

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 4, 2024—9:30 AM EDT] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is down 0.6% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.7%. Chinese markets were higher, with the Shanghai Composite up 0.4% from its previous close and the Shenzhen Composite up 0.5%. 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](#) (5/28/2024) (with associated [podcast](#)): “The Importance of the Federal Reserve’s Inflation Target”
- [Confluence of Ideas podcast](#) (5/8/2024) “Reviewing the Asset Allocation Rebalance: Q2 2024”

Our *Comment* today opens with shipping data that points to strong global demand and high freight rates worldwide. We next review several other international and US developments with the potential to affect the financial markets today, including a testing scandal in the Japanese auto industry, surprise results in India’s official vote counting, and a preview of new immigration policies expected to be announced in the US today.

Global Shipping Industry: Shipping giant A.P. Møller-Mærsk yesterday [raised its full-year earnings guidance for the second time in barely over a month](#). The upward revisions illustrate how shipping rates have increased amid strong global demand and disruptions in the Red Sea related to the Israel-Hamas conflict. While increased freight rates are positive for ship owners and operators, they also could buoy price inflation and help keep global interest rates high.

Japan: An investigation by the Transportation Ministry [has discovered multiple cases of erroneous vehicle certification tests by Toyota, Honda, and other top producers](#). The faulty tests reportedly don't relate to safety or emissions, but they have been deemed serious enough for the government to suspend some vehicle shipments within Japan. As a result, Japanese auto-industry stocks took a hit yesterday, with top producer Toyota's stock price falling 2.5%.

India: Contrary to what exit polls had shown during the weekend, official vote counts [suggest the coalition led by Prime Minister Modi's Hindu-nationalist Bharatiya Janata Party won only a narrow parliamentary majority](#) in the recent elections. Vote counting continues, but the results so far point to a Modi who is politically weaker than expected. Amid worries that Modi will be limited in his ability to push through more of his business-friendly policies, India's benchmark Sensex stock index [fell 5.7% today, reversing Monday's 3.4% gain](#).

Australia-China: In a new poll by the Lowry Institute, nearly 75% of respondents [thought China would become a military threat to Australia within the next two decades](#). Consistent with that, 65% of respondents expressed support for the AUKUS alliance, in which Australia will buy nuclear-powered attack submarines from the US and the UK. The findings show how rising geopolitical threats from authoritarian leaders have drawn Western countries even closer to the US — not just in military terms, but potentially in economic and financial terms as well.

- Only 17% of respondents trusted China “a great deal” or “somewhat” to act responsibly in international relations.
- Only 12% said they were confident that Chinese President Xi Jinping would “do the right thing regarding world affairs,” although that was higher than the number who trusted Russian President Putin or North Korean Paramount Leader Kim.

China: Of course, China is already seen as an economic threat in the developed West, especially now that General Secretary Xi is pushing more investment in “new quality productive forces” such as electric vehicles and solar panels. The *Wall Street Journal* today [carries a useful chart book explaining how this new investment has led to excess capacity](#) and why it threatens to unleash a wave of cheap exports that could harm Western producers.

- Exemplifying the challenge, new data from Schmidt Automotive Research [shows European registrations of Chinese-made EVs in January through April were 23% higher than in the same period one year earlier](#).
- As a result, Chinese-made EVs had a market share of about 20% in the period, pointing to strong competition for Europe's domestic automakers and auto industry workers.
- The rapid growth in China's market share goes far toward explaining why the European Union has launched an anti-dumping investigation into Chinese EVs. The results of that investigation are expected to be released next week, leading to the imposition of significant new tariffs against the Chinese vehicles.

Canada: The government and the union representing its 9,000 border agents [are racing today to agree on a new labor contract to avoid a “work to rule” strike set to start on Thursday](#). If the negotiations fail and the Public Service Alliance of Canada members begin working strictly to

existing contract rules, the loss of productivity could greatly slow US-Canadian truck and tourist crossings, with potentially significant negative impacts on US and Canadian economic activity.

US Immigration Policy: President Biden is expected to announce today that he is [signing an executive order that would restrict migrants’ ability to request asylum if they have crossed the US border illegally](#). The move comes as more voters complain about the surge in illegal migration across the southern border, making it a major issue in the November election. However, the order may not withstand scrutiny by the courts, since it is similar to an order by then-President Trump that was later ruled illegal.

- As we noted in our Bi-Weekly Geopolitical Report of May 20, many of today’s illegal entrants and asylum seekers are probably helping to fill the shortage of lower-skilled workers left over by the coronavirus pandemic.
- Given the low level of US births and shrinking numbers of high school graduates, immigrants will likely be an essential part of any future growth in the labor force, especially if today’s anti-immigration sentiment dissipates.

US Economy: This year’s [Fortune 500 list of the largest US companies](#) by revenue has been published today, with Walmart taking the top spot, followed by Amazon, Apple, and UnitedHealth Group. For the first time since 2013, California is the state with the most firms on the list, clocking in with 57 of the companies. Texas and New York tied for second place, with 52 of the companies each.

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						
EST	Indicator			Expected	Prior	Rating
10:00	JOLTS Job Openings	m/m	Apr	8350k	8488k	**
10:00	Factory Orders	m/m	Apr	0.6%	0.8%	***
10:00	Factory Orders Ex Transportation	m/m	Apr	0.5%	0.4%	*
10:00	Durable Goods Orders	m/m	Apr F	0.7%	0.7%	***
10:00	Durable Goods Orders ex Transportation	m/m	Apr F	0.4%	0.4%	**
10:00	Cap Goods Orders Nondef Ex Air	m/m	Apr F	0.3%	0.3%	*
10:00	Cap Goods Ship Nondef Ex Air	m/m	Apr F		0.4%	*
Federal Reserve						
No Fed speakers or events for the rest of today						

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	May	0.9%	2.1%		**	Equity and bond neutral
	Monetary Base, End of Period	m/m	May	¥675.7t	¥696.3t		*	Equity and bond neutral
Australia	BoP Current Account Balance	q/q	1Q	-A\$4.9bb	A\$2.7b	A\$5.2b	***	Equity and bond neutral
South Korea	CPI	y/y	May	2.7%	2.9%	2.9%	**	Equity and bond neutral
EUROPE								
Germany	Unemployment Change	m/m	May	25.0k	11.0k	7.0k	***	Equity and bond neutral
	Unemployment Claims Rate	m/m	May	5.9%	5.9%	5.9%	**	Equity and bond neutral
Switzerland	CPI	y/y	May	1.4%	1.4%	1.4%	***	Equity and bond neutral
	CPI EU Harmonized	y/y	May	1.5%	1.4%	1.3%	*	Equity and bond neutral
	Core CPI	y/y	May	1.2%	1.2%	1.3%	*	Equity and bond neutral
AMERICAS								
Canada	S&P Global Canada Manufacturing PMI	m/m	May	49.3	49.4		***	Equity and bond neutral
Mexico	S&P Global Mexico Manufacturing PMI	m/m	May	51.2	51.0		***	Equity and bond neutral
Mexico	Gross Fixed Investment	y/y	Mar	3.0%	12.8%	3.7%	**	Equity bearish, bond bullish
	Vehicle Domestic Sales	y/y	May	119985	113251		***	Equity and bond neutral
	Leading Indicators	y/y	Apr	0.1	0.11		**	Equity and bond neutral
Brazil	S&P Global Brazil Manufacturing PMI	m/m	May	52.1	55.9		***	Equity and bond neutral
	GDP	q/q	1Q	2.5%	2.1%	2.3%	***	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)	560	561	-1	Up
3-mo T-bill yield (bps)	521	523	-2	Up
U.S. Sibor/OIS spread (bps)	534	534	0	Up
U.S. Libor/OIS spread (bps)	535	535	0	Up
10-yr T-note (%)	4.39	4.39	0.00	Down
Euribor/OIS spread (bps)	378	379	-1	Down
Currencies	Direction			
Dollar	Up			Up
Euro	Down			Up
Yen	Up			Down
Pound	Down			Up
Franc	Up			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.

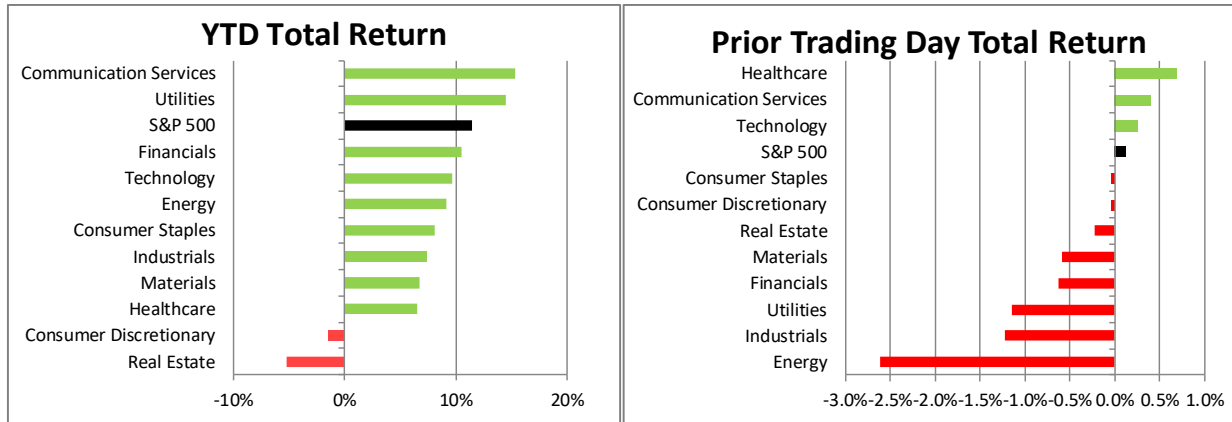
DOE Inventory Report	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$77.09	\$78.36	-1.62%	
WTI	\$72.84	\$74.22	-1.86%	
Natural Gas	\$2.80	\$2.76	1.63%	
12-mo strip crack	\$21.26	\$21.06	0.94%	
Ethanol rack	\$1.96	\$1.96	-0.18%	
Metals				
Gold	\$2,327.73	\$2,350.75	-0.98%	
Silver	\$29.79	\$30.73	-3.06%	
Copper contract	\$455.95	\$466.75	-2.31%	
Grains				
Corn contract	\$441.75	\$443.50	-0.39%	
Wheat contract	\$668.25	\$672.75	-0.67%	
Soybeans contract	\$1,182.50	\$1,184.50	-0.17%	
Shipping				
Baltic Dry Freight	1,808	1,815	-7	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-2.00		
Gasoline (mb)		2.00		
Distillates (mb)		1.34		
Refinery run rates (%)		0.0%		
Natural gas (bcf)		78		

Weather

The 6-10 and 8-14 day forecasts call for warmer-than-normal temperatures along the Gulf Coast, in Texas, and the western third of the country, with cooler-than-normal temperatures across the rest of the country. The forecasts call for wetter-than-average conditions along the East Coast and in the lower Great Plains and Rocky Mountains, with dry conditions along the Northern Tier states.

Data Section

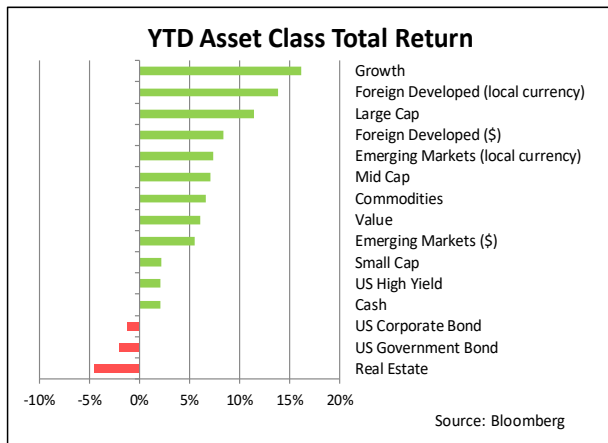
US Equity Markets – (as of 6/3/2024 close)



(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 6/3/2024 close)

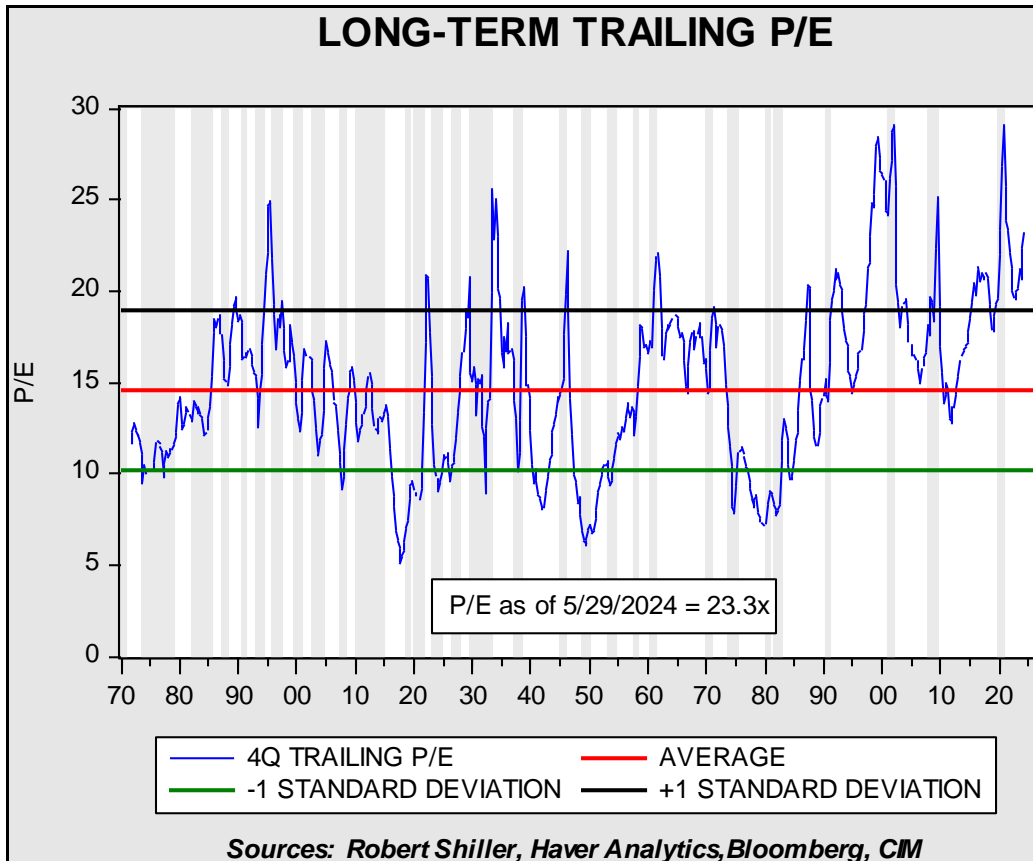


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

May 30, 2024



Based on our methodology,¹ the current P/E is 23.3x, up 0.1 from our last report. The increase in the multiple was due to an increase in the stock price index, outpacing the 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 (Q2, Q3 and Q4) and one estimate (Q1). 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.