

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 11, 2024—9:30 AM ET] Global equity markets are mostly lower this morning. In Europe, the Euro Stoxx 50 is down 1.1% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.2%. Chinese markets were mixed, with the Shanghai Composite down 0.8% from its previous close and the Shenzhen Composite up 0.3%. 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](#) (6/10/2024) (with associated [podcast](#)): “Copper, Gold, Treasuries, and the New World”
- [Confluence of Ideas podcast](#) (5/8/2024) “Reviewing the Asset Allocation Rebalance: Q2 2024”

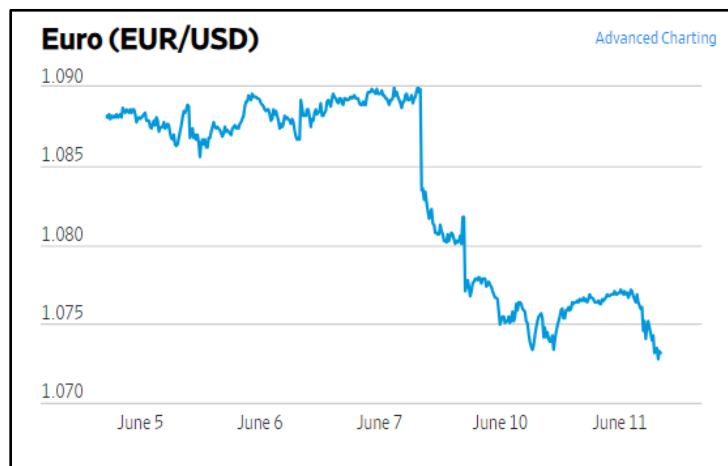
Our *Comment* today opens with notes on eurozone monetary policy and further details on the weekend elections for the European Parliament. We next review several other international and US developments with the potential to affect the financial markets today, including a knife attack on four US teachers in China and signs of a potential dockworker strike against the US’s major East Coast and Gulf Coast ports later this year.

Eurozone: In a joint interview with European newspapers, European Central Bank President Lagarde [warned that her institution may not necessarily keep cutting its benchmark interest rate after doing so last week](#). According to Lagarde, “We are not following a pre-determined path . . . There could also be phases in which we leave interest rates unchanged.” The statement is a reminder that persistent price inflation and the Fed’s “higher for longer” policy will limit how much the ECB can ease policy to bolster economic growth.

Germany: In another sign that Russia’s invasion of Ukraine has prompted European leaders to start seriously preparing for war, the German government [has updated its wartime mobilization and civil defense plan for the first time since the Cold War](#). Among other measures, the “Framework Directive for Overall Defense” calls for reinstating conscription into the armed forces, forcing skilled laborers and professionals to work in certain defense-related roles, rationing food and fuel, and transforming subway tunnels into bomb shelters.

France: Following up our discussion in yesterday’s *Comment* about the European Parliament elections and French President Macron’s decision to call snap elections in response, we want to clarify that Macron himself will not be on the ballot, as his presidential term runs to 2027. The elections, starting June 30, will only be for the national parliament. Initial press reports suggested that the centrist-liberal Macron called the election as a reluctant response to the surging popularity of France’s hard-right National Rally party, but we [see another possibility](#).

- National Rally won some 32% of the European Parliament votes in France, more than twice the tally for Macron’s party. However, the European Parliament has relatively limited power in European Union governance, so many French voters may have seen the balloting as a chance to register dissatisfaction without much practical impact. Macron is probably betting that French voters in the runup to the election will have to face up to National Rally’s actual agenda, potentially eroding its support and making it lose.
- Macron is probably also calculating that if National Rally wins the election and installs its leader, [Jordan Bardella](#), as prime minister in a “cohabitation” relationship with Macron, the hard-right party for the first time will face potential voter backlash for its actual policies.
- In sum, it appears that the wily Macron is gambling that even if he can’t make National Rally lose the parliamentary election, two years of hard-right control over parliament will undermine it and ensure that it doesn’t win the powerful presidency in 2027. Of course, the risk is that the hard right doesn’t fall on its face in the campaign or in parliament, leaving it even stronger in 2027.
- Amid this risky political backdrop, French stocks and bonds [continue to sell off](#) so far today. More broadly, the euro (EUR) today is trading down another 0.3% to \$1.0730.



(Source: Wall Street Journal)

Belgium: The European Parliament elections also shed further light on Belgium, which is often seen (by outsiders) as ripe for disintegration into its Flemish north and culturally French south. The center-right New Flemish Alliance [retained its position as the country's biggest party, with 25.6% of Flemish votes, while the separatist Vlaams Belang party only increased its support to 21.8%](#). In response, Prime Minister Alexander De Croo resigned, setting the stage for a new government that will probably be inclined to give more autonomy to Belgium's regions.

United Kingdom: Including bonuses, average weekly wages in the three months ended in April [were up 5.9% from the same period one year earlier](#), matching both the expected increase and the increase in the three months to March. With wage growth elevated, inflation pressures still high, and the Fed holding rates high for longer than anticipated, it remains to be seen whether the Bank of England will start cutting its benchmark interest rate in August, as many investors expect.

Australia: The May NAB business confidence index [fell to a seasonally adjusted -3](#), compared with +1 in April, while the business conditions index fell to +6 from +7. Importantly, several price indicators in the report pointed to accelerating cost growth, despite Australia's current weak economic growth. The report suggests that price inflation remains an issue worldwide, potentially discouraging a range of central banks from cutting interest rates.

United States-China: Four US teachers on an exchange program in the northeastern Chinese city of Jilin [were stabbed in a knife attack in a public park yesterday](#). Video footage indicated that at least three of the teachers were seriously wounded. The incident appears to be an isolated crime, but with US-China tensions so high, we can't discount the possibility that it will become a new issue poisoning the relationship and creating further risks for investors.

US Monetary Policy: The Federal Reserve [begins its latest policy meeting today, with its decision due tomorrow at 2:00 PM ET](#). With price pressures still high, the policymakers are expected to keep the benchmark fed funds interest rate unchanged at 5.25% to 5.50%. Just as important, the officials will also release their updated economic projections, including their "dot plot" of expected rate changes going forward.

- Based on interest-rate futures pricing, investors currently look for the Fed's first rate cut in the autumn. The biggest uncertainty is whether the policymakers will implement further cuts later in the year.
- Because of today's sticky inflation, we continue to believe the policymakers could keep rates "higher for longer" than investors currently believe.

US Corporate Governance: Data from ISS-Corporate shows that through the first five months of 2024, shareholders in S&P 500 companies [have forced 70 votes on measures against traditional environmental, social, and governance \(ESG\) initiatives](#), up from 30 such votes in the first five months of 2022 and just 7 in 2020. Anti-ESG moves are now the fastest growing type of proxy proposal. However, most of the anti-ESG proposals have received support from less than 2% of shares voted, and none have passed.

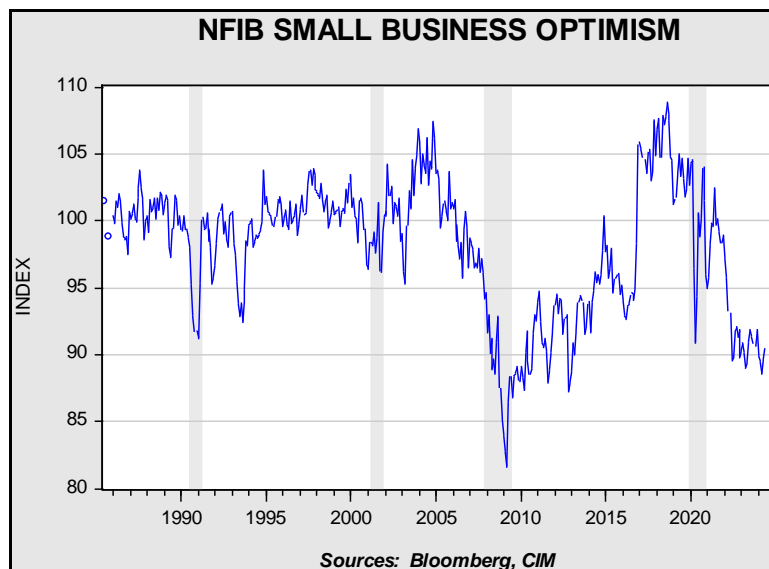
US Shipping Industry: The International Longshoremen's Association [has canceled talks on a new labor contract covering dock workers at the nation's East Coast and Gulf Coast ports](#) to

protest the expanding use of automated machinery at some facilities. Canceling the negotiations with the ports raises the risk of a strike when the current contract runs out on September 30. Such a strike would disrupt the supply of many goods sold during the holiday season, boost prices, and buoy consumer price inflation.

- Separately, the Port of Baltimore’s main channel [fully reopened yesterday](#), once again allowing full operations at one of the biggest East Coast ports.
- The reopening came 11 weeks after a container ship slammed into the Francis Scott Key Bridge, bringing it down and blocking the passageway.

US Economic Releases

The National Federation of Independent Business’ Small Business Optimism Index for May rose from 89.7 to 90.5, modestly but meaningfully exceeding the expectation of 89.7. Although the index remains well below its long-term average of 98 and within the downtrend that began before COVID, today’s uptick conveys positive implications. The majority of the respondents to the survey expressed optimism about the course of the economy and intentions to hire more people. This could have a positive impact on markets. The following chart shows the course of the index through time.



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	
ET	Speaker or Event
10:00	FOMC Begins Two-Day Meeting
District or Position	
	Federal Reserve Board

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	Money Stock M2	y/y	May	1.9%	2.2%		**	Equity and bond neutral
	Money Stock M3	y/y	May	1.3%	1.6%		**	Equity and bond neutral
	Machine tool orders	y/y	May	4.2%	-89.0%		**	Equity and bond neutral
Australia	NAB Business Confidence	m/m	May	-3	2		***	Equity and bond neutral
	NAB Business Conditions	m/m	May	6	7	--	***	Equity and bond neutral
South Korea	BoP Goods Balance	m/m	Apr	5111.4m	\$8092.6m		*	Equity and bond neutral
	BoP Current Account Balance	m/m	Apr	285.2m	\$6931.4m	--	**	Equity and bond neutral
EUROPE								
UK	Average Weekly Earnings 3M/YoY	m/m	Apr	5.90%	5.90%	5.70%	**	Equity and bond neutral
	ILO Unemployment Rate 3Mths	m/m	Apr	4.40%	4.30%	4.30%	**	Equity and bond neutral
	Claimant Count Rate	m/m	May	4.30%	4.10%		**	Equity and bond neutral
	Jobless Claims Change	m/m	May	50.4k	8.4k		**	Equity and bond neutral
AMERICAS								
Mexico	Manufacturing Production	y/y	Apr	3.8%	-5.4%	6.0%	*	Equity bearish, bond bullish
	Industrial Production	y/y	Apr	5.1%	-3.4%	4.2%	***	Equity bullish, bond bearish
Brazil	IBGE Inflation IPCA	y/y	May	3.93%	3.69%	3.88%	***	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	560	0	Up
3-mo T-bill yield (bps)	523	523	0	Up
U.S. Sibor/OIS spread (bps)	535	535	0	Up
U.S. Libor/OIS spread (bps)	535	535	0	Up
10-yr T-note (%)	4.43	4.47	-0.04	Up
Euribor/OIS spread (bps)	374	376	-2	Down
Currencies	Direction			
Dollar	Up			Up
Euro	Down			Down
Yen	Flat			Down
Pound	Flat			Down
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.

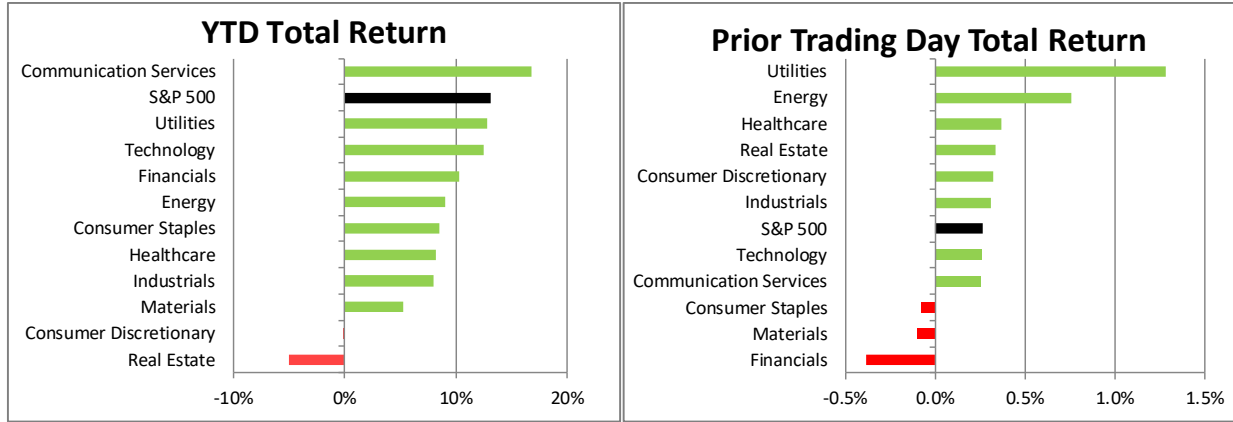
DOE Inventory Report	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$81.58	\$81.63	-0.06%	
WTI	\$77.67	\$77.74	-0.09%	
Natural Gas	\$3.07	\$2.91	5.64%	Supply Concerns
12-mo strip crack	\$21.64	\$21.85	-0.97%	
Ethanol rack	\$1.99	\$1.98	0.23%	
Metals				
Gold	\$2,306.70	\$2,310.88	-0.18%	
Silver	\$29.22	\$29.75	-1.78%	
Copper contract	\$444.85	\$454.35	-2.09%	
Grains				
Corn contract	\$452.75	\$451.75	0.22%	
Wheat contract	\$610.25	\$607.50	0.45%	
Soybeans contract	\$1,185.00	\$1,188.25	-0.27%	
Shipping				
Baltic Dry Freight	1,883	1,881	2	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-1.25		
Gasoline (mb)		1.25		
Distillates (mb)		1.82		
Refinery run rates (%)		-0.4%		
Natural gas (bcf)		92		

Weather

The 6-10 and 8-14 day forecasts call for warmer-than-normal temperatures for most of the country with cooler-than-normal temperatures in the Pacific Northwest. The forecasts call for wetter-than-average conditions along the Northern Tier and the Gulf Coast, with dry conditions in Utah, Nevada, and Central California.

Data Section

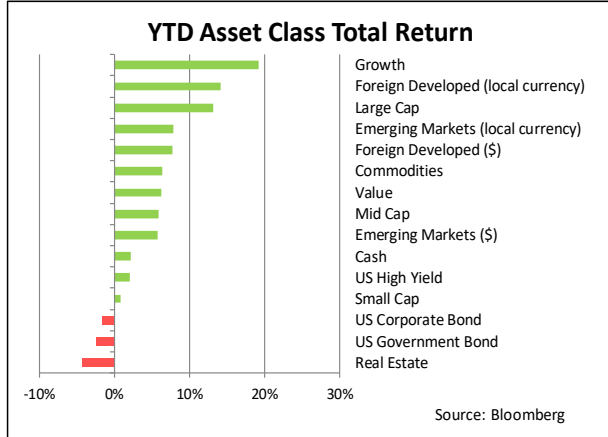
US Equity Markets – (as of 6/10/2024 close)



(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 6/10/2024 close)

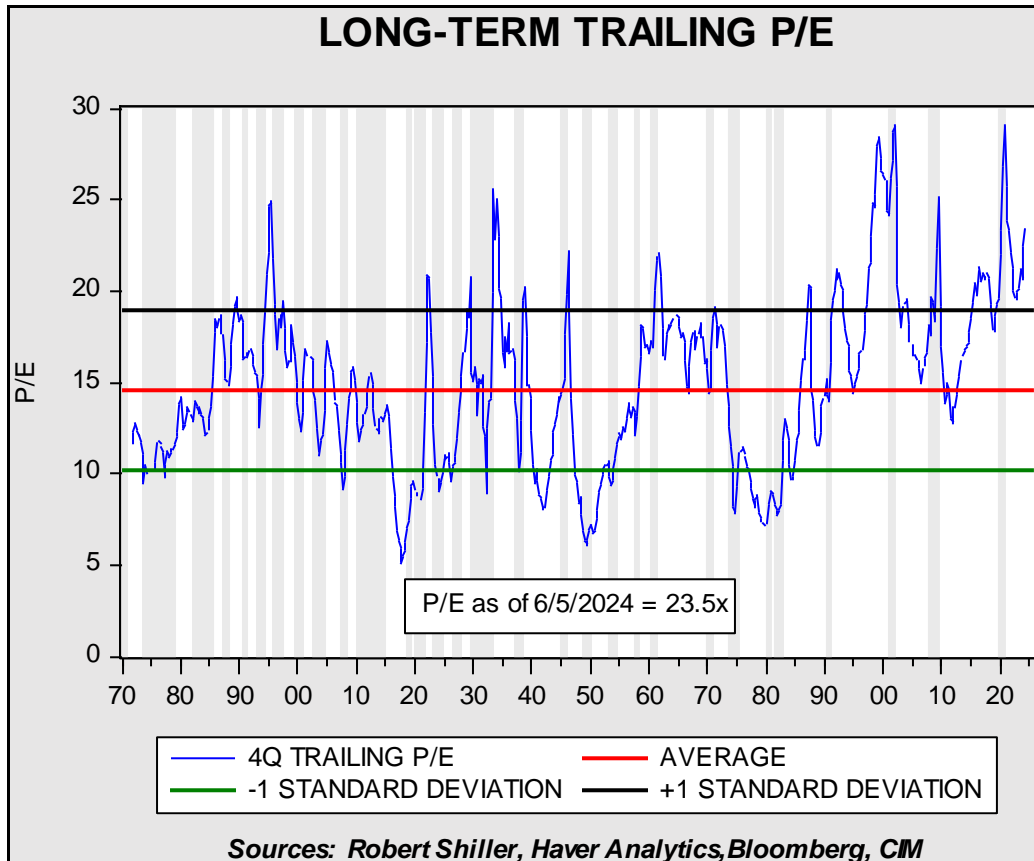


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

June 6, 2024



Based on our methodology,¹ the current P/E is 23.5x, up 0.2 from our last report. The increase in the multiple was due to an increase in the stock price index, and a downward revision in Q1 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.