

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: May 20, 2024—9:30 AM EDT]** Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 is up 0.3% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 1.0%. Chinese markets were higher, with both the Shanghai and the Shenzhen Composites up 0.5% from their previous close. US equity index futures are signaling a higher open.

With 466 companies having reported so far, S&P 500 earnings for Q1 are running at \$56.30 per share compared to estimates of \$54.24, which is up 0.9% from Q1 2023. Of the companies that have reported thus far, 79.0% have exceeded expectations, while 16.7% have fallen short of expectations.

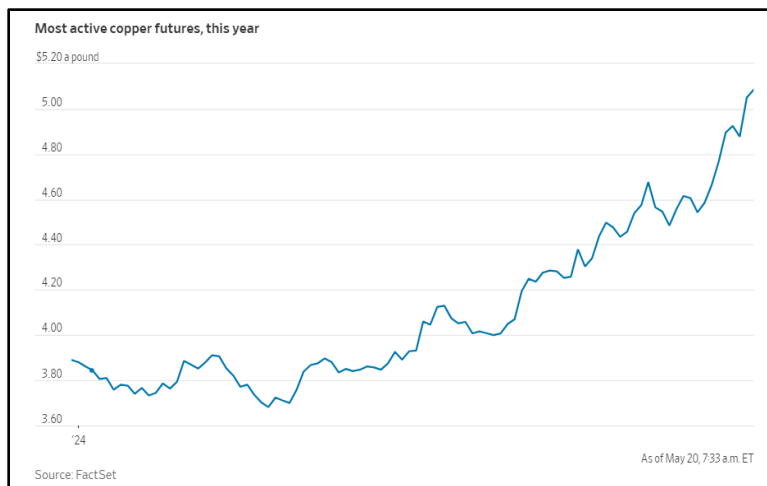
The Confluence macro team publishes a plethora of research reports and multimedia offerings on a weekly and quarterly basis, all available on our [website](#). We highlight recent publications below, with new items of the day emphasized in bold:

- **[Bi-Weekly Geopolitical Report](#)** (5/6/2024) (with associated [podcast](#)): “Middle East: Land of Fault Lines”
- [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](#) (5/13/2024) (with associated [podcast](#)): “The Immigration Paradox”
- [Confluence of Ideas podcast](#) (5/8/2024) “Reviewing the Asset Allocation Rebalance: Q2 2024”

Our *Comment* today opens with several items related to artificial intelligence, the electrification of the global economy, and the resulting impacts on commodity prices. We next review several other international and US developments with the potential to affect the financial markets today, including new signs of economic decoupling between the US and China and several notes on the US labor market.

**Global Copper Market:** Copper prices today [have reached yet another record high, with near futures trading at \\$5.0910 as of this writing](#). Copper prices are now up more than 30% from the

start of the year, reflecting investor expectations for increased demand from electrification (especially for artificial intelligence), re-industrialization, and higher defense spending, as well as [potential supply shortages](#). The surge in copper prices is consistent with our oft-stated view that ongoing geopolitical tensions will likely be positive for commodities going forward.



**Global Artificial Intelligence:** The UK-based multinational engineering firm Arup [said it was duped out of millions of dollars in a sophisticated, innovative new deep-fake scam](#). The scam was based on a digitally generated version of the company’s chief financial officer that the criminals deployed in a video conference. The fake CFO convinced a Hong Kong employee to send the criminals more than \$25 million. The incident shows how deep fakes could be used not just for political manipulation, but also for fraud against companies or individuals.

**France-New Caledonia:** Large-scale rioting [broke out late last week in France’s overseas territory of New Caledonia, which lies in the Pacific Ocean northeast of Australia](#). The rioting, fueled by hardline, pro-independence leaders of the territory’s indigenous Kanak people, began after the French parliament approved a bill giving more voting rights to the territory’s nonindigenous population. Paris has sent additional police to the territory, but the rioting reportedly continued throughout the weekend.

- The tensions in New Caledonia also reflect today’s global trend toward electrification, especially the growth of the global electric vehicle market. New Caledonia [has large reserves of nickel, which is important to a range of electrification technologies](#).
- Besides the electoral changes from Paris, the territory’s pro-independence parties have been fighting French President Macron’s proposal to lift restrictions on exporting unprocessed nickel from New Caledonia and give priority to shipments to European electric-vehicle battery factories.

**China-United States, et al.:** The Chinese Ministry of Commerce [yesterday said it has launched an anti-dumping probe regarding polyoxymethylene copolymer, a thermoplastic widely used in the consumer electronics and automotive industries](#), from the US, the EU, Japan and Taiwan. The move is being seen as retaliation for recent US and EU anti-dumping probes against Chinese

electric vehicles and other strategic Chinese exports. The tit-for-tat move illustrates how tensions between China and the West continue to spiral, with no easing in sight.

**China-Philippines:** To counter China's effort to assert sovereignty over waters claimed by the Philippines, Manila [has begun building military and civilian infrastructure on the country's barely populated island of Pag-asa](#) in the South China Sea. Manila also plans to maintain a support corridor running out to the island, in which it hopes frequent military and civilian operations will deter China from trying to intervene.

- The Philippine government has long used a calibrated military presence in disputed areas of the South China Sea to block China's territorial aims. For example, it has grounded a World War II-era navy ship on Scarborough Shoal and keeps a contingent of Philippine marines there around the clock.
- With its new facilities on Pag-asa, which will reportedly include both military barracks and a civilian health clinic for the island's 400 inhabitants, it appears that Manila is broadening its approach. By encouraging a bigger civilian presence, it could make China more hesitant about trying to attack or isolate the island but will also likely worsen tensions between Beijing and Manila.
- As we have noted before, aggressive Chinese operations against Philippine assets in the South China Sea are now probably more dangerous than the situation around Taiwan, especially given that the US and the Philippines have a mutual defense treaty. Under that treaty, the US could be required to come to Manila's aid if it is attacked by China.

**China:** In a sign that General Secretary Xi's plan to make China a "financial superpower" is being implemented, a new press tally [shows 30 regulators, bankers, and other financial executives have been arrested for corruption so far this year](#). Under Xi's plan, China will use tightened financial regulation to reduce risks and build a world-leading capital market that can support favored manufacturing industries and insulate China from US financial sanctions.

- Naturally, Xi has argued that large, deep, corruption-free capital markets should help support industries he has identified as "new productive forces," such as electric vehicles, batteries, solar panels, and semiconductors.
- Cleaner financial markets probably would help support Chinese stocks to some extent. However, we suspect the market will continue to struggle in the face of problems such as China's slowing economic growth, Communist Party intrusion into the private sector, and reduced interest from foreign investors.

**Iran:** State media [has now confirmed that President Raisi died in a helicopter crash in northwestern Iran over the weekend](#). Supreme leader Ayatollah Khamenei has named First Vice President Mokhber as interim leader of the government until the constitutionally required elections can be held, probably in late June or early July. In Iran's theocracy, the president serves mostly to execute the clerics' national strategy, so Raisi's death isn't likely to change Iran's overall strategic direction.

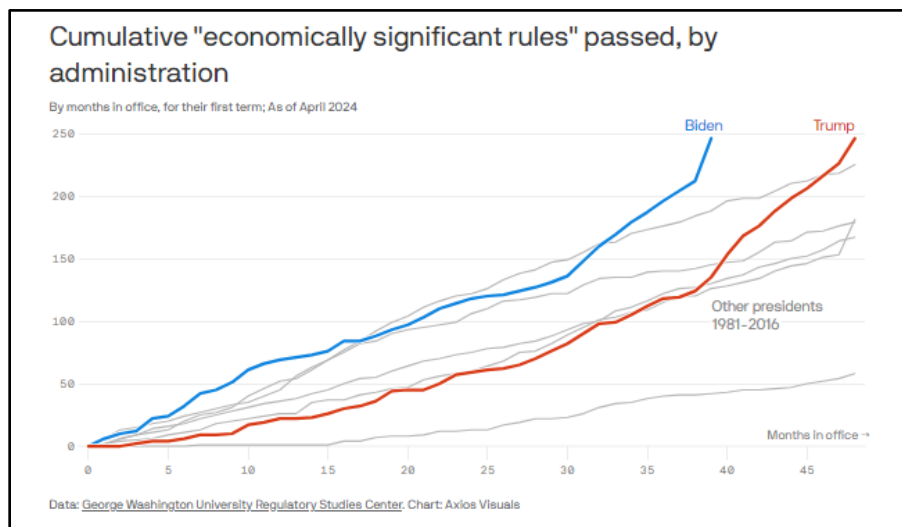
- Even though Raisi's helicopter went down in bad weather, there will inevitably be some suspicions in the region that Israel, or even the US, was behind the crash.

- If they arise, such suspicions could further stir up tensions in the area, which are already high because of Israel's war against Iran-backed Hamas militants in Gaza.

**Israel-Hamas Conflict:** Benny Gantz, a centrist former military chief and rival of Prime Minister Netanyahu, [has threatened to pull his party from the national unity government conducting Israel's war against Hamas by June 8](#) if Netanyahu doesn't develop a credible post-war plan for governing the Gaza Strip. In addition, current Defense Minister Yoav Gallant, from Netanyahu's conservative Likud Party, has backed Gantz's call.

- Netanyahu's right-wing coalition alone has the majority of seats in the Knesset, so even if Gantz pulls his party out of the government, the prime minister would likely stay in power.
- However, the demands from Gantz and Gallant lay bare the growing divisions in Israel's unity government. If Gantz pulls his party out, Netanyahu would likely become even more isolated on the world stage and even more reliant on his far-right coalition members.
- Reflecting Netanyahu's isolation, the International Criminal Court's prosecutor [has formally requested arrest warrants for Netanyahu and other Israeli and Hamas leaders](#). To back up his call, the prosecutor says he has reasonable grounds to believe Netanyahu and the other leaders are responsible for war crimes and crimes against humanity.

**US Regulatory Policy:** New research from Axios suggests President Biden's recent flurry of new regulations [is designed to cement his agenda in government policy even if former President Trump wins re-election in November](#). Under the Congressional Review Act of 1996, rules that have been in place for a certain period would be much harder for Trump to kill unilaterally. Legal scholars disagree on the minimum period, but the Axios research estimates that Biden would have to institute his rules by this Wednesday or by September at the latest.



**US Labor Market-Unions:** The National Labor Relations Board said workers at a Mercedes-Benz plant in Alabama [voted against joining the United Auto Workers by a vote of 56% to 44%](#).

Coming just weeks after the UAW won a vote at a Volkswagen plant in Tennessee, the result suggests it will remain difficult for unions to organize workers in the South. Although today’s labor shortages have boosted wage rates and workers’ bargaining power, it appears the economy could avoid the kind of mass unionization that hamstrung the labor market decades ago.

**US Labor Market-Immigration:** An article in the *Financial Times* today compiles statements from various US business organizations and firms warning that new restrictions on immigration or mass deportations [would be costly and weigh on economic growth](#). The statements come from organizations ranging from the Associated General Contractors of America to the National Retail Federation and the National Restaurant Association.

- The businesses have issued their warning as both President Biden and Former President Trump adopt stronger anti-immigration rhetoric ahead of the November elections.
- The businesses are concerned because COVID-era changes in the labor market have left a large “hole” in the supply of relatively less-skilled workers. We describe that situation in depth in our latest *Bi-Weekly Geopolitical Report*, due to be published later today.

## 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			
No economic releases for the rest of today			
Federal Reserve			
EST	Speaker or Event	District or Position	
8:45	Raphael Bostic Gives Welcom Remarks	President of the Federal Reserve Bank of Atlanta	
9:00	Michael Barr Gives Keynote Remarks, Q&A	U.S. Federal Reserve Vice Chair for Supervision	
9:00	Christopher Waller Gives Welcoming Remarks	Member of the Board of Governors	
10:30	Philip Jefferson Speaks on Economic Outlook, Housing	Vice-Chair of the Board of Governors	
14:00	Loretta Mester on Bloomberg TV	President of the Federal Reserve Bank of Cleveland	
19:00	Raphael Bostic Moderates Keynote Remarks	President of the Federal Reserve Bank of Atlanta	

## 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
<b>ASIA-PACIFIC</b>								
Japan	Tertiary Industry Index	m/m	Mar	-2.4%	2.2%	-0.1%	***	Equity bearish, bond bullish
<b>EUROPE</b>								
UK	Rightmove House Prices	y/y	May	0.60%	1.70%		**	Equity and bond neutral
Russia	GDP	y/y	1Q A	5.4%	4.9%		**	Equity bullish, bond bearish
	CPI	y/y	Apr	7.8%	7.7%	7.8%	***	Equity and bond neutral
	Core CPI	y/y	Apr	8.3%	7.8%		**	Equity and bond neutral
<b>AMERICAS</b>								
Canada	Int'l Securities Transactions	m/m	Mar	14.37b	-4.28b		**	Equity and bond neutral
Mexico	Retail Sales	y/y	Mar	-1.7%	3.0%	0.0%	***	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)	559	559	0	Up
3-mo T-bill yield (bps)	524	524	0	Up
U.S. Sibor/OIS spread (bps)	533	533	0	Flat
U.S. Libor/OIS spread (bps)	534	534	0	Up
10-yr T-note (%)	4.44	4.42	0.02	Down
Euribor/OIS spread (bps)	383	383	0	Down
Currencies	Direction			
Dollar	Up			Up
Euro	Down			Up
Yen	Down			Down
Pound	Flat			Up
Franc	Down			Down
Central Bank Action	Current	Prior	Expected	
PBOC 1-Year Loan Prime Rate	3.450%	3.450%	3.450%	On Forecast
PBOC 5-Year Loan Prime Rate	3.950%	3.950%	3.950%	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.

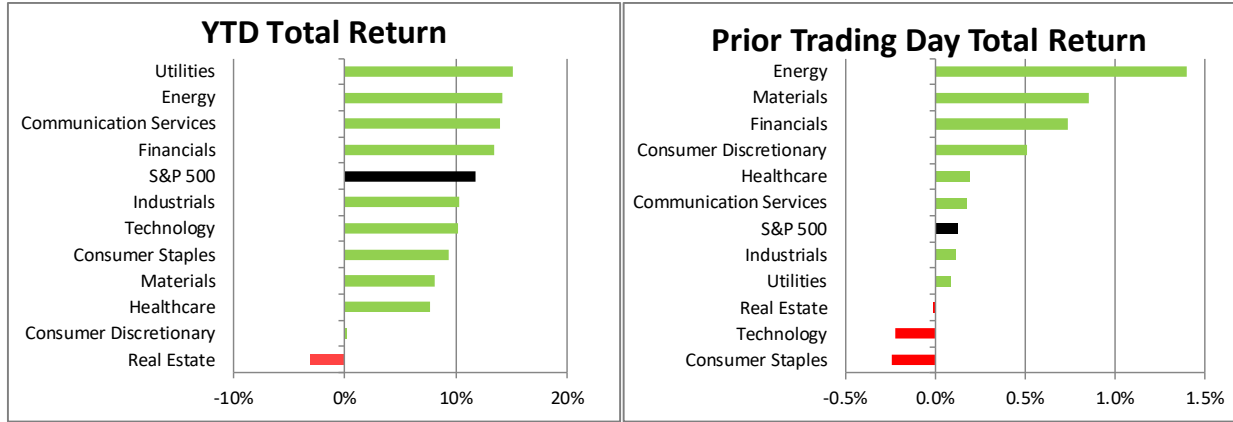
DOE Inventory Report	Price	Prior	Change	Explanation
<b>Energy Markets</b>				
Brent	\$83.51	\$83.98	-0.56%	
WTI	\$79.52	\$80.06	-0.67%	
Natural Gas	\$2.68	\$2.63	1.90%	
12-mo strip crack	\$22.85	\$23.32	-2.03%	
Ethanol rack	\$1.92	\$1.92	0.04%	
<b>Metals</b>				
Gold	\$2,418.88	\$2,415.22	0.15%	
Silver	\$31.37	\$31.49	-0.40%	
Copper contract	\$502.30	\$505.00	-0.53%	
<b>Grains</b>				
Corn contract	\$455.75	\$452.50	0.72%	
Wheat contract	\$669.25	\$651.25	2.76%	
Soybeans contract	\$1,231.75	\$1,228.00	0.31%	
<b>Shipping</b>				
Baltic Dry Freight	1,844	1,817	27	

## Weather

The 6-10 and 8-14 day forecasts call for warmer-than-normal temperatures throughout the East Coast, Midwest, and most of the South, with cooler-than-normal temperatures on the West Coast. The forecasts call for wetter-than-average conditions throughout most of the country, with drier-than-normal conditions expected in the Rocky Mountain region.

**Data Section**

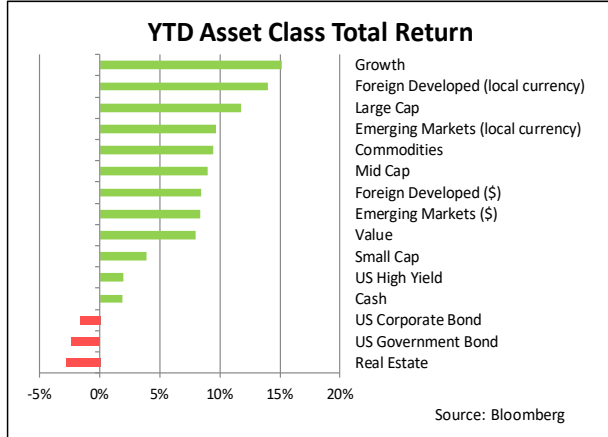
**US Equity Markets – (as of 5/17/2024 close)**



(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 5/17/2024 close)**



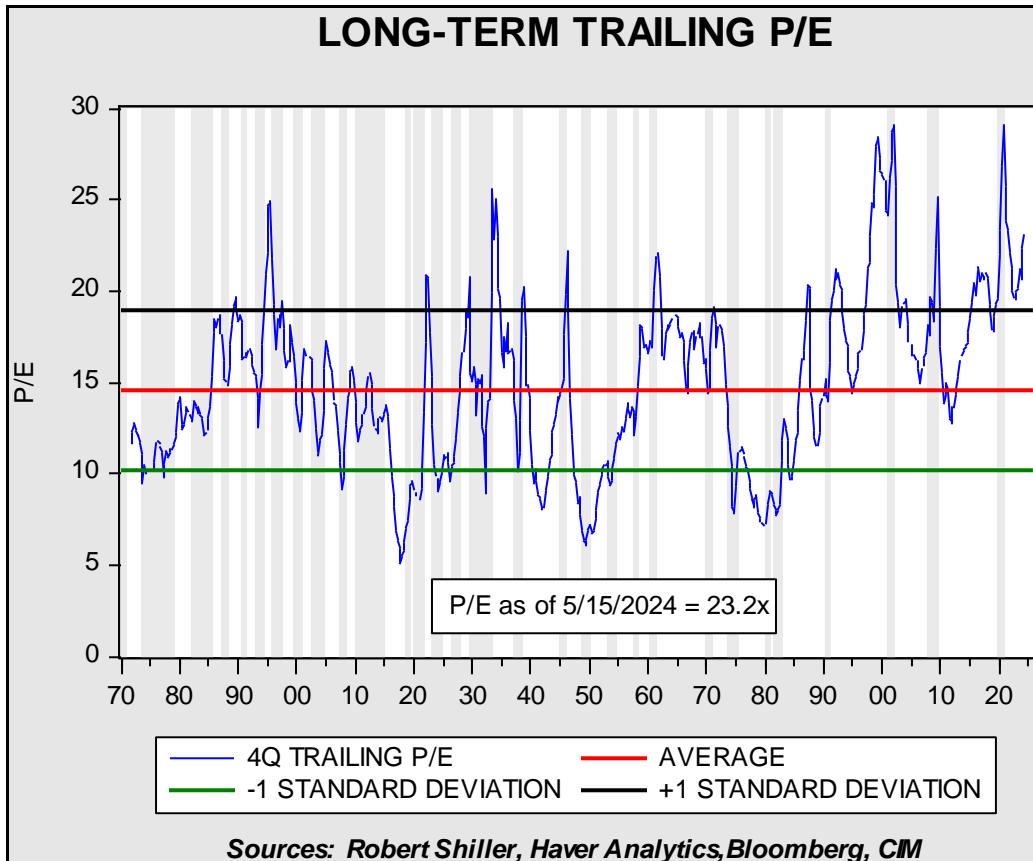
This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

May 16, 2024



Based on our methodology,<sup>1</sup> the current P/E is 23.2x, up 0.1x from our last report. The increase in the multiple reflects an increase in the S&P 500 Index, outweighing 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.*

<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 (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.