

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.

Note: There will be no Daily Comment tomorrow due to the holiday.

[Posted: June 18, 2024—9:30 AM ET] Global equity markets are higher 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 up 0.7%. Chinese markets were higher, with the Shanghai Composite up 0.5% from its previous close and the Shenzhen Composite up 0.7%. 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 \(6/17/2024\)](#) (with associated [podcast](#)): “Mid-Year Geopolitical Outlook: Uncertainty Reigns”**
- [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 a new World Gold Council survey showing global central banks are likely to keep buying large amounts of gold, supporting prices for the yellow metal. We next review several other international and US developments with the potential to affect the financial markets today, including unexpected business support for the far-right party ahead of France’s June 30 parliamentary election and several notes on US political and economic developments.

Global Gold Market: According to a new World Gold Council survey, 81% of central bankers [think reserve managers will continue to increase their gold holdings in the coming year](#). That share is the highest since the group’s 2019 survey and reflects growing interest in gold reserves as a [hedge against geopolitical and economic risks and as a source of good investment](#)

[performance](#). The figures are consistent with our positive outlook on gold and our view that central bank buying is more than offsetting the headwinds from high interest rates.

China: In its latest review of global nuclear arsenals, the Stockholm International Peace Research Institute (SIPRI) [highlighted how China is now expanding its arsenal of nuclear weapons faster than any other country](#). According to SIPRI, China built some 90 new nuclear warheads last year, bringing its total arsenal to 500. It is also rapidly expanding its fleet of intercontinental ballistic missiles to deliver those warheads, and it may have started deploying its weapons at a higher state of readiness.

- The SIPRI figures regarding China’s growing arsenal are consistent with the estimates we made in our [Bi-Weekly Asset Allocation Report](#) from April 15, 2024, where we attempted to calculate the incremental global demand for uranium related to weapons.
- Not only is China’s rapid nuclear buildup an unheralded reason for the recent jump in spot uranium prices, but it is also likely to intensify tensions between China and the West. As more Western leaders and voters come to appreciate the growing nuclear threat from China, we think there is a good chance that they will push for stronger defense spending.

China-Philippines: The Chinese government yesterday [accused the Philippines of trying to deliver construction materials to the Sierra Madre](#), a Philippine navy ship grounded on a disputed shoal in the South China Sea to assert Manila’s claims to the area. In turn, Manila denied the accusation and said a Chinese coast guard ship rammed a Philippine vessel during the incident. The worsening Chinese-Philippine tensions remain a key risk for investors, as discussed in our [Mid-Year Geopolitical Outlook](#), published yesterday.

France: As the June 30 parliamentary elections draw closer, business leaders [are racing to embrace the surging far-right National Rally \(RN\)](#), both to express their support and to influence the party. The development is a reaction against the far-left New Popular Front (NFP), which has issued a radical tax-and-spend agenda and is RN’s main competitor in the race.

US Foreign Policy: In a new poll by the Ronald Reagan Institute, 54% of respondents [said US leaders should be more involved in international affairs, up from only about 40% in each of the previous three years](#). The share saying the US should be less engaged internationally remained at 33%, close to where it has been for the last several years.

- We continue to believe US voters have become weary of the costs of global hegemony over the last decade and a half, leading to increased populism, isolationism, and “America First” attitudes. One key question is whether those attitudes will continue to strengthen and ultimately force the US to give up its global leadership role, or whether the resulting challenge from China/Russia geopolitical bloc will spur a recommitment to international engagement.
- Now that US hesitation on the global stage has encouraged the authoritarian states of the China/Russia bloc to become more assertive, the Reagan Institute poll suggests US voters may indeed be embracing a stronger international stance again. If so, it will likely lead to

even more tensions between the US bloc and the China/Russia bloc, as well as continued increases in US defense spending.

US Immigration Policy: President Biden [has announced a new program that will give legal status to the spouses of US citizens who are in the country illegally](#), provided that they have been in the US for at least a decade and meet other criteria. The program is expected to help up to several hundred thousand people get work permits, deportation protection, and a path to citizenship. The announcement comes just two weeks after the president imposed a blanket ban on illegal immigrants claiming asylum after crossing the southern border.

- The apparently contradictory goals of the spousal program and the blanket asylum ban reflect the contradictory political and economic environment for immigration policy.
- Politically, large numbers of Americans want the government to clamp down on the flow of new immigrants and the lack of control over migration at the southern border, but there are still many in Biden's Democratic Party base who prioritize immigrant rights and the ability of immigrants to bring family members to the US.
- Economically, as we mentioned in our [Bi-Weekly Geopolitical Report from May 20, 2024](#), the post-pandemic labor shortages, especially in lower-skilled jobs, have been an important driver of consumer price inflation. Giving more immigrants the right to work would likely help fill those labor shortages and cap wage rates, bringing down price pressures.

US Apartment Market: While overall apartment rental rates in the US are nearly unchanged from the previous year, new data [shows a surprising upswing in rents outside the Sunbelt](#). Brokers and property owners say the rent hikes in places such as Kansas City and Washington, DC, reflect a dearth of new supply and renters' inability to buy a home because of sky-high prices and elevated interest rates.

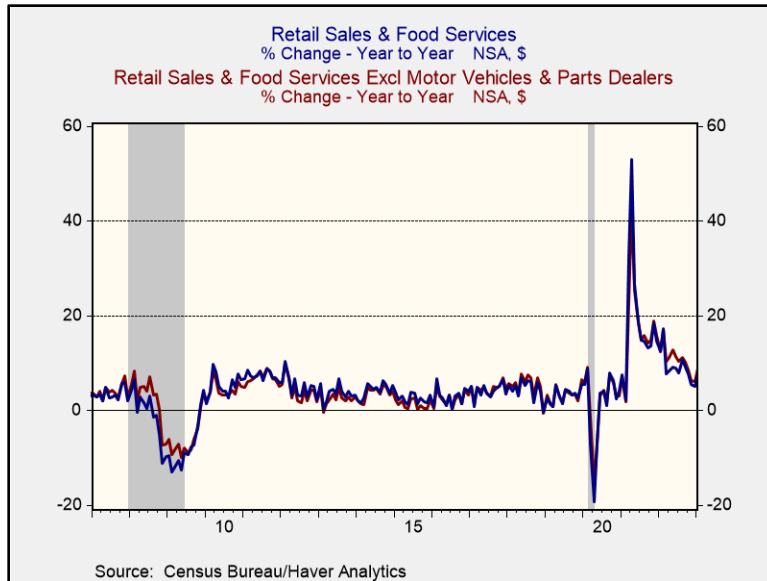
- The figures suggest US rents have already reached a bottom and may be turning up again. Since apartment rents have a big weight in the key gauges of consumer price inflation, any upswing in rents could keep inflation from falling to the Federal Reserve's target.
- In turn, that would likely force the Fed to keep interest rates higher for longer.

US Electric Vehicle Market: The number of US electric-vehicle startups that have filed for bankruptcy has now risen to three after [Fisker threw in the towel yesterday](#). Fisker's filing follows the earlier bankruptcies of truck maker Lordstown Motors and bus maker Arrival. While press reports indicate the failures stemmed largely from operational and financial problems specific to the failed companies, they also reflect unexpectedly soft demand for EVs in the US market.

US Economic Releases

May *retail sales* rose by a seasonally adjusted 0.1%, notably less than the expected 0.3% rise. Overall retail sales are often driven by the volatile auto and auto parts sector, which makes up almost one-fifth of the total. May *retail sales excluding autos and auto parts* fell by 0.1%, also

notably less than the expected rise of 0.2%. Although the total result is a touch of an acceleration from April's revised result of -0.2%, the ex-auto number is the same as April's revised report. Overall retail sales in May rose 2.9% from the same month one year earlier, while sales excluding autos and auto parts rose 3.13%. Both numbers mark notable decelerations from the previous month. Taken together, these numbers give evidence of a possible deceleration in the overall economy. Since this could lead to expectations for lower inflation in coming months and commensurate expectations for sooner Federal Reserve rate cuts, the news may also have a positive effect on markets. The chart below shows how retail sales have changed since just before the previous recession.



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	Business Inventories	m/m	Apr	0.3	-0.1	*
16:00	Total Net TIC Flows	m/m	Apr		\$102.1b	**
16:00	Net Long-Term TIC Flows	m/m	Apr		\$100.5b	**
Federal Reserve						
EST	Speaker or Event	District or Position				
10:00	Thomas Barkin Discusses US Economy, Fed	President of the Federal Reserve Bank of Richmond				
11:40	Susan Collins Gives Keynote Address	President of the Federal Reserve Bank of Boston				
13:00	Lorie Logan Speaks in Q&A	President of the Federal Reserve Bank of Dallas				
13:00	Adriana Kugler Speaks on Economy, Monetary Policy	Member of the Board of Governors				
13:20	Alberto Musalem Gives Speech on Economy, Monetary Policy	Member of the Board of Governors				
14:00	Austan Goolsbee Speaks in Panel Discussion	President of the Federal Reserve Bank of Chicago				
16:40	Susan Collins Appears on Yahoo Finance	President of the Federal Reserve Bank of Boston				

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								
New Zealand	Wespac Consumer Confidence	m/m	2Q	82.2	93.2		*	Equity and bond neutral
EUROPE								
Eurozone	ZEW Survey Expectations	m/m	Jun	51.3	47.0		**	Equity and bond neutral
	CPI	y/y	May F	2.6%	2.4%	2.6%	***	Equity and bond neutral
	Core CPI	y/y	May F	2.9%	2.9%	2.9%	**	Equity and bond neutral
Germany	ZEW Survey Expectations	m/m	Jun	47.5	47.1	50.0	**	Equity bearish, bond bullish
	ZEW Survey Current Situation	m/m	Jun	-73.8	-72.3	-65.0	**	Equity bearish, bond bullish
AMERICAS								
Canada	Housing Starts	m/m	May	264.5k	241.1k	245.1k	**	Equity and bond neutral
	Int'l Securities Transactions	m/m	Apr	41.16b	14.38b		**	Equity and bond neutral
Mexico	Aggregate Supply and Demand	y/y	1Q	22.6%	2.2%	2.2%	*	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)	525	523	2	Up
U.S. Sibor/OIS spread (bps)	535	536	-1	Up
U.S. Libor/OIS spread (bps)	535	535	0	Flat
10-yr T-note (%)	4.29	4.28	0.01	Down
Euribor/OIS spread (bps)	371	372	-1	Down
Currencies	Direction			
Dollar	Up			Up
Euro	Down			Down
Yen	Down			Down
Pound	Down			Down
Franc	Up			Flat
Central Bank Action	Current	Prior	Expected	
RBA Cash Rate Target	4.350%	4.350%	4.350%	On Forecast

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	\$84.29	\$84.25	0.05%	
WTI	\$80.38	\$80.33	0.06%	
Natural Gas	\$2.81	\$2.79	0.65%	
12-mo strip crack	\$21.75	\$21.61	0.61%	
Ethanol rack	\$2.07	\$2.07	-0.14%	
Metals				
Gold	\$2,311.60	\$2,319.14	-0.33%	
Silver	\$29.19	\$29.47	-0.93%	
Copper contract	\$438.30	\$443.10	-1.08%	
Grains				
Corn contract	\$465.25	\$463.00	0.49%	
Wheat contract	\$607.25	\$608.00	-0.12%	
Soybeans contract	\$1,133.25	\$1,130.25	0.27%	
Shipping				
Baltic Dry Freight	1,948	1,948	0	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-3.00		
Gasoline (mb)		1.10		
Distillates (mb)		1.00		
Refinery run rates (%)		-0.3%		
Natural gas (bcf)		69		

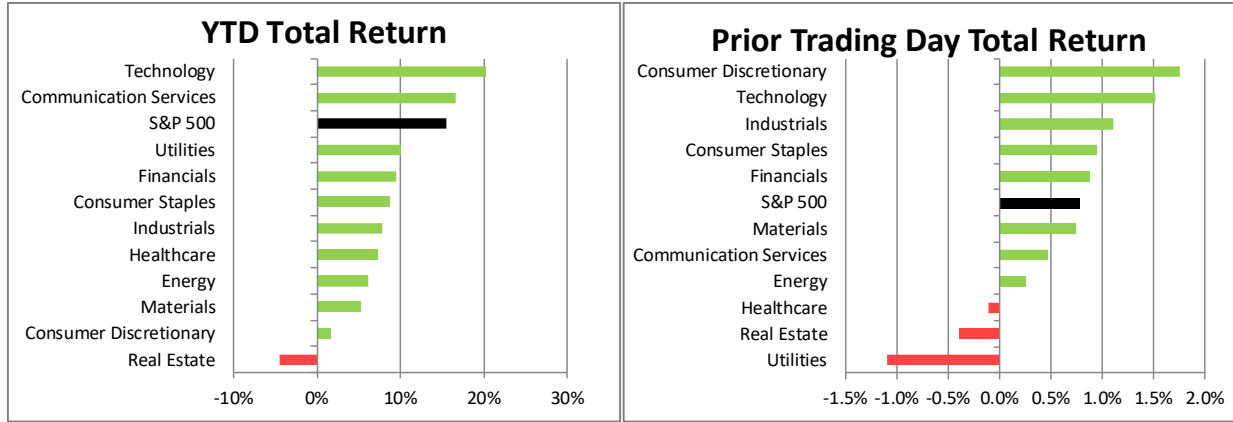
Weather

The 6-10 and 8-14 day forecasts call for warmer-than-normal temperatures throughout the entire country except for the Pacific Northwest, where cooler-than-normal temperatures are expected. The forecasts call for wetter-than-average conditions over two thirds of the country from the Great Plains eastward, with drier conditions expected in Idaho, Nevada, and parts of surrounding states.

There are currently two tropical disturbances in the Atlantic. One is churning right off the Yucatan Peninsula with a 90% chance of becoming a cyclone within the next 48 hours. The other disturbance is located east of the Bahamas, but its development is less likely, with only a 10% chance of forming in the next two days.

Data Section

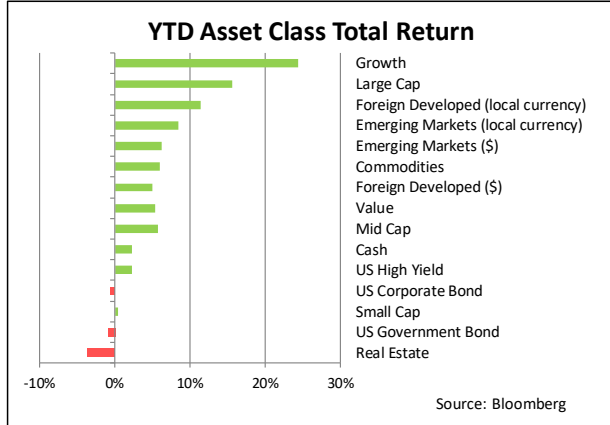
US Equity Markets – (as of 6/17/2024 close)



(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 6/17/2024 close)

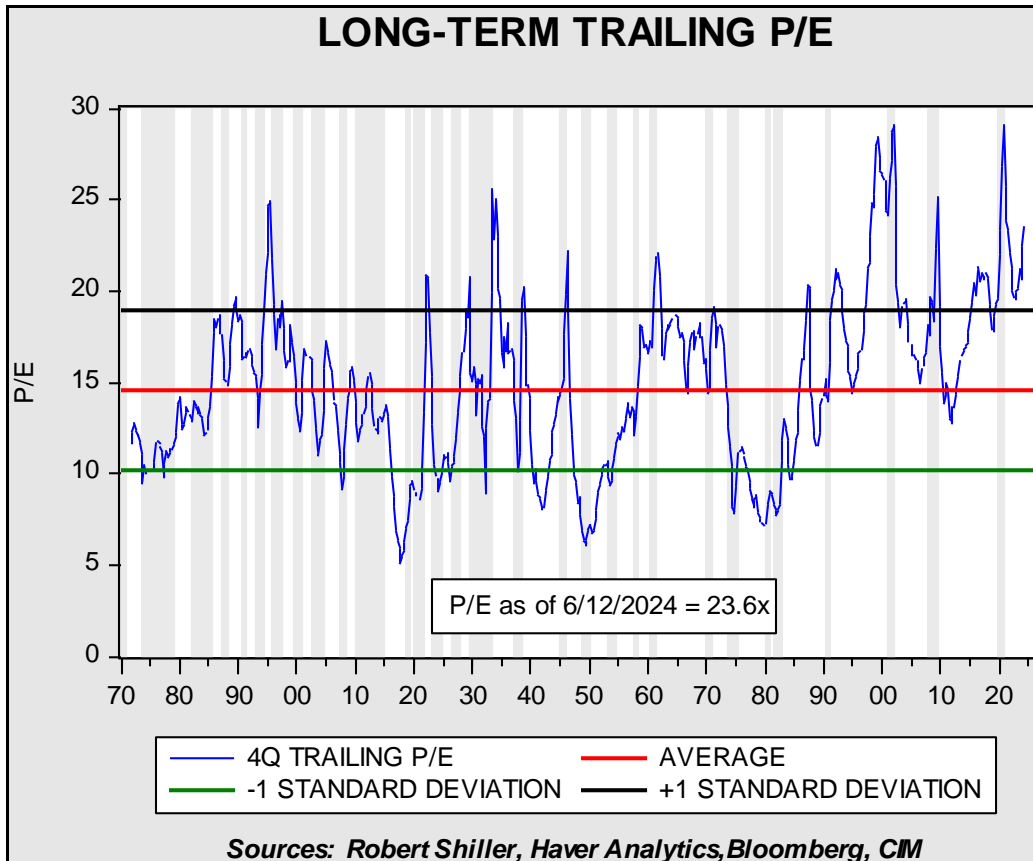


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.