

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 24, 2024—9:30 AM EDT] Global equity markets are mostly lower this morning. In Europe, the Euro Stoxx 50 is down 0.5% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 1.1%. Chinese markets were lower, with the Shanghai Composite down 0.9% from its previous close and the Shenzhen Composite down 1.1%. Conversely, US equity index futures are signaling a higher open.

With 481 companies having reported so far, S&P 500 earnings for Q1 are running at \$56.60 per share compared to estimates of \$54.24, which is up 0.9% from Q1 2023. Of the companies that have reported thus far, 79.2% have exceeded expectations, while 16.6% 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](#)** (5/20/2024) (there is no associated podcast): “The Great COVID Labor Reform”
- [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 an interesting observation on the Chinese market by JPMorgan CEO Jamie Dimon. We next review several other international and US developments with the potential to affect the financial markets today, including a new program in South Korea to promote its semiconductor industry, data pointing to a falling population in Europe, and approval for new spot cryptocurrency funds in the US.

China-United States: JPMorgan CEO Jamie Dimon [admitted on Thursday that part of the firm’s investment banking business in China has “fallen off a cliff” in recent years](#). The

statement is important because Dimon has been a poster child for the US business elites in technology, finance, and other industries who have vocally resisted US-China decoupling in the interest of national security. His statement suggests JPMorgan may now be suffering from the same abusive Chinese economic policies that have helped spark the calls for decoupling.

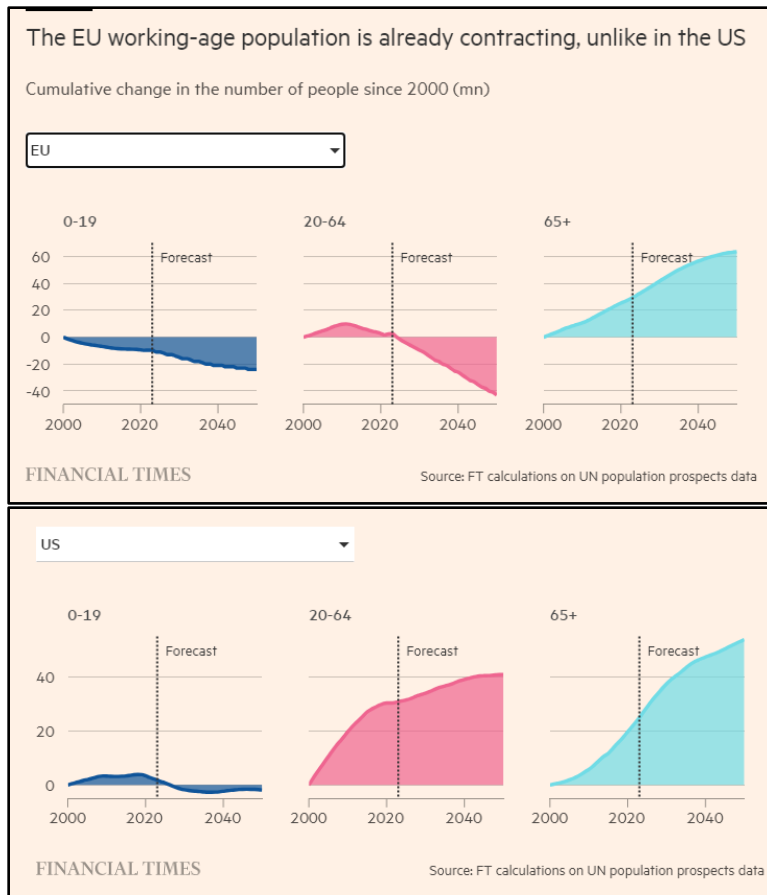
- Those policies include China’s long-standing effort to attract top foreign firms, learn from them, and then strangle them while the government helps promote China’s own “national champions.” If that’s what is happening, it seems that Dimon and the rest of JPMorgan’s leadership should have seen it coming.
- But even if that’s not happening yet, China’s new goal to become a “financial superpower” suggests it could happen soon. The new goal calls for China to clean up, broaden, and deepen its financial markets to support cutting-edge industries such as electric vehicles and semiconductors. The plan also calls for China to foster several of its own world-class investment banks, which would naturally take Chinese market share from foreign firms such as JPMorgan.

Russia-Finland-Lithuania: The Russian defense ministry’s website this week [temporarily showed a plan to unilaterally move Russia’s maritime border in the Baltic Sea at the expense of Finland and Lithuania.](#) Although the plan was quickly deleted, Finnish and Lithuanian officials condemned it as a serious provocation or hybrid attack. At any rate, the incident could mean the Kremlin is becoming more confident in provoking the North Atlantic Treaty Organization as Russia regains momentum in its invasion of Ukraine while NATO members slow their support.

Tunisia: Autocratic President Kais Saied [has launched another crackdown on political dissent ahead of elections planned for later this year.](#) The clampdown appears to focus on lawyers, journalists, and social activists, some of whom have already been jailed. This raises the risk of social upheaval in an important energy producer and conduit for African migration into Europe.

South Korea: The government yesterday [unveiled a plan to provide about \\$19 billion to Korean manufacturers of non-memory semiconductors.](#) Aimed at chipmakers such as Samsung and Hynix, the money will subsidize the construction of new facilities to produce cutting-edge processors. The program is yet another example of how countries around the world are now embracing “industrial policy” to incentivize the domestic production of key goods.

European Union: New data suggests Europe’s population [may have already started a long, drawn-out decline, about two years earlier than demographers had anticipated.](#) The expected decline largely reflects falling birth rates. Until now, the rising participation of immigrants and women in the labor force has offset the accelerating loss of older workers. However, soon those factors will not be enough, and the EU’s total work force will begin an extended decline that will make it harder to achieve economic growth.



France-New Caledonia: On an emergency trip to France’s overseas territory of New Caledonia, President Macron [agreed with local leaders to suspend a new law that would have expanded voting rights for non-indigenous people](#). The new law has sparked more than a week of rioting by indigenous Kanaks on fears that it would dilute their political power and make it harder to eventually win independence. As of this writing, it is not clear whether Macron’s suspension of the law will quell the violence.

US Cryptocurrency Market: In a surprise move yesterday, the Securities and Exchange Commission [approved the US’s first exchange-traded funds for spot ether](#), the second-biggest cryptocurrency after bitcoin. The 10 or more asset managers that applied to offer the ETFs now must have their individual funds approved before they can offer them to the public. Given that existing futures-based ether funds haven’t garnered much interest, it is unclear whether any of the upcoming spot ether ETFs will attract much buying.

US Sports Market: Yesterday, the National Collegiate Athletic Association and five of the nation’s top athletic conferences [agreed to drop their century-old policy that saw college athletes as strictly amateur and not entitled to share in the revenue](#) they generate for their school. The deal, which settles a lawsuit filed in 2020, follows a separate settlement from several years ago in which athletes gained the right to profit from their name, image, and likeness. A final deal will allow colleges and universities to directly pay their college athletes.

US Economic Releases

April **durable goods orders** rose by a seasonally adjusted 0.7%. Although this is a slight deceleration from last month's 0.8% growth, it significantly exceeds the expected value of a 0.8% contraction. Durable goods orders are often driven by transportation equipment, where just a few airliner orders can have a big impact. April **durable goods orders excluding transportation** rose 0.4%. This exceeds both last month's 0.0% and the expected value of 0.1%. Finally, the durable goods report also includes a key proxy for corporate capital investment. In April, **nondefense capital goods orders ex-aircraft** rose 0.3%, again exceeding last month's 0.1% contraction and the expectation for only 0.1% growth this month. Predictably, markets have reacted positively. Compared with the same month one year earlier, overall durable goods orders in April were up 1.3%, while durable orders ex-transport were up 3.1%. Nondefense capital goods orders ex-aircraft were also up 3.1%. The chart below shows the progression of nondefense capital goods orders ex-aircraft 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						
EST	Indicator			Expected	Prior	Rating
10:00	U. of Michigan Consumer Sentiment	m/m	May F	67.7	67.4	***
10:00	U. of Michigan Current Conditions	m/m	May F	68.8	68.8	**
10:00	U. of Michigan Future Expectations	m/m	May F	67.0	66.5	**
10:00	U. of Michigan 1-Year Inflation Expectation	m/m	May F	3.4%	3.5%	*
10:00	U. of Michigan 5-10 Year Inflation Expectation	m/m	May F	3.1%	3.1%	*
11:00	Kansas City Fed Services Activity	m/m	May		9.0	**
Federal Reserve						
EST	Speaker or Event	District or Position				
9:35	Christopher Waller Gives Keynote Address	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	National CPI	y/y	Apr	2.5%	2.7%	2.4%	***	Equity and bond neutral
	National CPI Ex-Fresh Food	y/y	Apr	2.2%	2.6%	2.2%	**	Equity and bond neutral
	National CPI Ex-Fresh Food & Energy	y/y	Apr	2.4%	2.9%	2.4%	*	Equity and bond neutral
	Nationwide Dept Sales	y/y	Apr	8.90%	9.90%		***	Equity and bond neutral
New Zealand	Exports NZD	m/m	Apr	6.42b%	6.38b		**	Equity and bond neutral
	Trade Balance NZD	m/m	Apr	91m	476m		**	Equity and bond neutral
	Imports NZD	m/m	Apr	6.32b	5.90b		**	Equity and bond neutral
EUROPE								
Germany	GDP NSA	y/y	1Q F	-0.9%	-0.9%	-0.9%	**	Equity and bond neutral
	GDP WDA	y/y	1Q F	-0.2%	-0.2%	-0.2%	**	Equity and bond neutral
France	Business Confidence	m/m	May	99	99	100	**	Equity and bond neutral
	Manufacturing Confidence	m/m	May	99	100	100	*	Equity and bond neutral
UK	Retail Sales	y/y	Apr	-2.7%	0.4%	-0.3%	***	Equity bearish, bond bullish
	Retail Sales Ex-Auto Fuel	y/y	Apr	-3.0%	0.0%	-1.1%	**	Equity bearish, bond bullish
Russia	Gold and Forex Reserves	m/m	17-May	\$603.7b	\$598.4b		***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	17-May	18.31t	18.32t		*	Equity and bond neutral
AMERICAS								
Mexico	Trade Balance	m/m	Apr	-3746.2	2097.1m	-601.1m	**	Equity and bond neutral
	Exports	m/m	Apr	55066m	48654m		*	Equity and bond neutral
	Imports	m/m	Apr	51319m	50752m		*	Equity and bond neutral
Brazil	Current Account Balance	m/m	Apr	-\$2516m	-\$4837m	-\$1400m	**	Equity and bond neutral
	Foreign Direct Investment	m/m	Apr	\$3867m	\$9591m	\$5000m	**	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	525	-1	Up
U.S. Sibor/OIS spread (bps)	534	535	-1	Flat
U.S. Libor/OIS spread (bps)	535	536	-1	Flat
10-yr T-note (%)	4.48	4.48	0.00	Up
Euribor/OIS spread (bps)	380	382	-2	Down
Currencies	Direction			
Dollar	Down			Up
Euro	Up			Down
Yen	Flat			Down
Pound	Up			Up
Franc	Flat			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.

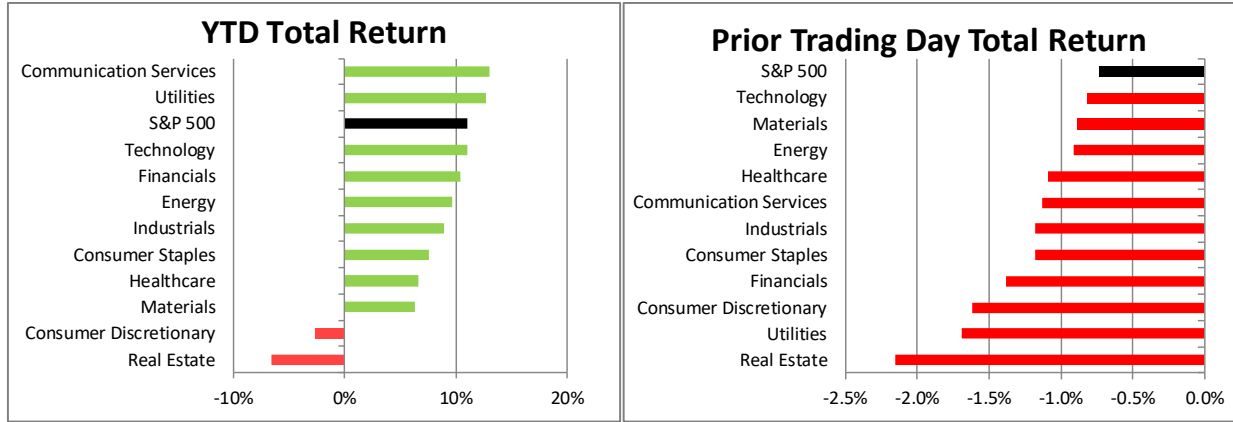
DOE Inventory Report	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$81.19	\$81.36	-0.21%	
WTI	\$76.73	\$76.87	-0.18%	
Natural Gas	\$2.63	\$2.66	-0.87%	
12-mo strip crack	\$22.41	\$22.63	-0.98%	
Ethanol rack	\$1.93	\$1.94	-0.09%	
Metals				
Gold	\$2,339.68	\$2,329.27	0.45%	
Silver	\$30.51	\$30.13	1.26%	
Copper contract	\$479.60	\$479.25	0.07%	
Grains				
Corn contract	\$463.50	\$464.00	-0.11%	
Wheat contract	\$691.00	\$698.00	-1.00%	
Soybeans contract	\$1,239.25	\$1,239.25	0.00%	
Shipping				
Baltic Dry Freight	1,796	1,804	-8	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)	1.83	-2.00	3.83	
Gasoline (mb)	-0.95	-1.38	0.43	
Distillates (mb)	0.38	0.30	0.08	
Refinery run rates (%)	1.3%	0.5%	0.8%	
Natural gas (bcf)	78	83	-5	

Weather

The 6-10 and 8-14 day forecasts call for warmer-than-normal temperatures in the Mountain Time Zone, California, along the Gulf Coast, and in Maine, with cooler temperatures expected in the lower Ohio Valley. The forecasts call for wetter-than-average conditions in Texas, Oklahoma, Kansas, and New Mexico, with drier-than-normal conditions expected in the Rocky Mountains and along the Gulf Coast.

Data Section

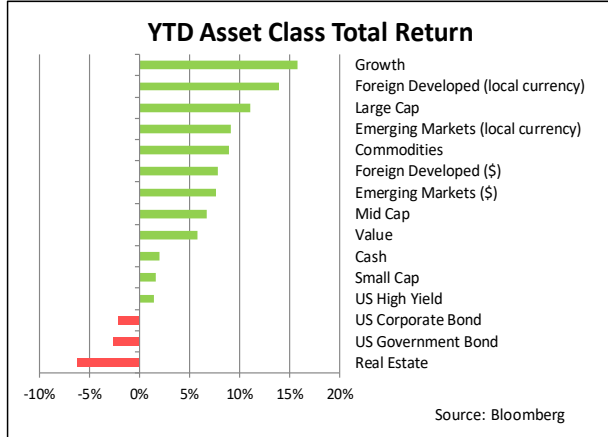
US Equity Markets – (as of 5/23/2024 close)



(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 5/23/2024 close)

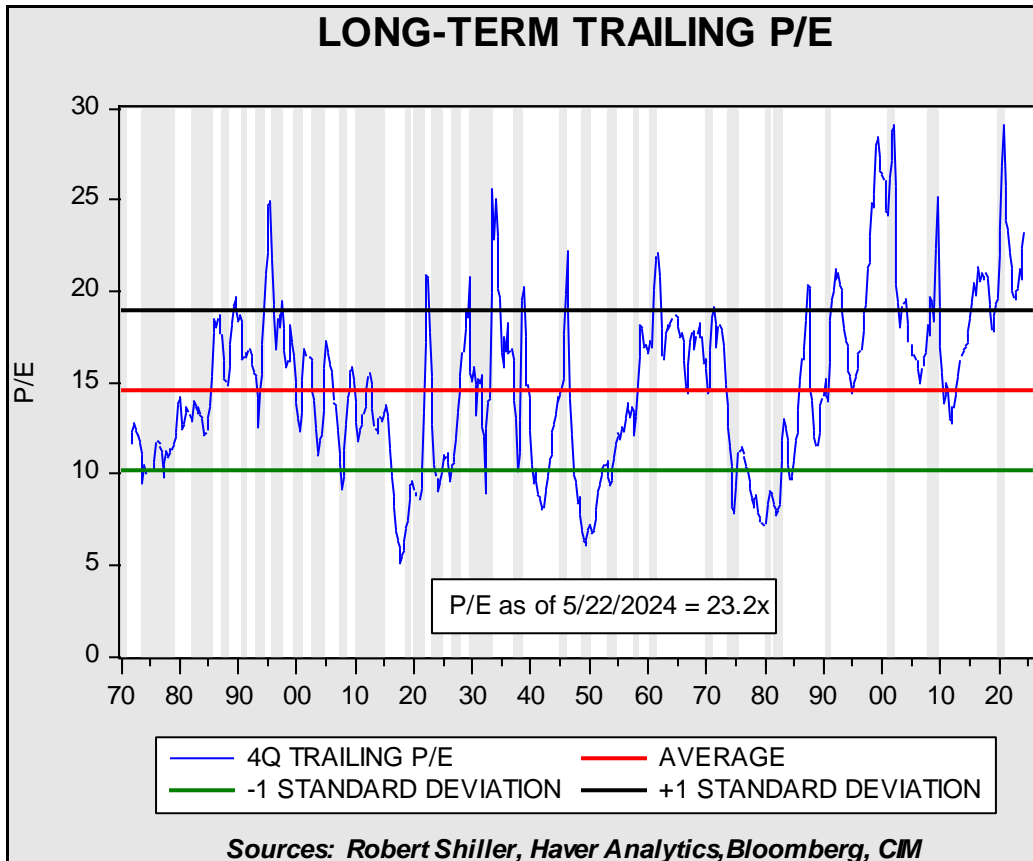


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 23, 2024



Based on our methodology,¹ the current P/E is 23.2x, unchanged from our last report. Despite a rise in the stock price index, the valuation multiple remained unchanged due to a corresponding increase in company 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.