

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 9, 2024 — 9:30 AM ET]** Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 0.8% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 1.6%. Chinese markets were lower, with the Shanghai Composite down 1.1% from its previous close and the Shenzhen Composite down 0.6%. 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](#) (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.

Our *Comment* today opens with an important new speech by former Australian Prime Minister Kevin Rudd, who warns that Chinese leaders are more ideologically driven than most in the West realize and also more apt to use military aggression. We next review several other international and US developments with the potential to affect the financial markets today, including an important new report on European competitiveness and a note on last week’s record-breaking corporate bond issuance in the US.

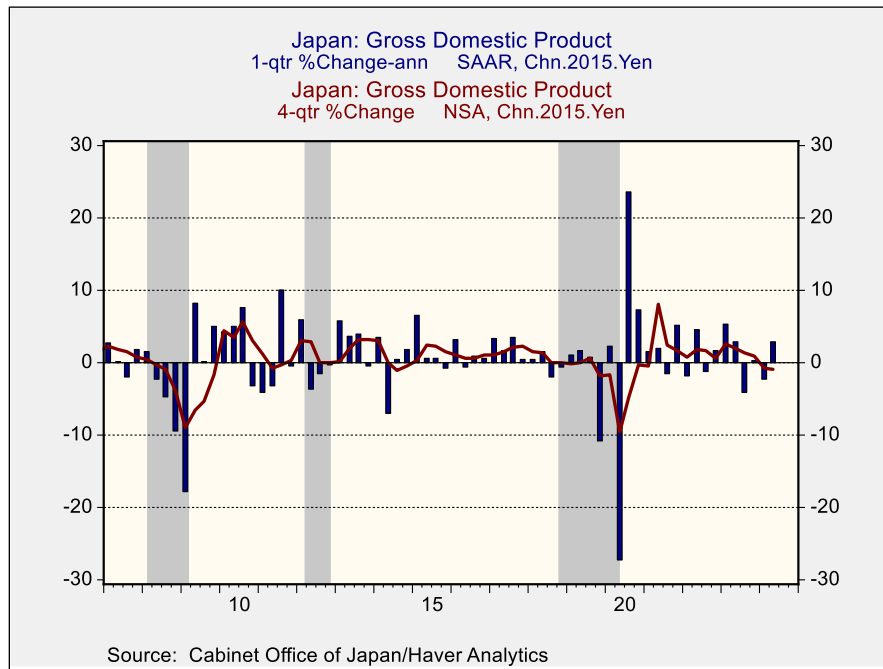
**China:** Kevin Rudd, the former Australian prime minister and Canberra’s current ambassador to the US, [warned in a must-read speech in Washington last week that Chinese leaders are more driven by ideology than most Westerners believe](#). Rudd, a Mandarin speaker with an extensive background dealing with Beijing, emphasized that because of Chinese leaders’ Marxist-Leninist view of the US and their conception of deterrence, they could soon launch what they would view as a “small war” to deter the US and its allies from further efforts to contain China.

- In Rudd’s view, Chinese General Secretary Xi has fully embraced the Marxist-Leninist view that China is at the vanguard of historically determined social revolution, and that the “East is rising, while the West is falling.” According to Rudd, this makes Xi prone to over-confidence in dealing with the US and its allies.
- Although we have been warning for some time that the worsening US-China rivalry could potentially spill into military conflict of one sort or another, it hasn’t happened yet. Rudd’s warning suggests that investors should remain aware of the risks. That mindset is consistent with our current positioning in our asset allocation strategies of keeping exposure to gold, commodities, and defense firms, which are designed to act as hedges against a potential conflict.

**China-Southeast Asia:** As the US and other developed countries rush to impose tariffs against the new wave of subsidized Chinese exports, new reporting shows many cheap Chinese goods [are being diverted to the relatively poor, developing countries of Southeast Asia](#). With prices kept extremely low by Beijing’s subsidies and the massive excess capacity in China’s industrial sector, the flood of Chinese goods is putting companies out of business and destroying jobs in countries such as Thailand, Malaysia, and Indonesia.

- Just as in the developed countries, several Southeast Asian nations have responded by imposing new tariffs and other trade barriers against Chinese goods, but the effort is constrained by regional free-trade agreements and fear of retaliation from China.
- Importantly, Chinese firms are also undercutting local logistics companies, such as trucking and warehouse firms. Once Chinese competition has driven a Southeast Asian manufacturer or logistics firm into bankruptcy, a Chinese company will often swoop in to buy the business at fire-sale prices. The Chinese buyer will sometimes use a local front company to hide its ownership, and it may leverage funds from Chinese organized crime groups (a very underappreciated problem throughout the region).
- As Chinese firms take over more local producers and logistics firms, they are reportedly forming “zero dollar” supply chains in which both imports from China and exports to China and beyond are warehoused and carried by Chinese firms with no reliance on the US currency.
- This growing Chinese influence over Southeast Asia is consistent with our view that Beijing will seek to control its evolving geopolitical and economic bloc using a form of neo-colonialism, as discussed in our [Bi-Weekly Geopolitical Report](#) from January 9, 2023. In this system, Beijing will offer the countries in its bloc the opportunity to export commodities, basic materials, and low-value factory components to China, but it will treat those countries as a captive market for Chinese exports.

**Japan:** After stripping out price changes and seasonal impacts, second quarter gross domestic product grew at a robust annualized rate of 2.9%, just enough to offset the 2.4% decline in the first quarter. Japan’s GDP in April through June was still lower than in the same period one year earlier, but the rebound, which was driven by consumer spending and corporate investment, is an encouraging sign that the economy is regaining momentum. The rebound will probably also keep the Bank of Japan on track to keep raising interest rates later this year.



**European Union:** Former European Central Bank chief Mario Draghi, who was tapped by the European Commission last year to study the EU’s lagging economy, [today issued his analysis](#) and recommendations. According to Draghi, the EU needs a massive increase in public and private investment, financed in part by joint EU debt. To spur private investment and innovation, he calls for aggressive industrial policies and subsidies, financial market deregulation, and easier competition rules to let companies grow bigger and more powerful.

- Reporting so far suggests Draghi’s recommendations are consistent with the growing trend toward industrial policies around the world, including measures such as protectionist tariffs and tax breaks or other subsidies for favored industries.
- All the same, it is unlikely that Draghi’s entire list of recommendations will be implemented. At the very least, EU countries that are smaller and more open to trade for growth will likely resist those policies that favor bigger countries and companies or threaten trade wars that could hurt their exports.

**Greece:** In the latest pushback against tourists in Europe, the Greek government [has proposed a series of measures to reduce visits from foreigners](#), including limits on cruise ship dockings, hefty increases in cruise ship disembarkation fees, and increases in lodging taxes. The moves follow similar restrictions put in place by Italy and Spain as post-pandemic wanderlust and a strong dollar encouraged waves of tourism in recent years. According to locals, excess tourism has driven up prices and disrupted communities in certain areas.

**United Kingdom:** Prime Minister Starmer’s government today [admitted it is mulling ways to soften the blow from Starmer’s plan to reduce fuel subsidies for millions of Britons this winter](#). Although the government hasn’t yet decided how to soften the impact, any modification to the

original plan would likely mean more spending and make it harder for the prime minister to rein in the UK's expanding budget deficit.

**Venezuela:** Opposition presidential candidate Edmundo González, whom the US and other key countries consider the rightful winner of July's election, [left Venezuela on a Spanish military plane over the weekend after a Venezuelan court issued a warrant for his arrest](#). Venezuelan security forces have also surrounded the Argentine embassy's residential compound, where six Venezuelan opposition leaders have decamped to avoid arrest.

- The developments show President Maduro is consolidating his power again after falsely claiming he won re-election.
- If Maduro retains power, as now looks likely, US sanctions on Venezuela's petroleum industry are likely to remain largely in place. In turn, much of Venezuela's oil resources will remain off the global market.

**US Politics:** As presidential candidates Donald Trump and Kamala Harris prepare for their televised debate tomorrow night, the *Wall Street Journal* today [carries a detailed and useful comparison of their positions on key issues ranging from taxes to healthcare](#). The debate on the ABC network is Tuesday, September 10, at 9:00 pm ET.

**US Bond Market:** New data from LSEG [show a record 60 corporate bond deals were completed last week for a total of \\$82 billion in borrowing](#). According to market participants, the flurry of deals reflects a desire by company managers to sew up their debt issuance ahead of any market volatility that could come as the economy slows, the Federal Reserve starts cutting interest rates, and the presidential election approaches.

## US Economic Releases

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

Economic Releases						
ET	Indicator			Expected	Prior	Rating
10:00	Wholesale Inventories	m/m	Jul F	0.3%	0.3%	**
10:00	Wholesale Trade Sales	m/m	Jul	0.3%	-0.6%	*
14:00	Consumer Credit	m/m	Jul	\$11.200b	\$8.934b	*
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
<b>ASIA-PACIFIC</b>								
<b>Japan</b>	GDP SA	q/q	2Q F	0.70%	0.80%	0.80%	***	Equity and bond neutral
	GDP Deflator	q/q	2Q F	3.20%	3.00%	3.00%	***	Equity and bond neutral
	BoP Current Account Balance	m/m	Jul	¥3193.0b	¥1533.5b	¥2496.0b	***	Equity and bond neutral
	BoP Trade Balance	m/m	Jul	-¥482.7b	¥556.3b	-¥427.6b	**	Equity and bond neutral
<b>China</b>	Foreign Reserves	m/m	Aug	\$3288.22b	\$3256.37b	\$3292.00b	**	Equity and bond neutral
	PPI	y/y	Aug	-1.8%	-0.8%	-1.5%	**	Equity and bond neutral
	CPI	y/y	Aug	0.6%	0.5%	0.7%	**	Equity and bond neutral
<b>EUROPE</b>								
<b>Switzerland</b>	Domestic Sight Deposits CHF	w/w	6-Sep	447.3b	448.6b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	6-Sep	455.9b	456.7b		*	Equity and bond neutral
	Official Reserve Assets	m/m	Aug	613.7b	602.0b		*	Equity and bond neutral
<b>AMERICAS</b>								
<b>Canada</b>	Net Change in Employment	m/m	Apr	22.1k	-2.8k	25.0k	***	Equity and bond neutral
	Unemployment Rate	m/m	Apr	6.6%	6.4%	6.5%	***	Equity and bond neutral
<b>Mexico</b>	CPI	y/y	Aug	4.99%	5.57%	5.06%	***	Equity and bond neutral
	Core CPI	y/y	Aug	4.00%	4.05%	4.00%	**	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)	520	521	-1	Down
3-mo T-bill yield (bps)	492	493	-1	Down
U.S. Sibor/OIS spread (bps)	496	496	0	Down
U.S. Libor/OIS spread (bps)	493	493	0	Down
10-yr T-note (%)	3.75	3.71	0.04	Down
Euribor/OIS spread (bps)	347	347	0	Down
Currencies	Direction			
Dollar	Up			Down
Euro	Down			Up
Yen	Down			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
<b>Energy Markets</b>				
Brent	\$71.82	\$71.06	1.07%	
WTI	\$68.49	\$67.67	1.21%	
Natural Gas	\$2.18	\$2.28	-4.18%	
12-mo strip crack	\$19.01	\$18.58	2.32%	
Ethanol rack	\$1.96	\$1.96	-0.09%	
<b>Metals</b>				
Gold	\$2,499.10	\$2,497.41	0.07%	
Silver	\$28.14	\$27.94	0.74%	
Copper contract	\$414.00	\$407.35	1.63%	
<b>Grains</b>				
Corn contract	\$406.00	\$406.25	-0.06%	
Wheat contract	\$565.75	\$567.00	-0.22%	
Soybeans contract	\$1,014.75	\$1,005.00	0.97%	
<b>Shipping</b>				
Baltic Dry Freight	1,941	1,919	22	

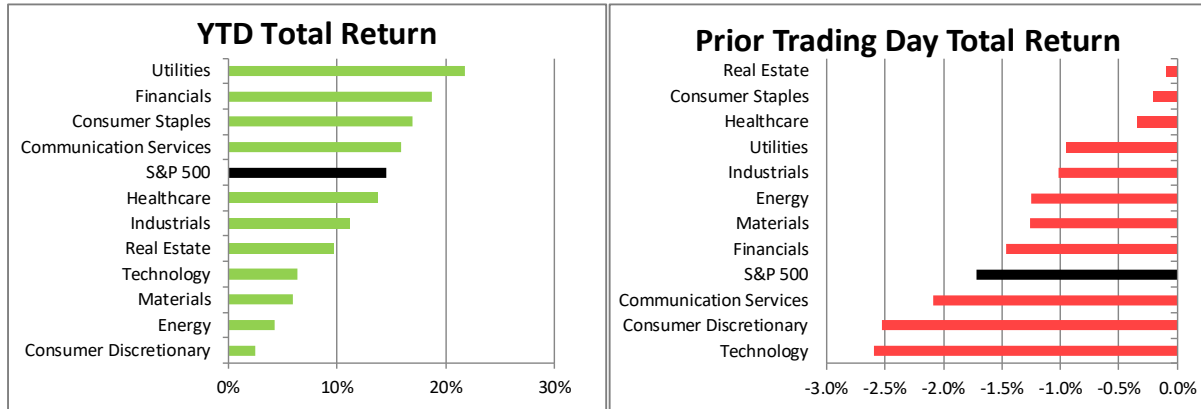
## Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures for most of the country, with cooler-than-normal temperatures in the Pacific and Rocky Mountain regions and parts of the Great Plains. The forecasts are calling for wetter-than-normal conditions in states west of the Rockies and most of the Southwest, with dry conditions in regions surrounding the Great Lakes.

There are three tropical disturbances in the Atlantic Ocean region. The most powerful tropical disturbance is heading toward the Gulf Coast and is expected to make landfall this week. Farther out in the Atlantic, one system is expected to intensify into a cyclone within the next 48 hours, while the other is expected to remain relatively calm.

**Data Section**

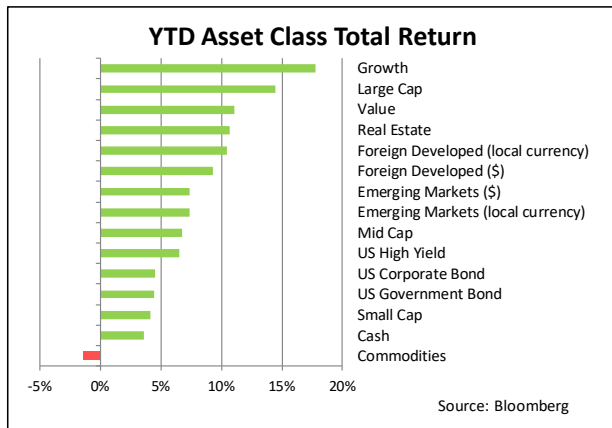
**US Equity Markets – (as of 9/6/2024 close)**



(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 9/6/2024 close)**



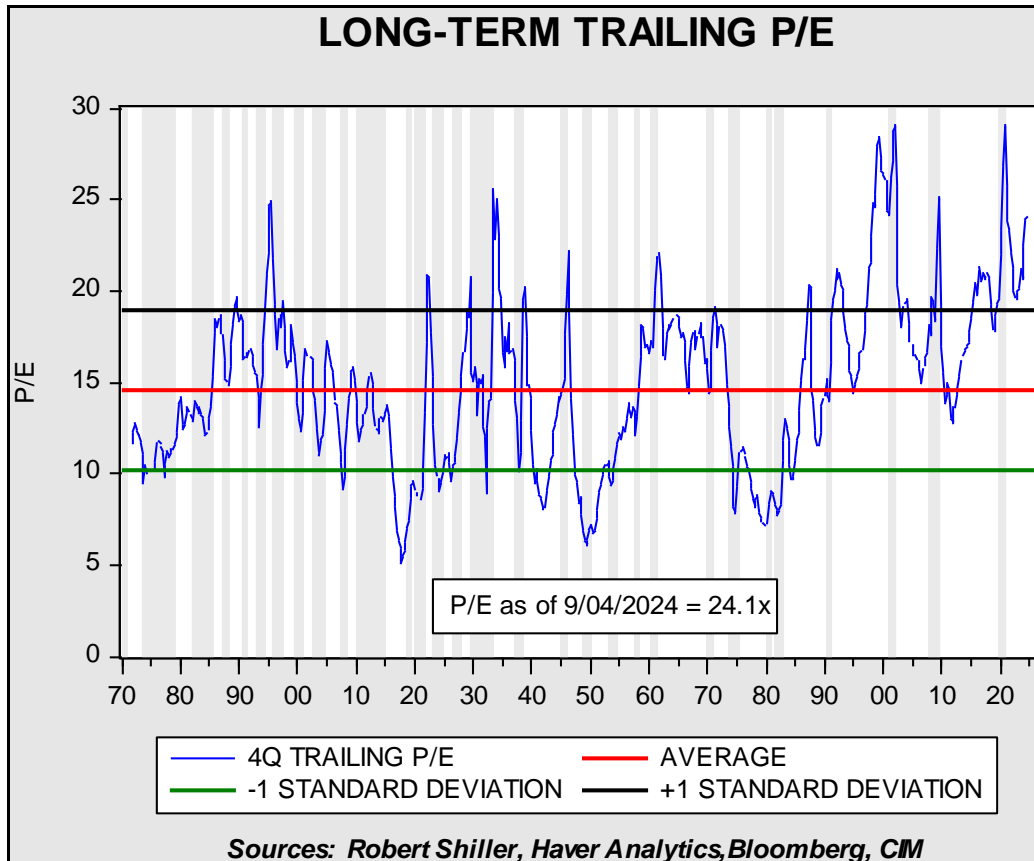
This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

September 5, 2024



Based on our methodology,<sup>1</sup> the current P/E is 24.1x, rising 0.4 from our last report. The increase in the multiple was due to an increase in the stock price index and a decline 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 (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.