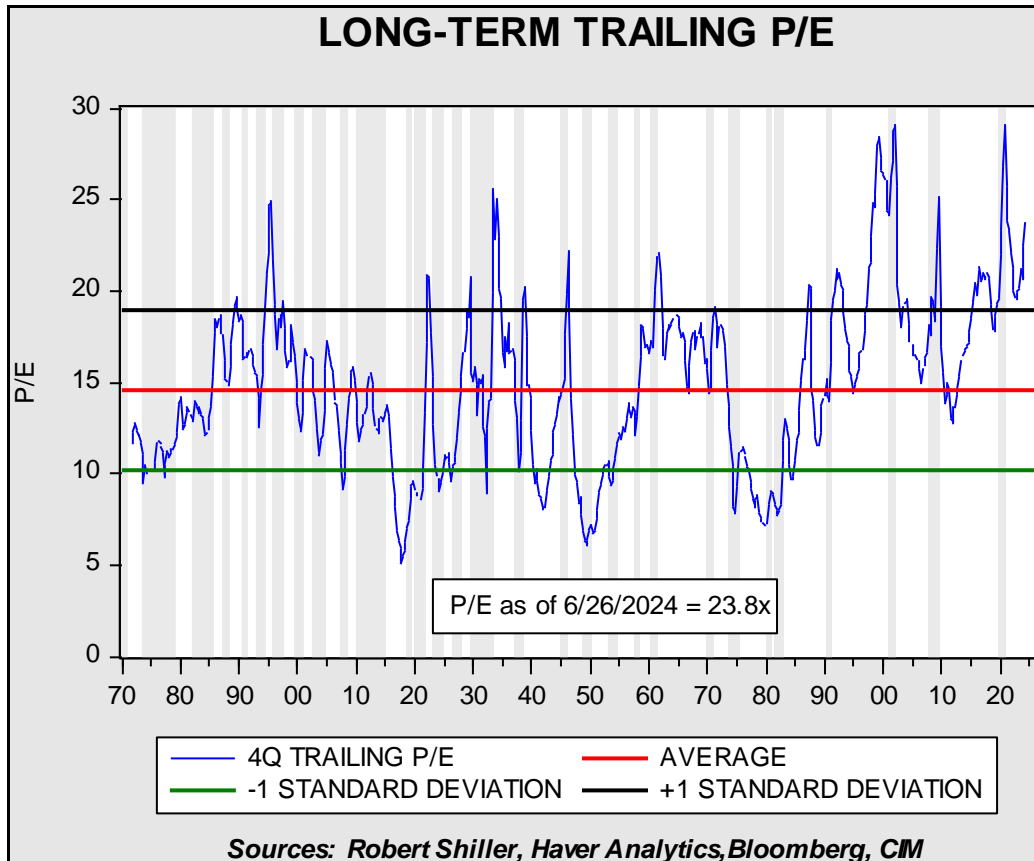


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.