

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: June 17, 2024—9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 0.5% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.1%. Chinese markets were mixed, with the Shanghai Composite down 0.6% from its previous close and the Shenzhen Composite up 0.1%. US equity index futures are signaling a lower open.

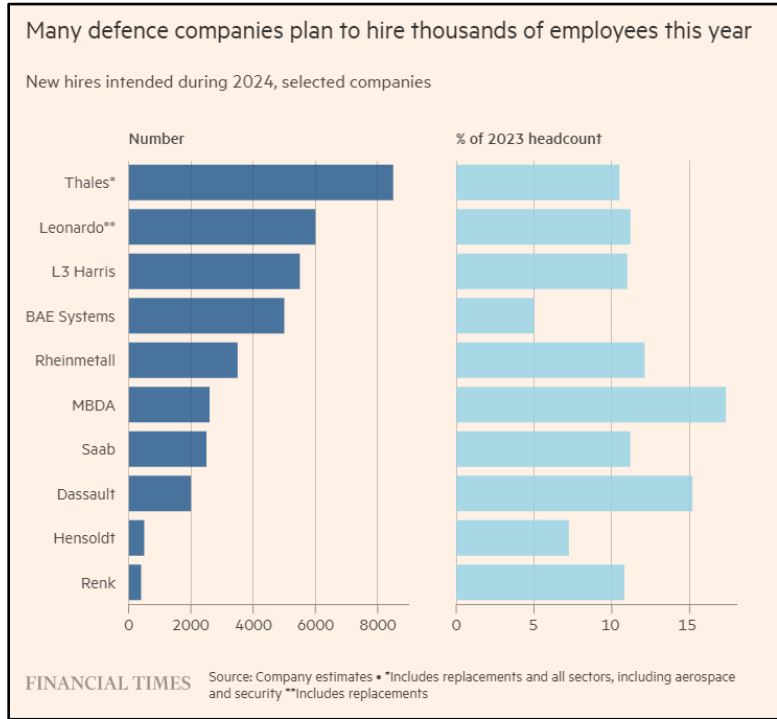
The Confluence macro team publishes a plethora of research reports and multimedia offerings on a weekly and quarterly basis, all available on our [website](#). We highlight recent publications below, with new items of the day emphasized in bold:

- [Bi-Weekly Geopolitical Report](#) (6/3/2024) (with associated [podcast](#)): “The Philippines, China & Escalation in the South China Sea”
- [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](#) (6/10/2024) (with associated [podcast](#)): “Copper, Gold, Treasuries, and the New World”
- [Confluence of Ideas podcast](#) (5/8/2024) “Reviewing the Asset Allocation Rebalance: Q2 2024”
- [Fixed Income Quarterly](#) (June 2024)

Our *Comment* today opens with new data confirming the growth of US and European defense businesses as global military budgets rise. We next review several other international and US developments that could affect the financial markets today, including more evidence of a potential trade war between China and the European Union and signs that the Biden administration may release more oil from the Strategic Petroleum Reserve to hold down US gasoline costs ahead of the November elections.

Global Defense Industry: New research by the *Financial Times* [shows top US and European defense contractors have tens of thousands of job openings and are trying to hire at the strongest pace since the Cold War](#). Based on a survey of top defense firms, the data shows that the companies are looking to boost their workforces by about 10%. The figures are consistent with

our oft-stated belief that global defense spending is likely to rise persistently in the coming years in response to the growing tensions between the US and China/Russia geopolitical blocs.



European Union: The leaders of the 27 members of the EU [today are expected to endorse Ursula von der Leyen for a second term as president of the European Commission](#), the region's executive body. Although some EU leaders had floated other names (including Mario Draghi, the former chief of the European Central Bank), they have apparently decided to prioritize stability and von der Leyen's tough approach to foreign affairs.

- If approved at a more formal meeting of the EU leaders in the coming weeks, von der Leyen would also have to be approved by a simple majority of the newly elected European Parliament.
- If von der Leyen is successfully installed for a second term, a key implication is that the EU would continue to toughen its approach to Chinese economic predations and boost its defenses against the rising threat from Russia.

China-European Union: Beijing yesterday [said it is probing whether the EU has dumped pork products on the Chinese market at unfairly low prices](#). The antidumping investigation is widely seen as retaliation for the EU's recent probe and imposition of antidumping tariffs against Chinese electric vehicles. The Chinese probe is designed to put maximum political pressure on Brussels, as any tariffs against EU pork products would disproportionately hurt influential farmers in countries such as Belgium, the Netherlands, Denmark, Germany, and Spain.

China-Australia: In a new sign of the rebounding China-Australia relationship, Australia's total trade with China (the value of exports plus imports) [rose to a record \\$125 billion in 2023, beating](#)

[the pre-pandemic record of about \\$112 billion in 2019](#). China had imposed strict barriers against key Australian exports from 2020 to 2022 in retaliation against Canberra’s call for a probe into China’s role in the coronavirus pandemic. Over the last year, however, Beijing has loosened those restrictions, giving a boost to Australian exports and economic activity.

China-Philippines: On Saturday, the Chinese government [again accused the Philippines of provocative activity in the South China Sea](#), after Manila sent coast guard boats on Friday to land at islets in the area that are claimed by Beijing but internationally recognized as part of the Philippines. The new accusation came just a day before the start of a new Beijing rule allowing the Chinese coast guard to detain foreigners and their vessels that stray into the disputed areas.

- As we note in our “Mid-Year Geopolitical Outlook,” due to be released later today, the growing Chinese-Philippine tensions represent what is perhaps the world’s most dangerous confrontation through the rest of 2024. Although we don’t necessarily think the two sides will come to blows, there is an elevated chance that they could.
- If China and the Philippines do come to blows, the US-Philippine mutual defense treaty could force the US to come to Manila’s aid, leading to a direct US-China conflict.

China: May new home prices [were down 4.3% from the same month one year earlier, versus a 3.5% decline in the year to April](#). The value of home sales in January through May were down a whopping 30.5% year-over-year, reflecting both weaker prices and reduced transactions. Even though some homebuilders have seen an uptick in sales over the last couple of months because of the government’s new program to ease mortgage rules and support home purchases, the data shows that the key property sector remains a major drag on Chinese economic growth.

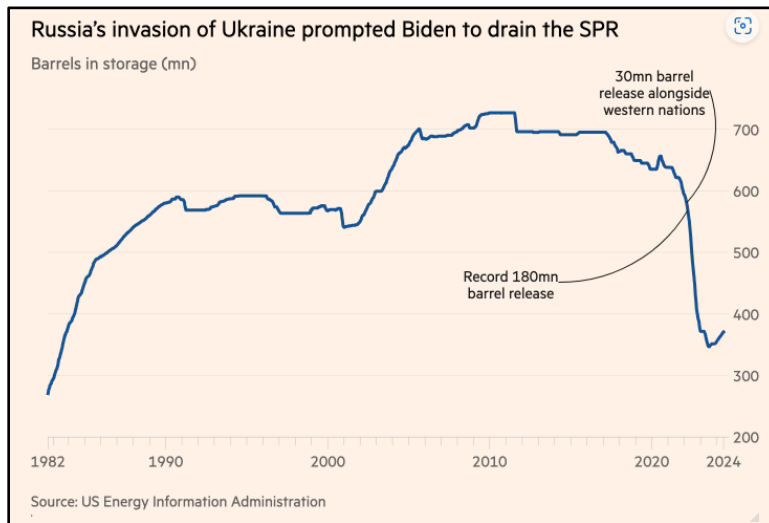
Israel: Following the resignations of centrist politicians Benny Gantz and Gadi Eisenkot last week, Prime Minister Netanyahu [has dissolved the unity war cabinet](#) he formed after Hamas’s October 7 attack on Israel. The move does nothing to undermine Netanyahu’s power, but it could mean that Israel’s war against Hamas will be prosecuted without the input of more moderate voices. In turn, that could potentially lead to a longer, more intense conflict that might further isolate Israel politically and weigh on its economy and financial markets.

Russia-United States: The Kremlin [announced the espionage trial of Wall Street Journal reporter Evan Gershkovich will be held in secret](#), beginning next week. The US government and the newspaper vehemently deny that Gershkovich was involved in spying, so the secret proceedings are likely to further strain ties between Russia and the US going forward.

US Corporate Governance: Days after Tesla shareholders approved a \$56-billion pay package for CEO Elon Musk, new data [shows the median pay for CEOs in S&P 500 companies in the first four months of 2024 was up some 14%](#) from the same period one year earlier. That compares with an average increase of 4.1% for the average worker. That disparity could help explain the increasing concern about US income inequality and the rise of populism.

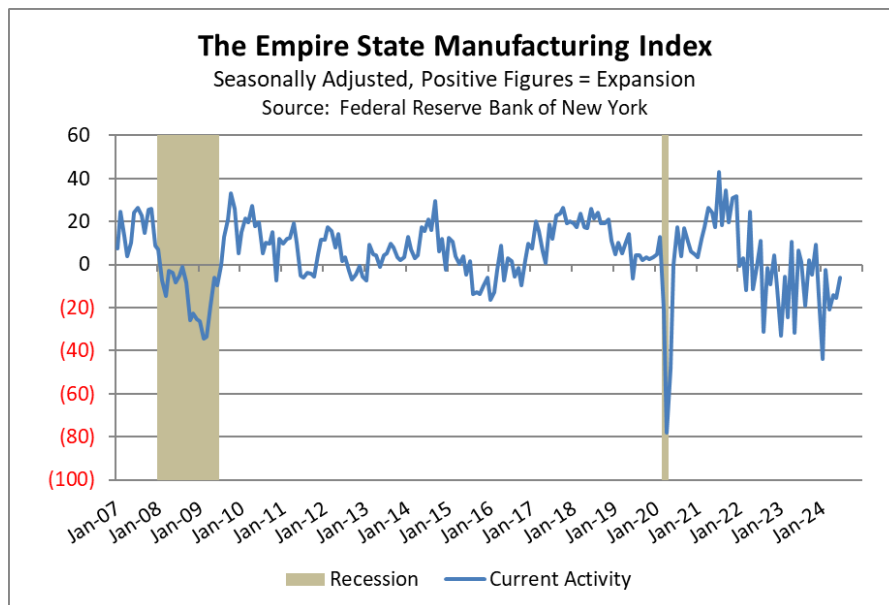
US Energy Policy: Amos Hochstein, President Biden’s top energy advisor, said the president [would release more oil from the Strategic Petroleum Reserve to cap any surge in gasoline prices during the summer driving season](#). Such a move would be on top of the massive oil releases

Biden already ordered in 2021 and 2022, as prices began to rise following the pandemic and Russia’s invasion of Ukraine. Such a move would also be further evidence that presidents facing re-election will try to curry favor with voters by bringing down energy costs.



US Economic Releases

The New York FRB said its June *Empire State Manufacturing Index* declined to a seasonally adjusted -6.0, beating its expected level of -10.0 and the May level of -15.6. This index is designed so that positive readings point to expanding factory activity in New York state. At its current level, the index suggests the state’s manufacturing activity is still falling, but only slowly. The chart below shows how the index has fluctuated since just before the Great Financial Crisis.



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			
EST	Speaker or Event	District or Position	
12:00	John Williams Moderates Discussion at Economic Club of NY	President of the Federal Reserve Bank of New York	
13:00	Patrick Harker Speaks on Economic Outlook	President of the Federal Reserve Bank of Philadelphia	
21:00	Lisa Cook Gives Acceptance Remarks	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	Tertiary Industry Index	m/m	Apr	1.90%	-2.30%	0.40%	***	Equity bullish, bond bearish
	Industrial Production	y/y	Apr F	-0.90%	-1.00%		***	Equity and bond neutral
	Capacity Utilization	y/y	Apr	0.30%	1.30%		**	Equity and bond neutral
	Core Machine Orders	y/y	Apr	0.70%	2.70%	-0.10%	**	Equity bullish, bond bearish
New Zealand	REINZ House Sales	y/y	May	6.8%	25.3%		**	Equity and bond neutral
China	Industrial Production	y/y	May	5.6%	6.7%	6.2%	***	Equity bearish, bond bullish
	Retail Sales	y/y	May	3.7%	2.3%	3.0%	**	Equity and bond neutral
	Fixed Assets Ex Rural YTD	y/y	May	4.0%	4.2%	4.2%	**	Equity and bond neutral
India	Imports	y/y	May	7.7%	10.3%		**	Equity and bond neutral
	Trade Balance	m/m	May	-\$23782m	-\$19103m	-\$19500m	**	Equity and bond neutral
	Exports	y/y	May	9.1%	1.1%		**	Equity and bond neutral
EUROPE								
Italy	CPI, EU Harmonized	y/y	May F	0.8%	0.8%	0.8%	***	Equity and bond neutral
	CPI FOI Index Ex Tobacco	y/y	May	119.5%	119.3%		*	Equity and bond neutral
UK	Rightmove House Prices	y/y	Jun	0.60%	0.60%		**	Equity and bond neutral
Switzerland	Domestic Sight Deposits CHF	w/w	14-Jun	445.3b	450.1b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	14-Jun	453.5b	459.8b		*	Equity and bond neutral
Russia	Gold and Forex Reserves	m/m	7-Jun	\$602.4b	\$599.0b		***	Equity and bond neutral
	GDP	y/y	1Q P	5.4%	5.4%	5.4%	**	Equity and bond neutral
	CPI	y/y	May	8.3%	7.8%	8.1%	***	Equity and bond neutral
	Core CPI	y/y	May	8.6%	8.3%		**	Equity and bond neutral
AMERICAS								
Canada	Manufacturing Sales	m/m	Apr	1.1%	-1.8%	1.2%	**	Equity and bond neutral
	Wholesale Sales ex Petroleum	m/m	Apr	2.4%	-1.3%	2.8%	**	Equity and bond neutral
Brazil	FGV Inflation IGP-10	m/m	Jun	0.83%	1.08%	0.81%	**	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)	561	560	1	Up
3-mo T-bill yield (bps)	524	524	0	Up
U.S. Sibor/OIS spread (bps)	535	535	0	Up
U.S. Libor/OIS spread (bps)	535	535	0	Flat
10-yr T-note (%)	4.25	4.22	0.03	Down
Euribor/OIS spread (bps)	372	372	0	Down
Currencies	Direction			
Dollar	Flat			Up
Euro	Flat			Down
Yen	Down			Down
Pound	Down			Down
Franc	Down			Down

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.

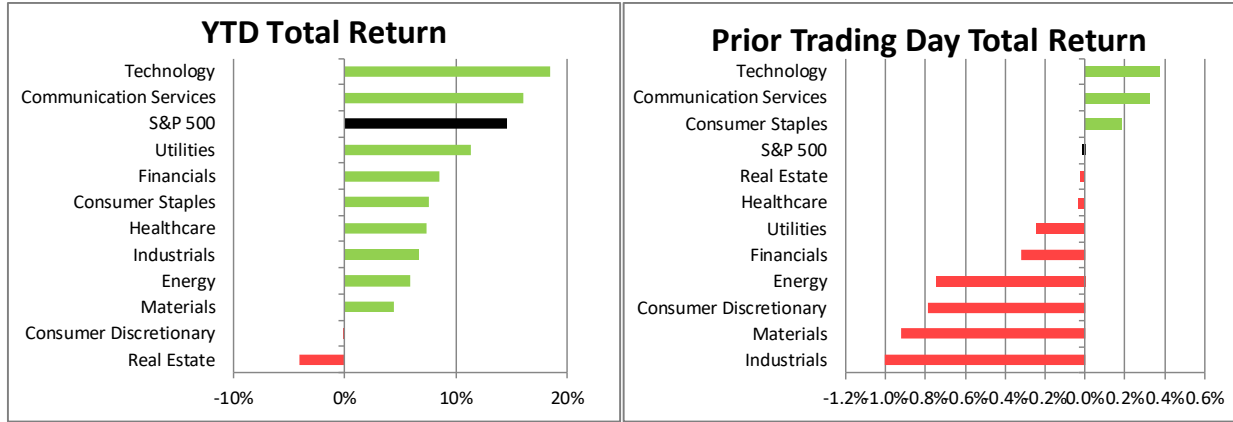
DOE Inventory Report	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$82.83	\$82.62	0.25%	
WTI	\$78.64	\$78.45	0.24%	
Natural Gas	\$2.83	\$2.88	-1.67%	
12-mo strip crack	\$21.86	\$21.86	-0.03%	
Ethanol rack	\$2.08	\$2.08	-0.38%	
Metals				
Gold	\$2,320.58	\$2,333.04	-0.53%	
Silver	\$29.26	\$29.55	-0.99%	
Copper contract	\$440.60	\$447.50	-1.54%	
Grains				
Corn contract	\$467.00	\$470.25	-0.69%	
Wheat contract	\$615.00	\$628.50	-2.15%	
Soybeans contract	\$1,141.00	\$1,149.75	-0.76%	
Shipping				
Baltic Dry Freight	1,948	1,942	6	

Weather

The 6-10 and 8-14 day forecasts call for warmer-than-normal temperatures throughout the entire country except for the Pacific Northwest and western Texas, with cooler-than-normal temperatures expected in the northern Rocky Mountains. The forecasts call for wetter-than-average conditions for most states, with drier conditions expected in most states within the Pacific region.

Data Section

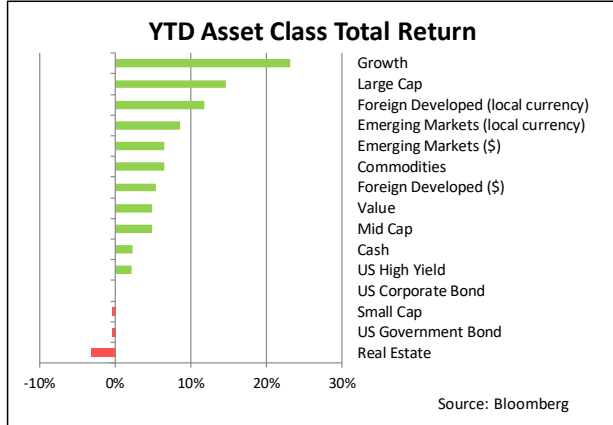
US Equity Markets – (as of 6/14/2024 close)



(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 6/14/2024 close)

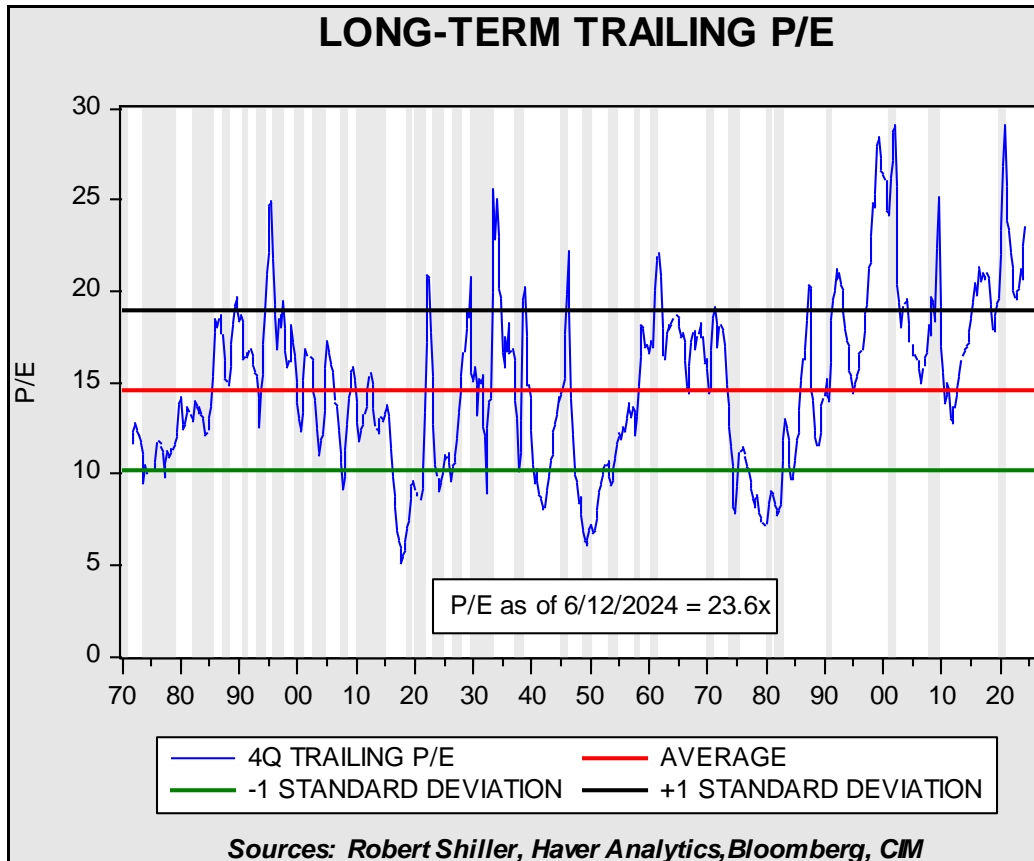


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 13, 2024



Based on our methodology,¹ the current P/E is 23.6x, up 0.1 from our last report. The increase in the multiple was due to an increase in the stock price index, and a slight decline in Q1 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 (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.