

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: September 3, 2024 — 9:30 AM ET] Global equity markets are mostly lower this morning. In Europe, the Euro Stoxx 50 is down 0.4% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.8%. Chinese markets were mixed, with the Shanghai Composite down 0.3% from its previous close and the Shenzhen Composite up 1.1%. US equity index futures are signaling a lower open.

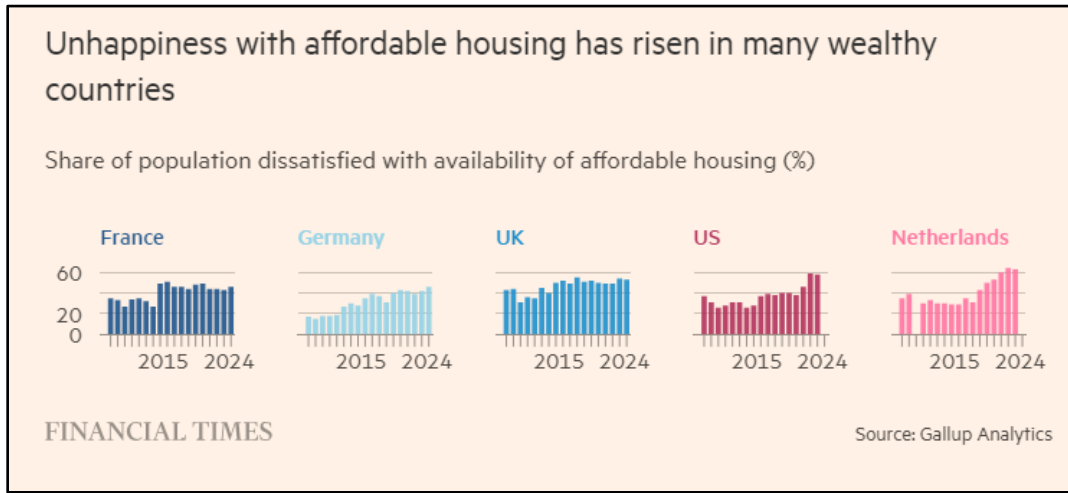
The Confluence macro team publishes a plethora of research reports and multimedia offerings on a weekly and quarterly basis, all available on our [website](#). We highlight recent publications below, with new items of the day emphasized in bold:

- [Bi-Weekly Geopolitical Report](#) (8/19/2024) (no accompanying podcast for this report): “The Recent Iranian Election: Results & Implications” (the next report will be published on 9/9/2024)
- [Asset Allocation Bi-Weekly](#) (8/26/2024) (with associated [podcast](#)): “Activist vs. Accommodative Treasury Issuance”
- [Asset Allocation Quarterly – Q3 2024](#) (7/16/2024): Discussion of our asset allocation process, Q3 2024 portfolio changes, and our outlook for the markets.
- [Asset Allocation Q3 2024 Rebalance Presentation](#) (8/6/2024): Video presentation featuring the Asset Allocation Committee as they review the asset allocation strategies, recent portfolio changes, and the current macro environment.
- [Business Cycle Report](#) (8/29/24)

Our *Comment* today opens with a global poll showing that dissatisfaction with high home prices and rental rates is now widespread across the developed world, although it’s unclear whether that will spur lower interest rates or increased homebuilding to improve affordability. We next review several other international and US developments with the potential to affect the financial markets today, including more dangerous interactions between Chinese and Philippine ships in the South China Sea and a statement by Vice President Harris that she opposes the takeover of US Steel by a Japanese steel manufacturer.

Global Housing Market: While it’s tempting to think only people in the US are mad about high home prices and rising rents, new research from Gallup shows voters [are dissatisfied across the developed world](#). Indeed, the population-weighted average rate of dissatisfaction in the countries of the Organization for Economic Cooperation and Development now stands at about 50%.

OECD economists tag the shortfall to both high interest rates and insufficient homebuilding, especially at lower price points, which has boosted home prices and rents.



European Union: The European Court of Justice today [ruled that the EU’s competition regulator exceeded its authority when it blocked US gene-sequencing firm Illumina’s takeover of cancer-test maker Grail](#). According to the court, the regulator had no jurisdiction to review the case, and the legal tool it used to block the merger was used improperly.

- The ruling is a blow to the EU’s strategy of blocking so-called “killer acquisitions,” where a firm buys a much smaller player to eliminate a source of potential competition, even if the target currently has little or no EU revenue.
- The aggressive EU strategy has been one bone of contention between EU regulators and powerful technology-oriented companies in the US.

Germany: In state elections on Sunday, the anti-immigrant, far-right populist Alternative for Germany (AfD) [came in first in the eastern German state of Thuringia and second in Saxony](#). The results mark the best showing for a far-right party in Germany since the Nazi period in World War II. It appears that a new populist-left party, the Sahra Wagenknecht Alliance (BSW), will finish third in both states, potentially making it a kingmaker.

- AfD’s strong performance points to continued gains by the far right in the European Union, raising concerns about political stability in the bloc and its prospects for staying intact.
- More generally, the rise of some far-left parties in Europe point to worsening polarization, which will make it even harder for EU leaders to keep the bloc together, formulate policy, and support the economy and financial markets.

Switzerland: In a shocking report late last week, a panel of diplomats, high-level government officials, and military officers [told the government that it should consider abandoning the country’s vaunted neutrality policy](#), which has been in place since 1515. Faced with Russia’s growing aggression, the report says Switzerland should consider developing the capability to

work with the European Union and the US in defense matters. It also recommends that Switzerland end or revise its ban on selling weapons to countries at war.

China-Philippines: Over the weekend, a Chinese coast guard vessel [once again harassed a Philippine coast guard ship in disputed waters in the South China Sea](#). To be precise, multiple Chinese vessels surrounded *BRP Teresa Magbanua* near Sabina Shoal, and one repeatedly rammed her. We have also seen reports that the Philippine ship has now turned off her location transponder, either deliberately because she is trying to hide from the Chinese, or perhaps because she has been boarded and taken over by the Chinese.

- China's continual harassment of Philippine ships, including multiple instances of ramming and other physical contact, suggest the territorial disputes in the South China Sea will continue to present a risk of broader conflict.
- As we have noted previously, the US and the Philippines have a mutual defense treaty, and Manila has implied that if a Philippine sailor is killed in a conflict with China, it might turn to the US to help defend it.

China-Canada: Beijing today [said it will investigate whether Canada is dumping canola on the Chinese market at predatory prices](#). The anti-dumping probe is almost certainly in retaliation for Ottawa's decision last week to impose anti-dumping tariffs on Chinese steel, aluminum, and electric vehicles. The new probe by China is the latest sign of a possible global trade war as Beijing tries to boost economic growth by flooding the world with its exports and major developed and emerging countries erect trade barriers to protect their workers.

United States-South Korea-China: As the Biden administration continues trying to cajole US allies into clamping down further on selling advanced semiconductor technology to China, the South Korean trade minister yesterday [said Washington should provide incentives for Seoul](#) to play along. The statement reflects some allies' resistance to losing lucrative trade flows with China, even as many business leaders in the US and the rest of the US-led geopolitical bloc resist giving up on the Chinese market.

US Economic Policy: Illustrating how nationalist populism has been embraced by both major political parties, Democratic Vice President Harris [yesterday said she would oppose Japanese steelmaker Nippon Steel's pending takeover of US Steel](#). Harris's opposition to the deal, made at a union hall in Pittsburgh as part of her presidential campaign, echoes the opposition from President Biden, former President Trump, and other Republican and Democratic lawmakers.

- As we've noted before, populist policies are likely to be reflected in the major policies put into place whether Trump or Harris wins the presidential election in November.
- Those policies are likely to include more trade barriers and protectionism, more industrial policy to favor certain domestic industries, and tax cuts and benefit programs for the working class. Of course, the specific policies pushed by Trump or Harris would be different, but many will probably be geared to addressing today's populist sentiment.

US Economic Releases

There were no economic releases today prior to publication time. The table below lists the economic releases and Fed events scheduled for the rest of the day.

Economic Releases						
No economic releases for the rest of today						
ET	Indicator			Expected	Prior	Rating
9:45	S&P Global US Manufacturing PMI	m/m	Aug F	48.1	48	***
10:00	Construction Spending MoM	m/m	Jul	0.10%	-0.30%	*
10:00	ISM Manufacturing	m/m	Aug	47.5	46.8	**
10:00	ISM Prices Paid	m/m	Aug	52	52.9	**
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	Capital Spending	y/y	2Q	7.4%	6.8%	10.0%	**	Equity bearish, bond bullish
	Jibun Bank Manufacturing PMI	m/m	Aug F	49.8	49.5		***	Equity and bond neutral
	Monetary Base	y/y	Aug	0.6%	1.0%		**	Equity and bond neutral
	Monetary Base, End of Period	m/m	Aug	¥674.9t	¥673.1t		*	Equity and bond neutral
Australia	Melbourne Institute Inflation	y/y	Aug	2.5%	2.8%		***	Equity and bond neutral
	Building Approvals	m/m	Jul	10.4%	-6.4%	2.8%	***	Equity bearish, bond bullish
	BoP Current Account Balance	q/q	2Q	-A\$10.7b	-A\$6.3b	-A\$6.5b	***	Equity bearish, bond bullish
South Korea	Imports	y/y	Aug	6.0%	10.6%	6.3%	**	Equity and bond neutral
	Trade Balance	m/m	Aug	\$3829m	\$3599m	\$4200m	*	Equity and bond neutral
	Exports	y/y	Aug	11.4%	13.9%	11.8%	***	Equity and bond neutral
	S&P Global South Korea PMI Manufacturing	m/m	Aug	51.9	51.4		***	Equity and bond neutral
	CPI	m/m	Aug	2.0%	2.6%	2.1%	***	Equity and bond neutral
China	Official Composite PMI	m/m	Aug	50.1	50.2		*	Equity and bond neutral
	Official Manufacturing PMI	m/m	Aug	49.1	49.4	49.5	***	Equity and bond neutral
	Official Services PMI	m/m	Aug	50.3	50.2	50.1	**	Equity and bond neutral
	Caixin Manufacturing PMI	m/m	Aug	50.4	49.8	50.0	***	Equity and bond neutral
India	HSBC India PMI Mfg	m/m	Aug F	57.5	57.9		***	Equity and bond neutral
EUROPE								
Eurozone	HCOB Eurozone Manufacturing PMI	m/m	Aug F	45.8	45.6	45.6	***	Equity and bond neutral
Germany	Retail Sales	y/y	May	-1.1%	3.9%	-0.7%	*	Equity and bond neutral
	HCOB Germany Manufacturing PMI	m/m	Aug F	42.4	42.1	42.1	***	Equity and bond neutral
France	HCOB France Manufacturing PMI	m/m	Aug F	43.9	42.1	42.1	***	Equity and bond neutral
Italy	HCOB Italy Manufacturing PMI	m/m	Aug	49.4	47.4	48.5	***	Equity bullish, bond bearish
	GDP WDA	y/y	2Q F	0.9%	0.9%	0.9%	**	Equity and bond neutral
	PPI	y/y	Jul	-1.6%	-3.5%		**	Equity and bond neutral
UK	S&P Global UK Manufacturing PMI	m/m	Aug F	52.5	52.5	52.5	***	Equity and bond neutral
Switzerland	Real Retail Sales	y/y	Jul	2.7%	-2.6%		**	Equity and bond neutral
	PMI Manufacturing	m/m	Aug	49.0	43.5	43.8	***	Equity bullish, bond bearish
	PMI Services	m/m	Aug	52.9	44.7		*	Equity and bond neutral
	Domestic Sight Deposits CHF	w/w	30-Aug	448.6b	455.7b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	30-Aug	456.7b	463.6b		*	Equity and bond neutral
	CPI	y/y	Aug	1.1%	1.3%	1.2%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Aug	1.0%	1.2%	1.2%	*	Equity and bond neutral
	Core CPI	y/y	Aug	1.1%	1.1%	1.1%	*	Equity and bond neutral
	GDP	y/y	2Q	1.8%	0.6%	1.5%	**	Equity and bond neutral
Russia	S&P Global Russia Manufacturing PMI	m/m	Aug	52.1	53.6		***	Equity and bond neutral
AMERICAS								
Canada	GDP	y/y	Jun	1.2%	1.1%	1.4%	**	Equity and bond neutral
Mexico	S&P Global Mexico Manufacturing PMI	m/m	Aug	48.5	49.6		***	Equity and bond neutral
	Unemployment Rate NSA	m/m	Jul	2.93%	2.78%	2.98%	***	Equity and bond neutral
	Gross Fixed Investment NSA	y/y	Jun	-1.3%	6.0%	-1.2%	**	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)	528	528	0	Down
3-mo T-bill yield (bps)	497	497	0	Down
U.S. Sibor/OIS spread (bps)	501	501	0	Down
U.S. Libor/OIS spread (bps)	498	500	-2	Down
10-yr T-note (%)	3.92	3.90	0.02	Up
Euribor/OIS spread (bps)	347	349	-2	Down
Currencies	Direction			
Dollar	Up			Down
Euro	Down			Up
Yen	Up			Up
Pound	Down			Up
Franc	Down			Up

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.

	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$75.90	\$77.52	-2.09%	
WTI	\$72.50	\$73.55	-1.43%	
Natural Gas	\$2.17	\$2.13	2.16%	
12-mo strip crack	\$19.94	\$19.87	0.34%	
Ethanol rack	\$2.04	\$2.04	0.03%	
Metals				
Gold	\$2,495.47	\$2,499.51	-0.16%	
Silver	\$28.35	\$28.55	-0.67%	
Copper contract	\$407.75	\$421.15	-3.18%	
Grains				
Corn contract	\$399.75	\$401.00	-0.31%	
Wheat contract	\$547.25	\$551.50	-0.77%	
Soybeans contract	\$1,001.00	\$1,000.00	0.10%	
Shipping				
Baltic Dry Freight	1,919	1,814	105	

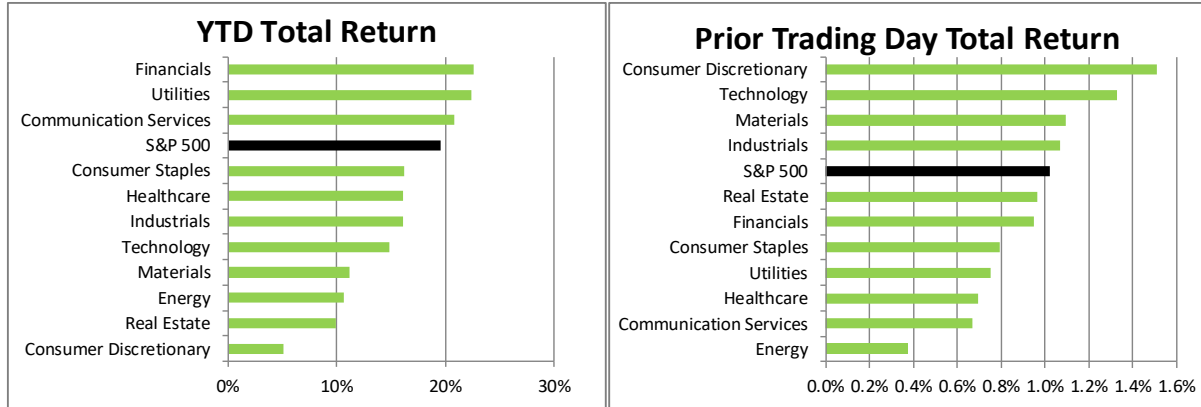
Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures in the western third of the country and Florida, with cooler temperatures along the mid-Atlantic coast. The precipitation outlooks call for wetter-than-normal conditions along the Gulf Coast, in Florida, New England, and the Pacific Northwest, with drier than normal conditions in the middle third of the country.

Three tropical disturbances are traversing the Caribbean Sea and Atlantic Ocean, none of which have a significant chance of cyclone formation within the next 48 hours.

Data Section

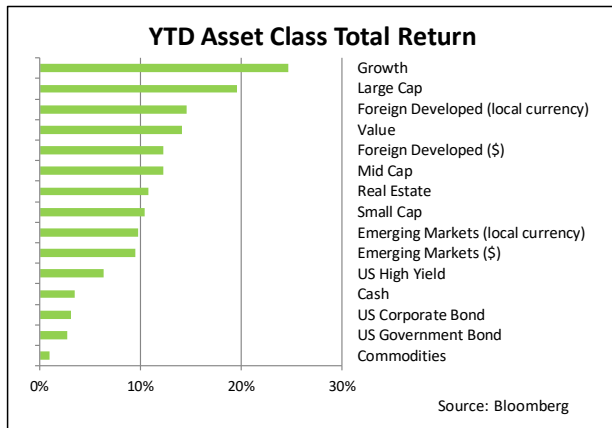
US Equity Markets – (as of 8/30/2024 close)



(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 8/30/2024 close)

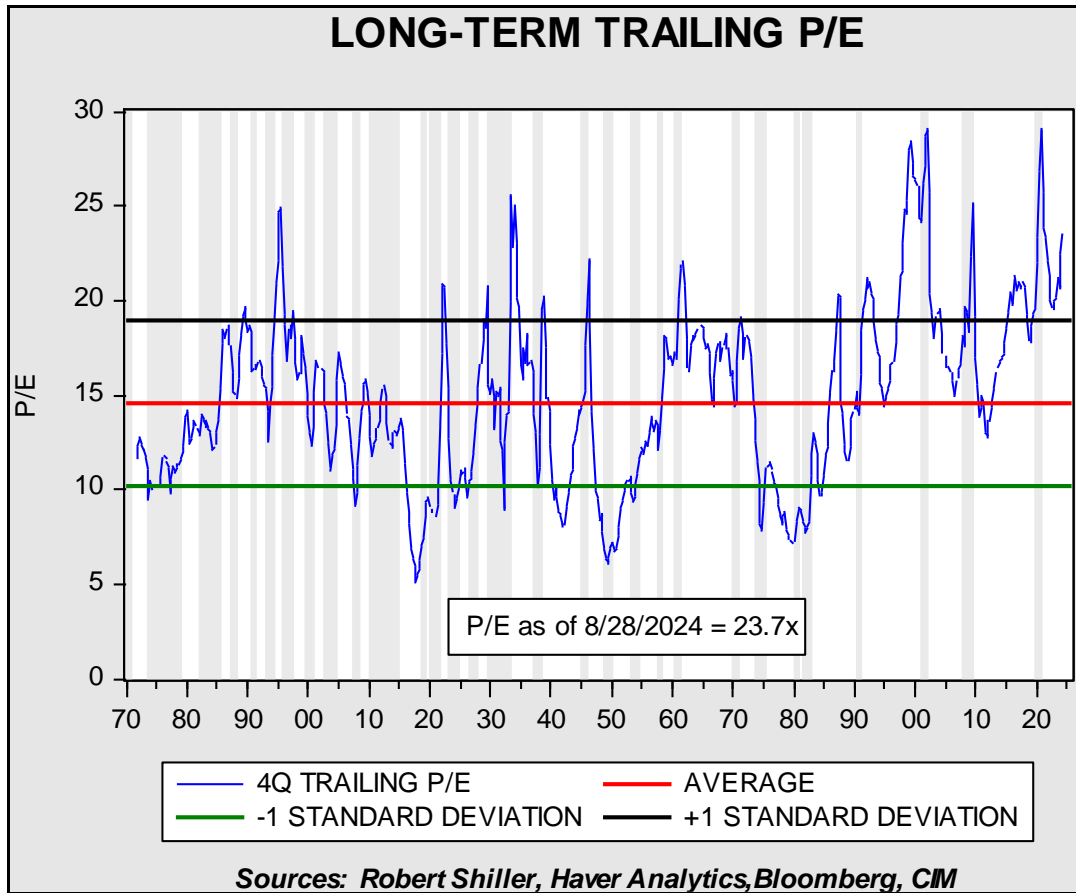


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

August 29, 2024



Based on our methodology,¹ the current P/E is 23.7x, unchanged from our last report. The increase in stock price index was offset mostly by an 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 (Q1, Q2 and Q3) and one estimate (Q4). 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.